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Share Price: An Analysis of Ownership Structure, Firm Size and Profitability

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ABSTRACT

This research seeks to examine the impact of ownership structure and firm size on stock prices, while considering profitability as a moderating variable in banking firms registed on the Indonesia Stock Exchange (IDX) during the 2021-2023 observation year. In this study, the ownership structure includes both institutional and managerial ownership, while firm size is evaluated based on total assets. Profitability is represented by Return on Assets (ROA), and stock price is determined by the annual closing stock price. The study applies quantitative panel data regression analysis with EViews 13 software. The results indicated that neither managerial nor institutional ownership significantlyly influenced stock prices. Meanwhile, firm size significantlyly impacts stock prices. Furthermore, profitability does not appear to enhance the correlation between ownership structure and the company size regarding stock price, highlighting the crucial role of financial performance in attracting investor interest. These findings provide insights for banking management and investors in understanding the fundamental factors that influence the market value of a firm's shares.

Keyword: Ownership Structure;Managerial Ownership;Institutional Ownership; Size;Profitability

JEL Classification: [example: G1,M4]

The authors should add 1- 3 JEL Classification Number. Information guide for the Journal of Economic Literature (JEL) can be found at https://www.aeaweb.org/jel/guide/jel.php

INTRODUCTION

The rapid development of technology is driving major changes in the business world, including the increasing interest in digital investment. Investing is now an increasingly common financial activity for Indonesians, especially through the capital market. Shares are among the most favored investment instruments due to their high return potential, although they come with risks. In practice, investors need to consider various fundamental factors before investing, such as the firm's financial results and stock price movements (Dhany et al., 2021).

The banking sector is one sector that is very attractive to investors. Bank stocks, especially those of big banks, are considered to have solid and stable performance. Bank stocks are not only favoured by local investors, but also by foreign investors due to their crisis resilience and attractive dividend potential. In addition, banking issuers are often the main drivers of the IHSG, demonstrating the important role this sector plays in the dynamics of the Indonesian capital market (Tradesmart, 2024).

The share price reflects the value of the firm and the asset ownership rights in it (Puspitasari & Rachmawati, 2021). According to Anamaria et al., (2018), the share price illustrates the investor's sacrifice to participate in the firm. Stock prices are influenced by various factors, including firm profits, economics, politics, exchange rates, inflation, and interest (Dhany et al., 2021). Investors must analyse the firm's financial condition before investing, because a high firm value will encourage an increase in stock prices. The firm's main goal is to increase the firm's value, which is reflected in its stock price (Munthe & Ginting, 2023). Internal factors that are most often the focus of research are ownership structure, profitability, and firm size.

The ownership structure reflects control over the shares owned, either by management, the public, or institutions (Rustan, 2023). Managerial ownership involves active management such as directors and commissioners in decision making (Anamaria et al., 2018). Meanwhile, institutional ownership comes from institutions such as banks, assurance, and investment firms. High institutional ownership can strengthen the supervisory function and prevent opportunistic actions of managers (Marsimah, 2021). Previous research shows mixed results. Some studies, such as Anamaria et al., (2018) and Aprilia & Riharjo, (2022), state that managerial and institutional ownership have a significantlyly impact on stock prices. However, other studies such as by Sinaga & Munthe, (2023) and Anggraeni & Lestari, (2022) found an insignificantly impact, indicating the influence of the ownership configuration on equity valuation. is still debatable.

Firm size reflects the scale of the business which can be measured by total assets, equity, and sales. Firms with large sizes tend to be more stable and have better access to information, and are able to manage risks more impactively (Faizah & Priyadi, 2023; Pradanimas & Sucipto, 2022; Teresia & Hermi, 2016). Previous research shows mixed results. Winata et al., (2021) and Faizah & Priyadi, (2023) state that firm size has a significantlyly impact on stock prices. However, Pradanimas & Sucipto, (2022) found an insignificantly negative impact. Meanwhile, other studies such as by Djou et al., (2022) Alvianita & Rivandi, (2023), and Putri & Yulianto, (2023) concluded that firm size has no significantlyly impact on stock prices.

Profitability reflects management's ability to generate profits and shows the firm's financial performance. This ratio is crucial for investors and lenders as it relates to profit potential. Commonly used indicators include ROA, ROE, and profit margin (Munthe & Ginting, 2023; Linda & Kurnia, 2017; Sutrisno & Sari, 2020). Previous research shows mixed results. Some studies such as by Rostina et al., (2023) and (Islamy et al., 2022),) show that profitability has a significantlyly impact on stock prices. In contrast, Djou et al., (2022), Barus & Sudjiman, (2021) and Djamaa & Awalia, (2021) concluded that the impact of profitability on stock prices is not significantly.

However, various previous studies have shown mixed results regarding the affect of ownership structure, firm size, and profitability on stock prices. Some show a significantly impact, while others do not. This shows that the influence of these variables can be different depending on the condition of the firm and the dynamics of the capital market in a particular period. Thus, it is important to conduct further studies on how ownership structure, profitability, and firm size affect on stock prices, especially in the banking sector, which is currently the favourite in the Indonesian capital market.

METHOD

This study is a quantitative analysis utilizing a panel data approach, focused on banking companies registed on the Indonesia Stock Exchange (IDX) during 2021 to 2023, with sample selection use purposive sampling method based on certain predetermined criteria. The data utilized is second data sourced from the firm's annual report and the official IDX website, then processed and analysed using EViews software. This study examines the affect of ownership structure, firm size, and profitability on stock prices. Ownership structure is proxied by two variables, namely managerial ownership (assessed by the percentage of shares held by management) and institutional ownership (assessed by the percentage of shares owned by institutions), while firm size is evaluated using the

natural logarithm of total assets, stock price is measured based on the annual closing price of shares, and profitability is measured by Return on Assets (ROA), the ratio of net income to total assets.

RESULTS AND DISCUSSION

Table 1. Descriptive Statistic Test

Variable	N	Min	Max	Mean	StdDev
MnjOwn	60	0.000031	2.231000	0.143506	0.491177
InstOwn	60	0.000022	88.06000	3.839142	15.76483
Size	60	14.02118	30.17659	19.54371	3.872186
StockPrc	60	65.00000	16000.00	2592.000	3213.887
ROA	60	-0.180577	0.041398	0.009283	0.026921

Source : Eviews 13 output analyzed by the researchers

The descriptive analysis of 60 samples (Table 1) reveals that managerial ownership (MnjOwn) ranges from 0.000031 to 2.231, averaging 0.143 with a standard deviation of 0.491. This indicates generally low managerial ownership levels with considerable data dispersion

Regarding institutional ownership (InstOwn), the data reveals substantial variability, ranging from a minimum of 0.000022 to a maximum of 88,060. The average institutional ownership is 3,839, with a high standard deviation of 15,765. This suggests a wide disparity in institutional holdings, with some firms exhibiting very significant levels of institutional ownership.

The firm size variable (Size) shows a range between 14,021 and 30,177, with a mean of 19,544 and a standard deviation of 3,872. This suggests that the firms included in the study exhibit considerable diversity in their size.

The stock price variable (StockPrc) has a minimum of 65 and a maximum of 16,000, with an average of 2,592 and a large standard deviation of 3,214. This high standard deviation signifies a substantial dispersion in stock prices among the sampled firms.

Finally, the Return on Assets (ROA) variable ranges from a minimum of -0.1806 to a maximum of 0.0414, with an average of 0.0093 and a standard deviation of 0.0269. This suggests that the profitability levels of most firms are low, and some firms even experienced losses during the observation period.

The next step is to use many checks, including the Chow, Hausman, and LM tests, to identify the optimal model among the common impact, fixed impact, and random impact models. A random model can be chosen as the best model from the tests that have been conducted above. Table 2 displays the evaluation of the model selection.

Table 2 : Model Selection Result

	Chow	Hausman	LM	Conclusion
Model 1	0.0000	0.0022	0.0000	FEM
Model 2	0.0000	0.0207	0.0001	FEM
Model 3	0.0000	0.0427	0.0002	FEM
Model 4	0.0000	0.0008	0.0000	FEM

Source : Eviews 13 output processed by researchers

The model selection results in Table 3 show that the most appropriate approach for the four research models is the fixed impact model.

Table 3 : Hypotesis Testing Model 1

Variable	T	Sig	Conclusion
Constant	3.903650	0.0004	
MnjOwn	0.154001	0.8784	Not Significantly
InstOwn	0.335758	0.7389	Not Significantly
Size	-3.824672	0.0005	Significantly

Source : Eviews 13 output analyzed by the researchers

Hypothesis testing in regression model 1 showed that only firm size (Size) significantly impacted stock prices among the three independent variables. This is supported by a t-value of -3.824672 and a significance level of 0.0005 ($p < 0.05$), indicating a statistically significant real influence of firm size on stock prices.

Firm size has a significantly negative impact on stock prices, which can be explained by several factors. Although large firms tend to have higher stability, there are several reasons why large firm size can actually cause lower stock prices. One is a decrease in growth; large firms often have slower growth because they have reached a stage of maturity, so investors may not see the potential for significantly growth as in smaller firms that are more flexible and innovative (Gompers et al., 2003). In addition, large firms tend to be more complex in terms of management and administration, which can lead to lower efficiency and increased management costs. As a result, the market can undervalue the stock prices of large firms due to concerns about the firm's ability to maintain high rates of return. Excessive diversification can also make large firms less focused, which can diminish the appeal of stocks for investors (Fama & Kenneth R French, 1992). These factors indicate that while larger firms are frequently linked to stability, large firms are not always seen as more profitable investments, so they can affect stock prices in a negative direction. The findings of this study align with Winata et al., (2021) and (Faizah & Priyadi, 2023) which states that firm size influences share prices.

In contrast, the managerial ownership (MnjOwn) and institutional ownership (InstOwn) variables show significance values of 0.8784 and 0.7389, respectively, which far exceed the significance threshold. Therefore, both variables have has no significant impact on stock prices. The statement that ownership structure, both managerial and institutional, has no impact on stock prices can be explained by several factors. Although managerial ownership can provide incentives to improve firm performance, its impact on stock prices is not always significantly because it is influenced by external aspects such as market conditions and investor perceptions of the firm's prospects (Fama & Jensen, 1983). Likewise, institutional ownership can provide good stability and control, its impact on stock prices is often not immediately visible, especially if the ownership is widespread and focuses more on long-term expectations than short-term stock price changes (Shleifer & Vishny, 1986) In addition, external factors such as macroeconomic conditions and changes in government policy often have a greater impact on stock prices than the firm's internal ownership structure. Therefore, although ownership structure can affect firm management, stock prices are more influenced by market perceptions of economic conditions and the firm's prospects as a whole. This study aligns with Sinaga & Munthe, (2023) and Anggraeni & Lestari, (2022) who stated that both managerial and institutional ownership structures have no impact on stock prices.

Table 4 : Hypotesis Testing Model 2

Variable	T	Sig	Conclusion
Constant	2.782081	0.0085	
MnjOwn	-0.121652	0.9038	
ROA	-0.288668	0.7744	
MnjOwn*ROA	0.301334	0.7648	Not Significantly

Source : Eviews 13 output processed by researchers

The interaction variable MnjOwn*ROA is used to test whether ROA acts moderating the managerial ownership relationship (MnjOwn) and stock price. Based on the regression test results, the t value for the MnjOwn*ROA interaction is 0.301334 with a significance value of 0.7648, which far exceeds the 5% (0.05) significance limit. This result indicates that the interaction between ROA and managerial ownership is not statistically significantly. Thus, it can be concluded that ROA does not act as a moderating variable in the relationship between managerial ownership and stock price. This means that the level of firm profitability (ROA) neither strengthens nor weakens the impact of managerial ownership on stock prices.

Managerial ownership refers to the proportion of shares owned by the firm's managers, who can influence the firm's decisions and performance, including the stock price. However, in some studies, profitability as measured by Return on Assets (ROA) does not serve as a moderating variable in the relationship between managerial ownership and stock price. This is due to various factors, including that investors tend to pay more attention to other aspects besides short-term profitability, such as managerial policies or long-term growth prospects (Jensen & Meckling, 1976). Although ROA reflects the efficient use of a firm's assets, the relationship between managerial ownership and stock price is more influenced by managerial control in strategic decision-making and other external factors that affect the market (Fama & Jensen, 1983).

Table 5 : Hypotesis Testing Model 3

Variable	T	Sig	Conclusion
Constant	7.492820	0.0000	
InstOWn	-0.139873	0.8895	
ROA	-0.267648	0.7905	
InstOwn*ROA	0.161601	0.8725	Not Significantly

Source : Eviews 13 output processed by researchers

The InstOwn*ROA interaction variable is used to test whether ROA acts as a moderating variable in the relationship between institutional ownership (InstOwn) and stock price. The test results show that the t value is 0.161601 with a significance value of 0.8725, which is far above the 5% significance level (0.05). This indicates that the interaction between ROA and institutional ownership is not statistically significantly. Thus, it can be concluded that ROA does not act as a moderating variable in the relationship between institutional ownership and stock price. This means that the level of firm profitability (ROA) neither strengthens nor weakens the impact of institutional ownership on stock prices.

Table 6 : Hypotesis Testing Model 4

Variable	T	Sig	Conclusion
Constant	3.852416	0.0004	
Size	-3.799135	0.0005	
ROA	-0.418914	0.6777	
Size*ROA	0.346140	0.7312	Not Significantly

Source : Eviews 13 output processed by researchers

In this analysis, ROA is tested as a moderating variable to see whether ROA strengthens or weakens the relationship between firm size (Size) and stock price. This moderating impact is tested with the interaction variable Size*ROA. However, the test results show that the t value is 0.346140 with a significance value of 0.7312, which far exceeds the significance threshold of 0.05. Therefore, it can be concluded that ROA does not act as a moderating variable in the relationship between firm size and stock price. This means that profitability (ROA) does not affect the strength or direction of the relationship between firm size and stock price.

CONCLUSION

The conclusion of this study shows that ownership structure (both managerial and institutional) does not have a significantly impact on stock prices, while firm size has a negative impact on stock prices. In addition, profitability as measured by ROA cannot moderate the impact of ownership structure and firm size on stock prices. This indicates that external factors and market dynamics influence stock prices more than internal firm factors. The limitation of this study is that it does not consider other factors outside the firm that can affect stock prices. Suggestions for previous research are to expand the study by considering external variables that can affect stock prices more significantlyly, such as macroeconomic conditions, government policies, or market sentiment. In addition, further research can dig deeper into other factors that may moderate the relationship between ownership structure, firm size, and stock prices, such as a more

detailed managerial structure, firm strategy, or corporate governance policies. Researchers are also advised to use more diverse samples and a longer time period so that the results obtained are more generalizable and can reflect changes in market dynamics more accurately.