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EXAMINE THE ROLE OF MANAGEMENT OWNERSHIP IN UNLOCKING FIRM VALUE

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Abstract

The purpose of this research is to analyze the effect of profitability and liquidity on firm value by moderating management ownership. The data were obtained from the financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange for the years 2018 – 2020. By using purposive sampling, 27 companies were selected as research samples. The data was processed by multiple regression analysis using the IBM SPSS Statistic 25 application. The results showed that profitability had a positive and significant effect on firm value, but liquidity had no effect on firm value. The results of the moderating variable test show that management ownership does not moderate the effect of profitability and liquidity on firm value.

Keywords: *ownership, liquidity, firm value, profitability.*

1. Introduction

The value of the company is very important because the goal of the company is to increase the value of the company which will have an impact on increasing the prosperity of the owners of capital (Nafisa et al, 2018). The firm value is a reflection of every financial management action and decision that affects the stock market price. Firm value is an investor's perception of the company, which is often associated with stock prices (Sadalia et al, 2017). Many factors affect firm value, including: profitability (Sucuahi & Cambarihan, 2016; Thaib & Dewantoro, 2017; Nafisah et al, 2018), liquidity (Putra & Wiagustini, 2013; Nafisah et al. 2018).

The positive signal shown by the company through a high level of profitability will increase the value of the company. Marchyta & Astuti (2015); Sucuahi & Cambarihan (2016)~~;~~ Nafisah et al, (2018) show that profitability has a positive and significant effect on firm value. Meanwhile, the results of this study contradict Thaib & Dewantoro (2017) gets a negative and non-significant effect between profitability and firm value, this shows that increasing profitability is not attractive to investors so it cannot increase firm value. This shows the increase in profitability is not attractive to investors so that it cannot increase the value of the company.

Companies that have a high level of liquidity will provide a positive signal for investors so that the value of the company increases as seen from the stock price. Liquidity indicated by the ability to repay short-term debt has a negative effect on the development of firm value. Liquidity has no effect on firm value. However, the results of this study are not in line with Hamidy et al. (2015). Marchyta & Astuti (2015); Pratama & Wirawati (2016)~~;~~ Nafisah et al (2018) which states that liquidity has a positive effect on firm value, and

Thaib & Dewantoro (2017) which states that liquidity has a negative and insignificant effect on firm value.

Besides the differences in the results of previous studies on 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, liquidity, which is not followed by an increase and decrease in the average firm value in manufacturing companies. on the Indonesia Stock Exchange.

Table 1. Average Profitability, Liquidity And Firm Value

Variable	2018	2019	2020
ROA	0,050	0,058	0,089
CR	2,862	2,649	3,206
Firm Value	1,924	2,021	1,833

Taking into account the various previous studies that have different results, it is assumed that management ownership as a component of good corporate governance will be 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 considering that it can strengthen or weaken the effect of profitability ratios and liquidity on company value. This is what the researchers consider as the novelty of this research.

This study aims to analyze: (1) the role of management ownership in partially moderating the effect of profitability and liquidity on firm value. (2) the partial effect of profitability and liquidity on the firm value of manufacturing companies listed on the Indonesia Stock Exchange for the period 2018 – 2020.

Profitability shows the company's ability to generate profits by utilizing its total assets. The positive signal shown by the company through a high level of profitability will increase the firm value (Husnan & Pudjiastuti, 2015). Profitability has a positive effect on firm value. The higher the profitability of the company, indicating the rate of return on investment will be greater than the investment costs incurred so that it has a positive effect in increasing the value of the company. Sucuahi & Cambarihan (2016) strengthen the above opinion by showing the results of research which states that profitability has a positive effect on firm value. Companies with large levels of profit indicate that operationally the company shows good results. Companies that work well in earning profits can increase the value of the company. Marchyta & Astuti (2015); Sucuahi & Cambarihan (2016)); Nafisah et al, (2018) showed a positive effect of 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 value of the company. H1: Profitability has a positive effect on firm value.

One of the ratios used to measure the company's ability to meet short-term obligations is the current ratio. Companies that have a high level of liquidity will provide a positive signal for investors so that the value of the company increases as seen from the stock price. The company's ability to pay short-term obligations can be seen from the high level of liquidity, the higher the liquidity level of a company, the greater the certainty to make cash, so the risk of shareholders is also getting smaller. Nafisa et al. (2018) strengthens the statement above with research results showing that liquidity has a positive effect on firm value. Liquidity is the company's ability to repay short-term debt, which shows the company has sufficient cash, receivables and large inventories so that the company can finance operational activities properly. the results of Putra & Wiagustini (2013); Hamidy et al. (2015). Marchyta & Astuti (2015); Pratama & Wirawati (2016); Nafisah et al (2018) which states that liquidity has a positive effect on firm value. Liquidity is the company's ability to repay short-term debt. High liquidity can give a positive signal to potential investors so as to increase the value of the company. H2: Liquidity has a positive effect on firm value.

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. 2018, high management share ownership indicates a strong attachment from management to be part of the company, this increases market confidence. The higher management ownership strengthens the effect of profitability on firm value.. Pratama & Wirawati (2016) concluded that management ownership strengthens the effect of profitability on firm value. H3: Management ownership strengthens the effect of profitability on firm value

Liquidity is the company's ability to repay short-term debt, which shows the company has sufficient cash, receivables and large inventories so that the company can finance operational activities properly. Liquidity has a positive effect on firm value. This can happen because high management share ownership can lead to a strong attachment from management to be part of the company, it is expected to be able to increase market confidence, so that the value of the company increases. Suryadi & Afridayani (2021) who stated that management ownership is actually able to moderate the effect of liquidity on firm value H4: Management ownership able to moderate the effect of liquidity on firm value.

2. RESEARCH METHODS

This population is all manufacturing companies on the Indonesia Stock Exchange for the period 2017-2019. The sampling technique in this study uses purposive sampling with the criteria of manufacturing companies listed on the Indonesia Stock Exchange for the period 2018-2020, with the number of shares owned by the company's management totaling more than 1% of all outstanding shares. Data collection is based on secondary data documentation techniques by recording data originating from the financial statements of companies listed on the Indonesia Stock Exchange through the IDX website at the address www.idx.co.id. The data used are financial statements for the three-year period of the study, namely 2018 - 2020.

This study examines the effect of profitability and liquidity on firm value. In addition, there is a management ownership variable to determine the moderating effect on the relationship between the independent variable and the dependent variable, using the absolute difference value equation model. To see the type of moderation, two equation models are used, so that the regression model equation becomes:

Equation 1:

$Y = \alpha + \beta 1X1 + \beta_2 X2 + \beta_3 Z + e$

Equation 2:

$Y = \alpha + \beta_1 X1 + \beta_2 X2 + \beta_3 Z + \beta_4(ABSX1*Z) + \beta_5(ABSX2*Z) + e$

Information:

X1 = Profitability

X2 = Liquidity

Moderation Z = Managerial Ownership (MO)

Y = Firm Value

α = constant variable

e = Standard error

The value of X1, X2 and Z, the second equation is the standardized score (Zscore),

(ABSX1*Z) is the interaction value measured by the difference between the absolute values of X1 and Z,

(ABSX2*Z) is the interaction value measured by the difference between the absolute values of X2 and Z,

3. RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 describes the descriptive statistics of each variable, where N is the amount of observed data, minimum is the lowest value of the variables produced by the sample company, maximum is the highest value of the variables produced by the sample company, the mean is the average value of the resulting variables. sample company, and standard deviation is the value of data deviation.

Table 2. Calculation of Minimum, Maximum, Mean, Standard Deviation

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	81	.0056	.2575	.071124	.0561085
CR	81	.8697	7.0508	2.831302	1.6440916
MO	81	.0102	.7000	.158878	.1726837
Firm Value	81	.1973	7.2883	1.951530	1.6870349
Valid N (listwise)	81				

Based on these results, the descriptive statistics of the variables can be explained as follows:

1. Profitability

The results of the descriptive statistical test show that the minimum value is 0.0056 (PT. Sad Nusapersada Tbk, 2020), and the maximum is 0.2575 (PT. Mark Dynamics Indonesia Tbk, 2019), and the average is 0.0711 with standard deviation of 0.0561. The standard deviation is smaller than the average value, which means that the data distribution is quite diverse or the data deviation is relatively small. This shows that the profitability data is said to be very good.

2. Liquidity

The results of the descriptive statistical test show that the minimum value is 0.8697 (PT. Mulia Industrindo Tbk, 2018) and the maximum value is 7.0508 (PT. Emdeki Utama Tbk, 20209) and the average is 2.8313 with standard deviation of 1.6441. The standard deviation is smaller than the average value, which means that the data distribution or data deviation is small. This shows that the liquidity data is said to show good results. The standard deviation value that reflects the deviation from the variable data is relatively low because it is smaller than the average value.

3. Management Ownership

The results of the descriptive statistical test show that the minimum value of management ownership is 0.0102 (PT. Indal Aluminum Industry Tbk, 2020) and the maximum value is 0.7000 (PT. Sad Nusapersada Tbk, 2020) and the average is 0.1588 with standard deviation of 0.1726. A standard deviation greater than the average value means that the data distribution is more diverse or the data deviation is relatively large. The standard deviation value which reflects the deviation from the variable data is relatively higher because it is greater than the average value. This shows that management ownership data is said to be not good enough.

4. The value of the company

The results of the descriptive statistical test show that the minimum value of the company is 0.1973 (PT. Indal Aluminum Industry Tbk, 2018) and the maximum value is 7.288 (PT. Mark Dynamics Indonesia Tbk, 2018) and the average is 1.9515 with standard deviation of 1.6870. The standard deviation is smaller than the average value, this indicates a good thing because the deviation is smaller than the average value, so the company value data can be said to be good.

Data analysis

First Equation

Based on the results of SPSS output, it can be seen that the influence of the independent variables partially: profitability, liquidity on firm value as shown in table 3.

Table 3. Calculation of Partial Regression of the First Equation

Model		Unstandardized Coefficients B	Std. Error	t	Sig.
1	(Constant)	1.005	.203	4.948	.000
	Profit	.527	.083	6.364	.000
	Likuid	.316	.175	1.805	.075
	MO	.064	.072	.893	.375

The magnitude of the influence of the independent variable on the dependent variable can be seen from the beta unstandardized coefficient value because all variables have been standardized on the same scale, namely in the form of a ratio scale. From table 3, it can be concluded that firm value is influenced by profitability and liquidity variables, with multiple linear regression equations as follows:

Firm Value = 1,005 + 0,527Profit + 0,316Likuid + 0,064MO

Second equation

Based on the results of SPSS output, it can be seen that the partial influence of the independent variables are: profitability and liquidity on firm value by moderating management ownership as shown in table 4.

Table 4. Calculation of Partial Regression Second equation

Model		Unstandardized Coefficients B	Std. Error	t	Sig.
1	(Constant)	.115	.136	.843	.402
	Zscore(Profit)	.467	.071	6.630	.000
	Zscore(Likuid)	.176	.087	2.024	.047
	Zscore(MO)	.068	.067	1.023	.310
	ABSProfit*MO	.087	.076	1.147	.255
	ABS Likuid *MO	.070	.092	.760	.450

From table 4, it can be concluded that the firm value variable is influenced by the profitability, liquidity and interaction variables between management ownership and leverage on firm value, with the following multiple linear regression equation:

Firm Value = 0.115 + 0.467Profit + 0.176Liquid + 0.068MO + 0.087MO*Profit + .070MO*Liquid

Discussions

The Effect of Profitability on Firm Value

Based on the partial test calculation of the first equation, the value of t-count = 6.364 > t-table = 1.992, and a significance value of 0.000 <0.05, the value of 1 unstandardized coefficients is 0.527, the regression coefficient is positive, then H1 is accepted, meaning that profitability has a positive effect and significant to the value of the company, if profitability increases then the value of the company will also increase in value. The first hypothesis, H1 which states that profitability has a positive effect on firm value, is proven to be accepted. Assuming the absence of other variables, the profitability regression coefficient of 0.527 indicates that each increase in the profitability value of 1,000 will increase the value of the company by 0.527. High profitability indicates that the performance of management in managing the company has been in the expected condition. The higher the profit earned, the greater the return that will be received so as to achieve the prosperity of the owners of capital. Investors will respond positively to the signal so that it can increase the value of the company. The results of this study support the research results of Marchyta & Astuti (2015); Sucuahi & Cambarihan (2016); Nafisah et al, (2018) which shows that profitability has a positive and significant effect on firm value. Meanwhile, the results of this study contradict Thaib & Dewantoro (2017) gets a negative and non-significant effect between profitability and firm value, this shows that increasing profitability is not attractive to investors so it cannot increase firm value.

Effect of Liquidity on Firm Value

Based on the calculation of the partial test of the first equation, the value of t-count = 1.805 < t-table = 1.992, and a significance value of 0.075 > 0.05, the value of 1 unstandardized coefficients is 0.316, the regression coefficient is positive, then H2 is rejected, so that liquidity has no effect on the value of the company. The second hypothesis, stating that liquidity has a positive effect on firm value, is proven to be rejected. Companies that have a good level of liquidity will be considered to be performing well by investors, however, a high liquidity value also indicates a lot of idle company funds which in turn reduces the company's profit capability. In addition, a high level of liquidity can also indicate a manager's policy that prioritizes allocating funds to increase current assets and payment of short-term debt so that dividends paid to shareholders are lower, this is certainly not what investors want, so that an increase in the value of liquidity does not necessarily cause the value of the company to increase significantly. This is in line with the research of Asiri & Hameed (2014) which states that liquidity has no effect on firm value. However, the results of this study are not in line with Hamidy et al. (2015). Marchyta & Astuti (2015); Pratama & Wirawati (2016); Nafisah et al (2018) which states that liquidity has a positive effect on firm value, and Thaib & Dewantoro (2017) which states that liquidity has a negative and insignificant effect on firm value.

Management Ownership Moderates the Effect of Profitability on Firm Value

Based on the partial test calculation of the second equation, the value of t-count = 1.147 < t-table = 1.994, and a significance value of 0.255 > 0.05, the value of 1 unstandardized coefficients is 0.087 the regression coefficient is positive, then Ha is rejected, so management ownership is not able to moderate the effect of profitability on firm value. Management ownership is not a moderating variable in the interaction between profitability and firm value, so H3 is proven to be rejected. Profitability is the ability of a company to generate profits during a certain period. Ownership of management makes management in two positions, namely as the manager of the company as well as the owner of the company. With management ownership in the company, it can encourage managers who are also owners of the company to hold profits for the company's investment purposes. Ownership of management can prevent companies from distributing profits that have been obtained by the company to shareholders, so that increased profitability does not give a positive signal to investors who expect profit sharing in the form of dividends. The results of this study are in line with Nugroho et al (2019) that management ownership is not able to moderate the effect of profitability on firm value. However, this study contradicts Pratama & Wirawati (2016) which states that management ownership is able to moderate the effect of profitability on firm value.

Management Ownership Moderates the Effect of Liquidity on Firm Value

Based on the partial test calculation of the second equation, the value of t-count = 0.760 < t-table = 1.994, and a significance value of 0.450 > 0.05, the value of 1 unstandardized coefficients is 0.070 the regression coefficient is positive, then Ha is rejected, so management ownership is not able to moderate the effect of liquidity on firm value. Management ownership is not a moderating variable in the interaction between liquidity and firm value, so H4 is proven to be rejected.. Management ownership, this is one manifestation of the Good Corporate Governance mechanism which is believed to be able to reduce agency conflicts. Companies with a high level of liquidity show the ability to meet current liabilities from current assets owned so that this increases the confidence of outsiders in the company. Management ownership that is not supported by management's ability to utilize current assets to maximize profitability cannot strengthen positive signals to investors, so management ownership cannot necessarily strengthen the influence of liquidity on firm value. The results of this study contradict Suryadi & Afridayani (2021) who stated that management ownership is actually able to moderate the effect of liquidity on firm value.

4. CONCLUSIONS

Profitability partially have a positive and significant effect on firm value. This means that if profitability increase, it will have an impact on increasing firm value. Partially, liquidity have no effect on firm value. This means that an increase in liquidity does not significantly increase firm value. Management ownership is proven not to moderate the effect of profitability and liquidity on firm value. This means that the influence of profitability and liquidity on firm value is not significantly strengthened by the interaction of management ownership variables so that management ownership is not a moderating variable in the interaction between profitability and liquidity to firm value. Management ownership is proven to moderate the effect of leverage on firm value.

The theoretical implication is that the research results support Sucuahi & Cambarihan (2016) which states that profitability has a positive and significant effect on firm value. The results of this study support Putra & Wiagustini (2013) which states that liquidity has a positive and insignificant effect on firm value. The results of this study support Nugroho et al (2019) which states that management ownership is not able to moderate profitability to firm value.

The managerial implication is that there are managerial policies that can be carried out by management in an effort to increase the firm value. The level of the liquidity ratio needs to be maintained in a safe position to ensure the company's ability to meet short-term obligations, but does not cause large amounts of idle funds. The funding policy taken by the management must prioritize increasing and maximizing the use of internal capital. In order to achieve the company's goal to prosper its owners, managers must be able to build an effective and efficient company system, so that increasing the company's ability to generate sales volume can also be accompanied by maximum profits. With management ownership in the company, making management the manager of the company, as well as the owner of the company, will certainly reduce conflicts of interest and encourage the establishment of a Good Corporate Governance mechanism.

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