The Effect of Institutional Ownership, Company Diversification, and Profitability on Company Value in Manufacturing Companies Listed on The Indonesia Stock Exchange

Bahri Lifaldi[1], Ewing Yuvisa Ibrani[2], Lia Uzliawati[3]

[1*,2,3] Universitas Sultan Ageng Tirtayasa, Indonesia

Corresponding Author: Bahri.lifaldi@gmail.com[1]

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Abstract:

This study aims to analyze the effect of institutional ownership, company diversification, and profitability as independent variables on firm value as the dependent variable. In addition, this study also uses company size as a control variable. This research is causative. The population of this study is all manufacturing companies listed on the IDX in 2014-2018. This research was conducted using a sampling technique based on purposive sampling technique, so a total sample of 206 was obtained. The data used in this research is secondary data obtained from www.idx.co.id and IDNFinance. The analysis technique used is multiple regression analysis. To test the hypothesis using the statistical t-test with an α level of 0.05. The results of this study indicate that: (1) institutional ownership has a positive effect on the value of manufacturing companies with sig = 0.048, 0.043 (< 0.05), (2) company diversification (number of segments) has a positive effect on the value of manufacturing companies with sig = 0.029 (<0.05), (3) company diversification (HERFsales) has a positive effect on the value of manufacturing companies with sig = 0.077 (> 0.05), (4) profitability has a positive effect on the value of manufacturing companies with sig = 0.027, 0.041 (< 0.05), (5) firm size has a positive effect on firm value with sig = 0.000, 0.000 (< 0.05).

Introduction

Adding new companies in Indonesia has made the business competition even tighter. An organization or company that used to only compete at the local, national, and regional level now has to compete with other companies worldwide. The challenges that arise require companies to be able to survive and compete so that they become the best. This is what drives companies to innovate and business strategies.

The IDX has grouped stocks based on their industrial sector to facilitate analysis. Among the various company sectors listed on the IDX, manufacturing companies are one of the company sectors that are expected to have bright prospects in the future. The rapid population growth and economic development in Indonesia have made the manufacturing sector the most strategic area to gain high returns on investment. The manufacturing industry also plays an important role in national economic growth.

Indonesia is the first ASEAN country to be trusted as an official partner for holding the world's largest manufacturing technology exhibition. This is a form of recognition that Indonesia is increasingly strengthening itself as one of the world's industrial powers. In terms of investment, the manufacturing industry sector has been the largest contributor to buying in the last four years (2014-2018) and has always been at the top, amounting to 41.8 percent of total investment realization. In addition, the manufacturing industry also contributed to the value of Indonesia's exports, which reached 72.2 percent or USD 130 billion in 2018 (Ministry of Industry, 2019).

The second opinion states that there is a negative correlation between inflation and stock prices. This opinion is based on the assumption that inflation that occurs is cost-push inflation, namely inflation that occurs due to increases in production and labor costs while the economy is in a state of inflation, so producers do not dare to increase the price of their products. Thus, there is a decrease in the company's profits to pay dividends, which will impact a negative stock price valuation. The following is the development of the stock prices of several manufacturing companies listed on the IDX in 2014-2018.

Tabel 1.
Stock Price

Code	Corporate	Stock Price				
		2014	2015	2016	2017	2018
UNVR	Unilever Indonesia Tbk.	13,200	37,000	38,800	55,900	45,400
ASII	Astra Internasional Tbk.	7,425	6,000	8,275	8,300	8,225
KAEF	Kimia Farma Tbk.	1,465	870	2,750	2,700	2,600

(*Source : www.idx.co.id data processed*)

You can see the movement of stock prices in several manufacturing companies in 2014-2018. The increase in share prices occurred at PT. During the year of observation, Unilever Indonesia Tbk experienced an increase and only experienced a decrease once, unlike the case with PT. Kimia Farma Tbk from 2014, the share price was in the position of Rp. 1,465,

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but in 2015 the share price has decreased to Rp. 870. Meanwhile, companies that experience fluctuations every year are PT. Astra International Tbk, from 2014 the share price was at Rp. 7,425, but in 2015 it decreased to Rp. 6,000, while in 2016, it again increased by Rp. 2,275.

Signaling Theory

Researchers Arrow (1972) and Spence (1973) first discovered Signaling Theory. This study explains that more profitable companies will disclose their company's financial condition in the market to give a positive signal to investors. According to Brigham & Houston (2010), signaling theory is a signal given by company management to investors regarding the company's prospects in the future.

Agency Theory

Agency Theory was first discovered by Jensen & Meckling (1976). In this theory, problems are raised that may arise between shareholders (principals) and managers or managers (agents), where in this relationship, there is an exchange of services (Pertiwi, 2010). In agency theory, each party is assumed to always act in its interests, especially management. Agency theory analyzes the interests and behavior of the party acting as the giver of authority to the first party with the intention that the first party acts and makes decisions according to his interests as the giver of source (Sholekah & Venusita, 2014).

Potential agency problems occur when the manager's share of the company's shares is less than one hundred percent (Masdupi, 2005). The proportion of ownership that is only part of the company tends to make managers act unfairly. This is what causes agency costs. M. C. Jensen & Meckling (1976) defines agency cost as the sum of the costs incurred by the principal to supervise the agent.

Asymmetric Information

Asymmetric information occurs when one party to a transaction has more or better information than the other party. In a company, it is a condition where shareholders who do not know as detailed information as management can be used by management who knows more about any information about the company for personal gain (Darmawati et al., 2004).

A diversified company will experience greater information asymmetry than a focused company. Diversified companies are less transparent than focused companies (Rodriguez-Perez & van Hemmen, 2010).

The value of the company

Firm value is an investor's perception of a company often associated with its stock price (Sujoko & Soebiataro,2007). Suharli (2006) states that an increase in stock prices will increase the company's value, characterized by a high return on investment to shareholders. A high company value will make the market believe in the company's performance and, more importantly, that the company has good prospects in the future.

Institutional Ownership

Jensen & Meckling (2012) state that institutional ownership can minimize agency conflicts between managers and shareholders. Institutional ownership is share ownership by other institutions, namely ownership outside the company.

According to Nuraina (2012), Institutional Ownership is the percentage of company shares owned by institutions or institutions (insurance companies, pension funds, or other companies). Based on this, the following hypothesis can be taken:

H1: Institutional Ownership has a significant positive effect on the Value of Manufacturing Companies listed on the IDX

Company Diversification

According to Kurniasari (2011), business diversification is a form of business development by expanding the number of business or geographical segments, expanding the existing market share, and developing various types of products.

Berry (1971) defines diversification as an increase in the number of industries in which a company operates. Furthermore, IAI (2009) states that a diversified company is a strategic business unit that offers different products and services. Based on this, the following hypothesis can be taken:

H2: Company diversification (number of segments) has a significant positive effect on the Value of Manufacturing Companies listed on the IDX

H3: Company Diversification (HERFSales) has a significant positive effect on the value of manufacturing companies listed on the IDX

Profitability

The purpose of establishing a company is to make a profit, so it is only natural that profitability is the main concern of analysts and investors. Profitability is the net result of a series of policies and decisions (Brigham & Houston, 2010). The company's ability to generate profits is the main focus in assessing company performance. The company's financial performance is a form of the company's efforts to determine the extent to which the company's achievements have been achieved.

According to Menurut Priyadi et al. (2016), assessing the company's financial performance using ratio analysis, namely the company's financial statements published and made by applicable accounting standards. Based on this, the following hypothesis can be taken:

H4: Profitability (ROE) has a significant positive effect on the value of manufacturing companies listed on the IDX

Research Method

Based on the formulation of the problem and the research objectives to be achieved in this study, the type of research used is descriptive research using a quantitative approach. According to Indriantoro & Supomo (2016).

Quantitative research emphasizes testing theory through research variables with numbers and conducting data analysis with statistical procedures. This research was conducted to see how institutional ownership, diversification strategies, and profitability influence corporate value in manufacturing companies listed on the IDX in 2014 – 2018.
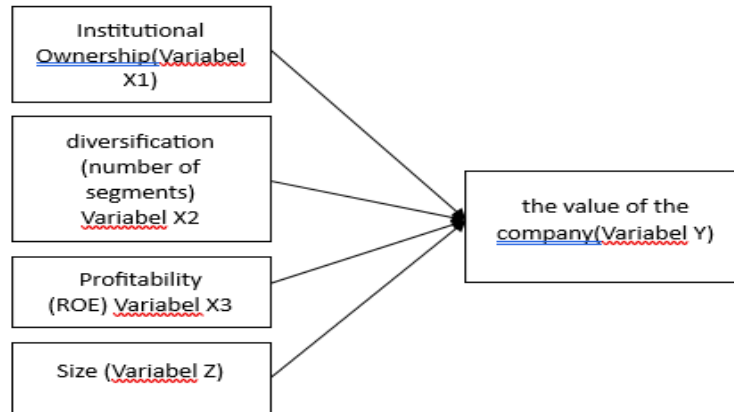
Figure 1. Framework of Thinking

Population And Sample

The population is all the elements that are the object of research. According to Indriantoro & Supomo (2016), a Population is a group of people, events, and everything with certain characteristics. This study's population is all manufacturing companies listed on the IDX.

The sample is part of the population, which is the main object of research. The sampling technique used is purposive sampling, namely, selecting models based on criteria. This is done to ensure the availability of data in the study.

Data collection technique

The data used in this research is secondary data. According to Indriantoro & Supomo (2016), data sekunder is already available and collected by other parties; researchers only use this data according to their needs.

For the data needed in this study, researchers used documentation techniques where data collection was carried out by finding data about the variables to be studied both personally and institutionally (Sanusi 2014). With this technique, researchers collected financial report data for manufacturing companies from 2014-2018 regarding the variables to be studied: institutional ownership, profitability, and diversification strategy.

Data analysis technique

The data analysis method used in this study is multiple regression analysis. The analysis is used to see the effect of institutional ownership disclosure, company diversification, and profitability on firm value, and The data use the method:

1. Descriptive Analysis
2. Multiple Regression Analysis
3. Model Feasibility Test
4. Hypothesis Test (t-test)

Results and Discussion

Table 2.
Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tobin's Q	319	0.77	23.29	1.8746	0.13921
INST	319	0.05	0.997	0.6854	0.19689
JS	319	1	6	2.6	1.228
HS	319	0.33	1	0.6901	0.24507
ROE	319	-1.24	1.63	0.1871	0.29626
Ln asset	319	21.01	35.34	28.379	2.01813
Valid N	319				

Source: Data processed (SPSS 25)

Based on Table 1, the description of the research variables. This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange for the 2014-2018 period with a sample of 319. Tobin's Q has a minimum value of 0.77, a maximum weight of 23.29, an average value of 1.8746, and a standard deviation of 0.13921. INST, a minimum value of 0.05 and 0.997, with an average value of 0.6854 and a standard deviation of 0.19689. JS, The minimum number of segments is one, and the maximum value is 6, with a company average of 2.6 and a standard deviation of 1,228. ROE, a minimum value of between -1.24 and 1.63, with a mean value of 0.1871 and a standard deviation of 0.29626. Ln asset between -1.24 and 1.63 has a mean value of 0.1871 and a standard deviation of 0.29626; the maximum value is 35.34 and a standard deviation of 2.01813.

Table 3.
Normality Test Results

Model	N	Asymp.sig	Critical Value	Conclusion
Model 1	319	0.2	0.05	Normal
Model 2	319	0.2	0.05	Normal

Source: Data processed (SPSS 25)

From Table 3 above, it can be concluded that the data used in this study were normally distributed because the significance value of the normality test for each variable was greater than 0.05.

Multicollinearity is a symptom of correlation between independent variables as indicated by a significant correlation between independent variables. If there is a high correlation between the independent variables, one is excluded from the multiple regression model.

Correlation between independent variables can be detected by Varians Influence Factor (VIF) with the following criteria :

a. If the tolerance number is above 0.1 and VIF < 10, it is said that there are no symptoms of multicollinearity.

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b. If the tolerance number is below 0.1 and VIF > 10, it can be said that there are symptoms of multicollinearity.

From Table 3 above, each variable has a tolerance value of > 0.1 and VIF < 10.

Table 4.
Multicollinearity Test Results

	Model 1			Model 2	
Variable	Tolerance	VIF	Variable	Tolerance	VIF
INST	0.985	1.016	INST	0.964	1.037
JS	0.768	1.302	HS	0.868	1.153
ROE	0.9	1.111	ROE	0.916	1.092
Ln. asset	0.823	1.215	Ln asset	0.942	1.061
Kesimpulan	Tidak Terjadi gejala multikolinearitas				

Source: Data processed (SPSS 25)

Design 1

Table 5.
Autocorrelation Test Results

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
1(Constant)	-0.302	0.153		-1.966	0.050
INST (X1)	0.102	0.051	0.103	1.986	0.048
JS (X2)	0.205	0.93	0.112	2.194	0.029
ROE (X3)	0.079	0.036	0.121	2.215	0.027
Ln. asset (X4)	0.03	0.005	0.312	5.474	0.000

Source: Data processed (SPSS 25)

Based on the results obtained from Table 4, the multiple regression equation can be formulated as follows:

Tq = -0.302 + 0.102INST + 0.205JS + 0.079ROE + 0.030FS + e

The constant value of -0.302 means that without Institutional Ownership, Company Diversification, Profitability roe, and size ln. Asset.

1. The value of the company in Tobin's Q is equal to 0.302
2. The coefficient value of institutional ownership is 0.102
3. The value of the diversification coefficient for the number of segments is 0.205
4. The value of the ROE coefficient is 0.079
5. The coefficient value of firm size is 0.030

The results above state that the firm's value on Tobin's Q, institutional ownership, diversification of the number of segments, ROE, and coefficient value of firm size with a value of 1% will increase the firm's value.

Design 2

Table 6.
Autocorrelation Test Results

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1(Constant)	1.19	0.118		10.115	0.000
KI (X1)	0.069	0.037	0.097	1.841	0.043
HS (X2)	-0.058	0.033	-0.099	-1775	0.077
ROE (X3)	0.052	0.025	0.111	2.048	0.041
Ln.asset (X4)	0.024	0.004	0.342	6.408	0.000

Source: Data processed (SPSS 25)

Based on the results obtained from Table 4, the multiple regression equation can be formulated as follows:

Tq = 1.190 + 0.069INST - 0.058HI + 0.052ROE + 0.024FS + e

A constant value of 1.190 means that without Institutional Ownership, diversification herfindhal indeks sales, Profitability roe, and size ln. Asset.

1. The value of the company in Tobin's Q is equal to 1.190
2. The coefficient value of institutional ownership is 0.069
3. The importance of the diversification of herfindhal indeks sales is 0.058
4. The value of the ROE coefficient is 0.052
5. The coefficient value of firm size is 0.030

The results above state that the firm's value on Tobin's Q, institutional ownership, diversification herfindhal indeks, ROE, and coefficient value of firm size with a value of 1% will increase the firm's value.

Table 7.
Determinant Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.403[a]	.162	.152	.17870
2	.397[a]	.158	.147	.12855

Source: Data processed (SPSS 25)

From Table 7 above, it can be seen in Model 1 that the R Square value is 0.162. This means that variations in changes in institutional ownership (X1), diversification of the number of segments (X2), roe profitability (X3), ln. Asset size (X4) to company value (Y) in manufacturing companies listed on the Indonesian Stock Exchange (IDX) from 2014-2018 of 16.2%, while the remaining 83.8% is explained by other variables not included in this study.

Model 2 that the value of R Square is 0.158, this means that variations in changes in institutional ownership (X1), herfindhal sales (X2), roe profitability (X4), size ln. Asset (X5), to firm value (Y) in manufacturing companies 15.8% registered on the Indonesian Stock Exchange (IDX) from 2014-2018, while the remaining 84.2% is explained by other variables not included in this study.

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Table 8.
F test results

	Model	Some of squares	Df	Mean square	F	Sig.
1	Regression	1.994	4	0.486	15.219	0.000[b]
	Residual	10.028	314	0.031		
	Total	11.972	318			
2	Regression	0.974	4	0.243	14.731	0.000[b]
	Residual	5.189	314	0.017		
	Total	6.163	318			

Source: Data processed (SPSS 25)

Table 8 shows that the significance level of each model is 0.000 <0.05. This means that there is a significant influence simultaneously between all the independent variables on the dependent variable, so it can be interpreted that this model is feasible to be tested.

1. T-test results

This test aims to examine the partial effect of the independent variables on the dependent variable by assuming that the other variables are constant. The t-test compares the calculated T value resulting from statistical calculations with the table T value. The significance test can also be carried out by comparing the significance probability value previously determined to be 0.05.

Discussion

Based on the results of testing the research hypothesis, the findings of this study are as follows:

1. First Hypothesis

   The first hypothesis in model 1 in this study is that institutional ownership significantly affects Tobin's q firm value. Based on the table above, the INST coefficient is 0.102, with a significance of 0.048 <0.05. This means that institutional ownership has a significant positive effect on the value of Tobin's q manufacturing companies listed on the IDX from (2014-2018) so it can be said that the first hypothesis in model 1 is accepted.

2. Second Hypothesis

   The second hypothesis is that company diversification (number of segments) significantly affects the value of companies listed on the IDX. Based on Table 13 above, it can be seen that the coefficient value of the number of segments is positive 0.205 with a significance of 0.029 <0.05. This means that the company diversification variable with the number of components significantly affects the value of manufacturing companies listed on the IDX. So it can be said that the second hypothesis in Model 1 is accepted.

3. third hypothesis

The third hypothesis in model 2 is that company diversification (herfindhal sales index) positively affects the value of companies listed on the IDX. Based on Table 14 above, it can be seen that the coefficient value of the number of segments is negative 0.058 with a significance of 0.077 > 0.05. This means that the sales index herfindhal company diversification variable has no significant negative effect on the value of manufacturing companies listed on the IDX. So it can be said that the third hypothesis in model 2 is rejected.

4. Fourth hypothesis

The fourth hypothesis in Model 1 is that ROE profitability positively affects the value of companies listed on the IDX. Based on the table above, it can be seen that the value of the ROE coefficient is positive 0.079 with a significance of 0.027 <0.05. This means that the company's ROE variable positively and significantly influences the importance of manufacturing companies listed on the IDX. So it can be said that the fourth hypothesis in Model 1 is accepted.

Conclusion

This study analyzes the effect of Institutional Ownership, Company Diversification, Profitability, and Company Size on the Value of Manufacturing Companies listed on the IDX for the 2014-2018 period. Based on the introduction, theoretical studies, and processing data as well as discussion regarding the results of data processing that have been reviewed in the previous chapter, the researcher concludes that:

1. Institutional ownership significantly affects the value of manufacturing companies listed on the IDX. This shows that the high privilege of institutional investors can control management which will increase the company's value.

2. Company diversification by a number of segments significantly affects company value. This shows that when the company gets bigger, its market share will also be bigger, so the expansion of the business can increase the company's value.

3. Company diversification with the Herfindhal sales index does not affect firm value. This indicates that the level of diversification undertaken has not yielded optimal results in increasing strong value.

4. The profitability of companies proxied by ROE significantly affects the value of manufacturing companies listed on the IDX. This shows that companies with good resource acquisition can increase firm value.

Suggestion

1. Bagi peneliti selanjutnya, dapat melakukan penelitian lebih lanjut mengenai faktor-faktor yang mempengaruhi nilai perusahaan seperti *leverage,* dividen, dan investor lain yang mempengaruhi saham diperusahaan. Peneliti selanjutnya juga dapat memperluas jumlah sampel agar memperoleh hasil penelitian yang lebih baik. Selain itu dapat menggunakan proksi lain untuk menghitung nilai perusahaan seperti *price to book value* dan *price earning ratio*.

2. For investors, this study shows that profitability significantly affects firm value. This can concern investors investing in a company because investors contribute through equity ownership. A good ROE will increase the company's value and affect the return on investment rate.

3. This research can be used for companies to reconsider investing in business expansion, not to reduce the company's value.

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