

THE INFLUENCE OF MANAGERIAL OWNERSHIP TOWARD THE VALUE OF FIRM WITH THE FINANCING DECISION AS AN INTERVENING VARIABLE

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ABSTRACT

Every company has the same goal that is to maximize the value of the company and the wealth of its shareholders. Due to the different interests between the shareholders and the management, there is always conflict in the company. Share ownerships by the company management is believed to be able to unite the interest between the shareholders and the manager, therefore at the end, it results in the company performance in achieving company goals. Funding decision is a structure that has to be implemented by the management correctly so that the value of the company can increase. This research uses 130 manufacture companies that listed on Indonesian Stock Exchange by the year of 2010. The method to choose the samples is done by using purposive sampling method and path analysis method. The result of this research show that: 1) managerial ownership effect directly the company value, 2) funding decision does not affect the company value, 3) managerial ownership effect the company value with funding decision as its intervening variable and it is approved that funding decision is used to find the effect of managerial ownership on the company value.

Key words: *Managerial Ownership, Funding Decision, Company Value.*

PENGARUH KEPEMILIKAN MANAJERIAL TERHADAP NILAI PERUSAHAAN DENGAN KEPUTUSAN PENDANAAN SEBAGAI VARIABEL INTERVENING

ABSTRAK

Setiap perusahaan memiliki tujuan yang sama yaitu untuk memaksimalkan nilai perusahaan dan kekayaan pemegang saham. Karena ada perbedaan kepentingan antara pemegang saham dan manajemen, selalu ada juga konflik di perusahaan. Kepemilikan saham oleh manajemen perusahaan diyakini mampu menyatukan kepentingan antara pemegang saham dan manajer, karena itu pada akhirnya, meningkatkan kinerja perusahaan dalam mencapai tujuan perusahaan. Keputusan pendanaan adalah struktur yang harus dilaksanakan oleh manajemen dengan benar sehingga nilai perusahaan dapat meningkat. Penelitian ini menggunakan 130 perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada tahun 2010. Metode untuk memilih sampel dilakukan dengan menggunakan metode purposive sampling dan metode analisis jalur. Hasil penelitian ini menunjukkan bahwa: 1) kepemilikan manajerial berpengaruh secara langsung terhadap nilai perusahaan, 2) keputusan pendanaan tidak berpengaruh terhadap nilai perusahaan, 3) kepemilikan manajerial berpengaruh terhadap nilai perusahaan dengan keputusan pendanaan sebagai variabel intervening yang dan membuktikan bahwa keputusan pendanaan digunakan untuk mengetahui pengaruh kepemilikan manajerial terhadap nilai perusahaan.

Kata Kunci: *Kepemilikan Manajerial, Keputusan Pendanaan, Nilai Perusahaan.*

INTRODUCTION

The firms, in general, have the same objective that is maximizing their value or the shareholder wealth. The higher the value of the common stock owned the higher wealth that they obtained. In this case, the value of the firm is reflected by the price per share that the stock is a reflection of financial management decision. The value of the firm is measured by price book value (PBV) because the ratio measures the value that is given by the financial market to the management and the firm's organization as the sustainable developed company (Untung and Hartini 2006).

The market price of the stock is one aspect to measure the value of the firm because it can reflect the valuation of the all investor having the equities. An increase of the firm's value can be achieved if there is cooperation between the company's management and other parties like the shareholder or stakeholder. There will be no problem between the management and the other parties if their actions are the same. The researchers believe that the ownership structure can affect the operation of the firm that finally influences the company's performance in reaching its objective. It is caused by their controls.

The managerial ownership is the possession of stock or company of the influential parties in making decisions like board of commissioners, board of directors, and management. Faizal (2005) explained that the managerial ownership can assist the unification of the interests of the owners and the management. The higher the proportion of the managerial ownership is, the better the company's performance is. The increasing of the managerial ownership will be parallel or equal the management position with the shareholder so the management will be motivated to increase the company's performance.

The financing decision is a policy of how an asset or an investment can be financed, how much the fund is demanded and where the source of the fund is ob-

tained so that it can be attained by the combination of the optimal use of the fund sources. In doing so, the financial manager should establish the accurate financial structure to improve the value of the firm. Wahidawati (2002) said that the stock's ownership of the management is negatively correlated with the using of the debt while institutional ownership significantly is affected and negatively correlated with debt ratio.

Untung and Hartini (2006) found from the research result that the managerial ownership affected the financing decision and the institutional ownership didn't influence the financial decision including the financing decision. The study of Diyah and Erman (2009) obtained the research result that the managerial ownership didn't affect toward the financing decision and the institutional ownership also didn't significantly influence the financing decision. The study of Yulius and Josua (2007) explained that most of the financing resource of the companies is derived from creditors. The company without the managerial ownership is risky to take the debt policy as its financing resource.

THEORETICAL FRAMEWORK AND HYPOTHESIS

The Managerial Ownership

The managerial ownership is a part of the company ownership structure. According to Ituriaga and Zanz (1998) in Faizal (2005) the ownership can be distinguished from two different perspectives:

The agency approach: The ownership structure is a mechanism to reduce the conflict of interest between the management and the shareholders.

The asymmetry information approach: The ownership structure is one way to reduce the information imbalance between internal and external parts through the information disclosure.

The definition of ownership structure is described to picture the important variables in the capital structure that it not only af-

affected by the amount of debt and equity but also influenced by the percentage of the managerial and institutional ownership.

The Financing Decision

A debt financing or financial leverage has three important implications (Brigham 2001: 84):

A debt financing enables the shareholders to control the company with a limited investment.

The creditors noticed that the equity or the fund deposited by the shareholders will provide the safety margin so that so the shareholders only give a small part of a total financing then the bigger company risk is bore by the creditors.

If the company obtains a bigger return of the investment financed by debt and compared with the interest payment, the repayment of the owner's capital will be higher, or "leveraged".

Moelyadi (2006) in Diyah and Eman (2009) explained that the raising of fund was interesting because every fund is used absolutely had a cost of fund. If the company uses the fund from the debt the company should pay the amount of the cost as big as the interest rate. But, if the company is financed by equity capital it should consider the opportunity cost of that equity capital.

The company needs to consider how the combination of the capital resource is used and from where the capital will be gained. Therefore, the financing policy is a policy which deals with the fund resource used to finance an investment associated with the optimal combination of using any fund resources.

Mulyadi (2006) in (Diyah and Erman 2009), argued that the financing decision will be associated with the determination of the combination of any fund resources that is basically divided in two parts: 1) External financing leading to the decision making about the capital structure determining the proportion of the long term debt and the equity capital. It is clear in the debt to equity

ratio of the company. 2) Internal financing applied accordance with the determination of the dividend policy pictured by the dividend payout ratio.

A good capital structure minimally has the proportional internal and external financing that will pay off the all obligation.

The Value of the Firm

Agus Sartono (2001: 7) states that the main objective of the firm is to maximize the profit. The opinion is removed because there are many weaknesses of the argument. The weaknesses include such as 1) the micro economic standard with the profit maximization is static because it doesn't consider the time dimension so there is no the difference between the short time profit and the long time profit; 2) the definition of profit is to maximize the nominal amount of profit or the level of profit; 3) according to the risk of every alternative of the decision maximizing the profit without considering the risk in the future is a fatal error; 4) maximizing the profit can be performed by saving the result of selling the stocks in the time deposit, but in this case the shareholders will request the higher level of the return of the time deposit for the bigger risk then the stock price will decrease and also will lowering the value of the firm.

Based on the weaknesses of the definition above, the firm is changed to maximize the firms' objective by the increasing the shareholders wealth. Since the shareholders wealth can increase, the stock price of the firm can grow as well. The value of the firm is determined by the stock market. The value of the firm that doesn't sell the stock in the stock market also is affected by the same stock market (Agus Sartono 2001: 8).

There are quantitative used to estimate the value of the firm such as (1) the book value. The book value is the amount of the asset in the balance sheet reduced by the liabilities or the equity capital; (2) the market value of the firm. The market value of

the firm is an approach to estimate the net value of the business; (3) the appraisal value. The company using the independent appraisal value will allow a reduction of the goodwill if the company asset price increases; (4) the expected cash flow value. This value is used in the valuation of the merger and the acquisition. The present value of the cash flow will be maximal and should be paid by the targeted company. The early payment can be reduced to calculate the present net value of the merger.

The Correlation of the Managerial Ownership and the Financing Decision

The financing decision can be affected by a managerial ownership and an institutional ownership. It means that the fund is obtained from debt or from the internal of the firm. If the financing is gained from debt, the ratio of debt to equity will increase and finally will raise the company risk.

Taswan (2003) explained the research result that the variable of the managerial ownership has significantly positive correlation with the debt policy. It means the higher the managerial ownership the bigger the debt. It happens because the big control of the managerial ownership will cause the company able to make a better investment needing an addition of fund sourcing from the debt.

The demand hypothesis explained that the company dominated by insider will use the big debt to finance the company activity. With the big ownership, the insider can maintain the effective control of the company. The supply hypothesis described that the company controlled by the management has a small debt agency cost enhancing the debt using (Untung and Hartini 2006).

Wahidahwati (2002) didn't find the correlation between the managerial ownership and the dividend. The correlation explains if the management has a big share its asset will be well diversified. Thus, the management expects a return of the bigger opportunity cost from a high dividend distribu-

tion.

The increase of the managerial ownership makes a high attachment of the private management asset with the company asset. Because of that the management tries to reduce the risk of the loss the asset by decreasing the leverage level. If the percentage of the managerial ownership is high the management will reduce the debt role as a part of reducing agency cost through its role as the decision maker in the financing decision.

The Correlation between the Managerial Ownership and the Value of the Firm

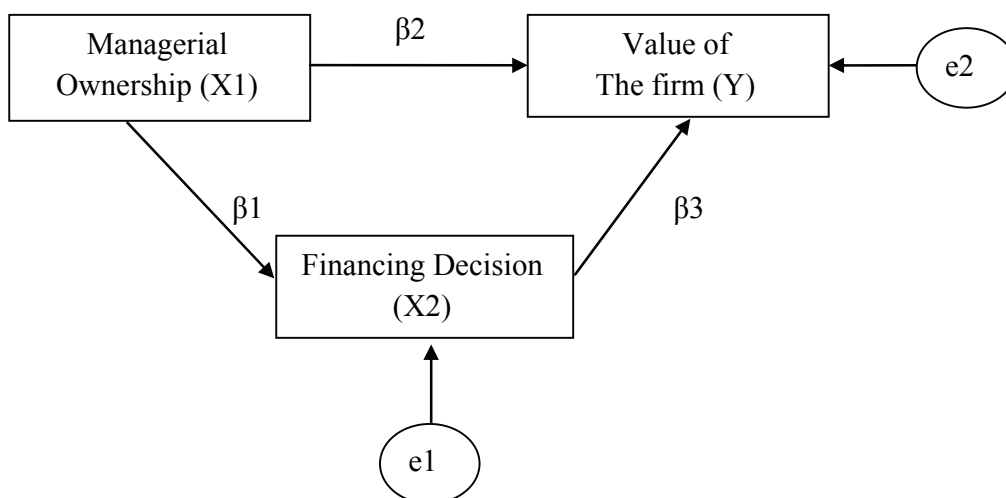
The agency theory explained the conflict between the shareholders and the management. The managerial ownership assumed that the control mechanism is an accurate tool to reduce the conflict. The managerial ownership can synchronize the interest of the ownership and the management. So, the bigger insider ownership the higher the value of the firm (Dyah and Erman 2009).

Pound (1998) in (Diyah and Erman 2009) described the three alternative hypotheses against the relationship of the managerial ownership and the value of the firm.

The first hypothesis is the efficient monitoring hypothesis. This hypothesis explains that the individual investor or the insider with a small ownership (minority) had a tendency to exploit or borrow a voting power owned by a majority shareholder to control the management performance. In this case the majority institutional investor will incline to the interest of the minority shareholder because they have the same interests especially in economic incentives (dividend – long term interest or stock abnormal return – short term interest). The action has an impact on the increase of the value of the firm which is reflected by raising the stock price in the capital market.

The second hypothesis is the strategic alignment hypothesis. The hypothesis says

Figure 1
Theoretical Framework



that the institutional investor has a tendency to compromise or incline to the management and ignore the minority shareholder interest. The assumption that the management frequently takes a suboptimal action or policy and lead to a self interest will cause the strategic alliance between the majority institutional investor and the management is negatively responded by the market. It will impact a decreasing of the company price share in the capital market.

The third hypothesis is the conflict of interest hypothesis. Basically this hypothesis has a same concept with the second hypothesis. That is a tendency of the majority institutional investor to compromise and to alliance with the management.

The Correlation between the Financing Decisions toward the Value of the Firm

Agus Sartono (2001: 8) said the value of the firm is a form to maximize the value of the firm through maximization wealth of stockholders. The value of the public companies is determined by a capital market. The value of the company that doesn't trade the share in the capital market is also affected by the same capital market.

The company value formed by the indicator of stock market value is affected by the

investment opportunities. The opportunities provide a positive signal about the future company development that will increase the stock price as an indicator of the company value – signaling theory (Untung and Hartini 2006).

One of the important decisions that should be taken by the management is a decision about the capital structure or the company financing. This decision correlates with how the composition of the company financing uses internal and external funding that influences the value of the firm. If the internal fund isn't enough, the company will take the external fund, in which one of these is debt. This fund using the debt can reduce the taxable income that will provide a benefit for the shareholders. The studies of Diyah and Erman (2009), and Untung and Hartini (2006) stated that the financing decision influences the company value.

The theoretical framework of the study can be shown in Figure 1. Based on the theory and the framework of the thought, the research hypothesis is formulated as followed:

H1 : The managerial ownership affects the financing decision.

H2 : The managerial ownership affects the value of the firm with the financing decision as an intervening variable.

RESEARCH METHOD

Operational Definition and Variable Measurement

The Value of the Firm

The value of the firm is measured by the level of Market Value Added or Price Book Value (PBV), which is a comparison between the market price per share and the book value per share. The formulation used is:

$$PBV = \frac{\text{MarketPriceperShare}}{\text{BookValueperShare}} \quad (1)$$

The Managerial Ownership

The managerial ownership is the proportion of shares owned by a part that is actively involved in company decision making as board of directors and board of commissioners. The formulation used is:

$$MNJR = \frac{\text{NumberofSharesOwned}}{\text{NumberofSharesDistributed}} \quad (2)$$

The Financing Decision

The financing decision is measured by comparison the company total of debt with the total equity. This ration is measured by a formulation as follows:

$$BDE = \frac{\text{TotalDebt}}{\text{TotalAsset}} \quad (3)$$

The Population, Sample, and Sampling Technique

The population used in the study is manufacturing companies that trade their share in Indonesia Stock Exchange (ISX) from 2009 until 2011. The sampling technique used the purposive sampling. It takes samples using special criteria's determined fit with the research objective (Uma Sekaran 1992: 237). The criteria's are: (1) the manufacturing companies that trade the shares in ISX except the companies owned by the government of Republic Indonesia. The companies should have the complete data that can support the study as the proportion of the company shareholders, reporting the financial report and its notes obtained in ISX or

ICMD; (2) the company had a positive equity value and net profit, because the negative value will create mathematically error and doesn't have the economic value that it is means cannot be interpreted; (3) The period of the financial report is 2009 (the managerial ownership); 2010 (the financing decision and the value of the firm) 2011 (the value of the firm).

Based on the criteria's the research samples are one hundred and thirty (130) manufacturing companies of one hundred and forty-eight (148) manufacturing companies registered in ISX.

Data Analysis Technique

In this analysis, the researcher descriptively describes each variable in the study. These are the managerial ownership (X_1), the financing decision (X_2), and the value of the firm (X_3).

Hypothesis Test

The step of hypothesis testing is:

1. Data Screening and Data Transformation

Before testing the assumption, the regression or the correlation of the variables, the first step to screen the normality of the data proceeded. The abnormal distributed data can be transformed as square root (SQRT).

2. Testing the Assumption of Path Analysis

The normality test purposes to test if the regression model, the residual has normal distribution, because F test and t test assume that the residual value follows the normal distribution (Imam Ghazali 2011:160).

Testing the multicollinearity aims to test whether the regression model founds the correlation between independent variables (Imam Ghazali 2011:105). After testing the multicollinearity based on tolerance value and variance inflation factor (VIF) can be concluded that this model doesn't have multicollinearity.

Testing the heteroscedasticity aims to test whether the regression model has ine

Table 1
Data Screening

	Managerial Ownership	Financing Decision	Value of the Firm
Kolmogorov Smirnov Z	4.590	0.669	3.089
Asymp.Sig. (2-tailed)	0.000	0.762	0.000

N=130

a. Test distribution is Normal.

Table 2
Testing the Normality after Determination of Data

	Unstandardized Residual
N	123
Kolmogorov Smirnov Z	0.995
Asymp.Sig. (2-tailed)	0.275

Table 3
Testing the Multicollinearity

Variables	<i>Collinearity Statistics</i>
	VIF
The Managerial Ownership	1,000
The Financing Decision	1,000

Source: Data analysis result.

quality of the residual from one observation to other observation (Imam Ghazali 2011: 139).

DATA ANALYSIS AND DISCUSSION

Data Screening and Data Transformation

The result of data screening using normality test is shown in Table 1. From the three variables used in this study, the two variables (the managerial ownership and the value of the firm) are not normally distributed so this needs transforming the data. While the financing decision is normally distributed, it doesn't need to transform the data. For abnormal distributed data were transformed (the managerial ownership and the value of the firm) into square root (SQRT).

Testing the Assumption of Path Analysis

The research result indicates that the data was not normally distributed, and seven outlier data were found. The result of testing the normality after determination of data is

shown in Table 2.

Testing the multicollinearity based on tolerance value and variance inflation factor (VIF) can be concluded that this model doesn't have multicollinearity. The result of multicollinearity test is shown in Table 3.

The research result shows that the regression model contains the heteroscedasticity. The result of heteroscedasticity is shown in Table 4.

Testing the Hypothesis

The Influence of Managerial Ownership to the Financing Decision

Equation structure:

$$X_2 = \alpha + \beta_1 X_1 + e_1 \quad (4)$$

The research result as shown in Table 5 declares that the managerial ownership affects toward the financing decision. It is in accordance with the demand hypothesis or the supply hypothesis. The increase of the managerial ownership is followed by the increasing of debt that shows that with the big ownership the insider want to maintain

Table 4
Test of Heteroscedasticity

Model	Unstandardized Coefficients		t	Sig.
	B			
1 (Constant)	.458		6.407	.000
Managerial ownership	-.646		-2.198	.030
Financing decision	.008		.060	.952

Source: Data analysis result.

Table 5
The influence of the Managerial Ownership toward the Financing Decision

Model	Unstandardized Coefficients		t	Sig.
	B			
1 (Constant)	2.314		12.473	.000
SQRTMNJR	-4.650		-2.876	.005

Source: Data analysis result.

Table 6
The Influence of the Managerial Ownership toward the Value of the Firm with the Financing Decision as the Intervening Variable

Model	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
1 (Constant)	1.467	.118	12.408	.000
SQRTMNJR	-1.676	.486	-3.451	.001
NP	-.116	.207	-.562	.575

Source: Data analysis result.

the control effectively of the company.

The influence of the managerial ownership toward the value of the firm with the financing decision as the intervening variable is drawn.

Equation structure:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e_2. \quad (5)$$

The research result as shown in Table 6 describes that the managerial ownership directly affects the value of the firm and through the financing decision as intervening variable. It indicates that the management is so careful in determining the decision because they also need to consider the other interest parties as the institutional parties. The right decision will give a good response in the market followed by the increasing of the value of the firm.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

It can be concluded as follows: 1) The managerial ownership directly influences the financing decision and the value of the firm; 2) The financing decision doesn't influence the value of the firm, but based on the calculation of path analysis the financing decision is an intervening variable of the managerial ownership toward the value of the firm; 3) The managerial ownership indirectly influences the value of the firm with the financing decision as the intervening variable.

This study has limitations among others: 1) this study uses the managerial ownership as an independent variable that might have small influence. Thus, it cannot be compared with the other factors that can merely influ-

ence the financing decision and the value of the firm; 2) the data of the managerial ownership in this research is more dominant zero sums that causes the data is not normal.

This study has some suggestions for the next study. 1) The next study should better use the longer observed period so that it can yield better results. It is with the observed period such as only one year; 2) the researchers can replace the financing decision as moderating variable that can strengthen or weaken the managerial ownership in influencing the value of the firm; 3) they should also better add the financing decision ratio as a independent variable and the independent variable other than managerial ownership, and extend the samples with consideration of the sample criteria established previously.

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