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How Do Shareholding Pattern Predict Market Value? Evidence from Indonesia

Suskim Riantani[1]
Economic and Business Faculty, Widyatama University
suskim.riantani@widyatama.ac.id

Dika Muhammad Ridlo[2]
Economic and Business Faculty, Widyatama University

Nurul Fitriani[3]
Economic and Business Faculty, Widyatama University, Indonesia

Istian Moga Utami[4]
Economic and Business Faculty, Widyatama University

Ikhwal Firmansyah[5]
Economic and Business Faculty, Widyatama University

Rizqi Ramadhan[6]
Economic and Business Faculty, Widyatama University

Obsatar Sinaga[7]
Economic and Business Faculty, Widyatama University

Abstract

The research investigates how do the effect of shareholding pattern to the company market value. The Shareholding pattern used to predict market value consist of managerial ownership, institutional ownership, and public ownership, while company market value is measured used to Tobin's Q. The research method used descriptive and verificative method. Statistical analysis applied the Panel Data Regression Model using t test and F test. The unit analysis in this research are all the mining industry listed in IDX for the period 2014-2018. The purposive sampling technique with the type of judgment sampling is using as a sampling method and as a result we have 40 samples. The results findings showed that managerial ownership have positive correlation with the company market value and have significant effect to the company market value. Institutional ownership have positive correlation with the company market value, but do not showed significant effect to the company market value. Public ownership have positive correlation with the company market value and have significant affect to the company market value.

Keywords

Managerial Ownership, Institutional Ownership, Public Ownership, Tobin's Q, Company Market Value

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Introduction

Advances in technology and the use of natural resources have brought the mining industry to become the industrial sector that provides the largest source of income for Indonesia. In general, development of the mining industry can have an impact on the stability of the Indonesian economy. The phenomenon of declining world oil prices that has occurred continuously in the last few years can have a negative impact on the Indonesian mining industry. Considering that the Indonesian market is very sensitive to market sentiment, both to positive and negative information. Capital market participants often use world oil prices as a reference for transactions. Oil prices that continue to decline can be used as a basis for investors to sell shares in the mining sector. Therefore, issuers operating in the mining sector must be aware of the downward trend in world oil prices.The downward trend in world oil prices had an impact on the decline in most share prices of issuers in the mining sector. It is feared that the decline in share prices will have an impact on the declining market value of companies in the mining sector. If the stock price declines significantly, it will make it difficult for the company to attract investors. Therefore, the development of stock prices as an indicator of the company's market value and the factors that influence it are important for further research.Many factors affect the value of the company or the market value of the stock, both external and internal factors. The external factor in this case is the downward trend in world oil prices which can change the distribution of the company's share ownership because investors sell their shares. This phenomenon is predicted to have an impact on the decline in mining sector shares. These external factors are factors that cannot be controlled by the company and can affect the company's internal. How the company can survive in this situation will depend on the controlling power of the manager as an insider and an outsider who owns a certain percentage of shares.The internal factor which will then be the focus of the analysis is how the pattern of share ownership in the mining sector has an impact on the market value of the company which when the research was conducted showed a decline in stock prices. According to several research results, the pattern of share ownership can determine the direction of company policy so that the company can maintain its market value. The pattern of share ownership in this study consists of the percentage of share ownership structure by managers, share ownership structure by institutions, and share ownership structure by the public. The pattern of distribution of share ownership by various parties is intended to avoid conflicts between managers and shareholders. If a conflict occurs it will be difficult for the company to achieve an increase in the value of the company.Based on the description above, this study limits the scope of the problem to how the pattern of company share ownership can effect the market value of the company. This study aims to measured the relationship and predict how effect of share ownership patterns consisting of managerial ownership, institutional ownership, and public ownership to the market value of the company as measured using Tobin's Q.

Literature Review and Hypothesis

Market value can reflect the value of the company, namely the value formed from investors' perceptions of the company. The higher the stock price, the higher the value of the company (Handriani, 2020). There are quantitative variables that can be used to estimate company value, namely book value, appraisal value, expected cash flow value, and market value. This market value approach will then be used to measure firm value in this study. The market value in question uses the Tobin's Q model, which is the ratio of the market value of the company's assets as measured by the market value of the number of shares outstanding and debt (enterprise value) to the replacement cost of the company's assets. This model was developed by James Tobin (in Oktarina, 2018). Tobin's Q model is used to measure the value of the company from the perspective of investors. The greater the value of Tobin's Q indicates that the company has good growth prospects (Santoso & Muda, 2020). There are many factors that can affect the value of the company, among which will be analyzed in this study is the pattern of the company's share ownership structure. The share ownership structure describes the percentage of the number of shares of the company's total shares. According to Jensen and Meckling (1976) in Sahrul & Novita, (2020), the ownership structure is divided into managerial ownership, institutional ownership, and public ownership. Based on these sources, in this study the pattern of ownership structure is based on managerial ownership, institutional ownership, and public ownership.

The company's market value reflects a company's value that describes how big the level of welfare of the shareholders. Managers in this case as representatives of shareholders are responsible for managing the company in order to increase the value of the company. Some companies provide opportunities for managers to own company shares so that they can work optimally. Ownership of shares by managers is expected to encourage the performance of managers in increasing the value of the company. Share ownership by managers is intended to minimize the occurrence of conflicts of interest between managers and shareholders so that it is difficult for the company to increase its market value. Managerial ownership is the ownership of a small portion of the company's shares by the manager or company director (insider ownership). The greater the insider ownership, the smaller the difference in interests that can cause agency problems (Apriada & Suardikha, 2016). Based on the agency approach, managerial ownership is considered as an instrument to reduce agency conflicts between various claims (claim holders) against the company. Increasing the percentage of managerial ownership will align the position of managers with other shareholders, so that managers will be motivated to improve performance and responsibility for increasing shareholder wealth through increasing the value of company shares. In addition, managerial ownership as insiders ownership will also benefit directly from the decisions they make so that they will be more careful in making decisions. Thus, managerial ownership has an influence on the market value of the company.
H1: There is a positive relationship and a significant effect of managerial ownership on the company's market value.
Institutional ownership is the ownership of company shares by institutional investors. The ownership of most shares by the institution plays an important role that the institution as outsider ownership can monitor and control the behavior of managers more effectively, so that managers will act more carefully in making decisions and always try to increase the value of the company. This monitoring mechanism will ensure an increase in shareholder wealth, which is reflected in an increase in share prices. Thus the results of research conducted by Mira (2020), that the concentration of share ownership in institutions as outsiders has a positive effect on the market value of the company (Wafiyudin et al, 2020).
H2: There is a positive relationship and a significant effect of institutional ownership on the company's market value. Public ownership is share ownership externally by general investors or the public when the company goes public Lambey et al (2021). The higher the public ownership, the higher the stock dividend rate. The market believes that only issuers with good prospects that are able to generate future profits can pay dividends. Because the market believes that dividend payers are prospective companies, they react positively. This means that with the increase in stock dividends, the value of the company as a dividend payer will also increase. Lambey et al (2021) also found that the large proportion of public shares has a positive relationship with company performance. When the company's performance increases, it will affect the value of the company which will increase as well.
H3: There is a positive relationship and a significant effect of public ownership on the company's market value.

Research Methodology

This type of research is an explanatory survey with descriptive analysis and verification methods. The unit of analysis includes companies engaged in the mining sector which are listed on the IDX in the 2014-2018 period. Samples were taken using a purposive sampling technique of judgment sampling type. Based on this method, there are 40 companies that are sampled in this study. The research variables consist of managerial ownership, institutional ownership, and public ownership as independent variables and the stock market value is measured using the Tobin's Q model as the dependent variable. Managerial ownership is measured by the proportion of share ownership owned by managers. Institutional ownership is the proportion of company share ownership by institutions. Public ownership is the ownership of company shares by the general public or by outsiders, measured by the percentage of total public shares to the total outstanding shares. The stock market value is the selling price of the company that is considered feasible by potential investors if a company is to be sold. In this study, the stock market value was measured using the Tobin's Q model with the following formulation:

$$Q = \frac{\{EMV + D\}}{\{EBV + D\}}$$

Q = Firm Value

EMV = Closing Price x Outstanding Share
EBV = Total Assets – Total Liabilities
D = Book Value of Debt
The data were then analyzed using panel data regression model, correlation analysis, and determination by first conducting a series of tests as required. The test statistic uses t test and F test, as well as goodness of fit test to test the suitability of the research model. The estimated research model is:

$$CMV = a + b_1 MOWN + b_2 IOWN + b_3 POWN + \varepsilon$$

CMV = company's market value
a = constant
b_1, b_2, b_3 = regression coefficient
MOWN = managerial ownership
IOWN = institutional ownership
POWN = public ownership
ε = error term

Empirical Findings and Discussion

The following is a table that describes the results of hypothesis testing and the estimation of panel data regression.

Table 1.
Results of Hypothesis Testing and Estimation of Panel Data Regression Model

Variabel	Coeff	Std Error	t-Statistic	p-value	
(Constant)	-3,746	4,675	-0,645	0,438	
MOWN	0,217	0,180	0,813	0,028	Sign
IOWN	0,722	0,688	1,321	0,224	Non Sign
POWN	1,268	0,484	3,304	0,025	Sign
R-Squared	0,365				
Adj.R-Squared	0,182				
Prob. F	0,002				
α	0,05				

a Predictors: (Constant) MOWN, IOWN, POWN
b Dependent Variable: CMV

Based on table 1, the following equation model is obtained:

$$CMV = -3{,}746 + 0{,}217 MOWN + 0{,}722\ IOWN + 1{,}268\ POWN + \varepsilon$$

The results of the model suitability test indicate that the research model can be used as an analytical tool to test the effect of the independent variable on the dependent variable. Based on the table above, the p-value of 0.002 is smaller than 0.05, so the regression model is feasible to be used in this study. Based on panel data regression model and t test results, managerial ownership has a significant effect on the company's market value (p-value of 0.028) with a positive relationship direction. This shows that the increase in managerial ownership will increase the company's market value. Institutional ownership has no significant effect on the company's market value (p-value of 0.224). This shows that increasing or decreasing the institutional ownership structure will not have an effect on increasing or decreasing the market value of the company. Meanwhile, public ownership has a significant effect on the company's market value (p-value of 0.025) with a positive relationship. This shows that an increase in public ownership will increase the market value of the company.
The results of the calculation of the coefficient of determination (R2) as shown in table 1 shows a number of 0.365. This means that 36.5% of the variation in the company's market value can be explained by managerial ownership, institutional ownership, and public ownership variables. While the remaining 63.5% is explained by other variables that are not included in the model. The adjusted R Square value of 0.182 indicates that the regression results of managerial ownership, institutional ownership, and public ownership variables can explain the company's market value of 18.2%.The results of testing the first hypothesis indicate that managerial ownership has a positive relationship with the company's market value and has a significant effect. The results of this study

are consistent with the findings of Evada (2012), Oktarina (2018), and Oyedokun et al (2020). The results of this study contradict the research findings of Sutrisno (2020), Sahrul & Novita (2020), Rasyid (2015), Aprida (2016), Rasyid & Linda (2019), and Wida & Suartana (2014).

The findings of this study support the agency theory of Jensen and Meckling (1976) which explains the existence of a clear separation between the ownership function and the management function. According to Jensen and Meckling (1976) that concentrated managerial ownership will increase firm value because it can reduce agency problems. Based on the findings in this study, the management in the mining sector has sufficient control in determining the strategy to achieve company goals, namely increasing the company's market value. This is in accordance with the results of descriptive data processing which shows that the average share ownership by the management during the research period in the mining industry has increased even though the average is only 7.05%. Future efforts will be better if the share ownership by the manager is increased, so that managers are more motivated to improve performance and are responsible for increasing shareholder prosperity through increasing company value. The results of testing the second hypothesis indicate that institutional ownership has a positive relationship with firm value but does not have a significant effect. The results of the study are in line with the research findings of Wida & Suartana (2014) and contradict the results of the studies of Rasyid & Linda (2019), Santoso & Muda (2020), Aprida (2016), Sutrisno (2020), Evada (2012), Wafiyudin et al (2020).), Mira (2020), Oyedokun et al (2020), and Rasyid (2015).The implication of the findings of this study is that the institution as the majority shareholder in the mining industry (with an average share ownership of 68.19% during the study period), does not have enough power to monitor and control the opportunistic behavior of managers, especially in an effort to increase company value.The results of testing the third hypothesis indicate that public ownership has a positive relationship with firm value and has a significant effect on firm value. The results of the study are in accordance with the results of studies from Oyedokun et al (2020), Sahrul & Novita (2020), Santoso & Muda (2020). Meanwhile, these findings contradict the results of research from Lambey (2021), and research findings by Evada (2012).The implication of the findings of this study is that the public (community) as a shareholder with a fairly large proportion in the mining industry (with an average share ownership of 24.81% during the study period), is significant enough to monitor and control the behavior of managers, especially in efforts to increase company value. The positive direction of the relationship indicates that public ownership is a determinant that can be taken into account as a force that can control manager behavior. A positive sign illustrates that if the number of public ownership gets bigger and spreads out, the value of the company will increase. It can be explained that, with the greater the proportion of shares owned by the public compared to the total value of the company's shares and the more spread of ownership, psychologically managers will feel they have a responsibility to run the company well so that it can encourage an increase in company value. The results of this study at the same time can answer the proposed hypothesis which states that there is a positive relationship and a significant influence between public ownership and company’s market value.

Conclusion

The results of the model suitability test indicate that the research model can be used as an analytical tool to test the effect of the independent variable, namely share ownership consisting of managerial ownership, institutional ownership, and public ownership on the dependent variable, namely firm value measured using the Tobin's Q model. managerial has a positive correlation with firm value and has a significant effect, institutional ownership has a positive correlation with firm value but has no significant effect, public ownership has a positive correlation with firm value and has a significant effect on firm value.This study has several limitations, including: (1) Limitations in the development of research models, analytical techniques, and measurement of variables, (2) Research period (3) Research units. The possibilities for further research development are: (1) developing research models and analytical techniques, (2) increasing the observation period, (3) expanding the unit of analysis, (4) adding research variables and developing measuring instruments.

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