

Influence Ownership Institutional and Profitability, Against Capital Structure with Cost of Capital as Variable Moderating: Empirical Study of Property Companies Listed on the Indonesian Stock Exchange 2020 - 2022

Aang Gunafi¹

¹ Great Performance, Jakarta, Indonesia

e-mail: gunafi@yahoo.com

Article Info

Article history:

Received 11/06/24

Accepted 26/07/24

Keywords:

Institutional Ownership,
Profitability, Capital
Structure and Cost of
Capital

ABSTRACT

The purpose of this study is to ascertain how institutional ownership and profitability affect capital structure, taking into account cost of capital as a moderating factor. This study will employ a quantitative approach as its research methodology. The study's sample consisted of 92 property and real estate companies that were listed between 2020 and 2022 on the Indonesia Stock Exchange. 14 businesses were found to meet the sample criteria after the sample was determined using a purposive sampling technique. The corporate website and financial reports on www.idx.co.id were the sources of data used in this study. Multiple regression analysis is the data analysis technique used. According to the study's findings, institutional ownership has no discernible impact on capital structure, either directly or through the cost of capital. It has been demonstrated that profitability modifies capital structure in a direct and substantial way. According to the following findings, capital structure is unaffected by cost of capital. Subsequently, the outcomes of the simultaneous testing indicate that the combination of Institutional Ownership, Profitability, and Cost of Capital significantly influences the Capital Structure of the companies that are listed on the BEI between 2020 and 2022.



©2024 Authors. Published by PT. Great Performance Consulting. This work is licensed under a Creative Commons Attribution- NonCommercial 4.0 International License. (<https://creativecommons.org/licenses/by-nc/4.0/>)

INTRODUCTION

Property sector companies are one of the companies that have a fairly high debt/capital structure ratio. Based on data from Real Estate Investment Trusts (REIT), the debt ratio (DER) of property sector companies is 36% in 2022. Prior to the loan maturing, the corporation must repay its debt swiftly in order to protect itself from hazards. A high ratio indicates a high level of debt, which can negatively impact a company's performance even in situations where liquidity is strong (Gartenberg et al., 2019). Due to the potential for significant risk, this makes investors reluctant to put money into the company. According to Asad et al. (2019), the debt to equity ratio can be used to determine if a company can pay off all of its debts with its assets.

Institutional ownership is an alternative to lowering the debt to equity ratio. The goal of institutional ownership is to keep an eye on managers' output. As significant owners with strong motivations to keep an eye on the business, institutional investors stated Choi et al. (2020) have a growing influence in corporate management. Compared to shareholders or founders, managers will be more aware of internal information and future opportunities that the company will have. Michaely and Vincent (2013); Surjadi et al. (2016) and research Choi et al. (2020) in their research found that a company's debt level will be low if the level of institutional ownership is high.

Policy is also influenced by profitability. Brigham and Joel (2011) state that companies that have a high level of profitability will influence debt levels. The more tall level profitability something the company then will the more small structure the capital . This is also in line with research Albart et al. (2020) and Okegbe et al. (2019) found the effect of profitability on capital structure.

The cost of capital comes next, and managers use this as their primary factor when choosing a company's capital structure. One major area of interest in the corporate finance literature is the relationship between financial structure and cost of capital. The effect of capital costs on capital structure and funding options for businesses is examined by Albanese (2015). It was discovered that the cost of capital acted as a mediator between the capital structure and governance business effects. Capital expenses were found by Javaid et al. (2021). influence that serves as a partial mediator between capital structure decisions made by the company sample and governance firms.

LITERATURE REVIEW

Theory Agency

Jensen and Meckling introduced agency theory for the first time in 1976. This theory explains influence Where One or group of people who play a role as holder share involve One or a group of people as agent for become representative holder share in realize interests, among others, by providing authority in taking decision. Conflict agency arise Because management (agent) perhaps own interests that do not always in line with interest holder shares (principal).

Pecking Order Theory

Although Donaldson proposed the Pecking Order theory initially in 1961, Myers (1984) developed this notion. According to this hypothesis, the corporation will turn to debt as a substitute source of funding if its internal resources are insufficient.

Exchange Theory (*Trade Off Theory*)

This theory discusses how a corporation should balance its debt and equity levels to achieve a balance between costs and profits. The fundamental idea behind capital structure trade-off theory is weighing the advantages and drawbacks of using debt. Further debt is still permitted if the benefits are greater. If the debt is sacrificed because it is already excessively large, further debt is no longer permitted (Brigham & Houston, 2011).

Institutional Ownership

Institutional ownership is defined by Sakawa & Watanabel (2020) as block shareholders who are able to supervise and monitor the company in which they have ownership. Their monitoring activities can be carried out efficiently because they have financial incentives due to their ownership in these companies. A number of shares with institutional ownership are in the form of companies in the fields of insurance, investment, banking, institutions and other companies (Putri & Zulvia, 2019).

Profitability

A company's profitability demonstrates its capacity to turn a profit. Companies essentially want to make as much money as possible, but higher earnings also mean a larger tax burden (Prabowo & Ririn, 2021).

Cost of Capital

Brighman & Houtson (2011) state that a company's cost of capital can be understood as the amount of money it must spend to satisfy its investors at a given level of risk because it represents the level of return that investors seek for the company's securities. Munawir (2011) explains that capital costs are costs that must be incurred or paid by a company to obtain capital used for company investment, and capital costs are also the weighted average sum of debt costs, preferred stock costs and own capital costs.

Capital Structure

Capital structure is the comparison of capital used by a company between capital originating from foreign sources or debt and company equity (Musthafa, 2017: 85). Internal sources of capital can include company reserves and retained earnings. Every business venture requires capital, whether using your own capital or borrowed capital. Own capital (*equity capital*) often does not cover the total loan capital needed to operate the company. Loan capital, or debt capital, is therefore typically needed. Sjahrial &

Purba (2013: 37) state that the debt-to-asset ratio, which gauges how much a company's debt affects its asset management, should be utilized as the basis for the capital structure ratio.

Based on the theoretical study above, the research model used can be described as follows:

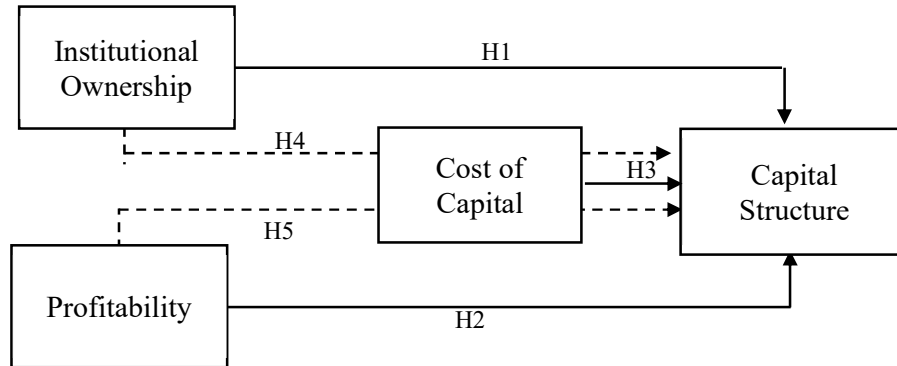


Figure 1. Research Model

Based on framework This is the hypothesis put forward in This research is:

H1: Institutional Ownership has a significant effect on Capital Structure

H2: Profitability has a significant effect on Capital Structure

H3: Cost of Capital has a significant effect on Capital Structure

H4: Institutional Ownership has a significant effect on Capital Structure moderated by Cost of Capital

H5: Institutional Ownership has a significant effect on Capital Structure moderated by Cost of Capital

RESEARCH METHODS

In this study, a quantitative research approach will be employed. The impact of institutional ownership, profitability, and cost of capital on capital structure is explained using this quantitative approach. based on this study with separate data collection for around two months. The study's sample consists of 92 property and real estate companies that were listed between 2020 and 2022 on the Indonesia Stock Exchange. To determine the sample using a *purposive sampling method*, namely a sampling technique using certain criteria, namely: (1) publish financial reports publicly consistent during 2020-2022; (2) The company does not experience losses during the observation period, (3) The company must have complete data regarding the variables required in this research. Thus, out of the 42 observation data points, 14 property and real estate companies listed on the Indonesia Stock Exchange in 2020–2022 satisfy the standards. The financial reports of businesses in the real estate and property sectors that were listed on the Indonesia Stock Exchange between 2020 and 2022 provided the secondary data for this study. The corporate website and the financial records available on www.idx.co.id served as the study's data sources. The data analysis techniques used are determination correlation analysis, multiple linear regression, F and t hypothesis testing, validity and reliability evaluations of the research instruments, and classic assumption tests. The author of this study employed descriptive percentage analysis as her analysis method. The data used is analyzed using the descriptive percentage analysis method, which describes data that was previously gathered in a study based on the conditions that are in place. SPSS 24 will analyze this methodology.

Table 1. Variable Measurement

No	Variable	Indicator	Measurement Scale
1	Capital Structure	$DER = \frac{Total\ Debt}{Total\ Equity}$	Ratio
2	Institutional Ownership	$INST = \frac{Total\ Institutional\ Shares}{Number\ of\ Outstanding\ Shares}$	Ratio
3	Profitability	$ROA = \frac{Profit\ After\ Tax}{Total\ Aset}$	Ratio
4	Cost of Capital	$WACC = \{(D \times Rd) \times (1 - Tax) + (E \times Re)\}$	Ratio

RESULTS AND DISCUSSION

Normality test

Normality test results can seen in the picture below this:

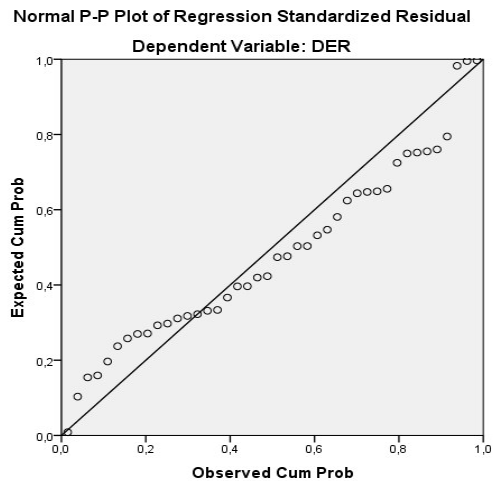


Figure 2. Normality Test Results

The data or points are distributed along the diagonal line and follow its direction, as indicated by the P Plot normality test results. Thus, the study's data were dispersed normally.

Multicollinearity Test

The table below shows the multicollinearity test results.

Table 2. Multicollinearity Test Results

Model	Coefficients ^a	Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	WACC	,055	8,323
	INTS	,773	1,293
	ROA	,051	9,515

a. Dependent Variable: DER

Multicollinearity test results show that all over independent variable (Ownership Institutional, Profitability and Cost of Capital) respectively obtain mark Tolerance more big of 0.10 and VIF less out of 10 shows that all over variable No each other correlated or can said all over variable free from problem multicollinearity.

Heteroscedasticity Test

Heteroscedacity test results can seen in the table below this.

Table 3. Heteroscedacity Test Results

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,587	,312		1,882	,068
	WACC	-7,898	8,593	-,608	-,919	,364
	INTS	,283	,422	,118	,670	,507
	ROA	4,180	8,688	,329	,481	,633

a. Dependent Variable: ABS_RES1

Heteroscedacity test results show that all over independent variables (Cost of Capital, Ownership Institutional and Profitability) each obtain mark significantly more big from 0.05. These results show that No happen problem heteroscedacity in this research model .

Autocorrelation Test

The autocorrelation test results are shown in the table below.

Table 4. Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,508 ^a	,258	,199	,778505	,637

a. Predictors: (Constant), ROA, INTS, WACC

b. Dependent Variable: DER

Durbin-Watson value of 0.637, which is positioned within the range of 2, indicates that autocorrelation occurs in this research model based on the results of the autocorrelation test.

Multiple Linear Regression Test

The table below shows the test result regression multiple:

Table 5. Multiple Regression Test Results

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)		1,549	,720		2,153
	INTS		,692	,186	,181	,584
	ROA		-24,110	11,905	-1,189	-2,025
	WACC		-,862	17,526	-,042	-,049
	INTS WACC		-15,299	22,966	-,641	-,666
	ROA WACC		142,160	46,616	1,371	3,050

a. Dependent Variable: DER

You can create an equality regression in the following ways based on the test findings above:

$$DER = 1.549 + 0.692INTS - 24.110ROA - 0.862WACC - 15.299INTS_WACC + 142.160ROA_WACC$$

Indeed, as elucidated below, based on equality regression:

- The value of the capital structure of property and real estate businesses listed on the IDX in 2020–2022 will remain at 1,549 if there is no variable ownership, institutional, profitability, and cost of capital. This is demonstrated by the value of a (constant) = 1.549.
- $INTS = 0.692$ shows that if it happens increase in Ownership Institutional as big as One units then the Capital Structure will be experience enhancement of 0.692.
- $ROA = -24,110$ shows that if it happens increase in Profitability as big as one unit then the Capital Structure will be experience decline amounting to 24,110.
- $WACC = -0.862$ shows that if it happens increase in Capital Costs of one unit then the Capital Structure will be experience decline of 0.862.
- $INTS_WACC = -15.229$ shows that if it happens increase in Ownership Institutional moderated by the Cost of Capital of one unit then the Capital Structure will be experience decline amounting to 15,229.
- $ROA_WACC = 142,160$ shows that if it happens increase in Profitability moderated by Capital Costs of one unit then the Capital Structure will be experience enhancement amounting to 142,160.

Hypothesis testing

T Test (Partial)

Referring to Table 5 above, you can explained that Profitability proven influential significant to Capital Structure both directly and moderated by the Cost of Capital. This is because respective values obtained more small from 0.05. Temporary That Ownership Institutional either directly or moderated Cost of Capital does not influence Property and real estate firms' capital structures for the years 2020–2022 are registered with the IDX.

F Test (Simultaneous)

The table below displays the simultaneous test results:

Table 6. Simultaneous Test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13,863	5	2,773	5,812	,000 ^b
	Residual	17,174	36	,477		
	Total	31,037	41			

a. Dependent Variable: DER

b. Predictors: (Constant), ROA_MACC, INTS, WACC, ROA, INTS_WACC

The F test findings in Table 6 show that the computed F value of 5.812 > the F table value of 3.23 with a level of significance of 0.000 since the probability significance is much smaller than 0.05. These results suggest that the capital structure of property and real estate companies listed on the IDX in 2020–2022 is influenced by ownership, institutional, profitability, and cost of capital at the same time.

Coefficient Determination

Test result coefficient determination can seen in the table under this:

Table 7. Coefficient of Determination Test Results

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.668 ^a	.447	.370	.690693

a. Predictors: (Constant), ROA, MACC, INTS, WACC, ROA, INTS, WACC

b. Dependent Variable: DER

A coefficient determination (Adjusted R Square) of 0.370, or 37%, was produced based on the following table. This explains why the variables Ownership Institutional (INST), Profitability (ROA), Cost of Capital (WACC), and Ownership Institutional with moderation Cost of Capital (INST_WACC) and Profitability with moderation Cost of Capital (ROA_WACC) simultaneously influence 37% of the capital structure, with the remaining 63% being influenced by other external factors this research.

Discussion

According to the first hypothesis's findings, ownership institutional level had no discernible impact on the capital structure of companies listed on the IDX between 2020 and 2022. The findings of this theory are supported by studies by Gustyana and Hanari (2022) and Choi et al. (2020), which demonstrate that ownership institutionally has a substantial and negative impact on capital structure. The research conducted by Ahmed and Hassain (2019) demonstrates that institutional ownership might have an impact on capital structure.

Second hypothesis show that Profitability influential in a way Partial to Capital Structure. The results of this research are strengthening research conducted by Lathfita et al (2022) prove it that profitability own negative and significant influence to capital structure. The same results were also shown by Oktaviana and Taqwa (2021) that the more tall profitability then increases low possibility company use financing from debt. Muntahanah et al. (2020) revealed that the more tall acquisition profit, then the use of funds from external or sourced funding from debt will down, in other words that by level increasing profitability tall will lower company capital structure. This is because company own sufficient internal funding sources for can fulfil activity operational company.

The third set of hypothetical findings demonstrates that capital structure is not significantly impacted by proven cost of capital. This study's findings diverge from those of Javaid, Nazir, and Fatima's (2021) study. Capital expenses may have a favorable effect on capital structure. Albanese (2015) further highlights the fact that investors fund investments with debt when the high cost of equity capital is brought on by knowledge asymmetry between market participants.

Hypothetical results fourth show that Cost of Capital does not can moderate influence Ownership Institutional to Capital Structure. Hypothetical results No support study Javaid et al., (2021) explains that capital costs can be mediate influence between governance attributes company that is ownership institutional to decision company capital structure.

Hypothetical results fifth show that Proven Cost of Capital moderate influence Profitability to Capital Structure. The results show Capital Costs can be strengthen influence Profitability to Capital Structure. The results of this hypothesis support study Peter & Tanadi (2020) show that profitability, debt and capital structure all influence each other. Ayu et al., (2022) found that *cost of capital* capable mediate between *Leverage* to profitability, Profitability, debt, and capital structure have an influence between one variable and another.

CONCLUSION

The study's findings indicate that the first variable ownership institutional no longer influences capital structure. (2) Capital structure is influenced by profitability. (3) Institutional Ownership, which is tempered by Capital Cost, has no bearing on Capital Structure. (4) The Cost of Capital effect on Capital Structure modifies profitability. Therefore, it was advised to the corporation to boost profitability and pay attention to capital expenses in order to maintain a healthy capital structure.

Furthermore recommended for researcher next will be do the same research can develop objective research you want researched and more focus to what is researched. So that's expected You better prepared in the process of taking and collecting data and everything something related to research.

Furthermore for researchers who will do research with terms kind or similar expected can more increase accuracy, liveliness as well as collaborate with various party in frame help smooth study.

REFERENCES

- Ahmed, AAA, & Hossain, S. (2010). Audit report lag: A study of the Bangladeshi listed companies. *ASA University Review*, 4 (2).
- Albanese, T. (2015). Impact of the cost of capital on the financing decisions of Brazilian companies. *International Journal of Managerial Finance*, 11 (3), 285-307.
- Albart, N., Sinaga, BM, Santosa, PW, & Andati, T. (2020). The effect of corporate characteristics on capital structure in Indonesia. *Journal of Economics, Business, and Accountancy Ventures*, 23 (1), 46-56.
- Asad, M., Iftikhar, KI, & Jafary, AY (2019). Relationship between capital structure and financial performance of textile sector companies. *Kashmir Economic Review*, 28 (1).
- Brigham, E.F., & Houston, J.F. (2011). *Basics Financial management*. Translation. Edition 10. Jakarta: Salemba Four.
- Choi, J. K., Hann, R. N., Subasi, M., & Zheng, Y. (2020). An empirical analysis of analysts' capital expenditure forecasts: evidence from corporate investment efficiency. *Contemporary Accounting Research*, 37 (4), 2615-2648.
- Gartenberg, C., Prat, A., & Serafeim, G. (2019). Corporate purpose and financial performance. *Organization Science*, 30 (1), 1-18.
- Javaid, A., Nazir, M.S., & Fatima, K. (2021). Impact of corporate governance on capital structure: mediating role of cost of capital. *Journal of Economic and Administrative Sciences*, 39 (4), 760-780.
- Michaely, R., & Vincent, C. J. (2013). Do Institutional Investors Influence Capital Structure Decisions? https://www.researchgate.net/publication/315429108_Do_Institutional_Investors_Influence_Capital_Structure_Decisions
- Muntahanah, S., Huda, NN, & Wahyuningsih, ES (2020). Profitability, Leverage, and Liquidity Against Financial Distress in Consumer Goods Companies Listed on the Indonesian Stock Exchange for the 2015-2019 Period. *J-MAS (Journal of Management and Science)*, 6 (2), 311-314.
- Musthafa, H., & SE, M. (2017). *Financial management*. Andi Publisher.
- Okegbe, T.O., & Ofurum, D.I. (2019). Effect of environmental management accounting and financial performance of Nigerian consumer goods firms. *International Journal of Advanced Academic Research*, 5 (1), 1-17.
- Oktaviana, A., & Taqwa, S. (2021). Influence Profitability, Business Risk, Growth of Assets, Operating Leverage against Capital Structure. *Exploration Journal Accounting*, 3 (2), 470-485.
- Peter, P., & Tanadi, H. (2020). Analysis influences profitability and debt to company capital structure. *JOURNAL OF MANAGEMENT*, 12 (1), 76-89.
- Prabowo, A., & Ririn, S. (2021). Influence Profitability, Leverage, and Capital Intensity Tax Avoidance with Company Size as Variable (Moderating) (Empirical Study of Manufacturing Companies Listed on the IDX 2015-2019). *Accounting Media Taxation*, 6 (2), 55-74.
- Putri, RA, & Zulvia, Y. (2019). The Influence of Corporate Governance on Capital Structure in Manufacturing Companies Listed on the Indonesian Stock Exchange 2014-2017. *Ecogen Journal*, 2 (4), 778-787.
- Sakawa, H., & Watanabel, N. (2020). Institutional ownership and firm performance under stakeholder-oriented corporate governance. *Sustainability*, 12 (3), 1021.
- Sjahrial, D., & Purba, D. (2013). *Analysis Financial Reports Edition 2*. Jakarta: Media Discourse Partner Publisher.