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Ownership Structures and Firm Value: Does Firm Size Matter?

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ABSTRACT

This study aims to empirically demonstrate the positive influence of managerial and institutional ownership on firm value. Furthermore, it aims to demonstrate the moderating role of firm size in strengthening this relationship. This study used a sample of mining companies listed on the Indonesia Stock Exchange for the 2019-2023 period. This study successfully demonstrated that managerial and institutional ownership have a positive effect on firm value. However, the results failed to demonstrate the role of firm size in strengthening the positive influence of managerial and institutional ownership on firm value.

Keywords – Firm Size, Firm Value, Institutional Ownership, Managerial Ownership

INTRODUCTION

Increasing company value is the desire of every company. High company value reflects high investor confidence; thus, the company is perceived as having a positive image. Empirical research has demonstrated that many factors can help predict company value. One factor that can be studied is ownership structure. Ownership structures can generally be divided into managerial ownership and institutional ownership. Managerial ownership refers to the percentage of common shares owned by company management, such as executive directors (Wei et al., 2024). Institutional ownership refers to the proportion of company shares held by institutional investors (Bedi & Singh, 2024). Examples include pension funds, investment companies, and financial institutions.

High managerial ownership will increase company value (Rafsanjani et al., 2024). As a governance mechanism, managerial ownership is important in aligning the interests of management and shareholders. On the other hand, institutional ownership also plays a role in increasing company value (Rafsanjani et al., 2024; Suriawinata & Nurmalita, 2022). Greater institutional ownership leads to more effective use of business assets, and it is anticipated that this will act as a disincentive to managerial waste.

Considering firm characteristics in relation to ownership structure and firm value is relevant and can provide new insights. One of the firm characteristics that can be used is firm size. Firm size plays a significant role in supporting corporate finance (Suriawinata & Nurmalita, 2022). Larger firms have higher value than smaller firms due to the potential for higher cash flows, lower costs of capital, and the tendency to experience fewer financial constraints in pursuing new projects with potentially positive net present values (Suriawinata and Nurmalita, 2022).

A literature review found limited research linking firm size to the relationship between ownership structure and firm value. This study seeks to fill this gap. Therefore, this study aims to provide empirical evidence regarding (1) the positive influence of managerial ownership on firm value, (2) the positive influence of institutional ownership on firm value, and (3) the moderating role of firm size in strengthening the positive influence of ownership structure on firm value.

LITERATURE REVIEW

Managerial Ownership and Firm Value

Managerial ownership refers to shares held by company management, thereby aligning management interests (Rafsanjani et al., 2024). Managerial ownership, as a corporate governance mechanism, is essential to balance the interests of management and shareholders. This ultimately

creates a competitive advantage for the company, leading to increased company value. Rafsanjani et al. (2024) successfully demonstrated that managerial ownership positively impacts firm value. However, research by Fabisik et al. (2021) and Suriawinata and Nurmalita (2022) found the opposite. High managerial ownership decreases firm value.
H_1: Managerial ownership has a positive influence on firm value.

Institutional Ownership and Firm Value

Institutional ownership is a dominant stakeholder in a company (Rafsanjani et al., 2024). Companies with significant institutional ownership demonstrate adequate management oversight capacity. Institutional ownership can serve as evidence for developing countries that a company has provided useful monitoring instruments. Therefore, greater institutional ownership leads to more effective use of business assets, and it is anticipated that this will act as a disincentive to managerial waste. Research by Rafsanjani et al., (2024) demonstrates that firm value increases with increasing institutional ownership. This finding aligns with research by Suriawinata and Nurmalita (2022).
H_2: Institutional ownership has a positive influence on firm value.

Managerial Ownership, Institutional Ownership, Firm Size, and Firm Value

Firm size plays a significant role in supporting corporate finance (Suriawinata and Nurmalita, 2022). Larger firms have higher value than smaller firms due to the potential for higher cash flows, lower costs of capital, and the tendency to experience fewer financial constraints in pursuing new projects with potentially positive net present values. Based on agency theory arguments, larger firms are considered to have less information asymmetry compared to smaller firms (Jensen & Meckling, 1976). With a greater number of analysts, larger firms not only have less information asymmetry but also face stronger monitoring from the capital market than smaller firms (Suriawinata and Nurmalita, 2022). This argument supports the prediction that firm size can strengthen the positive influence of ownership structure, specifically managerial ownership and institutional ownership, on firm value.
H_3: Firm size can strengthen the positive influence of managerial ownership on firm value.
H_4: Firm size can strengthen the positive relationship between institutional ownership and firm value.

The conceptual model of this research is presented in the following figure.

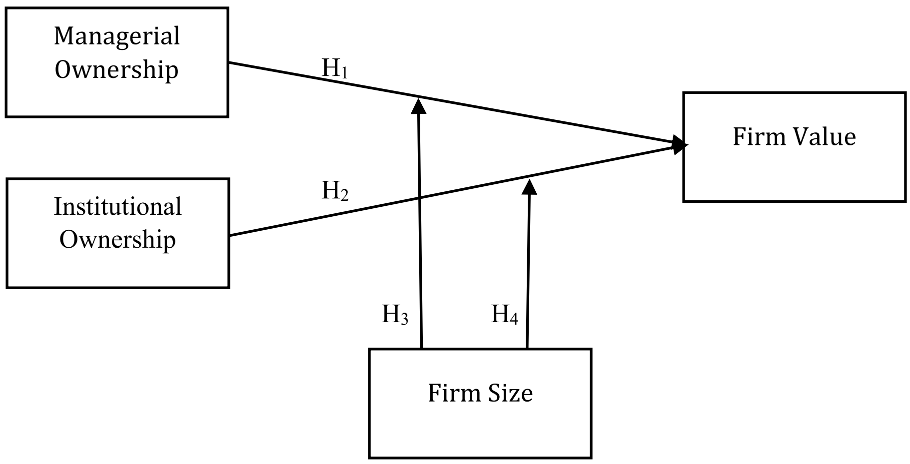

Fig. 1. Research Conceptual Model

METHODOLOGY

This study uses quantitative data accessed through the S&P Capital IQ database. This study uses a purposive sampling method to determine the research sample. The criteria set are: (1) mining sector companies that are consistently listed from 2019 to 2023 on the Indonesia Stock Exchange, and (2) the company has the complete data required.

This study uses 2 empirical models. The first model is to test H_1 and H_2. While the second model is to test H_3 and H_4. Hypothesis testing uses multiple regression analysis and moderated regression analysis.

Model 1:

$$FV_{i,t} = \alpha + \beta_1 MO_{i,t} + \beta_2 IO_{i,t} + \beta_3 LEV_{i,t} + \beta_4 PROF_{i,t} + E$$

Model 2:

$$FV_{i,t} = \alpha + \beta_1 MO_{i,t} + \beta_2 IO_{i,t} + \beta_3 FSIZE_{i,t} + \beta_4 MO{*}FSIZE_{i,t} + \beta_5 IO{*}FSIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 PROF_{i,t} + E$$

FV = Firm Value
i = Firm
t = Year
α = Constanta
$\beta_1 - \beta_9$ = Coefficient
MO = Managerial Ownership
IO = Institutional Ownership
LEV = Leverage
PROF = Profitability
E = Error

The independent variables in this study are managerial ownership and institutional ownership. Managerial ownership can be calculated using the following formula (Diantimala and Amril, 2018).

$$Managerial\ Ownership: \frac{The\ number\ of\ shares\ owned\ by\ company\ management}{Outstanding\ shares}$$

Meanwhile, institutional ownership is calculated using the following formula.

$$Institutional\ Ownership: \frac{Number\ of\ Shares\ Owned\ by\ Institutions}{Outstanding\ shares} x\ 100\%$$

In this study, firm value is the dependent variable, and Price to Book Value Ratio (PBV) is a proxy used to measure the firm value. PBV is a tool to measure the profits generated by a company by looking at how the market reacts to the company's financial performance, which is reflected in the increase in its share price. PBV can be formulated as follows:

$$Price\ to\ Book\ Value = \frac{Harga\ saham\ per\ lembar\ saham}{Nilai\ buku\ per\ lembar\ saham}$$

The moderating variable in this study is firm size. Firm size can be measured using the natural logarithm (Ln) of the company's total assets. This is because the company's total assets vary significantly and can even have quite large differences (Saragih & Sihombing, 2021).

This study uses 2 control variables, leverage and profitability. Leverage is a business's ability to use its funds to increase its owner's income (Wibowo & Yahya, 2022). In this study, leverage was measured using the Debt-to-Equity Ratio.

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}\ x\ 100$$

Profitability is a company's ability to manage its assets to generate profits that attract investors. In this study, profitability is measured using the Return on Assets (ROA) ratio, which can be calculated using the following formula (Rudyanto & Siregar, 2018).

$$ROA = \frac{Earnings\ Before\ Tax}{Total\ Asset}\ x\ 100\%$$

RESULTS

This study focuses on mining companies listed on the Indonesia Stock Exchange during the period 2019-2023. Table 1 shows the sample selection and total observations used in this study.

TABLE 1
RESEARCH DATA

No.	Description	Total
1.	Total mining companies listed on the Indonesia Stock Exchange from 2019 to 2023.	79
2.	Companies that did not provide complete data.	(11)
3.	Research sample	68
4.	Research period	5
5.	Total observation	340

The results of descriptive statistical testing are presented in Table 2.

TABLE 2
DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
FV	340	-15.83	54.59	2.4359	5.47691
MO	340	0.00	1.00	0.6832	0.22765
IO	340	0.00	0.57	0.0497	0.07749
FSIZE	340	10.78	19.47	15.2070	1.87404
LEV	340	19.16	51.04	0.6883	6.50126
PROF	340	-0.95	0.60	0.0164	0.13771

The results of hypothesis testing for hypotheses 1 and 2 are presented in Table 3. The test results show that managerial ownership and institutional ownership have a positive effect on firm value. These results support hypotheses 1 and 2.

TABLE 3
MODEL 1 TEST RESULTS

	Coefficient	P-Value
MO	1.157	0.013
IO	3.520	0.032
LEV	0.083	0.114
PROF	1.288	0.112

F = 15.094; Sig. 0.032
R-squared 0.094

The results of hypothesis testing for hypotheses 3 and 4 are presented in Table 4. The test results indicate that firm size does not enhance the positive impact of ownership structure on firm value. These results fail to support hypotheses 3 and 4.

TABLE 4
MODEL 2 TEST RESULTS

	Coefficient	P-Value
MO	19.020	.145
IO	37.609	.182
FSIZE	.087	.056
LEV	1.814	.412
PROF	.716	.274
MO*FSIZE	-1.124	.189
IO*FSIZE	-2.235	.224

F = 8.494; Sig. 0.002
R-squared 0.111

DISCUSSION

This study successfully demonstrated that managerial ownership has a positive effect on company value. These results are consistent with those of Mutia et al. (2022). Managerial ownership, as a governance mechanism, has been shown to align management interests. This creates a positive atmosphere that can increase the company's stock value. Investors will also be attracted to invest in the company. This situation will ultimately have an impact on increasing the company's value.

This study also empirically demonstrated the positive effect of institutional ownership on company value. This finding aligns with research by Apriada and Suardhika (2016) and Suriawinata and Nurmalita (2022). When a company has a high level of institutional ownership, it is motivated to allocate more resources to controlling managers and monitoring company performance. This condition will encourage increased investment by investors, all of which has an impact on increasing company value.

This study has not yet successfully proven the role of company size in strengthening the positive influence of managerial ownership and institutional ownership on company value. Increasing company size has not been accompanied by monitoring activities by shareholders and other stakeholders. Therefore, this situation has not been able to encourage increased investment, so the Company's value will not necessarily increase.

CONCLUSION

This study successfully demonstrated that managerial and institutional ownership have a positive effect on firm value. However, the results failed to demonstrate the role of firm size in strengthening the positive influence of managerial and institutional ownership on firm value. Given the positive direct effect of ownership structure on firm value, future research could explore the potential of other moderating variables, given that this study failed to demonstrate the moderating role of firm size. This study was limited to the mining sector; further research could expand the scope of the existing sectors to increase the generalizability of the results.

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