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Article Review

Managerial Ownership, Intellectual Capital, Financial Value and Its Impact on Company Value

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Abstract

Thi The purpose of this study is to analyze managerial ownership, intellectual capital and financial distress their influence on firm value. This study uses a quantitative descriptive method with statistical formulas to analyze data obtained from the field. The results of this study indicate that high intellectual capital of a company can reduce the value of the company caused by the utilization and management of intellectual capital owned by the company is not optimal and the intellectual capital owned by the company does not become an advantage of the company with other companies. The conclusion of this study is that Financial distress as an intervening variable is proven to mediate the relationship between intellectual capital and the value of the property real estate and building construction sector companies

Keywords: *Managerial Ownership, Intellectual Capital, Financial Distress, Firm Value*

INTRODUCTION

The decline in company performance ultimately affects the company's overall profit. If the decline in company profits is allowed to continue, it will have an impact on the possibility of financial distress (Dacholfany et al., 2023). Therefore, financial distress is an important problem for companies to pay attention to and anticipate. This is because financial distress affects the value of the company (Afidah & Amin, 2023)

From a theoretical perspective, this study contributes to signaling theory and resources-based theory by empirically testing the relationship between financial distress and intellectual capital on company value (Saputra Hutabarat, 2017), especially in property real estate and building construction companies. For this reason, this study is very important to conduct because there has been no comprehensive research that tests financial distress as a mediating variable in the relationship between intellectual capital and company value. The objectives of this study include analyzing the effect of intellectual capital on company value, analyzing the effect of intellectual capital on financial distress, and analyzing the effect of financial distress on company value (Maduko & Puche, 2020).

This study contributes to companies that intellectual capital is one of the factors that influences the increase in the value of companies in the property real estate and building construction sectors. Finally, it is hoped that the research results will contribute to the government which can provide the availability of jobs, building materials and construction processes so as to encourage higher and more competitive economic growth (Lusardi & Mitchell, 2013).

Company value is the investor's perception of the level of success of a company which is closely related to its stock price. The value of the company will be reflected in the stock price of the company concerned (Saputra et al., 2023). High company value indicates high shareholder welfare so that the owners of a company entrust their company to managers. The measurement of company value in this study uses the Tobins' Q ratio because this ratio is considered to provide the best information, because all elements of the company's debt and share capital are included in the calculation of the Tobins' Q ratio.

(Darhim et al., 2020) Stakeholder theory explains that company management must carry out activities that are considered important by shareholders and report these activities to stakeholders. The main purpose of stakeholder theory is to assist management in increasing the creation of company value as an impact of the activities carried out and minimizing losses that may arise for company stakeholders (Primayanti, 2013).

Company value is a form of company achievement that comes from the level of public trust in the company's performance through a very long process of activities, starting from the establishment of the company to the current state of the company. (Metto, 2020) Explains that the value of a company that has gone public is reflected in the company's stock market price. Companies that have not gone public, the value of the company owned will be realized if the company is sold (Primayanti, 2013). Company value is an investor's estimate of the level of success of the company which has a close relationship with the price of the shares owned (Azis & Rakib, 2022). The market price of a company's shares formed between the buyer and seller when a transaction occurs is called the company's market value, because the stock market price is considered a reflection of the company's actual asset value (Hermuningsih, 2012).

The phenomenon related to company value quoted from Financial Services Authority (OJK) data shows that as of April 3, 2020, the average daily transaction value of shares on the Indonesia Stock Exchange (IDX) throughout 2020 was only IDR 6.96 trillion. When compared to the average daily transaction value of the previous year, namely as of April 5, 2019 which reached IDR 9.67 trillion, this number has been corrected by 28 percent.

LITERATURE REVIEW

Meanwhile, using the same time comparison, the average daily transaction volume on the IDX throughout 2020 fell 49 percent to 7.39 billion shares. In fact, the average daily transaction volume of the previous year was 14.5 billion shares (Rimbano, 2013). The significant decline in the value of manufacturing companies is the impact of the Covid pandemic that hit Indonesia, which has had an impact on several manufacturing company sectors. For example, in the consumer goods sector, there has been a decline in stock prices every year. PT Indofood Sukses Makmur Tbk (INDF) in 2018 had a company value of 1.17% and in 2019 the company value decreased by 1.16%. Then in 2021 the company value decreased again by 0.88%.

In addition, in the pharmaceutical sector, PT Kalbe Farma Tbk (KLBF) the company value fluctuated. In 2018 it had a company value of 1.40%. Then it increased in 2019 by 1.50%. In 2021 the company value decreased by 1.42% (Hadi & Murti, 2019). The company value can be achieved to the maximum if the shareholders hand over the management of the company to people who are competent in their fields, such as managers and commissioners. However, in increasing the company value, there will be a problem of interest between the agent (manager) and the principal (shareholder).

It is not uncommon for company managers to have other goals and interests that conflict with the main goals of the company and often ignore the interests of shareholders. This difference in interests between managers and shareholders results in a conflict commonly called agency conflict, this occurs because managers prioritize their personal interests. On the other hand, shareholders do not like the personal interests of managers because what the manager does will increase costs for the company, causing a decrease in company profits and affecting stock prices, thereby reducing the value of the company (Afridi et al., 2021) and (Rustantono et al., 2024)

RESEARCH METHOD

The method in this library research is the thematic method (Evanirosa, 2022) and (Jannah, 2010). Where the primary data in this study is data obtained directly from various research results with the variables Managerial Ownership, Intellectual Capital, Financial Distress, Company Value.

RESULTS AND DISCUSSION

RESULTS

Stakeholder theory states that all stakeholders have the right to be provided with information about how the organization's activities affect them, such as through sponsorship and security initiatives (Deegan, 2004). Companies focus not only on the business interests of investors, but also on ethical interests that affect society and government. In order to create added value for stakeholders, companies need to maximize company resources and strategic company information must be conveyed, including information related to intellectual capital, which is important to convey to stakeholders. Signal theory explains why companies have the urge to provide financial reporting information to external parties.

Companies are urged to provide information because of the information asymmetry between the company and outside parties because the company knows more about the company and its future prospects than outsiders (investors and creditors). One way to reduce information asymmetry is to provide signals to outside parties, one of which is in the form of reliable financial information that will reduce uncertainty about the company's future prospects.

Signals are actions taken by management. Companies that provide instructions to investors about how management views the company's prospects (Riady & Hutabarat, 2023). Company value is the investor's perception of the company's level of success which is associated with the stock price. High company value will make the market believe not only in the company's current performance but also in the company's future prospects. Company value can also reflect shareholder prosperity, the higher the company value, the greater the shareholder prosperity, and vice versa (Alliance, n.d.).

Intellectual capital (IC) is a set of intangible assets (resources, capabilities and competencies) that drive organizational performance and value creation. IC is often referred to as the difference between the market value and book value of a company, where this value is influenced by the development of the company's IC, so if a company wants to increase its stock market value, it is important for the company to manage and disclose its IC. Intellectual capital is the knowledge or power of thought owned by the company, has no physical form (intangible) and with this intellectual capital, the company will gain additional benefits or business process capabilities and give the company more value compared to competitors or other companies (McCready et al., 2017).

Managerial ownership is the level of share ownership by management who are actively involved in decision making. The measurement is seen from the proportion of shares owned by management at the end of the year which is presented in percentage form. Managerial ownership is the level of share ownership of management who actively participate in decision making. The level of share ownership of management who actively participate in decision making is measured by the proportion of shares owned by managers at the end of the year expressed in percentage (Cerezo-Narváez et al., 2018).

DISCUSSION

Financial distress is a concept consisting of several situations where a company experiences financial problems or is described as a company that is experiencing failure, bankruptcy, default and bankruptcy. The Altman Z-score method is one of the statistical techniques used to predict corporate bankruptcy, the Altman Z-Szore method has a validity rate of up to 95%. If the financial distress situation cannot be resolved properly, the potential for financial distress is even greater and the company can be said to be bankrupt.

Likewise, if the company can go through the financial distress phase, the company does not go bankrupt (Hutabarat, 2023). The results of this first hypothesis test show that a company's high intellectual capital can reduce the value of the company because the utilization and management of the company's intellectual capital is not optimal and the company's intellectual capital does not become an advantage over other companies (Rimbano, 2013).

Based on the results of the second hypothesis test, it can be concluded that the higher the intellectual capital owned by the company, the lower the company is exposed to the risk of possible financial distress. Found that companies that are able to manage their intellectual capital well will improve the company's performance which indicates that the company is healthy and not experiencing financial distress (Hasdiana, 2018).

Based on signaling theory, it states that information published by the company will provide a signal for investors to make decisions. When information is announced, market players will give a good signal reaction (good news) or a bad signal (bad news). If the company experiences financial distress, the company will send a negative signal to the market, which causes investors to be reluctant to invest in the company. Companies that are in financial distress will usually be seen in the annual financial reports published by the company. Investors' distrust in making investments will cause a decrease in the company's stock price, which will have an impact on the decrease in the company's value (Hutabarat, 2023).

Based on the results of the fourth hypothesis test, the Sobel test results show that financial distress is able to mediate the indirect effect of intellectual capital on company value. The relationship between intellectual capital and company value with financial distress as an intervening variable is that if the company's intellectual capital increases and the company is able to develop and utilize its intellectual capital, it will reduce the company's risk of financial distress.

However, to obtain intellectual capital that will be an advantage for the company requires expensive costs so that there is a possibility that the company in developing and utilizing existing intellectual capital will affect the company's finances which raises the possibility of the company experiencing financial distress. The possibility of the company experiencing financial distress in this situation will increase the value of the company, where investors will assess that the financial problems experienced by the company are a form of company development in increasing the resources or intellectual capital it has (Afidah & Amin, 2023) and (Primayanti, 2013).

CONCLUSION

The results of this study show that the company is able to manage the existing intellectual capital, so the company's performance is getting better so that the risk of the company experiencing financial distress decreases. When a company experiences financial distress, the company will send a negative signal to the market so that investors are not interested in investing which results in a decrease in stock prices. Therefore, the company must pay attention to its financial condition so that if the company experiences financial distress, it can be resolved immediately so that it will not have an impact on the decline in the company's value. This study is only limited to banking companies listed on the Indonesia Stock Exchange with a span of 5 years from 2014-2018. So it is necessary to add or expand the scope of research objects and other sectors so that the results are clearer. In addition, the study only uses one independent variable, namely corporate social responsibility and one mediating variable, namely intellectual capital on the performance of banking companies.

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