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## **The impact of institutional ownership, profitability and financial distress on stock prices during Covid-19 pandemic**

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### **Abstract**

This aims to examine and analyze the effect of institutional ownership, profitability, financial distress on stock prices. The object of this research is mining companies listed on the Indonesian stock exchange in 2018-2020 or during the covid 19 pandemic. The sample is 23 mining companies in the coal sector. The tests in this study are the classical assumption test and hypothesis testing. The analytical technique used is multiple regression analysis to predict the value of the independent variable on the dependent variable as an equation. The results of this study indicate that simultaneously institutional ownership, profitability, financial distress have no effect on stock prices. Partially only profitability has an effect on stock prices.

**Keywords:** institutional ownership, profitability, financial distress, stock prices

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### **Introduction**

The value of the currencies of Asian countries fell drastically against the United States dollar during the multidimensional crisis that occurred in Asia in 1997. Indonesia was the worst-affected country. Many companies in Indonesia faced many difficulties, especially financial difficulties. If a company experiences financial difficulties, the company will experience the risk of bankruptcy. Every company must be aware of the potential for bankruptcy, therefore the company must as early as possible conduct analysis concerning the bankruptcy of the company, especially the analysis of financial statements.

The main reason for investors to invest is to make a profit. Investment in shares is a risky thing, causing a higher level of profit to be offered compared to other investments. This can be seen in the movement of stock prices in the company. The stock price is one of the valuation factors of the company. The increase in stock prices can occur due to high demand, meaning that there are quite a lot of people interested in the stock. This shows that the stock has a high level of sales, thus the need for company funds can run smoothly due to the availability of sufficient funds from investors. If the stock price is low and there are few interested parties, it can increase the risk of the non-smooth flow of company funds due to a lack of funds to carry out the company's activities. Stock prices can be influenced by various factors, which are dominated by the performance of companies that issue shares and a broader perspective where market power is very significant (Menon, 2016). Stock prices can change daily as a result of market forces. Evans (2009) suggests that stock prices serve as a signal for the proper allocation of capital between companies, investors use stock prices to make investment decisions.

Various events such as political conditions, natural disasters, wars, legal issues often affect activities in the capital market. One of the events that can cause changes in prices and trading volumes

in 2020 is the Covid-19 pandemic, which has hit not only the global stock markets but also Indonesia. The economic turmoil caused by the Covid-19 pandemic has hit Indonesia, which has had the least impact in various sectors. The possible risks that investors and capital market analysts are worried about are recessions and economic crises due to an economic slowdown. Various businesses in the real sector were hit by the Covid-19 pandemic so that business and production activities experienced many disruptions and some even decided to stop. The impact of this, of course, is that many employees are forced to be laid off, thereby reducing purchasing power in the community.

The economic turmoil due to Covid-19 became one of the historic moments because it had an impact on the management of state finances until the State Budget (APBN) was changed twice and there were various government efforts to restore the national economy. To prove whether these events have more impact on the conditions of the Indonesian capital market, a test of the information content of these events will be carried out using an event study. Nurmasari (2020) empirically proves that there has been a decline in stock prices and an increase in transaction volume at PT. Ramayana Lestari Sentosa, Tbk for the difference 31 days before and 31 days after the announcement of the first case of Covid19. This research was conducted due to the lack of research on the impact of Covid19 on stock prices and ownership. Analysis of the bankruptcy of a company is very important for various parties. This is because the bankruptcy of a company not only harms the company but also harms other parties associated with the company. Therefore, bankruptcy prediction analysis can be done to obtain an early warning of bankruptcy (early signs of bankruptcy).

The earlier the signs of bankruptcy are known, the better for management. Management can immediately make improvements so that the company does not go bankrupt. In addition, for

external parties to the company, this bankruptcy prediction can be used as a basis for making financial decisions.

Financial statements can be used as a tool to predict the condition of the company in the future. Every company must be aware of the potential for bankruptcy, therefore the company must as early as possible conduct analysis concerning the bankruptcy of the company, especially the analysis of financial statements (Ririanty, 2015). Bankruptcy prediction analysis is used to find out the early signs of financial distress (financial distress). Financial distress is a condition where the company's finances are in an unhealthy state or crisis (Hapsari, 2012). Financial distress occurs before bankruptcy. The health of a company through report analysis will reflect the company's ability to run its business, the distribution of its assets, the effectiveness of the use of its assets, the results of operations or revenues that have been achieved, fixed expenses that must be paid, and the potential for bankruptcy that will be experienced (Nurchayono & Sudarma, 2014).

For external parties, bankruptcy predictions can be used as a basis for making investment decisions. One of the bankruptcy analysis methods used is the Altman Z-Score Model. The Altman Z-Score model is one of the discriminant models originating from America which then formulates the best financial ratios in predicting bankruptcy (Ririanty, 2015). In 1968 Altman invented the first financial distress model. Then Altman revised it twice, namely in 1983 and 1995. In 1995 Altman modified his model so that it can be applied to all companies such as manufacturing, non-manufacturing, and issuer companies in developing countries (Rahayu *et al.*, 2016).

Institutional ownership is company shares owned by institutions or institutions. Institutional investors can carry out strict supervision so that managers can improve financial performance which will have an impact on company value. One of the factors that can affect the condition of the company in the future, one of which is the institutional ownership structure (Hastuti, 2014). The proportion of share ownership is a factor that can cause conflict between owners and management (Maftukhah, 2013).

According to Masdupi (2005), there are three ways to reduce agency problems. First, by increasing insider ownership. Second, with an external supervision approach that is carried out through the use of debt. Third, institutional investors as monitoring agents. Insider ownership or managerial ownership is share ownership in a company where the shares are owned by insiders.

### Previous Research

Research conducted by (Sulistiyani and Rivai 2020) <sup>[8]</sup> shows that institutional ownership moderated by financial distress variable shows that institutional ownership moderated by financial distress does not affect firm value, meaning that financial distress cannot moderate institutional influence. Research conducted by (Jannah and Khoiruddin 2017) <sup>[2]</sup> Institutional ownership does not affect stock returns. Managerial ownership affects stock returns. Financial distress does not affect stock returns. Financial distress mediates the effect of institutional ownership on stock returns. Financial distress does not mediate the effect of managerial ownership on stock returns.

Research conducted by (Kurniawati, Manalu, and Ovtavianus 2015) <sup>[5]</sup> shows that institutional ownership has a significant positive effect on stocks. price, where the amount of share

ownership by institutions in property and real estate companies on the IDX will have an impact on changes in share prices.

## Literature Review and Hypotheses Development

### Agency theory

Agency theory reflects the contractual relationship between shareholders who act as principals and managers who act as agents. Principals and agents must work together to achieve common goals. If the principal and agent prioritize each other's interests, it can lead to conflict. If the conflict between the principal and the agent is not immediately resolved, the company has the potential to experience financial distress (financial distress). Jensen and Meckling (1976) stated that equalizing the interests between shareholders and management, can reduce conflicts between principals and agents. The implementation of good corporate governance is expected to reduce tensions between principals and agents which have an impact on reducing agency costs (Bodroastuti, 2009).

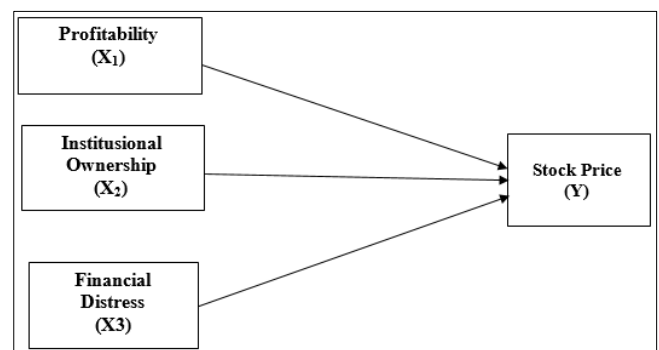


Fig 1: Conceptual framework

From the conceptual framework above, the hypotheses of this research are as follows:

- **H1:** Institutional Ownership affects the share price.
- **H2:** Profitability affects stock prices
- **H3:** Financial distress affects stock prices

### Research methods

#### Data types and sources

This type of research is quantitative research. Sources of data used in this study are secondary data, namely in the form of panel data for all variables.

#### Population and sample

The population used is all companies including mining listed on the Indonesia Stock Exchange in 2018-2020. The sample of this study was selected from the entire population taken based on purposive sampling technique, namely 23 mining companies in the coal sector. Analysis of the data used is multiple linear regression using the statistical tool SPSS (Statistical Package for the Social Science) which previously had to be free from normality tests, and the classical assumption test.

### Research variable

#### Independent Variable

The independent variables in this study are:

**Institutional ownership**

Institutional Ownership is company shares owned by institutions or institutions such as insurance, pension funds, or other companies. The measurement of institutional ownership and block holder ownership is divided by the total number of shares outstanding multiplied by 100%. The formula used is as follows:

$$INST = \frac{\text{Number of institutional shares}}{\text{Number of shares outstanding}} \times 100\%$$

**Profitability**

According to Hery (2007), the profitability ratio is a ratio that measures the company's ability to generate net income at a certain level of sales, assets, and share capital. Profitability can be proxied by net profit margin. The greater the net profit margin ratio, the more productive the company's performance will be so that it will increase investor confidence to invest in the company. This ratio shows how big the percentage of net profit earned from each sale is. The greater this ratio, the better the company's ability to earn high profits.

$$\text{Rumus: NPM} = \frac{\text{Net Profit}}{\text{Income}} \times 100\%$$

**Moderating Variables**

**Financial distress (Altman Z-Score)**

The intervening or mediating variable in this study is financial distress using the 1995 Altman Z-Score modified model which is calculated by the formula:

$$Z = 1,21X1 + 1,4X2 + 3,3X3 + 0,64X4 + 1,0X5$$

**Information:**

- Z = Financial Distress
- X1 = Working Capital/Total Asset
- X2 = Retained Earnings / Total Asset
- X3 = Earning Before Interest And Taxes/Total Asset
- X4 = Market Value Of Equity / Book Value Of Total Debt
- X5 = Sales / Total Aset

**Dependent Variable**

**Stock price**

The dependent variable in this study is the stock price. In this case what will be used is the annual average share price, namely by dividing by two the highest market price in a given year and the lowest stock market price in the same year, so that the value will be used as the dependent variable.

**Results and Discussion**

**Classic assumption test**

**Table 1:** Multicollinearity test results

Model	T	Sig.	Collinearity Statistics	
			Tolerance	VIF
1	(Constant)	1,756	,094	
	Manajerial ownership	-1,736	,098	,910
	Financial Distres	4,085	,001	,320

a. Dependent variabel: Stock price

From the results of the Multicollinearity test, it can be seen that the VIF value for each research variable is: a) The VIF value of

the Institutional Ownership variable is  $1.099 < 10$  and the tolerance value is  $0.910 > 0.10$ , then the Institutional Ownership variable is declared to have no symptoms of multicollinearity. Furthermore, b) The VIF value of the Financial distress variable is  $1.024 < 10$  and the tolerance value is  $0.320 > 0.10$ , then the Institutional Ownership variable is declared to have no symptoms of multicollinearity.

**Uji Koefisien Determinasi R<sup>2</sup>**

The coefficient of determination R<sup>2</sup> essentially measures how far the model's ability to explain the variation of the dependent variable is. The value of the coefficient of determination R<sup>2</sup> which is close to one means that the independent variables explain almost all of the information needed to predict the dependent variable. Here are the results of the coefficient of determination test.

**Table 2:** Uji R<sup>2</sup>

Model summary				
Model	R	R square	Adjusted R square	Std. error of the estimate
1	,677 <sup>a</sup>	,459	,405	3427,895

A. Predictors: (Constant), Financial Distres, profitability,manajerial ownership

In equation 1 R Square of 0.405 indicates that 40.5% of the Y variable which can be explained by the X variable, the remaining 59.5% is explained by other factors. This means that the relationship between institutional ownership, profitability, financial distress only has a relationship of 40.5% to stock prices, while the remaining 59.5 is explained by other variables outside of the variables studied.

**Simultaneous test (F Test)**

A simultaneous significance test was conducted to show whether all independent variables in the model have a simultaneous effect on the dependent variable. The decision-making of this test is by looking at the significant value in the attached ANOVA table. If the value of Sig. <0.05 means that the independent variables have a significant effect on the dependent variable together.

**Table 3:** Uji F

ANOVA <sup>a</sup>						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	7924528,513	2	3962264,257	,186	,832 <sup>b</sup>
	Residual	426465279,900	20	21323263,990		
	Total	434389808,400	22			

a. Dependent Variable: Stock Price  
b. Predictors: (Constant), Financial Distress, Profitability, Managerial Ownership

In the equation table above, the calculated F value is 3.03 with a significance level of 0.08 greater than 0.05 so that institutional ownership, profitability, financial distress do not affect stock prices. In contrast to the t-test on institutional ownership, profitability affects stock prices, while financial distress does not affect stocks because the value of the significance level is greater than 0.05.

**Conclusion**

Simultaneously, institutional ownership, profitability, and financial distress have no effect on stock prices in mining

companies listed on the Indonesia Stock Exchange. Furthermore, based on the results of statistical tests partially, institutional ownership structure has a significant effect on shares. The results of this study are in line with agency theory that agency costs caused by agency problems can be minimized by increasing institutional ownership in company share ownership. The higher the share of ownership from the institution, it is hoped that there will be no management actions that harm the company or are contrary to what is desired by the shareholders. Meanwhile, the partial statistical test of profitability and financial distress does not affect stock prices.

### Suggestion

For mining companies, especially in the coal sector, it is expected that they will pay more attention to profitability so that the shares disclosed are following the existing items, where if a company is more efficient in utilizing its assets to earn a profit, the value of the company's share price will increase and vice versa.

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