

THE MOST INFLUENTIAL FACTORS TOWARD FIRM VALUE (CASE STUDY IN INDONESIA)

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ABSTRACT

The purpose of this research is to investigate the most influential factor among investment decision, financing decision, and dividend policy toward firm value. We conducted our own research, and later compare our conclusions with other researcher's conclusions. In our own research investment decision is measured using Price Earnings Ratio (PER), financing decision is measured using Debt Equity Ratio (DER), dividend policy is measured using Dividend Payout Ratio (DPR), and firm value is measured using Price Book Value (PBV). We use 109 samples from publicly listed manufacturing companies in Indonesia Stock Exchange (Bursa Efek Indonesia) in 2014, 2015, and 2016. Our own research uses classic assumption test as the data analysis and multiple regression analysis as the hypothesis test using IBM SPSS Statistics 20. Results of our own research show that: investment decision influences firm value, financing decision does not influence firm value, and dividend policy influences firm value. After that we compare our result with other researcher's results. Final conclusion investment decision is the most influential factor toward firm value compared to financing decision and dividend policy.

KeyWords: Investment Decision, Financing Decision, Dividend Policy, Firm Value

1. INTRODUCTION

In general, a company has the short-term goals to gain profit as much as possible using existing resources. Whereas, the long term goals of the company is to maximize the firm value (Ikbal, Sutrisno, & Djahhuri, 2011). There are many opinions about firm value. Some researchers said that firm value is reflected in the share price (Wijaya, Bandi, & Wibawa, 2010). Other researchers said that firm value is reflected in financial statement performance of the company or future investment value (Gumanti & Puspitasari, 2008).

Shareholders, creditors, and managers have different interest and different perspective to the company. Shareholders tend to maximize share value and require the manager to do things in accordance with the interest of shareholders. On the other hand, creditors will try to protect the fund or money lent to the company by setting the collateral and doing strict supervision policy (Wardani & Siregar, 2009). Managers tend to have the intention to pursue personal interests. Managers even tend to make investment decision which the result will not maximize shareholders value (Wu,

2004). The main point of financial management is to create shareholders value (Chowdhury & Chowdhury, 2010). Financial management includes investment decision, financing decision, and dividend policy. Investment decision is related to the choice of fund resource from both internal and external. Internal fund resource is from retained earnings, while external fund resource is from creditors or investors (Arieska & Gunawan, 2011). The managers are recommended to analyze investment opportunities before they make decision about cash distribution to shareholders as dividends and required to avoid the use of cash for unprofitable investment since investment in positive net present value project will increase the welfare of the shareholders (Imanzadeh, Shoja, & Poursaleh, 2012).

These differences between shareholders and managers will create agency problems. The shareholders want the remaining funds to be distributed to increase the welfare of the shareholders, while managers want the remaining funds to be used to enlarge the company exceed its optimal size so they keep investing to negative net present value project. For the shareholders, that decision is rated as a decision not in favor of shareholders. Therefore, increasing funds through loan from creditors is one of the alternatives to reduce agency cost. The existence of these loans will make manager aware and avoid doing perquisites, so the company performance will be more efficient. The manager of the company with most funds come from loan will use the money to fund positive net present value project so it will increase shareholders value (Arieska & Gunawan, 2011). To increase their welfare, investors expect the return in dividend and/ or capital gain. On the other hand, company expects the continuous growth to survive in the long term. Therefore,

dividend policy becomes very important because dividend policy has to be able to satisfy shareholders' expectation without hampering company growth. However, dividend policy does not only involve shareholders and managers, but creditors also can influence the number of dividends distributed to shareholders. The amount of dividends distributed to shareholders is based on each company policy so that needs serious consideration from management (Prihantoro, 2003). The companies located in the countries which have high legal protection to non-controlling interest or minority interest will pay

higher dividend than the companies located in the countries which have lower legal protection to minority interest (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2002).

Based on the above issues, it is necessary to do research about the influence of investment decision, financing decision, and dividend policy toward firm value with the following research questions: does investment decision have significant effect on firm value, does financing decision have significant effect on firm value, and does dividend policy have significant effect on firm value?

2. LITERATURE REVIEW

Investment opportunity set (IOS) is the combination of assets in place and the option of investment in the future (Myer, as cited in Gumanti & Puspitasari, 2008). Investment opportunity is the option of investment to the project that has positive net present value and is able to increase firm size. Investment opportunity is the important component of the share price and influences the point of view of managers, owners, investors, and creditors (Kallapur & Trombley, 2001). The primary determinants of investment opportunities set are industry factor such as barriers to entry and product life

cycles (Christie, as cited in Kallapur & Trombley, 2001).

The value of the firm formed by share price indicator is greatly influenced by investment opportunities. Cash out for investment provides positive signal about firm growth in the future thus increase the share price that is the indicator of firm value (signaling theory) (Wahyudi & Pawestri, 2006). With this investment policy, it is expected that within a certain period the company will get the return on the investment and the company will grow. This will be responded positively by the market and the share price will be increased (Hardiningsih, 2009).

2.1 Hypothesis 1: Investment decision influences firm value

In finance area, leverage is the ratio of a company's loan (debt) to the value of its equity, so the study about leverage is a part of the study of capital structure (Sasongko, Achسانی, Sembel, & Kusumastanto, 2012). There are two views about financing decision. First view is known as traditional view that capital structure affects firm value. Traditional view is represented by Trade off Theory and Pecking Order Theory. The second view is presented by Modigliani & Miller (as cited in Wijaya et al., 2010) that capital structure does not affect firm value. The election between debt and equity aims to find the proper capital structure that can maximize shareholders value. Weighted Average Cost of Capital (WACC) is used to determine firm value by discounting future cash flow. By minimizing WACC, firm value will be more maximal (Chowdhury & Chowdhury, 2010).

According to Masulis (as cited in Wijaya et al., 2010), abnormal returns will be increased a day before and a day after the increase of debt proportion announcement. Share price will be

increased if there is announcement about issuing debt for share buyback. According to Fama and French (as cited in Wijaya et al., 2010), investment resulting from leverage has positive information about the company in the future and then has positive impact to firm value. Based on the research done by Wijaya et al.(2010), it was found that financing decision affect firm value. The similar result was also obtained by Wahyudi & Pawestri(2006).

2.2 Hypothesis 2: Financing decision influences firm value.

Dividend policy is the decision to distribute dividend by considering current and future share price maximization. In determining the amount of dividend, companies specify the target of dividend payout ratio based on after tax profit calculation (Sasongko et al., 2012). According to Jensen (as cited in Sulong & Nor, 2008), dividend is a well known cash disbursement strategy for public company that seeks to return cash or other assets to the shareholders. Dividend is distributed because minority shareholders press the management to pay dividend. If company's profit is not distributed to shareholders as dividend, minority shareholders worry that profit will be used for personal interest or unfavorable project. Therefore, minority shareholders prefer dividend (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2000).

Based on the research done by Sulong & Nor(2008), dividend significantly and positively affect firm value. Wijaya et al.(2010)also found the similar result that dividend influences firm value. Investment decision, financing decision, and dividend policy simultaneously affect firm value.

2.3 Hypothesis 3: Dividend policy influences firm value.

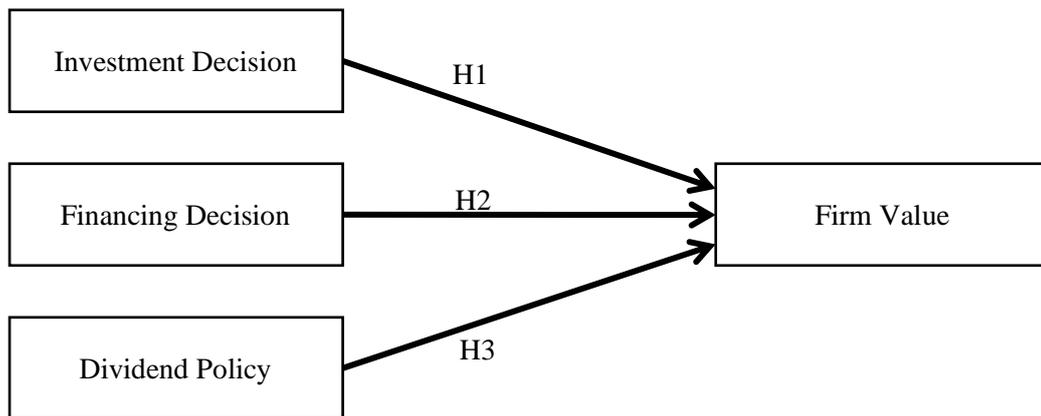


Figure 2.1 Research Framework

3. RESEARCH METHODOLOGY

Population of this research is manufacturing company listed in Indonesia Stock Exchange for 2014-2016. Data for this research is obtained from financial statement published by public manufacturing company from 2014-2016. The sample of this research is taken using purposive sampling method. Using this method, sample is not taken randomly and uses some considerations and criteria. The criteria of sample selection for this research are as follows: the company had positive equity in 2014, 2015, and 2016; the company had net income in 2014, 2015,

and 2016; the company paid cash dividend in 2014, 2015, and 2016; and there is the completeness of data for 2014-2016

Independent variables in this research are investment decision, financing decision, and dividend policy. Investment decision is an unobservable variable and the information about investing decision is not published by most companies. Therefore, proxy is needed to measure investment decision (Kallapur & Trombley, 2001). In this research, the proxy used is price-based proxy that is Price Earnings Ratio (PER).

$$PER = \frac{Price}{Earnings\ per\ share}$$

Financing decision is related to the selection of fund resource whether it is from internal funding or external

funding. In this research, the formula used to measure financing decision is Debt to Equity Ratio (DER)

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Dividend shows how much company's net income distributed to shareholders (Arieska & Gunawan,

2011). In this research, dividend policy is measured by Dividend Payout Ratio (DPR).

$$DPR = \frac{Dividend\ per\ share}{Earnings\ per\ share}$$

Dependent variable of this research is firm value. Firm value is defined as market value because firm value can create maximum welfare to the shareholders if the company's share

price is increased (Hasnawati, as cited in Wijaya et al., 2010)). In this research, firm value is measured by Price Book Value (PBV).

$$PBV = \frac{\text{Price}}{\text{Book Value}}$$

Analysis method used in this research is classic assumption test and regression/ hypothesis test. Classic assumption test is run using IBM SPSS Statistics 20 application consisting of multicollinearity test, heteroscedastic test, normality test, and autocorrelation test. Multicollinearity test is used to find out whether there is any correlation between independent variable in multiple linear regression models. There will be Multicollinearity problem if the tolerance value < 0.10 or Variance Inflation Factor (VIF) > 10 (Ghozali, 2009).

Heteroskedastic test is used to identify residual variances differences from the data in the regression model. In this research, heteroscedastic will be tested using graph technique (scatter plot). There will be heteroskedastic problem if the scatter plot shows that the dots form certain pattern. Otherwise, there will not be heteroskedastic problem if the scatter plot shows that the dots spread randomly (Ghozali, 2009).

Normality test is used to find out whether residual value from the regression model has normal distribution. In this research, normality will be tested using graph technique (P-P Plot) and take a look at the dots around the diagonal line. If the dots spread around the diagonal line and follow the direction of the line, the regression model fulfills the normality assumption. Otherwise, if the dots spread far from the diagonal

line or do not follow the direction of the line, the regression model does not fulfill the normality assumption (Santoso, 2015).

Autocorrelation test is used to find out whether there is any correlation between variables in period t and variables in prior period ($t-1$). In this research, autocorrelation will be tested using Durbin-Watson Test. In general, if the D-W value is in between -2 and $+2$, there is no autocorrelation (Santoso, 2015).

Hypothesis test will be conducted using t-test and F-test on IBM SPSS Statistics 20. Decision making in this test is if the probability > 0.05 , H_0 will be accepted and if the probability < 0.05 , H_0 will be rejected. The probability can be seen from Sig. column in Coefficients SPSS Output table.

4. RESULT AND DISCUSSION

The data for this research is obtained from financial statement year 2014, 2015, and 2016 published by manufacturing company listed on Indonesia Stock Exchange and can be downloaded from official IDX website. For the share price, data can be viewed from Yahoo! Finance. Based on the predefined criteria, 109 samples have been chosen and use 327 data for this research.

From the results of classic assumption test, can be concluded that this regression passes the classic assumption test because there is not Multicollinearity problem because

tolerance value >0.1 and VIF value < 10 , there is not heteroskedastic problem because the scatter plot shows that the dots spread randomly, there is not normality problem because the dots

spread around the diagonal line and follow the direction of the line, and there is not autocorrelation problem because D-W value is in between -2 and $+2$. Below is the SPSS output of t-test.

Table 4.1 t-test (Coefficients)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-1.887	.166		-11.351	.000
INV	.947	.055	.867	17.274	.000
FIN	-.113	.066	-.086	-1.723	.088
DIV	-.111	.056	-.100	-1.991	.049

Source: SPSS Output

To analyze above result, this test will focus on the sig. value. If the sig. value < 0.05 , H_0 is rejected and H_1 is accepted. Based on above output, INV or investment decision has sig. value of 0.000 that means this value is below 0.05, so H_1 is accepted. Investment decision influences firm value. Investment decision variable has beta value of 0.947 which means that if the investment decision variable increases one-unit, firm value will increase 0.947 units.

This research is in line with research by Wijaya et al.(2010)which state that investment decision has positive effect toward firm value. According to Myers; Myeong & Hyeon; Wright & Ferris (as cited in Wijaya et al., 2010), firm value which is created through share price indicator is affected by investment opportunity and discretionary expenditure in the future. Investment decision direct effect toward firm value is the result obtained from investment activity itself through project selection or other policies such as creating new

product, machine replacement that is more efficient, and research and development. According to Fama and French (as cited in Wijaya et al., 2010), capital expenditure is very important to increase firm value because that type of investment can provide signals about expected company earnings growth in

the future and can increase firm value proxied by share price.

Based on result on table 2, FIN or financing decision has sig. value of 0.088 that means this value is above 0.05, so H_2 is rejected. Financing decision does not influence firm value. This research is in line with the research by Arieska & Gunawan (2011). According to Arieska & Gunawan (2011), financing decision does not influence firm value because there will be any worries from investor about debt increase that causes the company to debt default. Moreover, high level of debt can increase bankruptcy risk, although in theory, debt will help company to control manager not to do perquisites and the company becomes more efficient, so investor evaluation to the company increases.

This research is not in line with research by Wijaya et al.(2010). According toWijaya et al.(2010), financing decision has effect on firm value. If the company is funded by debt, there will be an increase in firm value because of tax savings. The company which has debt will pay interest expense and interest expense can reduce taxable income, then it will give some benefit to shareholders.

Based on table 2, DIV or dividend policy has sig. value of 0.049 that means this value is below 0.05, so H_3 is

accepted. Dividend policy influences firm value. Dividend policy variable has beta value of -0.111 which means that dividend policy variable increases one-unit, firm value will decrease 0.100 units.

According to Wardani & Siregar (2009), the company existence is related to various interests from shareholders, managers, and creditors. Shareholders tend to maximize share price and push the manager to do things that is in accordance with the interest of shareholders through supervision.

Managers tend to have the intention to pursue personal interests. Managers even tend to make investment decision which the result will not maximize shareholders value (Wu, 2004). On the other hand, creditors will try to protect the fund or money lent to the company by setting the collateral and doing strict supervision policy (Wardani & Siregar, 2009). Therefore, if the company declares dividend payment, the decision is considered as decision that is unfavorable to some stakeholders. Below is the SPSS output of F-test:

Table 4.2 F-test (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	103.918	3	34.639	104.803	.000
Residual	34.705	105	.331		
Total	138.623	108			

Source: SPSS Output

F-test is used to determine the simultaneous effect of independent variables on the dependent variable. From the table 3, sig. value of this test is 0.000. This value is less than 0.05, so it can be concluded that investment

decisions, financing decisions, and dividend policy simultaneously influence firm value. Research by Wijaya et al.(2010) obtained the same result as this research.

Table 4.3 Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.866	.750	.742	.57491

Source: SPSS Output

From the table 4, adjusted R² value for this research is 0.742 or 74.2%. This result shows that 74.2% of firm value changes are affected by investment decisions, financing decisions, and dividend policy, while the rest, 25.8% of firm value changes are affected by other factors which are not included in this research.

5. CONCLUSIONS

This research shows that 74.2% of firm value changes are affected by investment decisions, financing decisions, and dividend policy, while the

rest, 25.8% of firm value changes are affected by other factors which are not included in this research. Investment decisions, financing decisions, and dividend policy simultaneously influence firm value. Based on the result, this research provides empirical evidence that investment decision affects firm value. Investment decision variable has sig. value of 0.000 and has beta value of 0.947 which means that if the investment decision variable increases one-unit, firm value will increase 0.947 units. This research provides empirical evidence that

financing decision does not affect firm value. Financing decision variable has sig. value of 0.088. Moreover, this research provides empirical evidence that dividend policy affects firm value. Dividend policy variable has sig. value of 0.049 and has beta value of -0.111 which means that dividend policy variable increases one-unit, firm value will decrease 0.100 units.

Investment decision is the most influential factor that affect firm value.

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