

## Optimizing Corporate Value with Optimizing Investments , Funding and Profitability at LQ 45 Companies on the Indonesia Stock Exchange

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### ABSTRACT

This study aims to examine the effects of investment quality, funding decisions, and profitability on firm value. The study population was LQ 45 listed in the Indonesia Stock Exchange (BEI) in the period from 2016 to 2018 that in published in August 2019. The technique of sampling carried out by the method of purposive sampling of 45 firms registered and are eligible to study are 44 companies. Hypothesis testing uses regression testing after testing classical assumptions and the data is processed using SPSS Version 23. The results of this study indicate that investment decisions have a negative and significant effect. on firm value, saving decisions and profitability have a positive and significant effect on firm value. This shows that optimizing company value can be done by optimizing the company's funding decisions and profitability.

**KEY WORDS:** Investment Decisions, Funding Decisions, Profitability, Firm Value.

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### I. PRELIMINARY

Optimization is derived from the basic word optimal which means best, highest, most profitable, making the best, making the highest, optimizing the process, the way, the act of optimizing (making the best, the highest, etc.) so that optimization is an action, a process, or a methodology to make something (as a design, system, or decision) to be more / fully perfect, functional, or more effective (Kamus Bahasa Indonesia a ; 1994; 800). Optimization of firm value can be achieved through the implementation of financial management functions , where one financial decision taken will influence other financial decisions and have an impact on firm value (Fama and French, 1998). M anagement concerning the financial settlement of the important decisions taken by the company, among other investment decisions, decisions of funding, and profitability . An optimal combination of above three would meng optimize the value of the company which will further increase shareholder wealth. Capital investment is one of the main aspects of investment decisions apart from determining the composition of assets. The decision to allocate capital into investment proposals must be evaluated and related to the risks and expected results (Hasnawati, 2005). According to the *signalingtheory* , investment spending provides a positive signal about the company's future growth, so that it can increase the stock price which is used as an indicator of company value (Wahyudi and Pawestri, 2006). The determinants of the source and form of funds for financing are quality related to investment. The source of funding that must be decided in a funding decision can come from internal or external sources, in addition to the amount of debt and capital itself, and how the type of debt and capital to be used, considering that the financing structure will determine the *cost of capital* which will be the basis for determining the *required return*. desired .

The company's goal in general is *profit oriented* in order to maximize the prosperity of shareholders or company owners (*wealth of the shareholders* ), in addition to maximizing market value. For companies that have *gone public* , maximizing the company's market value is the same as maximizing the stock market price (Sudana, 2011). The higher the share price , the higher the shareholder's prosperity will be. The high company value causes the level of investor confidence in the company to be even higher. This is because the investors' assessment of the company's prospects in the future is good, seen from its high share price. The results of research on the factors that influence firm value still produce inconsistent findings (see for example Hestinoviana et al., 2013; Fitriana, 2014; Marangu and Jangongo, 2014; Septia, 2015; Damayanti, 2016), so further testing is needed. to determine the consistency of the findings of the factors that affect firm value when applied to different conditions.

The stock price as a representation of the value of a company is determined by three main factors, namely internal factors, external companies, and technical (Sudiyatno and Elen in Fitriana, 2014) . The internal factors may include profitability, liquidity, funding decisions, investment decisions, dividend policy, and so forth that are controlled by the management while the factors external to the form of the rate of inflation , the

exchange rate of foreign currencies, interest rates , a situation of social politics and so forth that are cannot be controlled by the company management . These internal and external factors are fundamental factors that are often used as the basis for decision making by investors in the capital market. Meanwhile, technical factors are more technical and psychological in nature, such as the volume of stock trading, the value of stock trading transactions, and the tendency to fluctuate in share prices.

This research emphasizes on the internal factors of the company which are often seen as important factors in determining stock prices. The company's internal factors in capital market analysis are often seen as the company's fundamental factors, these factors are *controllable* so that the company can control them. Internal company factors can be grouped into company policy factors and company performance factors (Weston and Copeland, 1997).

This study aims to analyze and find empirical evidence of optimizing company value by optimizing investment decisions, funding decisions and profitability, by looking at the three independent variables, namely investment decisions, funding decisions and profitability, their effects on firm value in LQ 45 companies for the 2016- 2018, the data was published by Indonesian Stock Exchange in August 2019.

## II. LITERATURE REVIEW

According to Brigham and Houston (2011) a *signal* is an action taken by a company to provide guidance to investors about how management views the company's prospects. This signal is in the form of information about what management has done to realize the owner's wishes. The information released by the company is important, because it affects the investment decisions of parties outside the company. This information is important for investors and business people because information essentially provides information, notes or descriptions, both for the past, present and future conditions for the survival of the company and how it affects the company.

In the signal theory framework, it is stated that the company's incentive to provide information is because there *is* information *asymmetry* between company managers and outsiders because company managers know more about the company and its future prospects than outsiders (Wolk *et al.* , 2000). *Signaling theory* states that investment spending provides a positive signal about the company's future growth, thereby increasing stock prices as an indicator of company value (Hasnawati, 2005). An increase in debt is interpreted by outsiders as the company's ability to pay future obligations or there is a low business risk, this will be responded positively by the market (Brigham and Houston, 2011).

### **The Effect of Investment Decisions on Firm Value**

The company is a combination of real asset value with investment options in the future (Myers, 1977 in Hasnawati, 2005). Company growth is a factor expected by investors so that the company can provide the expected returns. The company's always increasing growth and increasing asset value are expected to boost investors' expectations due to investment opportunities with expected returns. The theory that underlies investment decisions is *signaling theory* . This theory states that investment spending provides a positive signal for future company growth, thereby increasing stock prices as an indicator of firm value (Wahyudi and Pawestri, 2006). This theory suggests that investment spending made by companies provides a signal, especially to investors and creditors, that the company will grow in the future. Firm value is solely determined by investment decisions (Fama, 1978 in Wijaya and Wibawa, 2010).

*H1: Investment decisions affect firm value.*

### **The Effect of Funding Decisions on Firm Value**

Horne (1997: 295) defines that funding decisions are policies regarding spending decisions or investment financing. This funding decision includes how to fund the company's activities to be optimal, how to obtain funds for efficient investment and how to compose optimal sources of funds that must be maintained.

According to Septia (2015), a funding decision is defined as a decision concerning the composition of funding chosen by the company. Funding sources within a company are divided into two categories, namely internal funding and external funding. Each company will expect an optimal capital structure, namely a capital structure that maximizes the *value of the firm* and minimizes the *cost of capital* .

According to the *pecking order theory* , external funds are preferred in the form of debt rather than equity for two reasons, namely the consideration of issuance costs, where the cost of issuing bonds is cheaper than the cost of issuing new shares. This is because the issuance of new shares will reduce the price of old shares. The second reason is the manager's concern that the issuance of new shares can be interpreted as bad news by investors which results in a decline in the value of the company. Managers can use debt as a more reliable signal to investors. This is because companies that increase debt can be seen as companies that are confident about the company's prospects in the future. Fama and French (1998) found that investment resulting from *leverage* has positive information about the company in the future, then has a positive impact on firm value.

*H2: Funding decisions have an effect on firm value.*

**Effect of Profitability on Firm Value**

According to Martalina (2011) in Bukit (2012), profitability is the company's ability to earn profits. Profits obtained by the company come from sales and investments made by the company. Profitability is also a description of management performance in managing the company. The company's profitability can be calculated using ROA ( *return on assets* ), by dividing net income after tax ( *earnings after tax* ) by total assets. With high *Return On Assets* (ROA), it means that the company's net profit is also high. High profitability will provide a positive signal to investors that the company is in a favorable condition. High ROA will give an indication of the company's good prospects, this will have an impact on company value (Hestinoviana et al, 2013).

*H3: Profitability affects firm value.*

**III. RESEARCH METHODS**

**Research variable**

This study empirically analyzes the factors that predicted influential and significant to the value of company at LQ 45 yan g listed on the Indonesia Stock Exchange on the year 2016 -2018. Therefore it is necessary to test the previously formulated hypotheses , in order to get more accurate results and in accordance with the facts. The dependent variable in this study is nil ai companies with proxy PBV (Wijaya and Authority, 2010) where the formula  $PBV = \frac{\text{the last stock Price}}{\text{book value}}$ . While independent variable includes investment decision as measured by the *Total Asset Growth or TAG* (T. Yao *et al*, 2011), because the *Asset Growth* is the average growth of the company's assets (Hestinoviana, et al., 2013). Funding decisions are measured by *Debt to Equity Ratio* or DER (Wijaya and Wibawa 2010) and profitability is measured by ROA (net profit after tax / total assets), because ROA has a more independent level of measuring profitability than ROE (Oyelere *et al* ., 2003).

**Sample Determination**

This study population is a company that is listed on Indonesia Stock Echange (BEI) included LQ 45 released in August 2019, amounting to 45 companies. According to his understanding, LQ 45 is 45 issuers by selection process with high liquidity (liquid) as well as some other selection criteria. These criteria may include consideration of market capitalization. The 45 issuers are adjusted every six months (every early February and August) and the data in this study were published in August 2019. The selection of this population is based on considerations of stocks which are included in the liquid category. The liquidity of a stock can be seen if these shares are always active magnified trading. However, not all populations are the object of research, therefore sampling is necessary . Sampling technique used is the technique of *purposive sampling* ,ie company incorporated in the LQ 45 were published in August 2019 which meetthe sampling criteria, that is companies that report complete finance starting in 2016 until 2018 . However, because there are companies that no have financial statements in 2016 and 2017, then such firmsare in out right so that the sample in this study were 4 4 companies that publish their financial statements during the period 2016-2018. .

**Method of Analysis**

The data analysis method in this study uses multiple linear regression analysis to obtain a comprehensive picture of the influence of variables, Investment Decisions (TAG), Funding Decisions (DER) and Profitability (ROA ) on Firm Value (PBV) using the SPS S V program. version 23 . Before the regression analysis performed classical assumption test analysis me mastikan no problem at normality, multicollinearity, autocorrelation, and heteroscedasticity.

**IV. RESEARCH RESULTS AND DISCUSSION**

**Research Sample Description**

Based on the results of the sample selection in this study, which was conducted using the *purposive sampling method* , obtained a sample size of 41 companies which can be seen in table 1 below:

**Table 1: List of Research Samples**

No.	Criteria	total
1	Friday was the company LQ publication 45 August 2019	<b>45</b>
2	The number of companies that did not report their finances completely in the 2016-2018 period	<b>1</b>
	Total Samples	<b>44</b>

Source: Secondary Data Processed, 2019.

**Normality test**

The normality test in this study used histogram charts, normal PP Plot, and Kolmogorov Smirnov (KS) non-parametric statistics .

Based on Figure 2 h acyl normality test is histo gram shows the data follow the direction of the line and the histogram graph also form a bell. This indicates that the regression model has met the normality assumption. In Figure 3 the Normal Probability Plot method, if the distribution of the points follows the direction of the diagonal line, then the data shows that the regression model fulfills the assumption of normality .

**Autocorrelation Test**

**Table 3: Autocorrelation Exam Model Summary <sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.738 <sup>a</sup>	.544	.534	6.25566	1.999

a. Predictors: (Constant), Profitability, Investment Decisions, Funding Decisions

b. Dependent Variable: Firm Value

Source: Secondary data processed, 2019

From Table 3 regarding the Durbin-Watson Test with Firm Value ( PBV ) as the dependent variable, it shows that the Durbin-Watson value is 1.999 . The value of the du table for K = 3 with a total of 132 data is a fault of 1.643. Because the value of 1.999 is greater than 1.643, it can be concluded that there is no autocorrelation.

**Multicollinearity Test**

**Table 4: Multicollinearity Test Results Coefficients <sup>a</sup>**

Model		Collinearity Statistics	
		Tolerance	VIF
1	Investation decision	.958	1,044
	Funding Decisions	.886	1,129
	Profitability	.902	1,108

a. Dependent Variable: RESquare

Source: Secondary data processed, 2019

From the data table 4 above, it appears that the value of *collinearity statistic tolerance* (investment decision = 0.958; funding decision = 0.886; and profitability = 0.902) is above 0.1 or VIF ( investment decision = 1.044; funding decision = 1.129; and profitability = 1.108) is less than 10 then it means there is no symptom of multicollinearity (Agung Abdullah Rasul &Nurlaelah; 2010; 136) .

**Heteroscedacity test**

**Table 5: Pack Test and Glejer Test Heteroscedasticity Test ANOVA <sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1276672,932	3	425 557,644	6,572	.000 <sup>b</sup>
	Residual	8288249,905	128	64751,952		
	Total	9564922,837	131			

a. Dependent Variable: RESquare

b. Predictors: (Constant), Profitability, Investment Decisions, Funding Decisions

Source: Secondary data processed, 2019

In Table 5 shows the results of heteroscedasticity test using **Test TestGlejer Pak** and symptoms of heteroscedasticity with value Sig F amounted to 000 smaller than 0.05, then for it repaired by doing good research data transformation dependent variable and independent in a way transformation of data Ln ( DudiAmarullah ; 2019). Test was carried out the transformation of data presented in Table 6 belowthat significant value is 0.081. Significance level greater than 0.05 means that does not happen again symptoms heteroscedasticity( <http://www.spssindonesia.com> ; 2019) . .

**Table 6: Results of heteroscedasticity test  
After the Data Transformation is carried out**  
ANOVA <sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,129	3	.376	2,302	.081 <sup>b</sup>
	Residual	17,165	105	.163		
	Total	18,294	108			

a. Dependent Variable: AbsRes\_6

b. Predictors: (Constant), Ln\_X3, Ln\_X1, Ln\_X2

Source: Processed secondary data, 2019

**MULTIPLE LINIER REGRESSION ANALYSIS  
Sumiltan Significant Test (Test F )**

**Table 7: Simulant Significance Test Results (Test F)**  
ANOVA <sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45,964	3	15,321	33,621	.000 <sup>b</sup>
	Residual	47,849	105	.456		
	Total	93,813	108			

a. Dependent Variable: Ln\_y

b. Predictors: (Constant), Ln\_X3, Ln\_X1, Ln\_X2

Source: Secondary data processed, 2019

In Table 7 above shows that the F-count of 33 , 621 with a probability of error rate is smaller than the significance level yan g expected ( $000 < 0.05$  ). This shows that investment decisions, funding decisions, and profitability simultaneously have a positive and significant effect on firm value.

**Determination Coefficient Test (R2)**

**Table 8: Test The coefficient of determination (R 2 )**  
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.700 <sup>a</sup>	.490	.475	.67506

a. Predictors: (Constant), Ln\_X3, Ln\_X1, Ln\_X2

Source: Secondary data processed, 2019

In Table 8 it can be seen that the value of *the adjusted R 2* on the research in the tian is obtained at 0.475 or 47 % . Hal shows that the three independent variables, namely, investment decisions (TAG), the funding decision (DER), and profitability (ROA) affects variable n use values of the company (PBV) of 47%. While the remaining 53 % is explained by factors other than the factors proposed in this study.

**Hypothesis Test (t test).**

**Table 9: Statistical Test Results t**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,078	.231		-4,671	.000
	Ln_X1	-.168	.079	-.154	-2,113	.037
	Ln_X2	.248	.067	.311	3,689	.000
	Ln_X3	.816	.088	.775	9,254	.000

Source: Secondary data processed, 2019

Based on the results of the SPSS output in table 9 , a regression equation can be formulated multiple linear as follows:

$$PBV(Ln_y) = -1.078 - 0.168 TAG + 0.248 DER + 0.816 ROA + e$$

Hypothesis testing results 1 show that the Investment Decision (TAG ) has the effect of negative and significant P value company (PBV). It is in view of the coefficient of the regression of - 0, 168 and t-test of -2.113 with a value of significance of 0.037 (less than 0.05). Investment decisions have a negative and significant effect on

firm value. It means that an increase in the total investment of a company will have an impact on decreasing company value. The results of this study are not in line with research conducted by Fitriana (2014) and Qodariyah (2013) which states that the influence of investment decision variables on firm value is significant positive . This happened because of the world crisis due to the trade war between America and China which had an impact on the world economy, including the capital market in Indonesia, where if the company's investment decisions increased, the company's value would significantly decrease . This means that investors do not see any positive influence from investment decisions in assessing companies and this means that increased investment decisions cannot optimize firm value.

Testing of hypothesis 2 shows the effect of *Debt to Equity Ratio* (DER) on firm value is significant with a positive coefficient direction . Based on the results of the partial test (t - count) the effect of funding decisions (DER) on firm value is obtained by a regression coefficient of 0.248 , and t-count of 3.689 with a significance of .000 (less than 0.05) . So it can be concluded that funding decisions proxied by DER have a positive and significant effect on firm value (PBV), so that the third hypothesis is proven. Managers can use debt as a more reliable signal to investors. This is because companies that increase debt can be seen as companies that are confident about the company's prospects in the future. Fama and French (1998) found that investment resulting from *leverage* has positive information about the company in the future, then has a positive impact on firm value. This means that increasing funding decisions can optimize the company's value.

The results of testing hypothesis 3 indicate that profitability (ROA) has a positive and significant effect on firm value (PBV). This can be seen from the regression coefficient value of 0.816 and t-count of 9.254 with a significance value of 0.000 (less than 0.05) . Profitability has a positive and significant effect on firm value, which means that increasing the profitability of a company will have an impact on increasing firm value. The results of this study are in accordance with the results of research conducted by Mardiyati, et al (2012), Nurhayati (2013) , and Damayanti (2016) . High profitability will give positive signals to investors that the company is successful in favorable conditions. This attracts investors to own shares in the company. As according to the *SignalingTheory* , the higher the profit, the better the company's prospects and this makes investors respond positively by the increasing demand for company shares . The increasing demand for shares causes the company value to increase. According to Nurhayati (2013), high profits provide an indication of the company's good prospects so that it can trigger investors to participate in increasing stock demand. So from the results of this study it can be interpreted that to optimize company value can be done by optimizing profitability.

## **V. CONCLUSIONS , RECOMMENDATIONS AND LIMITATIONS**

The results of this study indicate several factors that influence firm value. From the 3 factors studied (investment decisions, funding decisions and profitability ), it is proven that investment decisions have a negative and significant effect on firm value. Meanwhile, other factors, namely funding decisions and profitability, proved to have a positive and significant effect on firm value. This berarti enterprise managers should consider funding decisions d in profitability in enhancing the corporate value of her . So to optimize company value can be done by optimizing funding decisions and profitability .

Linkages of this study with previous research is equally a discussion of the value of the company, which uses three variables, namely the decision of investment, decision- financing and profitability as an independent variable . P enelitian is made in companies incorporated in LQ 45 listed on the Surabaya Stock Exchange for the period from 2016 to 2018 where data were taken from the publication of the Stock Exchange in August 2019 by reason of a company incorporated in the LQ 45 Meru feed the company's most lik uid where stock- most of its shares are traded on the M odal Market . To further develop this research to the next researchers, it is possible to add the dividend policy variable as measured by the *Dividend PayoutRation* ( *DPR* ) which can be done as an additional independent variable.

This study has several limitations. First, this study only uses internal company factors as independent variables that influence firm value, so for further research it is suggested to add variables to the external conditions of the company which are thought to influence firm value such as interest rates, inflation rates, foreign exchange rates and socio-political situation. Second, this research is only limited to companies that are members of LQ 45 which are listed on the Indonesia Stock Exchange, so that it may not represent all sectors of companies on the Indonesia Stock Exchange. For this reason, it is suggested that the next research should not only examine companies that are members of LQ 45 , but include other industry classifications. Third, this study only took a three- year research period, namely from 201 6-2018 . For further research, it is advisable to use a more in-depth period, not only years, it can even be monthly or daily. This is to see a deeper influence on company value .

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