THE EFFECT OF INVESTMENT DECISION, FUNDING DECISION AND DIVIDEND POLICY ON CORPORATE VALUE

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Abstract

The purpose of this study is to analyze whether investment decision, funding decision and dividend policy can affect corporate value. The research population is 148 companies. 32 companies were selected as samples using purposive sampling method. Five year company annual reports of 2009 to 2013 are used as secondary data sources of this research. The results indicate that investment decision, funding decision and dividend policy had positive influence on corporate value.

Keyword : Investment Decision, Funding Decision, Devidend Policy, Profitability, Corporate value

INTRODUCTION

The company's value could be assessed from a stable and an increase share price in long term. High stock price made the company value also high. The higher the company value, the greater prosperity that would be received by the owners. The high of companies value were the owner desire or become the main goal business at this time, because it would increased the stockholder prosperity or stockholder wealth maximization Brigham and Ehrhardt, 2006 (in Ayuningtias and Kurnia, 2013).

Maximizing the company's value can be achieved through the implementation of the financial management function, where a decision will affected other financial decisions, and company value (Fama and French, 1998 (in Wijaya and Wibawa, 2010)). Financial management could took policy or decisions for the company, such as Investment Decision, Funding Decision and Dividend Policy. The three decision will maximized the company value and increased the stockholder prosperity.

Many research on company value had conducted. Such as Wijaya and Wibawa, (2010) showed that the investment decisions, financing decisions and dividend policy had a positive and significant impact on the company value. Afzal and Rohman, (2012) found that investment decision and funding decision had positive and significant impact on company value, while dividend policy had negative significant effect on it. However, if investment decisions, financing decisions and dividend policy silmultan tested had a significant effect on company value.

Fenandar and Raharja, (2012) argued that investment decisions and dividend policy had positive significant effect on company value, while funding decisions did not have a significant impact on the value of the firm. Mardiyati, et al (2012) research showed that profitability had a positive significant effect, the dividend policy had no significant effect while the debt policy had positive significant effect on firm value. Martikarini Research, (2012) said that the profitability and dividend policy were partially significant effect on it while the debt policy has no effect and insignificant but if profitability, dividend policy and debt policy silmultan tested had significant influence on the company value.

From the results above, this study aims to re-examine effect of investment decision, funding decision and dividend policy on corporate value referring to the research of Wijaya and Wibawa (2010). However, there were difference between this study and the previous, like (1) the object of the study was the manufacturing companies listed in Indonesia Stock Exchange (BEI), (2) years of observation, was 2009 to 2013, (3) add control variables profitability, referenced by Mardiyati, et al (2012) and Markitarini (2012).

HYPOTHESES FORMULATION

The Effect of Investment Decision on Corporate Value

Investment decision was a matter of how financial managers must allocated funds into other forms of investment which would be profitable in the future (Sutrisno, 2009). Wijaya and Wibawa, (2010) explained that investment decision was positive significant affected on firm value, the implications was that the companies value was formed through market value indicator was strongly influenced by investment opportunities and discretionary spending in the future.

In line with research conducted by Fenandar and Raharja (2012), Afzal and Rohman (2012), also Rakhimsyah and Gunawan (2011) stated that the investment decision had a positive significant effect on corporate value. It's indicated that corporate capital expenditure was critical to increase the company's value as it gave a positive signal about the company's growth in the future.Based on the explanation above, the hypothesis proposed is as follow:

H_1 : Investment Decision positively influenced Corporate Value

The Effect of Funding Decision on Corporate Value

The funding decision was how the company can used the fund to support its operations optimally, and also how to compose an optimal source of funds that must be maintained (Setiani, 2012). Outsiders defined that increasing debt was about corporate ability to pay future obligation or there were low business risk. So that, the market would respon positively (Brigham, 1999, in Wijaya and Wibawa, 2010). Wijaya and Wibawa, (2010) also Afzal and Rohman (2012) explained that the funding decisions had significant positive effect on firm value. This showed that the investment resulting from leverage had positive information about the company in the future, further had positive impact on the corporate value. Based on the explanation above, the hypothesis proposed is as follow:

H_2 : Funding Decision positively influenced Corporate Value

The Effect of Devidend Policy on Corporate Value

Dividend policy was decision on how much profits from the company at the end of the year will be distributed to shareholders as a cash dividend or stored in the form of retained Where the rising price of the stock will be able to increase the value of the company, because the company's value is the ratio of stock price to book value of the shares. Devidend share gave information or signal about corporate financial performance in investors view. If company had stable dividend paid ratio, or even increase so that gave positive influenced on investors and share price would get higher (Ayuningtias dan Kurnia, 2013). Whereas increasing share price could increase corporate value, because corporate value was comparison between share price and book value.

Wijaya and Wibawa (2010), Fenandar and Raharja (2012), Martikarini (2012), Darmawan (2013) and Mardiyati, et al (2012) found dividend policy had positive effect on the company's value. This showed that if the company planned to distribute its earnings to shareholders in the form of dividends rather than hold it in the form of capital gains, the investor will invest in a company that divides its earnings consistently. Based on the explanation above, the hypothesis proposed is as follow:

H_3 : Devidend Policy positively influenced Corporate Value

METHODS

Population and Sample

The population of this study was manufactured companies listed on Indonesia Stock Exchange (ISX) during 2009-2011. The purposive sampling technique is used to conduct the research, with the following criteria: (1). The companies reported financial statement on Indonesia Stock Exchange during 2009-2013. (2). The companies had *dividend payout ratio* during the observation years

Definitions of Operational Variables

1. Dependent Variables

<u>Corporate Value</u>

Value companies were defined as the market value because the value of the firm could deliver prosperity for share holder when company share price increased Hasnawati 2005 (in Wijaya and Wiabawa, 2010). The company's value in this study was proxied by using the Price Book Value (PBV). The formula for measuring the Price Book Value (PBV) was as follows (Wijaya and Authority, 2010):

$$Price\ Book\ Value\ (PBV) = \frac{Current\ Price}{Book\ Value}$$

2. Independent Variables

<u>a.Investment Decision</u>

The investment decision was defined management decision of each public company listed on the Stock Exchange connect to investments that would be made to support the development of the company's operations (Ayuningtias and Kurnia, 2013). Investment decisions in this study was proxied by using the PER (Price Earning Ratio). The formula for measuring the Price Earning Ratio (PER) was as follows (Ayuningtias and Kurnia, 2013):

$$Price\ Earning\ Ratio\ (PER) = \frac{Share\ Price}{Earning\ Per\ Share\ (EPS)}$$

<u>b.Funding Decision</u>

Funding decisions was defined as companies decisions regarding the composition of the fund chosen by the company (Fenandar and Raharja, 2012). Funding decisions in this study was proxied by using Debt to Equity Ratio (DER). The formula for measuring Debt to Equity Ratio (DER) was as follows (Fenandar and Raharja, 2012):

$$Debt\ to\ Equity\ Ratio\ (DER) = \frac{Total\ Leverage}{Total\ Equity}$$

c.Dividend Policy

Devidend policy decision was the decision about how much profit in this time will be paid out as dividends rather than being held for reinvestment in the company's Brigham and Houston, 2001 (in Afzal and Rohman, 2012). Dividend policy in this study was proxied by Dividend Payout Ratio (DPR). The formula for measuring Divident Payout Ratio (DPR) was as follows (Afzal and Rohman, 2012):

$$Divident\ Payout\ Ratio\ (DPR) = \frac{Dividen\ Per\ Share\ (DPS)}{Earning\ Per\ Share\ (EPS)}$$

3.Variabel control

Profitability

Profitability was the company's ability to generate earnings Mardiyati, et al (2012). Profitability in this study was proxied by using Return on Equity (ROE). The formula for measuring profitability is as follows Mardiyati, et al (2012) .:

$$Return\ on\ Equity\ (ROE) = \frac{Net\ Earning\ after\ Tax}{Total\ Equity}$$

Analysis Techniques

Technique of analysis used to examine the influence of Invesment decision, Funding decision and Devidend Policy on Corporate Value was multiple regression analysis with the following equation:

PVB = $\alpha + \beta_1$PER + β_2DER + β_3DPR + β_4ROE e

Keterangan :

PBV = Corporate Value
α = Konstanta
PER = Investment Decision was proxied by PER
DER = Funding Decision was proxied by DER
DPR = Devidend Policy was proxied by DPR
ROE = Profitability was proxied by ROE
e = standard error

RESULTS AND FINDING

Table 1
The Analysis Results of Research Variable Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
PBV	160	0,03	47,27	4,9474	8,37168
PER	160	0,31	344,16	16,1658	29,30140
DER	160	0,15	19,32	1,1717	1,71035
DPR	160	0,03	1244,37	59,8939	151,73737
ROE	160	2,48	323,19	27,6256	32,56406
Valid N (listwise)					

Source: Processed Secondary data, 2015

Total population of banking companies in Indonesia Stock Exchange is 32. After 5 year observation over the population, 160 company data were selected that met the criteria of samples. All variables passed the classical assumption test. But, it was not distributed normally and got 18 outlier. The sample already fixed with casewise diagnostic.

From the descriptive statistical analysis, the results showed that each variable had bigger deviation standard value than the average. Those suggested that each company of the samples had spread not evenly. Results of the descriptive statistics are presented in Table 1 .

Table 2. Hypothetical Result Summary

Hypothesis	Significant Value	Result
H_1: Investment Decision positively influenced Corporate Value	0,000 < 0,005	Accepted
H_2: Funding Decision positively influenced Corporate Value	0,000 < 0,005	Accepted
H_3: Devidend Policy positively influenced Corporate Value	0,000 < 0,005	Accepted

The Effect of Investment Decision on Corporate Value

The investment decision was defined management decision of each public company listed on the Stock Exchange connect to investments that would be made to support the development of the company's operations (Ayuningtias and Kurnia, 2013). This condition happened because companies investment decision would determine the benefits that can be obtained and the company's performance in the future (Ning and Indarti, 2012). This decision is very important because if the company incorrectly in the selection of investments, it would disturb the company's survival. Therefore, managers must maintain the investment growth so that can achieve the companies objectives through shareholder wealth and can enhance shareholder value.

Companies that increase their investment will be responded positively by investors, as a progression or companies development, which is expected in the future these investments will generate revenue or profit for the prosperity of investors (Wijaya and Wibawa, 2010). These results support Wijaya and Wibawa (2010), Fenandar and Raharja (2012), Afzal and Rohman (2012) also Rakhimsyah and Gunawan (2011), which stated investment decisions significant positive effect on the value of the company. In the other hand, Wahyuni, et al (2013) said the opposite. Her research stated investment decisions did not affect the company value.

The Effect of Funding Decision on Corporate Value

Funding decisions was defined as companies decisions regarding the composition of the fund chosen by the company (Fenandar and Raharja, 2012). The result showed that funding decision had significant positive effect on corporate value. This happened because outsiders defined debt increasing was the company ability for paid future obligation or low business risk. Leverage resulting from the investment had positive information about the company in the future and made investor more confidence.

In the trade off theory and the pecking order theory, a company that had a high degree of leverage could mean the lender has confidence that the company would be able to repay the loan and interest Modigliani and Miller, 1985 (in Wijaya and Wibawa, 2010). Investors would be gave positive response which reflected from the increasing stock price movement and value of the firm. This results supported Wijaya and Wibawa (2010), Afzal and Rohman (2012), which proved that the funding decision had positive effect on value of the firm. In the other hand, Rakhimsyah and Gunawan (2011) also Fenandar and Raharja (2012), said the opposite. Their research stated funding decisions did not affect the company value.

The Effect of Devidend Policy on Corporate Value

Devidend policy decision was the decision about how much profit in this time will be paid out as dividends rather than being held for reinvestment in the company's Brigham and Houston, 2001 (in Afzal and Rohman, 2012). The result showed that dividend policy had significant positive effect on corporate value.

This condition occurs because the dividend policy related on how much advantage to be gained shareholder. The shareholder gains will determine the welfare of shareholders which is the company's main objectives. The greater dividends are distributed to shareholders, then the performance of public companies will be considered better and finally companies that have good performance is considered beneficial and of course the value of the firm will be better Rozeff, 1982 (in Fenandar and Raharja, 2012).

This results supported Wijaya and Wibawa (2010), Fenandar and Raharja (2012), Martikarini (2012) and Darmawan (2013) also Mardiyati, et al (2012) which stated dividend policy is a significant positive effect on firm value. In the other hand, Afzal and Rohman (2012), said the opposite. Their research stated devidend policy did not affect the company value.

CONCLUSIONS AND IMPLICATIONS OF RESEARCH

Based on the research results conducted, it could be concluded that all factors had significant influences on corporate value. In spite of that, this study had some limitation such as : 1). The result taken from manufacture companies only, so that could not be generalized, 2). This study only used companies internal factors. By paying attention to some limitations of the study that has been submitted, suggestions for further research are given as follows :

1. Researchers should improve the research sample company to enrich vary kinds of samples for the study. So that, the result could be generalized.
2. Added companies external factor such as market growth.

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