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Managerial ownership and financial performance: empirical evidence of the application of sharia principles in Indonesia

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Abstract

Purpose - This study aims to examine the relationship between managerial ownership and financial performance through the aplication of sharia principles in Indonesia.

Method - This study uses a financial report sample from 380 companies listed on the Indonesia Stock Exchange during the 2021-2023 period. The estimation method used is Pooled OLS (CEM). We conducted the Durbin-Wu-Hausman (DWH) test to checking endogeneity issues. We also conduct a robustness test using Robust Least Square (RLS) to ensure the reability of our results.

Result - The results of this study indicate that managerial ownership has a positive effect on financial performance through the aplication of sharia principles. We found that the principle of *amanah* (trustworthiness) and *maslahah* (public interest) ensures that managerial decision-making is not only for personal benefit but also for the interests of shareholders. Additionally, we found that the principle of *ta'awun* (mutual benefit) and *'adl* (justice) ensures that every decision and action between managerial ownership and shareholders is based on balance.

Implication - This study it highlights the need to formalize Sharia-based governance guidelines that limit excessive managerial ownership while mandating ethical decision-making transparency. For Islamic finance literature, it establishes Sharia Enterprise Theory as a viable extension of Sharia-based Agency Theory.

Originality - We integrate the Islamic perspective into managerial ownership by incorporating fundamental Islamic principles of accountability.

Keywords: managerial ownership; financial performance; profitability; firm value

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Introduction

Companies operate to achieve their objectives, including improving financial performance and creating value for shareholders (Gu et al., 2018). In some cases, managerial ownership is believed to align the interests of managers and shareholders by reducing conflicts of interest and enhancing accountability in decision-making (Gao & Song, 2008; Shan, 2019). Agency theory explains that one of the main challenges in a company is the potential conflict between shareholders and managers (Jensen & Meckling, 1976). In Indonesia, a country with a Muslim-majority population, Islamic ethical principles such as *amanah* (trustworthiness) and *maslahah* (public interest) can provide a new perspective in understanding the impact of managerial ownership on financial performance.

Agency theory introduced by Jensen & Meckling (1976), explains the main challenges faced by companies in maintaining the alignment of interests between managers (agents) and shareholders (principals). This conflict, known as the agency problem can lower the company's value as managers may focus on short-term goals or personal gains. For example, in the form of high compensation, while shareholders favour long-term growth. One way to mitigate this problem is through share ownership by management, or managerial ownership. This ownership is believed to align the interests of managers with shareholders because some of the manager's personal wealth will be directly related to the firm performance (C. R. Chen et al., 2003). Thus, managers become more motivated to increase company value. However, if ownership levels are too high, managers may tend to make decisions that are too conservative or even personal, which risks reducing the diversity of perspectives and narrowing corporate policies.

It is important to understand that the relationship between managerial ownership and financial performance is not always linear, especially in non-financial companies in developing countries. Some studies such as those conducted by Gao & Song (2008) and Shan (2019) show that there is a certain threshold where managerial ownership begins to have a less positive impact. On the other hand, if managerial ownership is too large, it can cause problems, such as lack of diversity in decision making and increased risk of nepotism (C. R. Chen et al., 2003). In Indonesian companies, many companies are dominated by owners or managers who have strong control. In addition, Tjahjadi et al. (2021) state that the development of corporate governance in Indonesia is still in the evolutionary stage. The research of managerial ownership on financial performance in Indonesian companies is generally still limited to the scope of the sample used. Therefore, it opens up opportunities to dig deeper into the relationship.

Several previous studies have examined managerial ownership. Dhifi & Zouari (2024) conducted a further study focusing on ownership structure characteristics and banking performance. Emengini et al. (2024) investigated the role of integrated reporting as a mediator in the relationship between ownership structure and firm performance in Europe. Salehi et al. (2021) examined the potential impact of managerial entrenchment on corporate social responsibility (CSR) activities and financial performance in Iran. Interestingly, so far no studies have integrated perspective the principles of Islam into managerial ownership. Therefore, there is still a gap between what has been conducted by previous researchers and what is expected in the literature.

Most previous studies such as those conducted by Harnida et al. (2021), Hasanudin et al. (2020), and Nasution et al. (2024) have examined the relationship between managerial partnership and financial performance in Indonesian companies. However, so far these studies are still limited to the focus of the sampling used. For example, research conducted by Hasanudin et al. (2020) only used companies classified on the Indonesia Stock Exchange in the oil and gas mining sub-sector. Harnida et al. (2021) also only used Consumer Goods companies listed on the Indonesia Stock Exchange as samples. Likewise, research conducted by Nasution et al. (2024), they only used 29 samples of companies in the hospitality, logistics and transportation sectors in Indonesia. Therefore, we conduct further analysis using a wider sample coverage of non-financial companies in Indonesia. Thus, the relationship between managerial ownership and financial performance will be more complex, so that it can provide stronger accuracy and validity of research results as evidence from Indonesia.

This study aims to examine the relationship between managerial ownership and financial performance by integrating an Islamic perspective. Given Indonesia's status as the largest Muslim-majority country, we adopt Islamic principles such as *amanah* (trustworthiness) and *maslahah* (public interest) in managerial ownership. This study offers two key contributions: Firstly, it fills introducing a novel approach by exploring managerial ownership within an Islamic framework; Secondly, we revisit the entrenchment effect in the context of a developing country, providing new empirical evidence on whether high levels of managerial ownership in Indonesia enhance performance or pose opportunistic risks, particularly in environments with weak external monitoring.

Literature Review

This hypothesis is primarily developed from the agency theory proposed by Jensen & Meckling (1976). We suspect that potential conflicts of interest between shareholders and management arise because managers make decisions that differ from those of shareholders. Meanwhile, Nyberg et al. (2010) reveal that the higher the level of managerial ownership, the stronger the alignment between the interests of managers and shareholders. C.-J. Chen & Yu (2012) also support this theory by showing that when managers are also partial owners of the company, they tend to focus more on improving long-term financial performance. However, we suspect that when managerial ownership functions as a strong internal control mechanism, better knowledge of operational activities allows managers to make individual decisions. Morck et al. (1988) also reveal that at high levels of managerial ownership, managers tend to act opportunistically by making decisions that benefit themselves more than shareholders. Therefore, a new approach to managerial ownership is needed to encourage manager to act more responsibly in decision-making.

We suspect that the Islamic approach can strengthen the effectiveness of managerial ownership in enhancing financial performance. First, the principle of *amanah* (trustworthiness) emphasizes that a manager has the responsibility to manage the company with honesty and integrity (Abu-Tapanjeh, 2009). Second, the principle of *maslahah* (public interest) emphasizes decision-making that is not only for personal benefit but also for the interests of shareholders (Dusuki & Abdullah, 2007). Third, the principle of *ta'awun* (mutual benefit) emphasizes that cooperation should be mutually beneficial, ensuring that both managerial ownership and shareholders gain advantages without harming one another (Beekun & Badawi, 2005). Fourth, the principle of *'adl* (fairness) emphasizes that every decision and action must be balance, ensuring that the rights and obligations of both managerial ownership and shareholders are fulfilled proportionally (Ali & Al-Aali, 2015). In the Islamic financial system, transparency and fairness in asset management are highly emphasized. Therefore, when a manager holds company shares and adheres to Islamic values, opportunistic behavior can be avoided.

Hypotheses Development

Several previous empirical studies have examined the relationship between managerial ownership and profitability. A meta-analysis conducted by Iwasaki et al. (2022) found that managerial ownership has a positive relationship with firm profitability in Eastern European countries, Russia, and China. Research conducted by Ogabo et al. (2021) also found that managerial ownership has a positive effect on firm profitability, by showing that when managers own more company shares, the company's performance and profitability also tend to increase. In addition, research conducted by Harnida et al. (2021) also found that managerial ownership is positively related to profitability, showing that the higher the level of managerial ownership, it will increase profitability. Based on the empirical studies and Islamic perspective we have developed, the first hypothesis we propose is:

H1: Managerial ownership has a positive effect on profitability

Several previous studies have examined the relationship between managerial ownership and firm value. Based on research by Florackis et al. (2020), at low to medium ownership levels the effect is positive, but the effect becomes negative at higher ownership levels. Research conducted by Benson et al. (2020) also found that managerial ownership has a positive influence on firm value in companies located far from financial centres or remote areas. However, the findings also show that at high ownership levels, this positive effect begins to decline due to entrenchment. His study shows that managers who own significant shares tend to prioritise their own interests and maintain their control over the company. In addition, research conducted by Atawnah et al. (2024) also found that managerial ability has a positive relationship with firm value. Based on the empirical studies and Islamic perspective we have developed, we propose two hypotheses to examine the consistency of our findings. The proposed hypotheses are:

H2: Managerial ownership has a positive effect on Tobin's Q

H3: Managerial ownership has a positive effect on price to book value

Research Methods

Data Collection

The population in this study were Indonesian non-financial companies listed on the Indonesian stock exchange. Sampling is done using purposive sampling, so that only members of the population who meet the criteria are selected as research samples (Purnomo et al., 2024). The selection of the first criterion is based on the company having complete annual audited financial report data in text. The second criterion is that the company applies hedging consistently during the 2021-2023 research period. After selecting criteria from all 927 Indonesian non-financial companies, there are only 380 companies that meet these criteria.

In this study, the type of data used is panel data (Hsiao, 2007). This data contains observations from various non-financial companies in Indonesia over a period of three years, or more precisely from 2021-2023. The data collection method used is a secondary technique, as the data used is the company's annual financial report accessed through the Indonesia stock exchange website. Thus, the financial report data used in this study totaled 1140 observations (n = 1140) from 380 companies for the period 2021-2023.

Measurement of Variables

The dependent variable in this study, financial performance is measured through three indicators. First, Return on Assets (ROA) to measure the company's efficiency in generating profits from its total assets (Wibowo & Honggowati, 2022). ROA is used to show the extent to which the company's assets are utilised to generate profits.

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Book of Asset}} \tag{1}$$

The second financial performance indicator, Tobin's Q is a ratio that measures the company's market value against the replacement cost of its physical assets (Purnomo et al., 2024). Tobin's Q is used to evaluate whether the company's assets are overvalued or undervalued by the market.

$$\text{Tobin's Q} = \frac{\text{Market Capitalization} + \text{Boof of Liability}}{\text{Book of Asset}} \tag{2}$$

The third financial performance indicator, Price to Book Value (PBV) is a ratio that measures the company's market value relative to its book value (Postma, 2006). PBV is used to assess how far the company is valued by the market compared to its book value.

$$\text{PBV} = \frac{\text{Share Price}}{\text{Book of Equity} \;/\; \text{Share Outstanding}} \tag{3}$$

The independent variable in this study, managerial ownership is treated as a dummy variable (Purnomo et al., 2024). This measurement method is done by classifying companies into two categories based on the presence or absence of share ownership by management. The company is given a value of 1 if there is share ownership by management. Conversely, the company is given a value of 0 if there is no share ownership by management. In this way, the dummy variable is able to represent the presence of share ownership by managers in a binary manner. Morck et al. (1988) and Short & Keasey (1999) also show that measuring managerial ownership with dummies can provide a clear picture of the role of managerial ownership in reducing agency conflicts and improving financial performance.

The control variables used are variables that are thought to have the most influence on financial performance. One of them is the firm size variable, because larger companies tend to have more resources, access to capital and the ability to operate more efficiently (Das & Kumar, 2023).

$$\text{Size} = \text{LN (Book of Asset)} \tag{4}$$

The firm age variable is used as a control variable because older companies usually have more experience and stability (Wibowo & Honggowati, 2022).

$$\text{Firm Age} = \text{LN (Observation Year - Establishment Year)} \tag{5}$$

Leverage is used as a control variable because the level of debt can affect the company's financial risk (Purnomo et al., 2024).

$$\text{DER} = \frac{\text{Book of Liability}}{\text{Book of Equity}} \tag{6}$$

To determine companies with larger investment decisions and business strategies, this study uses the growth opportunity variable as a control variable (Chowdhury et al., 2023).

$$\text{Asset Growth} = \frac{\text{Asset this Year} - \text{Asset last Year}}{\text{Asset last Year}} \quad (7)$$

In addition, the hedging variable is used to study hedging activities (Purnomo et al., 2024). We treat this variable as a dummy. A value of 1 is assigned if the company applies derivative hedging, while a value of 0 is assigned if the company applies non-derivative hedging.

Model Analysis

This research uses explanatory quantitative. Data analysis used in this study includes descriptive statistics, pearson pollinearity, endogeneity test, panel data regression and robustness models. Descriptive presentation is presented in the form of the number of observations, average value, minimum value and maximum value (Purnomo et al., 2024). Panel data regression is used to determine the extent of the effect of managerial ownership on financial performance.

The flow of analysis carried out includes the *LM* test to determine whether the *CEM* or *REM* is suitable for the data being analysed. The F test is used to test the suitability of the *OLS* model of *FEM* and *CEM*. A poor *OLS* framework would be appropriate if H_0 is accepted. Even so, we still conducted a *DWH* test to verify the issue of endogeneity. The model used is as follows:

$$ROA = \alpha + \beta_1 Own + \varepsilon \quad (8)$$

$$ROA = \alpha + \beta_1 Own + \beta_2 Size + \beta_3 Age + \beta_4 DER + \beta_5 Growth + \beta_6 Hedging + \varepsilon \quad (9)$$

$$Tobin's\ Q = \alpha + \beta_1 Own + \varepsilon \quad (10)$$

$$Tobin's\ Q = \alpha + \beta_1 Own + \beta_2 Size + \beta_3 Age + \beta_4 DER + \beta_5 Growth + \beta_6 Hedging + \varepsilon \quad (11)$$

$$PBV = \alpha + \beta_1 Own + \varepsilon \quad (12)$$

$$PBV = \alpha + \beta_1 Own + \beta_2 Size + \beta_3 Age + \beta_4 DER + \beta_5 Growth + \beta_6 Hedging + \varepsilon \quad (13)$$

The robustness test using *Robust Least Squares (RLS)* was conducted to ensure the reliability of our results (Purnomo et al., 2024). The model used is as follows:

$$ROA = \alpha + \beta_1 Own + \sum \beta_2 CV + \varepsilon \quad (14)$$

$$Tobin's\ Q = \alpha + \beta_1 Own + \sum \beta_2 CV + \varepsilon \quad (15)$$

$$PBV = \alpha + \beta_1 Own + \sum \beta_2 CV + \varepsilon \quad (16)$$

Results and Discussion

Descriptive of Variables

Based on Table 1, the mean value of ROA indicates that companies in Indonesia were able to generate profits 3.98% from their assets during the period analysed. Some recent literature, such as the study by Ogabo et al. (2021) on conventional banks in Indonesia found an average ROA of 1.03%. L. H. Chen et al. (2025) found an average ROA of -2.78% in the United States. (Riyanti et al., 2025) reported a relatively high average ROA in the United Kingdom, at 6.93%. The figure we found can be considered an average of those presented in the literature, not particularly high and not too low either. Meanwhile, the mean value of Tobin's Q was recorded at 1.57. This figure is consistent with the means reported in the literature. Study Allayannis et al. (2012) reported a mean Tobin's Q value of 1.98, Bartram et al. (2011) reported 2.15, while Chowdhury et al. (2023) found an even higher value of 2.87. A Tobin's Q value higher than 1 indicates that firms are considered more valuable by the market than the cost of replacing their assets.

The mean PBV found is 2.21, indicating that in general the market value of the company is more than twice its book value. This is similar to the average in the literature, Z. Chen et al. (2005) found a mean PBV in China of 2.36. In addition, Claessens et al. (2000) also found the mean PBV in countries such as Indonesia, Malaysia, Korea, Thailand, and the Philippines, ranging from 0.5 to 2 times. This indicates that the market values companies with high expectations of potential future growth or profitability. Meanwhile, the mean of managerial ownership in Indonesian non-financial companies is 0.52. This figure can be stated as high when compared to the mean in the literature. Study conducted by Purnamasari & Tashya (2024) found that there was around 43% mean managerial ownership in mining companies in Indonesia. In addition, Reschiwati & Ayu Lestari (2021) also only found the average managerial ownership around 42% in Indonesian companies.

The mean of the firm size variable is 22.89. This figure reflects a fairly large mean firm size, as measured in terms of assets. Villalonga (2019) states that companies with larger sizes tend to have a competitive advantage in accessing capital, which affects their profitability and market value. This is very common when viewed from the company age variable which has an mean value of 3.41, which indicates that companies have generally been operating for approximately four decades. The Debt to Equity Ratio (DER) shows a mean of 3.96, which reflects that in general companies have a level of debt almost four times their equity. This figure indicates a fairly high use of means in the company's funding structure. Jensen (1986) argues that high leverage can force management to be more disciplined in managing the company. Nonetheless, the average growth of Indonesian companies over the last three years increased by 6.06% of their total assets.

Possibly because these companies apply hedging, with data showing that 71% or approximately 270 out of 380 companies use derivative hedging. This indicates a prudent efficiency in the management of corporate assets.

Pearson Collinearity

We conducted a collinearity analysis to evaluate whether the independent variables in the regression model exhibit a high level of correlation. Meanwhile, correlations between independent and dependent variables may indicate potential endogeneity. A correlation value close to ±1 suggests a strong relationship, whereas a value near 0 indicates a weak relationship.

Table 1

Descriptive of Variable

Variables	Obs.	Mean	Min	Max
Return on Asset	1140	3.98	-58.03	109.65
Tobin's Q	1140	1.57	0.01	31.57
Price to Book Value	1140	2.21	-55.10	147.44
Managerial Ownership	1140	0.52	0.00	1.00
Firm Size	1140	22.90	12.12	32.27
Firm Age	1140	3.42	1.10	4.54
Debt Equity Ratio	1140	3.96	-58.03	109.65
Growth Opportunity	1140	6.06	-100.00	216.45
Hedging	1140	0.71	0.00	1.00

Source: Authors' work

Table 2

Correlation Matrix

Variables	Own	Size	Age	DER	Growth	Hedging	ROA	PBV
Own	1							
Size	-0.023	1						
Age	0.024	-.160*	1					
DER	-0.034	-0.015	0.027	1				
Growth	0	0.012	-.084*	-0.017	1			
Hedging	-0.003	-.241*	.178*	-0.012	0.012	1		
ROA	0.042	-.103*	0.031	-.070**	.115*	0.063***	1	
PBV	.069**	-.063**	-.166*	.215*	.093*	-.106*	.310*	1
Tobin's Q	.068**	-0.028	-.152*	0.009	0.038	-.091*	.280*	.865*

** = 1% significance, ** = 5% significance, *** = 10% significance*

Source: Authors' work

Based on the Pearson Collinearity analysis, the relationship between the independent variables in this study indicates no excessive multicollinearity, with most correlation values remaining below the 0.7 threshold. However, there is an indication of correlation between managerial ownership and PBV as well as Tobin's Q, which may suggest potential endogeneity issues. This assumption arises because managerial ownership can be influenced by the company's performance itself, not just the other way around. For example, companies with better performance may be more attractive for managers to increase their ownership, making the observed relationship between managerial ownership and financial performance potentially bidirectional.

Managerial Ownership and Financial Performance

In testing the hypotheses, the model we employed has undergone a series of diagnostic tests, including the LM test and F test to confirm that Pooled OLS is more suitable than Fixed Effect or Random Effect for the data used.

Based on Table 3, Model 1 before including control variables, managerial ownership has a positive effect on Return on Assets (ROA), by each increase in managerial ownership leads to a 0.231 increase in ROA. After incorporating control variables on Model 2, managerial ownership still exhibits a positive effect on ROA, with each increase in managerial ownership resulting in a 0.261 increase in ROA. Several studies, such as those conducted by Harnida et al. (2021), Iwasaki et al. (2022), and Ogabo et al. (2021) also support our results, by showing that managerial ownership positively influences ROA. These findings indicate that the higher the managerial ownership, the greater the return on assets the company can generate. Based on Model 1 and Model 2, the results of this study support the first hypothesis (H1).

Model 3 before incorporating control variables, shows that managerial ownership has a positive effect on Tobin's Q, showing each increase in managerial ownership raises Tobin's Q by 0.104. After incorporating control variables, Model 4 demonstrates that managerial ownership consistently has a positive effect on Tobin's Q, by each increase in managerial ownership raising firm value by 0.106. Several studies as conducted by Atawnah et al. (2024), Benson et al. (2020), and Florackis et al. (2020) support our findings, with showing that managerial ownership positively influences Tobin's Q. These results indicate that managerial ownership can align the interests of managers and shareholders, thus increase firm value. Based on Model 3 and Model 4, the results of this study support the second hypothesis (H_2).

Table 3

Buselines Regression Result

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Own	0.006*	0.002*	0.031**	0.023**	0.005*	0.006*
	0.244	0.261	0.108	0.106	0.221	0.213
Size		0.001*		0.048**		0.002*
		-0.029		-0.009		-0.025
Age		0.040**		0.000*		0.000*
		0.168		-0.216		-0.344
DER		0.000*		0.000*		0.001*
		-0.029		0.009		0.011
Growth		0.010*		0.282		0.495
		0.005		-0.001		0.001
Hedging		0.419		0.021**		0.001*
		0.081		-0.125		-0.285
Observation	1084	1084	1140	1140	1077	1077

** = 1% significance, ** = 5% significance*

Source: Authors' work

Model 5 shows that managerial ownership, before incorporating control variables, has a positive effect on Price to Book Value (PBV). The results indicate that each increase in managerial ownership raises PBV by 0.221. Model 6, after including control variables, also demonstrates that managerial ownership positively influences PBV. However, the positive effect are weakening with showing that each increase in managerial ownership increases PBV by 0.213. These findings indicate that the higher the managerial ownership, the greater the PBV the company can generate. Several studies conducted by Fauzi & Locke (2012) and Gracia & Lukman (2023) are consistent with our findings, as they also found that managerial ownership has a positive effect on PBV. Based on Model 5 and Model 6, the results of this study support the third hypothesis (H_3).

Endogeneity Issues

We conducted an endogeneity check because the relationship between managerial ownership and financial performance may not be purely exogenous. There is a possibility of reverse causality. To assess the presence of endogeneity, we performed the *Durbin-Wu-Hausman (DWH)* test, which examines whether managerial ownership is endogenous to financial performance.

Table 4 shows that the results of the Durbin-Wu-Hausman (DWH) test have p-values greater than 0.05 for all dependent variables (ROA, Tobin's Q, and PBV). In other words, there is no strong statistical evidence that managerial ownership is influenced by firm performance, thereby reducing our concerns about reverse causality. We imply that the estimated relationship between managerial ownership and financial performance is unlikely to suffer from endogeneity bias. As a result, the model Pooled OLS (CEM) used in the analysis our provides reliable and consistent estimates.

Robustness Check

To ensure the reliability of the estimated results, we conducted a robustness check using the Robust Least Squares (RLS) method. This approach aims to confirm whether the relationship between managerial ownership and financial performance remains consistent under an alternative estimation technique. By applying the robustness test, we seek to verify whether the significance level, direction, and magnitude of the coefficients remain stable compared to the main regression results. If the robustness test produces consistent findings, it strengthens the validity of our conclusions.

In Table 5, The robustness test results using the RLS method confirm the study's main findings that managerial ownership has a positive effect on financial performance. The consistent coefficients of the managerial ownership variable across all models (ROA, Tobin's Q, and PBV) demonstrate the robustness of the research findings against potential heteroskedasticity and outlier issues. The relatively stable magnitude of the effect with the Pooled OLS results strengthens the validity of the proposed hypotheses. These results are also consistent with the DWH test, which indicated no endogeneity issues, thereby supporting the causal relationship between managerial ownership and financial performance.

Table 4

Managerial Ownership Endogeneity Test

Dependent Variable	Durbin-Wu-Hausman (p-value)	Conclusion
ROA	0.211	Exogenous
Tobin's Q	0.130	Exogenous
PBV	0.211	Exogenous

Source: Authors' work

Table 5

Robustness Results

Variables	Model 7	Model 8	Model 9
Own	0.0002*	0.0178**	0.0182**
	0.2567	0.0758	0.1379
Controls	Yes	Yes	Yes
Observation	1084	1140	1077

** = 1% significance, ** = 5% significance*

Source: Authors' work

Our findings indicate that managerial ownership enhances financial performance not only through profitability, but also through firm value. Our results align with Abu-Tapanjeh (2009) and Dusuki & Abdullah (2007) who propose Islamic principles such as *amanah* (trustworthiness) and *maslahah* (public interest) as foundational elements. We found that the principle of amanah makes managers responsible for managing the company with honesty and integrity. In addition, we found that the principle of maslahah ensures that managerial decision-making is not only for personal benefit but also for the interests of shareholders. As stated by Iwasaki et al. (2022) and Ogabo et al. (2021) that when a manager owns shares in the company, greater incentives will make them act responsibly in managing assets and improving business sustainability. Our results also support agency theory proposed by Jensen & Meckling (1976) that managerial ownership can align the interests of managers and shareholders.

We indicate that managerial ownership leads to decision-making that supports increasing firm value. When managers own shares, they become more motivated to enhance firm value, as their interests as shareholders are also involved. Atawnah et al. (2024) revealed that in the Asian market, managerial ownership plays a role in enhancing firm value as it can reduce agency conflicts, especially in companies that face limitations of external investors in monitoring managerial. Therefore, it is important to give incentives for managers to focus on the long-term achievement of the company. In this case, managerial ownership can align the interests of managers and shareholders that can increase the market of firm value. Benson et al. (2020) and Florackis et al. (2020) also argue that when managers own shares, they have incentives to increase the firm value, because the increase in share price will also increase the incentives of managers. As we suspected, managerial ownership not only reflects a balance of interests between managers and shareholders but also embodies the value of *ta'awun* (mutual benefit) in achieving corporate objectives.

In Indonesia, although the corporate governance system is developing, managerial ownership still provides a positive influence on the improvement of firm value. However, the positive effect weakens when we consider external factors. We suspect that when managerial ownership functions as a strong internal control mechanism, better knowledge about operational activities will allow managers to make individual decisions. Demsetz & Villalonga (2001) also suggested that at very high ownership levels, the interests of managers and shareholders begin to diverge, as managers become too comfortable with their position and less motivated to take risks. Based on such results, the principle of *'adl* (fairness) in Islam is necessary to emphasize the importance of fair corporate governance to ensure that decision-making remains ethical and accountable. Therefore, we indicate that valid supervision and regulatory measures are still necessary to prevent managers from engaging in opportunistic behavior.

Islamic principles such as *amanah* (trustworthiness), *maslahah* (public interest), *ta'awun* (mutual cooperation), and *'adl* (justice) provide a unique framework to explain why managerial ownership enhances firm performance in Muslim-majority countries. Research conducted by Abu-Tapanjeh (2009) and Dusuki & Abdullah (2007) demonstrates how the principles of *amanah* (trust) and *maslahah* (public interest) create an ethical foundation in corporate governance that goes beyond mere financial incentives. Consistent with the findings of Beekun & Badawi (2005), our study reveals that Islamic values help align managerial behavior with shareholder interests while promoting social welfare, simultaneously reducing opportunistic tendencies. This Islamic-based governance approach aligns with Ali & Al-Aali (2015) argument that ethical frameworks can complement traditional agency theory in emerging markets. Thus, these findings can serve as an effective governance mechanism, especially in environments with strong Islamic values like Indonesia.

Robustness and endogeneity checks strengthen the validity of these findings. The robustness test confirms that the positive relationship between managerial ownership and financial performance remains consistent even after addressing potential heteroskedasticity and outlier issues. The stable coefficients across all three financial performance indicators (ROA, Tobin’s Q, and PBV) indicate that the results are not easily influenced by variations in estimation methods. Meanwhile, the endogeneity test confirms that managerial ownership is exogenous to financial performance. This reduces concerns about reverse causality between managerial ownership and firm performance. Thus, it can be concluded that the findings of this study are sufficiently robust.

Conclusion

We found that managerial ownership has a positive influence on financial performance in Indonesian non-financial companies. Based on a *Pooled OLS* analysis of 380 companies listed on the Indonesia Stock Exchange during the 2021-2023 period, our results show that managers who own shares tend to be more motivated to improve profitability and firm value. These results are reflected in the increase in each financial performance indicator we used, among which ROA, Tobin's Q, and PBV. This study also notes that while managerial ownership can have a positive impact on financial performance, there is still a risk of opportunistic behavior that may arise, particularly in environments with weak external oversight. This results evident from the weakening of the positive effect on PBV when we incorporate external factors. The results remain consistent even when we account for endogeneity issues and the robustness of the research.

Our findings support sharia-based agency theory mechanisms through sharia enterprise theory, which states that managerial share ownership can reduce conflicts of interest between shareholders and management. It needs to be confirmed that we integrate Islamic principles into agency theory. Firstly, we found that the principle of *amanah* (trustworthiness) makes managers responsible for managing the company with honesty and integrity. Secondly, we found that the principle of *maslahah* (public interest) ensures managerial decision-making is not only for personal benefit but also for the interests of shareholders. Thirdly, we found that the principle of *ta'awun* (mutual benefit) enables both managerial ownership and shareholders to collaborate for mutual gain without harming one another. Fourthly, we found that the principle of *'adl* (justice) ensures that every decision and action between managerial ownership and shareholders is based on balance, so that rights and obligations are fulfilled proportionally. Thus, This study makes two key theoretical contributions. First, it extends agency theory by integrating Islamic principles, offering a novel perspective on how ethical values influence managerial ownership. Second, the proposed sharia enterprise theory framework paves the way for developing a more holistic Sharia-based Agency Theory.

Our findings reveal a critical practical dilemma: while Islamic value-based managerial ownership enhances performance, Indonesia's weak governance system risks transforming this mechanism into an entrenchment tool. For regulators, this implies the need to establish a maximum threshold for managerial ownership (e.g., 30%) to prevent misuse while mandating decision-making transparency based on *maslahah* principles. Companies, meanwhile, must develop checks-and-balance systems where directors share ownership is counterbalanced by strengthening independent Sharia oversight functions. Investors should remain vigilant against "Sharia greenwashing", instances where companies adopt Islamic principles superficially without genuine implementation. Without substantial governance reform, the distortive potential of managerial ownership may be exacerbated in emerging markets like Indonesia.

Our results provide only preliminary evidence on the relationship between managerial ownership and financial performance using an Islamic perspective approach. Future studies may consider the board of directors as a moderating variable, integrating a Shariah approach into the board of directors. We suggest that the sample be limited to Muslim board members to reduce estimation bias in the research findings. Future research could also consider new measurement methods for the managerial ownership variable by incorporating an Islamic approach. The results may be more interesting if these two gaps are addressed simultaneously. Additionally, we recommend conducting further research in countries with more advanced governance systems. We believe that with the application of Islamic principles, the results will be more consistent and free from opportunistic behavior.

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