

# THE IMPACT OF INSTITUTIONAL AND MANAGERIAL OWNERSHIP, DIVIDEND POLICY, AND COMPANY SIZE ON FINANCIAL PERFORMANCE AND THEIR CONSEQUENCES FOR FIRM VALUATION.

*By Rina Tresnawati*

# 14 THE IMPACT OF INSTITUTIONAL AND MANAGERIAL OWNERSHIP, DIVIDEND POLICY, AND COMPANY SIZE ON FINANCIAL PERFORMANCE AND THEIR CONSEQUENCES FOR FIRM VALUATION.

Rina Tresnawati

[rina.tresnawati@widyatama.ac.id](mailto:rina.tresnawati@widyatama.ac.id), Universitas Widyatama, Indonesia

## ABSTRACT

**Objectives:** This study is driven by agency theory, aiming to mitigate conflicts of interest between company owners and agents. Financial performance stands out as a crucial factor influencing firm valuation. Institutional ownership, managerial decisions, and dividend policies are identified as key determinants of financial performance. Additionally, firm size is anticipated to amplify the impact of financial performance on company value.

**Methodology:** The study population comprises manufacturing sector companies signed up on IDX within the timeframe 2014 until 2021. The analysis technique employed is Moderated Regression Analysis (MRA), facilitated by the IBM SPSS software program.

**Finding:** The results suggest that institutional ownership, managerial policies, and dividend decisions have a considerable impact on financial performance. Financial performance, in turn, significantly impacts firm value. Moreover, the interaction between financial performance and company size, acting as a moderator, demonstrates a notable impact on company value.

**Conclusion:** Agency theory compels management to formulate policies regarding financial performance and firm value, particularly through determining the structure of the firm's equity and establishing dividend policies. Nonetheless, the size of the firm exerts influence on management's decisions regarding the management of financial performance and company value.

**Keywords:** Institutional Ownership; Managerial ownership; Dividend Policy; Financial performance; Firm Size; Firm Value

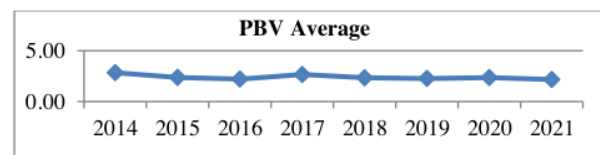
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## INTRODUCTION

IDX is a barometer of capital market activity in Indonesia, because it has a large trading frequency and stock variations. Manufacturing companies are deemed a strategic sector for investment, given their swift advancement and growth on the IDX. The advantages of the manufacturing industry are that it has a very large capital capitalization value, the ability to absorb a large workforce, and the ability to add value to processed raw materials. Firm value holds significant importance for investors (Yusmanarti & Dkk, 2021). Firm value reflects the ability of fundi ng management to determine capital structure targets, the ability of investment management to effectively use assets and the ability of operations management to streamline the firm 's production and distribution processes (Suwardika & Mustanda, 2017).



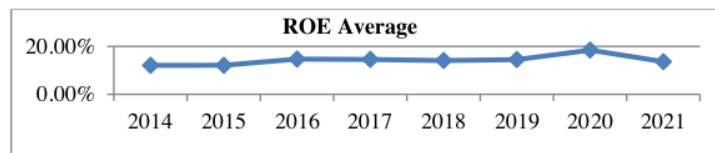
Source: Indonesia Capital Market Directory

Figure 1

Average Value of Manufacturing Companies in 2014-2021

Based on figure 1 there is a change in the average firm value every year, in 2014 it had the highest average firm value and decreased until 2016. It increased again in 2017 and decreased to a level of 2.17 in 2021. Then there is a phenomenon of decreasing value companies that occurred during the study period, namely from 2014 to 2021. This phenomenon is interesting for further research regarding the factors that can influence this decline.

Factors that affect the high or low firm value is the firm's financial performance. Return on Equity is a measures the earnings accessible to shareholders for the capital they have invested in the company (Yahya & Fietroh, 2019).



Source: Indonesia Capital Market Directory

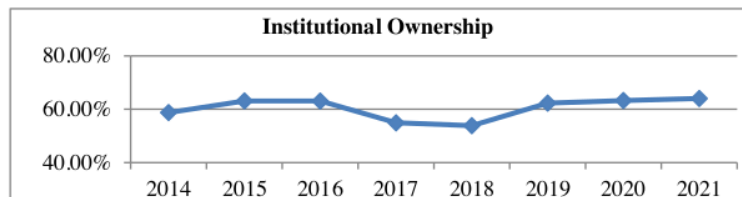
Figure 2

#### Average Financial Performance of Manufacturing Companies for 2014-2021

The financial performance has fluctuated. The highest average value was found in 2020 of 18.44%, but decreased in 2021 to 13.65%. The lowest financial performance in 2014 was 12.1%.

As per the research conducted by (Nuzil, 2017) it was found that financial performance exerts a notable impact on company value. Unlike the conclusions drawn from studies focusing on food and beverage companies, the findings suggested that the financial performance did not notably influence the value of the firm (Hermawan & Mafúláh, 2014).

One way to minimize agency conflicts is through share ownership by internal shareholders (managerial ownership) and external shareholders (institutional ownership) (Nuraina, 2012).

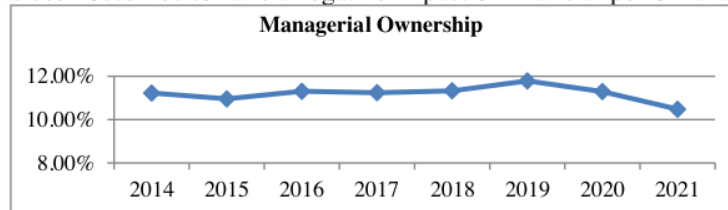


Source: Indonesia Capital Market Directory

Figure 3

#### Average Institutional Ownership of Manufacturing Companies 2014-2021

Based on Figure 3, it is evident that the average institutional share ownership fluctuates annually. According to (Fitriatun et al., 2018) and (Putra & Nuzula, 2017) institutional ownership has been observed to have a negative impact on financial performance.



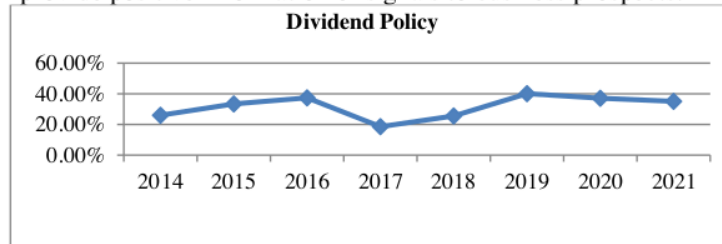
Source: Indonesia Capital Market Directory

Figure 4

#### Average Managerial Ownership of Manufacturing Companies in 2014-2021

Based on Figure 4, the composition of managerial share ownership has fluctuated. The highest average managerial ownership composition in the 2019 period was 11.79%, while the lowest average value in the 2021 period was 10.47%.

The expectation regarding the dividend policy is to minimize agency costs, because dividend payments can provide positive information or signals to business prospects.

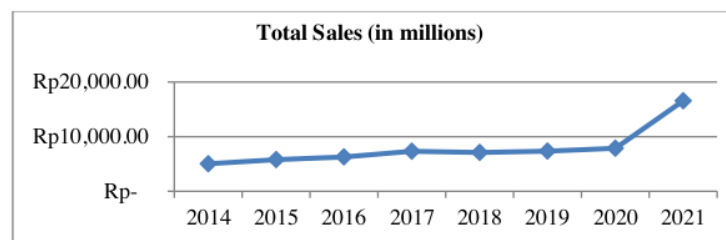


Source: Indonesia Capital Market Directory

Figure 5

Average Dividend Policy of Manufacturing Companies for 2014-2021

The dividend policy conditions are fluctuate. The highest dividend policy value represented through the DPR ratio in the 2019 period was 40.09%, while the lowest value was in the 2017 period of 18.55%.



Source: Indonesia Capital Market Directory

Figure 6

Average Firm size in Manufacturing Companies in 2014-2021

The sales level of manufacturing companies has increased. The highest level of sales in 2021 is 16,568 billion Rupiah.

According to (Angga Pratama & Wiksuana, 2018), (Obradovich, 2013) and (Fitri Prasetyorini, 2013) firm size affects company value.

## LITERATURE REVIEW

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Sihombing argues that PBV or Price to Book Value, is a metric used to assess whether a stock is relatively expensive or inexpensive compared to other stocks (Ali Ahmad, 2015). The greater the share price, the more successful the firm is perceived to be in generating value for its shareholders. According to Harmono in (Komalasari & Yulazri, 2023) PBV is formulated as follows:

$$\text{Price to Book Value (PBV)} = \frac{\text{Closing Price}}{\text{Book value of shares}} \times 100\%$$

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ROE measures a firm's capacity to generate profits relative to a specific amount of share capital (Hanafi, 2018). ROE provides an indication of how well a firm will use investors' investment money to generate profits.

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Total equity}} \times 100\%$$

Institutional ownership, as defined by (Nuraina, 2012), refers to the proportion of shares owned by institutional investors calculated at the end of the fiscal year.

$$IO = \frac{\text{Number of institutional shareholding}}{\text{Number of Outstanding shares}} \times 100\%$$

Managerial ownership, as described by (Bodie, 2014), entails the distinction or division of ownership between individuals external to the company and those within it, typically referring to managers or insiders.

$$MO = \frac{\text{Number of Management Shares}}{\text{Number of Outstanding Shares}} \times 100\%$$

According to Weston and Copeland as cited in (Ferina et al., 2015), dividend policy refers to the strategy or decision-making process regarding whether the profits generated by the firm are disbursed to investors in the shape of dividends or kept within company as earnings to fund future investments.

$$DPR = \frac{\text{Dividend per Share}}{\text{Earnings per Share}} \times 100\%$$

The size of a company may be assessed dependent on its valuation of equity, sales value, or asset value (Dewinta & Setiawan, 2016).

$$\text{Company Size} = (\ln) \text{Total Sales}$$

High levels of institutional ownership typically result in increased scrutiny and oversight by institutional investors, aiming to discourage opportunistic behavior by managers. Presence of institutional investors results in behavior managers more well controlled by external shareholders. The existence of ownership by institutional investors such as securities companies, banks, insurance companies, pension funds will encourage more optimal monitoring of management performance. In order for the firm's financial performance will experience growth. Consistent with research conducted by Wahyudi and Pawestri (Aisah & Wahyono, 2018) and (Wiranata & Nugrahanti, 2013).

#### **H1: Institutional ownership does impact on financial performance.**

Increasing ownership held by managers of the firm is proposed as a method to mitigate conflicts between principals and agents. Managers are incentivized to enhance their performance in managing the firm when they have a stake in the company's stock. This is consistent with the findings of research conducted by (Hermiyetti & Erlinda, 2016).

#### **H2: Managerial ownership affects financial performance.**

Dividend payments can reflect the firm's ability to earn profits. The high dividend payout indicates that the profit earned by the firm is also high. Research conducted by (Aisah & Wahyono, 2018) and (Suhadak, 2015) states that dividend policy affects financial performance.

#### **H3: Dividend policy affects financial performance.**

A high level of profit signifies promising prospects for the firm to sustain its operations in the future, consequently leading to an increase in the firm's value, as reflected in its stock price. The studies conducted by (Mudjijah et al., 2019) and (Tauke et al., 2017) confirms financial performance indeed influences firm value.

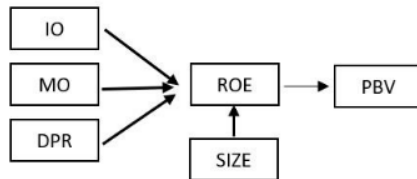
#### **H4: Financial performance does impact firm value.**

Rising stock prices reflect the impressive performance of the company, which consequently contributes to an increase in firm value. The firm's size, indicating its scale, is a significant factor influencing profit generation. Large firm size will attract investors to invest. Research

conducted by (Utama & Fidiana, 2016) suggests that firm size can moderate the correlation between financial performance and the value of the firm.

**H5: Financial performance influences firm value, and this relationship is moderated by firm size.**

Theoretical framework:



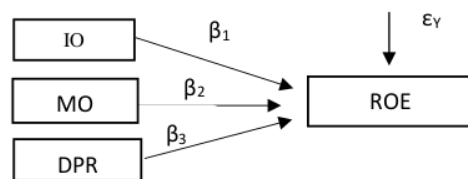
## METHOD

This research is based on a quantitative methodological research approach. The data source used in this study is a secondary data source in the form of documentation presented in electronic format. The population used is all manufacturing companies listed on the IDX for the 2014-2021 period of 143 companies. The sample was determined using purposive sampling method with the criteria is the firm 's shares are actively traded, must have institutional and managerial share ownership, gave cash dividends to shareholders and has complete quarterly financial statements. The samples are PT. Duta Pertiwi Nusantara Tbk (DPNS), PT. Indofood Sukses Makmur Tbk (INDF), PT. Kedawang Setia Industrial Tbk (KDSI), PT. Lionmesh Prima Tbk (LMSH), PT. Pyridam Farma Tbk (PYFA) and PT. Happy Perfect Tbk (SMSM). Verification analysis in this study is used to test how much influence institutional ownership, managerial ownership and policies have on financial performance which will have implications for firm value which is moderated by firm size using Moderated Regression Analysis (MRA).

## RESULTS AND DISCUSSION<sup>17</sup>

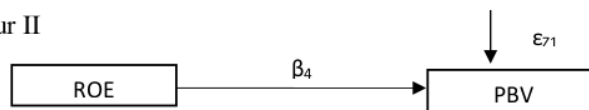
The verification analysis used is multiple linear regression, simple linear regression and linear regression with moderation (MRA) where the model in this study is divided into three sub-structures which include the following:

### 1. Sub-Struktur I



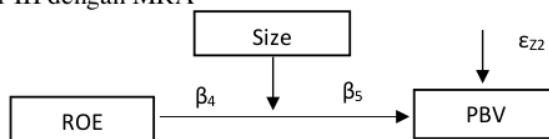
$$ROE = \alpha_1 + \beta_1 IO + \beta_2 MO + \beta_3 DPR \pm \epsilon_{ROE}$$

### 2. Sub-Struktur II



$$PBV = \alpha_2 + \beta_4 ROE \pm \epsilon_{PBV1}$$

### 3. Sub-Struktur III dengan MRA



$$PBV = \alpha_3 + \beta_4 ROE + \beta_5 ROE.Size \pm \epsilon_{PBV2}$$

Multiple Linear Regression Analysis of Sub-Structure I

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.058	.043		-1.349	.179
KEP.INS	.176	.072	.138	2.432	.016
KEP.MAN	.162	.080	.114	1.983	.049
KEB.DIV	.201	.021	.590	9.747	.000

Source: SPSS Data Processing 20.0

Sub-Structure Linear Regression Analysis II

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.868	.140		6.217	.000
ROE	12.223	.756	.761	16.160	.000

Source: SPSS Data Processing 20.0

Analysis MRA Sub-Struktur III

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.574	.150		3.836	.000
ROE	10.062	.878	.626	11.455	.000
MOD2	.502	.116	.237	4.335	.000

Source: SPSS Data Processing 20.0

**H1: Institutional ownership has an impact on financial performance.**

The outcomes of the t-test suggest that institutional ownership exerts a notable influence on financial performance, with a t-sig value of 0.016 indicating significance at the  $\alpha$  level of 0.05. The results of this study are appropriate and can strengthen the Agency Theory put forward by (Smulowitz et al., 2019), where institutional ownership is a monitoring tool for firm management. A large proportion of institutional ownership can increase supervisory efforts by institutions thus potentially enhancing the financial performance of the firm.

**H2: Managerial ownership affects financial performance.**

The outcomes of the t-test indicate that managerial ownership has a significant effect on financial performance, with a t-sig value of 0.049, which is less than the significance value of  $\alpha$  (0.05). Managerial ownership offers managers the chance to hold shares in the company. This aligns their interests with those of shareholders, as managers bear the repercussions of their decisions. With a stake in the company's shares, managers are incentivized to enhance their performance in overseeing the firm.

**H3: Dividend policy affects financial performance.**

The outcomes of the t-test on the sub-structural equation indicate that the dividend policy show a notable impact on financial performance. The distribution of cash dividends to shareholders can signify that the firm is performing well.

#### **H4: Financial performance does impact firm value.**

The regression coefficient value for financial performance is 12.223. Financial performance significantly influences firm value. Investors assess firms by examining financial ratios serve as a tool for evaluating investments, as these ratios provide insights into fluctuations in firm value.

#### **H5: Financial performance influences firm value, and this relationship is moderated by firm size.**

Regression coefficient value for the interaction of financial performance with firm size is 0.502. The outcomes of hypothesis testing (F-test) indicate that financial performance significantly influences firm value, moderated by firm size. Financial performance can affect the firm value. Investors' desire to invest in firm shares is not only seen in terms of financial performance, but also takes into account other conditions such as firm size. The large size of the company indicates that the firm tends not to have bankruptcy risk, so it can provide guarantees for the shares invested.

#### **CONCLUSION**

1. Institutional ownership exerts a positive and significant impact on financial performance.
2. Managerial ownership exerts a positive and significant impact on financial performance.
3. Dividend policy exerts a positive and significant impact on financial performance.
4. Financial performance exerts significant impact on firm value.
5. Financial performance and the interaction of financial performance, with firm size acting as a moderating variable have a significant effect on firm value.

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