



Institutional Ownership, Firm Size, Leverage, and Profitability: Their Impact on Firm Value in the Indonesian Banking Sector

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Abstract

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This study aims to examine the effect of institutional ownership, firm size, leverage, profitability on firm value. The population in this study is a banking sub-sector company listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. The sampling technique used in this study was purposive sampling method, resulting in a sample of 42 companies over a period of 5 years, with a total of 210 data samples that met the criteria. The sampling method uses purposive sampling method. The data used in this study are secondary data obtained from the official website of the Indonesia Stock Exchange (IDX) and the official website of each company. The data analysis method used is multiple linear regression analysis with the help of the IBM SPSS 25 application. The results showed that institutional ownership, firm size, and profitability have no significant effect on firm value. In contrast, leverage has a negative influence on firm value. These findings provide insight for company management and investors regarding the factors that influence firm value in the banking sub-sector.

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INTRODUCTION

The banking sector plays a significant role in the national economy, serving as a crucial intermediary between surplus and deficit units. Banks facilitate the collection of public funds through savings and channel these funds into productive investments through credit disbursement. As an essential component of Indonesia's economy, the banking industry contributes to economic growth and financial stability (Dwitarani et al., 2023). Given this importance, banking institutions must strive to enhance their firm value, as firm value reflects a company's market perception, financial health, and long-term sustainability.

One notable case is Bank Nobu (NOBU), which faced financial difficulties in 2022, with a total of IDR 33 billion in non-performing loans (NPLs). Of this amount, IDR 32.27 billion was classified as bad debt. The bank's restructured loan portfolio saw a 22% year-on-year decrease, raising concerns about its ability to manage financial risks and maintain investor confidence (Asmaaysi, 2023).

In addition, the planned merger between Bank Nobu and Bank MNC has created uncertainty in firm valuation. Although Hanwha Life Insurance acquired 40% of Bank Nobu's shares, the Indonesian Financial Services Authority (OJK) stated that the merger process would continue. However, OJK did not impose a strict timeline, allowing both banks to negotiate their merger terms. This uncertainty affects investor sentiment, as a well-executed merger could enhance synergies, operational efficiency, and market competitiveness, while a failed merger might lead to decreased firm value (Mayasari, 2025).

Firm value is a key indicator of how well a company is recognized by the public and investors. It represents the confidence that stakeholders place in a company's management and operational efficiency (Rahma & Lastanti, 2023). The higher the firm value, the greater the trust from investors, which can lead to increased capital inflows and market expansion. Various factors influence firm value, including institutional ownership, firm size, leverage, and profitability. These factors determine how a company is managed, financed, and perceived in the financial markets.

Institutional ownership is expected to positively impact firm value by enhancing corporate governance and managerial oversight (D. M. Sari & Wulandari, 2021). Institutional investors often hold significant shares and have the capacity to monitor management decisions, reducing agency conflicts and ensuring the company's best interests (Asnawi et al., 2019). However, empirical studies present mixed findings regarding the effect of institutional ownership on firm value, necessitating further investigation. Research by Sulistiorini & Lestari (2022) and D. P. Sari & Sulistyowati (2023) show that institutional ownership has a positive effect on firm value through close supervision that reduces managerial abuse. However, D. M. Sari & Wulandari (2021) found that institutional ownership has no significant impact, because institutional investors have not been effective in overseeing management performance.

Firm size is another important determinant of firm value. Larger companies tend to have better access to financial resources, economies of scale, and higher market credibility. Investors generally perceive large companies as more stable and capable of withstanding economic fluctuations, which can enhance firm value (Pratiwi & Ginting, 2021). Nevertheless, some studies indicate that firm size does not always translate into higher firm value, prompting further exploration. Fikriyah & Suwarti (2022) research shows that firm size affects firm value, because large companies are more willing to issue shares to support operational growth. However, Apriantini et al. (2022) found that firm size does not always affect firm value, because investors also consider other factors such as financial performance, reputation, and dividend policy.

Leverage is a factor that affects firm value by showing the proportion of debt used to finance assets. The higher the leverage, the greater the financial risk faced by the company (Manurung & Lubis, 2022). The relationship between leverage and firm value remains a subject of debate among researchers. Annisa & Zaretta (2024) research states that leverage affects firm value, because debt can reduce tax liabilities and increase firm value. However, Siagian et al. (2022) found that leverage has no effect, because some companies prefer to fund their assets with their own capital rather than relying on debt.

Profitability measures the company's success in generating profits and reflects management's efficiency in managing resources. The higher the profitability ratio, the more successful the company is in its operations (Lubis & Nugroho, 2023). Research by Erawati & Ghafuur (2024) shows that profitability affects firm value, where high profits attract investors, while low profits provide a negative signal. However, Ulya & Sunarto (2023) found that profitability does not always affect firm value, as investors also consider long-term factors.

Given the inconsistencies in previous research findings and the critical role of the banking sector in Indonesia's economy, this study aims to examine the influence of institutional ownership, firm size, leverage, and profitability on firm value. By analyzing banking firms listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period, this study seeks to provide insights that can benefit company management, investors, and policymakers in making informed decisions regarding financial strategies and corporate governance practices.

LITERATURE REVIEW

This study uses Signal Theory. Signal Theory developed by Spence (1973) and Ross (1977) states that company management has access to more complete information than investors or external parties. Therefore, companies can provide signals to investors through various indicators, such as financial statements, earnings announcements, or dividend policies, to show their business conditions and prospects. Investors who are able to understand and analyze these signals well can make more informed investment decisions, both to invest new capital and to withdraw investment from companies with less favorable prospects (Purba, 2023). In this context, the transparency and quality of financial information is a major factor in attracting investor interest. Companies that are able to provide positive signals, such as increased profitability or asset growth, tend to have higher firm value. Conversely, a lack of information disclosure can create uncertainty in the market and have a negative impact on firm value (Komara et al., 2020). Therefore, shareholders and potential investors must be careful in interpreting the signals provided by the company to ensure profitable investment decisions.

Definition of Variables and Their Relationships

Firm Value : The stock price reflects the value of the company in the capital market, where an increase in stock price indicates management success and attracts investors who are looking for short-term profits and long-term growth (Irnawati, 2021). To measure firm value, this study uses Tobin's Q, which compares the market value of the company to the value of its assets. If Tobin's $Q > 1$, the company is considered to have good growth prospects, while Tobin's $Q < 1$ indicates suboptimal performance (Gonçalves et al., 2022).

Institutional Ownership : Institutional ownership is shares owned by entities such as banks, investment companies, and insurance companies, which play a role in overseeing management and promoting good corporate governance (Holly & Lukman, 2021; Sakawa & Graduate, 2020). Close supervision from institutional shareholders can reduce the risk of managerial abuse and increase firm value (D. P. Sari & Sulistyowati, 2023; Sulistiorini & Lestari, 2022). However, research by D. M. Sari & Wulandari (2021) shows that institutional ownership does not always affect firm value, because institutional investors have not been effective in overseeing management performance.

Firm Size : Firm size measured by total assets, sales, and number of employees, affects firm value because larger firms have easier access to funding for their operations (Effendi & Ulhaq, 2021; Fajriah et al., 2022). Fikriyah & Suwarti (2022) found that large firms tend to issue more shares to support growth, which increases firm value. However, Apriantini et al. (2022) stated that firm size does not always matter because investors also consider other factors, such as financial performance, reputation, and dividend policy.

Leverage : Leverage measures the extent to which a company funds its assets with debt, which can increase shareholder returns if the proceeds exceed funding costs (Dwipa et al., 2020; W. W. Hidayat, 2019). This study uses the Debt to Assets Ratio (DAR) to assess leverage, because the level of debt can affect firm value. Annisa & Zaretta (2024) found that leverage has a positive effect on firm value because it can reduce tax liabilities, while Siagian et al. (2022) stated that leverage has no effect, because some companies prefer to use their own capital to fund their assets.

Profitability : Profitability measures the company's ability to generate profits and reflects management effectiveness (Kasmir, 2021; Yusuf et al., 2022). Erawati & Ghafuur (2024) found that profitability, as measured by return on assets (ROA), affects firm value, where high profits attract investors, while low profits provide a negative signal. However, Ulya & Sunarto (2023) stated that profitability does not always affect firm value, as investors also consider long-term factors in their investment decisions.

Hypothesis Development

Based on theoretical foundations and previous studies, the following hypotheses are formulated:

- H1 : Institutional ownership has a positive effect on firm value
- H2 : Firm size has a positive effect on firm value
- H3 : Leverage has a positive effect on firm value
- H4 : Profitability has a positive effect on firm value

METHODS

The model in this study uses a causal model. Causal models are used to measure how research variables interact with each other or how one variable affects another (Ardial, 2022: 131). In accordance with the problem to be studied, the type of research used is quantitative research, where data is collected in the form of numbers. This study uses documentation techniques which are secondary data obtained indirectly or by accessing information on company financial report data available on the website www.idx.co.id, the data that has been obtained and meets the specified criteria will later be processed using the SPSS application to obtain the desired final results.

In this study there are two variables, namely, the dependent variable and the independent variable. The variables in this study include institutional ownership, firm size, leverage, and profitability as independent variables on firm value as the dependent variable.

1. Firm Value

In this study, the measurement of firm value is proxied by using Tobin's Q. The use of Tobin's Q as a proxy to measure firm value is done because Tobin's Q provides an overview of the company's market value compared to its asset value. The following is a proxy for measuring Tobin's Q (Premavari & Utami, 2020):

$$Q = \frac{\text{Equity Market Value} + \text{Total Debt Companies}}{\text{Total Assets}}$$

2. Institutional Ownership

Institutional ownership is a portion of a company's shares owned by entities or institutions, such as insurance companies, banks, investment companies, and other institutional shareholders (Holly & Lukman, 2021). The measurement of institutional ownership refers to research (Primadani et al., 2023):

$$IO = \frac{\text{Total of institutional shares}}{\text{Total shares outstanding}} \times 100\%$$

3. Firm Size

Firm size affects firm value directly because firm size reflects the total amount of assets owned. The measurement of firm size refers to research (Fajriah et al., 2022):

$$\text{Size} = \ln \text{Total Assets}$$

4. Leverage

In this study, leverage measurement is proxied by using Debt to Assets Ratio (DAR). DAR is used as an indicator of how much the company utilizes debt to fund its assets. Leverage measurement refers to the book (Sumardi & Suharyono, 2020: 25-27).

$$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$$

5. Profitability

In this study, the measurement of profitability is proxied by using Return On Assets (ROA). Investors tend to give higher valuations to companies with high ROA because this indicates the potential for good returns on investment in the company's assets. Measurement of profitability refers to the book (Setiawan, 2022: 67-68).

$$ROA = \frac{\text{Earnings Before Tax}}{\text{Total Assets}} \times 100\%$$

In general, population can be interpreted as a collection of data that describes a phenomenon (Santoso, 2018: 4). The population used in this study were all banking sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The population of this study was 57 banking companies.

RESULT AND DISCUSSION

Result

Descriptive Analysis

This study aims to determine the effect of institutional ownership, firm size, leverage, and profitability on firm value in banking sub-sector companies in the 2019-2023 period using secondary data as research data in the form of annual reports. Based on the process of research sample results conducted from banking sub-sector companies listed on the Indonesia Stock Exchange during the period 2019 - 2023. The number of samples from this study were 42 banking sub-sector companies. Based on these results, 15 banking sub-sector companies were sampled, with 2 of them not consistently publishing annual reports for the period 2019 - 2023, and 13 of them did not disclose the closing stock price in the annual report for the period 2019 - 2023.

Table 1 Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Kepemilikan Institusional	210	4,99	99,88	73,9309	19,04885
Ukuran Perusahaan	210	27,91	35,32	31,5417	1,69038
Leverage	210	,05	,93	,7642	,16587
Profitabilitas	210	-,18	,04	,0030	,02435
Nilai Perusahaan	210	,10	21,85	1,3450	2,26055
Valid N (listwise)	210				

Source: Processed data

Classical Assumption Test

The classic assumption test is carried out to ensure that the data collected meets the requirements for further analysis. Therefore, in this study, the classical assumption test applied includes the following stages: Normality test is a test to obtain valid results from the classical assumption test, it is important to know whether the data is normally distributed. To detect data normality, the Kolmogorov-Smirnov (K-S) test can be used. If the significance value (sig) is greater than 0.05, the data is considered normally distributed. The results of the normality test can be seen in the following table:

Table 2. Normality Test Result

		Unstandardized Residual
N		210
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	2,18071014
Most Extreme Differences	Absolute	,309
	Positive	,309
	Negative	-,235
Test Statistic		,309
Asymp. Sig. (2-tailed)		,000 ^c

Source: Data Processed with SPSS 25 (2024)

The One-Sample Kolmogorov-Smirnov Test normality test results show an Asymp Sig (2-tailed) of 0.000, which means that the data is not normally distributed because the value is <0.05. To normalize the data, an outlier test is performed using the Box-Plot method, where observations outside the boxplot are removed. The normality results after outlier removal are presented in the following table:

Table 3. Normality Test Result (After Outliers)

		Unstandardized Residual
N		177
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,34505378
Most Extreme Differences	Absolute	,087
	Positive	,061
	Negative	-,087
Test Statistic		,087
Asymp. Sig. (2-tailed)		,002 ^c
Monte Carlo Sig. (2-tailed)	Sig.	,124 ^d
	99% Confidence Interval	Lower Bound
		Upper Bound

Source: Data Processed with SPSS 25 (2024)

The results of the One-Sample Kolmogorov-Smirnov Test using the Monte Carlo method show a significance value of 0.124, which is greater than 0.05, so it can be concluded that the data in this study are normally distributed. To test whether there is a correlation between independent variables in the regression model, a multicollinearity test is required. A good regression model does not experience correlation between independent variables. Multicollinearity is detected through the Variance Inflation Factor (VIF) and tolerance values. The multicollinearity test results in this study are presented as follows.

Table 4. Multicollinearity Test Result

Variable	Collinearity Statistics	
	Tolerance	VIF
Institusonal Ownership	,993	1,007
Firm Size	,796	1,256
<i>Leverage</i>	,935	1,070
Profitability	,844	1,185

Source: Data Processed with SPSS 25 (2024)

The multicollinearity test results show that there is no multicollinearity problem in the regression model, because all independent variables have a tolerance value > 0.10 and $VIF < 10.00$. The tolerance values for Institutional Ownership, Firm Size, Leverage, and Profitability are 0.993, 0.796, 0.935, and 0.844, respectively, while the VIF values are 1.007, 1.256, 1.070, and 1.185, respectively. It is, therefore, the dataset that is free from multicollinearity problems. To identify the correlation between errors in period t and errors in period $t-1$ in a linear regression model, it is necessary to conduct an autocorrelation test. The autocorrelation test results in this study are presented as follows.

Table 5. Autocorrelation Test Result

Durbin-Watson
1,134

Source: Data Processed with SPSS 25 (2024)

The autocorrelation test results show a Durbin-Watson (DW) value of 1.134, which is outside the du (1.80305) to $4-du$ (2.19695) range, so there is autocorrelation in the regression model. Because good data should be free from autocorrelation, this study uses the Cochrane-Orcutt method to eliminate autocorrelation by calculating the autocorrelation coefficient based on the regression error value (Aprianto et al., 2020). The results after transformation are presented in the following table.

Table 6. Autocorrelation Test Results (After Treatment)

Durbin-Watson
1,855

Source: Data Processed with SPSS 25 (2024)

The autocorrelation test results show a Durbin-Watson (DW) value of 1.855, which is within the range of du (1.80305) to $4-du$ (2.19695). This indicates that there is no autocorrelation in the regression model. To identify the residual variance found in all observations in the linear regression model, it is necessary to test the heteroscedastic. A

good regression model should present homoscedastic variance in its random variables. The heteroscedasticity test in this study uses the Glejser test by looking at the significance value, if the sig value > 0.05 means that there are no symptoms of heteroscedasticity and vice versa if the sig value < 0.05 which means there are symptoms of heteroscedasticity. The following are the results of heteoskedasticity with the glejser test:

Table 7. Autocorrelation Test Results (After Treatment)

Variable	Sig.
Institusional Ownership	,512
Firm Size	,603
Leverage	,828
Profitability	,280

Source: Data Processed with SPSS 25 (2024)

Based on the test results shown in table 7, the significance level is above 0.05 where the sig value. Institutional ownership is 0.512, firm size is 0.603, leverage is 0828, and profitability is 0.280. Thus it can be said that in this regression model there is no heteroscedasticity.

Multiple Regression Analysis

Multiple linear regression analysis conducted in this study obtained the following results:

Table 8. Multiple Regression Analysis

Variable	Unstandardized Coefficients B
(Constant)	8,123
Institusional Ownership	,004
Firm Size	-,176
Leverage	-1,977
Profitability	-9,148

Source: Data Processed with SPSS 25 (2024)

Based on table 8 above, the analysis results can be explained through the regression model as follows:

$$Y = 8,123 + 0,004 (X1) - 0,176 (X2) - 1,977 (X3) - 9,148 (X4)$$

The regression results show that the constant $\alpha = 8.123$, meaning that if all independent variables are zero, the firm value is 8.123. The regression coefficient for Institutional Ownership (0.004) indicates that each increase of 1 unit will increase the company value by 0.004. Firm Size (-0.176) and Leverage (-1.977) have a negative effect, where an increase of 1 unit of each variable decreases the company value by 0.176 and 1.977. Profitability has a coefficient of -9.148, meaning that an increase of 1 unit of profitability decreases the company value by 9.148, assuming other variables remain constant.

Hypothesis Test

Coefficient of Determination (R²)

The coefficient of determination test (R² test) carried out in this study obtained the following results:

Table 9. Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square
1	,512 ^a	,262	,248

Source: Data Processed with SPSS 25 (2024)

The results of the Coefficient of Determination (R²) test show an Adjusted R Square value of 0.248, which means that 24.8% of the variability in Firm Value can be explained by Institutional Ownership, Firm Size, Leverage, and Profitability, while 75.2% is influenced by other factors outside this study.

Simultaneous Significance Test (F Test)

Simultaneous Significance Test (F Test) conducted in this study obtained the following results:

Table 10. Simultaneous Test (F Test)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	74,108	4	18,527	3,821	,005 ^b
	Residual	993,899	205	4,848		
	Total	1068,007	209			

Source: Data Processed with SPSS 25 (2024)

The F test results show an F value of 3.821 with a significance of 0.005 (<0.05), so that the regression model which includes Institutional Ownership, Firm Size, Leverage, Profitability, and Firm Value is declared feasible for use in research.

Partial Significance Test (T-test)

The Partial Significance Test (T test) conducted in this study obtained the following results:

Table 11. Partial Test (T Test)

Variabel	t	Sig.
(Constant)	2,599	,010
Kepemilikan Institusional	,537	,592
Ukuran Perusahaan	-1,745	,083
Leverage	-2,082	,039
Profitabilitas	-1,343	,181

Source: Data Processed with SPSS 25 (2024)

The results of the t Statistical Test show that: (1) Institutional Ownership 0.592 > 0.05 and (2) Firm Size sig = 0.083 > 0.05 have no effect on Firm Value, so H1 and H2 are rejected. (3) Leverage sig = 0.039 <0.05) has a negative effect on Firm Value, so H3 is accepted. (4) Profitability sig = 0.181 > 0.05 has no effect on Firm Value, so H4 is rejected.

Discussion

The Effect of Institutional Ownership on Firm Value

The results of hypothesis testing show that institutional ownership has no effect on firm value. Although institutional share ownership is expected to improve management oversight and provide positive signals to investors (Holly & Lukman, 2021), this study found that changes in institutional ownership did not contribute to an increase in firm value. This indicates that the market may not consider institutional ownership as a major factor in valuing the company, so other aspects such as management performance are given more attention.

This finding is in line with the research of D. M. Sari & Wulandari (2021) and Dwicahyani et al. (2022), which also state that institutional ownership has no effect on firm value, because institutional investors have not been effective in overseeing managerial performance. However, these results contradict the research of D. P. Sari & Sulistyowati, (2023), Sulistiorini & Lestari, (2022), and Widianingrum & Dillak, (2023), who found that institutional ownership affects firm value.

The Effect of Firm Size on Firm Value

The hypothesis test results show that firm size has no effect on firm value, although larger companies are often considered more stable and attractive to investors (Fikriyah & Suwarti, 2022). According to signal theory, firm size can provide positive signals to the market, but if it has no effect on firm value, then this theory becomes less relevant. This suggests that investors consider other factors, such as financial performance, reputation, and dividend policy, rather than simply the scale of the company.

This finding is in line with the research of Anisa et al. (2022 and Apriantini et al. (2022), which also found that firm size does not determine firm value. However, this result contradicts the research of Fikriyah & Suwarti (2022), I. Hidayat & Khotimah (2022), and Irawati et al. (2022), which state that firm size affects firm value.

The Effect of Leverage on Firm Value

The results of the analysis show that leverage has a negative effect on firm value, where the lower the leverage, the higher the firm value. The use of debt can be a strategy to increase profits, but if it is too high, it can reduce the value of the company due to the large debt burden (Siagian et al., 2022). Signaling theory states that leverage reflects risk management and growth potential, but if not managed properly, it can have a negative impact on company stability.

This research is in line with Himawan (2020) which states that companies with high debt levels are considered unhealthy because they can reduce profits and increase investment risk. However, this result contradicts Monica & Setyarini (2022) and Siagian et al. (2022), which state that leverage has no effect on firm value.

The Effect of Profitability on Firm Value

Hypothesis testing results show that profitability (ROA) has no effect on firm value, although profitability is usually considered an indicator of operational efficiency and a positive signal for investors. Signaling theory states that a high level of

profitability can increase investor confidence, but if it has no effect on firm value, then this theory becomes less relevant. This suggests that investors may consider other factors such as growth, innovation, or risk management more than just profit.

This study is in line with Ulya & Sunarto (2023) and Putri et al. (2024), which state that profitability is not enough to attract investors and obtain external capital. However, this result contradicts Erawati & Ghafuur, (2024), Hermanto & Margarena (2023), and Wulandari & Kusumawati (2022), who found that profitability affects firm value.

CONCLUSION & SUGGESTION

Conclusion

Based on the results of testing and analysis, the conclusions obtained are: (1) institutional ownership has no effect on firm value, because although it plays a role in supervising management, it does not always affect firm value. (2) firm size has no effect on firm value, because investors focus more on asset efficiency than firm scale. (3) leverage has a negative effect on firm value, where an increase in debt increases financial risk and decreases firm value. (4) profitability has no effect on firm value, because investors consider other aspects such as growth prospects, dividend policy, and management strategy.

This study shows that optimal capital structure management is essential to avoid the negative impact of leverage. The recommendation for the industry is to implement a more stable financial strategy to reduce debt risk. From an academic perspective, this research can serve as a reference for further studies on other factors that affect firm value, while further research is recommended to add more variables and analysis methods to obtain more comprehensive results.

Suggestion

Based on the limitations in this study, some suggestions that can be given are that future studies use different samples or increase the number of samples by extending the research period. In addition, the addition of independent variables that potentially affect firm value can provide greater insight into factors that can increase firm value.

Companies are advised to be more careful in managing leverage, because a high debt ratio can increase the risk of bankruptcy and reduce firm value. In addition, companies need to focus on other factors that attract market attention, such as innovation, sustainability, operational efficiency, and corporate reputation, considering that firm size and profitability have no significant effect on firm value. Improving governance and transparency is also important to build investor confidence and create long-term value.

Investors and potential investors are advised to not only focus on firm size or profitability in assessing firm value, but also consider other factors such as growth prospects, management strategies, and financial risks, especially those related to leverage. A high level of leverage can signal risk, so investors need to avoid companies with unbalanced debt structures. In addition, diversification of investment portfolios and monitoring of market trends as well as market volatility are important.

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