I. INTRODUCTION

1.1 Background

Each company must have a clear purpose. Generally, there are several objectives of a company. The first company's goal is to achieve the maximum benefit or profit maximization. The second goal is to prosper owner of the company or shareholders. While the company's third goal is to maximize the value of the company which reflected in its share price. Substantially, the objectives of each company are not much different. It just the emphasis to be achieved by each company are different from one to another.

The long-term business entity's goal is to maximize the value of the company and all activities geared to achieving that goal. Achieving the objectives of the company is done through the implementation of policies taken by the company, one that affects the policy-making is the ownership structure.

Ownership structure in Indonesia's companies have different characteristics from companies in other countries. Majority, the share ownership of companies in Indonesia have a tendency to be concentrated. In addition, generally share ownership concentrated in the possession of the institutions as its biggest shareholder.

The following figure represents the average proportion of shares ownership of in a manufacturing company in 2014.

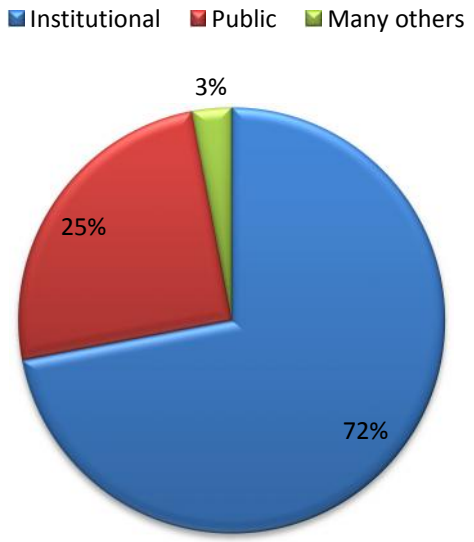

Figure 1. Share Proportion of Manufacturing Company in 2014.
Source: Indonesia Stock Exchange

We can see in Figure 1 above, the institutional ownership reached 72% in manufacturing companies, public amounted to 25%, while the share ownership by others (managers, individu, etc.) is 3%. So that, this kind of ownership structure, may lead to difference of interests between shareholders and managers.

The structure of ownership in the company may affect the company's decision making in order to enhance shareholder value. Increasing the value of the company can be reached if there is cooperation between the management company and other parties that include shareholders and stakeholders in making financial decisions with the objective of maximizing working capital

owned. If the action between the managers of the other party goes well, the problems between the two parties will not occur (Laila, 2011).

Based on agency theory, when managers and shareholders have different interests, then it can lead to agency problems or conflicts of interest. These conflicts of interest may increase the agency costs. Problems between managers and shareholders called agency problem.

The agency problems will lead to failure to achieve the financial objectives of the company (which increases the value of the company by maximizing shareholder value). It requires an external control where the role of monitoring and supervising will be directed to its goals.

Agency theory, Jensen and Meckling (1976) states that the agency theory describes shareholders as a principal and management as an agent. Management is a party contracted by the shareholders to work in the interests of shareholders. So that, the management provided most power to make decisions in the interest of shareholders. Management is obliged to responsible for all its efforts to the shareholders. The emergence of the agency problem because of mismatch desire between shareholders and management.

According to Elqorni (2009), agency theory assumes that every individual has their own interests who wanted to take precedence. Principal wants dividends and profits from investment, while the agent is want a financial compensation in the form of bonuses, incentives, salary increases, promotions, and so on.

Sugiarto (2009) states that the agency problem may occur in various types. The first type is a conflict between managers and shareholders. The second type is a conflict between the majority shareholder with minority shareholders. The third type is the conflict between the shareholders or menajer with the lender.

Share ownership by the institution is considered being an effective monitoring tool against the agency problem like this. Allegedly, institutional investors are able to prevent the occurrence of earnings management than individual investors. Institutional investors considered more professional in control of its investment portfolio, so it is less likely to get a distorted financial information. A huge percentage of shares owned by institutional investors will make the surveillance conducted become more effective. Because it can control the opportunistic behavior of managers and reduce agency cost (Nuraina, 2012).

Definitively good corporate governance (GCG) is a system that regulates and controls the company that creates value added for all stakeholders. This concept emphasized that shareholders have a right to obtain information correctly and timely. As well as the company's obligation to make an accurate, timely, and transparent disclosure about the information of corporate performance, ownership, and stakeholders.

Institutions as the owner of the company has a strategic role in effecting the company, because institutions are considered more professional than individual investors. Institutional investors as large shareholders have a role

as an institutional agent that will encourage more optimal control on management performance. Investors in this case has an influence on the running of the company.

Wahyudi and Parwestri (2006) states that the company's ownership structure is expected to affect the company's decision. The higher institutional ownership the stronger an external control of the company and reduce agency cost.

Institutional ownership is shareholding company owned by institutions such as insurance companies, banks, investment companies and other institutional ownership. The existence of institutional investors is considered as an effective monitoring mechanism in any decision taken by the manager. This is because the institutional investors involved in strategic decision-making that not easily believe against the actions of earnings manipulation (Nuraini et al., 2014).

Some studies found the surveillance activities of the institution is able to change the structure of the management of the company and able to increase the prosperity of shareholders in terms of increasing company value. Supervision conducted by the institution can decrease agency costs that may blead to increasing the value of the company.

The research from Nurfitri et al., (2014), which examines the influence of institutional ownership on the value of the company, found that institutional ownership has a positive effect on firm value. Her research found that

institutional ownership has an important role in monitoring the management because the institutional ownership will encourage more optimal supervision. The monitoring would certainly guarantee the prosperity of shareholders, the influence of institutional ownership as a supervisory agent emphasized through their sizeable investments in capital markets.

Research conducted by Nuraina (2012) on the companies listed in Indonesia Stock Exchange, found that institutional ownership has a significant positive effect on firm value. This study state that, the higher the level of institutional ownership, the stronger degree of control carried out by external parties to the company. So that the agency cost which occurred in the company is decreased and the company's value can be increased.

Sukirni (2012), which examines the influence of institutional ownership on firm value in companies listed on the Indonesia Stock Exchange, found that institutional ownership has a significant positive effect on firm value.

Research by Dian and Lidyah (2013) found that institutional ownership significantly affecting the value of the company. The increased of institutional ownership can attract investors to invest in the company because, investors think that their investment will grow continually. The investors assume with high institutional ownership, the oversight of the company's performance is also high too, so the company is able to generate high profits and could benefit the investors.

Research conducted by Haruman (2008) on manufacturing companies in the Indonesia Stock Exchange, found that institutional ownership has no effect in

the positive relation. The higher proportion of institutional ownership, the higher company's value will be. High institutional ownership will improve the supervision of the company. A high supervision will minimize the manipulation committed by the management that will affecting company's value. In addition, institutional owners would try to make positive efforts to increase the value of the company.

Research conducted by Adnantara (2013) found that institutional ownership has no significant effect on firm value. In the study mentioned that this could occur due to asymmetric information between investors and managers. This can make institutional shareholders are not satisfied with the performance of managerial, then decided to sell its shares to the market, where this can decrease the value of the company.

The research from Senda (2013) found that institutional ownership has a negative unsignificant relationship on value of the company. Research carried out on all companies listed in the Indonesian Stock Exchange (BEI).

Senda (2013) states that the unsignificant relationship between institutional ownership on the value of the company because of the asymmetry information between investors and managers. Investors do not have the information fully owned by managers (as the manager of the company), so that the manager is difficult to controlled by the institutional investors. A large number of shareholders, not necessarily effective in monitoring the behavior of managers in the company, so that institutional ownership has not been able to be a mechanism to increase corporate value.

The research from Wongso (2013) found that shares ownership by institutional negatively affect the value of the company. This means that the higher institutional ownership, the higher company's value will decrease. This result is supported by research Sudjoko and Soebiantoro (2007) that found institutional ownership has significant negative effect on the value of the company.

We found there are a mismatch results in several studies described before, some studies state that institutional ownership has a positive relationship to the value of the company, while others stated that institutional ownership has a negative effect on the value of the company and there are also found that institutional ownership has no significant effect on the value of the company. So that further research is necessary to provide empirical evidence about the effect of institutional ownership on company's value. The title of this research is, **"The Effect of Institutional Ownership On Value of The Company Study Of Manufacturing Company Listed in Indonesia Stock Exchange Year 2010-2014".**

1.2 Problem Formulation

According to the description of the background, the formulation of the problem in this study is, whether institutional ownership affects the value of the company on the manufacturing companies listed in Indonesia Stock Exchange 2010 until 2014 period?

1.3 Purpose of The Research

The purpose of this research is to analyze the influence of institutional ownership on company value in manufacturing companies listed in Indonesia Stock Exchange 2010 until 2014 period.

1.4 Research Benefits

Results of this research hopefully will be useful for:

1. For academics, this study may provide empirical evidence about the influence of institutional ownership on the company's value, so it can provide in-depth insight and knowledge of the topics covered in this study.
2. For investors, can be taken as a consideration in the outlook for the value of the company so that it can assist in making investment decisions in the company.
3. For the researchers and the general public can be used as a reference for future research.

1.5 Theoritical Framework

Institutional ownership is considered capable of overcoming the agency conflict because the performance of the manager can be monitored effectively. Institutional ownership provides oversight of management performance, especially in the use of company’s funds. The greater institutional ownership, the use of company’s funds will be more efficient and prevent wastage carried out by the manager, it is able to reduce the risk of

bankruptcy of the company. Reducing the risk of bankruptcy of the company and also with the strict controls carried out on the performance of the manager, then the manager will seek to maximize corporate profits. It means that the value of the company also increased (Kaluti, 2014).

Research by Nuraina (2012) found that institutional ownership has a significant positive effect on firm value. This contrasts with research conducted by Wahyudi and Pawestri (2006) who found results that institutional ownership has no effect on the value of the firm.

Based on the description above, can be made framework that describes the relationship between the value of the company with institutional ownership that shown in the following figure:

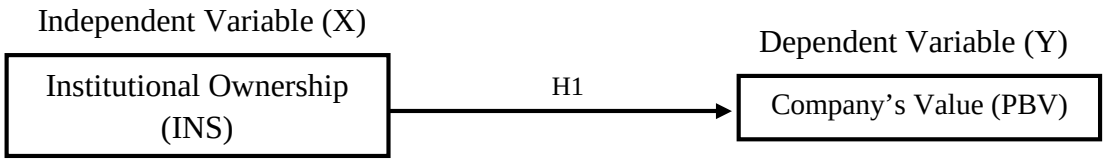

Figure 2. The Framework of Instirusional Ownership Through Value of the Company.

Figure 2 above shows the relationship variables examined in this research, which this figure can be seen that the researchers will examine the effect of independent variables (institutional ownership) on the dependent variable (value the firm).

I.6 Hypothesis

Based on agency theory and corporate governance theory, stating that institutional ownership can overcome agency problems, where the role of institutional shareholders as an overseer can affect the policies taken by the company to maximize the value of the firm. Also, based on some previous research that found that institutional ownership has significant positively related to firm value, then the hypothesis in this study are:

Ha: Institutional ownership has a significant positive effect on firm value.