Managerial Ownership as A Selective Moderator: Strengthening the Role of Capital Structure and Profitability in Firm Value

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Abstract

This study investigates the influence of capital structure, profitability, and firm size on firm value with managerial ownership as a moderating variable. The analysis is based on secondary data from 78 consumer goods companies listed on the Indonesia Stock Exchange during 2020–2022, producing 234 observations tested using Moderated Regression Analysis (MRA). The results show that capital structure (DER) has a significant positive effect on firm value, while profitability (ROA) and firm size have no significant effect. Profitability does not influence firm value due to unstable earnings during the COVID-19 period, and firm size is also irrelevant since large assets do not always generate profits. Managerial ownership, however, is found to strengthen the effects of capital structure and profitability on firm value but does not moderate the effect of firm size, as asset growth without profitability provides little assurance to investors and managerial shareholding in these companies remains relatively small. The novelty of this study lies in demonstrating that managerial ownership acts as a selective moderator, reinforcing some relationships while failing to affect others, thereby offering new insight into ownership structures and firm value in emerging markets.

Keywords: capital structure, profitability, firm size, managerial ownership, firm value

Introduction

The COVID-19 pandemic had a profound impact on the global financial market. As pointed out by Huang & Ye (2021), the Dow Jones Industrial Average lost over 30 percent in value and the Australian ASX200 index declined by 24 percent. These figures demonstrate the extent of the shock. Emerging markets suffered similar shocks as well. In India, the Sensex experienced one of its steepest declines in history on March 23, 2020, dropping by about 3,935 points (or approximately 13% of its value in a single day) amid widespread panic selling and fears of prolonged economic shutdowns (Mohanty & Mishra, 2024). Meanwhile, in Indonesia, the IDX Composite fell by around 5% on March 12, 2020, following the WHO's pandemic declaration, as investor sentiment sharply shifted toward risk aversion (Sudaryanti & Bastomi, 2023).

The consumer goods sector was not immune to the turbulence caused by the COVID-19 pandemic. Companies within this sector had to deal with supply chain disruptions (Asgharizadeh et al., 2023; Shahed et al., 2021) as well as a rise in operating expenses (Hertati et al., 2022). Moreover, a change in how the consumer shopped (Cruz-Cárdenas et al., 2021; Guthrie et al., 2021) posed as yet another hurdle. During the pandemic's initial phases, the net effect of these difficulties on the capital market did not seem to impact the market as much. As Lukman (2022) notes, the COVID-19 announcement in Indonesia did not have a statistically relevant impact on stock prices on announcement day, and stock price movements post announcement were relatively stable. It was not until the seventh calendar day post announcement that clearer signs appeared. Between T+4 and T+5, the composite stock price index declined approximately 6.5 percent during this period, dropping from 5,498.54 to 5,136.11. Similarly, Irwansyah et al. (2023) reported that consumer goods companies across 79 countries experienced overall performance declines, although non-alcoholic beverage producers were less affected. In contrast, Sochovsky (2024) suggests that consumer staples showed relative resilience during the pandemic, experiencing smaller losses and lower volatility compared to cyclical sectors like tourism, energy, and manufacturing. This divergence between Indonesia's market response and the broader global resilience narrative highlights a potential gap in understanding the contextual factors, such as market structure, investor behavior, and governance practices, that shape the consumer goods sector's vulnerability or stability during systemic crises.

Therefore, with this gap in research, it makes sense to investigate the internal factors of firms that may explain the instability of valuation for the consumer goods sector during the pandemic. A firm's capital structure, size, and profitability are often regarded as critical determinants of resilience and performance during uncertain times. Capital structure, in particular, plays a central role in shaping a company's value. An optimal capital structure can lower the cost of capital and enhance firm value, which is ultimately reflected in market valuation and shareholder wealth. It represents the balance between external capital—both long-term and short-term debt—and internal capital, such as retained earnings and equity participation (Essel, 2024). A poorly managed capital structure, especially a highly leveraged firm, for example, may face tremendous difficulty during times of sudden market shocks (Apriansyah et al., 2025; Li & Li, 2025; Jain et al., 2024; Tanjung, 2023). For this reason, the role of financial managers in determining the right proportion of debt and equity is crucial to minimizing risks associated with leverage and safeguarding firm value (Nukala & Prasada Rao, 2021; Kumar, 2014).

Determining the most appropriate capital structure for a company is one of the most critical decisions in the field of corporate finance. The capital structure is composed of different classes of debt and equity used by a company. There is no consensus among academics and professionals as to which debt-equity ratio is ideal. There is a school of thought which assumes debt levels as not having any impact on firm value and another school which assumes that capital structure decisions affect a firm's risk and value. The capital structure is vital in a developing country, which usually faces constrained capital resources. Although, debt can be appealing as it is cheaper and provides tax benefits, excessive levels can reduce liquidity and expose a firm to risk during economic downturns. The capital structure portrays a company's ability to fund operations and manage risk and return, control and liquidity during economic downturns. A company can immensely

suffer on competing and surviving in the corporate world if a wrong capital mix is chosen. This is critical for maintaining the expectation of stakeholders. These difficulties tend to be exacerbated in times of economic turbulence, along with the COVID-19 crisis, when uncertainty is at its peak and there is a squeeze on liquidity. From the perspective of signaling theory, corporate managers use capital structure choices to convey information about the firm's prospects to investors. Confident managers may opt for higher debt proportions as a positive signal, prompting investor interest and share ownership, which can ultimately enhance firm value. This view is supported by prior research showing that, when used strategically, higher leverage can strengthen the capital structure and contribute to value creation (Apriansyah et al., 2025; Li & Li, 2025; Jain et al., 2024; Tanjung, 2023).

H_1: Capital structure affects company value in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2020-2022.

The second factor that has a major impact on company value is the profitability. Profitability reflects a company's ability to generate earnings from its resources and operations (Batra & Kalia, 2016). Furthermore, it impacts firm value by enhancing investor perception due to improved operational efficiency, managed costs, and competitiveness in the market. In the consumer goods industry during the pandemic, firms' profitability provided a buffer to value and profitability, enabling firms to sustain value during volatile markets. Moreover, Sievänen et al. (2004) differentiate between absolute profitability as the monetary gap between price and cost, and relative profitability which concerns the gap described in relation to sales, assets, or equity. Both measures are useful for assessing a firm's ability to sustain or enhance value under challenging conditions. rofitable firms typically enjoy greater access to capital, allowing them to invest in growth opportunities, withstand market shocks, and preserve firm value (Yahya, 2023; Ma'in et al., 2022; Niyas, 2022). This liquidity advantage further supports resilience during periods of uncertainty.

H_2: Profitability affects company value in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2020-2022.

In addition, firm size is widely regarded as an essential factor influencing firm value. Firm size reflects the scale and capacity of a firm and is usually measured by the logarithm of total assets (Averio, 2021). A larger size usually indicates greater stability and capability to carry out economic activities, as firms with more resources are able to operate on a larger scale and are better able to weather out external pressures (Hendayana et al., 2024). This operational advantage corresponds with the theory of cost that larger firms are able to spread out their fixed costs over a larger output, thus attaining economies of scale which improves efficiency and profitability (Kim & Im, 2017). As a result of improved operational efficiency, a firm's bargaining power with suppliers, customers, lenders, and investors strengthens. Consequently, larger firms often enjoy better access to financing and more favorable perceptions from investors, both of which benefit their market valuation (Ammann et al., 2011; Mak & Kusnadi, 2005). These advantages, particularly during periods of economic turbulence such as the COVID-19 pandemic, enable larger firms to adapt to disruptions, maintain liquidity, and preserve firm value amid rapidly fluctuating market conditions. However, Kepramareni et al. (2021) argued that Companies with large total assets show relative wealth, stability, and capacity to generate higher profits compared to companies with lower assets.

H_3: Firm size affects company value in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2020-2022.

Finally, the role of managerial ownership is also worth noting. Managerial ownership refers to the proportion of a company's equity held by its insiders (typically officers and directors) who are actively involved in decision-making (Haghighi et al., 2020). Kamardin (2014) further defines it as the shareholdings of executive directors, whether held directly or indirectly, and categorizes it into family and non-family ownership. From a stakeholder theory perspective, this ownership structure strengthens transparency and accountability, as managers with significant equity stakes are more likely to align corporate strategies with the interests of diverse stakeholders, including by disclosing social and environmental responsibilities (Akhiroh & Kiswanto, 2016). Managerial ownership also helps resolve agency conflicts by uniting the interests of management and shareholders, thereby incentivizing managers to use resources, including debt, more effectively to enhance performance and maximize shareholder wealth (Agustina et al., 2022; Kiran et al., 2024; Nel et al., 2024 Windy & Lukman, 2023). This alignment not only improves internal control but also enhances a firm's public image, much like high institutional ownership, which has been shown to increase oversight and transparency, including on environmental issues such as carbon emission disclosures (Krisnawanto & Solikhah, 2019; Shan et al., 2021).

Managerial ownership can significantly shape how capital structure, firm size, and profitability influence firm value. When managers hold a substantial equity stake, they tend to make financing decisions—such as determining debt levels—more cautiously, since excessive risk could harm both the company's value and their personal wealth (Shan, 2019; Wahba, 2014). This supports the argument that firms attempt to strike a balance between the agency costs of debt and managerial ownership, often compensating weaker governance in one area with strength in another (Jahmani & Ansari, 2006; Donnelly & Kelly, 2005). A higher degree of ownership by the management is likely to indicate a higher quality of the firm, reduces the asymmetry of information, and the cost of borrowing (Leland & Pyle, 1977), and in particular, lowers the cost of borrowing in markets with weaker protections for investors (Porta et al., 1997). In the case of firm size, such ownership alignment can enable managers to harness economies of scale and stronger market position which provide easier access to capital for sustainable growth, while avoiding expansion or investment decisions driven by short-term value metrics. This strengthens investor confidence and reduces agency costs, as noted by Shan (2019) and Kong (2020). However, concentrated ownership can also create entrenchment risks, where managers may prioritize control over optimal growth or rely too heavily on debt to avoid equity dilution (Bortolotti et al., 2007), increasing financial risk in the same way, regarding the profitability-firm value nexus, the managerial ownership can strengthen the strong earnings impact, value enhancing by driving the strategic reinvestment of retained profits increase value over time. Ownership structure of companies, according to empirical studies, enhance the market value of profitable companies by lowering agency costs and improving governance discipline (Wahba, 2014; Shan, 2019). However, similar to firm size, strong managerial control can lead to the agency problem of excessive and wasteful expenditures that do not increase value, making the profitability and firm value weakly related. Figure 1 shows the research framework of the study.

H_4: Managerial ownership is expected to moderate the relationship between capital structure and firm value in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2020-2022, such that the positive effect of an optimal capital structure on firm value is stronger when managerial ownership is higher.

H_5: Managerial ownership is expected to moderate the relationship between profitability and firm value in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2020-2022, such that the positive effect of an optimal profitability on firm value is stronger when managerial ownership is higher.

H_6: Managerial ownership is expected to moderate the relationship between firm size and firm value in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2020-2022, such that the positive effect of a big firm size on firm value is stronger when managerial ownership is higher.

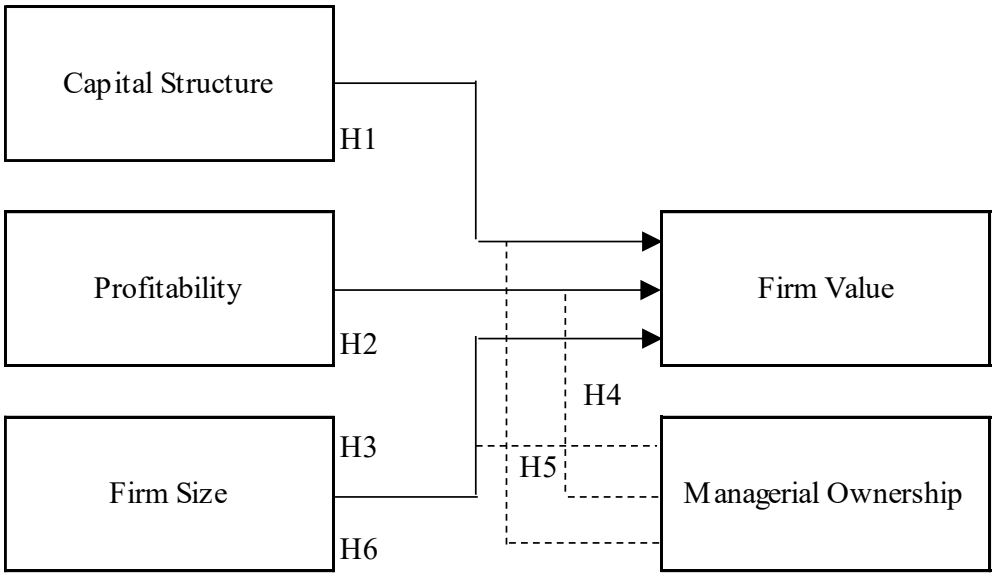

Figure 1. Research Conceptual Framework

Research Method

This study applies a quantitative method with an associative causal design to examine cause-and-effect relationships between variables (Sugiyono, 2019). Data were obtained from the Indonesia Stock Exchange (IDX) through its official website and the official websites of the sampled companies. The research population consists of 78 consumer goods companies listed on the IDX during 2020–2022, with 234 samples selected for analysis. Data were processed using multiple regression analysis with EViews software, beginning with descriptive statistics, followed by panel data model selection, normality and hypothesis testing, and Moderated Regression Analysis (MRA). To ensure the most appropriate panel data model was used, the Chow Test was applied to compare the Common Effects and Fixed Effects models, while the Hausman Test determined whether the Fixed Effects or Random Effects model was more suitable (Basuki & Prawoto, 2016).

The operational definitions of the research variables are as follows. Firm value is measured using the Price to Book Value (PBV) ratio, which reflects the price investors are willing to pay for a company's shares. PBV is calculated by dividing the market price per

share by the book value per share (Radja & Arini, 2020). Capital structure is represented by the Debt-to-Equity Ratio (DER), which compares total debt to total equity (Batra & Kalia, 2016). Profitability is proxied by Return on Assets (ROA), an indicator of management's effectiveness in utilizing company assets to generate profit, calculated as net profit after tax divided by total assets (Alarussi & Alhaderi, 2018). Firm size is measured based on the company's total assets, which reflect its operational capacity, and is proxied using the natural logarithm of total assets (Larasati & Purwanto, 2022). Finally, managerial ownership refers to the proportion of company shares owned by managers, calculated as the number of shares owned by managers divided by the total outstanding shares (Wahba, 2014; Shan, 2019).

Result and Discussion

The descriptive statistics in Table 1 show that the Debt-to-Equity Ratio (DER) has the widest variation among the variables, with values ranging from –4.86 to 92.50 and a standard deviation of 7.13, indicating that capital structure differs greatly across companies. Return on Assets (ROA) has a relatively small mean of 0.038 with both negative and positive values, reflecting that while some firms generated profits, others experienced losses during the study period. Firm Size (FS) has a mean value of 28.82 with a narrow range and low standard deviation, suggesting relative consistency in company size among the sampled firms. Managerial Ownership (KM) shows a low mean of 0.055, indicating that on average, managers own only a small proportion of company shares. Lastly, Firm Value (NP) demonstrates a wide range (–0.82 to 56.79) with a mean of 3.05 and a standard deviation of 6.27, highlighting significant disparities in how investors value companies within the sample.

Table 1. Descriptive Statistics Result

Variables	N	Minimum	Maximum	Mean	Std. Dev.
Capital Structure	234	-4.863	92.500	2.270	7.132
Profitability	234	-0.517	0.599	0.038	0.114
Firm Size	234	25.252	32.826	28.818	1.651
Managerial Ownership	234	0.000	0.639	0.055	0.132
Firm Value	234	-0.821	56.792	3.049	6.271

The results of the Chow and Hausman test can be seen in the Table 2. Based on the results of the Chow test, the probability value of the Cross-section F is 0.000, which is lower than the significance level of 0.05. This indicates that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM) for this study. Furthermore, the Hausman test produced a random cross-section probability value of 0.000, which is also below 0.05. Therefore, it can be concluded that the Fixed Effect Model is the most suitable approach for estimating the panel data in this research.

Table 2. Chow and Hausman Results

Chow Test	Statistic	df	Prob.
Cross-Section F	19.224	(77.152)	0.000
Cross-Section Chi-Square	555.481	77	0.000
Hausman Test	**Chi-Square Statistic**	**Chi-Square df**	**Prob.**
Cross-Section Random	19.006	4	0.000

The classical assumption tests were conducted to ensure the reliability of the regression model. First, the issue of multicollinearity was addressed by adopting a model specification commonly used in reputable studies on capital structure and firm value, where the independent variables are theoretically distinct and empirically shown to have low collinearity risk (Apriansyah et al., 2025; Jain et al., 2024; Tanjung, 2023; Ma'in et al., 2022; Niyas & Kavida, 2022; Yahya, 2023; Ammann et al., 2011; Mak & Kusnadi, 2005; Agustina et al., 2022; Kiran et al., 2024; Nel et al., 2024; Windy & Lukman, 2023). These studies support the robustness of the variable relationships, such as between capital structure and firm value, profitability and firm value, firm size and firm value, and the moderating role of managerial ownership. Furthermore, the stability of coefficient signs and significance levels across the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) outputs in Table 3 confirms that multicollinearity is not a significant concern in this study. Second, autocorrelation was examined using the Durbin–Watson statistic, where the FEM model produced a value of 2.87 (Table 4), which is close to the ideal benchmark of 2, indicating no serious autocorrelation issues in the residuals. Finally, while formal heteroskedasticity tests were not reported, the high Adjusted R^2 (0.901) and the significant F-statistic of the FEM model suggest that the regression has strong explanatory power, thereby reducing concerns about heteroskedasticity.

Table 3. Panel Data Regression Model Estimation Test Results

Variables	CEM		FEM		REM	
	β	Prob.	β	Prob.	β	Prob.
C	1.068	0.863	36.869	0.346	-0.641	0.947
Capital Structure	0.538	0.000	0.442	0.000	0.458	0.000
Profitability	16.220	0.000	-2.200	0.367	2.072	0.343
Firm Size	0.007	0.975	-1.089	0.425	0.093	0.780
Managerial Ownership	-0.902	0.731	-60.895	0.027	-2.033	0.629
Goodness of Fit Model						
Adj. R-Squared	0.295		0.901		0.603	
Prob F-stat	0.000		0.000		0.000	

Table 4. Regression Results for Fixed Effect Model (FEM)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	36.870	39.001	0.945	0.346
Capital Structure	0.442	0.025	17.734	0.000
Profitability	-2.200	2.432	-0.905	0.367
Firm Size	-1.089	1.360	-0.800	0.425
Managerial Ownership	-60.896	27.283	-2.232	0.027
R-Squared	0.935			
Ad. R-Squared	0.901			
F-Statistic	27.216			
Prob (F-Statistic)	0.000			
Akaike Crit.	4.465			
Schwarz Crit.	5.676			
Hannan-Quinn Crit.	4.953			
Durbin-Watson	2.872			

Table 5. Hypothesis Testing Results

Hypothesis		t-Statistic	Prob.	Decision
H_1	Capital Structure -> Firm Value	17.734	0.000	Accepted
H_2	Profitability -> Firm Value	-0.905	0.367	Rejected
H_3	Firm Size -> Firm Value	-0.800	0.425	Rejected
H_4	Capital Structure*Managerial Ownership -> Firm Value		0.000	Accepted
H_5	Profitability*Managerial Ownership -> Firm Value		0.008	Accepted
H_6	Firm Size*Managerial Ownership -> Firm Value		0.186	Rejected

The results of hypothesis testing in Table 5 show that capital structure significantly and positively affects firm value (H_1 accepted), emphasizing that leverage decisions play a critical role in determining how investors perceive company performance. Based on the partial tests, capital structure is confirmed to have a significant effect on company value in primary consumer sector companies listed on the Indonesia Stock Exchange during 2020–2022. A balanced combination of debt and equity in most firms increases company value, while even companies with debt levels greater than equity often experienced value growth. In line with signaling theory, the use of higher debt may serve as a positive signal to investors, suggesting expectations of higher returns in the future. Annual reports from these firms also indicate that large debt is often allocated to finance expansion activities, which is generally viewed as productive investment likely to generate future revenue and profit growth. This finding is consistent with Apriansyah et al. (2025), Li & Li (2025), Jain et al. (2024), and Tanjung (2023), that also reported that capital structure positively and significantly influences firm value. In this context, achieving an optimal balance between risk and return is crucial: adding debt increases financial risk, but it also raises the potential for higher returns, thereby attracting investors and driving up stock prices.

On the other hand, profitability (H_2) and firm size (H_3) do not significantly affect firm value. Although, companies with strong profitability usually gain investor confidence (Yahya, 2023; Ma'in et al., 2022; Niyas, 2022), the profits of consumer goods firms in this study period were unstable, with some companies even experiencing losses. This instability is reflected in the descriptive statistics (Table 1), where profitability shows a very low mean value of 0.038 with both negative and positive extremes (–0.517 to 0.599), indicating that many firms struggled to maintain consistent earnings. The COVID-19 pandemic further exacerbated this condition by reducing household income, weakening purchasing power, and decreasing demand for basic goods. These findings align with studies by Haniah et al. (2024) and Tui et al. (2017), which also concluded that profitability, proxied by ROA, does not influence firm value. Similarly, firm size was found to have no significant effect on company value. Although the descriptive statistics show that firm size has a relatively high mean of 28.82, with only a narrow spread across the sample (25.252–32.826), this variation does not translate into higher firm value. Several large firms with substantial assets still recorded low profitability or even losses, sending negative signals to investors. Previous research by Blazek et al. (2023) and Hategan et al. (2022) supports this conclusion, noting that investors are more concerned with liability management and profitability than company scale.

Furthermore, the results of the moderation tests show that managerial ownership is able to strengthen the effect of both capital structure and profitability on firm value. For capital structure, the probability value of 0.000 confirm that H_4 is accepted. This means that when managers also own shares, they become more careful in managing the

balance between debt and equity because they share in both the risks and rewards. Such alignment of interests makes debt usage more productive, especially when directed toward expansion activities, which investors view positively as a signal of future growth. A similar outcome is seen in profitability, where the probability value of 0.008 indicate that H_5 is accepted. Although profitability levels in consumer goods companies were often low and fluctuating during the study period, the presence of managerial ownership motivated managers to improve performance, since higher profits would directly benefit them as shareholders.

Finally, managerial ownership does not moderate the effect of firm size on firm value, as shown by the probability value of 0.186, which exceeds the 0.05 significance level. This result, leading to the rejection of H_6, suggests that large asset ownership does not necessarily translate into higher firm value, even when managers hold shares. In many cases, companies with significant assets were still unable to generate consistent profits, sending negative signals to investors. The descriptive statistics further reinforce this point, as managerial ownership in the sample is relatively small, averaging only 5%, with some firms reporting no managerial shareholding at all. With such a limited proportion, managerial ownership is insufficient to influence how company size affects firm value. In short, while managerial ownership strengthens the effects of capital structure and profitability on firm value, it fails to alter the relationship between firm size and firm value in consumer goods companies listed on the Indonesia Stock Exchange.

Conclusion

This study concludes that capital structure plays a decisive role in enhancing firm value among primary consumer sector companies listed on the Indonesia Stock Exchange during 2020–2022. A balanced use of debt and equity not only strengthens company performance but also serves as a positive signal to investors, especially when debt is allocated toward productive expansion activities. In contrast, profitability and firm size are found to have no significant effect on firm value, as profitability during the study period was unstable due to the impact of the COVID-19 pandemic, while large asset ownership did not necessarily translate into higher investor confidence. Furthermore, the moderating role of managerial ownership provides important insights. When managers hold shares, they tend to be more cautious and motivated in decision-making, thereby strengthening the influence of both capital structure and profitability on firm value. However, managerial ownership is unable to moderate the relationship between firm size and firm value, partly because the proportion of shares owned by managers in the sector remains relatively small.

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