

# What Investment Decisions, Capital Structure, and Dividend Policy influence Company Value ?

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**Abstract:** *This research was conducted to determine whether investment decisions, capital structure, and dividend policy influence company value in the LQ45 index on Indonesia Stock Exchange during the 2018-2021 period. By increasing company value, managers have a great influence on the decisions taken, including investment decisions, capital structure and dividend policy. This research uses quantitative descriptive methods. The number of samples was 8 companies. Data collection with secondary data types, namely the company's annual report. Data analysis uses multiple linear regression. The final results of this activity show that investment decisions represented by earning per share have a positive on company value. Capital structure represented by debt to equity ratio has a positive on company value. Dividend policy represented by dividend payout ratio has a negative on company value. While the effect of investment decisions, capital structure, and dividend policy simultaneously affects company value.*

**Keywords -** *Investment Decisions, Capital Structure, Dividend Policy, Company Value*

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## I. INTRODUCTION

The Indonesian Stock Exchange (IDX) has a number of stock indexes that are references for potential investors. The stock index itself is a method for measuring the volatility of a collection of shares as a whole compared to shares according to certain criteria. Investors often use this indicator to see the volatility of a stock, and use it as a benchmark for evaluating investment performance related stocks.

Indonesia has one of the capital markets, the IDX. IDX plays a very important role in society as an investment vehicle, but also as an alternative to capital investment. Currently, the IDX helps companies to raise capital through the sale of shares to the public by offering shares or other securities owned by the issuer to the public using procedures regulated in the capital market law and its regulations (Basir, 2005:28).

According to Salim and Moeljadi, (2001 :110) Investment decisions for the company is an investment activity that has important factors in the financial function of the business. The higher the business investment decisions, the more likely the company is to make a profit or generate a high return on its assets. Which companies expect profits cannot be determined with certainty because each investment has different risks and uncertainties.

According to Minh (2017), capital structure is the ratio of debt and equity to the company's total capital which helps optimize the company's value, which is the company goal. which can be achieved through implementing financial management function policies where all financial decisions made will influence other financial decisions and have an impact on business value. Apart from company value, it is also influenced by the size of the company, because the larger the company the easier it is to mobilize financing from external and internal sources.

Dividend policy helps determine the importance of a company's value because investors pay attention to how company management distributes dividends. If company management divides company profits or company profits by distributing more dividends, then dividend policy will affect company value. According to Sofyaningsih & Pancawati (2011 : 76), explain that if a company increases its dividend payments. This is interpreted by investors as a sign that the company;s performance in paying dividends reflects its value. If dividend payments are high, the share price will also increase, thus affecting the high value of the company. Therefore, dividend policy is one decision that must be made most important.

According to Triagustina (2012), the value of a company can be seen from the company's share price on the capital market. If the share price of a company in the capital market is stable and increases in the long term, it can be concluded that the company continues to grow economically. High stock prices and high company value can indicate shareholder wealth.

This research covers companies included in the LQ45 index, because these issuers are issuers that have been delisted from the LQ45 index in recent years. The stock index is an index that represents stock prices and describes the condition of the company at that time. The LQ45 index is an index that includes 45 companies.

## II. RESEARCH METHODS

### A. Investment Decisions

In the investment decision variable measured by earning per share, as according to Bagus & Laksono (2006). Because businesses need to invest to simplify the operating process to achieve their goals. The following is the formula for measuring capital structure using EPS:

$$EPS = \frac{\text{Net Profit}}{\text{Number of Shares outstanding}}$$

### B. Capital Structure

In the capital structure variable measured by the debt ratio. The higher the debt ratio, the higher the company's ratio. According to Ali and Rodoni (2010) capital structure theory is considered important because the total cost of capital is then used as a cut or rate when making investment decisions. The following is the formula for measuring capital structure using DER:

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

### C. Dividend Policy

In the dividend policy variable measured by the Dividend Payout Ratio. As stated by Sutrisno (2012), this ratio allows us to know whether the profit received by the company at the end of the year will be distributed to shareholders as dividends or will be retained to increase capital. The following is the formula for measuring capital structure using DPR:

$$DPR = \frac{\text{Divident per Share}}{\text{Earning per Share}}$$

### D. Company Value

In the firm value variable researches use company values as the dependent variable and this variable will be measured by Price Earning ratio. The value of the company against high income will give the market confidence in the company's future prospects. This is also what business owners want, because high business value indicates that shareholder prosperity is also high, Brigham (2006). The following is the formula for measuring capital structure using PER:

$$PER = \frac{\text{Share Price}}{\text{Earning per Share}}$$

## III. CONCEPTUAL FRAMEWORK

Based on the theoretical thinking of previous studies, whether investment decisions, capital structure and dividend policy affect firm value can be described as the following conceptual framework:

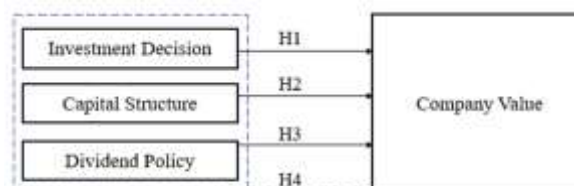


Figure 1. Conceptual Framework

Description :

- Line = partial effect on Y
- Line = simultaneous effect Y

In accordance with conceptual framework above, the following is the hypothesis statement:

H1 : There is an effect of investment decisions on firm value in the LQ45 Index.

H2 : There is an effect of capital structure on firm value in the LQ45 Index.

H3 : There is an effect of dividend policy on firm value in the LQ45 Index.

H4 : There is an effect of investment decisions, capital structure and dividend policy on firm value in the LQ45 index.

#### IV. RESULTS AND DISCUSSIONS

Figure 2. Regression Test Results, T-Test, F-Test

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.028	3.881		2.584	.015
	EPS	8.843	3.109	.471	2.844	.008
	DER	.477	.204	.352	2.338	.027
	DPR	-15.975	116.497	-.023	-.137	.892

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1183.360	3	394.453	5.465	.004 <sup>b</sup>
	Residual	2021.137	28	72.183		
	Total	3204.497	31			

Source : SPSS results 2023

##### Investment Decisions Affect Firm Value

The results of the first hypothesis test obtained that investment decisions (EPS) have a positive and significant effect on firm value, this is evidenced by the t table value of 2.844 with a significance value of 0.008 <0.05. This shows that the greater the company's investment, the higher the value. These results are supported by Maria's research (2016), namely investment decisions affect firm value. Investment decisions are one of the important factors in the financial function of a company, the more investment decisions taken by the company, the greater the possibility of obtaining significant profits or profit margins. Because companies that make high investment decisions have the ability to influence investors in the company, as well as increase demand for company shares.

##### Capital Structure Affects Firm Value

The results of the second hypothesis test obtained that the capital structure (DER) has a positive and significant effect on firm value, evidenced by the t table value of 2.338 with a significant value of 0.027 <0.05. However, capital structure does not always consistently affect firm value. In the sense that capital structure is not always positive or always negative, then this is a non-monotonic relationship. Non Monotonic relationship is the relationship between two or more variables that have negative or positive relationship simultaneously. This result is supported by previous researchers Prastuti and Sadiartha (2016) who stated that capital structure affects firm value.

##### Dividend Policy Affects Firm Value

The results of the third hypothesis test that dividend policy (DPR) has no effect on firm value, as evidenced by the results of research showing a table value of -0.137 with a significance value of 0.892 > 0.05. Therefore, we

can conclude that when the dividend value increases, it does not always mean that the company value increases. Dividend payments are only itemized and do not affect the welfare of shareholders. In addition, shareholders also want to make profits in the short term by realizing capital gains rather than waiting for dividends at the end of the period. This result is not in line with previous research conducted by Yuniastri (2020), that dividend payments have a positive effect on firm value, meaning that the higher the company's dividend payments, the company value will increase. Paying large dividends will increase supervision and control efforts on the part of institutional investors, including banks, insurance, pension funds, investment companies and asset management against manager opportunism, so that the use of company assets becomes more important.

### **Investment Decisions, Capital Structure, and Dividend Policy Affect Firm Value**

Based on the simultaneous test (F test), it can be seen that the value is 5,465 which is higher than the F table of 2.90. EPS, DER and DPR variables have a significant value of 0.004 smaller than 0.05. This shows the simultaneous influence of EPS, DER and DPR on PER in companies included in the LQ45 index.

## **V. CONCLUSION**

Research to determine whether investment decisions, capital structure and dividend policy affect firm value. Sampling using purposive sampling method as many as 8 companies listed on the LQ45 index during 2018-2021. The test results partially use the t-test and for simultaneous testing using the F-test with the following conclusions:

Investment decisions using Earning Per Share (EPS) obtained results affect the value of the company. This shows that investment decisions are an important factor because to achieve company goals, namely maximizing shareholder wealth and only created through the company's investment activities. Capital structure using Debt to Equity Ratio (DER) has a positive and significant effect on firm value. This shows that relying on debt will incur interest costs thereby reducing the amount of tax owed. In addition, the company will maximize debt at a certain or suboptimal debt level for company operations so that the company's value can increase. Dividend policy using the Dividend Payout Ratio (DPR) has an insignificant positive effect on firm value. This shows that dividend payments do not affect firm value. In fact, the increase in firm value is determined by the profit generated from the company's assets and the company's business risk, so that the dividend policy of a company has no influence on firm value. The test results simultaneously show that investment decisions, capital structure and dividend policy have a significant influence on firm value.

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