

Investment opportunity set: evidence from Indonesian Banking

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ABSTRACT: *This paper examines investment option that influenced governance, financing decision and banking performance. Good corporate governance emphasizes the importance of stakeholder rights for getting the information that correctness, accurate and timely. Good corporate governance can be seen at attainment of banking the profits which it might be expected to make. Corporate governance, banking performance and financing decision are important factor in creating corporate growth. Former Research finds that capital structure policy has an effect on to company performance, so it's can be explained that the usage of fund to operate for company, must executed in efficient in order to advantage of level company until company can use profit for investment, for that must conducted exploration for getting the empiric evidence that enough hit corporate governance influence, financing decision and banking performance to Investment opportunity set.*

KEYWORDS: *Corporate Governance, Financing Decision, Banking Performance, Investment Opportunity Set*

I. INTRODUCTION

Banking in Indonesia restructuring process, while many parties that claim in order to banking sector supports economy cure and run intermediation function properly, on the other side real sector restructuring that conducted banking in Indonesia still impresses tardy. Condition is referred as caused government in Indonesia pass by Central bank Indonesia releases blue print national banking in the form of Indonesia Banking Architecture (API) that is direction and banking platform national wrong one such example bent on realize complete infrastructure to support healthy creation of banking industry. Good corporate governance is concepts that emphasize the importance of stockholder rights for getting the information truly, accurate, and timely. In other hand, company also honor bound for give expression (disclosure) all information's hit company's finance performance in accurate figure, timely and transparent. In consequence, the parties of banking of company governance approach not as mere accessory, but as the effort of performance improvement and company value [1]. Governance at banking industry in developing country like only in Indonesia at after finance crisis become of vital importance remember several things. First, bank occupies dominant position in economy system, especially as the economic growth machine [2]. Second, in country that marked by underdeveloped capital market, bank shares main for source of company defrayal. Third, bank is institutes fundamental in national deposit mobilization. Fourth, banking system liberalization either through privatization or economy deregulation causes bank manager have larger ones facility in running bank operation [3]. Characteristic owned by a banking institute differs between a bank and institute other, on the other side regulation that constitute operational banking relative same until affect not only at finance performance but also with growth of potency a bank [4,5]. Corporate growth is a desired expectation by internal party company or management, and also external party company like investor and creditor. Companies that grow will respond to complaints in positive by market. Interaction between Investment opportunity set (IOS) and performance management is shown by existence of growth of company value that managed by management [6]. Corporate growth Realization is shown in growth of assets value, sale, profit, and company book value; hereinafter association between corporate growth and financing policy, dividend, and company compensation shows existence of inconsistency finding [7,8,9,10,11].

II. GOOD CORPORATE GOVERNANCE AND BANKING PERFORMANCE

Company Governance is a system that arranges and control company that create added value for all stakeholder [12]. Governance of banking industry in developing country becomes of vital importance caused by: (a) bank occupies dominant position in economy system, specially as the economic growth machine, (b) in country that marked by underdeveloped capital market, bank shares main for source of company defrayal, (c) bank is institutes fundamental in mobilizing society deposit, and (d) banking system liberalization either through privatization or economy deregulation causes bank manager have larger ones facility in running bank operation [2,3].

Former Research gives evidence that company governance that produced by managerial ownership have an effect on positive and significant to return on assets (ROA), return an equity (ROE) and Price Earnings Ratio (PER) [13,14]. Governance Applying not only shown pass by internal governance (managerial ownership, board of commissioner size, independent commissary, ownership concentration) but also base external governance (observation, carefulness, capital requirement, credit classification, credit risk, liquidation and bank deposit). Research Finding that show existence of external governance influence to banking performance give evidence that governance external have an effect on significant to banking performance [5]. Finding Contradiction indicates that managerial ownership not significant its influence to return on equity [15,16]. Research finding that show inconsistency finding in internal governance analysis indicate that independent commissary proportion has an effect on positive and significant to finance performance [17]. Contradictory finding that give evidence that board of commissioner proportion independent have an effect on positive and are not significant to finance performance [18].

P1: The better of Corporate Governance, getting higher banking performance

III. FINANCING DECISION AND BANKING PERFORMANCE

Optimization of company value can be reached by pass by finance decision that influence other finance decision and affect to firm value [19]. Financing decision concerning decision about form and financing composition that will be utilized by company. In general, fund can be obtained from outside company (external financing) and also from within company (internal financing). Decision about external financing is often conceived of financing decision, whereas internal financing concerning dividend policy [20]. Decision financing positive influential and significant of bank performance of, height of third party fund that can be mustered increase ability getting the profit [21]. Inconsistency finding gives evidence that financing policy (long-term debt to equity) is not significant its influence to net profit margin (NPM) and earning shares (EPS) [22]. Return on asset and return on equity is some measurements as used in measure finance performance, former research result proves that totalize total debt to assets has an effect on negative to ROA and ROE [23].

P2: Growing precisely financing decision, getting higher banking performance

IV. GOOD CORPORATE GOVERNANCE AND INVESTMENT OPPORTUNITY SET

Relation between Indonesia bank as central bank and Bank of commercial is a relation form between principal and agent that cannot be ducked out existence of conflict or importance difference. This difference emerged when existence of target difference between Indonesia bank (principal) and commercial bank (agent) and because of existence of difficulty for Indonesia bank to know the truth to the banking financial reporting [24]. Research Result indicates that high growth opportunity (IOS), low leverage as a result of from asset substitution and investment problem low. Relation leverage with negative IOS that moderated by proportion non executive director and executive director ownership. Governance of diffraction company lessens managerial ownership that often attributed to high IOS [25]. Learn about mechanism of banking company governance that bent on be for difference analysis between governance of banking company and non finance shows evidence that existed difference between mechanism of company governance for financial sector like banking company and company non finance. Other Evidence also shows existence of a moral problem hazard in operational of banking company like transfer pricing, asset stripping, employ family member, and not quite the ticket credit allocation negative impact causative at bank performance which is on finally influence banking growth [26]. Finding is referred as inconsistent with statement that good corporate governance will look at profit attainment that growing level from time to time. Good Governance will have an effect on to financial performance and investment opportunity set [25].

P3: The Better of corporate governance, getting higher potency of banking growth

V. FINANCING DECISION AND INVESTMENT OPPORTUNITY SET IN BANKING

Decision of company financing that defrayed from debt (leverage) correlate returned with profitability, because company that profitable have slimmer loan. The usage of ever greater debt in company capital structure will cause ever greater interest expenses, until advantage per sheet share that become stockholder rights also ever greater caused by income tax thrift. At some stage when level of debt proportion in capital structure go up, will cause boost up average cost of capital, this condition can degrade company value because company financial risk high [27]. Corporate growth Potency influences policy that made by company that cover financing policy, dividend and compensation, at company that to grow have lower debt to equity ratio before company that its rate growth low [7,8,9]. Company opportunity to expand in the future (Investment opportunity set) have an effect on negative with capital structure (leverage) [28], evidence is referred as strengthen finding that growth opportunity and profitability correlates negative with leverage [29]. Inconsistency finding gives different evidence, that existed significant relation between growth factor IOS and financing decision and dividend, high corporate growth closely related in significant with low its equity ratio to the debt and low its dividend [30].

P4: Growing precisely decision financing, getting higher potency of banking growth

VI. BANKING PERFORMANCE AND INVESTMENT OPPORTUNITY SET

Investment opportunity Set (IOS) often related to corporate growth [8,31]. These conditions are meant differ between IOS and corporate growth. IOS is investment choice that produces positive NPV whereas growth is company ability to improve firm value [32]. Investment opportunity set show promise broader to company value, at this time is expected investment choices will produce larger ones return. Investment opportunity set is a combination between assets owned by (asset in place) and investment choice in the future with net present value (NPV) which are positive [7,9,28]. IOS a company has an effect on to company way assessed by manager, owner, investor and creditor, value IOS depend on expenditures that specified management of a period of was incoming which is on at this time is investment choice is expected give big return from cost of capital to make a profit [33]. Proxy IOS have the correlation of positive with growth, until company that have value high IOS also have high growth opportunity [31]. Financial performance that measured with ROA have positive influence to Tobin's Q [34]. Research Finding that give evidence existence of finding equality in analysis potential corporate growth (Investment opportunity Set) prove that ROA has an effect on positive to Tobin's Q and market to book ratio [18].

P5: Getting higher Banking performance, getting higher potency of banking growth

VII. CONCEPTUAL MODEL

Very dynamic Change of banking business field, that marked with existence of hyper competition, globalization and Information Technology change that goes on quick claim company for always improve its performance. Banking performance is a picture about finance condition, so it's can be obtained information about labor capacity (performance) company at one particular specified period. Banking performance proxy with liquid ratio (current ratio and loan to deposit ratio) and ratio profitability (return on assets and return on equity). Based on information from finance performance, will give signal for investor and creditor about corporate growth potency in the future. Corporate growth is a desired expectation not even by internal party (management), but also by external like investor and creditor. This Growth is expected can give impact of banking growth.

Refer to statement is referred as, then conceptual framework can describe as following:

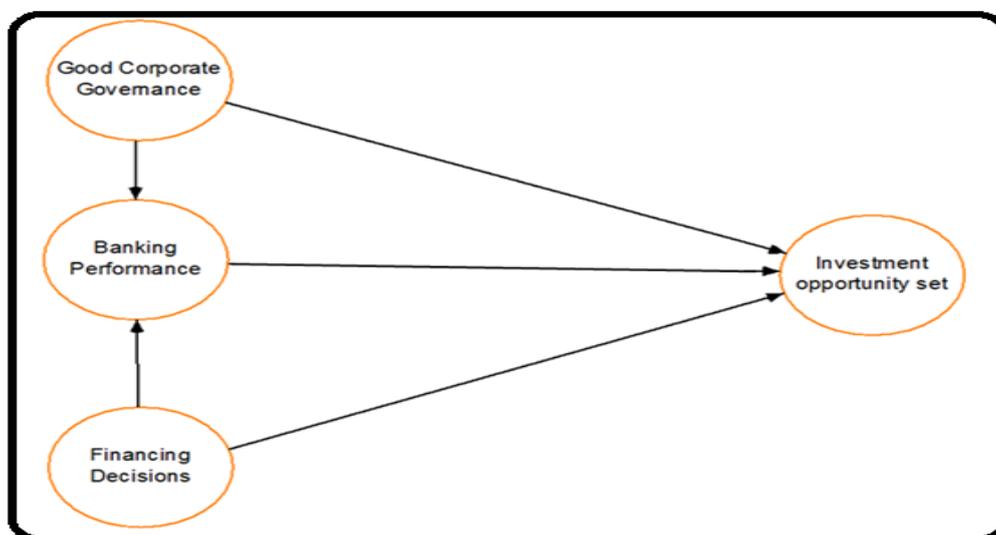


Figure: Conceptual model showing the correlational links

Positive for company like existence of opportunity for at company referred as. Corporate growth Prospect for investor is a profitable prospect, because investment that inculcated expected will give high return. Potency of banking growth to proxy pass by combination from several of IOS value by using proxy based on price, that cover ratio: Market to Book Value of Equity; Market to Book Value of Assets; Earning Price Ratio and Tobin's Q. Some former researchers that analysis of company governance influences to finance performance nevertheless show result that variated. Share Ownership by manager as one of governance mechanism have an effect on significant positive to financial performance (ROA, ROE, and PER) [13,14]. Inconsistency finding gives evidence that ownership managerial are not significant of firm performance [15,16].

Other proxy that used by researchers former in analysis of company governance, that is institutional ownership. Finding from some former researchers give evidence that ownership institutional have an effect on positive and significant to financial performance [17,35,36,37]. Different finding in analyze governance base of proxy institutional ownership and board of directors amount gives evidence that proxy institutional ownership and board of directors amount has an effect on positive nevertheless is not significant to financial performance [38]. Result of review empiric from some previous researchers indicate that banking that grow high is banking that have policy dividend and lower financing policy in conducting compensation payment to executives super ordinate, act of expressing barer financial statement, and profitability and market reaction higher if compared to banking/company that its level of growth potency low [7,39,40,41]. Financial performance that measured with ROA has an effect on positive to corporate growth potency that measured with Tobin's Q, Market to Book Ratio and Price Earnings Ratio [18,34]. Different result gives evidence that profitability correlate negative with leverage [42,43], other researcher finding also gives evidence that debt to equity has an effect on negative to roa and roe as the Financial performance [44]. Finding from some researchers referred as have finding equality that indicate that foreign financing not significant to net profit margin and earning per share as the indicator of financial performance [22]. Banking/Company that to grow has lower debt to equity than company that barren of [7,8,9], finding is referred as justification corporate growths in the future (identification) have an effect on negative to leverage [28,29]. Research Difference in analysis of corporate growth potency that existed significant relation between factor growth (IOS) with financing policy and dividend [30]. Same thing that corporate growth opportunities have an effect on positive to leverage [45].

VIII. CONCLUSION

Focus of company performance review at this time not only at financial statement, a lot approach that value of a company also reflected from investment value that will be released in the future. Value from a company can be seen from high and low its finance performance that the of as a combination assets in place (asset owned by) with investment options in the future [28]. Value this investment options depend on discretionary expenditures that will by manager in the future [9]. IOS in coherent cannot be perceived (inherently unobservable) and if measured with one single proxy just tend to imperfect, to measure IOS are must used much approaches are to seen its relation with other variables that in character observable [7]. Some former research results measure set of investment opportunity to determine company classification whether is entered company springs up (growth firm) or company that not spring up (non growth firm) for then connected to many company policy. Company in running its activity haves concept of going concern, that claim the party of banking to run its business activity on an ongoing basis [46]. Going concern business Activity by banking expected will grow from year to year. Highly expected improvement of banking growth either by internal or external community. Banking with high growth require more fund because much investment opportunities that will they conduct. Fund is referred as can be obtained; one of them is with share sale. Improvement, banking growth is expected can improve investment, whereas positive impact from banking growth for investor is height return to the investment inculcated. Expectation to return that from investors and client cannot be obtained off hand, but required also effort to execute good company governance and correct financing decision until support the happening of improvement of banking finance performance which is on finally improve banking growth. Base debates from former then interesting research result for researched factors that can influence corporate growth pass by governance, financing decision and banking performance.

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