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Cogent Economics and Finance

Dynamic Performance of Indonesian Public Companies: An Analysis of Financial Decision Behavior --Manuscript Draft--

Full Title:	Dynamic Performance of Indonesian Public Companies: An Analysis of Financial Decision Behavior
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Keywords:	Financial decision; Dynamic performance; GMM-Difference
Manuscript Classifications:	10.6.2.3 Financial Mathematics; 50.6.3.2 Corporate Finance; 50.6.3.5 Investment & Securities
Abstract:	<p>The purpose of this research is to investigate the effects of financial decision behavior on firm performance of Indonesian public companies using panel data. The dynamic generalized method of moment (GMM) is utilized in this study. The results show that firm performance are dynamic in nature, indicates that last year performance affects current performance significantly. Empirical result of financial decision behavior shows that investment, leverage and dividend per share have significant impact on firm performance (ROA and Tobin's Q ratio). This indicates that investment and leverage has negative effects on ROA, but leverage is positive effect on Tobin's Q. Moreover, dividend per share (DPS) has positively affects ROA as well as Tobin's Q. This finding suggests investment decision of Indonesian public companies is overinvestment, which is show with higher investment affects firm performance negatively. Regarding to financing decision, firm leverage also negative effect on firm performance, mean that Indonesian public companies borrowed external fund more than they need (over-leverage). However, dividend policy indicate that the higher firm performance encourage firms to payout dividends to its shareholders. The positive relation between dividend per share and Tobin's Q implies that firm payout dividends to shareholders create good signal to the market, which is manager's uses dividend to express their private information about firm prospect of the future earning to the market.</p>

Dynamic Performance of Indonesian Public Companies: An Analysis of Financial Decision Behavior

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Abstract

The purpose of this research is to investigate the effects of financial decision behavior on firm performance of Indonesian public companies using panel data. The dynamic generalized method of moment (GMM) is utilized in this study. The results show that firm performance are dynamic in nature, indicates that last year performance affects current performance significantly. Empirical result of financial decision behavior shows that investment, leverage and dividend per share have significant impact on firm performance (ROA and Tobin's Q ratio). This indicates that investment and leverage has negative effects on ROA, but leverage is positive effect on Tobin's Q. Moreover, dividend per share (DPS) has positively affects ROA as well as Tobin's Q. This finding suggests investment decision of Indonesian public companies is overinvestment, which is show with higher investment affects firm performance negatively. Regarding to financing decision, firm leverage also negative effect on firm performance, mean that Indonesian public companies borrowed external fund more than they need (over-leverage). However, dividend policy indicate that the higher firm performance encourage firms to payout dividends to its shareholders. The positive relation between dividend per share and Tobin's Q implies that firm payout dividends to shareholders create good signal to the market, which is manager's uses dividend to express their private information about firm prospect of the future earning to the market.

Keyword: Financial decision, Dynamic performance, GMM-Difference.

1. INTRODUCTION

This study deals with an important issue in corporate finance, in which we investigate the dynamic firm performance and financial decision behavior. Even though most of prior studies of firm performance and financial decision have been done, but still interesting to be analyzed and discussed, because in fact that a firm periodically makes three major important financial policies that determine its structure. Firm performance is associated with the concepts of productivity, efficiency and effectiveness of corporate management in utilizing resources optimally (Tan & Wang 2010). The Indonesia firms performance recorded the average ROA was valued at 12.69 while Tobin's Q at 2.10 percent, indicates Indonesia firms had good market performance although they suffered with low profitability (Bambang Sudiyatno et al. 2012). Moreover, the market performance was lower with the average 1.13 percent for period 2009 to 2013 (Nikolaus 2015), this implies market performance still in good health, and that the financial decision play an important role to enhance firm performance. In this issue, the task of managers is taking right decision on investment decision, financial leverage and dividend policy (Inselbag 1973).

The value of firm is determined by investment decision (Fama 1978), although in perfect capital market investment decision is independent of the financial structure. This is because external funds serve as a perfect replacement for internal capital (Modigliani & Miller 1958). In contrast, empirical research shows that internal and external capitals do not perfectly substitute each other in the short-run, meaning that investment should be dependent on financial factors, so that both investment and financing decisions are interdependent in imperfect capital market, and the debt financing influences value of the firms (Modigliani & Miller 1963).

Additionally, several earlier studies on investment decisions have been widely discussed in relation of the cash flow and investment level to analyse the problems of over and under-investment (Fazzari. et al. 1988; Hubbard 1998; Kaplan & Zingales 1997), the over-investment occurs when firms have excess internal funds (Jensen 1986), the issue arise for Indonesian listed firm, which is investment has negative effect on firm performance but insignificant (Bambang Sudiyatno et al. 2012). Another issue is the global financial crisis impacted the economic and manufacturing firms turn to lower investment and capital market confidence plunged significantly (Djaja 2009).

Regarding financing decision, the issues occur when companies assess their financial needs, their borrowing capacity and their ability to generate shareholder returns and maximize the firm value. Therefore, financing decision and policy to raise financial resources are among very important considerations. The consequence of higher leverage, firm may suffer agency cost and bankruptcy. Therefore, financial leverage and firm performance has negative relationship (Jensen & Meckling 1976; Myers 1977). However, some researchers dispute that financial leverage and firm performance has positive relation because debt financing implies a commitment on managers to payout more cash, and may discipline managers by restricting the amount of free cash flow under their control (Jensen 1986). However, the level of leverage is higher for Indonesia firms, in which the debt to equity ratio (DER) was 56 percent by sector (Hardiyanto et al. 2014).

Lastly, dividend policy issue of firm performance, in which dividend itself having implicit private information and is a signaling device to influence stock price (Bhattacharya 1979; John & Williams 1985; Miller & Rock 1985). Thus, when a firm announces an increasing dividend, it is a sign of good news in the capital market with positive reaction of share price. Therefore, only good performance firms can send signals to the market using dividends. However, dividend policy appears to have a matter in firm behavior, in this case, the issue of why the firm should pay dividends or hold dividend payout is still unresolved. This is due to the fact that many listed companies in Indonesia do not pay dividends regularly. One explanation is that the firm is deferring dividend payments because the firm needs more funds to finance its investment specifically during the financial crisis. In Indonesia, the propensity of the firm pay dividend has decline over time and dividend life-cycle explains well the dividend policy (Leo Indra Wardhana et al. 2014). Therefore, this study proposes to investigate the impact of investment, leverage and dividend per share on firm performance. Investment in stock market have been studied by Ahmar, Rahman, Arifin, & Ahmar (2017) and

This study apply the dynamic panel Generalized Method of Moment (GMM) estimator to respond the endogeneity issue in corporate finance behavior, which is the dynamic panel GMM estimator more advanced estimators rather than the static model estimation (OLS, fixed effect and random effect model) provide biased estimates, due to the presence of the lagged dependent variable, and it can be used to control for the dynamic nature of relationship between firm performance and financial decision behavior while accounting for other sources of endogeneity in corporate finance research (Wintoki et al. 2012). Therefore, to providing additional evidence on the impact of financial decision on firm performance, the present study contributes to the existing literature by providing economic justification for use of dynamic panel GMM estimation for both accounting and market performance. The rest of this paper is organized as follows. In

section 2 reviews the literature and hypotheses are developed. Section 3 and 4 describes the methodology and empirical results, respectively whereas section 5 concludes.

2. LITERATURE REVIEW

2.1 Investment and Firm Performance

The relationship between investment and firm performance has been examined by several prominent researchers from underpinning theories of investment (Fama 1978; Modigliani & Miller 1958; Tobin 1969). The Tobin's q become a central theoretical model of investment and provides an empirical framework for analyzing individual firm's financial decisions. It is also a popular proxy for the unobservable investment opportunities based on market value. According to Fama and Miller (1972) proposed that the market value of a firm is the discounted value of expected future cash flows from all its investment in the present and future; i.e., an increase in capital expenditure will have a positive impact on a firm's market performance. For instant some studies found a positive relationship between firm performance and investment (Grazzi et al. 2011; Riachi & Schwiendbacher 2015). However, others studies indicated a significant and negative relationship between investment and firm performance (Bambang Sudiyatno & Elen Puspitasari 2010). Similarly, studies by Ruzita et al. (2010) found that investment has insignificant impact on firm performance. Although there is a limited number of a study in the relationship between firm performance and investment, there is some literature on such relationship on other factors (Loof & Heshmati 2008). Then, Del Brio et al. (2003), examined the relationship between investment and firm value using panel data, the interestingly, results show that the positive or negative market reactions to investment (divestment) announcement persist over time. This implies that the increase in firm value is greater for the firm with valuable investment opportunities and when firms divesting is a sign of decrease in value for the firms with valuable investment opportunities.

2.2 Leverage and Firm Performance

A number of researchers conducted empirical work to show the changes in level of debt that have impact on the total market value of the firm. So that, the firm value reflects a valuation by shareholders, including the value perquisites consumed by manager as the agent of shareholders (Jensen & Meckling 1976). However, the trade-off theory stated that when the firm has a higher profitability rate, the expected cost of distress would decrease, and the firms will prefer to use debt financing because of their raised leverage, even if it increases the risk of bankruptcy and financial distress (Scott 1977). The pecking order theory explained the firms are more likely to use the internal funds and prefer debt to equity when external financing is needed, then therefore, the pecking order theory concluded that issuing debt is not for companies with more funds and liquid (Myers & Majluf 1984). The relationship between capital structure and firm performance has been investigated by many researchers with mixed results. For instance, some studies found a positive relationship between financial leverage and firm performance (Abu-Rub 2012; Bassey & Inah 2012; San & Heng 2011; Zeitun & G.Tian 2007). However, other studies indicated a significant and negative relationship between firm performance and financial leverage (Onaolapo & Kajola 2010; Saeedi & Mahmoodi 2011; Vithessonthi & Tongurai 2015; Zeitun & Saleh 2015). Others recent evidence examined by Olokoyo (2013) found that TDTA significantly has positive and significant effect on Tobin's Q , but ROA is negative significant. Shahzad et al. (2015), examined the impact of financial leverage on firm performance and found that leverage has negative and significant effect on ROA, whereas SDTA has positive effect on Tobin's Q .

2.3 Dividend Policy and Firm Performance

The relationship between dividend policy and firm performance has received a lot of attention in past studies. Various theories have been proposed by academicians on the principles of dividend policies that have been described as either irrelevant or relevant theory in making financial decision (Deangelo et al. 2006; Miller & Modigliani 1961; Stulz 2000). Miller and Modigliani (1961) stated that dividend policy is irrelevant for the cost of capital, and that the value of the firm is determined by its earning power and risk. The agency theory explained about dividend payment increases firm value (Easterbrook 1984), He argued that dividend payments may act as one form of bonding cost. The transaction cost theory implies that dividend payment reduces in value because they lead to rising external financial costs. Moreover, firms with insufficient cash flow have greater dependency on external finance, and should maximize shareholders wealth by accepting lower payout policies (Rozeff 1982). The empirical evidence proposed that firms with a higher free cash flow should pay more dividends to decrease agency cost (Holder et al. 1998; Mollah et al. 2002). In addition, relating to dividend payment the firms paying dividend are significantly having greater cash flows (Berk 2006). The relationship between dividend policy and firm performance have been addressed (Amidu 2007; Charles et al. 2014; Murekefu & Ouma 2012; Uwuigbe et al. 2012) found that dividend policy has positive relation on firm performance. Moreover, Velnampy et al. (2014) show the opposite results with others, in which dividend payout and firm performance has negative and significant relationship.

3. METHODOLOGY

To investigate the impact of financial decision behavior on firm performance, this study uses yearly of 212 non-financial listed firms for the period from 2003 to 2013. The data are gathered from the annual report of companies includes book value of total assets and total debt, net income, market value of equity, dividend per share and others financial data uses in this study also corporate board structure. The data are retrieved from the latest version 2.1 of Datastream and annual report of companies. Therefore, this study has annual observation of over than 11 years period per company, producing a balanced panel data of 2332 unit observations for data analysis.

This study used numerical variables to measures dependent and independent variables. Firm performance defined as a bivariate dependent variable by two measurements, namely accounting-base performance and market-based performance (ROA and TOBINS_Q). ROA is defined as the ratio of net profit divided by total assets. TOBINS_Q is the ratio of market value of equity plus book value of the total debt divided by the book value of total assets each firm and years (Fauzias et al. 2011; Velnampy et al. 2014; Zeitun & Saleh 2015). The independent variables of financial decision behavior are investment, capital structure and dividend policy. Investment is presented as the exponential growth rate of total asset of the firm i , at the time t , calculated as log natural of total asset at the time/year t divided by total assets at previous year ($t-1$) (Norazlan Alias et al. ; Ruzita et al. 2010). Capital structure is a combination of debt and equity and the level of it debt is referred to as leverage ratio. This study defined leverage as the ratio of total debt to total asset (Saeedi & Mahmoodi 2011; Zeitun & Saleh 2015). Meanwhile, the dividend per share (DPS) was used to measure dividend policy in this study. Dividend per share is the total amount of dividends paid to the total of share outstanding (Charles et al. 2014; Velnampy et al. 2014).

Furthermore, the free cash flow (FCF), board size (B_SIZE), board independent commissioners (B_ICOM) and sales are uses as control variables. The FCF is the ratio of the total of (EBIT and depreciation) mines the total of (interest, tax and dividend) divided by book value of total asset (Norazlan Alias et al. ; Ruzita et al. 2010; Wang 2010). Corporate governance

measured by board size and board of commissioners independent. Board size (B_SIZE) is total number of directors have been employed by (Guo & Kga 2012; Shahzad et al. 2015; Wintoki et al. 2012; Zeitun 2014) and BOC Independent (B_ICOM) is measured by calculating the proportion of independent commissioners with respect to the total commissaries as measured by (Magdalena 2012; Romlah Jaffar et al. 2013; Zabri et al. 2016). Meanwhile, firm size is the natural logarithms of the total sales (Margaritis & Psillaki 2010; Norazlan Alias et al. 2016; Wang 2010).

In order to discover relationship between independent and dependent variable, the dynamic GMM estimator is utilized in this study. The first lagged of firm performance are likely to be endogenous or highly correlated with the dependent variables, so that they are correlated with the error term. Therefore, the OLS or static model estimation method would not be an appropriate method or would be bias for estimating the model parameters. Following the extension of the panel data analysis presented by Baltagi (2008), the multiple regression model applied in this study is the p -th order lagged variable model with the following general equation;

$$Y_{it} = \beta_0 + \sum_{j=1}^p \beta_j \times Y_{i,t-j} + \sum_{k=1}^K \delta_k \times X_{k,it} + u_{it} \quad (1)$$

where the dependent variable is each of the variables firm performance (ROA and TOBINS_Q), and the independent variables are all defined determinant variables. So we have the following two general equations, for $t > p$, where the integer p will be selected so that the lagged variables models fit the data. The empirical equation as follows:

$$ROA_{it} = \beta_0 + \beta_1 ROA(-1) + \dots + \beta_p ROA(-p) + \delta_1 INV_{it} + \delta_2 LEV_{it} + \delta_3 DPS_{it} + \delta_4 FCF_{it} + \delta_5 B_SIZE_{it} + \delta_6 B_ICOM_{it} + \delta_6 F_SIZE + \varepsilon_{it} \quad (2)$$

$$TOBINS_Q_{it} = \beta_0 + \beta_1 TOBINS_Q(-1) + \dots + \beta_p TOBINS_Q(-p) + \delta_1 INV_{it} + \delta_2 LEV_{it} + \delta_3 DPS_{it} + \delta_4 FCF_{it} + \delta_5 B_SIZE_{it} + \delta_6 B_ICOM_{it} + \delta_6 F_SIZE_{it} + \varepsilon_{it} \quad (3)$$

Furthermore, note that the regression of dynamic panel model in equation (2 and 3) in fact is an additive model of Y , and a single numerical determinant, such as $Y(-1)$ INV, LEV, DPS and FCF, B_SIZE, B_ICOM, F_SIZE as control variables.

4. DISCUSSION OF RESULTS

The summary of descriptive statistical analysis of the variables used in this research is based on the final sample of 212 companies. The descriptive indicators' result is presented in Table 5.1, the results shows that the mean of firm performance for both ROA and TOBINS_Q are 3.8 percent and 101 percent respectively. TOBINS_Q has greater standard deviation of 62.7 percent compared to ROA with a standard deviation of 12.7 percent. This value indicates that the data of return on assets (ROA) has the lowest fluctuation for each company compared to others. TOBINS_Q has the highest fluctuation compared to financial decision variables. On average, the investment is about 9 percent with standard deviation is 23.59 percent. Leverage has average is about 27.52 percent with standard deviation 20.79 percent and dividend per share (DPS) has average about 968 rupiah and with standard deviation 3.254.

Table 1 Descriptive statistic of the numerical research variables

	Mean	Median	Maximum	Minimum	Std. Dev.	Observation
ROA	0.0379	0.0313	0.9917	-0.9866	0.1270	2332
TOBIN_Q	1.0147	0.8275	3.2280	0.1012	0.6268	2332
INV	0.0893	0.0817	1.3715	-2.0067	0.2359	2332
LEV	0.2752	0.2438	0.9867	0.0002	0.2079	2332
DPS	0.0968	0.0000	5.6823	0.0000	0.3254	2332
FCF	0.0712	0.0650	1.9703	-1.7842	0.1823	2332
B_SIZE	4.3568	4.0000	13.0000	1.0000	1.8716	2332
B_ICOM	0.3027	0.3300	0.5000	0.2000	0.6722	2332
F_SIZE	20.6137	20.7748	25.9905	0.0000	2.3516	2332

Table 2 present the correlation between firm performance (ROA and TOBINS_Q) and the financial decision (INV, LEV and DPS) and other variables (B_SIZE, B_ICOM and F_SIZE). In Table 5.2 shows that accounting performance reported to be positive correlation with the investment, dividend per share, free cash flow, board size and firm size but negatively correlated with leverage. Moreover, TOBINS_Q are reported to be positive correlated with dividend per share, free cash flow, board size and firm size but investment, leverage and independent commissioner's shows insignificant correlation.

Table 2: The correlation signs of independent variables with firm performance

Independent Variables	ROA	TOBINS_Q
INV	+	+/ins
LEV	-	+/ins
DPS	+	+
FCF	+	+
B_SIZE	+	+
B_ICOM	+/ins	+/ins
F_SIZE	+	+

The finding of dynamic GMM-Difference models of the impact of financial decision and control variable on firm performance are reported in table 3. There are four diagnostic test should be addressed in this study to evaluated the most appropriate estimations in dynamic GMM estimation, namely: First and Second order autocorrelation of residuals (AR(1) & AR(2)), Hansen test (*J*-statistic) of over-identifying restriction and Wald test. The results of the specification test show that the Hansen *J*-statistic of over-identifying restriction of the two models has the *p*-values of 0.1519 and 0.054 respectively. So that it can be concluded that both model has a valid instruments or over-identifying restriction are satisfied and appropriate model of ROA and TOBINS_Q, this mean the instruments used in the GMM-Difference models are not correlated with the residuals. The result of the Wald test, which is a test of joint significance, show that all coefficient are jointly equal to zero (H_0). Moreover, the Arellano-Bond test suggested that the residual were not affect by the second-order serial autocorrelation for both models, it is shows the *p*-values of AR(2) are 0.7666 and 0.0485 respectively. This means that we accept the null hypothesis of no second order autocorrelation.

Table 3: Estimation result based on GMM-Difference for equation (1.1) and (1.2)

Independent Variables	ROA	TOBINS_Q
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	2 nd -Lag	1 st -Lag
ROA(-1)	0.1309 (6.800)***	
ROA(-2)	0.0214 (1.500)**	
TOBINS_Q(-1)		0.3050 (9.096)***
INV	-0.0228 (-2.965)***	-0.1694 (-4.998)***
LEV	-0.0509 (-3.585)***	0.4087 (5.235)***
DPS	0.0448 (3.627)***	0.1871 (4.446)***
FCF	0.4872 (15.737)***	-0.0186 -0.4720
B_SIZE	0.0004 0.7793	0.0106 0.8902
B_ICOM	0.0021 0.8612	0.1967 2.113)**
F_SIZE	0.0020 (0.096)*	0.0010 0.2566
Wald F-test	(116.42)***	(33.68)***
Arellano-Bond test:		
AR(1) (p-value)	0.0000	0.0000
AR(2) (p-value)	0.7367	0.0485
Hansen test (p-value)	0.1519	0.0545
Number of instrument	51	61
Observation	1696	1908

Notes: Robust standard error in parentheses *, **, *** Significant at 10, 5, 1 percent level, except *p*-value for Hansen test and Arellano-Bond test.

The results in Table 3 show that each of the lagged dependent variables ROA(-1) and ROA(-2) and TOBINS_Q (-1) is positive and significantly impact the current accounting and market performance (ROA & TOBINS_Q). This indicates that the dynamic modeling is a right specification for firm performance. The positive and significant lagged firm performance proposes that the data support the lagged effect, and firm performance is dynamic in nature. This implies that firms produced higher return on asset and firm management has the ability to use its assets efficiently and effectively to generate firm profit in previous year. Similarly, the market performance last year provides information to investors of market value of equity to investors, and encourages them to invest in the company. This study is consistent with the earlier study presented by Zeitun and Saleh (2015).

Investment has negative and significant impact on firm performance, suggest that Indonesian public companies with higher percentage of investment have lower firm performance (ROA and TOBINS_Q). The result contradicts the theoretical prediction that investment has a positive impact on firm performance. Additionally, based on the theoretical concept of investment, it suggests that when firms have higher investment or increase growth rate of total assets, it would lead firms to increase firm profitability, in which they would use their assets optimally and take only safe investment. However, in this case, this result indicates that increased investment leads to decreased accounting performance, and this implies a symptom of over-investment problem. This finding is in line with earlier studies (Bambang Sudiyatno & Elen

Puspitasari 2010; Ruzita et al. 2010), who revealed that investment has negative effect on firm performance but insignificant.

Leverage has negative and significant effects on ROA but positive and significantly affects TOBINS_Q. The negative relationship between leverage and ROA suggests that companies with a higher leverage leads to a lower ROA. This implies that firm has over-leverage which in turn affects their performance negatively. This finding supports the theoretical prediction that leverage has negative effect on firm performance. Therefore, profitable firm prefer on internal financing rather than external fund to finance their investment (Myers & Majluf 1984). This findings are consistent with the past studies such as (Shahzad et al. 2015; Vithessonthi & Tongurai 2015; Zeitun & Saleh 2015; Abu-Rub 2012; Olokoyo 2013; Ruzita et al. 2010) among others, so that this finding supported by pecking order theory. Moreover, DPS has positive and significant impact on firm performance (ROA and TOBINS_Q) of Indonesian public companies. The data support the hypothesis that dividend per share has positive effects on firm performance. This positive relationship indicates that the higher firm performance encourage firms to payout dividends to its shareholders. Nevertheless, firm with higher free cash flow should pay more dividends to the reduced agency cost as one possible solution to solve it problem of collective actions that tend to lead to under-monitoring of the firm and its management (Easterbrook 1984; Holder et al. 1998; Mollah et al. 2002). This finding is in line with earlier studies (Jensen, 1986; Imran, 2011; Ruzita et al., 2010).

In addition, free cash flow have positive and significantly on ROA but it was insignificant on TOBINS_Q. The positive relations suggested that firm with higher free cash flow lead to increase accounting firm performance specifically for large and profitable firms, in which the firm more stable net earnings as well as firm has ability to pay large dividends to shareholders. With respect to corporate governance structure measured by Board Size (B_SIZE) and Board Independent Commissioners (B_ICOM) have positive effect on ROA but insignificant. However, B_ICOM has positive and significant impact on market performance (TOBINS_Q), this implies that the positive role of independent commissioners is also consistent with theoretical prediction. Since corporate governance of Indonesia firms adopted dual board system (BOD and BOC), so that the ratio of independent commissioners has positive sign to market performance, higher number of independent commissioner leads to increase market performance. Firm size has positive and significant relationship on ROA. The positive relation suggested that higher firm size leads to increase market performance.

5. CONCLUSION

This study investigates the effect of financial decision behavior on firm performance of 212 Indonesian listed companies using dynamic panel GMM estimation method during the period 2003-2013. The results based on the GMM-difference estimation find that firm performance is dynamic in nature, indicating that the lagged firm performance is significant. This implies that the previous year's firm performance affects the current year performance. The findings of financial decision behavior indicates that financial decision behavior of Indonesian public companies seems to be important factors in determining firm performance, where the investment, capital structure and dividend policy affect financial firm performance significantly. The negative coefficient of investment suggests that the findings are consistent with the theoretical intuition of over-investment, in which managers over-invest lead to decrease firm performance. Similarly to financing decision, Indonesian firms was over-leverage, indicates that the negative impact of leverage on ROA due to agency problem between manager and shareholders, thus leads to the decrease firm performance. However, the interesting finding reveals that leverage is positive and significant on market performance (TOBINS_Q). It indicates that debt improves the Indonesian market performance which may not reflect on their

profitability. Moreover, the positive relation between DPS and TOBINS_Q shows that firm payout dividends to shareholders create good signal to the market, which is manager's uses dividend to express their private information about firm prospect of the future earning to the market.

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FINANCIAL ECONOMICS | RESEARCH ARTICLE

Dynamic performance of Indonesian public companies: An analysis of financial decision behavior

Darmawati Muchtar¹, Fauzias Mat Nor², Wahyuddin Albra¹, Muhammad Arifai³ and Ansari Saleh Ahmar^{4*}

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Abstract: The purpose of this research is to investigate the effects of financial decision behavior on firm performance of Indonesian public companies using panel data. The dynamic generalized method of moment is utilized in this study. The results show that firm performance is dynamic in nature, which indicates that last year performance affects current performance significantly. Empirical result of financial decision behavior shows that investment, leverage, and dividend per share (DPS) have significant impact on firm performance. Specifically, investment has negative impact on firm performance. Meanwhile leverage has negative effects on ROA, but positively affects Tobin's Q. Moreover, DPS positively affects ROA and Tobin's Q. This finding suggests that investment decision of Indonesian firms is overinvestment, indicated with higher investment affects firm performance negatively. Similarly with leverage, the finding reveals that Indonesian public companies borrowed external fund more than they required (overleverage). The positive effect of DPS on firm performance implies that dividends payout to shareholders create

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PUBLIC INTEREST STATEMENT

Firm management has an important role to increase firm profitability and maximize shareholders' wealth. Hence, managers should act on behalf of shareholders' interest to enhance firm performance. Generally, the financial performance measures are categorized into the accounting-based and the market-based measures. Firm performance is determined by various factors, of which that the internal and external factors play an important role in determining firm performance. Thus, financial decision behavior; such as investment, financing decision, and dividend policy becomes important role for managers in allocating fund resources. Firms with higher internal fund tend to overinvest in unprofitable investment instead of paying dividend to shareholders. The results of this research show that firm performance is dynamic in nature, indicates that last year performance has impact on current performance. Investment, leverage, and dividend policy become important factors that determine firm performance. However, the impacts are more on the market

good signal to the market, in which managers uses dividend to deliver private information to the market. However, based on the coefficient of financial decision variables, the impact is more on the market performance and less on the accounting performance. 25

Subjects: Financial Mathematics; Corporate Finance; Investment & Securities

Keywords: Financial decision; dynamic performance; GMM-difference

1. Introduction

This study deals with an important issue in corporate finance, in which we investigate the dynamic firm performance and financial decision behavior. Even though most of prior studies of firm performance and financial decision have been done, but still interesting to be analyzed and discussed, in fact that a firm periodically makes three major important financial policies that determine the value of firm. Firm performance is associated with the concepts of productivity, efficiency, and effectiveness of corporate management in utilizing resources optimally (Tan & Wang, 2010). These concepts correlated to the size of the firm: A small firm is more efficient than a large firm due to the former's absence of agency problems, flexibility, and nonhierarchical structure (Halkos & Tzeremes, 2007). Past studies proposed that Indonesia firms had good market performance, which recoded the average of Tobin's Q was valued at 1.13% for period 2009 to 2013 (Nikolaus, 2015), and the profitability (ROA) of manufacturing firm was valued at 12.69% (Bambang Sudiyatno, Puspitasari, & Kartika, 2012). Hence, financial decision policy plays an important role to enhance firm performance. 30 35 AQ5

The value of firm is determined by investment decision (Fama, 1978), although in perfect capital market investment decision is independent of the financial structure. This is because external funds serve as a perfect replacement for internal capital (Modigliani & Miller, 1958). In contrast, empirical research shows that internal and external capitals do not perfectly substitute each other in the short run, meaning that investment should be dependent on financial factors, so that both investment and financing decisions are interdependent in imperfect capital market, and the debt financing influences value of the firms (Modigliani & Miller, 1963). Additionally, several earlier studies on investment decisions have been widely discussed in relation of the cash flow and investment level to analyze the problems of over- and underinvestment (Fazzari, Hubbard, & Petersen, 1988; Hubbard, 1998; Kaplan & Zingales, 1997), the overinvestment occurs when firms have excess internal funds (Jensen, 1986). Empirical studies of Indonesian firms found that investment has negative effect on firm performance but not significant (Bambang Sudiyatno et al., 2012). Another issue is the global financial crisis impacted the economic and manufacturing firms turn to lower investment and capital market confidence plunged significantly (Djaja, 2009). 45 50 55

Regarding financing decision, the issues occur when companies assess their financial needs, their borrowing capacity and their ability to generate shareholder returns and maximize the firm value. Therefore, financing decision and policy to raise financial resources are among very important considerations. The consequence of higher leverage, firm may suffer agency cost and bankruptcy. Therefore, financial leverage and firm performance have negative relationship (Jensen & Meckling, 1976; Myers, 1977). However, some researchers argue that financial leverage and firm performance have positive relation because debt financing implies a commitment on managers to payout more cash, and discipline managers by restricting the amount of free cash flow (FCF) under their control (Jensen, 1986). In Indonesia, the level of leverage is highest for the period 2005-2011, which shows the average debt-to-equity ratio has valued at 57% in various industry sector (Hardiyanto, Achسانی, Sembel, & Maulana, 2014). 60 65

Lastly, dividend policy issue of firm performance, in which dividend itself having implicit private information and is a signaling device to influence stock price (Bhattacharya, 1979; John & Williams,

1985; Miller & Rock, 1985). Thus, when a firm announces an increasing dividend, it is a sign of good news in the capital market with positive reaction of share price. Therefore, only good performance firms can send signals to the market using dividends. However, dividend policy appears to have a matter in firm behavior, in this case, the issue of why the firm should pay dividends or hold dividend payout is still unresolved. This is due to the fact that many listed companies in Indonesia do not pay dividends regularly. One explanation is that the firm is deferring dividend payments because the firm needs more funds to finance its investment specifically during the financial crisis. In Indonesia, the propensity of the firm to pay dividend has decline over time and dividend life cycle explains well the dividend policy (Leo Indra Wardhana, Tandellilin, Wayan Nuka Lantara, & Junarsin, 2014).

Accordingly, we argue corporate financial decision as important factors affect firm performance. Although most studies have been conducted in many perspectives, phenomena and empirical evidence, such as studies of corporate finance behavior, equity, leverage, total market share, investment ratio, growth, profitability, size, and corporate governance (Babatunde & Olaniran, 2009; Burca & Batrinca, 2014; Fauzias Mat Nor, Azlan, & Hasimi, 2011; Liow, 2010; Mirza & Javed, 2013; Nikolaus, 2015). These findings provided the mixed results and still inconclusive, possibly because they used different measurements, time dimension, and firm effect. Therefore, this study aims to close the gap in the existing literature by analysis the issue of corporate financial decision behavior and firm performance. Hence, this study proposes to investigate the impact of investment, leverage, and dividend per share (DPS) on firm performance.

This study apply the dynamic panel model uses generalized method of moment (GMM)-first difference estimator for the advanced statistical analysis to overcome the endogeneity issue in corporate finance. The first lagged of firm performance are likely to be endogenous or highly correlated with the dependent variables, so that they are correlated with the error term. Therefore, the ordinary least square (OLS) or static panel model estimation method (fixed effect model and random effect model) would not be an appropriate method or would be bias for estimating the model parameters. Thus, it can be used to control for the dynamic nature of relationship between firm performance and financial decision behavior while accounting for other sources of endogeneity in corporate finance research (Wintoki, Linck, & Netter, 2012).

Therefore, to provide additional evidence on the impact of financial decision on firm performance, the present study contributes to the existing literature by providing economic justification for use of dynamic panel GMM estimation for both accounting and market performance. The rest of this paper is organized as follows. Section 2 reviews the literature and hypotheses are developed. Sections 3 and 4 describe the methodology and empirical results, respectively whereas Section 5 concludes.

2. Literature review

2.1. Investment and firm performance

The relationship between investment and firm performance has been examined by several prominent researchers from underpinning theories of investment (Fama, 1978; Modigliani & Miller, 1958; Tobin, 1969). The Tobin's Q becomes a central theoretical model of investment and provides an empirical framework for analyzing individual firm's financial decisions. It is also a popular proxy for the unobservable investment opportunities based on market value. Fama and Miller (1972) proposed that the market value of a firm is the discounted value of expected future cash flows from all its investment in the present and future; that is, an increase in capital expenditure will have a positive impact on a firm's market performance. Earlier on, Del Brio, De Miguel, and Pindado (2003) study on investment and firm value, the result suggests that the positive or negative market reactions to investment (divestment) announcement persist over time. This implies that the increase in firm value is greater for the firm with valuable investment opportunities and when firms divesting is a sign of decrease in value for the firms with valuable investment opportunities.

However, Investment in stock market has been studied by Ahmar et al. (2017) the results found that Sutte indicators are better in predicting stock price movement. AQ10

According to overinvestment theory, it proposes that firm with higher FCF_t tend to invest in negative NPV project (Jensen, 1986), and it is more serious to occur for rich firm and firm with higher concentrate ownership (Yu & Li, 2011). Previous several empirical studies indicate a significant and negative relationship between investment and firm performance but insignificant (Sudiyatno & Puspitasari, 2010). Similarly Loof and Heshmati (2008), also found negative and insignificant. Moreover, other studies focused on the effect of investment and firm performance with different measurements. For instance several studies found a positive relationship and significant between firm performance and investment (Grazzi, Jacoby, & Treibich, 2011; Kaplan & Zingales, 1997; Riachi & Schwienbacher, 2015), and others also found investment have positive impact on firm performance, but its insignificant (Ruzita, Hasimi, Yaacob, & Fauzias, 2010; Ye & Yuan, 2008). Recently, Hashmi, Mirza, and Us Sehar (2016), investigated the effect of investment measures by the capital expenditure on Tobin's Q, and they found that investment positively affects investment opportunities (Tobin's Q) for the manufacturing sectors of Pakistan companies in 2000-2008. Accordingly, increase in the capital expenditure would lead a positive impact on market performance. Hence, this study posits the following hypotheses: 120 125 130

H1a: There is a positive and significant impact of investment on accounting performance (ROA). 135

H1b: There is a positive and significant impact of investment on market performance (TOBIN'S Q).

2.2. Leverage and firm performance

The studies of the effect of leverage on firm performance has been developed by numerous prominent scholars from a broad range of underpinning theory (Miller, 1977; Modigliani & Miller, 1958, 1963), and three others major theories of financial structure decision (Harris & Raviv, 1991; Jensen & Meckling, 1976; Kraus & Litzenberger, 1973; Myers & Majluf, 1984). Modigliani and Miller (1958) posited that in a perfect capital market, firm value is independent of its capital structure, and implies that the total value of the firm is not affected by ratio of debt. A number of researchers conducted empirical work to show the changes in level of debt that have impact on the total market value of the firm. So that, the firm value reflects a valuation by shareholders, including the value perquisites consumed by manager as the agent of shareholders (Jensen & Meckling, 1976). However, the trade-off theory stated that when the firm has a higher profitability rate, the expected cost of distress would decrease, and the firms will prefer to use debt financing because of their raised leverage, even if it increases the risk of bankruptcy and financial distress (Scott, 1977). The pecking order theory explained the firms are more likely to use the internal funds and prefer debt to equity when external financing is needed, then therefore, the pecking order theory concluded that issuing debt is not for companies with more funds and liquid (Myers & Majluf, 1984). 140 145 150

The relationship between capital structure and firm performance has been investigated by many researchers with mixed results. Earlier empirical studies supported the capital structure theory proposed by Modigliani and Miller (1963), which argued that firm using debt to finance their investment, may increase firm value. Moreover, profitable firm use more debt to solve agency problem between manager and shareholders (Jensen, 1986). Thus, some studies found a positive relationship between financial leverage and firm performance (Abu-Rub, 2012; Bassey & Inah, 2012; San & Heng, 2011; Zeitun & G.Tian, 2007). In contrast, other studies indicated a significant and negative relationship between firm performance and financial leverage (Onaolapo & Kajola, 2010; Saeedi & Mahmoodi, 2011; Vithessonthi & Tongurai, 2015; Zeitun & Saleh, 2015). Furthermore, similarly with studies proposed by Shahzad, Ali, Ahmad, and Ali (2015), found that leverage negatively affect accounting performance (ROA), and short-term debt has positive effect on market performance (Tobin's Q). Therefore, based on the pecking order theory and the trade-off theory, this study posits the following hypotheses: 155 160 165

H2a: There is a negative and significant impact of leverage on accounting performance (ROA).

H2b: There is a positive and significant impact of leverage on market performance (TOBIN'S Q).

2.3. Dividend policy and firm performance

The relationship between dividend policy and firm performance has received a lot of attention in past studies. Various theories have been proposed by academicians on the principles of dividend policies that have been described as either irrelevant or relevant theory in making financial decision (Deangelo, Deangelo, & Stulz, 2006; Miller & Modigliani, 1961; Stulz, 2000). Miller and Modigliani (1961) stated that dividend policy is irrelevant for the cost of capital, and that the value of the firm is determined by its earning power and risk. The agency theory explained about dividend payment increases firm value (Easterbrook, 1984). He argued that dividend payments may act as one form of bonding cost. The transaction cost theory implies that dividend payment reduces in value because they lead to rising external financial costs. Moreover, firms with insufficient cash flow have greater dependency on external finance, and should maximize shareholders wealth by accepting lower payout policies (Rozeff, 1982). The empirical evidence proposed that firms with a higher FCF_u should pay more dividends to decrease agency cost (Holder, Langrehr, & Hexter, 1998; Mollah, Keasey, & Short, 2002). In addition, relating to dividend payment the firms paying dividend are significantly having greater cash flows (Berk, 2006).

The signaling hypothesis is consistent with Lintner (1956), suggests that managers are typically concerned with dividend stability and believe that the market has a good response to a stable dividend policy. Therefore, by paying dividend, the level of dividend changes; thus, the information is released to the market as a good signal and the price volatility reduced, and it influences the share price. The relationship between dividend policy and firm performance have been addressed (Amidu, 2007; Charles, Joseph, & Sang, 2014; Murekefu & Ouma, 2012; Uwuigbe, Jafaru, & Ajayi, 2012) found that dividend policy has positive relation on firm performance. In addition, the value of the signal depends on the level of information asymmetries in the market. In conclusion, it can be argued that information is important to reveal whether the dividend signal should be sent, and its effect on prices as well as on firm value. Thus, this study posits the following hypotheses:

H3a: There is a positive and significant impact of DPS on accounting performance (ROA).

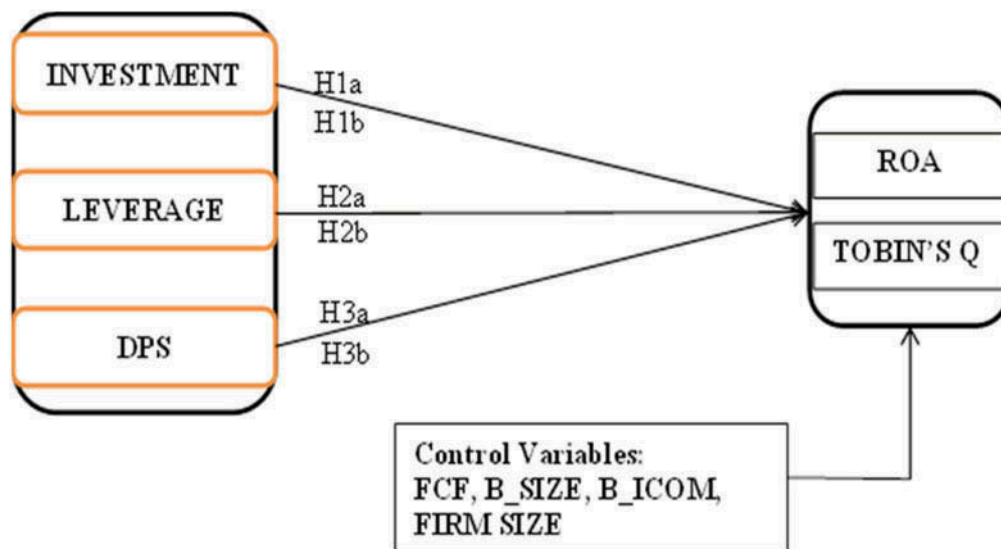
H3b: There is a positive and significant impact of DPS on market performance (TOBIN'S Q).

3. Conceptual framework

This study aims to investigate the impact of financial decision behavior on firm performance of Indonesia public companies. There are three important financial decision that determine firm performance, namely, investment, leverage, and dividend policy. Various theories that support the relationship between financial decision factors (investment, leverage, and dividend policy) have been described in Section 2, such as investment theory, agency theory, pecking order theory, trade-off theory, and signaling theory. Financial performance is an important key indicator for the firm survival and an essential indicator for measuring the overall corporate performance; thus firm performance measurements are commonly classified into the accounting-based and market-based measures (Abu-Rub, 2012; Bhagat & Black, 2002; Fauzias Mat Nor et al., 2011; Khan, Nadeem, Islam, Salman, & Gill, 2016; Suta, 2006). Thus, this study focuses on ROA as the accounting performance and TOBIN'S Q as the market performance.

The conceptual framework of this study develops to linking the independent and dependent variable. Thus, the investment, leverage, and DPS_u uses as independent variables, then FCF_u , board size (B_SIZE), board independent commissioners (B_ICOM) and firm size as control variables. Furthermore, the hypotheses are developed based on the theoretical background and empirical studies discussed in

Figure 1. Research framework.



the literature review. Therefore, this study proposes three sets of the hypotheses towards achieving the research objectives. Based on the theoretical underpinnings, the research framework is derived, indicating the direction of the hypothesized relationships between the main constructs (financial decision and firm performance). The research framework of this study is presented in Figure 1

4. Methodology

To investigate the impact of financial decision behavior on firm performance, this study uses yearly of 212 nonfinancial listed firms for the period from 2003 to 2013. The data are gathered from the annual report of companies include book value of total assets and total debt, net income, market value of equity, DPS_t and other financial data used in this study also corporate board structure. The data are retrieved from the latest version 2.1 of Datastream and annual report of companies. Therefore, this study has annual observation of over than 11 years period per company, producing a balanced panel data of 2332 unit observations for data analysis.

This study used numerical variables to measures dependent and independent variables. Firm performance defined as a bivariate dependent variable by two measurements, namely accounting-base performance and market-based performance (ROA and TOBIN'S Q). ROA is defined as the ratio of net profit divided by total assets. TOBIN'S Q is the ratio of market value of equity plus book value of the total debt divided by the book value of total assets each firm and years (Fauzias Mat Nor et al., 2011; Velnampy, Nimalthasan, & Kalaiarasi, 2014; Zeitun & Saleh, 2015). The independent variables of financial decision behavior are investment, capital structure and dividend policy. Investment is presented as the exponential growth rate of total asset of the firm i , at the time t , calculated as log natural of total asset at the time/year t divided by total assets at previous year ($t-1$) (Norazlan Alias et al.; Ruzita et al., 2010). Capital structure is a combination of debt and equity and the level of it debt is referred to as leverage ratio. This study defined leverage as the ratio of total debt to total asset (Saeedi & Mahmoodi, 2011; Zeitun & Saleh, 2015). Meanwhile, the DPS_t was used to measure dividend policy in this study. DPS_t is the total amount of dividends paid to the total of share outstanding (Charles et al., 2014; Velnampy et al., 2014).

Furthermore, the FCF_t , board size (B_SIZE), board independent commissioners (B_ICOM) and sales are used as control variables. The FCF is the ratio of the total of (EBIT and depreciation) minus the total of (interest, tax, and dividend) divided by book value of total asset (Alias, Rahim, Nor, & Yaacob, 2012; Ruzita et al., 2010; Wang, 2010). Corporate governance measured by board size and

board of commissioners independent. Board size (B_SIZE) is total number of directors have been employed by (Guo & Kga, 2012; Shahzad et al., 2015; Wintoki et al., 2012; Zeitun, 2014) and BOC Independent (B_ICOM) is measured by calculating the proportion of independent commissioners with respect to the total commissaries as measured by (Jaffar, Mardinah, & Ahmad, 2013; Magdalena, 2012; Zabri, Ahmad, & Wah, 2016). Meanwhile, firm size is the natural logarithms of the total sales (Margaritis & Psillaki, 2010; Alias, Yaacob, Rahim, & Nor, 2016; Wang, 2010).

In order to discover relationship between independent and dependent variable, the dynamic GMM estimator is utilized in this study. The first lagged of firm performance are likely to be endogenous or highly correlated with the dependent variables, so that they are correlated with the error term. Therefore, the OLS or static model estimation method would not be an appropriate method or would be bias for estimating the model parameters. Following the extension of the panel data analysis presented by Baltagi (2008), the multiple regression model applied in this study is the p th order lagged variable model with the following general equation;

$$Y_{it} = \beta_0 + \sum_{j=1}^p \beta_j \times Y_{i,t-j} + \sum_{k=1}^K \delta_k \times X_{k,it} + u_{it} \quad (1)$$

where the dependent variable is each of the variables firm performance (ROA and TOBIN'S Q), and the independent variables are all defined determinant variables. So we have the following two general equations, for $t > p$, where the integer p will be selected so that the lagged variables models fit the data. The empirical equation as follows:

$$ROA_{it} = \beta_0 + \beta_1 ROA(-1) + \dots + \beta_p ROA(-p) + \delta_1 INV_{it} + \delta_2 LEV_{it} + \delta_3 DPS_{it} + \delta_4 FCF_{it} + \delta_5 B_SIZE_{it} + \delta_6 B_ICOM_{it} + \delta_7 F_SIZE_{it} + \varepsilon_{it} \quad (2)$$

$$TOBINS_Q_{it} = \beta_0 + \beta_1 TOBINS_Q(-1) + \dots + \beta_p TOBINS_Q(-p) + \delta_1 INV_{it} + \delta_2 LEV_{it} + \delta_3 DPS_{it} + \delta_4 FCF_{it} + \delta_5 B_SIZE_{it} + \delta_6 B_ICOM_{it} + \delta_7 F_SIZE_{it} + \varepsilon_{it} \quad (3)$$

Furthermore, note that the regression of dynamic panel model in Equations (2 and 3) in fact is an additive model of Y , and a single numerical determinant, such as $Y(-1)$ INV, LEV, and DPS as independent variables and FCF B_SIZE, B_ICOM, F_SIZE as control variables.

5. Discussion of results

The summary of descriptive statistical analysis of the variables used in this research is based on the final sample of 212 companies. The descriptive indicators' result is presented in Table 1, the results show that the mean of firm performance for both ROA and TOBIN'S Q are 3.8% and 101%, respectively. TOBIN'S Q has greater standard deviation of 62.7% compared to ROA with a standard deviation of 12.7%. This value indicates that the data of return on assets (ROA) has the lowest fluctuation for each company compared to others. TOBIN'S Q has the highest fluctuation compared to financial decision variables. On average, the investment is about 9% with standard deviation is 23.59%. Leverage has average is about 27.52% with standard deviation 20.79% and DPS has average about 968 rupiah and with standard deviation 3.254.

Table 2 presents the correlation between firm performance (ROA and TOBIN'S Q) and the financial decision (INV, LEV, and DPS) and other variables (B_SIZE, B_ICOM and F_SIZE). In Table 5.2 shows that accounting performance reported to be positive correlation with the investment, DPS, FCF, board size, and firm size but negatively correlated with leverage. Moreover, TOBIN'S Q are reported to be positive correlated with DPS, FCF, board size, and firm size but investment, leverage, and independent commissioner's shows insignificant correlation.

The finding of dynamic GMM-Difference models of the impact of financial decision and control variable on firm performance are reported in Table 3. There are four diagnostic tests that should be addressed in this study to evaluate the most appropriate estimations in dynamic GMM estimation,

Table 1. Descriptive statistic of the numerical research variables

Variables	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	JB	Obs.
ROA	0.0379	0.0313	0.9917	-0.9866	0.1270	-0.5958	16.8420	18,755.3	2332
TOBIN'S Q	1.0147	0.8275	3.2280	0.1012	0.6268	1.2579	4.1694	747,824	2332
INV	0.0893	0.0817	1.3715	-2.0067	0.2359	-0.9570	15.5266	15,602.8	2332
LEV	0.2752	0.2438	0.9867	0.0002	0.2079	0.6930	2.9166	187,348	2332
DPS	0.0968	0.0000	5.6823	0.0000	0.3254	8.5995	110.8409	1,158,759	2332
FCF	0.0712	0.0650	1.9703	-1.7842	0.1823	0.5834	45.6401	176,799	2332
B_SIZE	4.3568	4.0000	13.0000	1.0000	1.8716	1.2604	4.6983	897,646	2332
B_ICOM	0.3027	0.3300	0.5000	0.2000	0.0841	0.6723	3.3780	189,533	2332
F_SIZE	20.6137	20.7748	25.9905	0.0000	2.3516	-3.6946	33.9780	98,549.7	2332

Notes: ROA is Return on asset, TOBIN'S Q is market value of equity plus book value of total debt over book value of total assets, LEV is leverage, DPS is dividend per share, FCF is free cash flow, B_SIZE is board size, B_ICOM is board independent commissioners and F_SIZE is firm size.

Table 2. The correlation signs of independent variables with firm performance

Independent variables	ROA	TOBIN'S Q
INV	+	+/ins
LEV	-	+/ins
DPS	+	+
FCF	+	+
B_SIZE	+	+
B_ICOM	+/ins	+/ins
F_SIZE	+	+

Notes: The sign ± is positive or negative significant, ins is insignificant, ROA is Return on Asset, INV is investment measured by natural logarithm of growth total assets, LEV is leverage measured by total debt to total assets, DPS is dividend per share, FCF is free cash flow, B_SIZE is board size, B_ICOM is board of independent commissioners and F_SIZE is firm size.

Table 3. Estimation result based on GMM-Difference for Equations (1.1) and (1.2).

Independent variables	ROA	TOBIN'S Q
	Second-Lag	First-Lag
ROA(-1)	0.1309 (6.800)***	
ROA(-2)	0.0214 (1.500)**	
TOBIN'S Q(-1)		0.3050 (9.096)***
INV	-0.0228 (-2.965)***	-0.1694 (-4.998)***
LEV	-0.0509 (-3.585)***	0.4087 (5.235)***
DPS	0.0448 (3.627)***	0.1871 (4.446)***
FCF	0.4872 (15.737)***	-0.0186 -0.4720
B_SIZE	0.0004 0.7793	0.0106 0.8902
B_ICOM	0.0021 0.8612	0.1967 2.113)**
F_SIZE	0.0020 (0.096)*	0.0010 0.2566
Wald F-test	(116.42)***	(33.68)***
Arellano-Bond test:		
AR(1) (p value)	0.0000	0.0000
AR(2) (p value)	0.7367	0.0485
Hansen test (p value)	0.1519	0.0545
Number of instrument	51	61
Observation	1696	1908

Notes: Robust standard error in parentheses *, **, *** significant at 10%, 5%, and 1% level, except p value for Hansen test and Arellano-Bond test.

namely: **first-** and **second-**order autocorrelation of residuals (AR(1) and AR(2)), Hansen test (*J*-statistic) of overidentifying restriction and Wald test. The results of the specification test show that the Hansen *J*-statistic of overidentifying restriction of the two models has the *p* values of 0.1519 and 0.054 respectively. So that it can be concluded that both model has a valid instruments or overidentifying restriction are satisfied and appropriate model of ROA and TOBINS_Q, this mean the instruments used in the GMM-Difference models are not correlated with the residuals. 285

The result of the Wald test, which is a test of joint significance, show that all coefficient are jointly equal to zero (H_0). Moreover, the Arellano-Bond test suggested that the residual were not affected by the second-order serial autocorrelation for both models, it shows the *p* values of AR(2) are 0.7666 and 0.0485, respectively. This means that we accept the null hypothesis of no **second-**order autocorrelation. 290

The results in Table 3 show that each of the **lagged-**dependent variables ROA(-1) and ROA(-2) and TOBINS_Q (-1) is positive and significantly impact the current accounting and market performance (ROA and TOBINS_Q). This indicates that the dynamic modeling is a right specification for firm performance. The positive and significant lagged firm performance proposes that the data support the lagged effect, and firm performance is dynamic in nature. This implies that firms produced higher return on asset and firm management has the ability to use its assets efficiently and effectively to generate firm profit in previous year. Similarly, the market performance last year provides information to investors of market value of equity to investors, and encourages them to invest in the company. This study is consistent with the earlier study presented by (Zeitun & Saleh, 2015). 295 300

Investment has negative and significant impact on firm performance, suggest that Indonesian public companies with higher percentage of investment have lower firm performance (ROA and TOBINS_Q). The result contradicts the theoretical prediction that investment has a positive impact on firm performance. Additionally, based on the theoretical concept of investment, it suggests that when firms have higher investment or increase growth rate of total assets, it would lead firms to increase firm profitability, in which they would use their assets optimally and take only safe investment. However, in this case, this result indicates that increased investment leads to decreased accounting performance, and this implies a symptom of overinvestment problem. This finding is in line with earlier studies (Ruzita et al., 2010; Sudiyatno & Puspitasari, 2010), who revealed that investment has negative effect on firm performance but insignificant. 305 310

Leverage has negative and significant effects on ROA but positive and significantly affects TOBINS_Q. The negative relationship between leverage and ROA suggests that companies with a higher leverage leads to a lower ROA. This implies that firm has over**leverage, which** in turn affects their performance negatively. This finding supports the theoretical prediction that leverage has negative effect on firm performance. Therefore, profitable firm prefer on internal financing rather than external fund to finance their investment (Myers & Majluf, 1984). This findings are consistent with the past studies such as (Abu-Rub, 2012; Olokoyo, 2013; Ruzita et al., 2010; Shahzad et al., 2015; Vithessonthi & Tongurai, 2015; Zeitun & Saleh, 2015) among others, so that this finding supported by pecking order theory. 315 AQ14

Moreover, dividend policy (DPS) has positive and significant impact on firm performance (ROA and TOBINS_Q) of Indonesian public companies. The data support the hypothesis that **DPS** has positive effects on firm performance. This positive relationship indicates that the higher firm performance encourage firms to payout dividends to its shareholders. Nevertheless, firm with higher **FCF** should pay more dividends to the reduced agency cost as one possible solution to solve it problem of collective actions that tend to lead to undermonitoring of the firm and its management (Easterbrook, 1984; Holder et al., 1998; Mollah et al., 2002). This finding is in line with earlier studies (Imran, 2011; Jensen, 1986; Ruzita et al., 2010). 325 AQ15

In addition, FCF_t has positive and significant effect on ROA but it was insignificant effect on TOBINS_Q. The positive relations suggested that firm with higher FCF_t lead to increase accounting firm performance specifically for large and profitable firms, in which the firm more stable net earnings as well as firm has ability to pay large dividends to shareholders. With respect to corporate governance structure measured by Board Size (B_SIZE) and Board Independent Commissioners (B_ICOM) have positive effect on ROA but insignificant. However, B_ICOM has positive and significant impact on market performance (TOBINS_Q); this implies that the positive role of independent commissioners is also consistent with theoretical prediction. Since corporate governance of Indonesia firms adopted dual board system (BOD and BOC), so that the ratio of independent commissioners has positive sign to market performance, higher number of independent commissioner leads to increase market performance. Firm size has positive and significant relationship on ROA. The positive relation suggested that higher firm size leads to increase market performance. 335 340

6. Conclusion

This study investigates the effect of financial decision behavior on firm performance of 212 Indonesian listed companies using dynamic panel GMM estimation method during the period 2003–2013. The results based on the GMM-difference estimation find that firm performance is dynamic in nature, indicating that the lagged firm performance is significant. This implies that the previous year's firm performance affects the current year performance. The findings of financial decision behavior indicate that financial decision behavior of Indonesian public companies seems to be important factors in determining firm performance, where the investment, capital structure and dividend policy affect financial firm performance significantly. The negative coefficient of investment suggests that the findings are consistent with the theoretical intuition of over-investment, in which managers overinvest lead to decrease firm performance. Similarly to financing decision, Indonesian firms was overleverage, indicates that the negative impact of leverage on ROA due to agency problem between manager and shareholders, thus leads to the decrease firm performance. However, the interesting finding reveals that leverage is positive and significant on market performance (TOBINS_Q). It indicates that debt improves the Indonesian market performance, which may not reflect on their profitability. Moreover, the positive relation between DPS and TOBINS_Q shows that firm payout dividends to shareholders create good signal to the market, which is manager's uses dividend to express their private information about firm prospect of the future earning to the market. In term of theoretical explanation, the impact of financial decision variables of financial firm performance for all the period is consistent with the theory. However, based on the coefficient of financial decision variables, the impact is more on the market performance and less on the accounting performance. 345 350 355 360 365

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REVIEW COMMENTS

General Comment

The paper is an interesting one which has the potential to contribute to the stock of knowledge as the authors used a much robust methodology.

The literature review also included an up to date literature. However, the authors could have presented a summary after the literature review of the gap identified in which the present study could fill. Also the authors should indicate the conceptual framework of the study linking the study variables.

Finally, the standard of English of the paper must be improved. The grammar was not good. The authors must ensure that the work is proof read before being submitted.

The specific comments are outlined below. The page numbers refer to the pdf pagination as appeared on the number counter.

ABSTRACT

The abstract is well written but must be within the 100 -200 words band. The words are 219.

Line 3: The results show that firm performance is dynamic (not are)

Line 4: ... nature, which indicates that

1 INTRODUCTION

Pdf Page 2:

The second sentence in line 2 to line 5 must edited for clarity of expression. Also, lines 7 to line 13 should be edited for clarity.

Line 6: (Tan & Wang, 2010).

Page 3

Lines 12 and 13 of pdf page 3...the issue arise for Indonesian listed firm, which is investment has negative effect on firm performance but insignificant... must edited for clarity

Line 20 Therefore, financial leverage and firm performance have (not has) negative relationship

line 22 (Jensen & Meckling 1976; Myers 1977). However, some researchers dispute that financial leverage and firm performance have (not has) positive relation.

Line 25 ... was 56 percent by sector. You should be specific.

Line 35... the propensity of the firm to pay dividend has...

Line 41 This study apply the dynamic panel Generalized Method of Moment (GMM) estimator to respond the endogeneity issue in corporate finance behavior, which is the dynamic panel GMM estimator more advanced estimators rather than the static model estimation (OLS, fixed effect and random effect model). This should be edited for clarity.

... Therefore, to provide additional evidence...

.... The rest of this paper is organized as follows. In (this should be deleted) to read as section 2 reviews the literature

Page 4.
Section 3 and 4 describe

2 LITERATURE REVIEW

Investment and Firm Performance

Line 3: ... The Tobin's q becomes

Line 8: For instance

...Although there is a limited number of studies in the....

...panel data, the interestingly, serve no purpose and should be deleted.

Leverage and Firm Performance

Line 7: The pecking

Line 16: ...Other recent evidence examined by Olokoyo (2013) found that TDTA significantly (should be deleted) has positive and significant effect

The hypotheses tested in the study must be stated as indicated by the authors.

3 METHODOLOGY

Page 5: line 3 and line 4 include (not includes). ...and other financial data used in this study

is it Tobin's Q or Tobins Q. You must be consistent.

Last paragraph page 5:

... (B_ICOM) and sales are used as control variables. The ... (EBIT and depreciation) minus the total of...

Page 6

Equation 2 and 3 must be specified well especially coefficients of B_ICOM_{it} and F_SIZE_{it} should read δ_6 and δ_7 respectively.

4 Discussion

Descriptive statistics

Page 6

Line 2: The Table should be numbered as Table 1 and not Table 5.1.

Line 3: ... the results show ...

Page 7

Table1 should include information on skewness, kurtosis as well as Jarque- Bera statistics.

...board size and firm size but investment, leverage and independent commissioner's show insignificant correlation.

... There are four diagnostic tests that should be addressed in this study to evaluate the ... Moreover, the Arellano-Bond test suggested that the residual were not affected by the second-order serial autocorrelation for both models, it shows the p -values of AR(2) are 0.7666 and...

Page 9

Last paragraph before the conclusion should read

... In addition, free cash flow have positive and significant effect on ROA but it...

5. CONCLUSION

Page 9

Line 6: ... indicate

6. Citation and reference list

Some of the citations were not included in the reference list. The authors should include them as indicated below.

Del Brio et al. (2003)

Zabri et al. 2016)

PAPER CORRECTION LIST

Dynamic Performance of Indonesian Public Companies: An Analysis of Financial Decision Behavior

Reviewer:

	Comments	Action Taken / Justification	Page number
1.	<p>General Comment</p> <p>The paper is an interesting one which has the potential to contribute to the stock of knowledge as the authors used a much robust methodology.</p> <p>The literature review also included an up to date literature. However, the authors could have presented a summary after the literature review of the gap identified in which the present study could fill.</p> <p>Also the authors should indicate the conceptual framework of the study linking the study variables.</p> <p>Finally, the standard of English of the paper must be improved. The grammar was not good. The authors must ensure that the work is proof read before being submitted.</p>	<p>First, I would like to thank you for any comments and suggestion of this paper. Overall, I have been revised all of the comments as suggested.</p> <p>Thank you.</p> <p>Have been addressed in 5th paragraph of introduction. Accordingly.....</p> <p>Have been presented in section.3 conceptual framework.</p> <p>I did proof read. However, if not satisfy I will sent to another editor.</p> <p>Overall, the grammatical error as suggested has been corrected.</p>	<p style="text-align: center;">p.2</p> <p style="text-align: center;">p.5</p>

	Comments	Action Taken / Justification	Page number
	<p>The specific comments are outlined below. The page numbers refer to the pdf pagination as appeared on the number counter.</p> <p>ABSTRACT</p> <p>The abstract is well written but must be within the 100-200 words band. The words are 219.</p> <p>Line 3: The results show that firm performance <u>is</u> dynamic (not are)</p> <p>Line 4: ... nature, <u>which</u> indicates that</p>	<p>Have been changed.</p> <p>Corrected done</p>	<p>p.1</p>
	<p>1.INTRODUCTION</p> <p>Pdf Page 2:</p> <p>The second sentence in line 2 to line 5 must edited for clarity of expression. Also, lines 7 to line 13 should be edited for clarity. Line 6: (Tan & Wang, 2010).</p> <p>Page 3</p> <p>Lines 12 and 13 of pdf page 3...the issue arise for Indonesian listed firm, which is investment has negative effect on firm performance but insignificant... must edited for clarity.</p> <p>Line 20 Therefore, financial leverage and firm performance <u>have</u> (not has) negative relationship line 22 (Jensen & Meckling 1976; Myers 1977). However, some researchers dispute that financial</p>	<p>Have been edited. See in 1st paragraph line 2 to line 5.</p> <p>Have been revised, and add some justification. See lines 7 to lines 13.</p> <p>Have been revised, now to be in 13 to 14.</p> <p>Done in line 21.</p> <p>Done in line 23.</p>	<p>p.1</p> <p>p.1</p> <p>p.2</p> <p>p.2</p> <p>p.2</p>

	Comments	Action Taken / Justification	Page number
	<p>leverage and firm performance have (not has) positive relation. Line 25 ... was 56 percent <u>by sector</u>. You should be specific.</p> <p>Line 35... the propensity of the firm <u>to</u> pay dividend has...</p> <p>Line 41 <u>This study apply the dynamic panel Generalized Method of Moment (GMM) estimator to respond the endogeneity issue in corporate finance behavior, which is the dynamic panel GMM estimator more advanced estimators rather than the static model estimation (OLS, fixed effect and random effect model)</u>. This should be edited for clarity.</p> <p>... Therefore, to provide additional evidence... The rest of this paper is organized as follows. <u>In</u> (this should be deleted) to read as section 2 reviews the literature Page 4. Section 3 and 4 <u>describe</u></p>	<p>Revised done, now in lines 26 to 27.</p> <p>Done in line 37.</p> <p>Have been revised . See line 50 1st paragraph</p> <p>Sorry Prof, a bit confused for this point. Please correct it if still wrong words. Thank you.</p> <p>Done.</p>	<p>p.2</p> <p>p.3</p>
	<p>2. LITERATURE REVIEW</p> <p>Investment and Firm Performance Line 3: ... The Tobin's q <u>becomes</u> Line 8: For <u>instance</u></p>	<p>Done. Restructuring the sentence in lines 9 to 12.</p>	<p>p.3</p>

	Comments	Action Taken / Justification	Page number
	<p>....Although there is a limited number of <u>studies</u> in the.... ...panel data, <u>the interestingly</u>, serve no purpose and should be deleted.</p> <p>Leverage and Firm Performance Line 7: The <u>pecking</u> Line 16: ...<u>Other</u> recent evidence examined by Olokoyo (2013) found that TDTA <u>significantly (should be deleted)</u> has positive and significant effect</p> <p>The hypotheses tested in the study must be stated as indicated by the authors.</p>	<p>Done.</p> <p>Have been revised and paraphrasing/ restructure the sentence.</p> <p>Corrected done in line 13.</p> <p>This section have been revised, there is additional justification of the theories. See lines 1 to 7.</p> <p>The hypotheses tested have presented for each relationship.</p>	<p>p.4</p> <p>p.4-5</p>
	<p>METHODOLOGY Page 5: line 3 and line 4 include (not includes). ...and <u>other</u> financial data <u>used</u> in this study is it Tobin's Q or Tobins Q. You must be consistent. Last paragraph page 5: ... (B_ICOM) and sales are <u>used</u> as control variables. The ... (EBIT and depreciation) <u>minus</u> the total of...</p> <p>Page 6 Equation 2 and 3 must be specified well especially coefficients of B_ICOM_{it} and F_SIZE_{it} should read δ_6 and δ_7 respectively.</p>	<p>Correction done in page 6.</p> <p>Done.</p> <p>Correction done in page 7.</p>	<p>p.6</p> <p>p.7</p>

	Comments	Action Taken / Justification	Page number
	<p>Discussion</p> <p>Descriptive statistics Page 6 Line 2: The Table should be numbered as Table 1 and not Table 5.1. Line 3: ... the results <u>show</u> ...</p> <p>Page 7 Table1 should include information on skewness, kurtosis as well as Jarque- Bera statistics.</p> <p>...board size and firm size but investment, leverage and independent commissioner's <u>show</u> insignificant correlation. ... There are four diagnostic <u>tests that</u> should be addressed in this study to <u>evaluate</u> the ... Moreover, the Arellano-Bond test suggested that the residual were not <u>affected</u> by the second-order serial autocorrelation for both models, <u>it shows</u> the <i>p</i>-values of AR(2) are 0.7666 and...</p> <p>Page 9 Last paragraph before the conclusion should read ... In addition, free cash flow have positive and <u>significant effect</u> on ROA but it...</p>	<p>Corrected in line 2.</p> <p>Done. See Table 1.</p> <p>All this grammatical error have been corrected.</p> <p>Done.</p>	<p>p.8</p> <p>p.8</p> <p>p.9</p>

	Comments	Action Taken / Justification	Page number
	<p>CONCLUSION</p> <p>Page 9 Line 6: ... <u>indicate</u></p>	<p>Done.</p> <p>There are additional statements in conclusion, lines 18 to 21.</p>	<p>p.11</p>
	<p>Citation and reference list Some of the citations were not included in the reference list. The authors should include them as indicated below. Del Brio et al. (2003) Zabri et al. 2016)</p>	<p>Now already available in references.</p> <p>Thank you for good comments. If there is still find not clarity, please let me know. I try to revise again.</p>	<p>P12 & 17</p>

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