The Effect of Ownership Structure on Firm Value in Property and Real Estate Companies

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Abstract

During the economic crisis, property companies are one of the sectors that can survive during that time. This study was conducted to examine the significant influence of ownership structure on firm value. Ownership structure is represented by managerial ownership, institutional ownership, and foreign ownership. Price to Book Value was used to measure Firm value. Using purposive sampling, 72 property & real estate companies data listed on Indonesia Stock Exchange in 2012-2015, were utilized. The result revealed that overall model was significant with adjusted R2 of 41.8%. However, from the three independent variables, institutional ownership was the only variable that positive and statistically significant with firm value. The result indicates that institutional ownership can strengthen the company control by external parties, through the decreasing of agency cost to achieve the expected firm value.

Keywords: ownership structure, managerial ownership, institutional ownership, foreign ownership, firm value

INTRODUCTION

Shares of property companies are considered strong in the face of economic crises such as those that occurred in 2008 in America and Europe which affected Indonesia. According to Pratama and Wirawati (2016), the crisis is not too troubling for the Indonesian property sector because the demand for retail and office space can recover in a relatively fast time. Although there is currently a decline in stock value due to the Covid-19 pandemic, CNBC Indonesia (2022) reports that the property sector will remain stable in line with the trend of national economic recovery. The prosperity of the company's shareholders entering the stock exchange can be seen in the value of the company. According to Ferina, Tjandrakirana, and Ismael (2015), one of the indicators of a company's value is the price of shares traded in the market so that the higher the share price, the higher the value of the company, which illustrates the prosperity of shareholders.

One of the measuring instruments commonly used to describe company value is Price to Book Value (Suastini, Purbawangsa, & Rahyuda, 2016). The Price to Book Value (PBV) ratio describes the comparison between a stock's market price and its book value. It is further explained that the PBV also describes the future state of the company. According to Ferial, Suhadak, and Handayani (2016) the high PBV value illustrates the company's current performance and good prospects in the future. Therefore, investors and management need to consider various factors that can affect the PBV ratio. In some previous studies (Nekhili, Boubaker, & Nakhal, 2012; Wahlah, Shah, & Hussain, 2012) ownership structure is believed to influence companies that can ultimately increase the value of the company. In Indonesia, research conducted by Nuraini (2012); Sholichah (2015); Widiarto, Imanuella, and Wibisono (2014) on manufacturing companies on the Indonesia Stock Exchange (IDX) in 2006 - 2013 found that the ownership structure can affect the value of companies proxied with PBVs. However, research conducted by Nurkhin,
Wahyudin, Septiani, & Fajiriah (2017) on consumer goods companies listed on the IDX in 2011-2014, concluded that the ownership structure has no influence on company value.

In previous studies, there were three forms of ownership structure that were commonly used as research variables, namely: managerial ownership, institutional ownership, and foreign ownership. According to Anita & Yulianto (2016), managerial ownership is able to affect company performance which aims to optimize company value. Ownership from the institution is believed to be able to create corporate value because it has advantages in setting investment portfolios compared to individual investors, (Nuraina, 2012). Ownership from foreign parties can also increase the value of the company because it shows the trust of foreign investors, (Mukaria, Mwangi, Ochieng, & Okiro, 2020).

Ownership Structure
Ownership structure is central to corporate regulation, (Nezhad, Ramezani, & Malekkheyli, 2013). It is further explained that the determination and regulation of ownership structures is an instrument used in management and control in the company. Nuraina (2012) added that the capital market is expected to react positively when knowing if a company is owned by shareholders with a good image and credibility and is managed by competent and qualified management.

Managerial Ownership
Managerial ownership is the amount of share ownership from the company’s management who are active in decision making (Suastini, Purbawangsa & Rahyuda, 2016). Karima (2014) explains that increasing managerial ownership will make managers’ wealth and company wealth more bound, so managers will strive to reduce the risk of losing their wealth.

Institutional Ownership
Institutional ownership is the ownership of shares from institutions such as banks, insurance, pension funds, investment managers, and other institutions (Karima, 2014). It is further explained that institutional investors have a large funding capacity, so they are often shareholders with a large proportion. According to Nekhili et al (2012), institutional investors are considered superior in exercising their voting rights. With better funding capacity and independence, institutional investors are believed to be able to provide an objective and critical attitude related to the company's business decisions. Widiarto et al (2014) in their research explained that the higher the percentage of share ownership of institutional investors, the more efficient the supervisory function of management in managing company assets. Sukirni (2012) added that supervision by institutional investors can provide guarantees of prosperity for other shareholders.

Foreign Party Ownership
Law No. 25 of 2007 article 1 number 6 states that foreign ownership is the government, business entities, and individuals of foreign nationals who carry out investment activities in the territory of the Republic of Indonesia. Fanani and Hendrick (2016) added that foreign ownership is an investment by foreign parties in domestic companies, by owning part of the shares and voting rights in the company. According to Moin (2013), foreign parties are expected to improve the performance of domestic companies through a continuous resource transfer process.

Company Values
The value of a company will be reflected in its stock market price (Sukirni, 2012). Furthermore, Nuraina (2012) explained that the high stock price is caused by high demand for shares from investors in the capital market. Therefore, in managing a company, controlling the stock price is one of the important aspects. According to Sholichah (2015), a good stock market price is an optimal stock price, where the price is not too high or too low. It is further explained that a stock price that is too low will give a bad image in the eyes of investors, while a stock price that is too high can reduce buying interest from investors. Therefore, companies must try to make efforts to keep the stock market price optimal, such as conducting a stock split.
Price to Book Value (PBV)

According to Marangu and Jagongo (2015), the PBV ratio is a valuation measure used by analysts and investors to compare the stock market price of a company against its book price. It is further explained that the calculation of PBV is to compare the market price per share with the book value of equity per share of a company. Putra (2014) in his research explained that PBV is used as a measure of company value because it shows the level of investor valuation of company shares. Furthermore, Nuraina (2012) explained that market appreciation can be seen in the PBV position > 1, where the stock price is above the book value per share. On the contrary, market depreciation can be seen in the PBV position <1, where the stock price is below the book value per share.

The Relationship of Ownership Structure to Company Value

Managerial Ownership and Corporate Value

In a study conducted on manufacturing companies listed on the IDX in 2010-2013, Suastini et al (2016) found that managerial ownership affects company value. Likewise, research conducted by Firdausya, Swandari, and Effendi (2013) on companies that were included in the LQ45 Index on the IDX in 2009-2011, found that managerial ownership had a significant effect on company value. Based on the analysis of previous research, the hypotheses compiled are:

H1: Managerial Ownership has a significant influence on the value of the company

Institutional Ownership and Corporate Value

Research conducted by Sari, Arfan, and Musnadi (2015) on manufacturing companies listed on the IDX in 2008-2012, found the influence of institutional ownership on company value. Likewise, Sukirni (2012) in her research on companies listed on the IDX in 2008-2010, showed that institutional ownership has a significant effect on company value. Based on the analysis of previous research, the hypotheses compiled are:

H2: Institutional Ownership has a significant influence on the value of the company

Foreign Party Ownership and Corporate Value

The results of research conducted by Fanani and Hendrick (2016) on 276 manufacturing companies on the IDX in 2013-2015 found that foreign ownership had a significant positive effect on company value. Likewise, research from Arouiri, Houda, and Muttakin (2014) on 58 banking companies in countries that are members of the Gulf Co-Operation Council (GCC), shows that foreign ownership has a significant positive effect on company value. Based on the analysis of previous research, the hypotheses compiled are:

H3: Foreign Party Ownership has a significant influence on the value of the company

Conceptual Framework

METHOD

In this study, the population used was property and real estate companies listed on the Indonesia Stock Exchange in the 2012-2015 period. For sample selection, researchers used the purposive sampling method. The instrument used to process data in this study is the SPSS (Statistical Product and Service Solution) program. This study uses secondary data, where the list of property & real estate sector companies that match the sample
selection criteria was obtained from the 2013-2016 FACT BOOK downloaded from the official website of the Indonesia Stock Exchange. Data on ownership structure variables (managerial ownership, institutional ownership, and foreign party ownership) and company value variables (PBV), obtained from the Indonesian Capital Market Directory (ICMD). Later in the study used three independent variables and one dependent variable. Independent variables consist of managerial ownership, institutional ownership, and foreign party ownership. While the dependent variable in this study is PBV.

* The share price used is the closing price at the end of December 2012-2015.
* The book value of equity per share is derived from the amount of equity at the end of December divided by the number of outstanding shares for 2012-2015.

RESULTS AND DISCUSSION

Test Classical Assumptions

This classical assumption test aims to determine and test the feasibility of the regression model used in this research. This test is intended to ensure that the resulting data is normally distributed and that within the regression model used there is no heteroskedasticity, multichlinearity, and autocorrelation (Ghozali, 2018).

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Managerial Ownership</td>
<td>Total share ownership from the board of directors and board of commissioners / Total shares outstanding (Hastuti &amp; Suhendah, 2015)</td>
</tr>
<tr>
<td>% Institutional Ownership</td>
<td>Total shareholding of institutional parties / Total shares outstanding (Hastuti &amp; Suhendah, 2015)</td>
</tr>
<tr>
<td>% Ownership of Foreign Parties</td>
<td>Total share ownership from foreign parties / Total shares outstanding (Ismi, Rapini, &amp; Riawan, 2022)</td>
</tr>
<tr>
<td>Price to Book Value (PBV)</td>
<td>Market price per share* / Equity book value per share* (Ismi, Rapini, &amp; Riawan, 2022)</td>
</tr>
</tbody>
</table>

Normality Test

The normality test aims to test whether the residual value has a normal distribution (Ghozali, 2018). To see the normality of the data, in this study used a normal probability plot graph. If the data spreads around the diagonal line and follows the direction of the diagonal line, then the regression model meets the assumption of normality. However, if the data spreads far from or does not follow the direction of the diagonal line, then the regression model does not meet the assumption of normality.

Figure 2. Normality Test
After the data is tested using statistics, the normal probability plot graph shows that the data is spread around a diagonal line (Figure 2), so that the regression model meets the assumption of normality.

**Heteroskedasticity Test**

The heteroskedasticity test aims to find out whether there is a deviation from the classical assumption, that is, if there is a variance dissimilarity of the residual for all observations on the regression model. A good regression model is a regression model that does not occur heteroskedasticity (Ghozali, 2018). To test for heterochedasticity, in this study a glejser test was used. This test is carried out by regressing independent variables with absolute residual. If a significant value is greater than 0.05, then heterochedasticity does not occur. Conversely if the significance value is less than 0.05, then heterochedasticity occurs. The results of heteroskedasticity testing can be seen in the following table 2:

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Significant Value</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>KM</td>
<td>.133</td>
<td>Heteroskedasticity Free</td>
</tr>
<tr>
<td>WHICH</td>
<td>.057</td>
<td>Heteroskedasticity Free</td>
</tr>
<tr>
<td>KPA</td>
<td>.453</td>
<td>Heteroskedasticity Free</td>
</tr>
</tbody>
</table>

Table 2 shows the results where all independent variables have a significance value of more than 0.05, so it can be concluded that there is no heteroskedasticity problem in the regression model in this study.

**Multicollinearity Test**

The Multicollinearity Test aims to test whether in the regression model a correlation between free variables is found. If there is multicollinearity, it means that the regression coefficient becomes erratic and the error rate becomes very large (Ghozali, 2018). The methods used to analyze whether there is a correlation or not in this study are variance-inflation factor (VIF) and tolerance. If the VIF value < 10 and the tolerance > 0.10, then it indicates that multicollinearity does not occur. If the VIF value is > 10 and the tolerance < is 0.10, then it indicates that multicollinearity occurs. The results of the multicollinearity test using VIF and tolerance can be seen in Table 3 below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Tolerance</th>
<th>BRIGHT</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>KM</td>
<td>.954</td>
<td>1.049</td>
<td>No multicollinearity occurs</td>
</tr>
<tr>
<td>WHICH</td>
<td>.950</td>
<td>1.053</td>
<td>No multicollinearity occurs</td>
</tr>
<tr>
<td>KPA</td>
<td>.925</td>
<td>1.082</td>
<td>No multicollinearity occurs</td>
</tr>
</tbody>
</table>

Table 3 shows that the VIF value < 10 as well as the tolerance value > 0.1. So it can be concluded that there was no multicollinearity in this study.

**Autocorrelation Test**

The autocorrelation test aims to test whether linear regression models have a correlation between disruptive errors in periods t and t-1. If there is no autocorrelation in the regression model, it means that the regression model is good (Ghozali, 2018). In this study, to determine the presence or absence of autocorrelation, Durbin Watson (DW) testing was used. Decision making on the presence or absence of autocorrelation is if:

0 < d < dL = There is autocorrelation

\[ d_U < dw < 4 - d_U \] = No autocorrelation

The test results of autocorrelation assumptions using DW test can be seen in table 4 below:

<table>
<thead>
<tr>
<th>The value of ( d_U )</th>
<th>Value dw</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.707</td>
<td>2.155</td>
<td>No autocorrelation occurs</td>
</tr>
</tbody>
</table>
Table 4 shows a du value of 1.707 with the sum of N= 73 and 3 independent variables, as well as a dw value of 2.155. Since the value of dw is in a position of more than du and less than 4 – du (1,707 < dw < 2,293), it can be concluded that there is no autocorrelation problem in this study.

Descriptive Statistics

The results of descriptive statistical testing in this study can be seen in table 5 below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBV</td>
<td>72</td>
<td>0.15</td>
<td>4.27</td>
<td>1.19</td>
</tr>
<tr>
<td>KM %</td>
<td>72</td>
<td>0.00</td>
<td>3.03</td>
<td>0.20</td>
</tr>
<tr>
<td>WHICH %</td>
<td>72</td>
<td>0.00</td>
<td>64.13</td>
<td>5.87</td>
</tr>
<tr>
<td>KPA %</td>
<td>72</td>
<td>0.00</td>
<td>95.18</td>
<td>24.86</td>
</tr>
</tbody>
</table>

Table 5 shows that the PBV in this study had an average value of 1.19. This indicates that the average stock of the company being sampled, appreciated by the market because it has a value of > 1. The KM variable has a very small value, where the highest share ownership from the manager is only 3.03%. While the KI variable has the highest value of 64% with an average of 5.89%.

The average value of the KPA variable is 24.5% and the highest value is 95%. This indicates that the presence of foreign investors in property & real estate companies in Indonesia is relatively large. In Decree No. 467/KMK.010/1997, the Indonesian government does not provide certain restrictions for foreign investors to own shares of Indonesian companies, so foreign investors take advantage of this opportunity to invest in Indonesia.

Hypothesis Testing Results

Based on Table 6, it can be seen that the adjusted value of R^2 = .418, where this value indicates that the value of the company (PBV) can be explained by 41.8% by the ownership structure variables (KM, KI, & KPA), then the remaining 58.2% is explained by other variables that were not tested in this study.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Itself</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.073</td>
<td>.121</td>
<td>.000</td>
</tr>
<tr>
<td>KM</td>
<td>-.047</td>
<td>.110</td>
<td>-.039</td>
</tr>
<tr>
<td>WHICH</td>
<td>.003</td>
<td>.000</td>
<td>.643</td>
</tr>
<tr>
<td>KPA</td>
<td>.000</td>
<td>.000</td>
<td>-.078</td>
</tr>
</tbody>
</table>

Dependent variable: PBV
Observasi: 73
R^2: .443
Adjusted R^2: .418
Sig F (p-value): .000

The Effect of Managerial Ownership on Company Value

Based on Table 6 maka H1 is rejected because the KM variable has a significance value of 0.672, where this value is greater than 0.05. The results of this study show that KM does not have a significant influence on PBV. As reflected in the results of previous descriptive statistics, there are indeed not many managers of property & real estate companies who own shares of the company where they work. The highest holding is only 3.03% and the average is only 0.2%. This indicates that managers are less concerned with their position as owners. Therefore, agency conflicts cannot be resolved with small managerial ownership because managers only focus on their responsibilities as managers, not as owners of the company.
These results support research from Hermanto and Hemastuti (2014) and Hariyanto and Lestari (2015). But these results do not support research from Suastini et al (2016) and Firdausya et al (2013) which concluded that managerial ownership has a significant effect on PBV.

**The Effect of Institutional Ownership on Company Value**

Based on Table 6 maka H2 is accepted because the variable KI has a significance value of 0.000, where this value is less than 0.05. These results show that IP has a significant influence on company value, with a positive beta (standardized coefficient). These findings show that institutional ownership can strengthen the level of external oversight of the company, so that agency costs can be reduced and lead to an increase in company value. Furthermore, this finding also supports the results of research from Sukirni (2012) which states that the greater the institutional ownership, the more efficient the use of company assets and the greater the supervision of opportunistic behavior of company management.

This research is consistent with the results of research from Sari et al (2015) and Wida and Suartana (2014), which concluded that institutional ownership has a significant effect on company value. However, this research is inconsistent with research from Widiarto et al (2014) and Wahyudi and Pawestri (2006), which concluded that institutional ownership has no significant effect on company value.

**The Effect of Foreign Party Ownership on Company Value**

Based on Table 6 maka H3 rejected the KPA variable has a significance value of 0.406, where this value exceeds 0.05. The results of this study showed that KPA did not have a significant influence on PBV. Because the majority of investors in the Indonesian capital market are foreign investors, the results of this study indicate that the market does not react too much to the presence of foreign investors even though they have relatively large holdings. Nugrahanti and Novia (2012) added that it is possible that foreign investors are less directly involved in overseeing the company's activities, so they are more dependent on arrangements from local management who are considered to be more aware of domestic business conditions.

These results support research from Hasnawati and Sawir (2015) and Moin (2013) which stated that KPA did not have a significant influence on PBV. However, these results do not support research from Fanani and Hendrick (2016) and Arouri et al (2014).

**Conclusions and Suggestions**

Based on the results of research and discussion of the influence of ownership structure on company value, conclusions can be drawn. First, multiple regression testing shows that together managerial ownership, institutional ownership, and foreign ownership have a significant effect on the value of the company. Where the ownership of the company from the institution, provides a perception for the market because it is believed to be able to manage the financial portfolio well. Second, based on the test results, only institutional ownership has a significant effect on the value of the company, while managerial ownership and foreign ownership have no significant effect on the value of the company. So, the average managerial ownership of the managerial owner is closely related to family ownership so it has not been able to bring influence. Meanwhile, foreign investors were considered commonplace in the 2012-2015 years because there were not many people participating in the capital market.

Furthermore, researchers should add ownership structure variables such as family ownership and government ownership that are believed to affect the value of the company. Researchers can then add data to be tested, not only on property and real estate companies but other industries. Further research can be carried out with a periode longer than four years, in order to further corroborate the results of this study.
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Our Scope:

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