

The Influence of Managerial Ownership, Leverage and Company Size on Stock Prices

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Abstract- *Stocks are one of the investment alternatives in the capital market that are most widely used by investors, because the profits obtained are greater and the capital funds are not too large. Sampling in this study used a purposive sampling method with the following criteria: (1) real estate sub-sector companies listed on the Indonesia Stock Exchange in 2017 – 2019, (2) Published financial statements for the period 2017 – 2019. Data needed in this study taken from the Indonesian Capital Market Directory (ICMD) in 2017-2019 with a sample of 35 companies for three years so the total data is 105. The statistical test is carried out by t-test and multiple linear regression analysis, before this test, the classical assumption test is carried out first. The results show that: managerial ownership has no effect on stock prices, while leverage and firm size have a positive effect on stock prices.*

Indexed Terms- *stock price, managerial ownership, leverage, firm size*

I. INTRODUCTION

(Koewn, A, J., Martin, J, D., Petty J, W., & Scott, D, 2011) explains that the main goal of the company is to maximize the value or price of the company's stock. Whether or not a management decision is correct can be judged based on its impact on the company's stock price. Shares are part of ownership in a company where each share gives the owner one vote (Bodie et al., 2014). In an effort to maximize the value of the company there is often a conflict of interest (agency conflict). One of the conditions that give rise to agency conflict is information asymmetry which results in the opening of opportunities for managers to take actions that are beneficial to themselves (Budiharjo, 2016).

Stocks are one of the investment alternatives in the capital market that are most widely used by investors, because the profits obtained are greater and the funds needed by investors to invest are not so large when compared to bonds. The stock price is one indicator of the interest of potential investors to own shares of a company, if the stock price of a company always increases, then investors or potential investors judge that the company is successful in managing its business. For companies that issue shares in the capital market, the price traded on the stock exchange is an indicator of company value. The company's stock price can be used as a measure of the company's value because the stock price can provide benefits for shareholders. (Saprudin, 2019).

Managerial ownership is a condition that indicates that the manager has shares in the company or the manager is also a shareholder of the company. Managerial ownership is the percentage of share ownership by management who actively participates in making company decisions. In agency theory, the relationship between managers and shareholders is described as the relationship between the agent and the principal (Nuraini, 2015). Managerial ownership and debt have a reciprocal relationship, this is indicated by an increase in the percentage of managerial ownership will reduce the use of corporate debt and conversely a decrease in managerial ownership will increase the use of corporate debt (Nuraini, 2015).

In research (Kadek Ria & Sanica, 2015) based on the test results, the Managerial Ownership variable has no effect on the Stock Price. While research conducted by (Ni Nyoman, T, S & I Made S, 2014) Managerial Ownership variable has an effect on stock prices.

Leverage is a ratio that describes the company's ability to fulfill all its obligations. (Herry, 2017). Leverage is

the use of assets and sources of funds by companies that have fixed costs (fixed expenses) with the aim of increasing the potential profits of shareholders.

Research conducted by (Musfitria, 2016), shows that leverage has a significant effect on stock prices. While research conducted by (Wuryaningrum & Anindhyta, 2015) shows that the independent variable DER does not have a significant effect on stock prices of construction and building companies.

(Jogiyanto, 2013) defines company size as a scale where the size of the company can be classified according to various ways (total assets, log size, stock market value, and others). To calculate the size of the company can be seen from the amount of equity value, sales value or asset value.

(Putranto & Darmawan, 2018) The results of the regression analysis show company size (TR has a significant effect on the dependent variable, namely stock prices (CP). While research conducted by (Cinthia et al., 2019) Based on the results it is known that company size has no significant effect to stock prices.

Based on the description of the background above, the authors are interested in raising this issue as material for scientific writing with the title: "The Effect of Managerial Ownership, Leverage and Company Size on Stock Prices".

- Formulation of the problem

Based on the background described above, the authors determine the formulation of the problem as follows:

1. Does managerial ownership affect stock prices?
2. Does leverage affect stock prices?
3. Does the size of the company affect the stock price?

II. LITERATURE REVIEW

- Signaling Theory

According to (Hartono, 2017), information published as an announcement will provide a signal for investors in making investment decisions. Meanwhile, according to (Brigham & Joel, 2015), signal theory is a behavior of company management in giving instructions to investors regarding management's

views on the company's prospects for the future. When information is announced, market participants first interpret and analyze the information as a good signal (good news) or a bad signal (bad news).

Signal theory states that good quality companies will intentionally give signals to the market, thus the market is expected to be able to distinguish good and bad quality companies (Hartono, 2017). If the announcement of the information is considered a good signal, then investors will be interested in trading shares, thus the market will react which is reflected through changes in the volume of stock trading. One type of information issued by the company that can be a signal for parties outside the company is the annual report. This signal determines the reaction that occurs in the market.

- Stock price

According to (Aziz et al., 2015), "The stock price is the price in the real market, and is the most easily determined price because it is the price of a stock in the ongoing market or if the market is closed, then the market price is the closing price". According to (Hartono, 2017), "The share price is the price of a share that occurs on the stock market at a certain time carried out by market participants and is determined by the demand and supply of the shares concerned in the capital market." Market reaction is characterized by changes in stock prices, this market reaction is influenced by published information.

Meanwhile, according to (Brigham & Joel, 2015) "Stock prices are a form of all publicly available information and are based on expected cash flows in the current year and in the coming years." Based on the above definition, it can be concluded that the stock price is the market price that occurs in the stock market which is determined by the number of requests and offers for shares in the capital market

- Managerial ownership

Managerial ownership is the percentage of share ownership by management who actively participates in making company decisions (Directors and Commissioners) (Setiana & Sibagariang, 2013). That is, managerial ownership is a situation where managers who have the function of running the company act also as shareholders of the company.

Jensen and Meckling (1976) in (Wulandari & Budiarta, 2014) state that management's share ownership can help unite the interests of the company's internal parties and investors. The better the company's performance, the higher the proportion of management's share ownership.

The assumption that arises in this statement is that when the manager co-owns the company, the manager is unlikely to act opportunistically anymore. The relationship between managers and shareholders is an asymmetric relationship which has the potential to cause conflict between shareholders and management. If management acts as a shareholder, the conflict is considered capable of being minimized. every decision from the management who also acts as the owner and its activities in a company will certainly be different from a company whose management does not own a proportion of shares. In companies with managerial ownership, managers will align their interests with their interests as shareholders. On the other hand, in a company without managerial ownership, managers may only be concerned with their own interests.

- Leverage

The solvency ratio is a ratio that measures the amount of debt used in company spending. According to (Kasmir, 2019), the solvency ratio is a ratio used to measure the extent to which company assets are financed with debt. According to (Manurung, 2012), the solvency ratio is a ratio that shows the company's ability to meet all its financial obligations if the company is liquidated.

- Company Size

(Hartono, 2017) defines company size as a scale where the size of the company can be classified according to various ways (total assets, log size, stock market value, etc.). To calculate the size of the company, it can be seen from the value of equity, value sales or asset value.

Company size (size) is an indicator that shows the financial strength of the company. The bigger the company, the higher the interest of investors to invest their shares compared to small companies. This is because large companies are considered to have a stronger financial structure such as total assets and

capital than small companies. This condition is reasonable, because investors want stable profits and usually large companies have more stable profits than small companies (Hartono, 2017).

- Hypothesis

Based on the existing problems and the objectives to be achieved, the authors draw a hypothesis, namely:

H1 = There is an effect of managerial ownership on stock prices

H2 = There is an effect of Leverage on stock prices

H3 = There is an effect of company size on stock prices

III. RESEARCH METHOD

- Types of research

The research used in this research is causal associative research. According to Sanusi (2011), associative-causal is research that seeks a relationship between two or more variables. The purpose of associative research is to find the relationship between one variable and another.

- Population and Research Sample

The population in this study are all real estate sub-sector companies listed on the Indonesia Stock Exchange for the period 2017-2019.

The sample research used purposive sampling technique, namely the technique of determining the sample with certain considerations (Sugiyono, 2016). So that companies that do not meet the criteria determined by the study will be excluded from the sample. Real estate sub-sector 35 company listed on the Indonesia Stock Exchange for the period 2017-2019 banking companies that have just conducted an IPO in the research = (0), 35 of companies sampled during the 2017-2019 period, period 5 of year under study, 105 total number of sample data for periode 2017-2019

- Data Collection technique

The data used in this study is time series data or time series data. According to Kuncoro (2019), time series data is data that is arranged chronologically arranged according to time on a certain variable. This study uses

time series data on an annual basis from 2017 to 2019. The data collection method used in this study is the documentation method. The documentation method is carried out by collecting data from various literatures in accordance with the research theme and also data from financial reports contained on the Indonesia Stock Exchange (IDX) during 2017-2019.

- Data Types and Sources

The data collected in this study are quantitative data, namely data that is measured on a numerical scale. The data used in this research is secondary data. Secondary data is data received by researchers indirectly. Secondary data in this study is in the form of annual financial reports produced by food and beverage consumption companies listed on the Indonesia Stock Exchange (IDX). This financial report was obtained from the IDX website (www.idx.co.id) and the company's website

IV. RESULTS AND DISCUSSION

- Description of Research Data

Descriptive statistics include minimum, maximum, mean and standard deviation. The research variable data includes the dependent variable, namely Stock Price and the independent variables include Managerial Ownership, Leverage and Company Size. The results of the descriptive statistical analysis are shown in table 3:

Based on table 3, the dependent variable, namely stock price, has an average value of Rp. 457.9429, with a standard deviation of 497.38458. This indicates that the stock price variable is not normally distributed, because the value of the standard deviation is greater than the average value of the variable. The largest share price with a value of Rp 2,700,000 is owned by PT. Dadanayasa Arthatama in the 2017 period.

Based on table 3, it can be seen that during the observation period, the managerial ownership variable shows an average value of 0.9309 with a standard deviation of 9.21481. This indicates that Managerial Ownership is not normally distributed, because the value of the standard deviation is greater than the average value of the variable. The highest managerial ownership with a value of 94.45 is owned by PT. Eureka Prima Jakarta in the 2017 period.

Based on table 3 for Leverage has an average value of 0.3671 with a standard deviation of 0.18577. This indicates that the Leverage variable is not normally distributed, because the standard deviation value is greater than the average value of the variable. The highest leverage with a value of 0.69 is owned by PT. Bhuawantala Indah Permai Permai Tbk in the period 2017.

Based on table 3, the company size variable has an average value of 28.2720 Ln with a standard deviation of 2.15460. This indicates that the Firm Size variable is not normally distributed, because the value of the standard deviation is greater than the average value of the variable. The highest company size was owned by LIPPO KARAWACI in the period 2017.

- CLASSIC ASSUMPTION TEST

A model is declared good for a prediction tool if it has the best liner unbiased estimator properties (Gujarati, 2015). Besides that, a regression model is said to be quite good and can be used to predict if it passes a series of tests of the underlying econometric assumptions.

The classical assumption test is carried out to determine the condition of the existing data in order to determine the most appropriate analytical model to use. Classical assumption test used in this study consisted of autocorrelation test using Durbin-Watson statistics, multicollinearity test using Variance Inflation Factors (VIF) and heterosdasticity test.

- Normality

The normality test aims to test whether in the regression model, the confounding or residual variables have a normal distribution. The normality of the data was tested using one sample Kolmogorov-Smirnov with a significant level of 0.05. Based on the results of the normality test shown in table 4, it shows that the residuals of the regression model before and after moderation have an asymp value. $\text{sig.} > \alpha = 0.05$. Thus, it is interpreted that the residual values in all regression models are declared to be normally distributed.

- **Multicolonearity Test**

The method that can be used to test the presence of multicollinearity is to test the tolerance value or Variance Inflation Factor (VIF). The tolerance value limit is 0.10 and the Variant Inflation Factor (VIF) is 10 (Hair et al., 2016). The multicollinearity test results show that there is no variable that has a tolerance value of less than 0.10 and all variables have a VIF value of less than 10. So it can be concluded that there is no multicollinearity in the regression model.

- **Heteroscedasticity Test**

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another observation. In this study tested using Spearman's Rho. Priyastama (2017) states that this test uses a significant level of more than 0.05 and in the study, it was concluded that there was no heteroscedasticity.

- **Autocorrelation Test**

The autocorrelation test aims to test whether in the regression model there is a correlation between the confounding error in period t and the confounding error in period t-1 (previous). The consequence of autocorrelation in a regression model is that the sample variance does not describe the population variance. Furthermore, the resulting regression model cannot be used to estimate the value of the dependent variable on the value of a particular independent variable.

- To diagnose the presence of autocorrelation in a regression model, the Durbin-Watson test (DW-test) is carried out with the following conditions:

Less than 1.1 There is autocorrelation
 1.1 to 1.54 No conclusion
 1.55 to 2.46 No autocorrelation
 2.46 to 2.9 No conclusion
 More than 2.9 There is autocorrelation

- **MULTIPLE LINEAR REGRESSION**

In accordance with the results of the research hypothesis which states that between variables have a significant relationship to the dependent variable, multiple linear regression is needed to make an analytical model.

The values for the regression equation can be seen in the table above so that the following regression equation can be obtained:

$$Y = 39,786 - 0,506 X_1 + 12,172 X_2 + 9,737X_3 + e$$

From the regression equation, the value of constant (a) is 39.786. This means that if the Managerial Ownership (X1), Leverage (X2), and Company Size (X3) increase by 1, then the share price (Y) is 39.786. X1 coefficient value is -0.506. This means that if Managerial Ownership (X1) increases by 1 point, then the stock price (Y) will decrease by 0.506. The coefficient is negative, meaning that there is a negative relationship between managerial ownership and stock prices, the higher the managerial ownership, the lower the company's stock price.

The value of the X2 coefficient is 12,172. This means that if the leverage (X2) increases by 1 point, then the stock price (Y) will increase by 12.172. The coefficient is positive, meaning that there is a positive relationship between leverage and stock prices, the higher the leverage, the higher the company's stock price.

The X3 coefficient value is 9,737. This means that if the size of the company (X3) has increased by 1 point, then the share price (Y) will increase by 9,737. The coefficient is positive, meaning that there is a positive relationship between company size and stock prices, the higher the size of the company, the higher company share price.

- **HYPOTHESIS TEST**

Coefficient of Determination Test (R²)

This test shows the percentage of the ability of the independent variable in explaining the variation of the dependent variable. The magnitude of the coefficient of determination from 0 to 1. The closer to zero the magnitude of the coefficient of determination, the smaller the influence of the independent variable, on the contrary, the closer to one the magnitude of the coefficient of determination, the greater the influence of the independent variable. Based on the table above, it can be seen that the Adjust R Square value is 0.270. So it can be concluded that the ability of the variables of Managerial Ownership, Leverage and Company Size to explain the Share Price simultaneously is 27%

while the remaining 73% is explained by other factors not examined.

Simultaneous Significance Test (F Statistics Test)

Simultaneous significance test (F test) is used to show whether all independent variables included in the model have a joint effect on the dependent variable. (Ghozali, 2009). If the analysis using the F test shows that all the independent variables are simultaneously a significant explanatory of the dependent variable.

V. DISCUSSION

- Effect of Managerial Ownership on stock prices

The test results above show that managerial ownership has a significant negative effect on stock prices. So that it can be interpreted that if managerial ownership increases, the stock price will decrease. This is because the company's managers, who are also shareholders and managers of the company, can make decisions not prioritizing the company's interests but their own managerial interests, so that the share price decreases. Dual status allows managers to freely decide everything related to the company.

The results of this test also show the same results as research (Saprudin, 2019) which states that managerial ownership does not have a significant effect on stock prices. However, it is different from research (Ni Nyoman, T, S & I Made S, 2014) which states that managerial ownership has a positive effect on stock prices, where increased managerial ownership can motivate management to act in the interests of shareholders so as to reduce agency costs

- Effect of leverage on stock prices

Based on the results of the t test, leverage has a smaller significance value, which means that leverage has a significant effect. And the t value of leverage shows a positive number in other words leverage can increase the value of the company when leverage is high and vice versa leverage can reduce the value of the company when the company's leverage is low, this indicates that high leverage will give an indication of good company prospects so that it triggers investors to help increase the demand for shares.

The demand for shares that will increase will cause the value of the company to increase. With high leverage,

the company can be used to obtain higher profits by using capital from debt or assets financed by debt, so that the company can run its business optimally so that the profit earned by the company increases. In addition, high leverage tends not to affect stock prices in the capital market, this is supported by previous research, namely (Sutama & Lisa, 2018), with high profit gains which will increase the trust of parties outside the company.

- The effect of company size on stock prices

From these results, it is obtained that Firm Size or company size has a significant effect on stock prices. These results are in line with the results of research (Andriyani & Sari, 2020) which found that company size has an influence on the company's stock price.

Firm size is a value that provides an overview of the number of assets owned by the company. Investors tend to pay attention to companies that have a large size. Stable conditions owned by large companies that cause investors to be interested in owning company shares. Stock prices in the capital market will increase when many company shares want to own. Company size can also be interpreted as the size of the company seen from the amount of equity value, company value, or the total asset value of a company. Larger companies will be able to easily access the capital market in obtaining larger funding for their companies, so that companies are able to have a higher dividend payout ratio than small companies.

CONCLUDING REMARKS

Based on the results of the analysis and discussion that has been carried out, the following conclusions can be drawn: managerial ownership has no effect on stock prices. Leverage and firm size have a positive effect on stock prices.

Suggestions that can be put forward from this research are:

Future research is expected to use a broader analysis, for example using other independent variables which have a positive effect on the dependent variable. Conventional banking management should be able to optimize the value of the share price as much as possible and minimize the amount of leverage itself so

that it can maximize the profits that can be obtained by shareholders (shareholders) and produce better company value.

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