The Effect of Investment, Financing, Dividend Decisions, Firm Growth, and Agency Costs on Firm Value

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Abstract: The main objective achieved through financial management is to increase the firm value in a sustainable manner. Several factors that are considered to give effect on the achievement of value including investment decisions, financing decisions, dividend decisions, firm growth, and agency costs. This study empirically analyzes the effects of these factors on the firm value. 108 manufacturing companies listing at IDX were selected purposively as research objects periode 2008-2017. Secondary data in the form of financial statements were analyzed using multiple regression analysis. The research findings prove that the five independent factors analyzed have a positive and significant effect on firm value. Furthermore, dividend decisions are a factor that has the greatest influence on the value compared to other factors. The findings state that the achievement of higher firm value is relatively more determined by how the management makes policies related to composition between the portion of profit that is distributed as dividends to shareholders to the portion of profits reinvested or kept as a reserve in the firm as retained earning.

1 INTRODUCTION

The firm value illustrates the level of public trust in a company based on its achievements in contributing to society and other stakeholders (Pandey, 2014: Syardina et al., 2015). High corporate value also shows the higher level of prosperity felt by the company's shareholders, so that achieving high corporate values is a priority for them. (Hermunimgsih,2013:Arfan& Rozifar,2013)

This study focuses on manufacturing sector companies listed in the Indonesia Stock Exchange. The main phenomenon is because the manufacturing industry sector is the sector that contributes most to Indonesia's Gross Domestic Product (GDP) compared to several other sectors. The phenomenon related to the large contribution of the manufacturing sector to national economic growth is also indicated by the results of the BAPPENAS study, which was quoted by the April 17, 2018 edition of SindoNews media that in 2018 Indonesia's economic growth has the potential to increase by only 5.5% (Endarwati, 2018). Based on the results of the study, as stated by the Minister of National Development Planning / Head of the National Development Planning Agency (BAPPENAS) Bambang Brodjonegoro in Jakarta dated April 17, 2018, Indonesia's economic growth of only 5.5% was due to the lack of a breakthrough in the manufacturing sector the sector has not shown its role to bring the Indonesian economy even higher (Endarwati, 2018).

Some of the variables analyzed in this study relate to investment decisions (investment dicision), funding decisions (financing decision), dividend decisions (dividend disicion), company growth (firm growth) and agency costs (agency cost) as variables that are considered to affect firm value . Some theoretical frameworks used in this study include pecking order theory, which explains that funding is based on the order of funding preferences that have the smallest risk, namely retained earnings, debt and equity issuance (Myers, 1984). This theory also states that companies tend to be ekternanl financing (Atiyet, 2012). Regarding dividends in Bird in the Hand Theory, investors want high dividend payments, because dividends are considered to have more certain opportunities and smaller risks compared to those seeking capital gains. Through this thought, dividend payments are considered to indicate that management's ability to manage dividend decisions well can be a positive signal for the high quality of the company to experience sustainability, as well as

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for investors to reinvest or for the community or other stakeholders to be willing to invest in in the company (Bhattacharya, 1979; Black, 1976; Prasentyana, 2014; Connelly et al., 2011; Fenandar & Raharja, 2012). Another theory related to the problem of this research is agency theory, how individuals or groups are involved in managing an organization behave in achieving goals (maximizing values) intersect with interests that give rise to organizational conflicts (Abdullah et al., 2012; Bosse & Phillips, 2016). Agency costs can be a negative signal for potential conflicts that occur within the company, where the greater the value of agency costs can indicate the greater the likelihood of a conflict between the owner / shareholder, management and / or creditors within the company. . If the potential for conflict within the company is assessed to be relatively large, it can disrupt or even threaten the smoothness or continuity of the company's business activities, so that it can reduce corporate value in the eyes of investors (Lachbeb & Slim, 2017; Muntahanah, 2012; Manalu & Natalia, 2015).

2 PREVIOUS STUDY AND HYPOTHESES

Some of the results of previous studies found that investment decisions have a positive and significant effect on firm value (Gustiandika & Hadiprayitno, 2014; Fernandar & Raharja, 2012; Hasnawati, 2005 and Rizqia et al., 2013). Funding decisions have a positive and significant effect on firm value (Hermaningsih, 2011; Gustiandika & Hadiprayitno, 2014; Rizqia et al., 2013 and Dewi et.al., 2014). Decision on dividends has a positive and significant effect on firm value (Fernandar & Raharja, 2012; Rizqia et al., 2013; and Sofyaningsih & Hardiningsih, 2011). The company's growth has a positive and significant effect on firm value (Syardina et al., 2015; Dewi et al., 2014; Hermaningsih, 2011 and Paminto et.al., 2016). Agency costs have a negative and significant effect on firm value (Fauver & Naranjo, 2010; Layyinaturrobaniyah et al., 2014; Abdullah, et al., 2012 and Xiao & Zhao, 2014)

Based on the results of previous studies, in this study it was hypothesized that investment decisions, funding decisions and dividend decisions and company growth had a positive and significant effect on firm value while agency costs were hypothesized to have a negative and significant effect on firm value.

3 METODOLOGY

This explanatory research analyzes the influence of investment decisions, funding decisions, dividend decisions, and company growth and agency costs that have an impact on firm value. The object is manufacturing companies that continue to be listed on the Indonesia Stock Exchange (IDX) for the period 2008-2017. A total of 108 companies were selected using a purposive sampling technique (Wilson, 2010; Sekaran & Bougie, 2016). The basis of selection uses criteria, namely (a) always listed on the IDX from 2008 to the present, (b) Companies that carry out relisting during the study period.

Secondary data as the main data of the study were obtained from the financial statements of each sample company, using documentation data (Sugiono, 2014; Sekaran & Bougie, 2016). Secondary data is obtained from the IDX web, namely www.idx.co.id.

Investment decisions are measured using the Capital Addition to Asset Book Value Ratio (CAP / BVA) ratio. The CAP / BVA ratio shows an additional flow of productive assets and at the same time shows the potential for growth of the company (Kallapur & Trombley, 1999). Funding decisions are proxied using Debt to Equity Ratio (DER), which is a ratio that shows a balance or comparison of the proportion of total debt to total equity or own capital owned or managed by the company (Fachrudin, 2011; Dewi et al., 2014; Syardiana et al. , 2015). Decisions Dividends are measured using the Dividend Payout Ratio (DPR), namely the ratio or ratio between the value of dividends distributed to shareholders and the value of net income per share. (Fenandar & Raharja, 2012; Rizqia et al., 2013; Sofyaningsih & Hardiningsih, 2011). The company's growth in this study was measured using Growth in Total Assets which showed the realization of changes in total assets owned this year compared to the total assets held in the previous year (Syardiana et al., 2015; Dewi at al., 2014; Paminto et al., 2016; Safrida, 2008). Agency Costs give rise to expenditures that are actually not necessary for the owner of the company or by management, or called free cash flows. Thus, FCF is considered suitable to be used as a proxy for agency costs or as a measure of the degree of manipulation carried out by management (Lachheb & Slim, 2017). FCF is more cash flow that can be used to be reinvested or can be distributed as dividends to shareholders. Apart from being a measure of the degree of manipulation carried out by management, FCF also illustrates the growth of corporate cash creation in the future (Arieska & Gunawan, 2011). The value of the company in this study was measured using the Tobin's Q ratio, Tobin's Q ratio is a ratio that shows companies have investment opportunities (Skinner, 1993).

Data were analyzed using multiple regression with the following equations:

$$Y=b0 + b1CAPBVA + b2DER+ b3DPR + b4GTA + b5FCF+ e$$

Where investment decisions are in the form of CAP / BVA, funding decisions in the form of DER, dividend decisions in the form of DPR, company growth in the form of GTA and agency costs in the form of FCF as well as business value in the form of Tobin's Q.

Hypothesis testing is done to determine the influence of the five variables on the value of the company. The results obtained are said to be significant if the value of sig.t or sig F is smaller than 0.05. If the results show a significant effect, it means that the five variables that are measured have a significant effect on firm value.

4 RESULTS

Tests related to the influence of investment decisions, funding decisions, dividend decisions and company growth as well as agency costs on firm value are carried out through multiple regeresi using SPSS for windows version 20. The test results are summarized in Table 1.

Table 1 Regression Coefficient Test Results Against Company Values

Model		Unstandardized Coefficients		Standardized Coefficients	T	P
		B	Std. Error	Beta		
1	(Constant)	0.608	0.125		4.880	0.000
	CAP/BVA	3.096	0.732	0.134	4.227	0.000
	DER	0.264	0.093	0.078	2.849	0.004
	DPR	1.691	0.155	0.299	10.909	0.000
	GTA	3.423	0.543	0.204	6.299	0.000
	FCF	0.448	0.137	0.096	3.273	0.001

Note: Dependent Variable: Tobin' s Q; R = 0.483; R2 = 0.234; R2Adj = 0.230.

The highest value coefficient of 3.423 is the large influence of Corporate Growth (GTA) on Corporate Value (Tobin's Q). Meanwhile, the other four lines have regression coefficients that are of lower value to Company Value, namely Investment Decisions (CAP / BVA = 3.096), Funding Decisions (DER = 0.264), Decision on Dividends (DPR = 1.691), and Agency Costs (FCF = 0.448). All regression coefficients show significant test results ($p < 0.05$), this means that investment decisions, funding decisions, dividend decisions, company growth and agency costs have a positive and significant effect on firm value which means that the four hypothetical researches are accepted. Only the final hypothesis is related to the agency cost of the hypothesis is not acceptable. It turns out that agency costs actually have a positive and significant effect on company value (Lacheb, Slim 2017; Wardani, siregar 2009) which contradicts the hypothesis proposed. They found that agency costs were expenses related to oversight of manipulative actions that might be carried out by management in financial management. Thus, the higher value of agency costs shows the commitment of the company to minimize the manipulation so that it is expected to create a conducive atmosphere in business management and in the future it will be able to generate greater profits, which means there is a greater chance of dividend distribution for shareholders (or, there is an increase in wealth or wealth from the company's shareholders. Another argument that the FCF (free cash flow) ratio as a proxy for Agency Costs illustrates the growth rate of future cash creation. The increase in FCF value as a representative of Agency Costs shows the growth prospects of creation cash that can be achieved by the company in the future.Thus, if the Agency Costs increase, it means there is an increase in the company's cash flow value compared to the previous period, and this condition shows the greater business profits that can be get company. If the achievement of the operating profit increases, it increases the chances of distributing a larger amount of dividends to the owner / shareholder of the company. This encourages the creation of positive market sentiment because the company concerned has good performance and has high growth and sustainability potential.

The R^2 (R-Squared) value of 0.234 states that the contribution of the Investment Decision variables, Funding Decisions, Dividend Decisions, Company Growth and Agency Costs contributed 23.4% in explaining the diversity of Corporate Values. While the remaining 76.6% states that the diversity of Corporate Values is influenced by other variables not included in this research model.

5 SUMMARY

Based on the results of the analysis, it can be concluded that investment decisions, funding decisions, dividend decisions, company growth and agency costs have a positive and significant effect on the value of IDX manufacturing sector companies.

This study is considered showing some weaknesses that require further revision efforts from the next researchers. The first weakness is that this study only uses independent variables that are internal in the company, thus the next researchers can expand these results by involving external factors that are thought to influence company values such as inflation, exchange rates or domestic exchange rates or interest rates so that a better understanding of the behavior of company values is obtained. Another disadvantage is that this study only focuses on manufacturing companies, the next researcher is advised to expand the sample to other industry groups.

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