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Relevance Profitability and Managerial Ownership Trough Capital Structure for Company Value

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ABSTRACT

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The company has a goal of achieving going concern and making a profit. Companies that apply economic principles are generally not only oriented towards achieving maximum profit, but also trying to increase the value of the company and the prosperity of their owners. The company's objectives can be achieved by maximizing profitability by with the mechanism of Good Corporate Governance and also considering the selection of an appropriate capital structure to achieve corporate value. This study aims to determine the effect of profitability and managerial ownership on company value with capital structure as an intervening variable. This research sample of 13 food and beverage companies listed on the Stock Exchange in the 2012-2018 observation period. Testing the research hypothesis using the Partial Least Square (PLS) analysis technique. The results showed that profitability negatively affected capital structure and company value. Managerial ownership does not affect the capital structure or company value. Capital structure variables can mediate the effect of profitability on company value, but cannot mediate the effect of managerial ownership on company value

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INTRODUCTION

Current economic conditions have created a tight competition between companies in the industry, thus companies increasingly improve product quality with their respective advantages aimed at achieving the company's goals. The company was founded in the hope of going concerned and not for the short term. Investors expect the company to grow and develop properly to provide good value, wealth, and benefits to investors. Companies that apply economic principles are generally not only oriented towards achieving maximum profit, but also trying to increase the value of the company and the prosperity of their owners. The value of the company is very important because it reflects the company's performance which can affect investor perceptions of the company that are often associated with stock prices (Hasibuan & AR, 2016).

Industrial sector companies have several sub-sectors, including food and beverages, cigarettes, household appliances, cosmetics, and pharmaceuticals. Of the several sub-sectors from the industrial sector, the food and beverage sub-sector with the most number is 30 companies. The second sequence is the cigarette sub-sector with a total of 12 companies, while the other sub-sectors are under 10 companies. The choice of the food and beverage industry sector is because the shares of these sectors are the stocks that are the most resistant to the monetary or economic crisis, compared to other sectors after all, in crisis conditions or not some food and beverage products are still needed. Industrial subsectors these foods and drinks also often become the foundation and contribute to the biggest growth in the manufacturing industry sector in Indonesia. The Food and Beverage industry also has a significant contribution to economic growth. This is what makes the food industry and
the drink is considered to have a bright prospect in the future. Apart from that, this too which is the reason why the number of listed companies engaged in the food industry and more drinks than other subsectors.

The Food and beverage sector in Indonesia is growing year by year. The positive performance of the players has opened up new opportunities to compete in the international market. In the Making Indonesia 4.0 roadmap launched by President Joko Widodo some time ago, one of the focuses was the food and beverage sector. From 2016 the achievement figure was still at USD 10.43 billion, but the following 2 years increased in 2017 at USD 11.50 billion and in 2018 IDR 844.35 trillion. The Ministry of Industry (Kemenperin) noted, throughout 2018 the food and beverage industry could grow by 7.91 percent and exceed the national economic growth at 5.17 percent (www.antaranews.com).
Research the positioned the capital structure as a moderating variable on the relationship of the effect of profitability on company value has the result of the capital structure weakening the relationship of the effect of profitability on company value. As the results of research by (Sigit, 2019), which has the conclusion that the use of capital structure has passed the optimal point so that the benefits of the use of debt are not achieved, this is also in line with research by (Mirza, 2016) and (Darina, 2017) which has the result that capital structure weakens the relationship between profitability and company value.

Some previous research results have not been able to prove that capital structure can strengthen the relationship between profitability and capital structure. For this reason, this research model will use the capital structure as an intervening variable in the relationship of profitability and managerial ownership of company value. The addition of this research will also examine the trade-off theory. In (Aprilia Anita, 2016) the trade-off theory is where the optimal capital structure will be achieved when there is a balance between benefits and sacrifices in the use of debt.

Also, independent variables of managerial ownership are added, where one of the applications of the Good Corporate Governance mechanism is managerial ownership. Managerial ownership variable is used because the implementation of managerial ownership will have a direct impact on the manager's performance of the company and will increase its affiliation to the company as stated in the study (Panda & Leepsa, 2017) mentioned by Jensen and Meckling (1976) illustrating that managerial ownership makes the manager works as the owner in the organization and concentrates on the company's performance, with the interests of the owner and manager in line. Meanwhile, the other Good Corporate Governance mechanisms

such as institutional ownership, the size of the board of commissioners, the independent board of commissioners, and the audit committee are more on the role of supervision of the manager's performance to be more optimal and by the principles of Good Corporate Governance. The managerial role, the greater the proportion of management ownership in a company will be able to unite the interests between managers and shareholders, especially in the selection of the proportion of capital structure that is appropriate for the company.

LITERATURE REVIEW

Pecking Order Theory

Pecking Order Theory is a theory that prioritizes internal sources of funding beforehand. The Pecking Order Theory states that: (1) the company likes internal financing (funding from operating companies in the form of retained earnings) and (2) if external financing is needed, the company will issue the safest securities first.

Agency Theory

Agency theory in financial management discusses the existence of agency relations, namely the relationship regarding the separation between ownership and management by the manager. Brigham and Houston (2014: 112) state that this potential agency problem arises when company managers own less than 100% of the company's shares.

The Trade-Off Theory

Trade-Off Theory in capital structure balances the benefits and sacrifices arising from the use of debt. As far as the benefits are greater, additional debt is still permitted. If the sacrifice due to the use of debt is already greater, then the additional debt is not allowed.

Signalling Theory

Signaling theory is information about the company is a signal for investors, in investing decisions. Signals can be in the form of financial or non-financial information that states that the company is better than other companies. The purpose of the Signaling theory is to increase the value of a company when selling shares (Suwardjono, 2005: 578).

Company Value

According to Brigham and Erdhadt (2005: 518), the company's value is the present value of free cash flow in the future at a discount rate according to the weighted average cost of capital. Free cash flow is the cash flow available to investors (creditors and owners) after taking into account all expenses for company operations and expenses for investment and net current assets. Company value can be calculated using several methods, namely PER (Price Earning Ratio), PBV (Price to Book Value), and Tobin's Q. This study uses Tobin's Q method, which is calculated by comparing the ratio of the market value of the company's shares to the book value of the company's equity (Weston and Copeland, 2001: 148).

Capital Structure

Capital structure is a comparison or balance of the company's long-term funding aimed at the comparison of long-term debt to equity. In general, there are two alternative sources of capital, namely capital sourced from own capital (internal) or external sources such as loans or debt and company owners. Funding with own capital (internal) can be done by issuing shares (stock), while funding with debt (debt) can be done by issuing bonds, right issues, or owe to banks, even to business partners. If using funding with debt, when debt increases will increase the level of risk, ie paying interest on a larger loan. Meanwhile, if the company uses its capital dependence on outsiders will be reduced, but the capital is not a deduction from business taxes. The capital structure in this study is proxied by using a Debt to Equity Ratio (DER) ratio. Debt to Equity Ratio is the ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt and all equity.

Profitability

Profitability illustrates the ability of a business entity to generate profits using all its capital. Profitability can reflect the benefits of financial investment with greater internal sources, meaning that profitability affects the value of the company. The higher the growth of the company's profitability, the better the value of the company (Prima, Ananto, & Rafi, 2018). Profitability ratios are proxy using the Return On Equity (ROE). The return on equity or Return on Equity (ROE) is the ratio to measure net income after tax with its

capital. This ratio shows the efficiency of using their capital, the higher the ratio, the better. This means that the position of the owner of the company is getting stronger, and otherwise.

Managerial Ownership

Managerial ownership is a condition in which the manager owns the company's shares or in other words the manager as well as the company's shareholders. Managerial ownership can align the interests of agents and principals so that management is expected to improve its performance (Tambalean, Manossoh, & Runtu, 2018). (Good Corporate Governance (GCG) is a healthy corporate governance procedure that has been introduced by the Indonesian government and the International Monetary Fund (IMF). This concept is expected to protect shareholders and creditors so that they can regain their investment. One aspect that can complement the implementation of GCG according to (Sartono, 2011: 109) is managerial ownership. Financial Services Authority Regulation No./POJK.04/2013 concerning the Share Ownership Program by Employees of Public Companies regarding the rights of company employees to acquire up to 10% of shares offered. Managerial ownership is calculated by comparing the number of shares owned by the managerial with the stock for sale

RESEARCH METHOD

This research is a quantitative study, research with a process of finding knowledge that uses data in the form of numbers as a means of analyzing information about what you want to learn (Kasiram, 2008: 149).

The population in this study is the Financial Reports of Manufacturing Companies Food and Beverages sectors listed on the Indonesia Stock Exchange (IDX) for the period 2012-2018, a total of 30 companies. The sampling technique used in this study was purposive sampling. Purposive sampling is a technique for determining research samples with certain considerations aimed at making the data obtained later more representative (Sugiyono, 2010:118). Where from 30 companies only took 13 companies because based on the criteria used were:

1. Companies that have the data needed for research during the 2012-2018 period.
2. Companies that have a composition of managerial shareholder ownership.
3. Companies that have successive profits for the period 2012-2018.

This study uses relationship patterns that can be analyzed by path analysis. The path coefficient is calculated by making two structural equations, the regression equation that shows the hypothesized effect. In this case, there are two similarities is :

$Z = β_0+β_1 X_1+β_2 X_2+e$ ……………...……..(1)

$Y = β_0+β_1 X_1+β_2 X_2+β_3 X_3+e$ ……….(2)

Explanation :
Z: Capital structure
Y: Company value
$β_0$: Constant
$β_1$ - $β_3$: Regression coefficient
X1: Profitability (ROE)
X2: Managerial ownership
X3: Capital structure (DER)
e: Residual variable

This study uses Partial Least Square (PLS) to find predictive linear relationships between variables.

RESULT AND DISCUSSION

Hypothesis Test

Tabel 1: Path Coefficients (Mean, STDEV, T-Statistics, P Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STERR|)	P Values	Result
Profitability (X_1) -> Capital Structure (Z)	-0.242	-0.238	0.100	2.433	0.015	Significance
Managerial ownership (X_2) -> Capital structure (Z)	-0.082	-0.073	0.089	0.916	0.360	Not significance
Capital structure (Z) -> Company value (Y)	0.390	0.384	0.082	4.729	0.001	Significance
Profitability(X_1) -> Company value (Y)	-0.196	-0.208	0.064	3.054	0.002	Significance
Managerial ownership (X_2) -> Company value (Y)	0.035	0.051	0.089	0.388	0.698	Not significance

Source : Output smartPLS report

H_1: Profitability harms the capital structure

The relation between profitability (X_1) and capital structure (Z) is significant with a T-statistic of 2.43 (t table> 1.96). The original sample estimate value is -0.24, then the direction of the relationship between profitability (X_1) and capital structure (Z) is negative. The results of this study are by the first hypothesis.

The results showed that the relation between profitability and the capital structure was significant in a negative direction. High profitability shows that the company's

performance is good and has long-term prospects, this shows that the company has a high ability to generate profits so the company tends to use retained earnings (own capital) as capital to finance operational activities. With the high value of profitability through the Return On Equity (ROE) ratio, it shows that the company can get a high rate of return on the total equity that has been used so that it doesn't
need more funds from debt. Thus in line with the Pecking Order Theory which states the company prefers internal funding. Using external funds will only be done if insufficient internal financing is needed to cover the needed needs.

H_2: Managerial ownership has a positive effect on capital structure

The relation between Managerial Ownership (X_2) and Capital Structure (Z) is not significant with a T-statistic of 0.91 (t table> 1.96). The original sample estimate value is -0.09, then the direction of the relationship between Managerial Ownership (X_2) and Capital Structure (Z) is negative. The results of this study are not by the second hypothesis proposed and also the direction of the relationship is not by the hypothesis. The results showed that the relation between
managerial ownership and the capital structure was not
significant. Jensen and Meckeling (1976) define an agency relationship as a contract between the manager
(agent) and the owner (principal) of the company.
Managerial stock ownership is one mechanism that can
reduce agency problems through aligning interests between management and shareholders. The results of
this study are not in line with the theory where managerial ownership has no effect on debt policy, which explains that debt policy is not motivated by the
mechanism of agency theory.

H_3: Capital Structure has a positive effect on Company Value

The relation between capital structure (Z) and firm value (Y) is significant with a T-statistic of 4.72 (t table> 1.96). The original sample estimate value is 0.40, the direction of the relationship between the capital structure (Z) and the company value (Y) is positive. The results of this study are by the third hypothesis.

The results showed that the relation between capital structure and the firm value was significant in a positive direction. This shows that the policy of the use of debt in the capital structure provides a signal or a sign for investors that the funding policy by the company affects the value of the company. By the Trade-off Theory which is a theory that likes outside funding sources which state that the company will owe to a certain level where a balance is reached between the benefits and sacrifices of the debt.

H_4: Profitability has a positive effect on Company Value

The relation between Profitability (X_1) and Firm Value (Y) is significant with a T-statistic of 3.05 (t table> 1.96). The original sample estimate value is -0.20 then the direction of the relationship between Profitability (X_1) and Company Value (Y) is negative. The results of this study are consistent with the fourth hypothesis proposed but have a negative relation direction. The results of this study indicate that the relation of profitability to firm value is significant with a negative direction, this is because this study uses the food and beverage industry sector which is one of the basic needs of the community and one of the sectors of the company whose shares are in demand. When the profitability ratio produced is low the value of the company is in a high position with the condition of investors buying shares of the company, while in the opposite condition when profitability is high, the value of the company tends to be low because investors sell shares owned.

H_5: Managerial Ownership has a positive effect on Company Value

The relation between managerial ownership (X_2) and Company Value (Y) is not significant with a T-statistic of 0.39 (t table> 1.96). The original sample estimate value is 0.03, the direction of the relationship between Managerial Ownership (X_2) and Company Value (Y) is positive. The results of this study are not by the fifth hypothesis proposed.

The results showed that the relation between managerial ownership and the firm value was not significant. The size of the proportion of managerial stock ownership does not affect investor perceptions in considering the value of the

company. Managerial ownership in this study does not affect the value of the company, indicating that the company will still try to provide welfare for shareholders or investors without considering the existence of managerial shares.

H_6: Profitability affects the value of the company through capital structure

The results of the study the relation of profitability variables to the capital structure are significant with a negative direction and the relation of capital structure variables to the value of the company is significant in a positive direction. While the direct relationship between profitability and firm value is significant in a negative direction. This explains that capital structure as an intervening variable can mediate profitability variables on firm value because profitability directly or indirectly affects the firm's value.

The higher the level of profitability, it tends to have a large amount of own capital so that the company will use retained earnings to finance the company's operational activities so that the use of external funds from debt will below. With low debt, the company's capital structure will below. The use of low debt will reduce the level of bankruptcy risk and interest expense borne by the company so that it will attract investors to buy company shares. With investors buying shares of the company will be able to increase the value of the company.

H_7: Managerial ownership affects the value of the company through capital structure

The results of the study showed that the relations between managerial ownership variables and the capital structure were not significant with a negative direction and the relation between managerial ownership variables with firm value was not significant in a positive direction.

Managerial ownership variables have a relationship that does not affect the capital structure variable or firm value variable, while the capital structure variable takes effect on the firm value variable. This shows that the capital structure variable cannot mediate the relation between managerial ownership variables and firm value. Managerial ownership does not affect the value of the company through the selection of the capital structure used. Managerial ownership in this study also does not affect the value of the company, indicating that the company will still try to provide welfare for shareholders or investors without considering the existence of managerial shares ownership.

CONCLUSIONS

Profitability variable with a Return on Equity ratio affects the capital structure variable with negative trends, it can be explained that the higher the profitability, the more the company will use internal capital as the company's operations and will reduce the level of debt used as a capital structure, this is by the Pecking Order Theory**.** The managerial ownership variable does not affect the capital structure variable, this indicates that the size of the proportion of managerial stock ownership in a company does not affect the manager's decision to take capital structure funding policies.

The capital structure variable influences the company value variable in a positive direction. By the Trade-Off Theory where there is a balance between the value of benefits and sacrifices in the use of debt. Companies must be able to determine the policy of using debt to be able to provide perceptions that reflect the company's good financial performance to investors which will affect the company's value**.** Profitability variable influences company value with negative direction, low profitability conditions but high company value, this study uses food and beverage companies as a sample where the shares of these companies are attractive to investors because they are companies that produce basic needs of the community and investors consider a more long-term investment in companies in this sector. The managerial ownership variable does not affect the value of the company, the size of the proportion of share ownership by the managerial company does not affect the perception of investors in seeing the value of the company.

Profitability variables to the variable company value can be mediated by variable capital structure, high or low profitability of the company can affect the value of the company and is supported by the selection of an appropriate capital structure. The managerial ownership variable of the firm's value variable cannot be mediated by the capital structure variable, managerial ownership has no direct effect or through the capital structure of the firm's value. This condition explains that the proportion of managerial shareholding does not affect the manager's decision in determining

funding policies and investor perceptions in analyzing the company's value of a company.

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