

THE EFFECT OF INVESTMENT OPPORTUNITY SET, DIVIDEND PAYOUT, AND CAPITAL STRUCTURE MODERATED BY INSTITUTIONAL OWNERSHIP TOWARD STOCK PRICE TO INDONESIA STOCK EXCHANGE

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ABSTRACT

This research aims to answer if investment opportunity set influences the stock price, if dividend payout influences stock price, and if capital structure influences stock price moderated by institutional ownership. This research utilizes secondary data that is financial report released by Indonesian Capital Market Directory (ICDM). This research was conducted from 2003 until 2011. The research sample was manufacturer companies paying dividend and the total observation for the hypothesis test was 349 units.

The result showed that the improvement of investment opportunity set increased the stock price. Increase of dividend payout did not increase the stock price; this result was different with the previous research in which dividend payout increased the stock price. Increase of capital structure decreased the stock price. Increase of institutional ownership increased the stock price. Increase institutional ownership moderated the capital structure decreased the stock price.

Keywords: *institutional ownership; investment opportunity set; dividend payout; capital structure; stock price*

1. Introduction

A company is established for various purposes, one of them is to maximize the investor's (shareholder's) wealth as the owner of the company by maximizing the firm value (Hasnawati, 2005a). Firm value is a price the prospective buyers are willing to pay if the company is sold (Jones, 2004). In go-public company, it is reflected on the stock price (Brigham and Daves, 2007). Investors in go-public company can be individual or institutional investors (Jones, 2004). In this research, institutional investor is related to the institutional ownership that is the percentage of the total stock owned by the institutional owner such as insurance, bank, and investment company (Jones, 2004).

The stock price can be maximized by having beneficial investment or having investment which produces positive net present value (NPV) (Hasnawati, 2005b; and Gaver and Gaver, 1993). Therefore, fund from the company or outside the company is needed. Fund resource from the company comes from amortization, depreciation and retained earnings. Retained earnings causes decreased dividend payout to the investor. The fund source from outside the

company can be obtained from taking a debt or new stock emission. New stock emission can be taken through several ways that are by selling it to the previous shareholder by releasing right or preemptive right, selling it to the employees through employee stock ownership plan (ESOP), selling it to the management through management stock ownership plan (MSOP), dividing the dividend in a form of stock dividend, selling it directly to single investor (usually is institutional investor) through private placement, and through public offering (seasoned equity offering or SEO) (Hartono, 2000).

New stock emission by offering it to the public by SEO and or by releasing preemptive right is rarely done since it may cause underprices. McLaughlin, Safieddine, and Vasudevan (1996); Lee (1997); and Jegadeesh (2000) find out that after implementing SEO, the company experiences underprice. Myers and Majluf (1984) explain that underprice is caused by the asymmetric information, thus, the company usually takes external fund by taking a debt. It shows that investment decision is related to the dividend theory and capital structure (Adedeji, 1998; and Fumey and Doku, 2013).

Dividend theory explain that dividend payout influences the stock price, as the bird in the hand theory explains, but on the other side, dividend payout does not influence stock price, this is in accordance with irrelevant dividend theory, tax preference theory, and clientele effect theory (Brigham and Daves, 2007). Dividend payout influences the stock price because it will reduce the uncertainty risk, different taxation regulation for cash dividend and capital gain for each investor, and investors' different point of view about cash dividend, for example an investor needing a fund will be more interested in cash dividend while an investor who does not need a fund will not be interested in cash dividend since he has to pay for additional money to re-invest his fund. Dividend payout does not influence stock market since it is influenced by the capability to produce profit and by the business risk.

The capital structure theory is related to the amount of debt owned by a company and it has implications to the firm value. It can be explained by using capital structure theories that are irrelevance capital structure theory, trade-off theory, pecking order theory, and free cash flow theory (Myers, 2001). Irrelevance capital structure theory explains that capital structure doesn't affect company value. This theory has so many criticism, but can stimulate some new theories to be made. Trade-off theory explains that if a company takes debt, it will get tax saving. The bigger the debt is the more tax saving the company will get. Yet, the company will have difficulty in its liquidity which may cause bankruptcy. Therefore, a manager has to be able to balance the profit and risk. Pecking order theory explains that the fund taken by the company has to follow a hierarchical order started from internal fund from retained profit, convertible bond, common bond, and new stock emission. The theory of cash flow explains if the company has surplus cash, the manager will take actions based on his interest or take actions which are not in accordance with the investors' (shareholders') will such as taking poor investment. Therefore, in order to avoid this, the cash surplus can be divided into cash dividend or repurchase stock so that in order to finance the investment, the company can use the fund from its debt to urge the manager to be discipline in utilizing the fund. Nevertheless, the company is burdened by agency cost (Jensen and Meckling, 1976).

A high institutional ownership has more power to supervise the manager which will prevent any opportunistic actions by the manager (Shleifer and Vishny, 1986). Thus, an institutional investor has a role to minimize agency conflict between the manager and the shareholder (Jensen and Meckling, 1976). A powerful institutional investor, therefore, will be able to reduce the agency cost which in turn will increase the stock price (Elyasiani, Jia, and Mao, 2010).

The capital structure theory is related to the institutional investor because he or she may perform surveillance to the manager which will encourage the

manager to use the fund source from the retained earnings because a company with a low debt is preferred by the potential investor (Chaganti and Damanpour, 1991; Al-Najjar and Taylor, 2008; and Al-Najjar, 2010). Yet, based on Crutchley, Jensen, Jahera, Jr., and Raymond (1999), the increase of institutional ownership may cause leverage. It may happen since the institutional investor cannot supervise the manager, thus encouraging the manager to utilize the debt. These different research results encourage the researcher to conduct a research by adding institutional ownership variable as the variable moderating the capital structure. This research, so far, has not yet been conducted in Indonesia.

Based on the explanation above, the formulated research question is "Does the investment opportunity set influence the stock price? Does dividend payout influence the stock price? Does capital structure influence the stock price? Does institutional ownership influence the stock price? Does capital structure moderated by institutional ownership influence the stock price?"

2. Literatur Review

2.1 Investment Opportunity Set

Myers (1977) defines that investment opportunity set is an owned combination of assets (assets in place) with investment options in the future. While Gaver and Gaver (1993) define investment opportunity set as firm value of which value is influenced by discretionary expenditure which is a managerial policy, while the assets in place are not discretionary expenditure.

Investment opportunity set is a latent variable which means it cannot be measured directly. There are several proxies to measure the investment opportunity set that are stock market price-based proxy, investment-based proxy, variant-based proxy, and composite (Kallapur and Trombley, 2001). This study use composite of three IOS measures were market to book value of asset (MBVA), market to book value of equity (MBVE), and property, plant and equipment to market value of assets (PPEMVA) (Hutchinson and Gul, 2004).

Investment opportunity set is investment expenditure of which value is decided by the management and is expected to be able to increase the stock price (Belkaoui and Picur, 2001), firm value (Hasnawati 2005a; and 2005b), as well as stock return (Abednazari and Noravesh, 2013). Chung, Wright, and Charoenwong (1998) finds that the announcement of capital expenditure can increase the investment return to the company which has a high investment opportunity set. Nevertheless, it will decrease the stock return to the company which has low investment opportunity. Based on this explanation, a hypothesis can be formulated. The increasing of investment opportunity set can increase the stock price. Based on this explanation, a hypothesis can be formulated.

H1 : Investment opportunity set influences stock price.

2.2 Dividend Payout

Dividend payout is a cash dividend paid to the shareholders. The value of cash dividend is explained by dividend theory. A dividend theory can be categorized into four that are irrelevant dividend theory, preferred dividend theory (bird in the hand theory), tax preference theory, and clientele effect theory (Brigham and Daves, 2007).

Irrelevant dividend theory explains that the dividend value is not influenced by the stock and capital price because the firm value is determined by the basic earning power and business risk. This dividend theory uses assumption that the perfect market in which there are no tax or other costs. All market actors have equal expectation to the investment, profit, and dividend theory does not influence the investment policy since it is determined before the dividend theory.

Preferred dividend theory (bird in the hand theory) explains that dividend payout can reduce uncertainty (risk) faced by shareholders. Therefore, the investors prefer to have the current dividend payout rather than the capital gain in the future.

Tax preference theory happens due to the different regulation of dividend tax and capital gain in each country. For example, a lower capital gain compared to cash dividend tax and capital gain can be suspended until the stock is sold. Besides, each investor has different tax rate.

Clientele effect theory explains that cash dividend is interesting for particular segment of investor but not for the other segments of investor. Therefore, it is the task of a company manager to serve according to the segment of the investor. For example, for retired individual, retirement institution and university prefer dividend payout, while the other investors who do not need the fund and have to pay additional cost for reinvestment.

Dividend payout that is influential to the firm value (Hasnawati, 2005a; Azhagaiyah and Priya, 2008; Gul, Sajid, Razzaq, Iqbal, and Khan, 2012; Mokaya, Nyang'ara, and James, 2013; and Kumaresan, 2014), especially to the countries which are less protective toward investors (Pinkowitz, Stulz, and Williamson, 2006), will be able to reduce stock price volatility (Hussainey, Mgbame, and Mgbame, 2011) and to reduce the asymmetric information (Li and Zhao, 2008). Investor will likely to prefer stable dividend payout (Jose and Stevens, 1989) as well as more liquidity or more active traded (Omran and Pointon, 2004).

Belkaoui and Picur (2001) explains that dividend payout is related to the investment opportunity set that is when the company has investment opportunity, it will pay lower dividend compared to the one which does not have investment opportunity. The increasing of dividend payout can

escalate the stock price. Based on this explanation, the hypothesis is formulated as follow.

H2 : Dividend payout influences the stock price.

2.3 Capital Structure

Capital structure is a proportion of debt and owned capital (Myers, 2001). The smaller the owned capital due to the retained earnings, the more improved the capital structure will be since the long-term debt will also increase. According to Jensen and Meckling (1976), the capital structure or the amount of debt is influenced by the asymmetric information and agency cost. Asymmetric information appears because of the bias information from the management and investor, thus, the manager prefers to utilize the fund source obtained from the retained earnings. This causes the reduced capital structure. While agency cost appears due to interest conflict between the shareholders with the management or the conflict between the shareholders with the creditors. The interest conflict among the shareholders with the management will increase the capital structure since the shareholder urges the management to utilize the debt to pay the investment. The interest conflict among the shareholders with the creditors will decrease the capital structure since the creditors determine high interest cost as a compensation of risk escalation.

Capital structure theory can be explained by irrelevance capital structure theory, trade-off theory, pecking order theory and free cash flow theory (Myers, 2001). Irrelevance capital structure theory explains that capital structure doesn't affect the company value. This theory assume if (a) no broker fee, (b) no taxes, (c) no liquidity fee, (d) individual investor or company can loan with the same interest rate, (e) all investors and management have the same information about investment opportunities to the company in the future, and (f) the earnings before interest and taxes (EBIT) doesn't affected by debt. This assumption is irrelevant.

Trade-off theory explains that a company will get tax saving if it utilizes debt. The more debt is gained the more the tax is. Yet it will have the risk of difficult liquidity which may lead to a bankruptcy. Therefore, a manager must be able to balance the benefit with the risk. This theory emphasizes on the optimum capital structure so that it does not differentiate the hierarchical order of fund source options, either from retained earnings, debt or new stock emission, as explained in pecking order theory.

Pecking order theory explains that fund raised by the company following the hierarchical order will prefer internal source of fund which is obtained from the retained earnings. The company will drastically avoid dividend payout therefore the company sets the target of dividend payout ratio. The sticky dividend policy as the result of profit fluctuation and investment opportunity are often unpredictable which then cause the internal cash flow to be surplus or minus to fulfill the investment need.

If the company needs external source of fund, first, the company has to releasing convertible bond and new stock emission as its last alternative.

The pecking order theory does not explicitly explicate the company risk (uncertainty) prospect even though the funding order is based on the company risk (uncertainty) prospect in the future. In this theory, the new emission stock both through public offering or limited offering is the last option which is based on the asymmetric information that is the information bias between the management and the investor. Asymmetric information may cause underprice since the investor refuses to pay the fair price determined by the management (Myers and Majluf, 1984; and Myers, 2001).

Cash flow theory explains that if the company has surplus cash, the manager will take action according to his will which is not in accordance with the investor's (shareholder's) will. For example, he or she may invest which results in return below the cost of capital resulting in negative net present value. In order to avoid this, the surplus can be divided into cash dividend or repurchase stock. Moreover, in order to finance the investment, the debt is used to encourage the manager to be discipline in managing the fund, yet the company will be burdened with cost agency (Jensen and Meckling, 1976).

The decision to use huge debt as a fund can increase the risk of bankruptcy because it is vulnerable toward income reduction. It will result in the decline of stock price in the stock market. The company which has the capital structure less than 9.86% is possible to increase the firm value by 0.056%, the capital structure between 9.86% to 33.39% is possible to increase the firm value by 0.0057% and the capital structure more than 33.39% will not be influential to the firm value (Lin and Chang, 2011). The reduced debt will increase return on assets, return on equity, earning per share and the firm value (Mumtaz, Rauf, Ahmed, and Noreen, 2013), reduce stock price volatility (Zakaria, Muhammad, and Zulkifli, 2012), increase return on assets (Ebaid, 2009; and Zeitun and Tian, 2007), and increase return on equity (Abor, 2005; and Ebaid, 2009).

Other researchers find different results that the increase of leverage will increase the firm value to a company which has investment opportunity (Hasnawati, 2005a; Antwi, Mills, and Zhao, 2012; and Ogbulu and Emeni, 2012) and increase stock return to the company paying the dividend (Azam, 2010). The increase of capital structure can decrease the stock price. Based on this explanation, the hypothesis is formulated as follow.

H3 : Capital structure influences the stock price.

2.4 Institutional Ownership

Institutional ownership is the percentage of total stock owned by the institutional investor such as insurance, bank, and investment company (Jones,

2004). Institutional investor is related to the theory on strategic excellence which can be categorized into two that are dedicated institutional investor and transient institutional investor. Dedicated institutional investor serves more in strategic development compared to the transient institutional investor in term of short-term time horizon and fewer total stock ownership (Connelly, Tihanyi, Certo, and Hitt, 2010).

Institutional investor is related to the business relation which can be categorized into two that are sensitive pressure and intensive pressure. Sensitive pressure is an institutional investor which has a business relation, thus, more tolerant toward management policy. While intensive pressure is an institutional pressure which does not have any business relation, thus, may supervise the management and consequently will improve the operating cash flow and return on assets (Cornett, Markus, Saunders, and Tehranian, 2007).

A huge institutional ownership will reduce the agency problem, thus, the firm value will increase (Shleifer and Vishny, 1986), reduce the asymmetric information if the company perform new stock emission (Darmadi and Gunawan, 2013), improve return on assets (Jelinek and Stuerke, 2007), and improve return on equity (Chen, Blenman, and Chen, 2008). The proportion of active institutional investor ownership which is 20% to 30% will be able to increase the firm value (Navissi and Naiker, 2006).

Transient institutional investor and herding institutional investor are better in managing short-term information in order to identify the overvalued or undervalued stock compared to persistence institutional investor (Yan and Zhang, 2009). Yet, persistence institutional investor is better to predict long-term stock price (Dasgupta, Prat, and Verardo, 2011). The increase of institutional ownership can increase the stock price. Based on this explanation, the hypothesis can be formulated as follow.

H4 : Institutional ownership influences the stock price.

Institutional investor will influence the company to use the internal and external fund source. The research by Chaganti and Damanpour (1991), Al-Najjar and Taylor (2008), and Al-Najjar (2010) find out the institutional investor prefer a company which has low debt. Elyasiani et al. (2010) finds that the increase of long-term institutional investor will reduce the debt since it reduces the asymmetrical information and the agency problem on debt. Nevertheless, Crutchley et al. (1999) finds that the increase of institutional ownership will increase the leverage. This happens because the institutional investor cannot monitor the management. According to Ross (1977), the increase of leverage can be perceived as improving the firm value. The increase of debt supervised by institutional ownership can increase the stock price. Based on the explanation, the hypothesis can be formulated as follow.

H5 : Capital structure moderated by the institutional ownership influences the stock price.

3. Research Design

3.1.1 Research Population and Sample

The population of this research was go-public companies in Indonesian Stock Exchange (IDX) between 2003 to 2011. The sample of this research was the manufacturer companies paying dividend. Base on the sample criteria, number of observation is 349 units.

One sector was chosen that was manufacturer companies, it was expected that they had similar characteristics.

3.1.2 Research Data

The data of this research was quantitative secondary data in a form of financial ratios based on the annual financial report released in the end of the year from 2003 to 2011. The data was obtained from the financial report published in Indonesian Stock Exchange (IDX) in a form of Indonesian Capital Market Directory (ICMD).

3.1.3 Research Variable and Variable Measurement

Stock price is measured by log stock price (LogPrice) using the annual closing price (Belkaoui and Picur, 2001). Investment opportunity set (IOS) is measured by 3 proxies were market to book value of asset (MBVA), market to book value of equity (MBVE), and property, plant and equipment to market value of assets (PPEMVA) (Hutchinson and Gul, 2004). MBVA is measured by using formula of $\{ \text{Total debt} + (\text{Outstanding common stock} \times \text{Closing price}) \} / \text{Total assets}$. MBVE is measured by using formula of $[(\text{Outstanding common stock} \times \text{Closing price}) / \text{Equity}]$. PPEMVA is measured by using formula of $[\text{property, plant and equipment} / \{ \text{Total debt} + (\text{Outstanding common stock} \times \text{Closing price}) \}]$. Dividend payout (DPR) is measured by using formula of $[\text{cash dividends} / \text{net income available to common stockholders}]$ (Hussainey et al., 2011). Capital structure (TDTA) is measured by using formula of $[\text{total debt} / \text{total assets}]$ (Al-Najjar and Taylor, 2008; and Onalapo and Kajola, 2010). Institutional ownership (IO) is measured by $[\% \text{ institutional investor ownership}]$ (Al-Najjar, 2010).

3.1.4 Analysis Plan and Estimation Model

The data used to do hypothetic test is unbalance pool data and data analysis using multiple linear regression analysis use random

effect method with White cross section standard errors & covariance (d.f. corrected) for estimation model 1 and fixed effect method for estimation model 2. Analytical result showed in table 1. The estimation model is as follows.

Estimation model 1

$$\text{LogPrice}_{it} = b_0 + b_1\text{IOS}_{it} + b_2\text{DPR}_{it} + b_3\text{TDTA}_{it} + b_4\text{IO}_{it} + e_{it}$$

Estimation model 2

$$\text{LogPrice}_{it} = b_0 + b_1\text{IOS}_{it} + b_2\text{DPR}_{it} + b_3\text{TDTA}_{it} + b_4\text{IO}_{it} + b_5\text{TDTA}_{it} * \text{IO}_{it} + e_{it}$$

Table 1

| | Test cross-section fixed effects | | | Test cross-section random effects | | |
|--------------------|----------------------------------|--------------|--------|-----------------------------------|--------------|--------|
| | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Estimation model 1 | 836.4800 | 80 | 0.0000 | 9.5362 | 4 | 0.0490 |
| Estimation model 2 | 842.0856 | 80 | 0.0000 | 9.5142 | 5 | 0.0902 |

4. Result And Analysis

4.1 Factor Analysis

Factor analysis is used to combine 3 proxies which form investment opportunity set such as MBVA, MBVE and VPPE. The factor analysis result is an IOS variable presented in the table 2.

Table 2
Factor Analysis

| | MBVA | MBVE | PPEMVA |
|---|---------|--------|---------|
| Estimated communality of 3 IOS measures | 0.8977 | 0.8709 | 0.3548 |
| Correlations between IOS and 3 IOS measures | 0.99493 | 0.9897 | -0.3162 |
| Prob. | 0.0000 | 0.0000 | 0.0000 |

Extraction Method:
Principal Component Analysis

4.2 Statistical Description

Based on the descriptive analysis result presented in the table 3, the result can be processed further that is the average stock price ranging from Rp7079.81 to Rp13481.3. The average of investment opportunities set ranging from 3.2563 to 4.1967, the average dividend payout ratio ranged from 34.75% to 47.81%, the average capital structure ranged from 43.49% to 47.69%, and the average institutional ownership ranging from 68.47% to 72.65%.

Result and Discussion

Table 3
Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|------------|-----|---------|----------|------------|----------------|
| Price (Rp) | 349 | 58 | 359000 | 10280.5989 | 30507.9876 |
| IOS | 349 | 0.7309 | 40.5592 | 3.7265 | 4.4815 |
| DPR (%) | 349 | 0.0208 | 500.3892 | 41.2777 | 60.0622 |
| TDTA (%) | 349 | 3.8940 | 96.0542 | 45.5905 | 19.3235 |
| IO (%) | 349 | 0 | 99.00 | 70.5621 | 19.2299 |

Investment opportunity set influences the stock price. Based on the regression analysis result of estimation model 1 presented in the table 4, the t_{value} =

6.7565 with the significance level of 0.0000. Therefore, it can be concluded that the hypotheses 1 is supported.

This finding is in accordance with the previous research finding that investment opportunity set improvement can increase the stock price (Belkaoui and Picur, 2001), increase the firm value (Hasnawati 2005a; and 2005b), and increase the stock return (Abednazari and Noravesh, 2013). Chung et al. (1998) finds that the capital expenditure increase announcement enables to increase stock return in the company which has a high investment opportunity set. On the other hand, it decreases the stock return in the company which has low investment opportunity set since the exchange rates the decision is not favorable.

Dividend payment affects stock prices. Based on the regression analysis result of estimation model 1, the $t_{value} = -0.8369$ with the significance level of 0.4032. Therefore, it can be concluded that hypotheses 2 is not supported.

This finding is different with the previous research finding that dividend payment can increase the firm value (Belkaoui and Picur, 2001; Hasnawati, 2005a; Azhagaiah and Priya, 2008; Gul et al., 2012; Mokaya et al., 2013; and Kumaresan, 2014), especially for the developing countries which less protect the investors (Pinkowitz et al., 2006). The dividend payment can decrease the asymmetric information (Li and Zhao, 2008). Therefore, the stock price volatility decreases (Hussainey et al., 2011). This difference is caused because the company has investment opportunity (Belkaoui and Picur, 2001). Therefore, the investor is willingly to receive dividend payout ratio in average from 34.75% to 47.81%.

Capital structure influences the stock price. Based on the regression analysis result of estimation model 1, the $t_{value} = -3,8864$ with the significance level of 0.0001. Therefore, it can be concluded that the hypotheses 3 is supported.

This finding is in accordance with the previous research finding that the debt increase can decrease the stock price (Mumtaz et al., 2013), decrease return on asset (Zeitun and Tian, 2007; Ebaid, 2009), decrease return on equity (Abor, 2005) and decrease the firm value (Abor, 2007). The decrease debt can increase return on equity (Abor, 2005; and Ebaid, 2009), and increase return on assets (Zeitun and Tian, 2007). The debt increase can cause the gained profits decrease. It is caused by the interest expenses increase as the effect of the increased risk. In investor's perspective, average capital structure from 43.49% to 47.69% is high.

Table 4
Multiple Regression Analysis

| Dependent Variable: LogPrice | | | |
|------------------------------|---|--------------------|--------------------|
| Independent Variable | | Estimation Model 1 | Estimation Model 2 |
| | | Random Effect | Fixed Effect |
| (Constant) | B | 3.1426 | 3.1032 |
| | t | 13.7158 | 16.0981 |

| | | | |
|-------------------|--------------------|---------|---------|
| IOS | Prob. | 0.0000 | 0.0000 |
| | B | 0.0548 | 0.0558 |
| | t | 6.7565 | 10.2991 |
| DPR | Prob. | 0.0000 | 0.0000 |
| | B | -0.0189 | -0.0046 |
| | t | -0.8369 | -0.1472 |
| TDTA | Prob. | 0.4032 | 0.8831 |
| | B | -0.7527 | -0.0052 |
| | t | -3.8864 | -0.0125 |
| IO | Prob. | 0.0001 | 0.9900 |
| | B | 0.2602 | 0.5012 |
| | t | 2.4400 | 1.9945 |
| TDTA*IO | Prob. | 0.0152 | 0.0471 |
| | B | | -1.1432 |
| | t | | -2.0650 |
| | Prob. | | 0.0399 |
| Observations: 349 | | | |
| | R-square | 0.2824 | 0.9340 |
| | Adjusted R square | 0.2741 | 0.9127 |
| | S.E. of Regression | 0.2251 | 0.2244 |
| | F statistics | 33.8449 | 43.7875 |
| | Prob. | 0.0000 | 0.0000 |
| | Durbin-Watson stat | 0.8800 | 1.1824 |

Institutional ownership influences stock price. Based on the regression analysis result of estimation model 2, the $t_{value} = 2.4400$ with the significance level of 0.0152. It can be concluded that the hypotheses 4 is supported.

This finding is in accordance with the previous research finding that institutional ownership can increase the firm value (Shleifer and Vishny, 1986; Navissi and Naiker, 2006), increase return on assets (Jelinek and Stuerke, 2007) and increase return on equity (Chen et al., 2008), and can decrease the asymmetric information if the company will perform new stock emission (Darmadi and Gunawan, 2013). Persistent institutional investor has an excellence in predicting the long-term stock price. Meanwhile, the herding investor has an excellence in predicting short-term stock price (Dasgupta et al., 2011), it is caused by its ability in identifying overvalue or undervalue stock (Yan and Zhang, 2009).

Institutional ownership moderates capital structure influence on stock price. Based on the analysis result of estimation model 2, capital structure variable is moderated by the institutional ownership which gains $t_{value} -2.0650$ with the significance level of 0.0399. Therefore, it can be concluded that the hypotheses 5 is supported. This can explain institutional investor encouraging management to lower the debt, and prevent stock price from dropping.

This finding is in accordance with the finding of Chaganti and Damanpour (1991); Al-Najjar and Taylor (2008); and Al-Najjar (2010) find out the institutional investor prefer a company which has low debt. This study shows that institutional investor prefer the company that has low debt because the lower the debt lower risk of bankruptcy.

5. Conclusion

Investors prefers company that has a chance to growth, showed by high investment opportunity but

still be able to pay the dividend. This is explained in free cash flow theory. If, all of investment is paid from retained earnings can cause management become unaware, but, if investments paid from debt, the company will be in danger of bankruptcy. This condition make investors have less interest to a company with high debt. Thus, management need to equalize internal funds sources from retained earnings and external fund sources from debt. This equalization can increase company value and its stock price. This condition has accordance to trade-off theory (Myers, 2001). Management need to equalize capital structure to optimalize it. A strategy that commonly use of the company is in overleverage condition is to increase retained-earnings but still be able to pay the dividend, right issue, or SEO even in overvalue market condition (Bayless and Chaplinsky, 1996; and Baker and Wurgler, 2002).

Big institutional ownership can increase the stock price especially dedicated institutional investor (Connelly et al., 2010) and sensitive institutional investor (Cornett et al., 2007) hence, that two investor have the same interest of company growth. But the high presence of institutional ownership ranged from 68.47% to 72.65% has not yet to change investors perception to a company with large debt even the big opportunity of investment still has a big risk.

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