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Ownership of Management as a Moderating of Impact Profitability to Firm Value

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Abstract

The rsearch to test the moderation of management ownership to impact profitability to firm value. Data used is secondary data. Population is manufacturing companies whose shares are on IDX during 2016-2020. The advantage of sampling with data pooling is that by obtaining a larger number of samples, it is hoped that it will increase the strength of the test. The sampling technique in this study used purposive sampling: Manufacturing companies with ownership composition shares, which are owned by management in the firm with a total of more than 1% of the total outstanding shares. Firm value is influenced by profitability, if profitability increases, it will have an impact to increasing firm value. Management ownership is proven not to moderate the impact of profitability to firm value, that impact profitability on firm value is not significantly strengthened by the interaction of management ownership variables so that management ownership is not a moderating in interaction profitability to firm value. Firm value will increase, influence of profitability to firm value can lead to positive sentiment for investors, investors managers should continue to work hard, so the firm value can increase.

Keywords: Assets; Value; Profit; Manufacturing.

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INTRODUCTION

In general, the purpose a firm is twofold, namely in the short term to earn profits, and in a long time i.e is to increase firm value. Firm value is important because the purpose of the firm is to increase firm value which will have an impact on increasing the shareholder welfare. The firm first goal is increasing the shareholder welfare and firm value, which is linked to the company's three financial decisions, namely investment, funding and dividend decisions.

Inherent conflict of interest managers with shareholders. Conflicts of interest arise, when managers make decisions that serve their personal interests rather than the interests of shareholders, establishing a formal relationship between managerial ownership and firm value. Shareholders are grouped into insiders and outsiders. Insider shareholders are managers and manage the firm operations; while outside shareholders do not participate operations of the firm. Therefore, insider shareholders have an incentive to make investment and financing decisions that can better serve their interests and thereby generate value for the firm. Profitability can affect the firm, that is, an increase in firm performance can create value for the firm. A good company value attracts more investors and other parties' interests to take part in the company. Meanwhile,

Goal of firm is increase the firm value which have n impact to raising the prosperity of owners of capital (Nafisah et al, 2018; Atta et al. 2017; Rahim, 2017). Many factors affect firm value, including: profitability (Tahib & Dewantoro, 2017; Nafisah et al, 2018), Previous studies regarding the factors that affect profitability, it turns out that there is also a business phenomenon related to the increase and decrease in the average value of profitability which is not followed by an increase and decrease in the average firm value.

Table 1. Business Phenomenon

Variable	2018	2019	2020
Profitabilty	0,058	0,067	0,078
Firm Value	2.021	1,930	1,842

Source : processed data, 2022

Average profitability in 2018 of 0.058 rose to 0.067 in 2019, and increased again to 0.078 in 2020. On the contrary, the average value of the company in 2018 was 2,021 then in 2019 it decreased to 1,930 and then in 2020 down again to 1,842. the positive sign in the company is seen by the increasing level of profitability because it will increase the firm value.

The background of this research is that manufacturing companies that go public on the IDX actually show a negative signal, namely a decrease in company value. This will result in a decrease in the interest of investors to invest in the company. The formulation of the research problem is how management ownership can moderate the effect of profitability on firm value. The research objective is to examine the role of management ownership in moderating the impact of profitability to firm value for the period 2016 – 2020.

In addition to paying attention to the business phenomena above and various previous studies that have different results. For this reason, management ownership is suspected to be a control over company value considering that it can strengthen or weaken the impact of profitability ratios to company value.

This can allow the emergence of agency problems (agency problems). Agency problems arise in two forms, namely between company owners and management, and between shareholders and bondholders. The normative purpose of financial decision making, which states that decisions are taken to maximize the wealth of the owners, is not always true, because it is possible that management makes decisions that are best for the benefit of management, not for the owners of the company. Shareholders can be divided into two major groups, namely: Shareholders who are also part of the company's management (insider shareholders) and shareholders who are not part of the company's management (outsider shareholders). Insider share holders have advantages over outsider shareholders because they take part in making company decisions, so their presence can indirectly increase the firm value. The separation of the management function and the ownership function in the company can trigger agency conflicts within the company. Management ownership will be able to match the interests between management and the interests of shareholders. The increasing share ownership by management will cause management to be more careful in using the company in running the company because they share the risks arising from these actions. Share ownership by management is one of the actions that can be taken to overcome agency conflicts between various existing interest groups. Company owners can compensate managers in the form of share ownership so that managers think to always increase the firm value which means also optimizing the welfare of shareholders. Managerial ownership can reduce the desire of managers to act that is detrimental to the company.

Principal is the owner of the company and what is meant agent is the manager of the company. while what is meant as an agent is management who obliged to manage the property of the owner. Principal provides facilities and funds for needs the company's operations, while the agent (manager) as the manager is obliged to manage the company as entrusted by the principal to improve principal prosperity through increasing company value. This agency relationship often experiences a conflict of interest between the two. Agency conflicts begin to arise when managers are more concerned with their own interests than in the interests of shareholders. This can happen because company managers have information which is more about the procedures for managing the company as well as important information about the company.

The firm value indicates a profit obtained by investors when the company purchased through the stock mechanism is offered by other potential investors at a relatively high price. This is in line with the theory of the firm, namely prosperous investors. Firm value is an indicator for the market to value a company. Firm value is the market value of outstanding debt securities and company equity.

If the performance of a company is considered good by the public, then this is a signal for investors to prefer to invest in the company. The high demand from the public for the company's shares is what causes the share price to rise and will further increase the firm value.

Managerial ownership is defined as the level of share ownership of parties management who actively participates, such as directors, management, and commissioners. Managerial share ownership will affect the performance of management in optimize the company. Agency theory raises arguments against There is a conflict between owners, namely shareholders and managers. The conflict arises as a result of differences in interests between the two-party fees. The existence of company managers has a good background different. The first is the party representing institutional shareholders, while the second, professionals appointed by shareholders at the meeting general shareholders, and those who sit in the company's managementnbecause they also own shares.

Ownership of a manager will determine the policy and decision-making. Managers in this case play an important role because: managers carry out planning, organizing, directing, controlling and decision making. Usually, managers prioritize personal interests. On the contrary shareholders do not like these personal interests. As is managerial ownership in a company will raise suspicions It is interesting that the firm's performance improves as a result of ownership management increases. Ownership by large management will be effective monitoring activities. Managerial ownership is share ownership by company management. Managerial shareholdings can align between the interests of shareholders and managers, because managers participate feel directly the benefits of the decisions taken and managers follow feel firsthand the benefits of the decisions made and managers who bear the risk if there is a loss that arises as a consequence of wrong decision

Financial statements are financial information prepared by an entity for the benefit of internal and external parties of the entity (Karamoy & Tulung, 2020; Hardana & Nasution, 2022). Profitability shows the firm ability to generate profits. The positive signal shown by the company through a high level of profitability will increase the value of the company (Nastiti et al, 2019; Fitri et al. 2018). Profitability is the net end result of various management policies and decisions, through the ratio can be obtained an overview of the level of effectiveness of the management. In the calculation of ROA, interest after tax is added, based on the opinion that assets are funded by shareholders and creditors, so they must reflect a measure of the productivity of assets in providing returns to both sources of funds. Firm with large levels of profit indicate operationally the firm shows good. Companies that work well in earning profits can upper the value of the company. Nafisah et al, (2018), profitability on firm value. Profitability is the company's ability to generate profits by utilizing its total assets. High profitability can give a positive signal to potential investors so as to increase the firm value.

H1: Profitability impact to firm value.

The separation of ownership and control appears in modern companies due to several conflicts of interest between company management and shareholders. However, when ownership is dispersed among many individuals, the company's resources may be used by managers to their advantage rather than considering the shareholder wealth maximization objective. Firm value has a close relationship with Managerial Ownership in an agency conflict, where insider ownership is can to strengthen the firm value position so that it is a moderator. When the number of shares owned increases, it is able to make an investor to have an influence on the position as a shareholder, this makes a conflict in the agency decrease. Management ownership is the shareholder of the management who actively participates in making company decisions which may consist of Managers, Directors, and Commissioners. Management, who is also the owner of the company's shares, will act more carefully in every activity and decision it makes. Management ownership can direct the company's best policies in order to increase profitability so as to increase company value. The greater the ownership of management, the greater the magnitude of profitability in influencing the value of the company. Arthawan & Wirasedana (2018); Dewi & Abundanti (2019), high management share ownership indicates a strong attachment from management to be part of the company, this increases market confidence. Profitability used to measure the effectiveness of overall management as indicated by large the small level of profit earned in relation to the seller as well as investment. The higher management ownership strengthens the effect of profitability on firm value. Managerial ownership as a component of corporate governance is expected to be able to overcome agency problems in the company. For this reason, management ownership is suspected to be a control over the value of the company which refers to previous research and considering that it can strengthen or weaken the effect of profitability ratios.

H2: Management ownership strengthens the effect of profitability on firm value

RESEARCH METHODS

Data used is secondary data, Population is manufacturing companies whose shares are at IDX during 2016-2020. This study used purposive sampling: Manufacturing companies with ownership composition shares, which are owned by management in the firm with a total of more than 1% of the total outstanding shares during 2016-2020.

Profitability in this company by using ROA. The dependent variable is firm value. The firm value is the comparison between the stock price and the company's book value. Management ownership who actively participates in making company decisions, including Managers, Directors, and Commissioners. Management share ownership data is taken directly from IDX. This study were analyzed using descriptive statistical tools. the regression equation model to see the effect of moderation by using the absolute difference value equation model

RESULTS AND DISCUSSION

The raw data inputted, the ratios used can be calculated which include: Profitability, firm Value and Management Ownership.

Table 2. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Profitability	.0056	.3484	.06205	.0572174
Managerial Ownership	.0201	.7989	.247987	.2317928
Firm Value	.2064	7.3972	2.962441	2.5960230

Source : processed data, 2022

The min. value = 0.0056, the max. = 0.3484, and the average of 0.06205 with a std. devation of 0.0572174. The standard devation of profitability data is very good. The min. is 0.2064, the max. is 0.7989 and the average is 0.247987 with a standard devation 0.2317928. The standard devation of Management Ownership data is very good. The descriptive statistical test that the min. = 0.2064 and the max. = 7.3972 and the average = 2.962441 with standard deviation 2.5960230. The standard devation < the average so that data said to be good.

First Equation

Table 3. Partial Regression of the First Equation

Model		T	Sig.
1	(Constant)	3.857	.000
	Profit	5.473	.000
	MO	.704	.002

Second Equation

Table 4. Partial Regression Second Equation

Model		T	Sig.
1	(Constant)	.754	.513
	Zscore(Profit)	.572	.057
	Zscore(MO)	.211	.071
	ABSProfit*MO	2.056	.002

a. Dependent Variable: FV

Discussion

Impact of Profitability on Firm Value

Measurement of profitability is an important indicator in assessing the firm financial performance for investors. Low profitability reflects poor prospects for the future of the firm. The expectation of investors buying shares is expecting a return on investment in the form of capital gains and yields. The higher the profit earned, the greater the return that will be received by shareholders, so that the firm value is getting better or increasing.

High profitability can give an important signal that the industry being run is very profitable. Kurniawan (2020) in Prasetyowati & Prihastiwi (2022), profitability ratios are ratios used to measure the firm ability to earn profits at certain levels of assets, etc. Calculation of the first equation, t-count = 5.473 > t-tab = 1.65622, and a sig = 0.000 <0.05, the value of 1 unstandardized coefficients is 0.527, the regression coefficient is positive, then H1 is not reject, that profitability effect significant to the firm value, if profitability increases, the firm value also increase in value. First hypothesis, profitability impact to firm value, is proven to be accepted. Assuming the absence of other variables, the coefficient of profitability regression of 0.527 indicates that each increase in the value of profitability by 1,000 will increase the firm value = 0.527. High profitability indicates that the performance has been in the expected condition. The higher the profit earned, the greater the return that will be received. The results support of Nafisah et al, (2018); Listari (2018); Muharramah & Hakim (2021); Widyantari & Yadnya (2017); Indriyani (2017); Hasibuan et al. (2017); Ali et al. (2021) which shows that profitability significant impact to firm value. Meanwhile, Tahib & Dewantoro (2017) gets non-significant impact profitability to firm value, this shows an increase in profitability that is not attractive to investors so cannot increase firm value.

Management Ownership Moderates the Impact of Profitability to Firm Value

Company management is an agency that carries out the mandate of the owner of capital to perform services running the company, has the authority to make decisions in the interests of the owner of capital. Ownership of management makes management in two positions, namely as the manager of the company as well as the owner of the firm shares. The presence of management as the manager of the company who has a dual role as well as the owner of the company, is seen as being able to influence the firm performance in obtaining revenue, so that it can provide a high level of profitability.

The higher of profitability ratios, symbolizing the level of profit and high efficiency of the firm. However, with the presence of management who also acts as the owner of the company, the effectiveness, efficiency of the firm in producing high profitability does not necessarily impact the firm value. Managerial ownership gives managers the opportunity to be involved in share ownership so that with this involvement the position of the manager is equal with shareholders. Managers are needed not only as parties' external workers who are paid for the benefit of the firm but are needed as shareholders. So, it is expected that the involvement of managers in share ownership can be effective to improve the performance of managers.

Management ownership can function as a firm supervisory mechanism (Pramesti & Budiasih, 2017; Mahariana & Ramantha, 2014 in Prayogi et al, 2022). Based on the partial of the second equation, the t-count = 0.211 < t-table = 1.65622, and a sign. 0.071 > 0.05, the value of 1 unstandardized coefficient is 0.358, the regression coefficient is positive, then Ha is rejected, so management ownership is not moderate the impact of profitability to firm value. Management ownership is not a moderating variable in the interaction between profitability and firm value, so H2 is proven to be rejected.

Profitability is the firm's ability to make a profit (Panda & Nanda, 2018). Ownership of management puts management in two positions, namely as the manager of the company as well as the owner of the company. The greater the profitability, the better the firm performance (Octaviani & Trishananto, 2022; Silvia & Yulistina, 2022, Mehta, 2017). With management ownership in the company, it can encourage managers who are also owners of the firm to retain profits for the firm investment purposes. Ownership of management can prevent companies from distributing profits that have been obtained by the firm to shareholders, so that increased profitability does not give a positive signal to investors who expect profit sharing in the form of dividends. Nugroho et al. (2019) that management ownership is not moderate the impact profitability to firm value.

Ownership of management causes every decision taken will affect the individual as the owner shares, and management as the party working to run the firm. Ownership of management can encourage management to maintain the profits that have been obtained to fund investment in firm development using internal funds derived from the profits earned. The tendency of managers who are also owners of the company to hold back the profits that have been obtained becomes greater with the existence of management ownership in the firm. Ownership of management can prevent the firm from distributing the profits that have been obtained by the firm to shareholders, so the increase in profitability does not give a positive signal to investors who expect profit sharing in the form of dividends

CONCLUSION

Management ownership is proven not to moderate the impact of profitability to firm value. Effect of profitability to firm value is not significantly strengthened by the interaction of management ownership variables so that management ownership is not a moderating in interaction profitability to firm value.

The policy implication is in an effort to increase Firm Value, that high profitability indicates good firm prospects, so investors respond that firm value will increase, the positive effect of profitability to firm value can lead to positive sentiment for investors, investors managers should continue to work hard to be able to create high profitability, so that the firm value can increase and prosperity of the owners can be achieved

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