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Effect of Investment Decision, Capital Structure, Dividend Policy on Financial Performance (Empirical Study of Go Public Companies Listed on the IDX)

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Abstract: *The objective of this research is to get an understanding on the effect of the investment decision, capital structure and dividend policy on financial performance using structural equation model (SEM). It is expected that this model will give more comprehensive analysis on the effect of the investment decision, capital structure and dividend policy on financial performance of public companies, which includes the direct or indirect effect on one variable against the others variables on public companies in Indonesian Stock Exchange in 2011-2014. This analysis was based on target population of 513 companies and the samples of 315 public companies in Indonesian Stock Exchange, with following findings. The investment decision, capital structure and dividend policy gave a direct effect on the value of the companies, respectively 2,34%, 5,06% and 4,62%. Indirectly, the investment decision effected the financial performance 7,82%, and then indirectly capital structure effected the financial performance 11,86%, and dividend policy effected the financial performance 12,96%. Total effect of investment decisions, capital structure and dividend policy on financial performance respectively 10,16%, 16,92% and 17,58%. Out of the three variables, the dividend policye had more dominant effect on financial performance. The investment decision, capital structure and dividend policy has a direct and indirect positive effect on each others. The theoretical finding on this research can be developed to make an investment decision, capital structure and dividend policy of public company. In other words, the three variables will have some means of effect on financial performance compare with other factors.*

Keywords: *Investment Decision, Capital Structure, Dividend Policy, Financial Performance*

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I. Introduction

The company is one of the forms of corporation that runs every type of business, permanent, continuous and working in the territory of the Republic of Indonesia, for the purpose of obtaining profits and/or profits (Article 1 letter b of Law number 3 of 1982 concerning Obligatory Registration of Companies). With the maximum profit or profit, the company can maintain the survival of the company. However, the growing world of the business is growing increasingly fast. Many new companies that have arisen so as to create a business competition that is very difficult and competitive. Because of this, the company covers the business demands to be able to manage the resources they have more effectively and efficiently to support what has been the goal of the previous company.

Investment Decision and Dividend Policy Companies listed on the IDX have fluctuated and some companies do not distribute dividends due to declining income, for the capital structure of some companies the composition of long-term debt is greater than their own capital and some companies show their own capital is greater than their long-term debt. The size of the company in companies listed on the IDX varies with big, medium and small categories.

The development of share price changes in the sectors listed on the IDX partially decreased and some experienced increases and decreases as well as decreases and increases.

According to Brigham and Houston (2009), an increase in debt is interpreted by foreign parties about the ability of a company to pay for its mandatory future obligations or when it comes from low business, this will be positively responded by the market. There are two views about funding decisions. The first view is known by the traditional view that states that the structure of the capital influences the value of the company. Another policy that pertains to the value of the company is the investment decision, where investment decisions in this case are short-term investments and long-term investments.

According to Hidayat (2010), investment decisions are an important factor in the functioning of a company's finance, where the value of the company is solely determined by investment decisions. The purpose of an investment decision is to obtain a high level of profitability with a certain level of risk.

According to Jumingan (2011:239), Performance is a picture of the achievements achieved by the company in its operational activities, both in terms of financial aspects, marketing aspects, aspects of collection and distribution of funds, aspects of technology, and aspects of human resources.

One factor that influences financial performance is capital structure. Capital Structure is a balance between the use of loan capital which consists of short-term debt which is permanent, long-term debt with own capital consisting of: preferred stock and customary.

II. Literature Review

2.1 Investment Decision

Nahdiroh (2013), Investment decisions are provisions made by a company in spending its funds in the form of certain assets in the hope of earning profits in the future. Investment can be interpreted as a delay in current consumption to be used in efficient production activities over a certain period of time (Jogiyanto, 2010:5). Investment can also be defined as an expenditure of funds from investors or entrepreneurs to finance production activities to get profits in the future (Rahmadhana and Yendrawati, 2012:26). From this definition, it can be concluded that investment is related to the expenditure of a number of funds for production activities over a long period of time intended to generate future profits.

2.2 Capital Structure

Capital structure is defined as permanent financing consisting of long-term debt, preferred shares and shareholder capital (Weston and Capeland, 2010:205). Capital Structure is a balance between long-term debt with own capital. Bambang Riyanto (2010:193) states that capital structure must be distinguished from finance companies. Capital structure theory including the Modigliani-Miller model model (MM, 1958)) without tax which proposes 3 propositions, namely, the value of each company is nothing but the expected net operating capital costs or unexpected net operating in increasing the capitalization (Ko) of the constellation in accordance with the level of business risk, with the increase in the amount of company debt will increase as well as the expected net operating costs own capital, and companies should invest in new projects as long as at least the value of the company increases by investment costs while MM theory (1963) with tax states that the value of the company will increase also because of an increase in the use of corporate debt, but a reduction in the weighted average capital cost (WACC) occurs due to tax saving or tax savings due to increased interest costs.

2.3 Dividend Policy

Dividend policy is a decision whether profits obtained by companies at the end of the year will be distributed to shareholders in the form of dividends or will be retained to increase capital for investment financing in the future.

Dividend policy must be based on consideration of the interests of shareholders and also the interests of the company. Dividend policy is important because dividend payments can affect the value of the company and also increase prosperity for shareholders (El-Sady, Hamdy, Al-Mawazini and Alshammari, 2012).

The factors that influence dividend policy can be divided into two, namely (Juma'h and Pacheso, 2008):

1. Internal factors, are determinants of dividend policy that comes from within the company, such as profitability, liquidity, company size, and investment opportunities.
2. External factors, are determinants of dividend policy originating from outside the company, such as access to capital markets, global policies, statutory provisions, technology, macroeconomic problems, and so on.

2.4 Financial Performance

The company's financial performance is one important variable, not only for the company but also for investors. Performance shows the ability of company management in managing capital. Financial performance is a formal effort carried out by the company to evaluate the efficiency and effectiveness of the company's activities that have been carried out in a certain time period.

According to Irham (2011:11), financial performance is an analysis conducted to see the extent to which a company has carried out using the rules of financial implementation properly and correctly.

III. Research Methods

This research uses causal quantitative research. Sugiyono (2013:37) states causal quantitative is useful for analyzing variables with other variables or how a variable affects other variables. This research belongs to the type of explanatory research, namely research that explains the position of the variables studied as well as the relationship between one variable with variables others (Umar, 2005:173).

This study uses descriptive research and verification research using quantitative approaches. Descriptive research is a type of research that aims to provide a more detailed picture of a particular phenomenon or phenomenon. Verification research is a type of research that aims to test a theory or the results of previous research, in order to obtain results that strengthen or invalidate the theory or results of previous research.

This study aimed to determine the effect of investment decisions, capital structure, dividend policy and company size on financial performance and its implications for company value using the structural equation model (SEM). This model is expected to produce a more comprehensive analysis of the impact of investment decisions, capital structure, dividend policy and company size on financial performance in publicly traded companies and the effect of one variable on other variables directly or indirectly. Besides wanting to know the implications of financial performance on the value of the company in going public companies on the Indonesia Stock Exchange in 2011-2014. By using a target population of 513 companies and a sample of 315 publicly traded companies on the Indonesia Stock Exchange, the following research conclusions were obtained.

IV. Results and Discussion

4.1 Results

Investment Decision Measurement shows that the loading factor value, investment decision indicator shows that the market to book asset ratio and Earning to Price Ratio are the most powerful indicators in explaining the investment decision variable because it has a loading factor of 0.847 and 0.826. The next sequence is capital expenditure to book value assets ratio, current assets to total assets ratio and total assets growth.

Measurement of Capital Structure shows that loading factor indicators of capital structure according to the rule of thumb are all very meaningful and significantly explain the variable capital structure of the company, which has a loading factor above the value +0.50, each starting from the strongest sequence of book debt to equity ratio amounted to 0.851, book debt to assets ratio of 0.687, long term debt to equity ratio of 0.581 and market debt equity ratio with a factor loading value of 0.503. Dividend Policy Measurement

Dividend Policy Measurement shows that the loading factor of the two dividend policy indicators shows the value of 0.755 for the dividend yield and 0.576 for the dividend payout ratio above the value> +0.50, meaning that the dividend yield and dividend pay out ratio are strong and very meaningful in forming latent variables dividend policy.

Measurement of Financial Performance shows that loading factor as a result of measurement using LISREL, shows that the return on total assets with a loading value of 0.831 has a very significant influence in measuring the latent variables of company performance. Loading values over + 0.50 are said to be very meaningful (Bachrudin & Tobing in Hasnawati & Sawir, 2015). Likewise, the basic earning power indicator with a loading value of 0.735 is very meaningful in measuring the latent variables of company performance.

Analysis of the Effect of Investment Decisions, Capital Structure and Dividend Policy on Financial Performance

From the Structural Model 1 it is found that investment decisions, Dividend policies, Capital Structure, company size significantly influence financial performance both simultaneously and partially. Based on the results of data processing Lisrel 8.7 program for structural model 1, in accordance with the proposed hypothesis is as follows:

Performance = 0.153* Investment Decision + 0.225* Capital Structure + 0.215* Dividend Policy,
(0.0704) (0.0858) (0.0827) 2.169
2.619 2.597 4.487

The direct effect of investment decision variables on financial performance was 2.34%. While the indirect effect is 7.82%, through dividend policy variables and capital structure. The indirect effect of investment decisions on financial performance is greater than the direct effect. This indicates that the company's performance cannot only be influenced by investment decisions but must be supported by other variables, so that the direct and indirect influence of investment decisions on financial performance is 10.16%.

The direct effect of the dividend policy variable on financial performance was 4.62%. While the indirect effect of 12.96%, namely through investment decision variables and capital structure, so that the direct and indirect effect of dividend policy on financial performance is 17.58%.

The direct effect of capital structure variables on financial performance is 5.06%. While the indirect effect is 11.86%, namely through investment decision variables and dividend policy, so that the direct and indirect effect of capital structure on financial performance is 16.92%.

Based on these results the influence of the Investment Decision, Dividend Policy and Capital Structure on the biggest Financial Performance is a dividend policy variable of 17.58%. So it can be seen that all variables are interdependent to improve a company's financial performance. In addition to the three variables above, there are still many variables that have an influence on financial performance because they are based on influences outside the model, which is 0.333, meaning that financial performance is influenced by variables outside the research model of 33.3%.

Hypothesis Test

Testing Hypothesis Partially Investment Decision, Capital Structure, Dividend Policy on Financial Performance

Effect of Investment Decisions on Financial Performance

Partial Test Results of Investment Decision on Financial Performance for the path coefficient of Investment Decisions on Financial Performance of 0.153, obtained tcount value of 2.169 by taking a significance level of α of 5%, then the value of t table or t0,05,1260 = 1,972, so because tcount = 2.169 is greater than t table = 1.972, then H0 is rejected or in other words Investment Decisions affect Financial Performance with a path coefficient of 0.153 so that any increase in investment decisions will increase financial performance by 0.153.

Effect of Capital Structure on Financial Performance

Based on the calculation, for the capital structure path coefficient on Financial Performance of 0.225, a tcount of 2.619 is obtained by taking a significance level of α of 5%, then the value of t table or t0,05,1260 = 1,972, so because tcount = 2,619 is greater than ttable = 1.972, then H0 is rejected or in other words capital structure influences Financial Performance with a path coefficient of 0.225 so that any increase in capital structure will increase financial performance by 0.225.

Effect of Dividend Policy on Financial Performance

Based on the calculation, for the Dividend Policy path coefficient on Financial Performance of 0.215, the tcount value of 2.597 is obtained by taking a significance level of α of 5%, then the value of t table or t0,05,1260 = 1,972, so because tcount = 2.597 is greater than ttable = 1.972, then H0 is rejected or in other words the Dividend Payout Ratio Policy affects the Financial Performance with a path coefficient of 0.215 so that each increase in the Dividend Payout Ratio will increase financial performance by 0.215.

4.2 Discussion

Effect of Investment Decisions on Financial Performance

The results showed that investment decisions have a direct effect on financial performance by a positive 2.34%. While the indirect effect of 7.82% is through capital structure, dividend policy and company size. These results are supportive and consistent with the opinions expressed by Sincar et al (2000) and Dewi & Suardana (2015). The indirect effect of investment decisions on financial performance is greater than the direct effect. This indicates that financial performance cannot only be influenced by investment decisions but must be supported by other variables.

Effect of Capital Structure on Financial Performance

The direct effect of capital structure variables on financial performance is 5.06%. While the indirect effect of 11.86%, namely through investment decision variables, dividend policy and company size. The indirect effect of capital structure on financial performance is greater than the direct effect. This conclusion supports Myers (1977), Modigliani & Miller (1963), De Angelo & Masulis (1980), Masulis (1980), Bradley et al (1984), and Park & Evan (1996)). This study also supports previous research by Peersen and Rajan (1994) which says that there is a positive and significant relationship between profitability and debt ratios and companies can use more debt to improve their financial performance because the ability of debt causes managers to increase productivity to avoid bankruptcy (Champion, 1999).

Effect of Dividend Policy on Financial Performance

The direct effect of the dividend policy variable on financial performance was 4.62%. While the indirect effect of 12.96%, namely through investment decision variables, capital structure and company size. The indirect effect of dividend policy on financial performance is greater than the direct effect. The results of this study support Pettit (1972) and Rozeff (1982), that an increase in dividend payments is interpreted as management's belief that the company's prospects and financial performance will improve. If the company increases the payment of dividends, it is interpreted as a signal of management's expectations about the company's improved performance in the future. While Pramastuti (2007), if management decides to distribute dividends, he must have confidence that his company will have good profitability in the future. From an investor's perspective, one important indicator to assess the company's prospects in the future is to look at the dividends paid.

V. Conclusion and Suggestion

5.1 Conclusion

1.Investment decisions measured by total assets growth, Market to book assets ratio, Earning to price ratio, Capital expenditure to book value assets ratio, Current assets to total assets ratio, on publicly listed companies listed on the IDX experience various fluctuations. Based on the results of loading factors show that investment decisions using the Market to book assets ratio indicator are able to make a greater contribution compared to other indicators.

The capital structure measured by the Book debt to equity ratio, Book debt to assets ratio, Long term debt to equity ratio, Market debt equity ratio, shows that the capital structure of publicly traded companies listed on the Stock Exchange experiences various fluctuations. Based on the results of loading factor book debt to equity ratio has the strongest influence on capital structure.

Dividend policy, measured by dividend pay out ratio and dividend yield, shows that the dividend policy of publicly traded companies listed on the Indonesia Stock Exchange experiences various fluctuations. Based on the results of loading individual yields seem more meaningful than the dividend payout ratio.

2.The financial performance of publicly traded companies in Indonesia is well measured through these two indicators, namely return on total assets and basic earning power, indicating that the financial performance of publicly listed companies listed on the IDX has varied. The dimension of return on total assets has the highest percentage compared to basic earning power.

3.Investment decisions, have an influence on financial performance in publicly listed companies listed on the IDX by 10.16%. The better the investment decision, the better the financial performance of going public companies listed on the IDX.

4.Capital structure has an influence on financial performance in publicly listed companies listed on the Indonesia Stock Exchange by 16.92%. The better the capital structure, the better the financial performance of going public companies listed on the IDX. A good capital structure is a balanced composition of debt and equity.

5.Dividend policy has an influence on financial performance in publicly listed companies listed on the Indonesia Stock Exchange by 17.58%. The better the investment policy, the better the financial performance of going public companies listed on the IDX.

5.2 Suggestion

Referring to the results of the study and the usefulness of the results of this study, it is recommended:

1.Research on the company's external factors that have an impact on financial performance needs to be considered, considering that external factors have not been included in the modeling such as inflation rates, economic growth, currency exchange rates, politics, or industrial development. In addition, it is necessary to consider factors that apply good corporate governance (GCG) by publicly traded companies to decisions on financial performance and corporate value.

2.Conducting research in the category of companies going public on the main board and the development board. In addition, it is also necessary to study whether the economic crisis and normal conditions provide the same conclusions.

3.Future studies can use other indicators that form latent variables of investment decisions, capital structure, dividend policy and financial performance.

4.For companies going public, the results of this study can be used as a material consideration, that it turns out investment decisions, capital structure, dividend policy and company size together have a considerable influence on financial performance and financial performance affects the value of the company, likewise if done separately. Therefore, it should be noted that related to investment decisions, capital structure, dividend policy and company size because one action taken will have a direct or indirect impact on financial performance and have implications for the company's value.

5.For capital market players, especially investors, analysts, and those related to investment in the capital market. The results of this study have shown that the company's fundamental factors, especially dividend policy, have a large influence on the company's financial performance. For this reason, any investment decision made in the capital market must still refer to fundamental analysis, not based on rumors or unreasonable approaches.

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