Firm Value: Impact of Investment Decisions, Funding Decisions and Dividend Policies

Nur Triani[1], Deden Tarmidi[2]

[1,2]*Faculty of Economic and Business, Universitas Mercu Buana, Jl. Meruya Selatan No. 1 Jakarta*
[2]*E-mail: deden.tarmidi@mercubuana.ac.id (Corresponding author)*

Abstract

Optimizing company value is one of the company's main goals. The higher firm value is more prosperous shareholders will be. Financial management has the main function items, namely to plan, find and utilize funds that are useful to maximize the firm value. This study aims to examine the impact of investment decisions, funding decisions and dividend policies on the firm value in companies listed on the Indonesia Stock Exchange from 2013 to 2016 especially property and real estate sector. From 48 of population, 33 companies were sampled using purposive sampling method. By multiple linear regression analysis using the SPSS software it was found that funding decisions and dividend policies have a significant impact on firm value, while investment decisions is not significant. This research implies that in optimizing firm value can be achieved through the application of financial management functions as well as dividend policy, where one decision can attract investor interest and have an impact on the firm value.

1. Introduction

The optimal of firm value is very important for management or an investor. For a manager who is able to increase firm value, then the manager has shown a good performance on achievement for the company. As for investors assume that the increased firm value is a good view of the company so that investors will be attracted to invest that make the company's stock price has increased (Widodo and Kurnia, 2016). The phenomenon that occurs when the stock price shows the results of that changes for following the development of unstable global economy. The Composite Stock Price Index (IHSG) in 2017 had 345 shares down, 81 fixed shares and 67 shares increased. While the closing at the beginning of 2018 the IHSG fell 2.8 percent (kompas.com, 2018).

The fall in the Composite Stock Price Index This (IHSG) is temporary case because it is influenced external factors. Factors - factors referred to is the US central bank interest rate the Fed is increasing and is predicted to increase again up to three times this year, the issue of a trade war between China and USA, as well as geopolitical conditions and Syria that America is heating up for some time volatility. The Composite Stock Price Index (IHSG) is enough to make some of the worry and panic (kompas.com). The condition affects stock prices are low because firm value reflected in its stock price.

Property and real estate sector is one of the most important sectors in the development country like Indonesia. It can be used as an indicator to analyse the economic health of a country. The development of

the property and real estate sector will certainly attract investors because the land and buildings' price tends to rise; the supply of land is fixed while the demand will always increase.

Investigation activities in the capital market for investors require a lot of information about the company that would be the place to invest. Required information shareholders can be obtained through an assessment of the development of the stock and the company's financial statements. This is useful for shareholders to be able to predict the extent to which the achievement of the company's shares will be selected and the optimal gains to be obtained by investors. Because of the company's main goal is to increase firm value through increased political prosperity shareholders.

Investment is the investment of funds committed by a company into assets with purpose of return in the future. The investment decision by the company is very important for the survival of the companies concerned. This is because investment decisions regarding the funds used for investment, the type of investment to be made, investment returns and investment risks that may arise (Harjito and Martono, 2013).

The funding decision is a financial decision about where the funds to buy the assets originated. There are two kinds of funds or capital includes foreign capital such as bank loans and bonds, as well as its own capital as retained earnings and saham. Perusahaan have a tendency to determine the source selection is by internal equity financing first, if the equity is not considered sufficient internal new use external finance. The use of external finance itself first use debt (debt financing), if the debt is not sufficient then companies use external equity financing is by issuing shares. Meeting the needs of funds from external funding sources means increasing the amount of debt which would simultaneously create an obligation for the company to pay in the future ie principal plus interest.

In addition to investment decisions and funding decisions, dividend policy is a problem often faced by the company. Dividend policy is a decision whether the profits from the company at the end of the year will be distributed to shareholders in the form of dividends or be retained to increase the capital in order to finance investment in the future. If the company's retained earnings in large numbers, it means that earnings will be paid out as dividends become smaller. Thus an important aspect of the dividend policy is to determine the appropriate allocation of income between profits as dividend payments to retained earnings in the company (Harjito and Martono, 2013).

The difference between this research and previous research is that some things are considered by researchers as the most fundamental internal factors in influencing firm value. Because investment decisions can have a big impact on how many companies in the future or even companies can face bankruptcy due to investment decision errors in previous days, while the management dividend policy is carried out to attract investors and also policies to improve the welfare of investors.

This study has a purpose to prove empirically of investment decisions, funding decisions and dividend policies on firm value. Rapidly increasing property development marks the start of significant economic improvements towards a better future. Property and real estate in Indonesia support of economic growth in Indonesia which grows around 10% per year. This also makes researchers are interested to make the company's property and real estate as an object to be studied.

This study contributes to several aspects. In this case for the theoretical benefits of this research is to test signalling theory related to the determinants of the firm value. These results indicate that this theory is still relevant, is indicated by the ability of accounting information to provide the good signal for public especially investors to predict the value of the company. practical benefits of this study was to provide information to investors and management that each of independent variable such as the investment decisions, funding decisions and dividend policies could be used to predict the value of the company.

2. Literature review

2.1. Theoretical Framework

2.1.1. Agency Theory

Agency theory stated in the company there is a difference between the interests of owners of companies that investors and managers as the controlling company. The separation of ownership and control in the modern enterprise resulting in the potential for conflict between owners and managers. The company's main purpose is to maximize shareholder wealth. The management is expected to act and make

decisions for the benefit of shareholders. In the large company or go public, the shares can be owned by many shareholders so that they cannot even reveal their purpose, and therefore they have little control or influence over the management. Agency theory related to the value of the company because of a conflict between the agent (Management Company) and the shareholders of the company known principal. Agency theory assumes that all individuals acting on their own interests. Differences of interest between shareholders and managers lies in maximizing the benefits stockholders (principal) with the constraints of the benefits and incentives to be received manage. The big difference is what triggers conflict of interest between principal and agent (Maulana, 2016).

2.1.2. Signaling Theory

According to Brigham and Houston (2011), the signal is an action taken by the company to provide guidance to investors about how management consider the company's prospects from financial performance, compliance or not compliance (Tarmidi, 2019). Signaling theory shows that there is asymmetry of information between the management company and the parties with an interest in such information. Information especially corporate performance issued by companies is very important, because impact of investor reaction and decision on the market. Corporates' information presently can used by investor as the information for future prospect.

2.2. Conceptual Framework and Hypothesis Development

2.2.1. Investment Decisions on Firm Value

Maulana (2016) says that investment decision is a long term capital investment decision regarding expectations for corporate profits results in the future. Cahyono and Sulistyawati (2017) proved that firm value can positive impacted from investment decisions. The result shows that the company's ability to maximize the investment in an attempt to generate profits in accordance with the amount of funds tied. The results also support the theory of signal (signaling theory), where their investment expenditure provides a great signal of the company's performance in the future, so stock prices' increasing is used as an indicator of the firm value.

H₁. Investment decision has a positive impact on firm value

2.2.2. Funding Decisions on Firm Value

Funding decision in this study is a decision on the shape and composition of funding which will be used by the company (Achmad and Amanah, 2014). Rafika and Santoso (2018) found that firm value can impacted from funding decision. Debt to equity ratio (DER) used as an indicator of the funding decisions in this study, that is the ratio between total debt of the company, either current debt or long term debt with its own capital (equity). So, when amount of DER increases then PBV also going to be increasing because amount of debt can help management in the company operating. Finally investors think that increasing of debt can increases of companies' performance like a Banks' mind.

H₂. Funding decision has a positive impact on firm value.

2.2.3. Dividend Decision on Firm Value

In this study, dividend policy is a decision of how much profits from the company at the end of the year will be distributed to shareholders, cash dividends or stored in the form of retained earnings as a source of corporate funding (Brigham and Houston, 2011). Investor reacts to information of dividend decision then firm value can increase (Maulana, 2016) so higher dividends paid the higher the value of the company. While Cahyono and Sulistyawati (2017) in their study found that firm value is not impacted by dividend policies. Thus increasing dividend policies are not impact on investor reaction and then firm value is not impacted also. This is consistent with the theory proposed by Miller and Modligiani stating that the dividend policy does not affect the firm value because they think the dividend payout ratio is simply the details and does not affect the welfare of shareholders. The increased dividend is not always followed by the increasing value of the company (Cahyono and Sulistyawati, 2017).

H₃. Dividend policy has a positive impact on firm value

3. Methodology of research

3.1. Population and Sample

This study belongs to the type of causality, wherein it will be analyzed firm value of real estate companies listed on Indonesian Stock Exchange impacted from investment decisions, funding decisions and dividend policies. A total of 48 property and real estate companies listed on the Indonesia Stock Exchange were used as the population in this study with observations for 4 years (2013-2016) and purposive sampling methods in the form of completeness of data from each measurement variable and takeout of outlier data studied obtained 132 panel data from 33 companies for analysis. The secondary data obtained from the web idx.co.id and analyzed using the SPSS application with regression analysis.

3.2. Operational Variable

The dependent variable (Y) is a variable that can be determined by other variables, in this study which is the dependent variable is the value of the company. Company value is a value that describes the level of company needs for the welfare of shareholders who can be accepted with PBV. Adopting Achmad and Amanah (2014) research, company value in research assesses the Value of Book Value (PBV)$t+1$ from the stock price in the market $t0$ divided by Book Value Per Share $t0$.

According to Brigham and Houston (2011) in calculating the investment decision can use the ratio Price Earnings Ratio (PER) which is indicative assessment of capital markets on the company's ability to generate earnings/profit potential of companies in the future. PER is accumulation from Market Price Equity on Earning Per Share. PER (Price Earnings Ratio) is the ratio that indicates the level of growth of the company. High PER indicates a good prospect of growth and low risk. This ratio indicates how much investors are willing to pay for each financial information.

The funding decision with regard to the selection of funding sources both from within and from outside the company greatly affect on firm value. The funding decision in this study is confirmed through a Debt to Equity Ratio (DER). This ratio shows the ratio between the financing and funding through debt financing through equity. The higher the debt to equity ratio means that less and less of their own capital as compared to debt (Rafika and Santoso, 2018).

According to Brigham and Houston (2011), the optimal dividend policy is a dividend policy that creates a balance between the current and future dividends so as to increasing firm value. Dividend decision is a decision whether the profits from the company at the end of the year will be distributed to shareholders in the form of dividend or will be retained to increase the capital in order to finance investment in the future. In calculating the dividend policy can use the ratio Dividend Payout Ratio (DPR), the House of Representatives can be formulated by Devident Per Share on Earning Per Share. Decisions concerning dividend decisions about the use of profits to be the rights of shareholders. The dividend may include cash dividends or the dividend in shares (stock dividend). Cash dividends are generally distributed on a regular basis, either quarterly, semi-annually or annually (Septia, 2015).

3.3. Hypothesis Testing Method

Normality test, Heteroscedasticity, autocorrelation, multicolinnierity as a classical assumption tests done in the first then Hypothesis test for explain impact of each independent variable on dependent variable.

4. Results

4.1. Descriptive Analysis

Table 2. Descriptive Analysis

Variable	Min	Max	Mean	Std. Deviation
PER	-480,620	7553,434	87,253	620,367
DER	0,031	2,242	0,693	0,487
DPR	-1,271	3,721	0,103	0,331
PBV	0,101	11,877	1,698	1,810

Based on table 2 that amount of PER in Property & Real Estate listed BEI is so long range between -480 and 7553, while amount of DER is between 0,031 and 2,242. Range amount of DPR is between -1,271 and 3,721 while PBV is 0,101 and 11,877, the amount of each variable is so variatively and that is good for eliminated biasness data.

4.2. Hypothesis Test

The classic assumption test in the form of a normality, multicollinearity, heteroscedasticity and autocorrelation test is carried out before testing the hypothesis in the form of a simple linear regression test and a different test. With sig 0.058 explain that the data is distributed normal because more than 0.05. With a tolerance value of PER 0.999 , DER 0.837 and DPR 0.837 exceeding 0.10 and VIF amount of PER 1.001 , DER 1.195 and DPR 1.194 are smaller than 10 that means data is free of multicollinearity problems. With the significant value of PER 0.671, DER 0.138 and DPR 0.272 exceeding 0.05 then there is no heteroscedasticity problem. Durbin Watson with a value of 1.765, compared with the value dU of 1.724 and DL 1.669 means that there is no regression model autocorrelation (Ghozali, 2016).

Table 3. Analysis

Impact	t-statistics	Sig	Result
PER -> PBV	1,433	0,154	H1. Rejected
DER -> PBV	3,044	0,003***	H2. Accepted
DPR -> PBV	1,803	0,074*	H3. Accepted
Adj. R²	0,125		
F-Prob	0,000***		
Observation	132		

*** Significant at level 10%, ** Significant at level 5%, and *** Significant at level1%

Note: PER= Investment Decision, DER= Funding Decision, DPR= Dividend Policy, PBV = Firm Value

Based on table 3, Funding Decision from Debt or Loan and Dividend Policy can increase The Firm Value while Investment Decision is not. Based on thats can be explain that investor is not react significant to investment decision in the Companies then Firm Value is not affected by investment decision. The result is line with Achmad and Amanah (2014) but contrary with Cahyono and Sulistyawati (2017) and Yunitasari (2015). Fim value is result or output of investor reaction into the market.

The high of debt or loan amount is one indicator that the company has a good performance or prospect then Bank believes. Investors react to the value of the loan and the firm value is also high. The result is in line with Achmad and Amanah (2014) but contrary with Widodo and Kurnia (2016) and Hidayah (2014). Company dividend policy can increase firm value because investors like and expect to dividend as a return. That result in line with Syafitri and Farida (2017) but contrary with Cahyono and Sulistyawati (2017).

5. Conclusion

Firm value is output from investor reaction in market share. In this study, funding decisions and dividend policy can increase firm value because investors like and react to that information while are not to investment decisions.

6. Implication and Limitation

The results of this study can be used as input for company management in increasing firm value, with the results of research that found that funding decisions and dividend policies can increase the firm value, management should be more careful in arranging loans and providing dividends to investors. In addition, the results of this study can be input for investors in choosing share in market whose company value is predicted to increase in the future by analyzing funding decisions from current debt and dividend policy.

However, unit analysis in this study is only property and real estate companies listed in Indonesian Stock Exchange and then this result cannot be generalized for all industry type. For future study, will be better when all companies listed can be the unit analysis.

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