

# The Role of Capital Structure in Intervening The Effect of Ownership Structure on Company's Value

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**Abstract.** The purpose of this study is to examine the partial or simultaneous effect between Stock Price consists of internal factors of the company associated with the Managerial Ownership (INSD), Institutional Ownership (INST), Foreign Ownership (FORG), Independent Board (INDB), Capital Structure (DER), Company's Value (PBV). The populations in this study  $A = \pi r^2$  8 companies incorporated in Retail Trade Company's in Indonesia at the period of 2013-2017. Regression analysis was performed based on panel data analysis results on Eviews 10.00. This research concludes several things as follows: Variables Managerial Ownership (INSD) has a negative and not significant effect on Capital Structure (DER), Institutional Ownership (INST) has a negative and significant effect on Capital Structure (DER), Foreign Ownership (FORG) has a positive and significant effect on Capital Structure (DER), Public Ownership (PUBL) has a positive and significant effect on Capital Structure (DER), Managerial Ownership (INSD), Institutional Ownership (INST), Foreign Ownership (FORG), Public Ownership (PUBL) simultaneously have a positive and significant effect on Capital Structure (DER) and able to explain Capital Structure of 0.972745 or 97.72 percent, Managerial Ownership (INSD) has a negative and not significant effect on Company's Value (PBV), (7) Institutional Ownership (INST) has a negative and not significant effect on Company's Value (PBV), Foreign Ownership (FORG) has a negative and not significant effect on Company's Value (PBV), Public Ownership (PUBL) has a positive and significant effect on Company's Value (PBV), Capital Structure (DER) has a positive and not signifikan on Company's Value (PBV), Managerial Ownership (INSD), Institutional Ownership (INST), Foreign Ownership (FORG), Public Ownership (PUBL) and Capital Structure (DER) simultaneously have a positive and significant effect on Company's Value and able to explain Company's Value of Retail Trade Company's In Indonesia of 0.922560 or 92.25 percent.

## 1. Introduction

Company's value is important, because its describes the welfare of the owner. The manager, Has responsibility to manage the company in order to increase the company's value. [1] To optimallize the manager's work, some companies provide them the opportunities to own the company shares (called insider ownership or managerial ownership). Managerial ownership has both good and bad efect. The good effect is, the managers with shares will have highly performance. On the other hand, managerial ownership can cause managers to take policies that can increase the value of the company as well as to improve their own welfare. [2]

The company's value can be basically measured through several aspects, which is the stock market price of the firm because the stock market price of the company reflects the overall investor's valuation of each equity, in some literature calculated based on the stock price called by some of the terms price book value is the value Market of a company by comparing the market value of a company listed on the financial market with the asset replacement value of the company. According to JC.Van Horne (1912) [3] "Stock market prices indicate a central assessment of all market participants, The

stock market price acts as a barometer of corporate performance management. The value of the firm using the stock price approach by using price book value. [4]

The empirical facts show that the research under study there are differences of research from previous researchers that reveal more depth about determinan capital structure implication on the company’s value by expressing variable denpeden z thais the value of the company proxied with price book value (PBV) in mediation with capital strukture in Proxies the debt equity ratio (DER), which is used as intervening variable and discloses different indenpeden variables with many researchers is ownership structure (insider ownership, institutional ownership, foreign ownership, public ownership).

**2. Literature Review**

*2.1. Company’s Value*

Maximizing the value of the company is very important, because by maximizing the value of the company also means to maximize shareholder wealth that is the main goal of the company. Keown Aj, Martin Jd, Fetty Jw, Scottt Jr df (2010: 277) has suggested value of enterprise is a market value of securities over a debt and equity company outstanding. [3]

*2.2. Pecking order theory*

Myers & Majluf (1984) put forward arguments about the existence of a tendency of an enterprise to determine the selection of sources of funding based on the pecking order theory. Majluf argued that funding decisions based on the pecking order theory. Pecking order theory is one of the theories based on the asymmetry of information. [4]

*2.3. Signaling Theory*

Signaling Theory propounded by Linther, j. (1956) developed by (Ross, 1977), once the company’s executive has a better information, its compelled to convey such information to the potential investors in order to increase his company’s share price. [15]

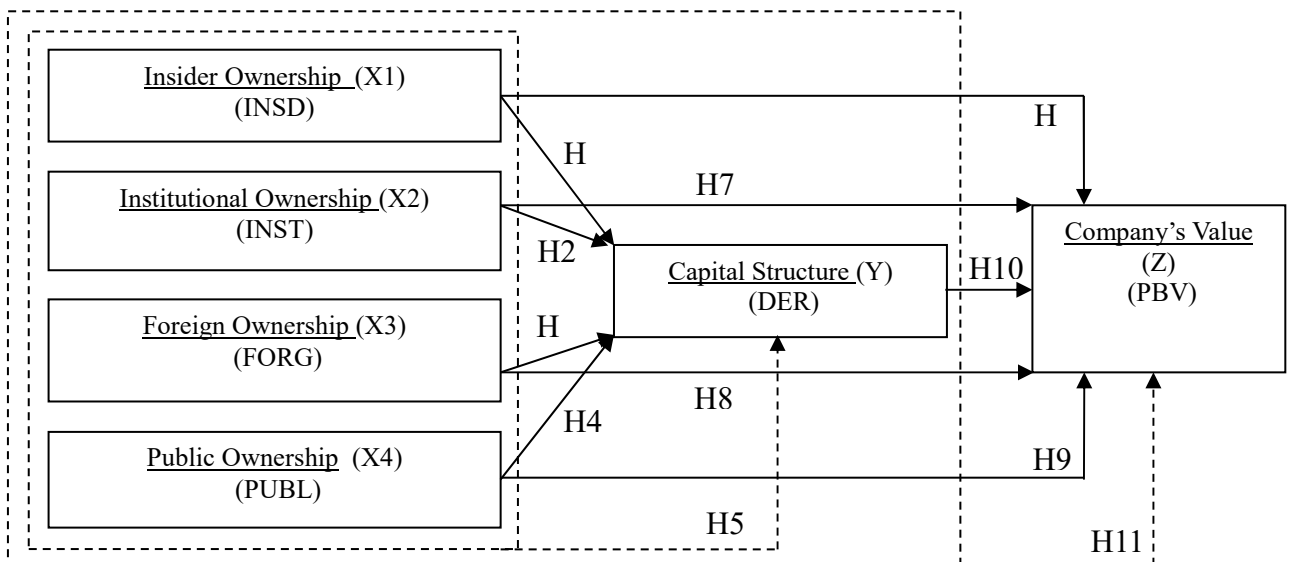
*2.4. Trade off theory*

Trade off theory is the capital structure theory based on cost and benefit, between cost of capital and profit use of debt i.e. between the costs of bankruptcy and tax advantages. [10]

*2.5. Ownership structure*

A high agency cost of debt will effect to the value of the company. Insider ownership will reduce improper resource allocation (misallocation). Insider share ownership is an incentive to increase the value of the company. [1]

**Research Framework**



### Research Hypothesis

- Hypothesis (H<sub>1</sub>) : The influence of Insider Ownership (INSD) on Capital Structure.
- Hypothesis (H<sub>2</sub>) : The influence of Institutional Ownership (INST) on Capital Structure
- Hypothesis (H<sub>3</sub>) : The influence of Foreign Ownership (FORG) on Capital Structure
- Hypothesis (H<sub>4</sub>) : The influence of Public Ownership (PUBL) on Capital Structure
- Hypothesis (H<sub>5</sub>) : The influence of INSD, INST, FORG, and PUBL on Capital Structure
- Hypothesis (H<sub>6</sub>) : The influence of Managerial Ownership (INSD) on Company's Value
- Hypothesis (H<sub>7</sub>) : The influence of Institutional Ownership (INST) on Company's Value
- Hypothesis (H<sub>8</sub>) : The influence of Foreign Ownership (FORG) on Company's Value
- Hypothesis (H<sub>9</sub>) : The influence of Public Ownership (PUBL) on Company's Value
- Hypothesis (H<sub>10</sub>) : The influence of Capital Structure (DER) on Company's Value (PBV)
- Hypothesis (H<sub>11</sub>) : The influence of INSD, INST, FORG, PUPL, and DER on Company's Value

### 3. Metodologi

This research is using a quantitative approach and each variables based on quantitative measurement scale. [8]. Data collection techniques is documentation techniques, through non-participant observation, by recording and reviewing secondary data form of corporate financial statements incorporated in the of Ritail Trade Company's In Indonesia. [9]

**Table 1.** Number of Sample Based on Sampling Criteria

No	Sample Characteristic	Sample Size
1.	The number of population is a company engaged in the Ritail Trade Company's index listing in idx period of 2008-2017	21
2	The company incorporated in the Ritail Trade Company's does not publish its financial statements and publish its full financial statements during the period 2008-2017 and notyet full Capital Structure.	(13)
	Last Sample Size	8
	Observation Year 5	5
	Observation Amount	40

**Table 2.** Research Sample

No.	Code	Ritel Company In Indonesia
1	ACES	PT Ace Hardware Indonesia Tbk.
2	CENT	PT. Centratama Telekomunikasi Indonesia Tbk.
3	CSAP	PT Catur Sentosa Adiprana Tbk.
4	ECII	PT. Electronic City Indonesia Tbk.
5	HERO	PT Hero Supermarket Tbk.
6	MPPA	PT. Matahari Putra Prima Tbk.
7	RALS	PT Ramayana Lestari Sentosa Tbk.
8	RANC	PT. Supra Boga Lestari Tbk.

**Table 3.** Operationalization of Variable

Variable	Proxy	Measurement	Scale
Company's Value (Z)	PBV	$PBV = \frac{\text{Stock Price}}{\text{Book Value}}$	Ratio
		$BV = \frac{\text{Total Equity}}{\text{Amount of shares}}$	
Capital Structure (Y)	DER	$DER = \frac{\text{Total Liability}}{\text{Total Equity}}$	Ratio

Insider Ownership (X1)	INSD	$INSD = \frac{\text{Insider Ownership}}{\text{Amount of shares}}$	Ratio
Institutional Ownership (X2)	INST	$INST = \frac{\text{Intitutional Ownership}}{\text{Amount of shares}}$	Ratio
Foreign Ownership (X3)	FORG	$FORG = \frac{\text{Foreign Ownership}}{\text{Amount of shares}}$	Ratio
Public Ownership (X4)	PUBL	$PUBL = \frac{\text{Public Ownership}}{\text{Amount of shares}}$	Ratio

The method of data analysis conducted in this research was using regression analysis method of panel data. To determine one of the three panel regression approaches to be used are Ordinary Least Square (OLS) [7]. While the data processing activities with *EViews version 10.0* is used to assist in analyzing the data used in performing the test of significance of multiple linear regression analysis of pool data. [8]

#### 4. Result

Factors that affect Company Value consists of internal factors of the company associated with the Insider Ownership (INSD), Institutional Ownership (INST), Foreign Ownership (FORG), Public Ownership (PUBL) on Capital Structure (DER).

##### 4.1. Determinant Capital Structure.

Based on testing of paired data regression model against the third panel, the conclusions are as follows: [9]

No	Methods	Testing	Result
1.	Uji Chow-Test	common effect vs fixed effect	fixed effect
2.	Langrage Multiplier (LM-test)	common effect vs random effect	random effect
3.	Haustman Test	fixed effect vs random effect	fixed effect

Estimasi Model Regresi Data Panel secara Parsial (*Uji T*) dan Simultan (*Uji F*) Model Fixed Effects dengan *White-Test*.) sbb :

Dependent Variable: DER?

Method: Pooled EGLS (Cross-section weights)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-184.4363	84.45693	-2.183792	0.0375
INSD?	-33.16121	19.47411	-1.702836	0.0997
INST?	-0.099592	0.037683	-2.642898	0.0133
FORG?	7.518352	1.070550	7.022891	0.0000
PUBL?	5.463454	1.854499	2.946055	0.0064
Fixed Effects (Cross)				
_ACES--C	-38.31340			
_CENT--C	-481.6910			
_CSAP--C	3.459049			
_ECII--C	461.1904			
_HERO--C	-272.3759			
_MPPA--C	-134.9278			
_RALS--C	276.4880			
_RANC--C	186.1707			

#### Weighted Statistics

R-squared	0.972745	Mean dependent var	1.428254
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Adjusted R-squared	0.962038	S.D. dependent var	1.780149
S.E. of regression	0.153128	Sum squared resid	0.656546
F-statistic	90.84833	Durbin-Watson stat	1.912334
Prob(F-statistic)	0.000000		

Estimation Regression Data Panel Result for Fixed Effect as follow :

Model	Adjusted R <sup>2</sup>	Prob. (F-stat.) $\alpha - 0,05$	Probabilitas $\alpha - 0,05$	
Fixed Effect	0.962038	0.0000	INSD	Not Significant
			INST	Significant
			FORG	Significant
			PUBL	Significant

#### 4.2. Implication on Company's Value

Based on testing of paired data regression model against the third panel, the conclusions are as follows:

No	Methods	Testing	Result
1.	Uji Chow-Test	common effect vs fixed effect	fixed effect
2.	Langrage Multiplier (LM-test)	common effect vs random effect	random effect
3.	Haustman Test	fixed effect vs random effect	fixed effect

Estimasi Model Regresi Data Panel secara Parsial (*Uji T*) dan Simultan (*Uji F*) Model Fixed Effects dengan *White-Test*.) sbb :

Dependent Variable: PBV?

Method: Pooled EGLS (Cross-section weights)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3100.061	605.3419	-5.121173	0.0000
INSD?	-135.2114	69.37617	-1.948960	0.0418
INST?	-0.378126	0.295054	-1.281549	0.2109
FORG?	-21.80234	11.68581	-1.865710	0.0730
PUBL?	200.1143	24.12448	8.295073	0.0000
DER?	-0.063489	0.460061	-0.138000	0.8913
Fixed Effects (Cross)				
_ACES--C	-3560.036			
_CENT--C	1945.954			
_CSAP--C	135.4421			
_ECII--C	1233.672			
_HERO--C	2286.085			
_MPPA--C	-1046.842			
_RALS--C	-849.2715			
_RANC--C	-145.0047			

#### Weighted Statistics

R-squared	0.922560	Mean dependent var	3.217906
Adjusted R-squared	0.888142	S.D. dependent var	2.880083
S.E. of regression	0.629743	Sum squared resid	10.70757
F-statistic	26.80463	Durbin-Watson stat	2.708945
Prob(F-statistic)	0.000000		

Estimation Regression Data Panel Result for Fixed Effect as follow :

Model	Adjusted R <sup>2</sup>	Prob. (F-stat.) $\alpha - 0,05$	Probabilitas $\alpha - 0,05$	
Fixed Effect	0.888142	0.0000	INSD	Significant

INST	Not Significant
FORG	Not Significant
PUBL	Significant
DER	Not Significant

4.3. *Determinant Of Capital Structure and It's Implications On Company's Value: Hybrid Analysis*

The table below describes the combined two models the regression data panel, on the first model, explains determinants Capital Structure, Insider Ownership (INSD), Institutional Ownership (INST), Foreign Ownership (FORG), Public Ownership (PUBL) simultaneously effect significantly to Capital Structure. Second model describes the Implications for on Company's Value of Retail Trade Company's In Indonesia at the period of 2013-2017 with the result that the INSD, INST, FORG,PUBL and DER simultaneously effect significantly to the on Company's Value of Retail Trade Company's In Indonesia at the period of 2013-2017.areas follows: [9]

**Table 4.** Determinant Of Capital Structure and It's Implications for Company's Value of Retail Trade Company's In Indonesia at the period of 2013-2017

Independent Variable	Model 1			Model 2		
	Determinant of Capital Structure			Implications on Company's Value		
	Koefisien Regresi	Prob.	Sign./Not Sign.	Koefisien Regresi	Prob.	Sign./Not Sign.
INSD	-33.16121	0.0997	Not Sign.	-135.2114	0.0418	Significant.
INST	-0.099592	0.0133	Significant	-0.378126	0.2109	Not Sign
FORG	7.518352	0.0000	Significant	-21.80234	0.0730	Not Sign
PUBL	5.463454	0.0064	Significant	200.1143	0.0000	Significant
DER	-	-	-	-135.2114	0.8913	Not Sign

5. **Conclusion & Suggestion**

5.1. *Conclusion*

1. Insider Ownership partially has a negative not significant effect on Capital Structure.
2. Institutional Ownership partially has a negative significant effect on Capital Structure.
3. Foreign Ownership partially has a positive significant effect on Capital Structure.
4. Public Ownership partially has a positive significant effect on Capital Structure.
5. INSD, INST, FORG and PUBL simultaneously proved to be positive significant effect on Capital Structure, and able to explain Capital Structure variables of 0.972745 or 97.27 percent while the remaining 2.73% (100% - 97.27%) affected by other variables that are not covered in this research. The dominant variable or the highest dominance of the Capital Structure variables are INSD of 33.16121. The non dominant variable or the lowest dominance to the Capital Structure variable is INST amounting 0.099592. Companies that have the highest rate of change of sensitivity simultaneously or partially to Capital Structure are PT. Electronic City Indonesia Tbk. (ECII) a constant value of 461.1904 and the Company having the smallest change of sensitivity to Capital Structure is PT. Centratama Telekomunikasi Indonesia Tbk. (CENT) with a constant value of -481.6910.
6. Insider Ownership partially has a negative significant effect on Company's Value.
7. Institutional Ownership partially has a negative not significant effect on Company's Value.
8. Foreign Ownership partially has a negative not significant effect on Company's Value.
9. Public Ownership partially has a positive significant effect on Company's Value.
10. Capital Structure (DER) partially has a negative not significant effect on Company's Value (PBV).
11. INSD, INST, FORG, PUBL and DER simultaneously has a positive significant effect on Company's Value, and able to explain the Company's Value variable of 0.922560 or 92.25 percent while the remaining 7.75 % (100%-92.25%) is influenced by other variables that are



not tested in this research. The dominant variable or the highest dominance on the Company's Value variable is PUBL of 200.1143, the non dominant variable or the lowest dominance on the Company's Value variable is the INST of -0.378126. Companies that have the highest rate of change of sensitivity simultaneously or partially to the Company's Value of the largest companies are PT Hero Supermarket Tbk. (HERO) with the constant value of 2286.085. The Company that has the smallest change of sensitivity to the Company's Value is PT Ace Hardware Indonesia Tbk. (ACES) with a constant value of -3560.036.

### 5.2. Suggestion :

1. To improve the retail trade company's capital structure, partially management must reduce institutional ownership, increasing the foreign ownership and public ownership.
2. Management policies in improve retail trade company's capital structure simultaneous must pay attention to the capital structure
3. To improve retail trade company's value, management must reduce insider ownership, increasing the public ownership.
4. Management policies in improve retail trade company's value simultaneous must pay attention to the capital structure

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