



The Effect of Profitability and Leverage on Firm Value with Managerial Ownership as a Moderating Variable in Telecommunication Companies

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ABSTRACT

Evidence that investors assess company performance based on ownership composition impacting management choices in addition to profitability and capital structure serves as the driving force for this study. With management ownership acting as a moderator, it seeks to investigate how profitability and leverage affect firm value in telecommunications businesses that are listed on the Indonesia Stock Exchange between 2018 and 2023. Businesses having comprehensive financial records were chosen using a quantitative method and purposive sampling. Return on equity (ROE), debt to equity ratio (DER), firm value (PBV), and managerial ownership (% of shares held by management) were used to gauge profitability. The findings show that while leverage has no discernible impact on business valuation, profitability has a positive and considerable impact, indicating that investors are not particularly concerned about debt structure. The relationship between business value and profitability is not moderated by managerial ownership. The relationship between leverage and business value is not moderated by managerial ownership. The study adds to the body of knowledge on corporate governance.

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1. INTRODUCTION

The firm value is a crucial metric that shows how much a company is worth, as seen by its high book value per share. Stronger corporate fundamentals in terms of financial stability and market competitiveness are indicated by a higher firm value. Investors use firm value as their main benchmark when evaluating the performance and prospects of the company since it also indicates the long-term viability of the enterprise. A rising business value is a sign of sound financial standing and effective operations, which eventually boosts investor confidence and enthusiasm for making investments (Ramdhonah et al. 2020). The capital market's stock prices can be used to determine a company's value. As seen in Figure 1, the stock values of companies in the telecommunications sector increased significantly between 2018 and 2023.

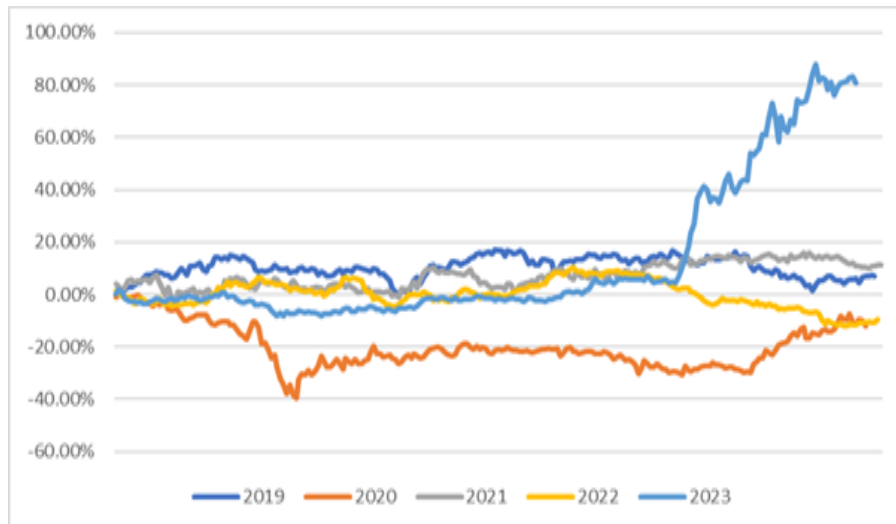


Figure 1. Combined Stock Price Graph of the Telecommunications Sector Year 2019 – 2023

Source: Indonesia Stock Exchange, processed data, 2025

Although there were some variations that reflected erratic market responses to company value, Figure 1 illustrates that the composite stock price of the companies in the telecommunications sector increased between 2019 and 2023. In 2023, this dramatically increased to 88.04% after a steep fall of up to -39.43% in 2020. Both internal and external factors—such as management expansion for long-term gains, improved financial performance, business strategies, corporate governance, and rising stock prices—have an impact on this increase. External factors include macroeconomic conditions, market demand, and government policies.

Table 1. Number of Managerial Ownership in the Telecommunications Sector Year 2019-2023

Company Code	AMOUNT OF MANAGERIAL OWNERSHIP				
	2019	2020	2021	2022	2023
JAST	3.23%	3.23%	11.07%	2.59%	2.59%
OASA	8.57%	8.57%	75.00%	55.01%	55.58%
GHON	36.43%	36.44%	36.44%	36.47%	36.47%
TOWR	0.71%	0.79%	0.79%	0.61%	0.6%
KETR	1.35%	1.35%	1.35%	1.54%	1.54%

Source: Indonesia Stock Exchange, processed data, 2025

Table 1 illustrates how managers' holding of shares in telecom businesses between 2019 and 2023 reflects their focus on the company's long-term goals. Managers typically make strategic choices that will increase the company's profitability and sustainability. The telecom industry not only survived the COVID-19 epidemic but also experienced significant growth, including the transition from 4G to 5G networks. In order to raise cash and achieve long-term profits, this expansion was financed by taking on more debt.

Since it directly affects the growth of shareholder wealth and the effectiveness of resource usage, a company's major goal should be to achieve and preserve firm value [2]. Investors use firm value information to evaluate the company's performance and future prospects, which influences their choice to invest. Investors will receive indications from firm value that can be either favorable or negative. Businesses having a high firm value typically have more negotiating leverage in the marketplace. The two primary determinants of corporate value are leverage and profitability.

A crucial metric for assessing managerial effectiveness and the company's financial stability is profitability, which measures the business's capacity to make money off of the capital contributed by investors and shareholders [25]. High profitability boosts confidence and stimulates investment interest by signaling to investors that the business has bright futures. Furthermore, a high degree of profitability makes the business more appealing to creditors and enables it to fulfill its financial commitments. Businesses with a history of high profitability are more likely to expand and have their worth rise [12]. Numerous earlier research, like those by Radja & Artini [6], Grediani & Dianingsih [16], and Fadhilah & Widajantie [11], demonstrate that profitability increases business value. The research by Alghifari et al. (2022) and Kusna & Setijani (2020), however, produced contrasting findings and concluded that firm value is not much impacted by profitability.

According to Suwardika and Mustanda (2020), leverage is a crucial metric that shows how much a company needs debt financing to fund its ongoing operations and commercial expansion. When leverage is used wisely, it can yield strategic advantages such tax savings through deductible interest expenses from taxable income and more capital without lowering equity ownership [27]. Leverage in this situation can give investors the impression that the business has effective and well-managed funding methods. According to a number of studies, including Dewi & Abundanti [8] Bon & Hartoko [5], and Panjaitan & Supriyati [24], leverage significantly increases business value because properly managed debt can boost market trust. Gusni et al. [15] and Siddhi & Putri [18] obtained conflicting results, stating that leverage has no discernible effect on business value. These findings suggest that management's ability to appropriately manage the debt structure has a significant influence on how leverage affects the value of the company.

In keeping with other research that reveals contradictory empirical findings, this study employs managerial ownership as a moderating variable in the relationship between profitability and leverage on company value. The percentage of shares held by management, including directors and commissioners, who actively participate in business decision-making, is known as managerial ownership. Since they are immediately impacted by every choice taken, managers who double as shareholders are thought to put the company's long-term interests ahead of their own. This is supported by the stewardship theory viewpoint since management, who are also shareholders, will behave as accountable stewards to improve the company's performance and sustainability. According to Amni & Nustini [1], managerial ownership has a bigger impact on strategic decision-making, including decisions about leverage and profitability management, which in turn influences company value. This result supports the idea that management ownership may either increase or decrease the impact of financial factors on firm value.

The percentage of shares owned by managers who actively participate in the company's strategic decision-making, such as directors and commissioners, is known as managerial ownership. The direct ownership of the business by management is reflected in this idea, which is thought to align managers' and shareholders' interests. In order to support the rise in firm value, such ownership incentivizes managers to operate the business as efficiently as possible, which includes increasing profitability and keeping leverage ratios within acceptable bounds. The long-term interests of the business and the well-being of all stakeholders are typically the focus of managers who are also shareholders, according to stewardship theory.

After a steep drop in 2020 as a result of the Covid-19 pandemic, the telecoms industry's stock prices have shown a notable increase tendency from 2019 to 2023, reaching a peak of 88.04% in 2023. The market's favorable reaction to strategic management initiatives, such as the construction of network infrastructure from 4G to 5G, to support the company's long-term growth, is reflected in this increase. The company's profitability, leverage, and firm value are all strongly impacted by this expansion, which also increases profits and necessitates more debt financing. However, prior research on the relationship between firm value, profitability, and leverage has produced contradictory conclusions, both in terms of the magnitude of the relationship and its direction. As a result, the telecommunications industry is the

focus of this study since it has demonstrated stability during the epidemic and has substantial resilience and firm value in the Indonesian capital market, making it a pertinent topic for further investigation.

High and steady profitability is a good indicator for investors about a company's sustainability prospects, according to Spence's (1973) Signaling Theory. Profitability in this context refers to the company's capacity to make money through effective resource management, which is a crucial metric for evaluating business performance. Investors react to this signal with assurance that the business can generate returns on their capital, which promotes a rise in the firm's worth. Similar outcomes are also found in empirical research. Profitability has a favorable and considerable impact on business value, according to a number of research, including Grediani & Dianingsih [16], Radja & Artin [6], Febriyanti & Mertha [14], and Fadhilah & Widajantie [11]. However, some research have contradictory findings. For example, Alghifari et al. (2022), and Dewi & Ekadjaja [9] revealed that business value is not considerably impacted by profitability. This discrepancy serves as a crucial foundation for scholars to reevaluate the connection between company value and profitability, particularly in the telecom sector. Thus, the following is the hypothesis put out in this study:

H1: Profitability has a positive effect on firm value.

Through the advantages of tax savings, the use of debt in a company's capital structure can increase firm value, according to the Modigliani and Miller (MM) theory of taxation. One expense that can be subtracted from taxable revenue is interest on debt, which lowers the amount of taxes owed and gives the business other financial benefits (Modigliani & Miller, 1958). High leverage in this situation serves as an indication to investors that the business is effectively using its financial structure to boost net income. According to signaling theory, this circumstance shows how confident management is in using debt to propel the company's growth and sustainability. This opinion is supported by earlier studies, which revealed that leverage significantly increases firm value [8] [5] [24] and [13]. Support is also provided by additional studies that show that an ideal debt structure can raise a company's perceived value in the eyes of investors, including Darmawan & Susila [7], Hartanti et al. (2020), and Samsi & Indrabudiman [10]. Thus, the following is how the researcher formulates the hypothesis:

H2: Leverage has a positive effect on firm value.

According to the stewardship idea, managers who also hold stock in the company will put the company's interests ahead of their own since their wealth as shareholders is directly impacted by the company's success. In this situation, management ownership pushes managers to make long-term choices, such as controlling profitability to increase the value of the company. Because they also profit from the results of that performance, managers who own shares typically keep the company's profits steady and growing. According to other studies by Arianti & Anwar [3] and Astuti et al. [4] management ownership serves as a moderating factor that fortifies the correlation between company value and profitability. Similar findings were also demonstrated by Mandacı & Gumus [22], Suzan & Ramadhani [23], and Yulianto & Srianingsih [23], demonstrating the importance of managerial ownership in enhancing the favorable impact of profitability on firm value. Thus, the following is how the researcher formulates the hypothesis:

H3: Managerial ownership weakens the effect of profitability on firm value.

According to the Stewardship Theory, managers put the company's interests ahead of their own, particularly if they own stock (managerial ownership). Managers are essential in effectively managing leverage, such as by using income tax debts to lower tax obligations and boost business profits, which gives investors a good indication of the stability and strength of the company's worth. Managers' ownership of shares helps management and shareholders align their objectives, which influences capital structure strategy decisions. According to earlier studies by Rahmatia & Andayani, Perdana et al. (2023), and Tjahjaning et al., management ownership considerably modifies the association between business value and leverage. Research by Ermawati & Triyono [14], Imansyah et al. [19] and Wardana et al. [21] also produced similar results, confirming the significance of managerial ownership in

amplifying the impact of leverage on company value. Because managers have a major influence on financing decisions that directly affect business value, management ownership is still regarded as a moderating element even if some research have produced contradictory findings. Thus, the following is how the researchers formulate the hypothesis:

H4: Managerial ownership strengthens the impact of leverage on firm value.

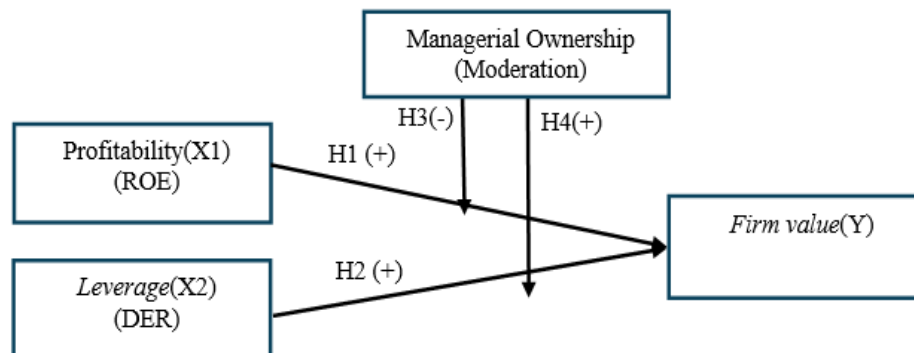


Figure 2. Research Model

2. METHOD

This study uses secondary data and a quantitative methodology. Through documentation studies, data gathering methods are conducted by gaining access to the financial statements and annual reports of telecommunications businesses listed on the Indonesia Stock Exchange (IDX) for the years 2018–2023. Researchers can get accurate, quantifiable, and pertinent historical data to examine the correlations between the variables under study by using secondary data.

All companies in the telecoms sector that were listed on the IDX between 2018 and 2023 make up the study's population. Purposive sampling, which selects samples according to specific standards pertinent to the study's goals, was used to choose the sample. Companies that were consistently registered on the IDX between 2018 and 2023, companies that have comprehensive yearly financial report data during that time, and companies with management ownership are the sample criteria. 14 businesses with 84 observation units (panel data) were obtained based on these criteria.

The Price to Book Value (PBV) ratio, which compares the market price of the stock to the book value per share, is used to measure the firm value, the dependent variable in this study. This ratio shows the difference between a company's accounting value and market value. Investors' evaluation of the company's prospects increases with the PBV value. The following formula is used to determine PBV:

Return on Equity (ROE), a ratio that assesses a company's capacity to produce net profit in relation to total equity possessed, serves as a stand-in for profitability, the independent variable in this study. ROE measures how well a business uses shareholder capital to produce profits over a given time frame. The better the company's financial performance in delivering returns to shareholders, the higher the ROE value. The formula for return on equity is as follows: Leverage, the next independent variable, is determined by the Debt to Equity Ratio (DER), which shows how much of a company's operating expenses are funded by debt as opposed to equity. The following formula is used to calculate the debt to equity ratio: Institutional ownership and management ownership are the moderating variables. The percentage of the total number of shares held by the company that are owned by the management (managers and directors) is known as managerial ownership. The following is the formulation of managerial ownership: A variation of multiple linear regression, moderated regression analysis (MRA) is the analytical approach employed in this study to examine the impact of independent factors and their interactions with moderating variables on the dependent variable. SPSS software was used to conduct the analysis. This is how the study's regression model is written:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 X_1 * Z + \beta_5 X_2 * Z + \epsilon \dots \dots \dots (1)$$

Explanation:

- Y = Firm Value
- X1 = Profitability
- X2 = Leverage
- Z1 = Managerial Ownership
- α = Constanta
- $\beta_1 - \beta_5$ = Regression Coefficient
- ε = error term

3. RESULTS AND DISCUSSION

3.1. Descriptive Statistical Analysis

Table 2. Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Profitability(X1)	52	0,004	0,29	0,11	0,09
Leverage(X2)	52	0,01	4,47	1,56	1,11
Managerial Ownership(M)	52	0,00001	0,29	0,03	0,06
X1*M	52	0,001	0,08	0,0053	0,1593
X2*M	52	0,001	0,66	0,0547	0,12326
Firm value(Y)	52	0,7	5,04	2,404	1,304
Valid N (Listwise)	52				

Source: Processed secondary data, 2025

With a mean value of 0.11, the profitability variable ranges from a minimum of 0.004 to a maximum of 0.29. The profitability variable's standard deviation is 0.09, which is less than the mean value. This finding suggests that there is less variation from the mean in the data utilized as a sample.

The leverage variable's mean value is 1.56, with a minimum value of 0.01 and a high value of 4.47. The leverage variable's standard deviation is 1.11, which is likewise less than the mean value. This finding indicates that there is less variation from the mean in the data used as a sample.

With a mean value of 0.03, the management ownership variable ranges from a minimum of 0.00001 to a maximum of 0.29. The management ownership variable has a standard deviation of 0.06, which is greater than the mean value. This finding suggests that the sample data was not all the same.

With a mean value of 0.0053, the profitability and management ownership variables have a minimum value of 0.001 and a maximum value of 0.08. The profitability variable's standard deviation is 0.1593, which is more than its mean. This finding suggests that the sample data was not all the same.

The variables for management ownership and leverage have a mean value of 0.66, a minimum value of 0.001, and a maximum value of 0.0547. In addition to exceeding the mean value, the leverage variable's standard deviation is 0.12326. This finding suggests that the sample data was not all the same.

With a mean value of 2.404, the firm value variable has a minimum value of 0.07 and a maximum value of 5.04. The management ownership variable has a standard deviation of 1.304, which is less than the mean. The findings indicate that there is less variation in the sample data compared to the mean.

3.2. Classical Assumption Test

Table 3. Normality Test Results

		<i>Unstandardized Residual</i>
N		52
Normal Parameters ^{a,b}	Mean	0,00000000
	Std. Deviation	0,95547245
Most Extreme Differences	Absolute	0,079
	Positive	0,079
	Negative	-0,078
Test Statistic		0,079
Asymp. Sig. (2-tailed) ^c		0,200

Source: Processed secondary data, 2025

The results from the normality test show that the significance probability value or the Asymp. Sig. (2-tailed) coefficient is 0.200. This data indicates that the probability value (Asymp. Sig) is greater than 0.05, thus it can be concluded that the data used in this study is normally distributed.

Table 4. Autocorrelation Test Results

<i>Model Summary</i>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,681	0,464	0,430	0,98488	2,033

Source: Processed secondary data, 2025

A Durbin-Watson (DW) value of 2.033 was found in the autocorrelation test findings; the Durbin-Watson table value (du) is 1.6769 and 4 - du is 2.3231, meaning that $1.6769 < 2.033 < 2.3231$. Thus, it may be said that there is no autocorrelation in the study's regression model.

Table 5. Multicollinearity Test Results

Model	Collinearity Statistic	
	Tolerance	VIF
Profitability(X1)	0,825	1,212
Leverage(X2)	0,848	1,179
Manegerial Ownership(M)	0,951	1,051

Source: Processed secondary data, 2025

Each variable's tolerance levels and Variance Inflation Factor (VIF) are displayed in the multicollinearity test results. The multicollinearity test findings show that the study data is free of multicollinearity since the tolerance values for each variable are larger than 0.10 and the total VIF values for the variables are fewer than 10.

Table 6. Heteroscedasticity Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
Profitability(X1)	-0,702	0,932	-0,114	-0,752	0,456
Leverage(X2)	0,022	0,078	0,42	0,283	0,779
Managerial Ownership(M)	2,56	1,25	0,29	2,048	0,046

Source: Processed secondary data, 2025

The management ownership variable's significance value is less than 0.05, according to the results of the heteroscedasticity test. Because the management ownership variable fails the test and shows signs of heteroscedasticity, it may be said that the moderating variable for this study violates one of the traditional assumption tests exhibiting heteroscedasticity. The natural log (LNM) can be used to convert the data in order to solve this problem.

Table 7. Heteroscedasticity Test After Log N Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
Profitability(X1)	-0,718	1,476	-0,117	-0,486	0,631
Leverage(X2)	-0,088	0,110	-0,202	-0,799	0,432
Managerial Ownership(M)	0,060	0,111	0,112	0,536	0,597

Source: Processed secondary data, 2025

Following the data's natural logarithm transformation, the heteroscedasticity test findings demonstrated that each research variable's significance values were higher than 0.05. It is determined that there are no indications of heteroscedasticity in the study's data.

3.3. Hypothesis Testing

Table 8. Adjusted R Square (R²) Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,713	0,509	0,456	0,96259

Predictor: (Constant), Leverage*MO, Profitability, Leverage, Profitability*MO
 Dependent Variabel: Firm value

Source: Processed secondary data, 2025

The adjusted R-squared value is 45.6 percent, or 0.456. This figure shows that the variables of profitability (X1), leverage (X2), managerial ownership (M), the interaction between profitability and managerial ownership (X1M), and the interaction between leverage and managerial ownership (X2M) account for 45.6% of the variation in firm value. The remaining 54.4%, however, is impacted by additional variables not covered by the regression analysis and not part of this study model.

Table 9. Regression Test (MRA) Results

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constat)	1,108	0,319	
Profitrability(X1)	9,962	1,768	0,719
Leverage(X2)	-0,004	0,161	-0,003
Managerial Ownership(M)	6,035	5,168	0,303
X1*M	-41,629	20,975	-0,508
X2*M	3,309	2,631	0,313

Source: Processed secondary data, 2025

The constant value (a) of 1.108 indicates that the firm value variable will rise by 1.108 if the following factors are constant or equal to zero units: profitability, leverage, managerial ownership, the interaction between profitability and managerial ownership, and the interaction between leverage and managerial ownership.

Assuming all other variables remain constant, the firm value (Y), proxied by PBV, will grow by 9.962 if profitability, as measured by ROE, increases by one unit, according to the regression coefficient value (B1) of the profitability variable (X1).

Assuming all other variables remain constant, the regression coefficient (B2) for the leverage variable (X2) is -0.004, meaning that if leverage, as estimated by DER, increases by one unit, firm value (Y), as estimated by PBV, will fall by 0.004.

The management ownership variable (Z) has a regression coefficient value (B3) of 6.035, which indicates that, assuming all other variables stay the same, a one-unit increase in managerial ownership, as measured by KM, will result in a 6.035 rise in company value (Y), as measured by PBV.

The firm value (Y), as measured by PBV, will drop by 41.629 if the interaction between profitability and managerial ownership (X1M) increases by one unit, according to the regression coefficient value (B4) of the interaction variable. This is assuming that all other variables stay the same. The interaction variable between leverage and managerial ownership (X2M) has a regression coefficient value (B5) of 3.309. This indicates that, assuming all other variables stay the same, if the interaction between leverage and managerial ownership increases by one unit, the firm value (Y), as measured by PBV, will also increase by 3.309.

Table 10. Feasibility (F) Test Results

Model	Sum of Squares	Df	Mean Square	F	Sig
1 Regression	44,199	5	8,840	9,54	0,001
Residual	42,622	46	0,927		
Total	86,821	51			

Source: Processed secondary data, 2025

The significance value, according to the model feasibility test findings, is 0.001. Since this number is less than the significance level of 0.05, it may be said that the study's regression model, Moderated Regression Analysis (MRA), is workable. This indicates that the dependent variable is significantly impacted by both the independent variables and the moderation interaction at the same time, enabling the model to effectively describe the relationships between the variables.

Table 11. Hypothesis Test Results

	Model	t	Sig.
1	(Constat)	3,477	0,001
	Profitrability(X1)	5,635	0,000
	Leverage(X2)	-0,023	0,982
	Managerial Ownership(M)	1,168	0,249
	X1*M	-1,985	0,053
	X2*M	1,258	0,215

Source: Processed secondary data, 2025

The profitability variable has a computed t-value of 5.635 with a significance level of $0.000 < 0.05$ and a positive regression coefficient of 9.962, according to the t-test statistics in Table 4.11. These findings suggest that company value, as measured by PBV, is significantly positively impacted by profitability, as measured by ROE. The first hypothesis is so accepted. This outcome confirms the results of earlier research by Febriyanti & Mertha [14], Radja & Artini [6], and Grediani & Dianingsih [16].

Additionally, the leverage variable's t-test findings indicate a computed t-value of -0.023, a negative regression coefficient direction of -0.004, and a significance level of $0.982 > 0.05$. This indicates that the value of the company is not significantly impacted by leverage as determined by DER. Despite being detrimental, the influence is not statistically significant. The second hypothesis is thus disproved. This outcome is in line with research conducted by Khuzaini et al. [19], Gusni et al. [15] and Siddhi & Putri [18].

A t-statistic of -1.985 was found for the interaction variable between management ownership and profitability, with a significance level of $0.053 > 0.05$. At -41.629, the regression coefficient is negative. This suggests that business value is not substantially impacted by the relationship. Put differently, managerial ownership has no effect on the correlation between business value and profitability. The third hypothesis is thus disproved. These results align with research conducted by Pratiwi & Dapit Pamungkas [26], Santoso & Nurhidayati [17], and Luthfiah & Suherman [21].

Leverage and managerial ownership interact to produce a t-statistic value of 1.258, a positive regression coefficient of 3.309, and a significance level of $0.215 > 0.05$. This suggests that business value is not substantially impacted by the relationship. To put it another way, the relationship between leverage and business value is neither strengthened nor weakened by managerial ownership. The fourth hypothesis is thus disproved. This outcome is in line with research conducted by Mandagie et al. (2022), Yonathan & Rasyid [22], and Madhani & Sutrisno [23].

4. CONCLUSION

The findings of the testing and discussion indicate that firm value is positively impacted by profitability, meaning that the more profitable a company is, the more valuable it will be. Investors are given a good indication of the company's prospects for the future by this. On the other hand, leverage has no discernible impact on firm value, suggesting that investors do not prioritize leverage when making investment decisions. The third hypothesis is disproved since managerial ownership has not been shown to mitigate the association between business value and profitability. This suggests that managers' ownership of shares is insufficient to either increase or decrease the impact of profitability on the company's worth. Additionally, the relationship between leverage and firm value is not moderated by managerial ownership. The sample size of this study is limited to enterprises operating in the telecommunications industry between 2018 and 2023, so the findings cannot yet be widely applied to other industries.

In order to increase the relevance and generalizability of the research findings, future studies are anticipated to broaden the area of objects by incorporating other industries in addition to the telecommunications industry. Furthermore, the observation time might be prolonged in order to improve the representation of long-term circumstances in data trends. It is also recommended that researchers take into account additional variables, such as institutional ownership structure, company size, and corporate governance quality, which more truly reflect the factors impacting firm value. It is crucial for businesses in the telecom industry to consistently increase profitability by implementing efficient capital and asset management techniques. Additionally, businesses must consider the percentage of managerial ownership since managers' hegemony over shareholders can influence management's focus on immediate financial gain, which in turn can influence investors' assessment of the company's worth.

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