

## **Does Company Size Moderate the Influence of Ownership Managerial on Profit Growth in Indonesian Retail Companies?**

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### **Abstrak**

Pertumbuhan laba merupakan indikator peningkatan laba bersih perusahaan dari periode sebelumnya yang berguna untuk memberikan gambaran kepada investor seberapa baik kondisi perusahaan dalam memperoleh laba. Tujuan penelitian ini adalah untuk mengetahui peran moderasi ukuran perusahaan terhadap pengaruh kepemilikan manajerial terhadap pertumbuhan laba. Penelitian menggunakan pendekatan kuantitatif dengan model regresi moderasi. Sampel yang digunakan berasal dari laporan keuangan tahunan periode 2017 hingga 2022 yang telah terdaftar di Bursa Efek Indonesia. Teknik pengambilan sampel dilakukan dengan menggunakan metode purposive sampling sehingga diperoleh 71 data laporan keuangan perusahaan ritel. Analisis data menggunakan analisis linier berganda dan analisis regresi moderasi (MRA). Hasil penelitian ini menunjukkan bahwa kepemilikan manajerial berpengaruh positif dan signifikan terhadap pertumbuhan laba, ukuran perusahaan tidak dapat memoderasi pengaruh kepemilikan manajerial terhadap pertumbuhan laba, namun terbukti sebagai variabel independen yang berpengaruh positif terhadap pertumbuhan laba. Kesimpulan penelitian bahwa jenis moderasi yang terjadi adalah prediktor moderasi. Penelitian ini diharapkan dapat memberikan wawasan ilmiah tentang pertumbuhan laba perusahaan.

Kata kunci: Ukuran Perusahaan, Kepemilikan Manajerial, Pertumbuhan Laba, MRA

### **Abstract**

*Profit growth is an indicator of the increase in a company's net profit from the previous period which is useful for giving investors an idea of how good the company's condition is in generating profits. The aim of this research is to determine the moderating role of company size on the influence of managerial ownership on profit growth. This research uses a quantitative approach with a moderated regression model. The sample used comes from annual financial reports for the period 2017 to 2022 which are listed on the Indonesian Stock Exchange. The sampling technique was carried out using a purposive sampling method to obtain 71 retail company financial report data. Data analysis uses multiple linear analysis and moderated regression analysis (MRA). The research results show that managerial ownership has a positive and significant effect on profit growth, company size cannot moderate the effect of managerial ownership on profit growth, but it is proven to be an independent variable that has a positive effect on profit growth. The conclusion of the research is that the type of moderation that occurs is a predictor of moderation. This research is expected to provide scientific insight into company profit growth.*

**Keywords:** *Company Size, Managerial Ownership, Profit Growth, MRA*

## **INTRODUCTION**

The increasingly rapid development of the business world requires the business world to keep up with developments in order to remain competitive. Companies are expected to be able to maximize their resources effectively and efficiently in order to successfully compete in the market and gain support from all levels of society.

Companies can show their effectiveness through the profits they obtain. The profit value that increases every year shows that the business is able to maximize the resources it has effectively so that profit growth continues to increase **(Martini, 2021)**.

The phenomenon that existed at the time the research was conducted was that the retail sector was being affected by the corona outbreak. In the first semester of 2020, a number of shops temporarily closed due to the implementation of large-scale social restrictions (PSBB). Restrictions on community activities have caused the net profits of several retail companies to drop drastically, causing losses of hundreds of billions. Fashion retail issuer, PT Matahari Department Store Tbk (LPPF) reported poor performance due to the corona virus outbreak with a financial loss of IDR 357.86 billion. This achievement is very different from the achievement in the first semester of 2019, where the company managed to make a profit of IDR 1.16 trillion. Profit growth is an important indicator in financial reports for various reasons, including profit as a basis for calculating taxes, a basis for investment decisions and decision making **(Wahyuni & Prayogi, 2019)**. Continuously increasing profits can be a sign that the company's operational processes are becoming more effective and efficient on a regular basis. Increasing profits will have a positive influence on investors' decisions to invest. Investors want a higher increase in company profits compared to the previous quarter. When you see the company's profit growth increasing, it will encourage other investors to invest **(Cahyani, 2021)**.

If a company wants to obtain maximum profit growth, it is not only calculated from a financial perspective, but also by looking at how agency problems in a company can be resolved. Managerial ownership is a solution to align business interests in encouraging increased profits and optimizing dividends distributed to shareholders **(Anggraeni & Ardini, 2020)**. Managerial ownership describes a situation where management makes business decisions in the company as share owners. The higher the percentage of managerial ownership, the better the company's performance. Managers will be more motivated to maximize company performance in increasing profit growth so that they receive larger dividends **(Hanifah et al., 2020)**.

If an investor wants to generate maximum profits, then he must evaluate several important factors including company size in choosing an investment. Company size is a categorization of large, medium and small companies based on the number of assets owned **(Wahyuni & Prayogi, 2019)**. The size of the company will determine a company's ability to control competition that arises in business activities. The bigger the company, the more public attention it will receive, especially the government and the general public. This means that it will be easier for the company to attract investors who will fund it **(Muliadi, 2019)**. Investors are more confident in investing capital in companies based on how much profit they generate each period. The larger the company size, the greater the possibility of obtaining high profits which can then be reinvested into capital to encourage net profit growth and maximize shareholder welfare **(Dewi & Suartana, 2017)**.

The novelty of this research is that this research uses retail companies as research objects because their function is to distribute products or services directly to consumers. The urgency of research that the pandemic accelerated the retail industry's transition to the digital world and home delivery innovation became the leading service at that time. This innovation has been quite successful in retail companies such as Alfamart and Indomaret, resulting in increased company profits. This incident shows that decision making to innovate by managers through their authority which is reflected in managerial ownership has an impact on increasing company revenue and profits. This research is expected to provide a reference contribution regarding the moderating role of company size on the influence of managerial ownership on profit growth.

## LITERATURE REVIEW

### Previous Research

Research on the influence of managerial ownership and company size on profit growth has been carried out previously. **(Anggraeni & Ardini, 2020)** emphasized that managerial ownership has an insignificant effect on profit growth. **(Wiliasari & Harjanto, 2022)** Managerial ownership has no effect on profit growth. **(Kusumawati & Setiawan, 2019)** Managers with a percentage of share ownership in the company will motivate them to try to increase company profits. **(Endri et. al, 2020); (Maryati & Siswanti, 2022)** documenting research results that company size does not contribute to influencing profit growth. **(Sari, 2020)** archived that company size has a positive effect on profit growth. The inconsistency of previous research results is the reason for researchers to study and re-examine the relationship between managerial ownership variables, company size and profit growth. Similar but not the same as previous research, this research examines the moderating role of company size on the effect of managerial ownership on profit growth. A large company as reflected in its large total assets allows it to carry out various diversification and expansion efforts for business development. This will make it easier for managers who are also share owners to increase profit growth.

### Agency Theory

The interaction between managers and shareholders is explained using agency theory. **(Brigham and Houston, 2006)** explain that when one or more parties as principals (shareholders) employ another party known as an agent (manager) to carry out a task, this is known as an agency relationship.

### Profit Growth

Profit growth is an indicator for a company to increase net profit from the previous period **(Wahyuni & Prayogi, 2019)**. The value of this company is proxied using the PBV formula. The following is the company value formula:

$$Y = \frac{\text{Net Profit}_t - \text{Net Profit}_{t-1}}{\text{Net Profit}_{t-1}} \times 100\%$$

**(Cahyani, 2021)**

### Managerial Ownership

Managerial ownership is company shares owned by managers (Zahra, 2019). Managerial ownership is formulated as follows:

$$\text{Ownership} = \frac{\text{The number of shares owned}}{\text{Number of shares outstanding}}$$

(Dewi & Suartana, 2017)

### Company Size

Company size is the categorization of companies into large, medium and small companies (Wahyuni & Prayogi, 2019). Company size can be calculated using the formula (Pertiwi, 2019):

$$\text{Company size} = \text{Ln (Total Assets)}$$

(Pertiwi, 2019)

### Managerial Ownership effect on Profit Growth

Managerial ownership is ownership of company shares by company management (Zahra, 2019). A large percentage of managerial ownership will encourage managers to improve company performance so that company profits increase and the incentives obtained by managers also increase (Hanifah et al., 2020). (Wahyuni & Prayogi, 2019) agree that managerial ownership has a significant positive effect on profit growth. Based on this description, the hypothesis proposed is:

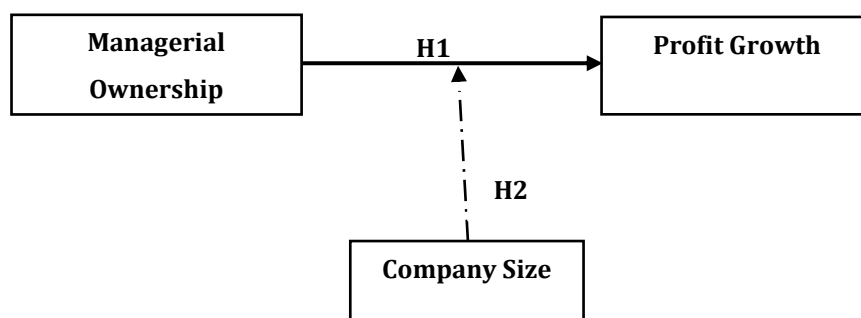
**H1 = Managerial Ownership has a positive effect on Profit Growth**

### Company size moderates the effect of managerial ownership on profit growth

The company's large size will allow it to reach a wider market, so the opportunity to increase profits is greater. The increase in profits is expected to be in line with the increase in shareholder welfare. Shareholders who are also in the managerial ranks have the motivation to align their interests with the company's goals, namely encouraging profit growth so that in the end they can maximize the amount of dividends obtained. In accordance with this description, the hypothesis is structured as follows:

**H2 = Company size moderates the effect of managerial ownership on profit growth.**

The logic of thinking underlying the preparation of this research hypothesis can be described as follows:



## METHOD

### Population and Sample

The population in this research is retail companies registered on the IDX in 2017-2022, namely 32 companies. The sample in this study used purposive sampling to obtain a sample of 88 financial report data. However, due to the existence of extreme and abnormal data, it was necessary to remove 17 outlier data from this research sample. So, the number of samples used in this research was 71 financial report data.

### Research Variable

This research variable uses 1 independent variable, namely managerial ownership (X1). The dependent variable is profits growth (Y). As well as the moderating variable, namely company size (Z).

### Data Collection Technique

Research data is secondary data. Data was obtained using documentation techniques from the annual financial reports of retail companies listed on the IDX for 2017-2022 which are available on the official IDX website at [www.idx.co.id](http://www.idx.co.id).

### Moderated Regression Analysis

(Ghozali, 2018), stated that MRA regulates the use of analytical approaches that can maintain sample unity and provide a basis for monitoring the influence of moderating variables. This analysis is used to test whether the moderating variable can weaken or strengthen the relationship between the independent variable and the dependent variable. The following is a description of the regression equation model in research, as follows:

$$Y = \alpha + \beta_1 X_1 + e \quad \text{(i)}$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 Z + e \quad \text{(ii)}$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 Z + \beta_3 X_1 * Z + e \quad \text{(iii)}$$

Before being analyzed using Moderated Regression Analysis (MRA), the data will be described through descriptive statistics. Apart from that, prerequisite tests will also be carried out including normality tests, multicollinearity tests, autocorrelation tests and heteroscedasticity tests.

## RESULT AND DISCUSSION

### Descriptive statistics

Descriptive statistics are part of statistical tests which aim to determine parameters or provide a general description of data parameters, including maximum, minimum, mean and standard deviation values (Ghozali, 2018).

**Table 1. Statistic Descriptive**

	N	Minimum	Maximum	Means	std. Deviation
X1	71	0,00	0,25	0,0445	0,05709
Y	71	-99,70	200,51	23,0327	67,69678

Z	71	25,29	31,06	28,8110	1,43633
Valid N (listwise)	71				

Source: Data processed, 2023

Based on the table above, it is known that the distribution of descriptive statistical data for research variables is as follows:

1. The managerial ownership variable (X1) shows that the data varies because the standard deviation value is higher than the mean, meaning the data varies.
2. The profit growth variable (Y) shows varying data because the standard deviation value is higher than the mean.
3. The company size variable (Z) shows that the data is less varied because the standard deviation value is lower than the mean.

### Normality Test

The normality test aims to determine whether the independent and dependent variable data in a regression model is normally distributed or not (**Ghozali, 2018**).

**Table 2. Normality Test Results**

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		71
Normal Parameters <sup>a,b</sup>	Mean	0,0000000
	Std. Deviation	63,86615738
Most Extreme Differences	Absolute	0,076
	Positive	0,076
	Negative	- 0,041
Test Statistic		0,076
Asymp. Sig. (2-tailed)		0,200 <sup>c,d</sup>

Source: Data processed, 2023

Based on Table 2 above, the value (Asymp.Sig.) is greater than 0,05. So, it can be said that this research data is normally distributed.

### Multicollinearity Tests

The multicollinearity test according to (**Ghozali, 2018**) is intended to find out whether the regression model finds a relationship between the independent variables.

**Table 3. Multicollinearity Tests Results**

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Managerial Ownership (X1)	0,942	1,062
Companies Size (Z)	0,896	1,116

Source: Data processed, 2023

Based on table 3 above, it can be concluded that multicollinearity does not occur because the tolerance value is greater than 0,10 (Tolerance > 0,10) and the VIF value is smaller than 10 (VIF < 10).

### Autocorrelation Tests

The autocorrelation test aims to find out whether in the linear regression model there is a correlation between disturbing errors in period  $t$  and errors in the previous period (Ghozali, 2018).

**Table 4. Autocorrelation Tests Results**

Model	dU	4-dU	Durbin-Watson
1	1,6733	2,3267	1,992

Source: Data processed, 2023

The results of the autocorrelation test using the Durbin-Watson test are shown in table 4 above. Because the value of  $dU < D-W < 4-dU$  ( $1,6733 < 1,992 < 2,3267$ ), it can be concluded that there is no positive or negative autocorrelation.

### Heteroscedasticity Tests

The heteroscedasticity test is used to test whether there are differences between the remaining observations from one observation to another in a regression (Ghozali, 2018).

**Table 5. Heteroscedasticity Tests**

			Unstandardized Residual
Spearman's rho	X1	Sig. (2-tailed)	0,425
		N	71
	Z	Sig. (2-tailed)	0,799
		N	71

Source: Data processed, 2023

The results of the heteroscedasticity test in table 5 above show that all variables have a Sig (2-tailed) value greater than 0,05 so it can be said that all variables in this study are free from heteroscedasticity. Because the classical assumption test has been fulfilled, the test can be continued for moderated regression analysis.

### Coefficient of determination (R<sup>2</sup>)

Coefficient of determination analysis (R<sup>2</sup>) is used to assess the suitability of the regression model (Ghozali, 2018).

**Tabel 6. Coefficient of Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,332 <sup>a</sup>	0,110	0,070	65,28034	1,992

Source: Data processed, 2023

The results of Table 6 show that the Adjusted R Square has a value of 0.070, which indicates that the independent variable has an influence of 7% on the dependent

variable, namely profit growth, while the remaining 93% is influenced by other unidentified variables in this research.

### Moderated Regression Analysis (MRA)

In the MRA test, the researcher presented 3 tables of regression test results on equation 1, equation 2, and equation 3 which were discussed previously.

**Tabel 7. MRA Test Results for Equation 1**

	Model	t	Sig.
1	(Constant)	0,916	0,363
	Managerial Ownership (X1)	2,160	0,034

Source: Data processed, 2023

The managerial ownership variable has a calculated t value of 2.160 > t table 1.99547 and a significance of 0,034 < 0,05. So, it can be decided that **H1 is accepted**. It means that managerial ownership has a positive and significant effect on profit growth.

Managerial ownership describes a situation where management makes business decisions in the company as share owners. Managers can control cost effectiveness and sales strategies with this managerial ownership. Company profits will increase if sales are balanced with cost effectiveness. Positive profit growth is indicated by higher profits compared to the previous year.

**Table 8. MRA Test Results for Equation 2**

	Model	t	Sig.
1	(Constant)	-1,544	0,127
	Managerial Ownership (X1)	2,542	0,013
	Companies Size (Z)	1,790	0,078

Source: Data processed, 2023

**Table 9. MRA Test Results for Equation 3**

	Model	t	Sig.
1	(Constant)	- 1,540	0,129
	Managerial Ownership (X1)	0,233	0,058
	Companies Size (Z)	1,565	0,122
	Interaction (X1*Z)	0,107	0,015

Source: Data processed, 2023

The results of the regression test for equation 2 in table 8 and the results of the regression test for equation 3 in table 9 are interpreted together. In accordance with the results in table 9, the interaction variable (X1\*Z) has a significance value of 0,015 (smaller than 0,05). This means that company size is able to moderate the influence of managerial ownership on profit growth. So, the conclusion is that H2 is accepted. Then



another finding from this research is that the type of moderation that occurs is pure moderation. Pure moderation is a variable that moderates the relationship between the predictor variable and the dependent variable where the pure moderation variable interacts with the predictor variable without becoming a predictor variable (Solimun, 2011).

The bigger the company, the greater the opportunity to get funding. The larger the company size, the greater the possibility of generating profits, which can then be reinvested into capital to increase net profit growth. The large size of the company as reflected in its total assets will strengthen managers' efforts to manage the company better so that it can increase profit growth. Increasing profit growth is the same as increasing shareholder welfare.

## CONCLUSION

The results of this research have answered the research objectives in accordance with the sample conditions desired by the researcher. The conclusion that can be drawn from this research is that managerial ownership has a significant positive effect on profit growth in retail companies listed on the IDX for the 2017-2022 period, and company size has a moderating role in strengthening this influence. The type of moderation in the research model is pure moderation. Suggestions that can be a reference for companies are for companies to provide managers with the opportunity to own a percentage of shares. This is to reduce the opportunistic nature of management. Managers are also more motivated to improve shareholder welfare through profit growth. The next suggestion for further research is to further test the influence of managerial ownership on profit growth, but with the addition of good corporate governance mechanisms in other forms such as institutional ownership, public ownership, or foreign ownership. The addition of moderation and mediation variables is also recommended to enrich scientific references and benchmarks as a basis for decision making regarding actions taken by the company's internal stakeholders.

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