



The Effect of Profitability and Managerial Ownership as Corporate Governance Mechanisms on Company Value in the Industrial Sector Listed on the IDX in 2022-2024

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Abstract

Indonesia's manufacturing sector is one of the largest contributors to national GDP, but also faces challenges in managing governance and operational efficiency. This study aims to analyze the effect of profitability and managerial ownership as corporate governance mechanisms on firm value. The research focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2022 to 2024. Profitability is measured using Return on Assets (ROA), while managerial ownership is measured based on the percentage of shares owned by managers or internal parties. The data used are secondary data obtained from the company's annual financial reports published on the official IDX website. Data collection was carried out using the documentation method, and the sample was determined using the purposive sampling method. Data analysis was performed using multiple linear regression to test the simultaneous and partial effects of the independent variables on the dependent variable. The results found that profitability (X1) has a regression coefficient of -1.946 with a significance value of 0.056 and managerial ownership as a corporate governance mechanism (X2) has a regression coefficient of 0.261 with a significance value of 0.170. Simultaneously, these two independent variables also do not have a significant effect in explaining changes in company value, with a model capability of only 12.4%.

Keywords: Profitability, managerial ownership, corporate governance, firm value.

1. Introduction

In an increasingly competitive business world, corporate value has become a primary focus for managers, shareholders, and investors. Corporate value reflects the market's perception of a company's performance and future prospects, as reflected in its stock price. Corporate value is the result of financial decisions regarding investment decisions, financing decisions, and dividend policies. Increasing corporate value is one way to increase shareholder wealth (Brahmayanti, 2024). Shareholder prosperity will increase if corporate value is high, thus encouraging shareholders to invest their capital in the company. One important factor that receives significant attention is internal financial performance, such as profitability and corporate governance.

Indonesia's manufacturing sector is one of the largest contributors to national GDP, but it also faces challenges in managing governance and operational efficiency. Industrial companies tend to have complex organizational structures, increasing the potential for conflicts of interest between owners and managers. In this context, governance mechanisms such as managerial ownership are crucial for mitigating agency costs. Empirical studies in this sector are needed to determine the extent to which financial and governance theories apply in practice. Furthermore, profitability in this sector is highly sensitive to fluctuations in raw material costs and changes in selling prices, which directly impact company value (Suhartini et al., 2024).

Profitability is a measure of a company's efficiency in generating profits from its assets. A high level of profitability indicates that a company is able to optimally manage its resources and provide adequate returns to shareholders. Previous research has shown that profitability has a positive correlation with corporate value because it indicates stability and good prospects. Profitability also provides a positive signal to investors regarding operational efficiency and a company's ability to survive fluctuating economic conditions. Thus, profitability is an important indicator in fundamental stock analysis (Pangestuti et al., 2022).

In addition to profitability, managerial ownership is also a concern in corporate governance because it relates to managerial incentives and behavior. Managerial ownership is a condition where managers own shares in the company they manage, thus providing an incentive to act in line with shareholder interests. Agency theory states that when management owns shares, agency conflict between owners and managers can be minimized (Ilmi et al., 2017). However, at certain levels, excessive managerial ownership can lead to managers being opportunistic and less responsive to external oversight. Therefore, it is important to empirically measure the influence of managerial ownership on firm value.

Good corporate governance is a mechanism to ensure that a company is managed transparently, accountably, and responsibly. Within the framework of good corporate governance (GCG), managerial ownership is a form of internal oversight that can strengthen management accountability (Wang et al., 2020). With effective governance, companies can enhance their reputation, reduce risks, and increase investor appeal. Studies show that the implementation of sound GCG principles has a positive impact on financial performance and company value. However, the effectiveness of GCG is highly dependent on the institutional context, corporate culture, and sectoral characteristics.

Corporate governance is a crucial framework for ensuring that companies are managed transparently, accountably, and responsibly. The implementation of good corporate governance principles can increase stakeholder trust and minimize the risk of fraud and corruption within the organization. Corporate governance mechanisms such as managerial ownership, an independent board of commissioners, and an audit committee play a strategic role in overseeing company management. With good governance, companies can improve operational efficiency and reputation, ultimately impacting company value (Wang et al., 2020).

Company value can be measured using various indicators, such as Tobin's Q, Price to Book Value (PBV), and stock market value. Company value is influenced by financial performance, ownership structure, corporate strategy, and investor expectations (Arifin and Munandar, 2024). Increased company value reflects a company's success in creating value for stakeholders. Therefore, understanding the determinants of firm value is crucial for strategic decision-making. This research will focus on the influence of profitability and managerial ownership as corporate governance mechanisms on firm value in the industrial sector. High profitability also serves as a positive signal to the capital market regarding a company's health and sustainability. Therefore, profitability is not only a measure of financial performance but also a monitoring instrument for good corporate governance. This study aims to analyze how profitability and managerial ownership jointly influence firm value in the industrial sector.

2. Literature Review

2.1. Firm Value

Firm value is an investor's perception of a company's success in managing its resources to generate future profits and growth. Firm value also reflects the market's appreciation of the company, which is generally measured by stock price, market capitalization, or certain financial ratios such as Price to Book Value (PBV), Tobin's Q, or Price Earnings Ratio (PER) (Harnovinsah et al., 2023). Firm value can be measured using the following formula:

$$\text{Tobin's } Q = \frac{(\text{Stock Market Price} + \text{Total Debt})}{\text{Total Assets}} \quad (1)$$

2.2. Profitability

Profitability is the primary measure of a company's ability to generate profit from its operational activities within a specific period. Profitability reflects a company's effectiveness in managing resources to achieve optimal returns. Profitability is typically measured using several financial ratios, such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The most common indicator used to measure profitability in empirical research is Return on Assets (ROA) (Rashid, 2021). ROA indicates how efficiently management uses total assets to generate net income. The following is the Return on Assets (ROA) formula used in this study:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\% \quad (2)$$

2.3. Managerial Ownership

Managerial ownership is a form of company share ownership by management, including directors and commissioners, who are actively involved in the company's operational decision-making. This ownership is believed to align the interests of managers (agents) and shareholders (principals) because managers also have a direct financial stake in the company. Managerial ownership can influence company value by improving the quality of strategic decision-making. Managers who own shares tend to be more cautious in implementing company strategy because

success or failure directly impacts their personal wealth (Yusra and Bahtera, 2021). The Managerial Ownership variable can be measured using the following formula:

$$\text{Percentage of Share Ownership by Managers} = \frac{\text{Shares owned by management}}{\text{Total shares outstanding}} \quad (3)$$

2.4. Framework for Thinking

A framework for thinking is a diagram or logical flowchart that illustrates the relationships between variables in a study, based on theory and previous research findings. This framework explains the scientific rationale for why and how independent variables, such as profitability and managerial ownership, can influence the dependent variable, namely firm value, and illustrates the corporate governance mechanisms that serve as the theoretical framework underlying these relationships (Surjandari et al., 2019).

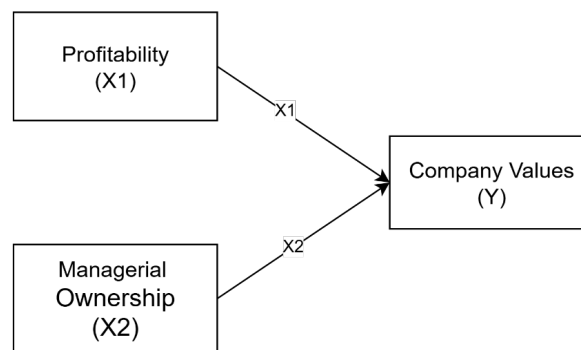


Figure 1: Framework of thought

2.5. Hypothesis Development

Profitability reflects a company's ability to generate profits and is an important indicator for investors in assessing its financial performance. High profitability tends to increase market confidence and positively impacts company value (Gautama et al., 2024). Managerial ownership serves as a corporate governance mechanism that aligns the interests of management and shareholders. An ideal ownership proportion encourages management to act more responsibly towards company performance. Profitability and managerial ownership complement each other in strengthening the company's internal control system. The combination of the two is expected to improve performance and strengthen investor perceptions, ultimately driving increased company value. The hypotheses proposed in this study are as follows:

H₁ : Profitability has a significant negative effect on company value.

H₂ : Managerial ownership does not have a significant effect on company value.

3. Research Method

3.1. Type of Research

This research is a quantitative study using an associative approach. It aims to determine the relationship and influence between the independent variables, namely profitability and managerial ownership, on the dependent variable, namely firm value. The data used is secondary data in the form of annual financial reports of industrial sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024.

3.2. Data Type and Source

The type of data used in this study is secondary quantitative data. This data was obtained from reports published by companies and capital market authorities without direct data collection from respondents. The quantitative data in question includes numerical data regarding profitability (measured using financial ratios such as Return on Assets), managerial ownership (expressed as the percentage of share ownership by management), and firm value (measured using the Price to Book Value ratio or Tobin's Q). All data is numerical and collected in panel data format, a combination of time series and cross-sectional data from 2020 to 2024.

The data source for this study comes from the annual financial reports of industrial sector companies listed on the Indonesia Stock Exchange (IDX), which can be accessed through the official IDX website at www.idx.co.id. Additionally, supporting data regarding managerial ownership structure was obtained from each company's annual report, specifically the sections on share ownership and management structure.

3.3. Population and Sample

In this study, the population is all industrial sector companies listed on the Indonesia Stock Exchange from 2022 to 2024. The sample used is industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2022 to 2024. They were selected using a purposive sampling method based on specific criteria relevant to the research objectives. Sampling was conducted using a purposive sampling method, a sampling technique based on specific criteria tailored to the research objectives. The criteria used for sample selection were as follows:

- 1) Industrial sector companies that published complete annual reports during the observation period.
- 2) Companies that conducted an Initial Public Offering (IPO) during the 2022-2024 period.
- 3) Industrial sector companies that generated profits during the 2022-2024 study period.

Table 1: Number of company samples

Description	Number of Companies	Number of Observations
Industrial sector companies listed on the IDX during 2022–2024	74	222
Companies that did not publish complete annual reports during the period	-19	-57
Companies that did not conduct an Initial Public Offering (IPO) during the period	-19	-57
Companies that did not generate profit during the 2022–2024 period	-14	-42
Total Sample	22	66

4. Results and Discussion

4.1. Classical Assumption Test

This test aims to ensure that the resulting model meets the BLUE (Best Linear Unbiased Estimator) properties, namely a regression model that is free from bias and has high efficiency.

4.1.1. Normality Test

Table 2: Results of the normality test using the Kolmogorov-Smirnov

One-Sample Kolmogorov-Smirnov Test			Unstandardized Residual
N			45
Normal Parameters ^{a,b}	Mean		0.000000
	Std. Deviation		0.21537702
Most Extreme Differences	Absolute		0.076
	Positive		0.076
	Negative		-0.074
Test Statistic			0.076
Asymp. Sig. (2-tailed) ^c			0.200 ^d
Monte Carlo Sig. (2-tailed) ^e	Sig.		0.742
	99% Confidence Interval	Lower Bound	0.731
		Upper Bound	0.753

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 299883525

Based on the normality test above, the Asymp. Sig. value is 0.200 and the Monte Carlo Sig. value is 0.742, both of which are greater than 0.05. These results indicate that the residual data in the regression model is normally distributed. Therefore, the regression model that tests the effect of profitability and managerial ownership on firm value meets the normality assumption and is suitable for further analysis.

4.1.2. Multicollinearity test

Table 3: Multicollinearity test results

Coefficients ^a				
Model	Unstandardized Coefficients		Tolerance	VIF
	B	Std. Error		
1 (Constant)	0.430	0.055		
Profitability	-1.946	0.990	1.000	1.000
Managerial ownership	.261	0.187	1.000	1.000

Based on the multicollinearity test, a tolerance value of 1.000 and a VIF value of 1.000 were obtained for both independent variables, namely profitability and managerial ownership. These values indicate that there is no multicollinearity problem between the two variables. Therefore, profitability and managerial ownership can be used simultaneously in the regression model without the risk of a strong relationship between the independent variables.

4.1.3. Heteroscedasticity Test

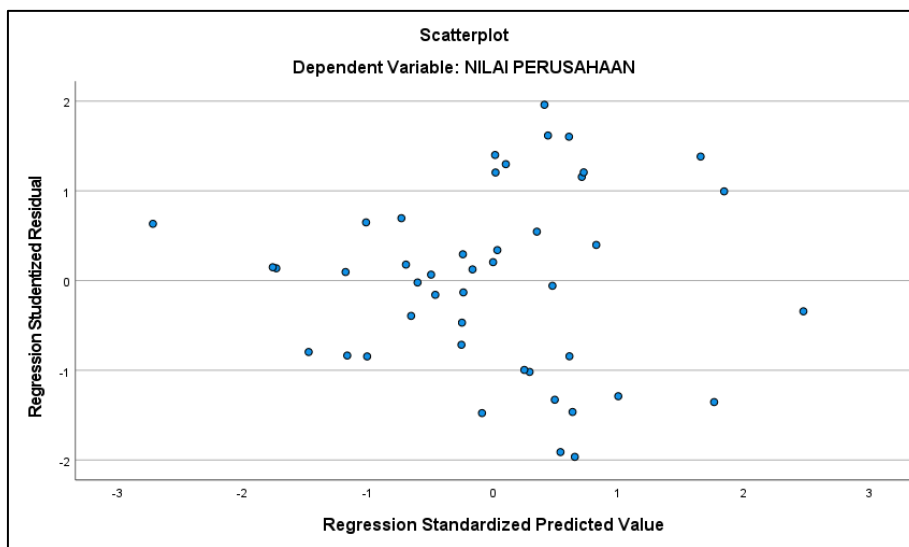


Figure 2: Heteroscedasticity test results

Based on the heteroscedasticity test figure, although specific numerical results are not shown in the table, a heteroscedasticity test is usually performed to ensure there is no unequal variance in the residuals. If the assumption of no specific pattern is met, or if the significance value is >0.05 using methods such as the Glejser test, it can be concluded that there is no heteroscedasticity in the regression model used in this study.

4.1.4. Autocorrelation Test

Table 4: Autocorrelation test results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.352 ^a	0.124	0.082	0.22045	1.608

a. Predictors: (Constant), Managerial Ownership, Profitability

b. Dependent Variable: Company Values

Based on the autocorrelation test, the Durbin-Watson value was 1.608, which falls within the range of 1.5 to 2.5. This value indicates that there is no autocorrelation between the residuals in the regression model. Therefore, the regression model used in this study is free from autocorrelation issues and the residuals are independent.

4.2. Multiple Regression Analysis

Table 5: Results of multiple regression analysis

Coefficients ^a			
Model	Unstandardized Coefficients		Tolerance

	B	Std. Error		
1 (Constant)	0.430	0.055		
Profitability	-1.946	0.990	1.000	1.000
Managerial Ownership	0.261	0.187	1.000	1.000

a. Dependent Variable: Company values

Based on the Multiple Regression Analysis test, the regression analysis results indicate that profitability has a regression coefficient of -1.946, indicating a negative effect on firm value, while managerial ownership has a regression coefficient of 0.261, indicating a positive effect on firm value. However, the strength of the influence of these independent variables must be further examined using t-tests and F-tests to determine their significance.

4.3. Hypothesis Testing

4.3.1. Hypothesis Testing (T-Test)

Table 6: Hypothesis testing results (T-test)

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.43	0.055		7.763	0
1 Profitability	-1.946	0.99	-0.284	-1.965	0.056
Managerial Ownership	0.261	0.187	0.202	1.398	0.17

a. Dependent Variable: Company Values

Based on the hypothesis test above, the profitability variable has a significance value of 0.056, while managerial ownership has a significance value of 0.170. Both are greater than 0.05, indicating that neither profitability nor managerial ownership has a significant effect on firm value. This means that each variable has no individual effect on firm value in this study.

4.3.2. F Test

Table 7: F test results

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1 Regression	0.289	2	0.144	2.970	0.062 ^b	
Residual	2.041	42	0.049			
Total	2.330	44				

A. Dependent Variable: Company Values
 B. Predictors: (Constant), Managerial Ownership, Profitability

Based on the f-test, a significance value of 0.062 was obtained, which is greater than 0.05. This indicates that simultaneously, profitability and managerial ownership do not significantly influence firm value. Therefore, the two independent variables together are unable to significantly explain changes in firm value in this model.

4.3.3. Coefficient of Determination (R²)

Table 8: Results of the coefficient of determination (R²) test

Model Summary ^b						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	0.352 ^a	0.124	0.082	0.22045	1.608	

a. Predictors: (Constant), Managerial Ownership, Profitability
 b. Dependent Variable: Company Values

Based on the Coefficient of Determination (R²) test, the R-square value was 0.124, or 12.4%. This result indicates that the contribution of profitability and managerial ownership variables in explaining variations in firm value is 12.4%, while the remaining 87.6% is explained by other variables outside this research model. Therefore, the model's ability to explain firm value is considered low.

4.4. Discussion

4.4.1. The Effect of Profitability (X1) on Firm Value (Y)

Based on the results of multiple regression analysis and t-tests, profitability (X1) has a regression coefficient of -1.946 with a significance value of 0.056. The negative coefficient value indicates that each increase in profitability is accompanied by a decrease in firm value. However, because the significance value is greater than 0.05, this effect is statistically insignificant. This means that in the 2022–2024 study period for industrial sector companies listed on the IDX, profitability did not have a significant effect on firm value. This could be due to external factors such as market instability, dividend policies, or the use of profits for investment that do not yet reflect an increase in company value in the eyes of investors. Therefore, profitability cannot be used as a primary indicator for increasing company value in the industrial sector during this study period.

4.4.2. The Effect of Managerial Ownership (X2) on Company Value (Y)

Based on the results of the regression analysis and partial t-test, managerial ownership (X2) has a regression coefficient of 0.261 with a significance value of 0.170. The positive coefficient indicates that greater management share ownership leads to a higher tendency for company value to increase. However, this effect is not statistically significant because the significance value exceeds 0.05. This indicates that during the study period, managerial ownership did not significantly influence company value in the industrial sector. This could be due to the relatively small proportion of managerial ownership or the ineffectiveness of management in optimizing company management to increase company value. Therefore, managerial ownership was not proven to be a significant corporate governance mechanism influencing company value in this study.

5. Conclusion

Based on the results of research conducted on industrial sector companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period, it can be concluded that profitability and managerial ownership, as corporate governance mechanisms, do not significantly influence firm value. The analysis shows that profitability, as measured by Return on Assets (ROA), does not significantly correlate with increased firm value; in fact, a negative, albeit insignificant, relationship is found. This suggests that financial performance in generating profits is not yet convincing enough for investors to increase the company's valuation. Similarly, managerial ownership, which is expected to align the interests of managers and shareholders, also does not significantly influence firm value, possibly due to the relatively small proportion of share ownership by managers or the ineffectiveness of their role in internal oversight. Simultaneously, these two independent variables also do not significantly explain changes in firm value, with the model's fit being only 12.4%. Therefore, this study concludes that profitability and managerial ownership are not the primary determinants of firm value in the industrial sector during this period. Other factors outside the model, such as dividend policy, cost control, product innovation, and external oversight, likely play a more significant role in influencing firm value.

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