CHAPTER I
INTRODUCTION

1.1 Research Objective

Banks for the general public in developed countries have become basic needs that must be fulfilled. The bank can be used as a place to carry out various transactions for the community, such as saving money, investing, sending money, paying needs, and making money collection. Banks can be said to be the blood of the economy for a country because its role dramatically affects the economy and can be used as a benchmark for a country.

According to Darmawi (2012), the definition of banking is everything that concerns banks, includes institutions, business activities, as well as ways and processes in carrying out their business activities.

In Indonesia, many banks are present to help the community to carry out daily transactions. The Indonesia Stock Exchange (IDX) noted that there were 42 banking companies listed on the official website of the Indonesia Stock Exchange (IDX). The following is a list of banking companies listed on the Indonesia Stock Exchange (IDX):

Table1. 1 List of Banking Companies Listed on the Indonesia Stock Exchange (IDX)

No	Company Code	Company Name	No	Company Code	Company Name
1	AGRO	Bank Rakyat Indonesia Agroniaga Tbk	22	BMAS	Bank Maspion Indonesia Tbk
2	AGRS	Bank Agris Tbk	23	BMRI	Bank Mandiri (Persero) Tbk
3	ARTO	Bank Artos Indonesia Tbk	24	BNBA	Bank Bumi Artha Tbk
4	BABP	Bank MNC International Tbk	25	BNGA	Bank Cimb Niaga Tbk
5	BACA	Bank Capital Indonesia Tbk	26	BNII	Bank Maybank Indonesia Tbk
6	BBCA	Bank Central Asia Tbk	27	BNLI	Bank Permata Tbk
7	BBHI	Bank Harda International Tbk	28	BSIM	Bank Sinar Mas Tbk
8	BBKP	Bank Bukopin Tbk	29	BSWD	Bank Of India Indonesia Tbk
9	BBMD	Bank Mestika Dharma Tbk	30	BTPN	Bank Tabungan Pensiun Nasional Tbk
10	BBNI	Bank Negara Indonesia (Persero) Tbk	31	BVIC	Bank Victoria International Tbk

11	BBRI	Bank Rakyat Indonesia (Persero) Tbk	32	DNAR	Bank Dinar Indonesia Tbk
12	BBTN	Bank Tabungan Negara (Persero) Tbk	33	INPC	Bank Artha Graha International Tbk
13	BBYB	Bank Yudha Bakti Tbk	34	MAYA	Bank Mayapada International Tbk
14	BCIC	Bank J Trust Indonesia Tbk	35	MCOR	Bank China Construction Bank Ind Tbk
15	BDMN	Bank Danamon Indonesia Tbk	36	MEGA	Bank Mega Tbk
16	BEKS	Bank Pembangunan Daerah Banten Tbk	37	NAGA	Bank Mitraniaga
17	BGTG	Bank Ganesha Tbk	38	NISP	Bank OCBC Nisp Tbk
18	BINA	Bank Ina Perdana Tbk	39	NOBU	Bank Nationalnobu Tbk
19	BJBR	Bank Jabar Banten Tbk	40	PNBN	Bank Pan Indonesia Tbk
20	BJTM	Bank Pembangunan Daerah Jawa Timur Tbk	41	PNBS	Bank Panin Syariah Tbk
21	BKSW	Bank QNB Indonesia Tbk	42	SDRA	Bank Woori Saudara Indonesia 1906 Tbk

Source: data processed by the author (2019)

1.2 Research Background

In 2014 the Indonesia Stock Exchange (BEI) issued a decision of the directors of the Indonesia Stock Exchange (BEI) No. Kep-00001 / BEI / 01-2014 which contained "changes to regulation number 1A concerning stock listings and equity securities other than shares issued by companies those listed include a free float of at least 50 million shares and at least 7, 5% of the total number of shares in paid-up capital, the number of shareholders of at least 300 shareholders who have securities accounts in exchange members" (Pradipta, 2014). One of the main changes in the regulation is the provision regarding the number of shares circulating in public; the listed company must open 7.5% of its shares to the public. The rule is made so that every company listed on the Indonesia Stock Exchange (BEI) is more concerned by the public or in other words so that the company can go public. This regulation was issued on January 20, 2014, and came into effect starting January 30, 2014. This regulation must be fulfilled no later than 24 months from the date; this regulation comes into force (Akhir, 2014).

The purpose of the Indonesia Stock Exchange makes rule number 1A concerning stock listings, and equity securities are that companies are more concerned by the public and can increase the value of their company. According to (Sukirno, 2015), there are six benefits for companies that go public such as; obtain new funding sources, providing competitive advantage for business development, carry out mergers or acquisitions of other companies with financing through the issuance of new shares, increasing going concern ability, improve the company's image, and increase company value

In general, the purpose of companies going public is to increase the value of the company. According to Husnan (2000), company value is the price that prospective buyers are willing to pay if the company is sold. If the company offers shares to the public, firm value will be reflected in the price of its shares. Thus it can be concluded that with the increase in the amount of the stock price, the value of the company becomes high. A high firm value will have an impact on market confidence, not only in the performance of the company but also in looking at the company's prospects in the future.

One sector that must follow these regulations is the banking sector; the banking industry is the object of research by the authors because the banking industry in Indonesia has shown positive performance in sustainable growth. The banking industry is in high demand by foreign investors because it generates large profits.

According to the Financial Services Authority (OJK), in 2018 the second quarter stated that in general banking conditions were relatively reasonable given the growth of each banking sector such as commercial banks, Islamic banks, and rural credit banks. The Financial Services Authority (OJK) noted that the performance of commercial banks in the second quarter of 2018 was relatively reasonable given the growth in assets, credit, and third-party funds (DPK) of commercial banks, which each recorded an increase of 8.91%, 11.2%, and 6.98%.

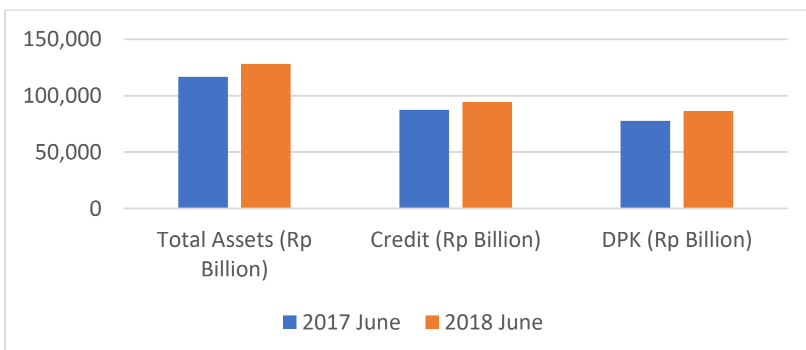

Figure 1. 1 Commercial Bank Performance in 2017-2018

Source: Data Processed from www.ojk.go.id (2019)

Likewise with the sharia sector, the Financial Services Authority (OJK) noted that the performance of Islamic banks in the second quarter of 2018 was generally more reliable, as seen from the increase in Asset, financing and Third Party Fund (DPK) growth which was recorded to increase by 14.54%, 11, 20%, and 12.98%.

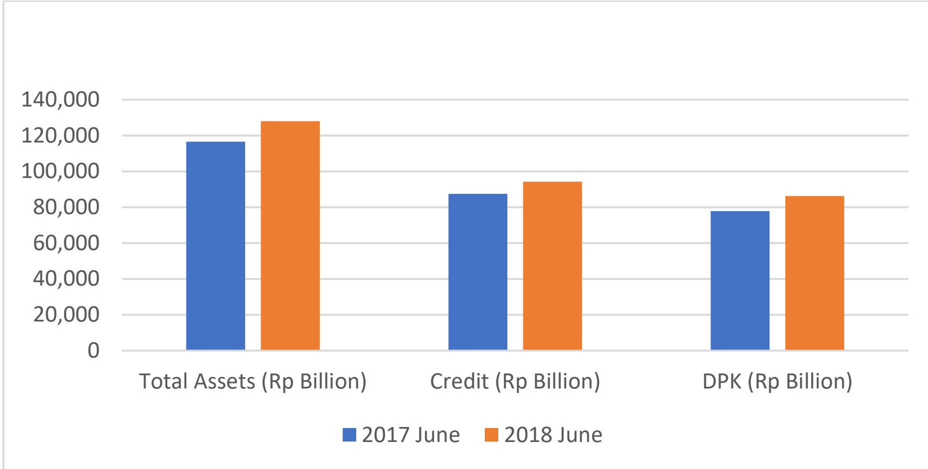

Figure 1. 2 Islamic Bank Performance in 2017-2018

Source: Data Processed from www.ojk.go.id (2019)

Meanwhile, the Rural Bank (BPR) also recorded growth in assets, credit, and Third Party Funds (DPK), which each recorded an increase of 9.74%, 7.88%, and 10.85%.

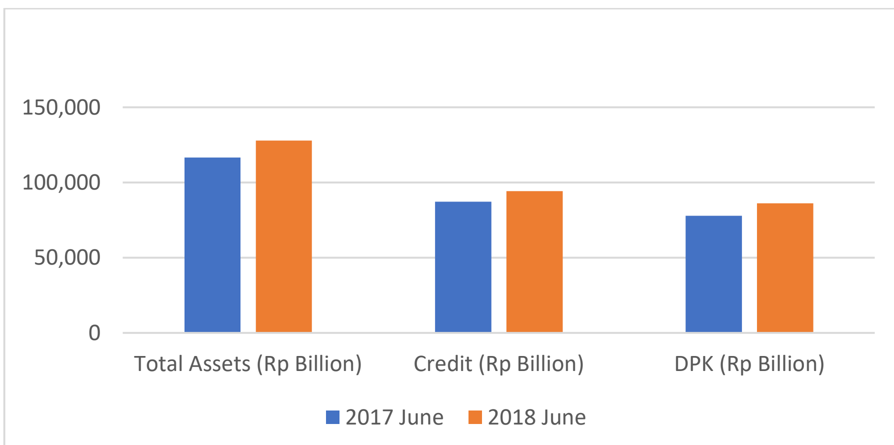

Figure 1. 3 Rural Bank Performance in 2017-2018

Source: Data Processed from www.ojk.go.id (2019)

The company's financial performance has a positive effect on the firm value. The higher the quality of its financial performance, the better the firm value. The profitability level becomes a good signal for an investor to the prospects of the company so that it can increase the firm value (Akmalia, Dio, & Hesty, 2017).

High firm value is in great demand by investors. The higher the firm value, the greater the shareholders' profits. This is because the increasing demand for shares causes the firm value to increase, but to increase the firm value, not only its equity value must be considered. However, many factors must be considered, such as debt, or preferred stock (Permanasari, 2010).

The indicator carried out to measure the firm value in this study is the Tobin's Q ratio. Tobin's Q Ratio is a ratio that compares the ratio of stock market value to the book value of the company's equity (Sudana, 2011). A low Tobin's Q value (between 0 and 1) indicates that the firm's asset replacement costs are greater than the firm's value. This indicates that the market judges that the company is not good. Whereas, if the firm value is high (more than 1, the company produces a higher rate of return compared to that issued by asset costs (Ahmad, Kristanti, & Triyanto, 2017).

Ahmad, Kristanti, & Triyanto (2017), say that the factors that influence firm value are ownership structures (managerial ownership, institutional ownership, and foreign ownership) and leverage.

According to Abukosim, Mukhtaruddin, Ferina, & Nurcahya (2014), the ownership structure is believed to be able to influence the company's performance in achieving the company's goals of maximizing the firm value. The fluctuation of firm value is influenced by ownership structure. The ownership structure is very important in determining the firm value because it is related to the control they have and is also able to explain the commitment of the owner to save the company. Therefore, the ownership structure has an important role in determining the firm value.

According to Putranto (2018), managerial ownership has a positive effect on firm value because managerial ownership brings fresh air to the company's business continuity. Management will be more serious and careful in making the right decisions to increase firm value.

Institutional ownership, in general, can act as a party to monitor the company. Large institutional ownership indicates its ability to monitor management. The greater institutional ownership results in better asset utilization and companies can prevent mistakes made by management. Institutional ownership is the proportion of shares held by institutions at the end of the year, such as insurance, banks, or other institutions (Abukosim, Mukhtaruddin, Ferina, & Nurcahya, 2014).

According to Abukosim, Mukhtaruddin, Ferina, & Nurcahya (2014), foreign ownership is part of the ownership structure that will affect the firm value. Different roles are carried out by foreign individual investors and shareholders of foreign companies affect the performance of the company. Foreign companies have a positive effect on company performance, which will certainly affect the firm value.

Another factor that affects firm value is leverage. Leverage is the use of debt as an additional investment to fund assets to finance the company's operations. Leverage has a positive influence on firm value because, with the addition of funds sourced from the debt ratio, it will provide benefits to the company (Febriyanto, 2018).

The proxy that can be used to look for leverage is Debt to Equity Ratio (DER). Debt to Equity Ratio (DER) is the ratio used to assess debt with equity. This ratio is measured by comparing debt, including current debt with all equity (Kasmir, 2013: 157) In (Ahmad, Kristanti, & Triyanto, 2017).

Previous research about factors that influence firm value includes those conducted by Abukosim, Mukhtaruddin, Ferina, & Nurcahya (2014), which examine managerial ownership, institutional ownership, foreign ownership, and concentrated ownership of firm value. The results of these studies prove that managerial ownership and concentrated ownership have a negative effect on companies, while institutional ownership and foreign ownership have a positive effect on firm value.

Research conducted by Ahmad, Kristanti, & Triyanto (2017), which examines the influence of ownership and leverage structure on the firm value which shows that foreign ownership and leverage influence firm value, while managerial ownership and institutional ownership do not affect firm value.

Research conducted by Febriyanto (2018), which examines the influence of leverage, growth, and liquidity with the value of real estate companies and property sectors on the Indonesian stock exchange which states that leverage, sales growth, and liquidity have a positive effect on firm value.

Research conducted by Astutiningrum (2017), which examines the effect of leverage, company size and IOS on firm value with profitability as an intervening variable stating that leverage does not affect firm value and company size, Investment Opportunity Set (IOS), and Profitability (ROA) positive effect on firm value

Based on the background that has been described above and from previous research which shows that there are differences in the results of the study, so it is interesting for researchers to reprocess this research to be able to find answers to the questions that arise. This encourages researchers to conduct research where the variables used can affect the firm value. Researchers are interested in taking the title: **The Effect of Ownership Structure and Leverage on Firm Value (Case study at banking companies listed on the Indonesia Stock Exchange (IDX) in 2014-2018).**

1.3 Problem Statement

The company was established with the aim that the owner's welfare could be achieved through increasing the firm value. These conditions illustrate that by increasing the firm value, it is necessary to observe the things that can affect the firm value.

Firm value is the fair value made by the company describing investors' perceptions of the relevant issuer or it can also be said that the firm value is the price that investors are willing to pay to have evidence of legal ownership of the company.

Competition for banking companies requires companies to move quickly to increase their competitiveness to achieve high firm value. Based on this, this study aims to determine whether the ownership structure factors consisting of managerial ownership, institutional ownership, foreign ownership, and leverage also influence the firm value in banking companies listed on the Indonesia Stock Exchange (IDX).

1.4 Research Question

Based on the formulation of the problem that has been described, several problems can be formulated, namely as follows:

1. Is there a simultaneous influence between managerial ownership, institutional ownership, foreign ownership, and leverage on firm value?
2. Is there an influence of managerial ownership on the firm value?
3. Is there an influence of institutional ownership on the firm value?
4. Is there an influence of foreign ownership on the firm value?
5. Is there an influence of leverage on the firm value?

1.5 Research Purpose

Based on the background, problem formulation, and research questions that have been described, the research objectives are as follows:

1. To find out how the influence of managerial ownership, institutional ownership, foreign ownership, and leverage on firm value simultaneously
2. To find out the effect of managerial ownership on firm value
3. To find out the effect of institutional ownership on firm value
4. To find out the effect of foreign ownership on the firm value
5. To find out the effect of leverage on the firm value

1.6 Purpose of Research

1.6.1 Theoretical Benefit

The results of this study are expected to provide a reference for future researchers as a basis for thinking, comparative studies, and reference media. Also, this study is expected to provide additional thinking about the structure of ownership and leverage that is applied by a company and its effect on firm value.

1.6.2 Practically Benefits

1. **For a Company**

   For companies, this research is expected to be a consideration in applying research variables to increase firm value.

2. **For Investor**

   The results of this study are expected to be used as a source of information and considerations that are relevant to investors regarding investment decisions in the company.

1.7 Final Project Systematic

CHAPTER 1: Introduction

Chapter 1 serves as a general and concise description of the research, which includes research overview, research background, research questions, research objectives, research benefits, and final project systematics.

CHAPTER 2: Theoretical Review and Research Scope

This chapter summarizes all valid and scientifically-tested theories, published researches regarding the topic or the problem, a set of reasoning used to describe the research problems that finally form theoretical framework leading to a conclusion, research hypothesis, and scope.

CHAPTER 3: Research Method

In general, this chapter underlines the approach, method, and technique used to gather and analyze the data to answer or to explain the research problem. It presents a type of research, operational variable, research stages, population and sample, data collection, type of data, the technique of data analysis and hypothesis testing.

CHAPTER 4: Research Results and Discussions

The statistical testing and data interpretation are included in this chapter. Moreover, the resulting problem identification will be further examined.

CHAPTER 5: Conclusion and Suggestion

The result of the research findings is concluded in this chapter. Additionally, the suggestion is given for the next study related to this research