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EFFECT OF PROFITABILITY ON FIRM VALUES WITH MANAGERIAL OWNERSHIP AS A VARIABLE CONTROL

(Construction and Building Sub Sector Listed in the Indonesia Stock Exchange for the 2014-2018 Period)

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ABSTRACT---*Corporate perception of the value of the company. Firm value can be measured by the state of the company's stock price in the market. Reflections on evaluations by the public on the performance of companies in real terms create the creation of company stock prices in the market. Measurement of firm value can be done with several calculations, one of which is the Tobin's Q ratio. In the past 5 years the value of the Construction and Building sub-sector companies has continued to decline. This study aims to analyze the effect of profitability on firm value by the presence of managerial ownership control variables in the construction and building sub-sector companies in the 2014-2018 period.*

ROE has a significant effect on Firm value.With the Managerial Ownership control variable there is an increase in the coefficient of determination.

Keywords---*Profitability, Managerial Ownership and Firm Value.*

I. PRELIMINARY

Firmvalueisthecompany'ssuccessexpressedinthepriceofsharesgeneratedbydemandandsupplyonthecapitalmarket, which represents the evaluation of company performance by the pu (Harmono, 2014: 233). The firm's perception of the investor can be seen from the company's value.Firm value can be measured by the state of the company's stock price in the market. Reflections on evaluations by the public on the performance of companies in real terms create the creation of company stock prices in the market. Share prices are useful as a benchmark for company performance, the price of these shares shows how well the performance of management on behalf of shareholders (Pasaribu, et al., 2016: 157). The higher the stock price, the firm value will also increase. This is in line with the wishes of the owners of the company, because with high firm value shows the welfare of high shareholders as well.

Measurement of firm value can be done with several calculations, one of which is the Tobin's Q ratio. Tobin's Q is the ratio of the market value of the assets of a company as determined by the market value of the amount of outstanding shares and debt to the cost of replacing the company's assets(Syafitri et al, 2018: 120). Through the Tobin's Q ratio, a company is

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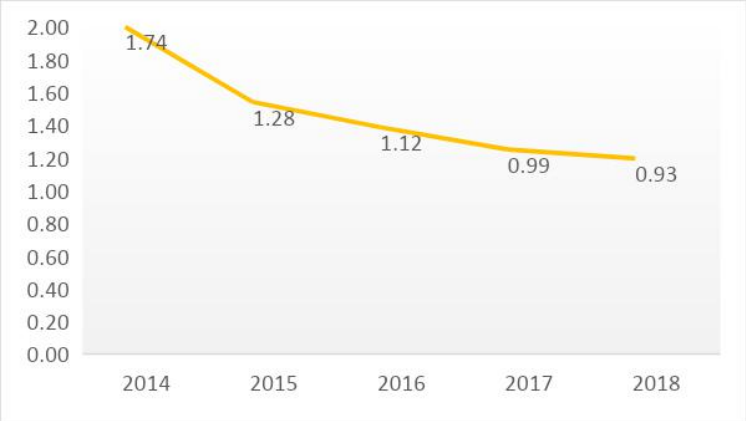
said to have succeeded in achieving the goal of maximizing the value of the company and the condition ofstocks *overvalued* if the value of q is greater than one. Conversely, the company is called a failure and the condition of its shares is *undervalued* if the value of q is less than one. The reason for using Tobin's Q ratio is because this ratio can provide the best information in reflecting the value of the company, because the calculation involves all elements of the company's debt and capital stock which not only include ordinary shares and shareholder equity, but all assets owned by the company and it can also reflect market expectations so that it is relatively free from the possibility of manipulation by company management (Syafitri et al, 2018: 120). The following is a graph of the average firm value in the construction and building sub-sector companies:

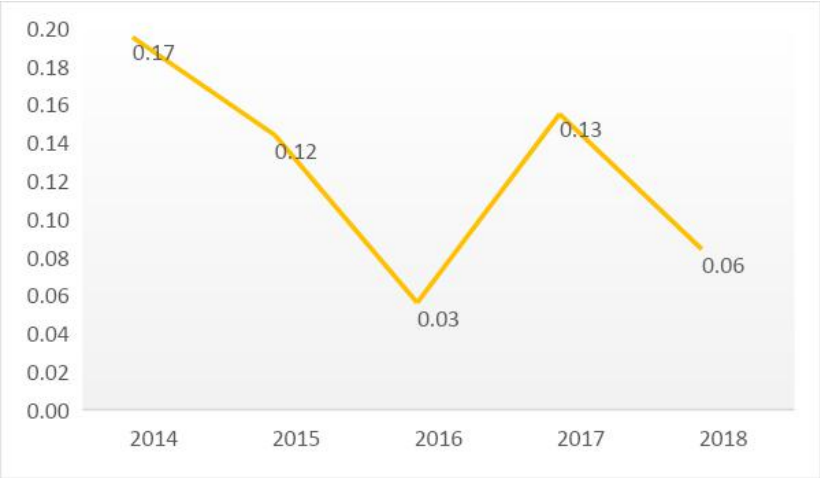


Source: Financial statements (data processed)

Graph 1: Average Firm value (Tobin's Q) Period 2014-2018

Graph 1 shows a decline in the value of companies from the sub-sector Construction and Building, which can lead to changes in investor's view of the Construction and Building sub-sector.

The company's ability to generate profits from the results of managing existing resources within the company can be described through profitability. The high profitability shows the company has good management in generating profits. In this study, profitability is measured using the ratio of *return on equity* (ROE) which shows the company's ability to generate profits after tax using the company's own capital. This ratio is important for shareholders to know the effectiveness and efficiency of their own capital management by the company management (Prasetyorini, 2013: 189). The following is a graph of average profitability development in construction and building sub-sector companies:



Source: Financial statements (data processed)

Graph 2: Average Profitability (ROE) Period 2014-2018

Managerial ownership is often associated as an effort in increasing firm value because managers other than as management as well as the owner of the company will feel the direct results of the decisions he made so that the managerial will not take actions that only benefit the manager. Jensen and Meckling (1976) stated that share ownership by management will reduce agency problems because the more shares owned by management, the stronger the motivation to work in increasing firm value. Jensen and Meckling suggest that there is a positive relationship between managerial ownership and firm value. The company is measured by the company's performance by seeing profitability highly dependent on the decisions of the management.

Based on this background, this study wants to find out about the effect of profitability on firm value with the control of managerial ownership.

II. LITERATURE REVIEW

PROFITABILITY

According to Munawir (2014: 33), profitability shows the ability of the company to generate profits over a given period of time.A company's profitability is determined by the success of the company and the ability to make efficient use of its assets, so a company's profitability can be calculated by comparing the profits earned in a period with the amount of assets or the amount of capital the company has..

As a result, the profitability of a company can be known by comparing the profits made over a period with the amount of assets or capital of the company. Measurement of profitability used is the return on equity

Return on Equity

According to Kasmir (2016: 196), the profitability ratios are ratios for assessing the ability of a company to look for profits or profits in given period. This ratio also provides a measure of the effectiveness of the management of the company. This is indicated by the profit generated by sales and income from investment. The point is using this ratio shows the efficiency of the company.

The profitability ratio used in this study is *Return on Equity* (ROE) which is a way to measure how much net income can be obtained from all the company's own paid up capital. ROE value will reflect the rate of *return* for the owner or shareholders. The higher the value of ROE, the greater the rate of return to the owners or shareholders, which means the more prosperous shareholders are marked by an increase in the value of the company.

According to Kasmir (2016: 204), return on equity is a ratio to measure net income after tax with own capital. Return on equity can be calculatedwith the following formula:

Return on Equity (ROE) = $\frac{Earning\ After\ Interest\ and\ Tax\ (EAIT)}{Equity}$

Firm value

Tobin'sQisanindicatorformeasuringcompanyperformance, specifically about firm value that shows a management performance in managing the company (Sudiyatno and Puspitasari, 2010) in (Wahyudi and Thoyib, 2018: 128). ThehigherTobin'sQvaluesuggeststhebusinesshasbetterprospectsforgrowth. The prospect of a good growth rate makes investors willing to sacrifice more investment for companies that have a market value of assets greater than the book value. Tobin's Q ratio is a measurement tool that is more accurate in measuring the effectiveness of management in utilizing and managing their resources.

Tobin's Q is defined as follows:$Tobin's\ Q\ =\ \frac{(MVS + D)}{N}$

Managerial ownership

Shareholding of managerial can align the interests of shareholders with the manager, because the manager to feel the direct benefits of the decisions taken and the manager who bear the risk when there is a loss arising as a consequence of wrong decision making. According to Jensen (1986) in Wijayati (2015: 3) states that the greater the proportion of management ownership in companies will be able to unite the interests of shareholders. With the existence of shareholders by the insiders,it will also benefit directly from the decisions that it makes.

Managerial ownership is the percentage of shares by management there are actively involved in the decision-making process (directors and commissioners) or all of the company's capital. One way to minimize the existence of an agency conflict within a company is to align management interests with the shareholders of the company.(Syafitri, et al., 2018: 124). The greater the ownership of shares on the managerial side, the managerial will work more proactively in realizing the interests of shareholders and ultimately will increase trust, then the value of the company will also rise. Management ownership is expressed through the number of shares owned by management and the board of commissioners divided by the total overall stock of the company. The calculation is systematically formulated as follows (Masdupi, 2005) in Pasaribu, et al. (2016: 156):

Managerial Ownership = $\frac{Number\ of\ stock\ managerial}{Number\ of\ Shares\ Outstanding}$

III. Research methods

The population in this study is the construction and construction subsector listed on the Indonesian Stock Exchange for the period 2014-2018. By using the purposive sampling method, the number of samples used in the study was 8 companies, with a research period of 5 years. Then the number of observations in this study is 8x5 = 40 observations.

The variables used in this study consisted of three types of variables, namely: independent variables, control variables, and dependent variables. The independent variable used in the study is return on equity, the control variable used is managerial ownership and the dependent variable used is firm value.

IV. RESULTS AND DISCUSSION

RESULTS

Thetable 1 below shows descriptive statistics for variables:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TQ	40	.71	2.22	1.2124	.41179
ROE	40	-.51	.28	.1016	.13370
ManOw	40	.00	.07	.0119	.02229
Valid N (listwise)	40				

The minimum value of Tobin'Q 0.71 is below 1 while the maximum value is 2.22, the large range between The minimum value of Tobin'Q and the maximum value.

Normality Test

The table 2 below shows results of the normality test using One-Sample Kolmogorov-Smirnov Test

Table 2: One-Sample Kolmogorov-Smirnov Test

		Standardized Residual
N		40
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	.98709623
Most Extreme Differences	Absolute	.124
	Positive	.117
	Negative	-.124
Kolmogorov-Smirnov Z		.782
Asymp. Sig. (2-tailed)		.574

a. Test distribution is Normal.
b. Calculated from data.

Based on the results of the normality test using the Kolmogrov-Smirnov (KS) test in the table above it can be seen that the Asymp Sig (2-tailed) is 0.574 which shows that the value is greater than 0.05 then the data is normally distributed.

Multicollinearity Test

The table 3 below shows results of multicollinearity test using VIF

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.055	.075		14.142	.000		
	ROE	1.666	.440	.541	3.788	.001	.951	1.051
	ManOw	-1.013	2.637	-.055	-.384	.703	.951	1.051

a. Dependent Variable: TQ

The result of VIF ROE is 1.051 more than 1 and bellow 10, that's mean no multicollinearity in variable.

Autocorrelation Test

The table 4 below shows results of autocorrelation test

Table 4: Runs Test

	Unstandardized Residual
Test Value[a]	-.05592
Cases <Test Value	20
Cases> = Test Value	20
Total Cases	40
Number of Runs	18
Z-	801
Asymp. Sig. (2-tailed)	.423

a. Median

Based on the results of the autocorrelation test with the run test in Table 6 below, it can be seen if the Asymp value. Sig (2-tailed) is equal to 0.423, and the value is higher than 0.05, which means that in the regression model in this study autocorrelation did not occur.

Heteroscedasticity Test

The table 5 below shows results of heteroscedasticity test

Table 5: Coefficients[a, b]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	ROE.	879	.314	.425	2,800	.008	.803	1,245
	ManOw	2,749	2,092	.200	1,315	.197	.803	1,245

a. Dependent Variable: ABRESID
b. Linear Regression through the Origin

Sig values of all variables are values above 0.05, which shows that none of the statistically significant independent variables influence the dependent variable Absolute value. Means in this study, did not happen heteroscedasticity

Hypothesis testing

Coefficient of determination (R^2)

Table 6: The coefficient of determination ($R^{2)}$does not using the control variable

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.529[a]	.280	.261	.35409	1,567

a. Predictors: (Constant), ROE
b. Dependent Variable: TQ

The R^2 value of this regression model is 0.280 in table 6. This means that the dependent variable in the model can be explained by the independent variable and the control variable by 28.0%.

Table 7: The coefficient of determination ($R^{2)}$by using the control variable

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.531[a]	.282	.244	.35813	1,570

a. Predictors: (Constant), MANOW, ROE

The R^2 value of this regression model is 0.282 in table 7. This means that the dependent variable in the model can be explained by the independent variable and the control variable by 28.2%.

From the results if the statistical data in Table 6 and Table 7, it can be concluded that managerial ownership variable can control the effects are independent of the dependent variable because it can increase the coefficient of determination (R^2).

F Test Statistic

Table 8: F statistical test result without the variable control

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.849	1	1.849	14.746	.000[b]
	Residual	4.764	38	.125		
	Total	6.613	39			

a. Dependent Variable: TQ
b. Predictors: (Constant), ROE

The calculated F value before using the control variable is 14,746 with a significance value of 0,000.

Table 9: F statistical test results using the control variable

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.868	2	.934	7.281	.002[b]
	Residual	4.746	37	.128		
	Total	6.613	39			

a. Dependent Variable: TQ
b. Predictors: (Constant), MANOW, ROE

The calculated F value before using the control variable is 14,746 with a significance value of 0,000. While the calculated F value after using the control variable is 7.281and the probability level is 0.002. The comparison results show that there is no significant difference between the results of either not using the control variable or using it, both statistical tests give results with a significantly smaller probability level compared with the value of $\alpha = 0.05$.

T Test

Table 10: Results of statistical t tests without using control variables

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,047	.071		14,817	.000
	ROE	1,629	.424	.529	3,840	.000

a. Dependent Variable: TQ

The value of the regression coefficient or unstandardized coefficient ROE is 1,629 with a significance level of 0,000.

Table 11: Results of statistical tests t using the control variable

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.055	.075		14.142	.000
	ROE	1.666	.440	.541	3.788	.001
	MANOW	-1.013	2.637	-.055	-.384	.703

a. Dependent Variable: TQ

TheValue of the regression coefficient or unstandardized coefficient of ROE is 1,666 with a significance level of 0.001.

V. DISCUSSION

In this study, prove that ROE has a significant effect on Firm value. This is also the same as the opinion of Hariyanto, MS, and PutuVivi (Lestari. 2015), who found a positive effect of ROE on firm value. Similarly, the results of research Ramdhonah, et al. (2019), High profitability is seen as a positive signal for investors who hope that with the increase in the company's net profit, company management will also increase dividends. High company profitability will increase the value of the company because of the investor perspective, a company that is able to produce high profitability means that the company is able to manage the company's capital.

The effect of profitability (ROE) on the value of the company (Tobin's Q) in the construction and building sub sector, indicates that when profitability in this sector increases, the value of the company will increase.

With the variable control then there is a change in the coefficient of determination that the increase in the value of $R^{2,}$ which means that the role of profitability in influencing the company's value also increases.

VI. CONCLUSION

ROE has a significant effect on Firm value.With the Managerial Ownership control variable there is an increase in the coefficient of determination. This research is still limited with profitability which using return on equity and only uses one control variable. With the control variable there is a change in the coefficient of determination which means that the role of profitability in affecting the value of the company. Although in this study the change in the coefficient of determination is small. This illustrates that the need for the role of managers as managers of the company and concurrently as the owner gives an increased effect of profitability on the value of the company.

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