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Profitability, Capital Structure, Managerial Ownership and Firm Value (Empirical Study of Manufacturing Companies in Indonesia 2016 – 2020)

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Abstract:- The purpose of this study is to explain the effect of Profitability, Capital Structure, and Implementation of Good Corporate Governance on Firm Value. The population of this study are manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2020 period. The sampling technique used is purposive sampling. This study uses a moderate regression analysis (MRA) approach.

Based on the test results, this study proves that profitability, capital structure affect the value of the company. This study also proves that managerial ownership is a quasi-moderation when it is included in the relationship between capital structure and firm value and managerial ownership is a predictor when it comes to the relationship between profitability and firm value.

Keywords:- *Profitability, Capital Structure, GCG, Firm Value.*

I. INTRODUCTION

The company is an organization or institution whose main activity is to provide goods or services to achieve maximum profit. Every company management hopes that the company can continue to grow, so the company always tries to find a strategy to achieve company goals. One of the main goals of every company is to increase the value of the company. Firm value is one of the factors that influence investors in investing. Investors tend to invest in companies that have good corporate value. Firm value is related to profit and increase in share price, as well as ups and downs of market share conditions which are automatically related to the rate of growth and company value.

Indonesia's economic growth rate during the last five years, namely 2016-2020 experienced significant fluctuations. The Central Statistics Agency (BPS) released that economic growth in 2018 reached 5.17 percent or higher than the 2017 and 2016 achievements of 5.07 percent and 5.03 percent, respectively. Meanwhile, in 2020 experienced a growth contraction of 2.07 percent compared to 2019. It is interesting to know whether the company's value remains consistent in the midst of the volatile economic development.

Research using firm value as the dependent variable has been carried out by several researchers. ResearchKuralbayev et al., (2016) states that one of the company's goals is to maximize shareholder welfare. The value of the shareholders will increase along with the increase in the value of the company. It is characterized by a high rate of return for investors and shareholders. According to Alfinur (2016), the value of the company is reflected in the increase in stock prices.

With the background of the problem, the researcher conducted a re-test to find out and analyze the factors that affect the value of the company. This study focuses on financial performance factors, namely profitability and capital structure. Researchers include managerial ownership variable as a moderating variable as part of the corporate governance factor that will strengthen the company's firm value.

II. LITERATURE REVIEW

A. Agency Theory

Agency theory was chosen as the basis for developing the concept in this study. Agent theory is a theory that states that there is a relationship between the party who gives authority (principal) and the party who receives the authority (agent). Agency theory (agency theory) according toJensen and Meckling (1976) is a theory that explains the contractual relationship between the owner (principal) who employs another person (agent) to perform a service and authorizes decision-making to the agent. If both parties have the same goal of maximizing the value of the company, it is believed that the agent will act in a way that is in the interests of the principal. Shareholders who are principals provide business decisions to managers who are representatives (agents) of the shareholders.

Shareholders provide resources for management to run the company, otherwise the management is required to perform a service for shareholders in accordance with the interests of shareholders. The management is also authorized by the shareholders in making decisions to manage the company. However, in reality, managers do not always make the best decisions for shareholders, resulting in conflicts caused by differences in interests between the two parties. Since corporate managers tend to pursue personal goals, this may result in managers' tendency to focus on projects as well as corporate investments resulting in high returns in the short term rather than maximizing shareholder wealth through profitable project investments in the longer term.

B. Signaling Theory

Signal theory is a theory that reveals that companies provide signals to users of financial statements, or investors. Every go public company needs to provide information to investors through the issuance of financial statements because the decisions that investors will take are influenced by the quality of information disclosed by the company through its financial statements[4].

The information that external companies look forward to most is usually good news. Investors use the information contained in the annual report to diversify their portfolios and investment combinations while taking into account the risks that will occur. By announcing information about the company's good prospects in the future (good news), the company hopes that investors will be interested in investing in the company. Signal theory also explains that companies encourage the release of information related to good company conditions providing information to users of financial statements in the form of positive or negative signals. The negative signal is caused by the existence of information asymmetry between the company and users of financial statements.

The relationship between signal theory and firm value shows that when a company publishes a report related to the value of the company and the value of company profits reflected in the stock market price, it will attract potential investors to take good investment decisions that can increase the value of the company.

C. Company Value

Company value is an investor's perception of the level of success of the manager entrusted to him in terms of managing company resources which is often associated with the company's stock price[5]. The same thing is also said byArarat et al., (2017) that company value is an investor's perception of the level of success of managers in managing company resources that are entrusted in the future and which is often associated with stock prices. This will provide investors with a view of the risks and prospects of the company in the future.

The value of the company has a very important position for the company because an increase in the value of the company will be followed by an increase in share prices that reflect an increase in the prosperity of shareholders. For a manager, the value of the company is a benchmark for the work performance that has been achieved. The increase in the value of the company indicates an increase in the company's performance. Indirectly, this is seen as an ability to increase the prosperity of shareholders, which is the company's goal. For investors, an increase in the value of the company will make the investor interested in investing in the company[7]

High company value indicates good company performance. The value of the company can provide maximum shareholder prosperity if the share price increases. The higher the share price of a company, the higher the level of shareholder prosperity. Firm value is an important concept for investors, because it is an indicator for the market to value the company as a whole.

D. Profitability

Profitability is one measure that can be used by investors to determine the condition of a company, profitability is one of the main attractions for investors to invest in a company. Investors will choose a company that has a high level of profitability, because high profitability indicates the company has a good company value and vice versa, if the company has a low level of profitability it will also be low, thus it can be said that profitability affects the value of the company.

Profitability is closely related to certain assets and capital, one of the important indicators for investors in assessing the company's prospects in the future is to see the extent of profitability growth. The profitability of a company is a way to accurately assess the extent to which the level will be obtained from its investment activities[8]. Profitability can reflect the benefits of financial investment, meaning that profitability affects the value of the company, internal sources are getting bigger.

Profitability is also closely related to sales. Consumers tend to use products or services produced by companies that have a good reputation, so in this case the value of the company becomes very important. Companies that have a good reputation can generate high sales. In accordance with the signal theory that the company must provide relevant, complete and accurate information about the company's profitability because the information is needed to determine the value of the company, thus it can be said that profitability affects the company's value.

The results of research conducted by[9], (Hartanti et al., 2019), and (Sinaga et al., 2019) provide empirical evidence that profitability has an effect on firm value. Based on the description above, it can be concluded as follows:
H1: Profitability has an effect on firm value

E. Capital Structure

A company can be said to have good corporate value if the company has debt that is smaller than its equity. Equity can be increased by increasing the value of the company's shares by providing information or signals to investors that the company is performing very well. With this, investors are attracted to invest their capital in the company. Investors will tend to invest their capital in companies that have good quality. If investors invest their capital in a company, it indicates that the company's equity will increase, this will have an impact on the value of the company, thus it can be said that the capital structure affects the value of the company.

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Capital structure is an important issue for the company because the good or bad capital structure will have a direct influence on the company's financial position which in turn will affect the value of the company[8].

The lower the value of the company's capital structure indicates that the company's performance is in good condition so that it will affect the value of the company. Based on signal theory, companies must always provide complete, accurate, and relevant information regarding the company's capital structure because the information presented is very much needed by investors in making investment decisions that can affect the value of a company.

The results of research conducted by(Pratami and Jamil, 2021) and(Fauziah and Rafiqoh, 2021)provide empirical evidence that capital structure affects firm value. Based on the description above, the hypothesis is formulated as follows:

H2: Capital structure affects firm value.

F. Managerial ownership

Managerial share ownership is one of the factors that can be used by investors to be considered in investing. With managerial ownership, a company has a good company value. The image of a company is an investor's view of the quality and performance of a company. With a good view, the company can be said to have good performance and will have an impact on the quality of the company and have an impact on the value of the company, thus it can be said that managerial ownership affects the value of the company.

Managerial ownership acts as a supervisor for all internal activities of the company directly so that the company has good performance and quality. It can be concluded that the higher the managerial ownership, the higher the firm value.

In accordance with agency theory that the relationship that occurs between shareholders (principals) and managerial ownership (agents) in corporate decision-making can affect firm value.

The results of research conducted by[11], [12]and [13] provide empirical evidence that managerial ownership affects firm value. Based on the description above, the following hypothesis can be formulated:
H3: Managerial ownership moderates the relationship between profitability and firm value
H4: Managerial ownership moderates the relationship between capital structure and firm value

III. RESEARCH METHODS

This type of research uses a quantitative approach using secondary data, where the data is obtained indirectly whose source is obtained from evidence of the financial statements of companies listed on the Indonesia Stock Exchange in the 2016-2020 period. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020. The criteria used in sampling are as follows:

- Manufacturing companies listed on the Indonesia Stock Exchange during the 2016-2020 period.
- Companies that publish annual reports consistently and completely in rupiah during the 2016-2020 period.
- Companies that generate positive profits in a row during the 2016-2020 period.
- Complete data are available related to the variables used in the study.

A. Dependent Variable

The dependent variable in this study is firm value. Firm value will be measured using Tobin's Q which is intended to assess the company's ability to manage assets in order to create profitable capital market value[5]. Measurements using Tobin's Q not only provide an overview of the fundamental aspects, but also the extent to which the market values the company from various aspects seen by outsiders including investors .

Tobin's Q is calculated by the ratio of the market value of the company's stock plus debt and then comparing it with the company's total assets. So it is formulated as follows:

$$Tobin's\ Q = \frac{EMV + Debt}{TA}$$

Information:
EMV : Market value of the number of shares outstanding obtained from the number of shares outstanding x closing price
Debt : The total value of the company's liabilities
TA : Total assets of the company

B. Independent Variable

a) Profitability

Fauziah and Rafiqoh (2021) profitability is a measure of the company's ability to generate profits over a certain period of time and also to reflect the level of management effectiveness in operating its activities. In this study, profitability is measured using return on total assets (ROA). The proxy in measuring profitability uses formula as follows:

$$\text{ROA} = \frac{profit\ after\ tax}{total\ assets}$$

b) Capital Structure

Le and Phan (2017) capital structure is a reflection of the entity's financial proportion between capital sourced from long-term debt and own capital which is used as a source of company financing. The same thing was said by Sudana, (2015: 164) capital structure is often associated with long-term spending of a company which is measured by using the comparison of long-term debt with own capital. The proxy in measuring capital structure uses the formula as follows:

$$\text{DER} = \frac{total\ liability}{total\ equity}$$

c) Moderating Variable

The moderating variable used in this study is managerial ownership.Shan (2019) explains that managerial ownership is a number of shares owned by company management who actively participate in company decision making. Effendi (2016: 17) also suggests an indicator that can be used to measure managerial ownership is the percentage of the number of shares owned by management to all shares issued by the company (in circulation). So that managerial ownership according to[15] can be formulated as follows:

$$KM = \frac{\textit{total shares owned by management}}{\textit{total shares outstanding}}$$

IV. RESULTS

A. Sample determination

Based on the sample criteria used, the following data were obtained:

Research Sample		
No.	**Criteria**	**Quantity**
1.	Number of population	208
2.	Manufacturing companies there are not listed on the Indonesia Stock Exchange during the 2016-2020.	-71
3.	Companies that do not publish a consistent and complete annual report in rupiah during the 2016-2020 period.	-35
4.	Companies that do not generate positive profits during the 2016-2020 period.	-44
5.	Companies that do not have managerial ownership variables.	-39
Samples that meet criteria		18
Total research sample 5 x 18		90

Table 1: Number of Sample based on Criteria

From these criteria, the number of samples that will be used is 90 samples, so taking into account this number has exceeded the minimum sample size (n = 30) in research conducted for correlational studies and causal comparative studies (Gay & Diehl, 1992).

B. Descriptive Statistics

In descriptive statistical analysis, researchers will describe the results of the calculation of the minimum value, maximum value, average value (mean), and standard deviation (standard deviation) of each variable. The descriptive statistical analysis table is presented as follows:

	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	90	.00	.23	.0719	.05332
SM	90	.10	1.72	.5989	.33520
KM	90	.00	.62	.1357	.16311
Nilai_Perusahaan	90	.30	4.62	1.6797	1.07719
Valid N (listwise)	90				

Table 2: Descriptive Statistics

C. Classic assumption test

a) Multicollinearity Test

The VIF test results in Table 3 show that the four independent variables do not occur because the VIF value of each independent variable is < 10 and the tolerance value of each independent variable is > 0.1.

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	.050	.234		.215	.830		
	Profitabilitas	14.395	1.507	.713	9.552	.000	.969	1.032
	SM	1.007	.251	.313	4.017	.000	.886	1.129
	KM	-.060	.513	-.009	-.116	.908	.895	1.117

Table 3: Coefficients[a]

b) Autocorrelation Test

The results of the Durbin-Watson test in table 4 show the DW value of 2.199; while the Durbin-Watson table (DW) for "k" = 2 and N = 90 large Durbin-Watson table: dl (outer limit) = 1.6119 and du (inner limit) = 1.7026 ; 4 - du = 2.2974. Because the Durbin-Watson (DW) value of 2.199 is greater than the limit (du) 1.7026 and the Durbin-Watson (DW) is smaller than 4 – du = 2.2974, it can be concluded that there is no positive or negative autocorrelation.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.752[a]	.565	.539	.73125	2.199

Table 4: Model Summary[b]

c) Heteroscedasticity Test

Heteroscedasticity test results in table 5 show the significance value of the independent variable is more than 0.05. Thus it can be concluded that there is no heteroscedasticity problem in the regression model.

			Profitabilitas	SM	KM	Prof_KM	SM_KM	Unstandardized Residual
Spearman's rho	Profitabilitas	Correlation Coefficient	1.000	-.017	.124	.453**	.129	-.023
		Sig. (2-tailed)	.	.877	.244	.000	.225	.832
		N	90	90	90	90	90	90
	SM	Correlation Coefficient	-.017	1.000	-.336**	-.303**	-.012	-.073
		Sig. (2-tailed)	.877	.	.001	.004	.913	.495
		N	90	90	90	90	90	90
	KM	Correlation Coefficient	.124	-.336**	1.000	.914**	.919**	.180
		Sig. (2-tailed)	.244	.001	.	.000	.000	.090
		N	90	90	90	90	90	90
	Prof_KM	Correlation Coefficient	.453**	-.303**	.914**	1.000	.864**	.181
		Sig. (2-tailed)	.000	.004	.000	.	.000	.088
		N	90	90	90	90	90	90
	SM_KM	Correlation Coefficient	.129	-.012	.919**	.864**	1.000	.160
		Sig. (2-tailed)	.225	.913	.000	.000	.	.133
		N	90	90	90	90	90	90
	Unstandardized Residual	Correlation Coefficient	-.023	-.073	.180	.181	.160	1.000
		Sig. (2-tailed)	.832	.495	.090	.088	.133	.
		N	90	90	90	90	90	90

Table 5: Heteroscedasticity test results

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D. Hypothesis test

a) Coefficient of Determination Test

Based on table 6, it is known that the coefficient of determination seen from the value of Adj R Square is 0.536. That is, 53.6% of the variation in the dependent variable of Firm Value can be explained by independent variables (profitability, managerial ownership, and capital structure) while the remaining 46.4% is explained by other variables.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.732[a]	.536	.520	.74644

a. Predictors: (Constant), KM, Profitabilitas, SM

Table 6: Model Summary

b) Simultaneous Significant Test (F Test)

Based on table 7, the significance value obtained by the Profitability, Capital Structure, and Managerial Ownership variables is 0.000 <0.05, then Ho is rejected, and Ha is accepted. Thus it can be concluded that Profitability, Capital Structure and Managerial Ownership together affect the value of the company.

Table 7

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.354	3	18.451	33.116	.000[b]
	Residual	47.917	86	.557		
	Total	103.271	89			

a. Dependent Variable: Nilai_Perusahaan

b. Predictors: (Constant), KM, Profitabilitas, SM

Table 7: Simultaneous Significant Test (F Test)

c) Individual Parameter Significant Test (t-test)

The results of the regression equation table 8 are interpreted as follows: The value of the coefficient a (constant) is 0.650, which means that if the value of Profitability, Capital Structure and Managerial Ownership does not exist or is worth 0, then the value of the company will have a value of 0.421. The results of the t test are that the profitability variable has a significant effect of 0.000 and the capital structure variable has a significant effect of 0.041 with a significant value of 5%. The results of moderate regression analysis (MRA), managerial ownership variables have a significant effect of 0.032 on firm value and moderate the relationship between capital structure and firm value of 0.088 with a significant value of 10%. Managerial ownership does not moderate the relationship between profitability and firm value.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.421	.277		1.517	.133
	Profitabilitas	12.147	2.019	.601	6.015	.000
	SM	.638	.308	.199	2.076	.041
	KM	-2.576	1.182	-.390	-2.180	.032
	Prof_KM	14.780	11.399	.213	1.297	.198
	SM_KM	3.022	1.751	.246	1.726	.088

a. Dependent Variable: Nilai_Perusahaan

Table 8: Individual Parameter Significant Test (t-test)

V. DISCUSSION

Results of the First Hypothesis Testing (H1). The profitability of a company is a picture that measures how well the company is able to generate profits from the operational processes that have been implemented to ensure the continuity of the company in the future. High company profitability indicates good company prospects in the eyes of investors which will then be responded by investors as a positive signal from the company and will make it easier for company management to attract capital in the form of shares. If there is an increase in demand for a company's shares, it will indirectly increase the company's share price. The higher the company's ability to earn profits, the greater the return expected by investors, thus making the value of the company better. Based on the test results in table 8, the significance value obtained by the Profitability variable is 0.000 <0.05 so that the decision of hypothesis 1 is accepted. Thus it can be concluded that profitability has a positive effect on firm value. The results of this study are in line with research conducted by Prasetyorini (2013) and Dewa et al., (2014) which state that profitability has a positive effect on firm value.

Results of the Second Hypothesis Testing (H2). In achieving the company's goal of maximizing profits, managers must be able to assess the company's capital structure and must understand its relationship to the risks, returns, and expected value of the company. When a company wants to grow, it needs capital. In general, there are two alternative sources of capital, namely capital that comes from the owner's capital (internal) or external sources such as loans/debts and company owners. Funding with own/internal capital can be done by issuing shares (stock), while financing with debt (debt) can be done by issuing bonds, rights issue or debt to banks, even to business partners. When using debt financing, when debt increases it will increase the level of risk, namely paying higher loan interest. However, the cost of interest is tax deductible, so the company can make a profit as interest is applied as an expense. Meanwhile, if the company uses the owner's capital, dependence on outside parties will decrease, but the capital is not a deduction for business taxes (Fahmi, 2012). Based on the test results in table 8, the significance value of the capital structure variable is 0.041 <0.05 so that the decision of hypothesis 2 is accepted. Thus it can be concluded that the capital structure has a significant positive effect on firm value. The results of this study are in line with research conducted by Pratama&Wirawati (2016) which states that capital structure has a positive effect on firm value. This positive influence can be caused by debt that does not affect the company's value, because if the interest costs charged exceed the benefits provided from the debt used, then this use will be detrimental due to unfavorable business conditions or climate.

Third Hypothesis Testing Results (H3). Agency theory explains the existence of a contractual relationship between shareholders and managers (managers) in the form of granting authority by shareholders to managers to work for the achievement of shareholder goals. Managers are appointed by the owners to run the company's operations because shareholders have limitations in managing the company. The difference in information held by managers and owners (information asymmetry) is often more profitable for managers because they know the daily activities of the company in detail. Separation without proper supervision can provide flexibility for company managers to maximize their interests through the imposition of costs borne by the owner of the company. Managers' opportunistic actions can also be minimized by increasing managerial ownership. Increased managerial ownership can align the interests of managers and shareholders, so managers tend to act in accordance with the needs of shareholders. Based on the test results in table 8, the significance value of the Managerial Ownership variable is 0.198 <0.05 so that the decision of hypothesis 3 is rejected. Thus, it can be concluded that managerial ownership does not moderate the relationship between profitability and firm value.

Fourth Hypothesis Testing Results (H4). Based on the Agency Theory explanation, the separation of ownership and control in a company allows information asymmetry between management (agent) and owner (principal) to open up opportunities for managers to act opportunistically to maximize their interests without the consent of the owners or shareholders. Based on the test results in table 8, the significance value obtained by the Institutional Ownership variable is 0.088 < 0.10 so that the decision is that hypothesis 4 is accepted. Thus, it can be concluded that managerial ownership moderates the relationship between capital structure and firm value.

VI. CONCLUSION

Based on the results of data analysis and discussion that has been done that the resulting profitability of the company and the company's capital structure have a significant effect on firm value. In the midst of fluctuating economic conditions, the company is still able to generate good profits and design a capital structure properly for the company's sustainability in the future. Managerial ownership, which is one element of corporate governance, has a significant effect on the relationship between capital structure and firm value. Management is able to strengthen the company's capital structure with the choice of strategy used, because management is responsible for the survival of the company and management also owns some shares so that it will have a direct impact on management if the value of the company drops. Suggestions for further research can add other corporate governance variables so that they have a broader view, besides that other share ownership variables can be added.

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