Moderating Institutional Ownership : Profitability and Firm Value

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Abstract. This study aims to determine the effect of profitability on firm value with GCG as moderating through moderating regression analysis. The dependent variable used in this study is firm value which is represented by stock prices, while the independent variables include profitability which is proxied by ROE, and the moderating variable is good corporate governance (GCG) which is proxied by institutional ownership. The study was conducted on the financial statement data of 193 manufacturing companies listed on the Indonesia Stock Exchange in 2020-2021. The ROE variable is proven to have an effect on stock prices. Institutional ownership as a moderator has been proven to strengthen the effect of ROE on stock prices. The proxy chosen to represent the variables in this study will bring newness to the empirical study and provide another perspective for management.

Keywords: ROE, stock price, intitutional ownership.

1 lntroduction

Performance of a company can be descibed by firm value. The greater the firm value, the better the firm’s value. Good company performance will increainvestors’r confidence in the company investors or will put their money into the business, raising the stock value and impacting its firm's value, which in turn will increase the prosperity of shareholders and stakeholders. The market price describes the generalinvestor’ss assessment in each of the equity securities owned, where the stock price may become an indicator of firm value [1]

Profitability is the company's ability to gain profits or a measure of effectiveness in the management of the company's management.[2]. Because it is a tool used by management to manage corporate assets, which are shown by profits produced by the company, profitability can have an impact on firm value. ROE significantly and positively affects the firm's market value[3]. Company size can affect the value of the company. Large-scale companies have a greater opportunity to obtain funding from both internal and external sources [4] .

Agency theory explains the relationship between the principal and the agent. This relationship is based on a contract between the two parties where principal gives authority to agent [5].

GCG principles are related to the interests of shareholders, equal treatment of shareholders, the role of all parties who stakeholders, transparency and clarity [6] states that corporate governance based on agency theory is Good Corporate Governance [7] . Conflicts of interest that emerge during the business's profit-making process are minimized through the application of Good Corporate Governance. This conflict of interest develops when management put their own interests ahead of those of the firm. This burdens the business and has an impact on its profitability, which in turn has an impact on stock prices. To minimize any conflicts of interest within the organization, Good Corporate Governance is crucial for businesses. Institutional ownership is used as proxy for Good Corporate Governance in this research. Effective institutional ownership will enable it to boost firm value by providing a tool to monitor company managers' management of the company's finances[8].

2 Hyphothesis Development

Return on Equity (ROE) is useful in learning how much return on investment has been invested by the investors [9]. Additionally, ROE can be used as a measuring tool to evaluate how well management manages equity or cash utilized to finance operational activities and business expansion. A high ROE number will show that the business is performing well, leading to a high rate of return on investment where investors' prosperity can be ensured. Therefore, it will be particularly alluring for investors to purchase shares of the aforementioned company, where the demand for shares will rise and, as a result, the share price of the company will rise.

Research conducted by [10], [11] , [12], and [13] found that ROE has a positive effect on stock prices. The increase in the company's share price was preceded by an increase in ROE. The more efficient the company in using its own capital, the higher the ROE

H1 : There is a positive effect of Return on Equity (ROE) on firm value

Institutional ownership serves as a proxy for GCG, which performs management duties such as overseeing business operations and giving advice to businesses on how to make investments for increased ROE-measuring corporate performance. When good governance and performance are combined, investors will be more willing to

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participate in the business, which will boost share demand and firm value. According to [14] , [15], [16] and [17], institutional ownership enhances its effect of ROE on value of the firm (stock price).
H2 : Institutional ownership can moderate the effect of Return on Equity (ROE) on firm value.

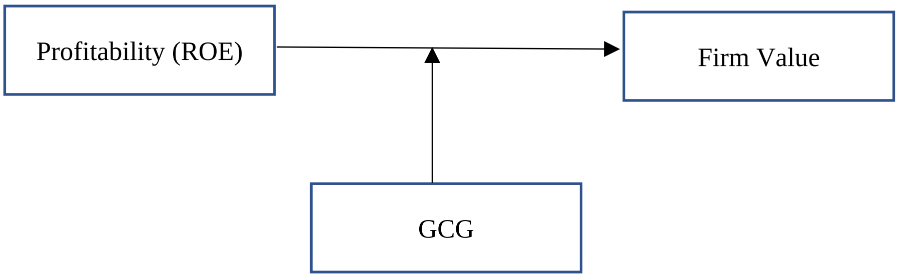

Fig 1: Research Model

3 Methods

To gather and process data from the study's variables, quantitative approaches were used. Stock prices are used as proxies for firm value as dependent variable, while Return on Equity are used as proxies for independent variable monetary performance. This study's moderating variable is GCG, which is symbolized by institutional ownership.

193 companies from the manufacturing sector that are listed on the Indonesia Stock Exchange (IDX) and have released financial reports for the years 2020–2021 are participants in the study. The method utilized is purposive sampling, and the standards are as follows:
1. The industrial businesses on the IDX for 2020–2021 are mentioned here.
2. The business that released accounting information for 2020–2021
3. Over the time of the research, the business stayed in the same industry.
4. The business has detailed information on all of the test's factors.

An financial statement of manufacturing companies listed on the IDX from 2020 to 2021, which could be accessed via the www.idx.co.id website, was used as the data collection technique that was reported. This inquiry made use of moderated regression model (MRA), traditional assumption testing, and descriptive statistics using Spss Version 25. Its significance level being less than 5% was the main requirement for adopting the hypothesis. Following formula displays the model's equations for moderated regression:

$$\mathbf{Y = \alpha + \beta_1 X + \beta_2 X{*}Z + e..... (1)}$$

Y = Share value
α = Constant
β = Coef of Reg
X = Equity return
Z = Institutional ownership as moderating variable
e = mistake

4 Result and Discussion

Each variable’s max, min, mean and std.deviation are described in variable descriptive data is shown by table 1:

Table 1: Research Variables Description

	N	Minimum	Maximum	Mean	Std.Deviation
ROE	366	- 4.16	136.02	.4127	7.11874
KI	366	.00	1	.6508	.25198
HS	366	50	53000	2066.05	5234.55
Valid N (listwise)	366				

The mean ROE is 0.4127, with a standard deviation of 7.11874, indicating that the dispersion of the ROE values diverge from the overall average by 7.11874. The ROE variable has a min value of - 4.16, a top value of 136.02, and a range of values in between. The KI variable's lowest and max values are 0.00 and 1, respectively, and its

mean result is 0.6508 with a standard deviation of 0.25198, indicating that the distribution of KI data deviates from the overall average by that number. The HS variable's lowest is 50, its highest value is 53,000, the HS means is 2066.05, and its standard deviation is 5234.55, indicating that the HS data distribution deviates from the mean by 5234.55 values.
Traditional Assumptions Assessment Outcome is shown by table 2:

Table 2: Classic Assumption Test Result

Test	**Result**			**Conclusion**
Normallity test	Kolmogorov-Swirnov	Prior data transform	0.000	Abnormally distributed
		Post data Transform	0.001	Abnormally distributed
		Post Outlier	0.200	Normally distributed
Multikolinearitas		**Tolerance**	**VIF**	variables have a tolerance value > 0.1 and a VIF value < 10, indicating that multicollinearity does not exist.
	ROE	0.997	1.003	
	KI	1.000	1.000	
Autokorelasi	Durbin Watson	1.882		No Autocorrelation
Heteroskesdasitas	Glejser Test		**Sig**	Sig value > 0.05 indicating that heteroskesdasitas does not exist
		ROE	0.151	
		KI	0.166	

Moderating regression result equation model is shown by equation 2:
HS = 6.656 + 0.992ROE + 1.663ROE*KI... (2)
Shown above regression may be understood as follows:

1. The constant value of 6.656 implies that the company value (stock price) is 6656 if the ROE and IO factors are both “ 0 ”.
2. The coefficient value of ROE is 0.992, which means that a one-unit gain in ROE raises the business value (market cap) by 0.992.
3. The IO regression coefficient is -0.214, meaning that every entail high in IO results in a -0.214 reduction in the firm value (market cap).
4. ROE moderate regression coefficient of 1.663 shows that institutional ownership may enhance the effect of ROE of 1%, causing the business value (stock price) to increase by 1.663.

The Positive Effect of Return on Equity (ROE) on the Firm Value

Stock prices are significantly impacted by ROE. This is shown by improving the business's capacity to use internal capital, which enables it to make sure that the most capital possible has been committed. One more indicator of a company's performance is the return rate it can provide, which is determined by splitting its current net income for shareholders by the average equity held by common shareholders. Shareholders are more interested in buying business shares if they consider this profitability statistic; the greater the ROE, the higher the firm value (stock price). Experts believe that the business's wealth matters a lot.These findings are consistent with research conducted by [12] , [18], and [19].

The Institutional Ownership Can Moderate the Effect of Return on Equity (ROE) on the firm value.

Institutional ownership, which is one of the supervisory roles that might stop businesses from acting in ways that could hurt investors, is used to represent GCG. With the presence of GCG (institutional ownership), it is also possible to obtain additional information on investments, which may assist the business by enhancing performance as shown by ROE, which will enhance profits. The firm will perform better if its ROE is greater, and investors will be drawn to the company because it has institutional ownership (GCG) and a supervisory role. Institutional ownership can thereby increase the impact of ROE on market valuation (stock price)

These findings are consistent with the findings of studies conducted by [14] and which state that high ROE is associated by an increase in the share of institutional ownership, boosting corporate manager oversight, and that institutional ownership amplifies the influence of ROE on firm value (stock prices). In order to boost firm productivity, this will have an influence on more effective capital management and a high rate of return.

Conclussion

The return on equity (ROE) has a positive impact on the value of a company (stock price). This implies that the value of the company increases as ROE increases (stock price). The reason for this is that the ROE variable shows whether a company's financial performance is strong or weak. The ability of the business to earn a profit and the rate of return on investors' investments both increase with ROE, making the business more attractive to investors. The impact of ROE on firm value can be strengthened with institutional ownership (share price).

This study adds to the body of knowledge and can be used as a starting point for future research. It can be investigated further or expanded by using different proxies, industrial sectors, variables, or a larger sample size.

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