International Journal of Business and Management Invention
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 4 Issue 4|| April. 2015 || PP-25-31

Effects of ownership structure, capital structure, profitability and company's growth towards firm value

Abdul Rasyid
(University of YAPIS Papua Jayapura)

ABSTRACT: *This study was aimed to examine the influence of ownership structure, financial capital structure, profitability and company growth toward firm value measured by considering managerial ownership, institutional ownership, debt to equity ratio, return on equity and profit growth. The population of this research were companies which were belonged to Consumer Goods Industry and Miscellaneous Industry listed in Indonesia Stock Exchange (IDX) on the year period 2009-2013 period. Total samples of the study were 9 companies determined through purposive sampling. The results of the analysis showed that managerial ownership did not influence firm value significantly indicated by the t_{test} value which was 0.922 and significant value which was 0.362, institutional ownership had a significant effect on the firm value indicated by the t_{test} value which was 2,097 and significant value which was 0.043, debt to equity ratio insignificantly affected the firm value with t_{test} which was -1.583 and 0.122 as significant value, return on equity affected on firm value significantly showed by 7.061 for t_{test} value and 0.000 for the significant value, in addition, a significant effect toward firm value was also caused by profit growth with value of t_{test} which was -2.257 and significant values which was 0,030. The results of the F_{test} analysis asserted that managerial ownership, institutional ownership, debt to equity ratio, return on equity and earnings growth simultaneously had a significant effects on firm value with the value of F_{test} calculated was 12.207 and significant value calculated was 0.000.*

KEYWORDS -*Managerial, Institutional Ownership, Debt to Equity Ratio, Return on Equity, Profit Growth*.

I. INTRODUCTION

The main goal of company that have had status *go public* is increasing prosperity owner or shareholder through increased firm value. Wealth of shareholder and company is presented by the share market price which is a reflection of the investment decision, financing, and asset management conducted by shareholder with management party in order to maximize the company's ability to generate profit and the growth rate of the company, in order to maintain the position of the company [1].One of the factors that affect the value of the company is the ownership structure since when we are going to maximize the firm value, interest unification of shareholders and management who have interests in the achievement of the objectives is needed. Empirical evidence shows that ownership structure will affect the value of the company [2]. The evidence is inconsistent with findings proving that the ownership structure has no effect on firm value [3].

The use of debt at a certain level will be able to reduce the cost of capital financial because the cost of debt is the reduction of company tax and can increase the share price, therefore, it can be concluded that the addition of debt in the right proportions can help the company in achieving an optimal level of capital structure and increasing the value of the company [4]. Capital structure is affected by the firm value [5], in addition, institutional ownership also significantly affects the result of the firm value [6]. These findings are different with other findings proving that the capital structure will negatively influence on the firm value [2].The profitability of company is one of alternatives used to accurately assess to what extent the rate of return will be obtained from investment activities. Profitability can reflect profit of financial investment, meaning that the profitability will affect the value of the company if the company's ability to generate profit is increasing since the stock price will also increase [7]. Profitability affects the value of the company [8]. These findings refute the findings indicating that profitability has no any significant effect on firm value [9].

One of the factors that can also affect the value of the company is company growth that measures to what extent the companies able to put themselves in the overall economic system or economic system for the same industry. From investors' point of view, the growth of a company is a sign that the company has a favorable aspect and will also affect investment opportunities. The existence of investment opportunities can provide a positive signal about the company growth in the future, so the value of company can be increased [10]. Company growth will affect the value of the company [8,11], these findings reject the results proving that the company growth does not affect the value of the company [12].

Inconsistency of these findings in analyzing the influences of ownership structure, capital structure, profitability and growth of the company to the value of company motivates researcher to conduct re-examination of causality between the variables used in this study by extending previous studies analyzing the effects of ownership structure, capital structure, profitability and company size toward the firm value in the manufacturing companies listed in Indonesia Stock Exchange (IDX) on the year period 2006-2007 [3], by adding company growth variable, measured by earnings growth rate with an argument that most companies with high earnings growth rate will have good growth prospects in the future, these companies have the ability to provide high *stock returns* to investors. [13]. Another differences of this study with the previous studies were the time of observation, study variables, and objects, which was in the sub-sectors of manufacturing companies namely Consumer Goods Industry and Miscellaneous Industry listed in Indonesia Stock Exchange (IDX) on 2009-2013 period. Consumer Goods Industry and Miscellaneous Industry was selected as the research object since the industry sales had increased due to the high level of consumption commodity use in Indonesia [14]. The condition triggered company to increase production so the sector was able to survive in the crisis and had potential to grow in the future, thus it made the sector could be the selected sector for an investment destination.

II. REVIEW OF LITERATURE

2.1. Ownership Structure

Share ownership structure is comparison between the number of shares, which are held by the internal parties or company management (*insider ownership*), and the number of shares, held by external parties or investors (*outsider ownership*). Relationship between manager and shareholder in the *agency theory* is described as relationship between *agent* and *principal*, in which the company (*principal*) provides a trust towards manager (agent) to manage the company in accordance with the interests of the *principal* itself associated with higher dividend expected. Ownership structure in this study uses managerial share ownership and institutional ownership, in which the company having *go public* status, the management is separated into two becoming institutional ownership and managerial ownership functions [15].

2.1.1. Managerial Ownership

Managerial ownership is the proportion of share ownership by directors, management, commissioner or any parties who actively participate in the company decision-making. One of the mechanisms used to solve the agency conflict is increasing managerial ownership, so interests of the owner and the manager can be parallelized. The greater managerial ownership is, the more agency cost will decrease, so the value of company can also be increased. Managerial ownership in this study was measured by comparing the managerial share ownership with total of circulated shares [15], the measurement can be presented as formula below:

$$\boxed{\text{Managerial Ownership} = \frac{\text{Managerial Share Ownership}}{\text{Total of Circulated Shares}} \text{ x } 100\%}$$

2.1.2 Institutional Ownership

Institutional ownership is the shareholder proportion belonged by the institutional owner such as insurance companies, banks, investment companies and other shareholdings except for subsidiaries and other institutions which have special relationships (affiliated companies and associated companies). A company with large institutional ownership (more than 5%) indicates its ability to monitor management so that the greater the power of the institutional party to oversee the management is, the greater impetus to maximize the value of company will exist. Measurement of institutional ownership in this study was conducted by comparing institutional share ownership with total circulated shares [15] :

$$\boxed{\text{Institutional Ownership} = \frac{\text{Institusional Share Ownership}}{\text{Total of Circulated Shares}} \text{ x } 100\%}$$

2.2. Capital Structure

Capital structure is a financing choice between debt and equity. Capital structure can be defined as the composition of the company's capital which is seen from its particular source, showing the portion of the company's capital coming from debt sources (creditors) and at the same also showing portion of capital from the owners of the capital itself. Capital structure is very influential in achieving company goals to maximize the *return* for investment, while also minimizing the *risk*, in order to achieve the maximum *return*, which also requires the maximum profit. Meanwhile, in order to achieve maximum profit, the cost should be minimum, including capital costs or the *cost of capital*, so the company must seek efficient financing alternatives to achieve company objectives above, efficient financing will happen if the company has an optimal capital structure [4].

In this study the structure of capital was proxies by using *debt to-equity ratio* (DER) since the ratio can indicate and describe the capital composition or capital structure of the comparison between total of debt and total of capital which is used as a source of business financing. *Debt to equity ratio* (DER) describes level of company risk, where the higher *debt to equity ratio* (DER) is, the higher company risk level will occur, since financing which comes from the debt is greater than the company’s capital from the company itself. Measurement of *debt to equity ratio* (DER) was conducted by comparing total debt with total equity [16]:

$$\textit{debt to equity ratio}\ (\text{DER}) = \frac{\textit{Total debt}}{\textit{Total Equity}} \times 100\%$$

2.3. Profitability

Profitability is the ability of a company to produce earnings in the future and also can be indicators of a company operation success [17]. Other opinion explains that profitability is the company's ability to achieve earnings in relation to sales, total assets and the company’s capital. Thus, the long-term investors will be really consider the profitability analysis, for example, the shareholders will always consider profit that will obviously be accepted in the form of dividends [16]. Measurement used in analyzing the profitability of the company was done by using the *return on equity* (ROE) which is a ratio of the company’s ability in making available profits for shareholders of the company.

The high levels of *return on equity* (ROE) from year to year in the company indicate that there was an increase in net profit of the related company, the high net income may be one of indications that the value of the company has increased, since the high level of net income will influence stock prices and value of the company also become higher [18]. Measurement of profitability which is proxies by *Return On Equity* is the ratio used to measure the net profit after tax and total capital as a whole. *Return on equity* (ROE) is conducted by comparing the after-tax earnings with total equity [16] :

$$\textit{Return on Equity}\ (\text{ROE}) = \frac{\textit{Earning after tax}}{\textit{Total equity}} \times 100\%$$

2.4. Company Growth

The growth of the company is one of the goals expected by internal and external parties of a company as it will bring good influences for companies and parties who have interest in the company such as investors, creditors and shareholders. The company growth is the impact of the company's funds or finance flow from operational changes caused by growth or decline in business volume [19]. The company growth is the company's ability to maintain its business position in the economic and industrial development in which it operates [20].In this study, company growth was used to measure profit growth, since profit is the most concerned element, because profit rate is expected to be big enough to represent the company's performance as a whole. Profit growth is profit development that occurs in a company within a certain time period whether profits are increased or conversely decreased. The growth of the company is proxies through profit growth measured from the difference between the change in net income owned by the company in the current period and prior period toward net income in the previous period [21]:

$$\text{Profit Growth} = \frac{\text{Net Income}\ (_{t}) - \text{Net Income}\ (_{t-1})}{\text{Net Income}\ (_{t-1})}$$

2.5. Firm Value

The firm value is the investors perception towards the success level of the company closely related to its share price. High share price makes the value of the company is high and increases market trust not only on the company performance at the current time period, but also on the company’s prospects in the future. The share price used generally refers to the *closing price*, and also to price occurring when shares are traded on the market [22].

Measurement of the firm value is proxies through a *Price-Book Value* (PBV) which is the ratio of share price toward company’s book value or *price-book value* indicating the level of the company's ability to create relative value concerning with the amount of invested capital. High rate of PBV reflects a high share price compared with the book value per share. The higher the stock price is, the more successful companies create value for shareholders will be. The success of the company in creating the value certainly gives hope to the shareholders in the form of greater profits as well [4]:

$$\textit{Price Book Value}\ (\text{PBV}) = \frac{\text{Market pricepershare}}{\text{Book value pershare}} \times 100\%$$

III. RESEARCH METHOD

A quantitative approach was applied in this study, since the data used was secondary data. This study was designed by using comparative causal relationship, which is a research with problem characteristics in form of causality between two variables or more. Population in this study were the whole companies of Consumer Goods Industry Miscellaneous Industry listed in Indonesia Stock Exchange (IDX) during the 2009-2013 period, while the samples used in this study were selected by using purposive sampling technique that consist of 9 companies. Analysis method conducted in this study used multiple regression analysis, which is an analysis tool used to find regression equation and examine the effect of independent variable on the dependent variable [23] by using SPSS Ver.20, multiple regression equation in this study could be presented as :

$$PBV = \alpha + \beta_1 KM + \beta_2 KI + \beta_3 DER + \beta_4 ROE + \beta_5 PL + e$$

Specification:

PBV	=	Price book value as an indicator to assess the value of a company, measured by comparing the share price and the share book value.
α	=	Constant
β	=	Regression coefficient, i.e. the magnitude of the PBV change, if KM, KI, DER, ROE and PL change by one per unit
KM	=	Managerial ownership as an indicator to assess the ownership structure, measured from the proportion percentage of shareholding by the company management.
KI	=	Institutional ownership as an indicator to assess the ownership structure, measured from the proportion percentage of shareholding by the institutional party.
DER	=	*Debt to Equity Ratio* as an indicator to assess the capital structure by comparing total debt with total capital.
ROE	=	*Return on Equity* as an indicator for assessing the profitability, measured by comparing net income with total capital.
PL	=	Profit growth as an indicator to assess the company's growth, measured by the rate percentage of profit growth.
e	=	*error*

F_{-test} and T_{-test} were conducted as hypothesis testing in order to determine the significance between variables. Individual significance test (t_{-test}) was used to determine whether there was individual effect (partially) of independent variable toward dependent variable or not. While, simultaneous significance test (f_{-test}) was intended to determine whether there were simultaneous effects (simultaneously) of the independent variable toward the dependent variable or not.

IV. RESULTS AND DISCUSSION

Multiple linear regression analysis was used to find the regression equation and to test the influence of the independent variable on dependent variable. The result of multiple linear regression analysis can be seen in the following table.

Table 1. Results of Multiple Linear Regression Analysis

Variables	Regression coefficient	t-test	Sig.
Constant	-0,479	-0,947	0,350
Managerial Ownership	1,356	0,922	0,362
Institutional Ownership	1,173	2,097	0,043
Capital structure	-0,398	-1,583	0,122
Profitability	17,679	7,061	0,000
Company Growth	-0,299	-2,257	0,030
Adjusted R Square = 0,560	Sig = $0{,}000^b$		
	F_{-test} = 12,207		

Based on the results of multiple regression analysis in Table 1. Then the multiple linear regression equation obtained was:

$$Y = -0{,}479 + 1{,}356\ KM + 1{,}173\ KI - 0{,}398\ DER + 17{,}679\ ROE + -0{,}299\ PL + e$$

4.1 The influence of managerial ownership on firm value

The results of the analysis for managerial ownership was obtained that t_{-test} value was 0.922 <t_{-table} was 2.017 with a significance probability which was 0.362 ≥ 0.05. Thus, (Ho) was received and (Ha) was rejected which mean that managerial ownership did not significantly affect the firm value. The result of this study supports the previous researches proving that managerial ownership has no significant effect on the firm value [3], then rejects the findings providing evidence that ownership structure affects the value of the company [2].

The fact above was caused by the average value of managerial ownership on Consumer Goods Industry and Miscellaneous Industry which was relatively low, or in other words, the average value of managerial ownership was below 5%, so it showed that the interests of the management and the owner were not parallel that could lead to conflict because the agency information owned by the management was not as comparable as information held by the owner (principal). Therefore, the *agency cost* ,used as the cost associated with monitoring conducted and concerned with economic viability and economic decisions occurring within the larger company, became bigger so the managerial side had no effect on the share price increase that could affect the value of the company.

4.2 The influence of institutional ownership on firm value

The results of the institutional ownership analysis, it was obtained that t_{-test} value was 2.097> t_{-table} was 2.017 with significance probability which was 0.043 <0.05. Thus, (Ho) was rejected and (Ha) was accepted, so that institutional ownership significantly influenced the firm value. The result of this research supports the findings showing that institutional ownership has a significant effect on the firm value [6]. The result was due to institutional ownership in the companies of Consumer Goods Industry and Miscellaneous Industry had the highest value which was 93.06%, where institutional ownership was one of tools that could be used to reduce the agency conflict which means that the higher the level of institutional ownership is, the greater the degree of control performed by external parties to the company will be, thus the *agency cost* occurred decreased and purposes harmony could be maximized to affect the firm value.

4.3 The influence of capital structure on firm value

The results of the analysis for the capital structure obtained was value of t_{-test} -1.583 < t_{-table} 2.017 with a significance probability which was 0,122≥ 0,05. Thus, (Ho) was received and (Ha) was denied, so that the capital structure did not significantly affect the firm value. The finding of this research supports research revealing that capital structure does not significantly influence the value of the firm [2], while subsequently rejected the other findings proving the capital structure positively effect on firm value [5]. This condition happened because the capital structure of companies in Miscellaneous Industry Consumer Goods Industry used more debt than equity capital to enlarge its capital structure. It could be seen from the development of debt that increased every year. The greater the proportion of debt was, the greater the risk that must be suffered by the company by using its own capital when the company suffered a loss. At a certain point, company's financial debt increase indicates that the company finance is not healthy enough to fund its business prosperity so that the use of debt at a high level cannot affect the increase of the firm value [17].

4.4 The influence of profitability on firm value

The results of the profitability analysis obtained showed that value of T-test > T-table was equal to 7.061(T-test)> 2.017 (T-table) with a significance probability which was 0.000 <0.05. Thus, (Ho) was rejected and (Ha) was received indicating that profitability has significant influence for the firm value. The finding of this research supports and provides evidence that profitability is one of significant effects on the value of the company [9]. These findings refute the previous findings indicating that the profitability can influence the firms value significantly [8]. The result was due to the development of the company profitability value which had been able to be produced by Miscellaneous Consumer Goods Industry and Industry for the past five years and had always increased, thus showing that the ratio of profitability had good effect towards the studied companies especially in the effectiveness of the company in generating profits by leveraging the company's equity. This condition showed that the company's prospects were good because there was potential for increasing company profits, so that the investors would think that it was a positive signal, increased their trust and lead them to increase shares demand of a company, thus it would indirectly raise the share price and also affected the value of the firm.

4.5 The influence of company growth on firm value

Testing of the company growth indicated that t_{-test} value was -2.257> t_{-table} was 2.017 with a significance probability which was 0.030 <0,05. Based on the result above, (Ho) was rejected and (Ha) was accepted, indicating that the growth of the company had a significant effect on firm value. The evidence supports the findings of previous researchers revealing the growth of the company have a significant effect on firm value [8,11], then reject the previous study proving that the company growth does not significantly affect the value of the firm [12].

The condition above was caused by the results of the highest average earnings growth of the Consumer Goods Industry and Miscellaneous Industry which was 99.99%, declaring that the high ratio of profit growth of the company researched was very good and signaling that the company had good financial, which automatically increased the firm value because of the amount of dividend, which is one of the prosperity forms belonged to the shareholders and will be paid in the future, depends on the company condition and it also can increase the value of the firm.

4.6 The influence of managerial ownership, institutional ownership, capital structure, profitability and company growth towards on firm value

From the result of data analysis, it was obtained the value of the F-test was equal to 12.207> F-table was 2,445, with significance probability level that was 0.000 <0.05. Thus (Ho) was rejected and (Ha) was accepted conveying that managerial ownership, institutional ownership, capital structure, profitability and growth of the firm simultaneously gave significant effect on the firm value. On the other words, if the managerial ownership, institutional ownership, capital structure, profitability and growth of the firm increase at altogether at the same time, the value of the firm will also increase. Thus, if the company more concentrate on managerial and institutional ownership, the effective control of the capital structure determination can be increased, then, there will be a monitoring towards the policies taken by the company management to improve profitability and the company growth rate will also affect the value of the firm.

V. CONCLUSIONS AND RECOMMENDATIONS

Partial test results prove that institutional ownership, profitability and company growth have significant effect on the firm value, while managerial ownership and capital structure do not significantly affect the value of the company. While, the simultaneous test results prove that managerial ownership, institutional ownership, capital structure, profitability and growth of the company have significant effects on firm value of Miscellaneous Industry Consumer Goods Industry listed on the Indonesia Stock Exchange (IDX) in 2009-2013 period. These results suggest the company management of Miscellaneous Industry Consumer Goods Industry in Indonesia to increase the firm value by using debt adjustment and interests or goals alignment within the company, such as increasing the proportion of managerial ownership so there will be no conflict between the internal and external parties, and the company can also more concentrate on decision-making in determining the capital structure which can affect the high profitability with good growth prospects in maintaining its position in the economic and industrial development in which it operates so that the value of the company can be increased.

REFERENCES

[1] Salvatore, Dominick. (2005). *Ekonomi Manajerial dalam Perekonomian Global* Buku 1 Edisi Kelima. Jakarta. Salemba Empat.

[2] Antari, Dewa Ayu Prati Praidy & I Made Dana. (2012). *Pengaruh Struktur Modal, Kepemilikan Manajerial dan Kinerja Keuangan terhadap Nilai Perusahaan.* SkripsiUniversitas Udayana, Denpasar.

[3] Kristianto, Rendro. (2010). *Pengaruh Struktur Kepemilikan, Struktur Modal, Profitabilitas, dan Ukuran Perusahahaan Terhadap Nilai Perusahaan.*SkripsiSekolah Tinggi Ilmu Ekonomi Perbanas, Surabaya.

[4] Brigham, Eugene F dan J. Houston. (2006). *Dasar-dasar Manjemen Keuangan*. Jakarta : Salemba Empat

[5] Hermuningsih, Sri. (2013). *Pengaruh Profitabilitas, Growth Opportunity dan Struktur Modal Terhadap Nilai Perusahaanpada Perusahaan Publik di Indonesia*. SkripsiUniversitas Sarjanawiyata Taman Siswa, Yogyakarta.

[6] Rohimah, S. (2013). Pengaruh Struktur Kepemilikan dan Struktur Modal terhadap Nilai Perusahaan pada Perusahaan Kosmetik yang Terdaftar di Bursa Efek Indonesia. Skripsi. Universitas Komputer Indonesia. Bandung

[7] Husnan, Suad. (2001). *Dasar-Dasar Teori Portofolio dan Analisis Sekuritas.* Yogyakarta : Unit Penerbit dan Percetakan AMP YKPN.

[8] Kusumajaya, D. K. O. (2011). Pengaruh struktur modal dan pertumbuhan perusahaan terhadap profitabilitas dan nilai perusahaan pada perusahaan manufaktur di bursa efek Indonesia. Unpublished Thesis, Universitas Udayana, Denpasar.

[9] Ginanjar Indra Kusuma, dkk. 2012. "Analisis Pengaruh Profitabilitas dan Tingkat Pertumbuhan (Growth) Terhadap Struktur Modal dan Nilai Perusahaan". Jurnal Fakultas Ilmu Administrasi Universitas Brawijaya Malang.

[10] Sriwardany. (2007). *Pengaruh Pertumbuhan Perusahaan Terhadap Kebijaksanaan Struktur Modal dan Dampaknya Terhadap Perubahan Harga Saham Pada Perusahaan Manufaktur Tbk,* MEPA Ekonomi, Vol 2 No 1

[11] Sari, Indah Purnama dan Abundanti, Nyoman. (2012). *Pengaruh Pertumbuhan Perusahaan dan Leverage Terhadap Nilai PerusahaanPada Sektor Food and Beverage yang Terdaftar di Bursa Efek Indonesia Pada Tahun 2009-2011.Jurnal Hal. 1427-1441.* Universitas Udayana. Denpasar.

[12] Puspita, Novita Santi (2011). *Pengaruh Struktur Modal, Pertumbuhan Perusahaan, Ukuran Perusahaan dan Profitabilitas terhadap Nilai Perusahaan pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia Pada Tahun 2007-2009.Jurnal.*

[13] Simorangkir. (2000). Pengantar Lembaga Keuangan Bank Dan Non Bank,. Bogor; Ghalia Indonesia.

[14] Harahap, Sofyan Syafri. (2001). *Teori Akuntansi.* Jakarta : Rajagrafindo Persada.

[15] Sugiarto. (2009). *Stuktur Modal, Struktur Kepemilikan, permasalahan keagenan dan informasi asimetri*. Yogyakarta: Graha Ilmu

[16] Sartono, Agus. (2001). *Manajemen Keuangan International*. Yogyakarta : BPFE.

[17] Ang, Robert. (1997). *Buku Pintar Pasar Modal Indonesia*. Jakarta. Media Soft Indonesia

[18] Analisa, Y., & Wahyudi, S. (2011). Pengaruh Ukuran Perusahaan, Leverage, Profitabilitas Dan Kebijakan Dividen Terhadap Nilai Perusahaan (Studi Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Tahun 2006-2008) (Doctoral dissertation, Universitas Diponegoro).

[19] Helfert, E.A. (1997). *Teknik Analsis Keuangan*. Penerjemah Hermawan Wibowo. Edisi Kedelapan. Jakarta: Erlangga.

[20] Hartanti, Ellya. (2013). *Pengaruh Struktur Modal, Pertumbuhan Perusahaan dan Return on Investment (ROI) terhadap Nilai Perusahaan pada Perusahaan yang Terdaftar di Bursa Efek Indonesia Periode 2008-2012.* SkripsiUniversitas Maritim Raja, Tanjungpinang.

[21] Porter, Michael. (1980). *Competitive Strategy : Technigues For Analizing Industries and Competitors,* The Free Press, New York.

[22] Sujoko dan Soebiantoro, Ugy. (2007). *Pengaruh Struktur Kepemilikan Saham, Leverage, Faktor Intern Dan Faktor Ekstern Terhadap Nilai Perusahaan.* Jurnal Manajemen Dan Kewirausahaan, Hal. 41-48.

[23] Ghozali, Imam. (2005). *Aplikasi Analisis Multivariat Dengan Program SPSS*, BP UNDIP, Semarang