International Journal of Social Sciences and Humanities
Available online at www.sciencescholar.us
Vol. 8 No. 2, August 2024, pages: 52-62
ISSN: 2550-701X
https://doi.org/10.53730/ijssh.v8n2.14958

The Effect of Managerial Ownership and Institutional Ownership on Firm Value with Profitability as an Intervening Variable in Mining Companies Listed on the Indonesia Stock Exchange

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Manuscript submitted: 09 April 2024, Manuscript revised: 18 May 2024, Accepted for publication: 27 June 2024

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Keywords

managerial's ownerships; institutional's ownerships; profitability; value;

Abstract

This study aims to obtain empirical evidence of Managerial and Institutional Ownership of the Mining firm's value listed on the Indonesia Stock Exchange with profitability as a mediating variable. The sampling technique used purposive sampling, the research samples obtained totalled 13 companies with a research period from 2019-2022 so there were 52 units of analysis. The research design was quantitative descriptive. The analysis technique in this research is the path analysis method. The results showed that Managerial and Institutional Ownership has a significant positive effect on a firm's value and no effect on profitability. Profitability has no direct effect or mediating effect on a firm's value. This research implies that companies must pay attention to Managerial and Institutional Ownership and those that can affect the stock price to increase the firm's value.

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Contents

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1 Introduction

The main goal of the company is to generate maximum profit, in addition. The establishment of a company must have a clear purpose. Some experts suggest the purpose of the establishment of a company. One of the objectives of establishing a company is to maximize shareholder wealth, which can be realized by increasing company value. Shareholders are more interested in investing in the company if the prosperity of shareholders shows a high value which will increase the value of the company (Thaharah & Asyik, 2016).

Good corporate governance can signal the existence of aligned interests between all stakeholders thereby reducing conflicts. In addition, company management can also achieve company goals, namely increasing company value (Widuri et al., 2017). Firm value can be measured through various aspects, one of which is the company's stock market price because the company's stock market price can be a benchmark for investors' valuation of any equity owned. The stock market price shows the central assessment of all market participants, the stock market price acts as a barometer of the company's management performance. Firm value can be influenced by many factors, including *Good Corporate Governance* (GCG) which is proxied by Managerial Ownership and Notional Ownership (Sari & Wulandari, 2021).

Mining companies are companies whose activities are mining, managing, utilising and selling excavated materials (minerals, coal, geothermal and oil and gas). The reason for choosing mining companies in this study is because mining companies are a type of business company that has a large number of companies, namely 63 companies, even though it consists of several types of commodities per company.

The state of the world economy in the 2019-2022 timeframe is in a state of ups and downs with the COVID-19 pandemic disaster which certainly has an impact on world commodity prices. In addition, economic developments both domestically and internationally have affected performance, causing mining companies to experience difficulties in continuing their business, which has an impact on the decline in company value which is less than satisfactory (Walter et al., 2001; Lindgreen & Wynstra, 2005).

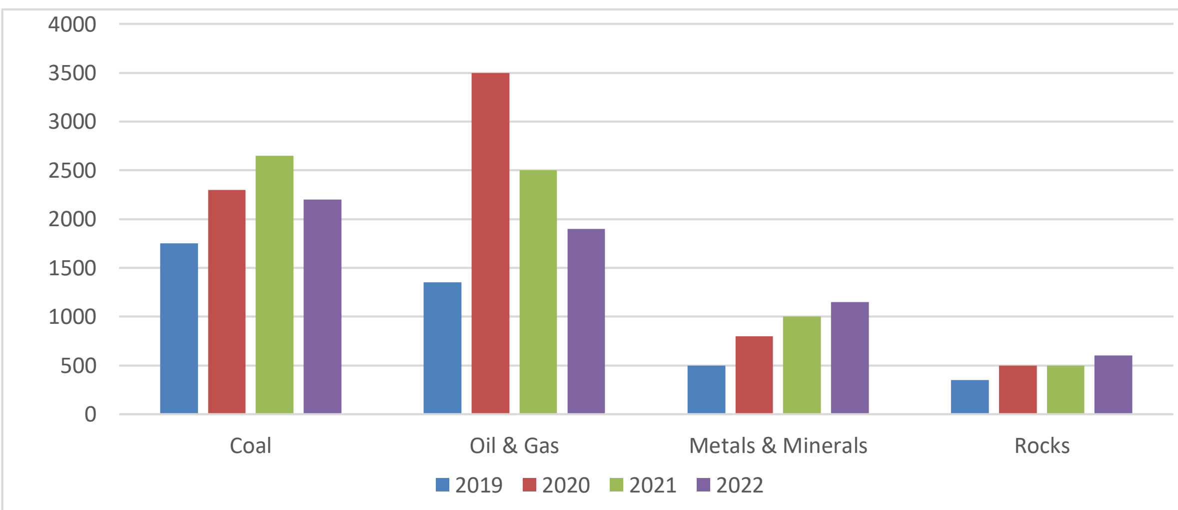

Figure 1. Development of mining companies in Indonesia
Source: *www.idx.co.id* (data processed)

Based on Figure 1, it can be seen that mining companies in 2021 and 2022 have decreased. metal and mineral companies generally tend to increase. Then oil and natural gas companies and coal companies tend to fluctuate. This indicates that the decline in company value in the mining sector is due to all mining companies experiencing negative trends and tending to fluctuate (Sweeney & Soutar, 2001). Phenomena related to company performance include the shares of a coal mining company, PT Indo Tambangraya Megah Tbk (ITMG), which fell significantly by 2.66% to a price of IDR 14,650 / share. In addition to depressed coal prices, the weakening of ITMG shares occurred amidst the decline in company performance due to differences in interests between shareholders and company managers. (CNCB Indonesia, 2019). To ownership, there are two agency problems, namely agency problems between management and shareholders and agency problems between majority shareholders and minority shareholders.

There are also several previous *research gaps* regarding Share Ownership on firm value. Wiguna & Yusuf (2019); Aisyah & Wahyuni (2020); Harun et al. (2020); and Sa'adah et al. (2022), found that managerial ownership has a positive and significant effect on firm value. Coleman & Wu (2021), found that managerial ownership has a significant negative effect on firm value. Meanwhile, Wahyudin et al. (2020); Wang et al. (2020); Wahyudin et al. (2020) Rokhmawati (2020); Sa'adah et al. (2022), found that institutional ownership has a positive and significant effect on firm value. Saidat et al. (2019); Wang et al. (2020); Bakhtiar et al. (2021); Coleman & Wu (2021), found that institutional ownership has a negative and significant effect on firm value. Listiyowati & Indarti (2018); Sunardi (2019); Nurdiwaty (2020); Yosephus et al. (2020), found that institutional ownership has no effect on firm value. Putri & Trisnaningsih (2021) and Sari & Khuzaini (2022), found that profitability affects firm value. Rokhmawati (2020), found that profitability has a significant negative effect on firm value. Listiyowati & Indarti, (2018); Damaianti (2019); and Saputri & Supramono (2021), found that profitability does not affect firm value.

The object of this study is a mining company listed on the Indonesia Stock Exchange for the 2019-2021 period. In this study, firm value is implied by PBV as the dependent variable. Financial performance is implied as ROA (*Return on Asset*) as an intervening variable (Dewi & Dewi, 2017). The independent variables are managerial ownership and institutional ownership. Based on the phenomenon and research gap above, the authors are interested in conducting research with the title "The Effect of Managerial Ownership and Institutional Ownership on Firm Value with Profitability as an *Intervening* Variable in Mining Companies Listed on the Indonesia Stock Exchange" (Zhou, 2001; Fahlenbrach & Stulz, 2009; Benson & Davidson III, 2009).

2 Materials and Methods

The object of research was conducted at Mining Companies listed on the Indonesia Stock Exchange in the 2019-2022 period. Data collection using a *purposive sampling* technique obtained a research sample of 13 companies. The research method used is a descriptive method with a quantitative approach using path analysis. The classic assumption test is carried out before hypothesis testing so that the test results meet the BLUE (Best Linear Unbiased Estimated) criteria. After that, hypothesis testing is carried out with the t-statistical test, F test, and coefficient of determination analysis. The model used in this study can be formulated as follows:

$$\mathbf{ROA} = \boldsymbol{\alpha} + \boldsymbol{\beta 1 X}1 + \boldsymbol{\beta 2 X}2 + \boldsymbol{\varepsilon} \text{...(equation 1)}$$
$$\mathbf{PBV} = \boldsymbol{\alpha} + \boldsymbol{\beta 1 X}1 + \boldsymbol{\beta 2 X}2 + \boldsymbol{\beta 3}Z + \boldsymbol{\varepsilon} \text{ ...(equation 2)}$$

Table 1
Operational definition and measurement of variables

No.	Variable	Definition	Formula	Scale
1.	Managerial Ownership *(X1)*	Shares owned by the manager at the end of the year are expressed as a percentage (Sudana & Sallama, 2015).	MAN= (Σ Shares Management)/(Σ Shares in circulation)×100%	Ratio
2.	Institutional Ownership (KI)	Ownership of company shares by institutions (Brigham & Houston,	*KI=(Number of institutional shares)/(Total shares*	Ratio

No.	Variable	Definition	Formula	Scale
	(X_2)	2006).	*outstanding)*	
3.	Profitability (ROA) (Z)	The company's ability to generate profits. (Tijow et al., 2018).	ROA=(Net Profit)/(Total assets)×100%	Ratio
4.	Company Value (PBV) (Y)	This PBV ratio indicates what investors think of the company's prospects. (Widayanti & Yadnya, 2020)	PBV=(Share price per share)/(Book value per share)	Ratio

Source: data processed by the author from selected books

3 Results and Discussions

Descriptive statistical analysis results

Table 2
Descriptive statistics results

Descriptive Statistics					
	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
KM	52	.00001	.66000	.1318087	.18169125
KI	52	.1000	.9700	.611962	.2513637
ROA	52	.0001	.1575	.013629	.0337557
PBV	52	.290	20.120	2.07077	2.971605
Valid N (listwise)	52				

Source: SPSS 25.0 Data Processing Results

Hypothesis test

Coefficient of Determination (Adjusted R^2)
The coefficient of determination of this study shows a number which means that the independent variable is only able to explain the dependent variable with 0.309 or 30.9%. The PBV variable can be explained by 69.1% of the KM, KI, and ROA variables while the remaining 69.1% can be influenced by other factors not examined.

Partial test (Uji-T)
The t-value test is used to measure how far the influence of one independent variable individually in explaining the variation in the dependent variable (Ghozali, 2018). The results of the t-value test underlie the preparation of the research model which can be formulated as follows:

ROA = -0.287KM - 0.103KI ... (model 1)
PBV = 0.749KM + 0,298KI + 0.002ROA...(model 2)

Table 3
Test results of direct and indirect effects

Variables	Standardized Beta Value		Sig.	Hypothesis
	Direct Effect	Indirect influence		
KM - ROA	-0,287		0,113	rejected
KI - ROA	-0,103		0,584	rejected
KM – PBV	0,749		0,000	Retrieved
KI – PBV	0,298		0,045	Retrieved
ROA – PBV	0,002		0,990	rejected
KM-ROA-PBV	0,749	-0,0005		rejected
KI-ROA-PBV	0,298	-0,0002		rejected

Source: SPSS 25.0 output (Data processed by the author)

Discussion of Research Results

Managerial ownership on profitability

Based on Table 3, Managerial Ownership has a regression coefficient value of -0.287 with a negative value and opposite direction with a significance of 0.113> α 0.05. These results indicate that the Managerial Ownership variable has a negative and insignificant effect on Profitability ($H1_{\text{is not}}$ supported). Based on the regression results, it shows that the size of managerial ownership has no effect on profitability. The behaviour of the managerial ownership variable shows no effect on profitability and is not in accordance with the conceptualized view of agency theory (Albertazzi & Gambacorta, 2009; Novy-Marx, 2013). The basis of agency conflict is that the agent as the party trusted by the *principal* to manage the company does not always act according to the wishes of the principal where the agent tends to take opportunistic actions. The existence of managerial ownership can be a harmoniser so that conflicts of interest will be reduced The results of the research are in line with the results of research by Sejati et al. (2018); Suryanto (2019); Yusrizal & Suharti (2020), found that managerial ownership has no effect on financial performance.

Institutional ownership on profitability

Based on Table 3. Institutional Ownership has a regression coefficient value of -0.103 with a negative value or opposite direction and a significance of 0.584> α 0.05. These results indicate that the Institutional Ownership *variable* has a negative and insignificant effect on Profitability (H2 is not supported). The lack of effect of institutional ownership can be caused by institutional shares concentrated in short-term investors, these investors may focus more on short-term profits than long-term profitability, so they do not have a significant effect on profitability (Nurhayati & Wijayanti, 2022). These results are in line with the results of Abduh & Ellen's (2018) research; Solekhah & Efendi (2020), who found that institutional ownership has no effect on profitability.

Managerial ownership on firm value

Based on Table 3, Managerial Ownership has a regression coefficient value of 0.749 with a positive and unidirectional value and a significance of 0.000 < α 0.05. These results indicate that the Managerial Ownership variable is proven to have a significant and significant effect on Firm Value (H3 is supported). These results are in line with agency theory by Jensen (1986). In agency theory, agency problems include managers who are motivated by themselves and do not run the company in accordance with the wishes of the shareholders (principal). Minimising agency problems can be done by maximising managerial ownership (Saona et al., 2020). Fadelia & Diyanti (2023); Fana & Prena (2021); Mulyani et al. (2022); which states that managerial ownership has a positive effect on firm value.

Institutional ownership on firm value

Based on Table 3. Institutional Ownership has a regression coefficient value of 0.298 with a positive and unidirectional value and a significance of 0.045 < α 0.05. These results indicate that the Institutional variable is proven to have a significant and significant effect on Firm Value (H4 is supported).Agency theory explains the relationship between principals (company owners) and agents (managers). The existence of institutional ownership makes institutional investors (company owners) monitor manager performance through various means, such as analysing financial reports, attending shareholder meetings, and meeting with managers directly. Stricter monitoring can help prevent managers from engaging in behaviour that harms shareholders. This result is in line with the results of research by Nuryono et al. (2019); Wiguna & Yusuf (2019); Wahyudin et al. (2020); Rokhmawati (2020); Sa'adah et al. (2022), found that institutional ownership has a positive and significant effect on firm value.

Profitability to firm value

Based on table 3. Managerial Ownership has a regression coefficient value of 0.002 with a positive and unidirectional value and a significance of 0.990> α 0.05. These results indicate that the Profitability variable is proven to have a positive and significant effect on Firm Value (H5 is not supported). Based on the regression results, it is concluded that profitability has no effect on firm value. This result is not in accordance with the signalling theory by Spence (1978), as companies use information to convey signals to investors about future prospects so that companies can attract capital, reduce the cost of capital, and increase firm value. Although profitability is generally considered a positive indicator of firm value. These results are in line with the results of research by Listiyowati & Indarti, (2018); Damaianti (2019); Saputri & Supramono (2021), found that profitability has no effect on firm value.

Managerial ownership on firm value through profitability

Based on table 3, the direct effect of Managerial Ownership has a regression coefficient value of 0.749. The indirect effect of Institutional Ownership has a coefficient value of -0.287, which is derived from (-0.287 x 0.002) = -0.0005. -0,0005 < 0,749. These results indicate that the Profitability variable is unable to mediate the effect of Managerial Ownership on Firm Value significantly (H6 is not supported). This result can occur because managerial shares are quite low (Alamsyah & Yulianti, 2022; Khan et al., 2005). High managerial ownership can increase profitability through a focus on efficiency, appropriate decision making, and long-term commitment. High profitability can attract more investors, increase demand for shares, and ultimately increase firm value, which benefits shareholder managers.

Institutional ownership on firm value through profitability

Based on table 3, the direct effect of Institutional Ownership has a regression coefficient value of 0.298. The indirect effect of Institutional Ownership has a coefficient value of -0.0002, which is derived from (-0.103 x 0.002) = -0.0002. -0,0002 < 0,298. These results indicate that the Profitability variable is not able to mediate the effect of Institutional Ownership on Firm Value significantly (H7 is not supported). This result is not in accordance with the signalling theory by Spence (1978), as companies use information to convey signals to investors about future prospects so that companies can attract capital, reduce the cost of capital, and increase firm value. High profitability can attract institutional investors, because they see the opportunity to get a higher return on their investment. However, the absence of profitability mediation is due to low profitability Listiyowati & Indarti (2018). High institutional ownership can increase the company's access to funding sources and business opportunities, which in turn can increase the company's profitability (Alshifa, 2021; Burns et al., 2010).

4 Conclusion

This study aims to examine the independent variables consisting of Managerial Ownership and Institutional Ownership on Firm Value with Profitability as intervening. The coefficient of determination has a value of 0.309 or 30.9%. The PBV variable can be explained by 69.1% by the Managerial Ownership, Institutional Ownership, and ROA variables while the remaining 69.1% can be influenced by other factors not examined.

Acknowledgments
Thank you to those who have helped with this research so that this manuscript is suitable for publication in an international journal.

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