International Journal Multidisciplinary Science
IJML Vol 3 No. 3 October 2024 | ISSN: 2963-8119 (print), ISSN: 2963-7821 (online), Page 153-160

MEDIATING ROLE OF FINANCIAL PERFORMANCE IN OWNERSHIP STRUCTURE'S IMPACT ON FIRM VALUE OF LISTED COMPANIES IN THE LQ45 INDEX OF THE INDONESIA STOCK EXCHANGE

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Article History
Received : September
Revised : September
Accepted : October
Published : October

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Cite This Article:

DOI:
https://doi.org/10.56127/ijml.v3i3.1732

Abstract: This study aims to analyze the effect of ownership structure on firm value with financial performance as a mediating variable in companies listed in the LQ45 index of the Indonesia Stock Exchange during the 2020-2024 period. The independent variables consist of institutional ownership and managerial ownership, while the mediating variable is financial performance measured using Return on Assets (ROA). Firm value, as the dependent variable, is measured using Price to Book Value (PBV). Using multiple linear regression methods and the Sobel test, the study found that managerial ownership significantly influences firm value, whereas institutional ownership does not show a significant impact. Additionally, financial performance does not act as a mediator in the relationship between ownership structure and firm value. The findings of this study provide important implications for corporate governance in Indonesia, particularly in managing ownership structures to enhance financial performance and maximize firm value.

Keywords: Ownership Structure, Financial Performance, Firm Value

INTRODUCTION

The ownership structure of a company is one of the key aspects in understanding how a firm achieves optimal value, particularly for entities listed in the LQ45 index of the Indonesia Stock Exchange. Ownership structure reflects the proportion of shares held by various parties within the company, including majority shareholders such as families, financial institutions, or other business groups (Anidjar, L. Y. 2019; Alhababsah, S. 2019; Khotimah, H., & Audina, V. N, 2021) . In Indonesia, ownership structures tend to be concentrated, which can pose challenges in corporate governance, as decisions made may not always favor minority shareholders (Haron, R. et al. 2021). According to agency theory by Jensen and Meckling (1976), conflicts between majority and minority shareholders may arise because majority shareholders have control over company policies, often prioritizing personal interests. These conflicts impact financial performance, which acts as a mediator in determining firm value (Fama & Jensen, 1983; Shleifer & Vishny, 1997).

Ownership concentration can trigger conflicts between majority and minority shareholders, influencing financial performance as a mediator to firm value (Akben-Selcuk, E, 2019). Previous studies by Shleifer and Vishny (1997) explain that agency conflicts in firms with concentrated ownership risk lowering firm value, as majority shareholders may expropriate company profits. Research by Chen, T., Dong, H., & Lin, C. (2020) found that effective monitoring by institutional shareholders can mitigate these conflicts, ultimately having a positive impact on financial performance as a mediator to firm value.

A Multiple Large Shareholder Structure (MLSS) in a company is expected to enhance oversight, especially in firms with concentrated ownership structures. MLSS is believed to maintain stable financial performance (Pugatekaew, K., & Tangpinyoputtikhun, Y, 2021). Saona, P., Muro, L., & Alvarado, M (2020). found that MLSS improves oversight of majority shareholders, reducing conflicts and ensuring decisions do not harm minority shareholders. In this context, MLSS is expected to stabilize financial performance, which in turn mediates a positive influence on firm value.

Institutional ownership, or share ownership by institutions such as banks, investment firms, and other financial institutions, also plays a vital role in a company's ownership structure (Al-Sartawi, A. M. M., & Sanad, Z, 2019). Shleifer and Vishny (1986) suggest that institutional investors, with their high professional expertise, have the incentive to monitor management more effectively, thereby reducing agency problems. Research by Akmalia, A., & Aliyah, S. A. (2022) found that institutional ownership can enhance firm value by improving financial performance as a mediator, as their presence provides strict oversight of management.

Institutional ownership is considered an effective monitoring mechanism as it reduces opportunistic behavior by management. With their experience and knowledge, institutional investors can influence management to make decisions that support the company's long-term performance (Liu, C., et al. 2020). Liu, C., et al. (2020) note that institutional investors actively monitoring performance can reduce agency problems within the company, positively impacting financial performance as a mediator in the relationship between institutional ownership and firm value.

A company's capital structure, which is the proportion of debt and equity in financing, plays a critical role in determining financial performance, which ultimately mediates firm value (Ramli, N. A., Latan, H., & Solovida, G. T, 2019). Modigliani and Miller in Ahmeti, F., & Prenaj, B. (2015) state that using debt provides tax benefits through a tax shield. However, excessive use of debt increases bankruptcy risk, potentially reducing firm value. Determining an optimal capital structure is expected to produce stable financial performance and maximize firm value. For instance, research by Margaritis and Psillaki (2010) shows that increased leverage has a non-linear relationship with performance, where optimal leverage improves performance before reducing firm value if debt becomes excessive.

The trade-off theory developed by Myers (1977) states that firms must achieve an optimal point in debt usage, where the benefits of a tax shield equal the costs of bankruptcy. An optimal capital structure can improve financial performance, which in turn positively impacts firm value. Margaritis and Psillaki (2010) support this concept, stating that proportional debt can maximize financial performance as a mediator for increasing firm value, while excessive debt can worsen performance due to increased financial costs.

An optimal capital structure considers the balance between tax benefits and bankruptcy risks, influencing a firm's financial performance. When debt levels are low, tax benefits can enhance the company's performance, but as debt increases, bankruptcy and financial distress risks rise. With financial performance as a mediating variable, firms are expected to manage their capital structure effectively to maintain and enhance firm value.

Previous research by Margaritis and Psillaki (2010) indicates a non-linear relationship between capital structure and firm performance, where optimal debt improves financial performance before ultimately reducing firm value if debt usage becomes excessive. In the context of Indonesian companies, which generally have concentrated ownership, studying the optimal point of capital structure is crucial in maintaining financial performance and firm value as a mediated outcome.

Significant institutional ownership can act as an independent supervisor of management, ensuring that decisions benefit all shareholders. This role is expected to drive good financial performance, which mediates the enhancement of firm value. This is relevant for companies listed in the LQ45 index, which generally have a stronger institutional investor base compared to other firms.

However, studies in countries with concentrated ownership structures, such as Jordan and Bangladesh, show that institutional ownership does not always significantly impact firm performance. Research by Rashid, M. M. (2020) indicates that institutional ownership has no significant effect on firm performance. Similarly, research by Carney, M., et al (2019), suggesting that the effectiveness of institutional ownership in improving firm value heavily depends on cultural contexts and ownership structures in each country.

In Indonesia, with the dominance of family-owned businesses, institutional investors may face limitations. In such situations, majority shareholders, often families or certain business groups, hold significant influence over corporate policies. Institutional investors as minority shareholders may have limited control over policies, ultimately affecting the effectiveness of institutional ownership in improving firm value through financial performance (Khotimah, H, et. al, 2024; Linawati, L. 2018; Yusuf, Y., Anthoni, L., & Suherman, A, 2022).

Type II agency theory explains that agency conflicts in firms with concentrated ownership can occur between majority and minority shareholders. In Indonesia, where many companies are family-owned, corporate policies are often based on family interests, potentially disadvantaging minority shareholders. The role of institutional investors in this context becomes critical as supervisors of financial performance to mediate the relationship between ownership structure and firm value (Delima, A, 2023; Dewi, S. R. S., Ruhiyat, E., & Suripto, S, 2024; Kurniawati, D, 2023; Yusuf, Y, 2020).

METHOD

This study employs an explanatory quantitative approach aimed at examining the effect of ownership structure on firm value, with financial performance as a mediating variable. The study focuses on companies listed in the LQ45 index of the Indonesia Stock Exchange during the 2020–2024 period, where LQ45 comprises firms with large market capitalization and high liquidity. The population includes all companies listed in the LQ45 index, and the sample was selected using purposive sampling. Sample criteria include companies consistently listed in LQ45 during the study period, with accessible complete financial statements and no delisting within this timeframe.

The data used in this research consist of quantitative data in the form of financial ratios and market value relevant to the study variables. The data were sourced from the companies' annual financial statements available on the Indonesia Stock Exchange and official company websites. The independent variable, ownership structure, is measured through two indicators: managerial ownership and institutional ownership. Managerial ownership represents the percentage of shares owned by company management, while institutional ownership represents the percentage of shares owned by financial institutions or institutional investors (Wahyu Winarno, W, 2015).

The mediating variable, financial performance, is measured using the Return on Assets (ROA) indicator, which reflects the company's efficiency in managing its assets to generate net income. Firm value, as the dependent variable, is measured using two indicators: Book Value (BV) and Price to Book Value (PBV). BV represents the book value of the company calculated based on its net assets, while PBV reflects the market valuation of the company, indicated by the ratio of market price to book value per share.

Data analysis begins with descriptive statistics to provide an overview of each research variable, including mean, standard deviation, maximum, and minimum values. Classical assumption tests are then conducted to ensure the data meet the requirements for linear regression analysis, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Once these assumptions are met, multiple linear regression analysis is carried out to examine the effect of ownership structure on firm value with financial performance as a mediating variable. This analysis involves three stages of regression to identify direct relationships and the mediating influence of ROA.

The research procedure starts with collecting financial statement data from LQ45-listed companies during the 2020–2024 period. Relevant financial data are then processed according to the variables studied, such as ownership structure, financial performance ratios, and firm value. Statistical analysis results are interpreted to provide an in-depth understanding of the effect of ownership structure on firm value with financial performance as a mediating variable. Additionally, the Sobel test is used to examine the role of financial performance as a mediator in the relationship between ownership structure and firm value. This test evaluates whether the impact of ownership structure on firm value is significant through the mediation of financial performance. Data were processed using SPSS statistical software.

RESULT AND DISCUSSION

A. Descriptive Statistics

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Price to Book Value	120	-3.28	5.71	.9893	1.31604
Return on Assets	120	-.87	1.35	.0705	.17598
Managerial Ownership	120	.00	.91	.1471	.27041
Institutional Ownership	120	.00	92.50	6.5972	20.04443
Valid N (listwise)	120				

The descriptive statistical analysis results show that this study involves a sample of companies listed in the LQ45 index. Below is a summary of the descriptive results for each variable:

1. Price to Book Value (PBV), which reflects the ratio between the market price of a stock and its book value, has a minimum value of -3.28 and a maximum value of 5.71, with a mean of 0.9893 and a standard deviation of 1.31604. This indicates significant variation in market valuation among companies, with some being valued below their book value.
2. Return on Assets, , which measures a company's efficiency in generating profit from its assets, ranges from -0.87 to 1.35. The average ROA is 0.0705, with a standard deviation of 0.17598, indicating that while some companies have negative asset performance, companies generally generate relatively low profits from their assets.

3. Managerial Ownership, which represents the percentage of shares held by the company's management, ranges from 0 to 0.91, with a mean of 0.1471 and a standard deviation of 0.27041. This shows variations in management ownership levels, although the average level remains relatively low.
4. Institutional Ownership, representing the percentage of shares held by financial institutions or institutional investors, has a minimum value of 0 and a maximum value of 92.50, with a mean of 6.5972 and a standard deviation of 20.04443. The high standard deviation indicates significant variation in institutional ownership among companies, with some companies having very high levels of institutional ownership.

B. Classical Assumption Tests

1. Normality Test

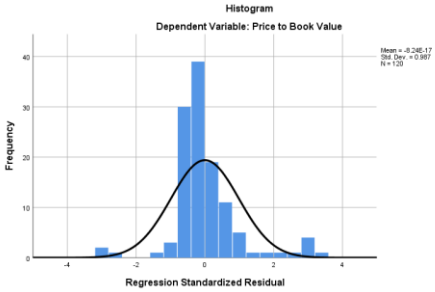

Figure 1. **Normality Test**

The results of the normality test are shown in a histogram depicting the distribution of standardized residuals for the dependent variable, Price to Book Value (PBV). The histogram exhibits a shape that approximates a normal distribution, with most frequencies clustered around the central value (0) and symmetrically spread on both sides. The normal curve displayed above the histogram further supports that the residual data tend to follow a normal distribution.

The mean of the residuals is nearly zero, indicating that the residual distribution does not have a significant bias toward either positive or negative values. The residual standard deviation is 0.987, demonstrating that the residual data are spread around the central value. The sample size (N) of 120 also supports the normality assumption.

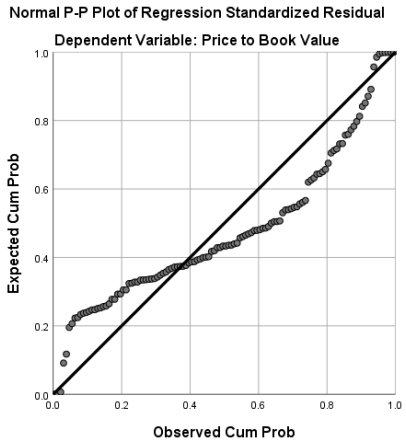

Figure 2. Normal P-P Plot

The Normal P-P plot above shows the distribution of standardized regression residuals for the dependent variable, Price to Book Value (PBV). In this plot, the diagonal line represents the expected normal distribution, while the dots represent the cumulative observed values compared to the expected values if the residuals follow a normal distribution. Most of the points are close to or aligned along the diagonal line, indicating that the residual distribution approximates a normal distribution. This suggests that the normality assumption for the residuals has been met, which is crucial for the validity of the regression test results.

2. Multicollinearity Test

Table 2. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Return on Assets	.999	1.001
	Managerial Ownership	.969	1.032
	Institutional Ownership	.968	1.033

This multicollinearity test provides Tolerance and Variance Inflation Factor (VIF) values for each independent variable in the regression model, namely Return on Assets, Managerial Ownership, and Institutional Ownership. The primary purpose of the multicollinearity test is to detect potential multicollinearity, a condition where independent variables are highly correlated with one another. Multicollinearity can disrupt the stability of the regression model and complicate the interpretation of regression coefficients.

The test results show that Return on Assets has a Tolerance value of 0.999 and a VIF value of 1.001, Managerial Ownership has a Tolerance value of 0.969 and a VIF value of 1.032, and Institutional Ownership has a Tolerance value of 0.968 and a VIF value of 1.033. These values indicate no multicollinearity issues, as high Tolerance values (close to 1) and low VIF values (around 1) suggest that the independent variables are not significantly correlated with one another.

3. Autocorrelation Test

Table 3. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.563[a]	0.317	0.299	1.28602	1.878

a. Predictors: (Constant), Institutional Ownership, Return on Assets, Managerial Ownership
b. Dependent Variable: Price to Book Value

The Durbin-Watson value of 1.878 in the Model Summary table indicates that this model does not experience autocorrelation issues in its residuals. A Durbin-Watson value close to 2 suggests that the regression model's residuals are independent, with no strong correlation patterns between the residual values of consecutive observations. Thus, the assumption of residual independence is satisfied, making the regression model valid for further analysis without the risk of interference from autocorrelation.

C. Hypothesis Testing

Table 4. Multiple Linear Regression Analysis Stage 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.798	.151		5.278	.000
	Return on Assets	.445	.670	.059	.664	.508
	Managerial Ownership	1.199	.443	.246	2.707	.008
	Institutional Ownership	-.002	.006	-.038	-.418	.677

a. Dependent Variable: Price to Book Value

The regression analysis results show that the constant value of 0.798 indicates that if all independent variables are zero, the predicted value of Price to Book Value (PBV) is 0.798. This constant is statistically significant with a significance level of 0.000, meaning that this relationship is reliable within the model. For the variable Return on Assets (ROA), the regression coefficient of 0.445 suggests that each one-unit increase in ROA is expected to increase PBV by 0.445, assuming other variables remain constant. However, this effect

is not statistically significant as its significance value is 0.508, which is greater than the 0.05 threshold. Thus, ROA cannot be considered to have a strong influence on PBV in this study.

Next, the variable Managerial Ownership shows a different result. Its regression coefficient of 1.199 indicates that each one-unit increase in managerial ownership can increase PBV by 1.199. This effect is statistically significant with a significance level of 0.008, which is less than 0.05. This suggests that managerial ownership has a positive and significant impact on PBV, making it an important factor in explaining PBV variation. In contrast, Institutional Ownership has a regression coefficient of -0.002, indicating that each one-unit increase in institutional ownership tends to decrease PBV by 0.002. However, this relationship is not statistically significant, with a significance value of 0.677. Therefore, it cannot be concluded that institutional ownership has a meaningful influence on PBV.

Table 5. Multiple Linear Regression Analysis Stage 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.073	.020		3.673	.000		
	Managerial Ownership	-.003	.061	-.004	-.041	.967	.969	1.032
	Institutional Ownership	.001	.001	-.029	-.305	.761	.969	1.032

a. Dependent Variable: Return on Assets

The regression analysis with Return on Assets (ROA) as the dependent variable reveals several key findings. The constant value of 0.073 indicates that if all independent variables are zero, the predicted ROA value is 0.073. This constant is statistically significant with a significance level of 0.000, meaning that this relationship is reliable within the model.

For the variable Managerial Ownership, the regression coefficient of -0.003 suggests that each one-unit increase in managerial ownership tends to reduce ROA by 0.003, assuming other variables remain constant. However, this relationship is not statistically significant, as indicated by the significance level of 0.967, which is far above the 0.05 threshold. Furthermore, the tolerance value of 0.969 and Variance Inflation Factor (VIF) value of 1.032 indicate that there is no multicollinearity issue for this variable.

Meanwhile, the variable Institutional Ownership has a regression coefficient of 0.001, indicating that each one-unit increase in institutional ownership is expected to increase ROA by 0.001. However, like Managerial Ownership, this effect is also not statistically significant, with a significance level of 0.761. The multicollinearity analysis shows a tolerance value of 0.969 and a VIF value of 1.032, further confirming that there is no multicollinearity issue for this variable either.

Table 6.
Sobel Test for Mediating Role of Return on Assets in the Relationship Between Institutional Ownership and Price to Book Value

Input:			Test statistic:	Std. Error:	*p*-value:
a	-0.003	Sobel test:	-0.04904605	0.02721932	0.9608826
b	0.445	Aroian test:	-0.02718694	0.04910446	0.97831063
s_a	0.061	Goodman test:	NaN	NaN	NaN
s_b	0.670	Reset all	Calculate		

The Sobel test results indicate that the mediation of financial performance in the relationship between institutional ownership and firm value is not significant. The Sobel statistic value of -0.049 with a standard error of 0.027 yields a p-value of 0.960, which is far above the 0.05 significance threshold. This suggests that there is insufficient evidence to support the existence of a mediating effect of financial performance (ROA) in the relationship between institutional ownership and firm value (PBV). Therefore, it can be concluded that financial performance (ROA) does not play a significant mediating role in the relationship between institutional ownership and firm value (PBV).

Table 7.
Sobel Test for Mediating Role of Return on Assets in the Relationship Between Managerial Ownership and Price to Book Value

Input:			Test statistic:	Std. Error:	*p*-value:
a	0.001	Sobel test:	0.5532648	0.00080432	0.5800821
b	0.445	Aroian test:	0.42509834	0.00104682	0.67076499
s_a	0.001	Goodman test:	1	0.000445	0.31731051
s_b	0.670	Reset all	Calculate		

The Sobel test results in this study indicate that the mediation of financial performance in the relationship between managerial ownership and firm value is not significant. The Sobel statistic value of 0.553 with a standard error of 0.0008 yields a p-value of 0.580, which is far above the 0.05 significance threshold. This suggests that there is insufficient evidence to support the existence of a mediating effect of financial performance in the relationship between managerial ownership and firm value.

Table 8. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.257	3	4.752	2.873	.039[b]
	Residual	191.847	116	1.654		
	Total	206.104	119			

a. Dependent Variable: Price to Book Value
b. Predictors: (Constant), Institutional Ownership, Return on Assets, Managerial Ownership

The ANOVA test results indicate that the regression model examining the influence of Return on Assets (ROA), Managerial Ownership, and Institutional Ownership on Price to Book Value (PBV) is statistically significant. The F-value of 2.873 with a significance level (p-value) of 0.039, which is less than the 0.05 threshold, demonstrates that the regression model as a whole can explain variations in Price to Book Value (PBV) using these three independent variables.

CONCLUSION

The research findings indicate that institutional ownership does not have a significant impact on firm value or financial performance. Conversely, managerial ownership has a positive and significant influence on firm value, although financial performance does not act as a mediator in this relationship. The study also highlights the importance of managing an optimal capital structure, where proportional leverage can improve financial performance, but excessive debt usage may reduce firm value. These findings provide insights into the challenges of corporate governance in Indonesia, particularly in the context of concentrated ownership. Managers and stakeholders are advised to maintain a balance between institutional and managerial ownership to maximize firm value through effective financial performance management.

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