



Managerial ownership profitability and firm value agency theory perspective

Listia Aulia Indy¹, Lia Uzliawati², Agus Sholikhan Yulianto³

¹²³ Postgraduate, Sultan Ageng Tirtayasa University, Serang, Indonesia

ARTICLE INFO

Article history:

Received Apr 02, 2023

Revised Apr 16, 2023

Accepted Apr 30, 2023

Keywords:

Firm Value;
Managerial Ownership;
Profitability;

ABSTRACT

This study explains the phenomenon of the decline in the value of banking companies when the rupiah slumped in 2018. The purpose of this study was to reveal the effect of managerial ownership and profitability on firm value and the effect of managerial ownership on profitability. The population in this study is the banking sub-sector financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The results of the study show that managerial ownership has no effect on firm value and does affect profitability. Furthermore, profitability affects the firm value. This study shows the mediating role of profitability on the indirect effect of managerial ownership on firm value.

This is an open access article below CC BY-NC license.



Corresponding author:

Listia Aulia Indy,
Pascasarjana,
Sultan Ageng Tirtayasa University,
Serang, 42192, Indonesia,
Email: listiaauin@gmail.com

INTRODUCTION

Firm value implies investor appreciation of the level of success of a company, which is reflected in the comparison between stock prices and book value of equity. Firm value reflects the ability of a business entity to generate profits in the future (Uzliawati & Djati, 2015). High stock prices make the firm value also high and increase market confidence not only in the company's current performance but also in the company's prospects in the future. So the company tries to increase the firm value by maximizing the price of shares or capital. The higher the PBV value means that the market believes in the company's prospects. Thus, a decrease in the value of PBV will have an impact on decreasing the welfare of shareholders (Uzliawati et al., 2016).

This research is aimed at uncovering the phenomenon of firm value in the banking sub-sector. The main motivation arises from the characteristics of banking which is a sector that is expected to have bright prospects in the future. Furthermore, banking is also a sector that has a significant role in contributing to income in terms of daily activities. In addition, banking companies have different specifications from other sectors, namely collecting funds from the public in the form of savings and then channeling them back in the form of credit. This research period was conducted from 2017 to 2021.

This research is motivated by the phenomenon of corporate value when the rupiah slumped in 2018. Shares of big banks in Indonesia fell. Share prices of major banks came under

pressure. Investors seem to start releasing shares to take profits. PT Bank Mandiri Tbk (BMRI) shares fell 1.37%, PT Bank Central Asia Tbk (BBCA) fell 0.88%, PT Bank Danamon Tbk (BDMN) fell 0.68%, PT Bank Rakyat Indonesia Tbk (BBRI) shares fell 0.55% and PT Bank National Pension Savings Tbk (BTPN) fell 0.29%. Sectorally, the financial sector index experienced the second highest correction after various industrial sectors. The financial sector index corrected 0.67% when the Jakarta Composite Index (IHSG) fell 0.37%.

The weakening of banking stocks was preceded by fluctuations in the rupiah exchange rate against the United States (US) dollar, which had weakened in 2018 and was able to reverse in 2019. The value of US\$ 1 is valued at IDR 14,460 in spot market trading. The rupiah strengthened 0.03% compared to the closing position of the previous day's trading. When the market opened, the rupiah weakened 0.07%. Rupiah depreciation increased to 0.1%. However, the rupiah was able to reverse its position by printing appreciation. The rupiah is now in the same class as the majority of Asian currencies which could also strengthen against the greenback. It could be that the reversal of the direction of the rupiah is a disturbance or intervention by Bank Indonesia (BI).

These two phenomena imply that the decline in banking company stock prices occurred as a result of external factors related to macroeconomics. Even so, there are still other factors, namely internal governance factors that play a role in maintaining or increasing the value of the company. One of the crucial governance mechanisms in banking companies is managerial ownership. This study considers that managerial ownership motivation will be higher than ordinary managerial to maintain profitability and firm value.

Therefore, managerial ownership and profitability are factors that affect firm value. Managerial ownership is equivalent to management's interest in shareholders, so that all conditions currently experienced by the company are also felt by management and shareholders. This opinion shows that a large proportion of management ownership will increase management enthusiasm to meet the needs of shareholders whose impact can increase company value. Managerial ownership will encourage companies to improve their performance. Managers who are also shareholders will act according to the wishes of the owners, because they are motivated to improve performance in order to create high firm value (Marsinah, 2021).

Managers as owners and managers will act to protect their investment and to increase the company's profitability. The greater the managerial ownership in a company, the greater the motivation of managers to try to provide benefits for the company (Aniktia & Khafid, 2019). In addition to making a profit, the company has a goal of maximizing the owner's welfare. An increase in share price will increase the welfare of shareholders. Corporate values are very important but not easy to add and maintain. Managerial ownership has a significant positive effect on firm value (Pratiwi et al., 2020).

This research improves research Suryato, (2019), Abbasi et al., (2012), Dewi & Abundanti, (2019), Mentari & Idayati, (2021), Widayanti & Yadnya, (2020) who found different results from research from Suastini et al., (2016), Sukirini, (2019), and Hidayah, (2017). The first group proves that managerial ownership has an effect on firm value. These results differ from research conducted by the second group which states that managerial ownership has no effect on firm value.

This study considers that these differences occur because there are other factors that are not taken into account in the analysis. There is a common character that brings together managerial ownership and company value. On the one hand, company value is the result of investors' assessment of the company's ability to generate profits. On the other hand, managerial ownership is intended so that the motivation of managers is greater to create profits. Therefore, this study considers profitability as a mediator of the indirect relationship between managerial ownership and firm value.

Profitability shows the extent to which a company can grow and develop by utilizing its resources. Investors will be interested in investing in companies that have high profitability. The

ultimate goal to be achieved by the company is to obtain profit or profit as much as possible, in addition to other things. By obtaining maximum profits, companies can do much for the welfare of owners and employees, and are able to improve quality and make investments (Hermunengsih, 2019). For this reason, management is directed to achieve the set targets.

The analysis developed in this study refers to agency theory. The main explanation of the agency theory that underlies this research model is regarding the function of bonding activity to the achievement of contract objectives through management performance instruments. Agency theory explains that to reduce agency conflict, the principal can bind the agent to fulfill the contract. Managerial ownership is a form of bonding activity because it places managers having interests that are in line with investors. With this position, the motivation of the manager as an agent to fulfill the contractual objectives (increase the principal's prosperity) will be greater. The company value is a representative measure of this prosperity. The strong motivation that these managers have will encourage them to achieve this measure of prosperity through their efforts to create profits.

Furthermore, the writing of this research will be structured in the following systematics. Part 1 describes the motivation and background of the research. Section 2 describes the literature review, framework, and hypotheses. Section 3 describes the object and research methods. Section 4 describes the research results and discussion. Section 5 describes the conclusions and suggestions.

RESEARCH METHODS

The objects or research samples in this study are financial sector companies in the banking sub-sector that are listed on the Indonesia Stock Exchange (IDX) for 2017-2021. The research variables used in this study are managerial ownership and company profitability as the independent variables, and firm value and profitability as the dependent variables. The data used in this study is secondary data in the form of annual reports for the 2017-2021 period. Sampling was carried out using the purposive sampling method with the criteria of financial sector companies in the banking sub-sector listed on the IDX consecutively from 2017-2021 through the Indonesia Stock Exchange website (www.idx.co.id) and financial sector companies in the banking sub-sector that published an annual report of complete financial data for 2017-2021. Data processing in this study used SPSS version 26 with multiple linear and simple linear regression equation models. The multiple regression equation model is as follows:

$$P = \alpha_1 + \beta_1 KM + e_1 \dots\dots\dots(1)$$

$$PBV = \alpha_2 + \beta_2 KM + \beta_3 P + e_2 \dots\dots\dots(2)$$

Information:

- PBV : Price to book value (firm value)
- P : Profitability
- KM : Managerial ownership
- α : Constant
- β : Regression coefficient
- e : Error Term

The operational variables in this study are as follows:

Managerial Ownership

According to Aniktia & Khafid, (2019) Managerial ownership is measured by knowing the total share ownership owned by the management of all managed share capital divided by the number of outstanding shares. The formula for measuring managerial ownership viz:

$$KM = \frac{\sum \text{Managerial owned shares}}{\sum \text{Outstanding shares}}$$

Profitability

Kasmir (2012) states that the profitability ratio is the ratio to assess the company's ability to make a profit. ROA (Return on Assets) This ratio describes asset turnover as measured by net income. The greater this ratio the better because assets will spin faster and earn profits. This ratio can be calculated from the ratio of net income to total assets. ROA is calculated by the formula:

$$ROA = \frac{\text{Net profit}}{\text{Total assets}}$$

Firm value

Firm value is proxied by using the Price to Book Value (PBV) ratio. This is because PBV describes the comparison of stock prices with the book value of company shares, and through this comparison it can be seen that the market price of shares is above or below the book value. (Mega, 2010). PBV calculated by formula:

$$PBV = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

RESULTS AND DISCUSSION

Descriptive statistical analysis provides an overview or description of a data seen from the minimum, maximum, average (mean) and standard deviation values of the research variables consisting of Firm Value (NP), Managerial Ownership (KM), and Profitability (P). The results of the descriptive analysis using SPSS 26 for the research variables are as follows:



Figure 1. Descriptive statistics (average)

Source: Processed data (2023)

Figure 1 shows that the firm value of banking sub-sector listed on the IDX in 2017 decreased until 2018 and fluctuated until 2020. Drastic changes occurred in 2021 in the form of increases. Meanwhile, profitability in 2017 decreased and continued until 2020, and up again in 2021.

The next picture shows the value of managerial ownership which moves relatively more moderately. Managerial ownership in 2017 had the same value as in 2018. A drastic change occurred in 2019 in the form of a decrease. After that managerial ownership moves up slowly.

The pattern of movement between managerial ownership and profitability tends to be aligned. The difference lies in the timing of the rebound. Managerial ownership experienced a decline but rebounded earlier (2019) compared to profitability (2020). The difference in turning point times indicates that the increase in profitability was partly supported by an increase in

managerial ownership. Thus, it can be concluded that managerial ownership as a bonding activity within the agency theory framework is able to improve economic performance.

Table 1. Descriptive statistics

	N	Minimum	Maksimum	mean	St. Deviation
Managerial ownership	55	0,00	0,04	0,0164	0,01158
Profitability	55	0,03	0,26	0,1223	0,04246
Firm Value	55	0,54	2.40	1.2179	0,43061
Valid N (listwise)	55				

Source: Processed data (2023)

Based on table 1 it can be seen that the company value variable with a sample of 55 company years from 2017 - 2021 has an average value of 1.2179 with (standard deviation) 0.43061. Meanwhile, the managerial ownership variable has an average value of 0.0164 with (standard deviation) 0.01158. Furthermore, profitability has an average value of 0.1223 with (standard deviation) 0.04246. These three variables show that the average value is above the standard deviation value. It can be concluded that the distribution of data on the three variables tends to be homogeneous.

Furthermore, the minimum value of the firm value variable is 0.54 and the maximum value is 2.40. then the minimum value of managerial ownership is 0.00 and the maximum value is 0.04. Meanwhile, the minimum value of profitability is 0.03 and the maximum value is 0.26. The difference between the maximum and minimum value of the firm (1.86), managerial ownership (0.04) and profitability (0.23) implies a range that is not too far away. The data structure indicates that there are no outliers (homogeneous data and not too far range).

Regression Analysis

Regression analysis is used to obtain the value of the regression coefficient for each variable in the research model. In addition, regression analysis was also used to determine the significance value of each research variable to become the basis for conducting hypothesis testing in this study. The following is the regression equation built in this research.

$$P = \alpha_1 + \beta_1 KM + e_1 \dots\dots\dots(1)$$

$$PBV = \alpha_2 + \beta_2 KM + \beta_3 P + e_2 \dots\dots\dots(2)$$

Information:

- PBV : Price to book value (firm value)
- P : Profitability
- KM : Managerial ownership
- α : Constant
- β : Regression coefficient
- e : Error Term

The following results of testing the regression equation 1 and regression equation 2 can be seen in the following table.

Table 2. Regression Analysis

Independent variable	Dependent variable		
		P	PBV
(Constant)	β	0,091	0,591

	T	9.953	3.714
	Sig.	0	0,001
	β	1.857	9.17
KM	T	4.142	1.741
	Sig.	0	0,088
	β		3.82
P	T		2.685
	Sig.		0,10
<i>R Square</i>		0,252	0,285
F		17,153	9,975

Source: Processed data (2023)

The first research hypothesis suspects managerial ownership has an effect on firm value. Based on the regression results in table 2 above, it proves that the managerial ownership variable has no effect on firm value with a t-value of 1.741 < t-table of 2.007 with a significance value of 0.000 < 0.05. Thus, it can be concluded that the test proves that managerial ownership has no effect on firm value. Thus, the first hypothesis in this study was rejected.

The second hypothesis in this study suspects that profitability affects firm value. Based on the regression results in table 2 above, it proves that the profitability variable has an effect on the tcount of 2.685 > ttable of 2.007 with a significance value of 0.10 > 0.05. That is, the test is able to prove that profitability affects firm value. Thus, the third hypothesis in this study is accepted.

The third hypothesis in this study is that managerial ownership influences profitability. Based on the regression results in table 3 above, it proves that the managerial ownership variable has no effect on the t count 4.142 < t table 2.007, with a significance value of 0.000 < 0.05. That is, the test is able to prove that managerial ownership has an effect on profitability. Thus, the second hypothesis in this study is accepted.

Effect of Managerial Ownership on Firm Value

The first objective of this test is to determine whether there is an effect of managerial ownership on firm value. The first hypothesis predicts that managerial ownership has an effect on firm value, but the results of testing the hypothesis in this study show different results, namely managerial ownership has no effect on firm value. This research is in line with research conducted by Suastini et al., (2016), Sukirini, (2019), and Hidayah, (2017) which states that managerial ownership has no effect on firm value.

Effect of Profitability on Firm Value

The purpose of the two tests is to find out whether there is an effect of profitability on firm value. The second hypothesis predicts that profitability affects firm value, and the results of this study indicate that profitability influences firm value. The results of this study are in line with research conducted by Halim, (2020), Putri & Miftah, (2021), Dewi & Abundanti, (2019) which states that profitability affects on firm value.

Managerial Ownership Affects Profitability

The third objective of this test is to determine whether there is an effect of managerial ownership on profitability. The third hypothesis predicts that managerial ownership has an effect on profitability, and the results of this study indicate that managerial ownership has an effect on profitability. Managerial ownership is a shareholder by management who actively plays a role in

decision making. Managerial ownership can align the interests of shareholders with managers. Managers directly feel the benefits of the decisions taken and bear the risk if there is a loss that arises as a consequence of making the wrong decision. The results of this study are in line with research conducted by Pasaribu et al., (2016) and Sofyaningsih & Hardiningsih, (2011).

CONCLUSION

The analysis in this study proves that the managerial ownership variable has no effect on firm value, thus the first hypothesis in this study is rejected because the authors find that managerial ownership in the companies studied is still very small and not all companies have shares held by managers. Based on this, it can be said that financial sector companies in the banking sub-sector do not yet have supervision from management which is more related to activities that can increase or maintain firm value because the amount of managerial ownership is still small.

Meanwhile, profitability variables affect firm value, thus the second hypothesis in this study is accepted. With profitability, the company is able to manage funding sources obtained from equity in order to generate profit, so that the higher the company's profitability ratio, the higher the return that can be given to investors.

Furthermore, the managerial ownership variable influences profitability, thus the third hypothesis in this study is accepted. Based on this it is said that managerial ownership is a shareholder by management who actively plays a role in decision making. Managerial ownership can align the interests of shareholders with managers. Managers directly feel the benefits of the decisions taken and bear the risk if there is a loss that arises as a consequence of making the wrong decision. In addition, the limitations of this study which are expected to be corrected in the future are that the final total sample is 11 companies multiplied by 5 years, namely 55 sample. Of course this is still insufficient to describe the situation actually and the number of companies that do not yet have managerial ownership in his company. This study also shows the mediating role of profitability on the indirect effect of managerial ownership on firm value.

Reference

- Abbasi, M., Kalantari, E., & Abbasi, H. (2012). Impact of Corporate Governance Mechanisms on Firm Value Evidence from the Food Industry of Iran. *Journal of Basic and Applied Scientific Research*, 2(5), 4712-4721.
- Aniktia, R., & Khafid, M. (2015). Pengaruh Mekanisme Good Corporate Governance dan Kinerja Keuangan Terhadap Pengungkapan Sustainability Report. *Accounting Analisisi Journal*, 4(3), 1-10.
- Dewi, L. S., & Abundanti, N. (2019). Pengaruh Profitabilitas, Likuiditas, Kepemilikan Institusional Dan Kepemilikan Manajerial Terhadap Nilai Perusahaan. *E-Jurnal Manajemen Universitas Udayana*, 8(10), 6099. <https://doi.org/10.24843/ejmunud.2019.v08.i10.p12>
- Halim, K. I. (2020). Pengaruh Intellectual Capital , Profitabilitas , dan Ukuran Perusahaan Terhadap Nilai Perusahaan. *Jurnal Revenue*, 01(02), 227-232.
- Hermuningsih, S. (2013). Pengaruh profitabilitas, growth opportunity, struktur modal terhadap nilai perusahaan. *Bulletin of Science, Technology and Society*, 16(2). <https://doi.org/10.1177/027046769801800106>
- Hidayah, N. (2017). Pengaruh Investment Opportunity Set (Ios) Dan Kepemilikan Manajerial Terhadap Nilai Perusahaan Pada Perusahaan Property Dan Real Estat Di Bursa Efek Indonesia. *Jurnal Akuntansi*, 19(3), 420. <https://doi.org/10.24912/ja.v19i3.89>
- Marsinah. (2021). Pengaruh Struktur Kepemilikan Saham, Struktur Modal dan Profitabilitas terhadap Nilai Perusahaan pada Perusahaan Manufaktur Sub Sektor Properti dan Real Estate yang Terdaftar di Bursa Efek Indonesia. *Ekonomika Sharia: Jurnal Pemikiran Dan Pengembangan Ekonomi Syariah*, 7(1), 47-66.
- Mentari, B., & Idayati, F. (2021). Pengaruh kepemilikan manajerial, profitabilitas, dan kebijakan hutang terhadap nilai perusahaan. *Jurnal Ilmu Dan Riset Akuntansi*, 10(2), 1-20.
- Pasaribu, M. Y., Topowijono, & Sulasmiyati, S. (2016). Pengaruh Struktur Modal, Struktur Kepemilikan dan Profitabilitas terhadap Nilai Perusahaan pada Perusahaan Sektor Industri Dasar dan Kimia yang Terdaftar di BEI Tahun 2011-2014. *Jurnal Administrasi Bisnis*, 35(1), 154-164.

- <https://media.neliti.com/media/publications/86967-ID-pengaruh-struktur-modal-struktur-kepemil.pdf>
- Pratiwi, M. I., Kristanti, F. T., & Mahardika, D. P. K. (2016). the Effect of Managerial Ownership, Institutional Ownership, and Leverage on Firm Value. *E-Proceeding of Management*, 3(3), 3191-3197.
- Putri, A. S., & Miftah, D. (2021). Pengaruh Intellectual Capital, Leverage, Profitabilitas, Dan Likuiditas Terhadap Nilai Perusahaan. *CURRENT: Jurnal Kajian Akuntansi Dan Bisnis Terkini*, 2(2), 259-277. <https://doi.org/10.31258/jc.2.2.259-277>
- Sofyaningsih, S., & Hardiningsih, P. (2011). 195-Article Text-387-1-10-20120202. In *Dinamika*.
- Suastini, N. M., Ida, B. A. P., & Henny, R. (2016). Pengaruh kepemilikan manajerial dan pertumbuhan perusahaan terhadap nilai perusahaan pada perusahaan manufaktur di Bursa Efek Indonesia (Struktur modal sebagai variabel moderasi). *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana*, 5(1), 143-172.
- Sukirini, D. (2012). Kepemilikan Manajerial, Kepemilikan Institusional, Kebijakan Deviden Dan Kebijakan Hutang Analisis Terhadap Nilai Perusahaan. *Accounting Analysis Journal*, 1(2). <https://doi.org/10.15294/aaj.v1i2.703>
- Suryato, D. (2016). Values: Empirical Studies Food and Beverage Companies in. *European Journal of Accounting, Auditing and Finance Research*, 4(11), 35-49.
- Uzliawati, L., & Djati, K. (2015). Intellectual capital disclosure, corporate governance structure and firm value in Indonesian banking industry. *International Journal of Monetary Economics and Finance*, 8(2), 162-177. <https://doi.org/10.1504/IJMEF.2015.070780>
- Uzliawati, L., Nofianti, N., & Ratnasari, D. P. (2016). Struktur Modal, Investment Opportunity Set, Likuiditas Danilai Perusahaan. *Jurnal Keuangan Dan Perbankan*, 20(2), 195-203. <https://doi.org/10.26905/jkdp.v20i2.254>
- Widayanti, L. P. P. A., & Yadnya, I. P. (2020). Leverage, Profitabilitas, Dan Kepemilikan Manajerial Berpengaruh Terhadap Nilai Perusahaan Pada Perusahaan Real Estate Dan Property. *E-Jurnal Manajemen Universitas Udayana*, 9(2), 737. <https://doi.org/10.24843/ejmunud.2020.v09.i02.p17>