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Investment decisions, financing and dividends to increase firm value: a case study of manufacturing companies in Indonesia

Abstract. This study aims to determine the direct relationship of firm value with investment decisions, funding, dividends, and agency costs. The method used in this research is descriptive. The object under study is the manufacturing companies listed on the Indonesia Stock Exchange IDX during 2008-2017, totalling 108 companies. Data was collected using a survey method on cross-sectional and time-series data. The data analysis method used the Partial Least Square (PLS) technique. Tobin's Q is used as a parameter of firm value. CAP/BVA as an investment decision parameter, DER as a funding decision parameter, DPR as a dividend decision parameter, and FCF as an agency cost parameter. The results directly influence the model that investment decisions, funding decisions, dividend decisions, and agency costs positively affect firm value. The indirect impact states that agency costs significantly mediate the relationship between investment decisions, funding decisions, and dividends on firm value.
Keywords: Company Performance; Investment Decisions; Financial Decisions; Dividend Decision; Agency Costs
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Інвестиційні рішення, фінансування та дивіденди для збільшення вартості фірми: приклад виробничих компаній в Індонезії

Анотація. Це дослідження спрямоване на визначення прямої залежності вартості фірми від інвестиційних рішень, фінансування, дивідендів та агентських витрат. Метод, використаний у цьому дослідженні, має описовий характер. Об'єктом дослідження є компанії-виробники, що котируються на Індонезійській фондовій біржі IDX у 2008–2017 роках. Усього 108 компаній. Для аналізу даних використовувався метод найменших часткових квадратів (PLS). Q Тобіна використовується як параметр вартості фірми, CAP/BVA – як параметр інвестиційного рішення, DER – як параметр рішення щодо фінансування, DPR – як параметр рішення про дивіденди та FCF – як параметр витрат агентства. Результати безпосередньо впливають на модель, згідно з якою інвестиційні рішення, рішення про фінансування, рішення про виплату дивідендів та витрати агентства позитивно впливають на вартість компанії. Агентські витрати мають значний опосередкований вплив на вартість фірми.

Ключові слова: результати діяльності компанії; інвестиційні рішення; фінансові рішення; рішення про дивіденди; агентські витрати.

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Инвестиционные решения, финансирование и дивиденды для увеличения стоимости фирмы: пример производственных компаний в Индонезии

Аннотация. Это исследование направлено на определение прямой зависимости стоимости фирмы от инвестиционных решений, финансирования, дивидендов и агентских расходов. Метод, использованный в этом исследовании, носит описательный характер. Объектом исследования являются компании-производители, котирующиеся на Индонезийской фондовой бирже IDX в 2008–2017 годах. Всего 108 компаний. Для анализа данных использовался метод частичных наименьших квадратов (PLS). Q Тобина используется как параметр стоимости фирмы, CAP / BVA – как параметр инвестиционного решения, DER как параметр решения о финансировании, DPR как параметр решения о дивидендах и FCF как параметр затрат агентства. Результаты напрямую влияют на модель, согласно которой инвестиционные решения, решения о финансировании, решения о выплате дивидендов и агентские расходы положительно влияют на стоимость компании. Агентские расходы имеют значительное косвенное влияние на стоимость фирмы.

Ключевые слова: результаты деятельности компании; инвестиционные решения; финансовые решения; решение о дивидендах; агентские расходы.

1. Introduction

The high value of the company shows the higher level of prosperity felt by the company's shareholders. Achieving high corporate value is a priority for shareholders (Daniel, 2020). Profits and positive trends of the company affect the increase in stock prices (Yasin et al., 2020). Companies that have good financial reports and have good progress in the future will increase the company's value (Pokojski, 2020)the innovation process has been of a closed nature because research or development projects are generated inside the company and brought to the market by a company.

The phenomenon related to the large contribution of the manufacturing sector to national economic growth is also shown from the results of a study conducted by the National Development Planning Agency (BAPPENAS) that in 2018 Indonesia's economic growth has the potential to increase to a maximum of only 5.5%. The basis of the study results, as conveyed by the Minister of National Development Planning/Head of Bappenas, is that Indonesia's economic growth is only a maximum of 5.5%. Thus, the absence of breakthroughs in the manufacturing sector has not shown its role in bringing the value of the Indonesian economy even higher. Nevertheless, the manufacturing industry sector is the industrial sector that provides the most considerable contribution to Indonesia's Gross Domestic Product (GDP) of 20.5%, compared to the other three industries with their respective contributions to GDP of 13.5%; 13.2%, and 10.4%.

Investment decisions, funding decisions, and dividend decisions have a positive and significant impact on firm value. Therefore, companies must have planned carefully to make decisions (Wasiuzzaman & Nurdin, 2019). In a public company, there is always a general meeting of shareholders (GMS) to determine the company's plans and make decisions by consensus (Ha et al., 2020; Musnadi, 2020). This GMS will be held once a year. From the results of the GMS, a decision will be obtained, and the decision will significantly affect the value of the company (Anisykurlillah et al., 2020).

Financial management aims to maximize the value of the company. Therefore, managers must make three important decisions, namely investment decisions, financing decisions, and dividend decisions (Chiu et al., 2016). The combination of the right decisions for all three will maximize the value of the company. However, company managers sometimes have different goals that can conflict with the main goals of the shareholders, resulting in a conflict of interest (Mindra et al., 2017; Mindra & Moya, 2017). A supervisory mechanism that aligns interests can minimize conflicts between managers and shareholders (Nguyen & Canh, 2020). However, with the emergence of this supervisory mechanism, it will incur costs, namely agency costs.

Agency costs are represented by many researchers with free cash flow (FCF) parameters. FCF is excess cash flow that can be used for reinvestment or distributed as dividends (Mints et al., 2020; Mutalib et al., 2019). Therefore, FCF is considered appropriate to be used to measure the degree of manipulation by management. The «free cash flow hypothesis» states that, sooner or later, managers will engage in projects that are not profitable or unprofitable or that have a negative Net Present Value (NVP), resulting in a decline in share price and firm value. This condition then gives rise to patterns of managers' actions to carry out earnings management to cover up their bad decisions in front of investors or company shareholders (Berková et al., 2019).

The availability of FCF can be distributed as dividends to shareholders or used to pay creditors, or distributed to company stakeholders, for example, to the nearest community in the form of a corporate social responsibility fund. Agency conflicts can be caused by deciding how the funds are invested (investment decisions) (Ray et al., 2021). Corporate investors do not have complete information about the reasons or considerations underlying investment decisions (Pavlenko et al., 2018). As a result, investors consider themselves very vulnerable to manipulation by management (Kuzmenko et al., 2020). Investors assume that aggressive investment decisions by management show managers are overly optimistic without careful and accurate consideration of risk (L. He et al., 2021).

Agency costs harm firm value. Agency costs can be a negative signal for potential conflicts within the company. The greater the value can indicate, the greater the possibility of war between the company's owners/shareholders, management, and creditors (Vo et al., 2021). If the potential for conflict is considered relatively large, it can disrupt the smoothness and sustainability of its business (Plahotnikova, 2019; Sumadi et al., 2020). Disputes that occur will cause a decrease in the company's value in the eyes of investors (Kiroff, 2019).

The dividend decision is considered as one of the efforts that can be made to reduce agency costs. Dividend payments are deemed to show management's ability to manage decisions well and can be a positive signal for the company on a sustainable basis (Mura et al., 2020). This study aims to determine the direct relationship of firm value with investment decisions, funding, dividends, and agency costs. The hypothesis that can be proposed is that agency charges affect mediating the relationship between investment decisions, financing decisions, and compensation decisions to increase firm value. The hypothetical model in the study can be seen in Figure 1.

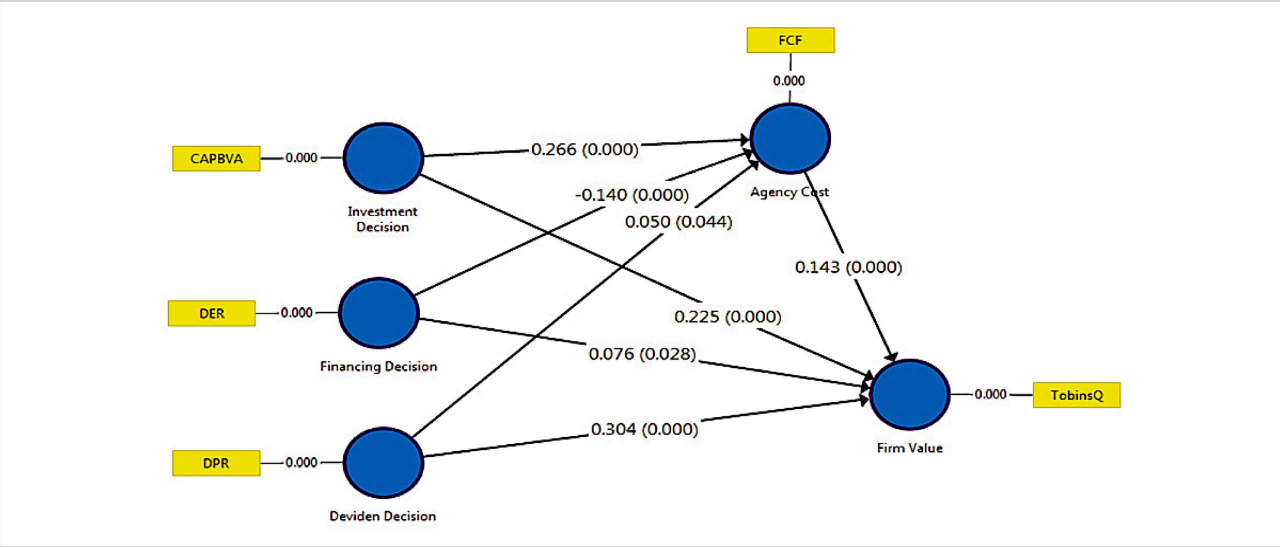

Figure 1:
Hypothesis Model
Source: Compiled by the authors

2. Research Methods

The method used in this research is descriptive. The object under study is the manufacturing companies listed on the IDX during 2008-2017, totalling 108 companies. The fundamental indicators in taking research samples are (1) producer companies that have been listed on the Indonesia Stock Exchange since 2008 and (2) manufacturing companies that have not re-listed during the research period. The data collection was carried out using a survey method on cross-sectional and time-series data for 2008-2017. Data was collected using a survey method on cross-sectional and time-series data. The data analysis method used the Partial Least Square (PLS) technique. Tobin's Q is used as a parameter of firm value. CAP/BVA as an investment decision parameter, DER as a funding decision parameter, DPR as a dividend decision parameter, and FCF as an agency cost parameter.

3. Results and Discussion

3.1. Path Coefficient Test

The results of the path coefficient test in the study can be seen in Table 1.

Table 1 shows that agency costs have a positive and significant effect on firm value with a direct influence coefficient of 0.143. Increased agency costs will affect the company and engage in

Table 1:
Path Coefficient Test Results

Relationship Between Variables	Sample Original (O)	Standard Deviation (STDEV)	T-Statistic (|O/STDEV|)	P
Agency Costs, R^2 = 9.7%				
Investment Decision -> Agency Costs	0.266	0.027	9.860	0.000
Funding Decision > Agency Costs	-0.140	0.030	4.725	0.000
Dividend Decision -> Agency Costs	0.050	0.029	1.710	0.044
the value of the company R^2 = 20.5%				
Investment Decision -> the value of the company	0.225	0.028	8.066	0.000
Funding Decision > the value of the company	0.076	0.040	1.917	0.028
Dividend Decision -> the value of the company	0.304	0.030	10.029	0.000
Agency Costs -> Firm Value	0.143	0.026	5.550	0.000

Note: *) Statistically significant at level α = 0.05.

Source: Compiled by the authors

transactions that destroy the value of the company. The study results show that the greater the value of agency costs incurred to minimize the conflict within the company (agency conflict), the greater the value in the market.

Table 1 shows that agency costs have a positive and significant effect on firm value with a direct influence coefficient of 0.143. Increased agency costs will affect the company and engage in transactions that destroy the value of the company. The study results show that the greater the value of agency costs incurred to minimize the conflict within the company (agency conflict), the greater the value in the market.

3.2. Company Indirect Influence

The measurement results of investment decisions, funding, and dividends on firm value can be seen in Table 2.

Table 2 shows that the indirect effect of agency cost mediation was significant because all path coefficients through the mediating variables were tested to be substantial at $p < 0.05$. Thus, the indirect influence of investment decisions on firm value through agency cost mediation is significant. Therefore, the hypothesis proposed in the study can be accepted because agency costs significantly mediate the relationship between investment decisions and firm value.

Table 2:
Results of Indirect Effect

Indirect Relationship to Company Value	Coefficient	p
Investment decision -> Agency Costs -> Value of company	0.038	0.000 *)
Funding Decision > Agency Costs -> Value of company	-0.020	0.000 *)
Dividend Decision -> Agency Costs -> Value of company	0.007	0.048 *)

Note: *) Statistically significant at level $\alpha = 0.05$.

Source: Compiled by the authors

4. Discussion

Agency costs are variables that provide a partial mediation effect and not complete mediation. The partial mediation effect means that the impact of investment decisions on firm value does not have to go through or involve agency costs (Rakhmetova & Budeshov, 2020). For example, suppose investors have confidence that the investment decisions made by management are good, correct, and have no intention to manipulate. In that case, it will directly impact increasing the company's value (Mauder & Brezina, 2021). Trust can be built through close, smooth, and effective communication between shareholders or investors and management. The purpose of every investment decision taken by management will be understood in one direction by investors or shareholders (Koerber et al., 2020).

The direct effect of dividend decisions on firm value shows that dividend decisions have a positive and significant impact on firm value. The path of indirect influence of dividend decisions on substantial value through agency mediation is not marked (Salim & Palullungan, 2021; Szalka & Tamándl, 2019). The optimal effect of dividend decisions to increase firm value does not need to involve agency costs (Agusti-Perez et al., 2020).

High dividend payouts can be a positive signal of high-quality corporate management by managers and are considered to indicate management performance that is in line with shareholder expectations. If investors judge that the dividend decision taken is rational and with careful consideration, then the management is considered not to manipulate the behaviour of the company's management (Malagueño et al., 2019). Dividend decisions are taken following the aim of maximizing shareholder wealth (Tatarski et al., 2020). The path of influence between dividend decisions on firm value does not necessarily involve agency costs (Syahza et al., 2020). Dividends monitor costs so that management does not take decisions that deviate from the company's financial management objectives (Y. He et al., 2020).

Dividend decisions have a positive and significant effect on firm value. The company increases the value of dividends distributed to its shareholders; it will significantly increase its value (Putniņš & Sauka, 2020). If the company reduces the value of dividends distributed to shareholders, it will reduce the value of the company in the market (Büchi et al., 2020). The dividend decision on agency costs states that the path is not significant. The direct influence of firm growth on firm value is substantial (Ortiz-de-Mandojana et al., 2019). The course of indirect impact on dividend decisions is not significant (M. Crick, 2020). Dividend decisions are taken to maximize the wealth of the owners or shareholders (Ortiz-de-Mandojana et al., 2019). Therefore, the influence between dividend decisions on firm value does not need to involve agency costs.

Regular distribution of dividends from year to year can show the company can earn large profits continuously. The existence of rewards can indicate the management's commitment to work hard to develop the company (Block et al., 2019). The decision to distribute dividends can attract investors or other stakeholders to invest their funds in the form of new investments or re-investment in the company concerned.

5. Conclusion

Investment decisions, funding decisions, and dividend decisions have a positive and significant impact on the value of manufacturing companies on the Indonesia Stock Exchange. Agency costs have a substantial effect in mediating the relationship between investment decisions and firm value. The direct impact of investment decisions on important value is significant. Agency costs are stated to influence investment decisions on the solid matter. Agency costs have a substantial influence in mediating the relationship between funding decisions and firm value. The effect of dividend decisions on significant value is direct and can be through or involve agency costs.

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