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EFFECTS OF INSTITUTIONAL OWNERSHIP AND PROFITABILITY TO FIRM VALUE WITH THE CAPITAL STRUCTURE AS INTERVENING VARIABLE (EMPIRICAL STUDY AT COMPANY TOURISM INDUSTRY SECTOR LISTED IN INDONESIA)

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ABSTRACT

This research aims to examine empirically the influence of intitutional ownership and profitability to firm value through capital structure. Populations in this research are tourism industrial sectors listed in the Indonesian Stock exchange which had been active since 2007-2014 as many as 19 companies. The hyphothesis examination uses regression analysis with the SPSS program. Results of the research show institutional ownership and profitability have significant effect to capital structure and firm value. But the capital structure has no significant effect to firm value. Path analysis test shows that the capital structure can be an intervening variable to mediate the relationship between institutional ownership with firm value, but the capital structure cannot be an intervening variable that mediates the relationship between profitability with firm value.

Keywords: institutional ownership, profitability, capital structure, firm value.

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1. INTRODUCTION

The tourism industry has a multiplier effect economic to another sector. The tourism sector currently as leading sector after state revenue from tax sector. The increase visit tourism has wanted to the aviation industry, accommodation, souvenir, and etc. The year 2016 total visitor of foreign tourist to Indonesia as 11, 52 million and foreign exchange earned from tourism

sector as Rp 185 trillion. So how about a tourism industry specific for the capital market. Currently, in Indonesian Capital Market as Bursa Efek Indonesia (BEI) there are as many 20th company wichs listed at BEI. This amount has increased from 67 % between at 2003 when that currently wich as the 13th company. The investment in this sector at 2016 as Rp. 15 trillion from the foreign investor as Rp.12,8 Billion and Rp 2,2 Billion from domestic investment. The establishment of a company has several goals, according to Harjito (2005) there are 3 objectives of the establishment of a company by investors, among others: obtain maximum profit, prosper the owner and maximize the firm value.

Based on the theory of the firm, a Company is a combination of existing resources that involves shareholders, management, employees, suppliers and customers, in the short term the company has a goal to earn profits while for the long term the company aims in addition to the welfare of the owner (profit) also for the welfare of society surrounding (employment) and tax for government (Wening, 2009; Hasan *et al*., 2017; Nurlina and Muda, 2017; Nasir *et al*., 2017; Tarmizi *et al*., 2016; 2017; & Kesuma *et al*., 2018a & 2018b). To achieve that goal the company owner designates the manager (agent) to manage the company with the expectation of getting maximum return from what is invested (agency theory). As a consequence the company must issue some funds as agency cost. Agent conflicts can occur when either the company owner or the principal with the manager is not aligned in the company's policy making including the company's financial policy. The firm value is a certain condition that has been achieved by a company as a picture of public confidence in the company after through a process of activity for several years, ie since the company was established until now. Investors' expectations of their investment are to obtain the maximum return with a certain risk (Wasizzaman, 2015; Wahyudi *et al*., 2016; Lutfi *et al*., 2016 & Muda and Windari, 2018). This expectation will actually happen if the investor has a very good ability in assessing the company's performance and sensitive to the financial condition of a country and the global economy (Situmorang *et al*., 2017; Muda and Hasibuan, 2018; Muda and Nurlina *et al*., 2018a & 2018b). Investors 'and prospective investors' confidence in the prospect of the company has significance for the issuer, the more potential investors who believe in the issuer the desire to invest in the issuer is expected to increase (Syahyunan *et al*., 2017; Heikal *et al*., 2018; Kholis *et al*., 2018 & Khaddafi *et al*., 2018). For the an effort to generate maximum return, the company needs adequate funding to support its operations. Pecking order theory and trade off theory become the basis of the company's consideration in choosing source of funding company. Pecking order theory that prioritizes internal funding sources is considered effective because the company has low interest expense, otherwise trade off theory that put forward external funding source is considered effective because the interest expense must be borne instead reduce the tax burden. In relation to corporate funding, in order to effectively and efficiently utilize the funding decision, it is not absolute to be the manager's authority, since the funding issue is crucial to the company's survival, the shareholders can participate in its decision making through shareholder or commissioner representation (Winahyuningsih *et al*., 2019; Winarto, 2015; Nurzaimah *et al*., 2016; Lubis *et al*., 2016; Azlina *et al*., 2017; Lubis *et al*., 2017; Sadalia *et al*., 2017; Muda *et al*., 2018b; 2018c; 2018d; 2018e & 2018f). The representation of the board of commissioners will become more dominant if there is a majority ownership of the shareholders.This can happen when most ownership of shares is owned by an institution or institution called institutional ownership. This institutional ownership is believed to be capable of carrying out an effective supervisory function to managers from opportunistic actions by management. So increased the profits will be an increase of investor confidence a potential investor to enable stock price and so that the firm value will be also increased (Muda *et al*., 2016a; Muda, 2017a; 2017b; 2018a; 2018b & Muda

et al., 2018a). Investors will assess the company positively if the profitability ratio shows an increase, thus the creditors, suppliers and investors who are stakeholders of the company will judge the company's performance well. With a good profitability then the company will have the ability to distribute larger dividends to shareholders. This research assumes that institutional ownership and profitability, significant effect on firm value. It is also assumed that capital structure can be an intervening variable that mediates the relationship between institutional ownership and profitability with firm value.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Theory of the Firm

The company is an organization that organizes multiple sources for the purpose of making a profit. Theory of the firm acknowledges profit maximization as the main target of the firm, the first has short-term profit target than for a long-term maximization of the existence of the company not only benefits the shareholder but also expected to benefit the wider community, the government through the process of the economic activity.

2.2. Agency Theory

Agency theory proposed by Jensen and Mecklin (1976) described the relationship between shareholder as principal and manager as an agent.To manage the company owner/shareholder no longer do it alone, they delegate it to a more professional manager in running the company. There are several ways to reduce agency conflict (Bathala *et.al.*, 1994; Sujoko and Subiantoro. 2007; Hutagalung *et al.*, 2017; Yahya *et al.*, 2017 & Muda and Hutapea, 2018) to increase ownership by management (Insider ownership) so that agents will act in accordance with the wishes of the principal as well as shareholders and will be motivated to improve performance and response to improve the prosperity of the company. 2) Increase dividend ratio to net income. Dividends are the returns earned principal, the higher the dividend ratio of net income earned will increase the prosperity of shareholder. 3) increasing the source of funding through debt, increasing debt in the capital structure will reduce the use of stocks so as to reduce the cost of the equity agency, but the debt is too large will also impact bankruptcy risks caused by the repayment of loans and interest expenses 4) Institutional ownership by the institution.

2.3. Signaling Theory

The signal is an action taken by the company to provide information/direction to investors about how management views the prospect of the company (Brigham & Houston; 2001). Signaling effect was proposed by Ross (1977) based on asymmetric information. Asymmetric information according to Brightman and Houston (1999) is situations in which managers have different information about the prospect of the firm than the investor have it.

2.4. Pecking Order Theory

This theory was first introduced by Donaldson (1961) while names packing order theory was done by Myers (1984). This theory is rooted on the notion of asymmetric information that corporate managers know more about their company’s prospects, risk and value than do outside investors. When this is exhausted, debt will be used and when debt is exhausted, additional equity will be issued. DeAngelo and Masulis (1980) emphasized that each firm has an internal optimal capital structure that maximizes its value.

2.5. Trade-off Theory

The trade-off theory disclosed by Myers (2008) states that the company will up to certain debt levels, where tax shields from additional debt equal the cost of financial distress. Financial distress costs are bankruptcy costs or reorganization, and agency costs are increased as a result of the credibility of a company. Trade-off theory has implications that managers will think within the framework of a trade-off between tax savings and financial difficulties in determining the capital structure (Suryaputri and Astuti; 2003; Tarjo, 2008; Taswan. 2003 and Muda & Naibaho, 2018). Companies with high levels of profitability will certainly try to reduce taxes by increasing the ratio of debt, so the additional debt will reduce taxes.

2.6. The Firm Value

The firm value can be interpreted as the perception of investors to the success rate of companies there are often related to stock prices, where high stock prices will make the company's value is also high. Firms with high future growth opportunities are expected to use more equity financing because a highly leveraged company may forgo profitable investment opportunities when it expects by undertaking new project the value goes to firm’s existing debt holders (Myers 1977). The value of a company is a certain condition that has been achieved by a company as a picture of public confidence in the company after through a process of activity for several years, ie since the company was established until now.

2.7. Capital Structure

Capital Structure is a comparison or balance of long-term funding of a company which is shown by comparison of long-term debt to own capital, (Martono & Harjito, 2008) To meet the financing needs of the company can be selected alternative sources of funds from internal and external. Capital Structure is a comparison or balance of long-term funding of a company which is shown by comparison of long-term debt to own capital, (Martono & Harjito, 2008). To meet the financing needs of the company can be selected alternative sources of funds from internal and external.

2.8. Institutional Ownership

In relation to share ownership, institutional ownership has the ability to control the management through an effective monitoring process, thereby reducing management actions in earnings management. According to Ismiyanti and Mamduh (2004) the higher the institutional ownership, the more it will increase external supervision of the company. In addition Wahyudi and Pawestri (2006) argue that institutional ownership is important in monitoring management, institutional ownership will encourage more optimal supervision, and higher institutional ownership will reduce opportunistic managers' behavior that can reduce agency costs.

2.9. Profitability

One of the main objectives of the company is to seek profit or profit. Kemampuan companies in generating profitability are also one factor company valuation, as stated by Ang (1997) that profitability affects the value of the company positively because the profitability ratio indicates the successful companies in generating profits. If the profitability of the company is good then the creditors, suppliers, and investors who are stakeholders of the company will assess the company's performance properly.

2.10. The influence of institutional ownership and profitability on capital structure

Institutional ownership is the proportion of share ownership by the end of the year owned by the institution, such as insurance, banks or other institutions (Tarjo, 2008). The higher institutional ownership will increase the external oversight of the company. Agency Theory which describes a relationship or contract between principal and agent then can be seen the strength of institutional ownership. The more concentrated the ownership of the ownership control over the management will be more effective including in funding companies because management will be more careful (Sujoko, *et al*., 2007; Dewi, 2013; Chen, 2004; Choudhary, 2010 & 2013; Chen *et al*., 2014; Ferine *et al*., 2017; Handoko *et al*., 2017; Muda *et al*., 2017a; 2017b; 2017c & 2017d; Marhayanie *et al*., 2017 & Muda and Hasibuan, 2018). To reduce the opportunistic behavior of managers as agents, investors can encourage managers to conduct expansion/business development through debt, especially long-term debt so that the optimization of capital structure occurs. This is supported by Brigham and Houston (2001) which states that profitability affects the capital structure, the higher the profit of a company the more it will decrease its debt because the more internal funds available to fund the investment. According to Brigham and Houston (2001) companies with high rates of return on investment use relatively small debt. Based on the description above hypothesis:

H1: Institutional ownership and Profitability have a significant effect on capital structure.

2.11. The influence of institutional ownership and profitabilty to firm value through capital structure

Institutional ownership is the proportion of share ownership by the end of the year owned by the institution, such as insurance, banks or other institutions, (Fama, 1998; Tarjo, 2008; Ferdinan, 2008; Sirojuzilam *et al*., 2016 & 2017 & Sihombing *et al*., 2017). Institutional ownership affects the value of the company, The greater the ownership by financial institutions the greater the power of voice and the drive to optimize the value of the company, Wening (2009). Institutional ownership has important meaning in monitoring management.The existence of institutional ownership will encourage more optimal supervision. With institutional ownership believed to be able to monitor management in financial decision making, the greater the institutional ownership the more efficient the utilization of company assets and is expected to also act as a deterrent to waste management. The higher institutional ownership will reduce the opportunistic behavior of managers who can reduce the agency cost which is expected to increase the value of the company (Wahyudi and Pawestri, 2006; Mai, 2010 & 2015; Achmad *et al*., 2017; Badaruddin *et al*., 2017 & Gusnardi *et al*., 2017). Profitability is the company's ability to generate profits and measure the level of operational efficiency and efficiency in using its assets (Chen, 2004). This ability will certainly be one of the factors considered in the assessment of the company. Companies that have high profitability every year tend to be in demand by investors. These investors consider a large profit company will generate a large return as well. According Husnan (2001), if the company's ability to generate profits increases, then the stock price will also increase. Increasing the demand for a company's stock will indirectly raise the stock price in the stock market. Based on the description the hypothesis can be drawn is:

H2: Institutional ownership and Profitability have a significant effect on firm value through capital structure.

Based on the above description the conceptual framework constructed in this research can be described:

Figure 1 Theoretical Framework

3. RESEARCH METHOD

This research was conducted at the tourism industry sector which listed on Bursa Effect Initial Market Directory (ICMD) 2007 until 2014 in the form of annual report. There are 20 companies in the population and the whole company is sampled by sampling using the Total Sampling method. Of the 20 companies, only 19 companies are sampled because there is one company, PT. Bukit Uluwatu Villa (BUVA) which is not eligible because of the new listing in IDX in 2010. Structural model for the test hypothesis I used the equation as follows:

$$Y_1 = a + b_1X_1 + b_2X_2 + e \quad 1$$

$$Y_2 = a + p_1X_1 + p_2X_2 + p_3Y_1 + e \quad 2$$

Explanation: Y1 = Capital Structure X1 = exsogeneus variable 1

X1 = Institutional Ownership X2 = exsogeneus variable 2

X2 = Profitability Y1 = endogeneus variable 1 (intervening variable)

a = constanta Y2 = endogeneus variable 2

b1 - b2 = coefecient regresi X1 terhadap Y1 p1. p3 =coefecient path X1 X2 and Y1

e = residual (error disturbance) e = residual (error disturbance)

4. RESULTS AND DISCUSSION

4.1. Result

The results of examine hypothesis I with the above equation model obtained the results:

$$Y_1 = 0.227 + 0.002_1X_1 + 0.002\ X_2 + e \quad 1$$

From the equation it can be explained that the constant value of 0.227 shows if the independent variable Institutional Ownership and profitability is assumed to be zero then the coefficient value of capital structure is 0.227. The coefficient b_1 of 0.002 indicates that the increase of institutional ownership variable 1 will be followed by a capital structure increase of 0.003 assuming all other independent variables are zero. The coefficient b_2 of 0.002 indicates that the increase in profitability variable 2 will be followed by a capital structure increase of 0.002 assuming all other independent variables are zero.The partial test results for the influence of the institutional ownership and profitability variables, on capital structure can be explained as follows : Institutional Ownership Variable has a value of t_{test} 1.830 which is smaller than t_{table} 1,977 and significance level equal to 0,069 is greater than $\alpha = 0{,}05$ also the profitability variable has a value of t_{test} of 1.195 which is smaller than the t_{table} of 1.977 and the significance level of 0.234 is greater than $\alpha = 0.05$ thus Ho is rejected (Munawir, 1986; Soliha and Taswan, 2002; Suharli, 2006; Muda and Dharsuky, 2015; Muda *et al.*, 2016b; Okpinar, 2016; Erlina *et al.*, 2017a & 2017*b*; Dalimunthe 2016; 2017; Singh, 2016 & Pohan *et al.*, 2018), Ha accepted, so it can be concluded that variable of Institutional Ownership and profitabilty haven't significant effect to capital structure at a tourism industry sector listed on the BEI 2007-2016. (appendix 1). The results of examine hypothesis II with the above equation model obtained the results as:

$Y_2 = -442.616 + 10.815X_1 + 15.003X_2 + 147.770Y_1 + e$ 2

From the equation it can be explained that the constant value of -442.616 shows if the independent variable Institutional Ownership, profitability and capital structure is assumed to be zero then the coefficient value of firm value -442.616. The coefficient b_1 of 10.815 indicates that the increase of institutional ownership variable 1 will be followed by a firm value increase of 15.003 assuming all other independent variables are zero. The coefficient b_2 of 10.815 indicates that the increase in profitability variable 2 will be followed by a firm value increase of 15.003 assuming all other independent variables are zero. The coefficient b_3 of 147.770 indicates that the increase of capital structure variable 1 will be followed by a capital firm value of 147.770 assuming all other independent variables are zero.

The partial test results for the influence of the institutional ownership, profitability variables and capital structure on firm value can be explained as follows : Institutional Ownership Variable has a value of t_{test} 4.144 which is greater than t_{table} 1,977 and significance level equal to 0,00 is smaller than $\alpha = 0{,}05$ also the profitability variable has a value of t_{test} of 4.154 which is greater than $t_{tabel\,1}$ 1,977 and the significance level of 0.00 is smaller than $\alpha = 0.05$ thus Ho is accepted, Ha ,rejected so it can be concluded that variable of Institutional Ownership and profitabilty have positive significant effect to firm value. But at a tourism industry sector listed on the BEI 2007-2016. But the capital structure has a value of t_{test} of 0.825 which is smaller than the t_{tabel} of 1.977 and the significance level of 0.411 is greater than $\alpha = 0.05$ thus H_o is rejected, H_a accepted, so it can be concluded that variable of capital structure haven't significant effect firm value at a tourism industry sector listed on the BEI 2007-2016 (appendix 1). The path analysis test showed that: The direct effect institutional ownership to firm value is 0.318 while total effect institutional ownership through capital structure 0,218 so that capital structure haved can't the variabel intervening wich mediates relationships institutional ownership to firm value. The direct effect profitabilty to firm value is 0,317 while total effect profitability through capital structure 0,164 so that capital structure have can't the variabel intervening wich mediates relationships profitability to firm value.

5. CONCLUSION, IMPLICATION AND LIMITATION

5.1. Conclusion

1. Institutional Ownership and Profitability have significant effect on the capital structure.
2. Institutional Ownership and Profitability have positive significant effect on the firm value, while capital structures have not significant effect on firm value.
3. Capital structure cannot mediate to institutional ownership and Profitability relation with the firm value.

5.2. Implication

The implication to the theory of evidence that the tourism industry sector is more dominated by institutional investors with the majority share of 73.8% on average. This fact shows that Agency teory at this company has been implemented. Another implication is that the packing order theory is conducted by Myers (1984) which states that the company likes internal financing. This theory is not implemented in the tourism industry sector sector in the period 2007-2016.

5.3. Limitation

This study uses secondary data in the form of empirical data since 2007-2016 so that changes that occur after the year will likely result in a different analysis with the observation year. Other limitations of research data is still incomplete data available on idx website.

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APPENDIX 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.183a	.034	.020	.21470

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.220	2	.110	2.382	.096[a]
	Residual	6.315	137	.046		
	Total	6.535	139			

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.113	.090		1.258	.210
	Inst. Ownership	.004	.001	.262	3.393	.001
	Return On Equity	.004	.002	.202	2.605	.010
a. Dependent Variable: Debt Assets Ratio						

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.465[a]	.216	.198	450.06818

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-442.616	203.394		-2.176	.031
	Inst. Ownership	10.815	2.610	.318	4.144	.000
	Return On Equity	15.003	3.612	.317	4.154	.000
	Debt Asset Ratio	147.770	179.098	.064	.825	.411
a. Dependent Variable: Price						

Direct Effect I		Direct Effect II		Total Effect	
$X_1 \rightarrow Y_1$	0.154	$X_1 \rightarrow Y_2$	0.318	$X_1 \rightarrow Y_1 + X_1 \rightarrow Y_2$	0,218
$X_2 \rightarrow Y_1$	0.100	$X_2 \rightarrow Y_2$	0.317	$X_2 \rightarrow Y_1 + X_2 \rightarrow Y_2$	0,164
		$Y_1 \rightarrow Y_2$	0.064		