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The Effect of Investment Policies and Dividend Policies on Company Value in the Food and Beverage Sub-sector Listed in Indonesia Stock Exchange

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Abstract:

The primary objective of this study is to check how the value of the company gets influenced by the Investment policy. This study also aims to check the effect for the same for the influence of the dividend policy. Here, all the companies have been selected for this study are enlisted in the Indonesia Stock Exchange. The quantitative descriptive methodology has been adopted here. The analysis tool used is regression analysis multiple linearity with the IBM SPSS version 21.0 statistical tool. The results indicated insignificant effect by the above mentioned two factors on the firm value. The sign or the direction of the association indicates some future scope of research.

Keywords: Investment policy, dividend policy and Value Company

1. Introduction

Increasing the value of itself is one of the major objective of a company. This step of a company is directly associated with the prosperity of the owners or shareholders. Brigham and Houston in Alza and Utama (2018) state that company value is a form of public trust in a company by investing in share capital in the company which has an impact on increasing share prices in the company. In other words, the company's value reflects the level of investor confidence in the company's prospects in the future.

Managers as agents have a duty to maximize the achievement of company goals through increasing company value. The increase in company value will increase the assessment of stakeholders so that the company's image will be better in the perspective of stakeholders. Therefore, managers try to increase firm value through policies they make with the aim of maximizing firm value. Jogiyanto (2016: 137) explains that policies that can affect company value include investment policies and dividend policies.

According to Tandelilin (2014: 241), investment policy is a commitment to a number of funds or other resources carried out at this time with the aim of obtaining a number of benefits in the future. Managers are said to be successful if they can optimize the use of company assets to improve company performance. An increase in the company's performance will result in an increase in stock prices, thus providing a positive signal to investors about the increasing company value.

Dividend policy is the news awaited by investors who basically expect a return on their stock investment. Dividends are the distribution of company income which is the right of shareholders which can be in the form of cash, assets, or other forms that are distributed as returns on the investment of shareholders in the company (Jogiyanto, 2016: 43).

The bird in the hand theory states that investors are more interested in companies that always pay dividends because this is considered a certainty and more real than other stock returns so that dividends can have a significant effect on increasing firm value (Gordon in Irwan, 2018: 14).

Research on the effect of investment policies and dividend policies on firm value still finds conflicting results. A study conducted by Putra and Sarumpaet (2017) found a positive and significant effect by investment policy on firm value whereas, negative but insignificant effect has been observed by the dividend policy.

Different results were found by Nurvianda, et al. (2018) who found that investment decisions have a positive but insignificant effect on company value in basic industry and chemical sector companies whereas, dividend policy has a positive and significant effect on firm value. Here, all the companies have been considered from the chemical industry sector.

Following are the research objectives:

- Whether the assets growth creates an impact on the value of food and beverage sub-sector companies listed on the Indonesia Stock Exchange or not.
- Whether the dividend payout ratio creates an impact on the value of food and beverage sub-sector companies listed on the Indonesia Stock Exchange or not.

2. Literature

2.1. Signaling Theory

Signaling theory suggests how a company should provide signals to users of financial reports. This signal is in the form of information about what management has done to realize the owner's wishes. Signals can be in the form of promotions or other information that states that the company is better than other companies and shows the company's prospects (Ross in Irwan, 2018: 11).

Signaling theory is based on the assumption that the information received by each party is not the same. In other words, signal theory is concerned with information asymmetry. Signal theory shows the existence of an information asymmetry between company management and the parties with an interest in the information. Therefore, managers need to provide information for interested parties through the publication of financial reports.

Spence in Wijoyo (2018) states that information published as an announcement will provide a signal for investors in making investment decisions. If the announcement contains a positive value, it is expected that the market will react when the announcement is received by the market. When the information is announced and all market participants have received the information, market players will first interpret and analyze the information as a good signal (good news) or a bad signal (bad news).

2.2. Company Value

According to Fama in Senata (2016), company value is market value, which means that company value is reflected in the company's stock price. The more the stock price, the more the company value can increase. It also helps to gain maximum prosperity for shareholders.

Tandelilin (2014: 281) explains that company value is the price of a share that has been circulating on the stock market that must be paid by investors to own a company. Firm value is reflected in the bargaining power of company shares

Another opinion is held by Husnan (2009: 7). He narrated that the company value is the price that prospective buyers are ready to invest if the company is sold. The company's goal is to maximize shareholder wealth which can be realized by maximizing firm value.

Brigham and Houston in Azis (2017: 16) argue that company value is a value that measures how important a company is to its customers. Firm value is a very important concept for investors because it can be an indicator for market players to determine the overall company value. Company value can also be interpreted as an assessment made by investors of the success rate of a company in managing all its resources.

Hanafi and Halim (2016: 131) explain that several factors that can affect firm value are as follows:

- Company profitability, namely the company's ability to earn profits, both in relation to assets, capital and company sales.
- Debt policy, namely the decision to use debt by considering fixed costs arising from debt in the form of interest, which will lead to increased financial leverage and increasingly uncertain returns for common shareholders.
- Investment Policy, namely investing in the hope that it will get benefits in the future.
- Dividend policy, if the profits earned by the firm at the year-end will be distributed to shareholders (Sartono, 2016: 369).
- Firm Size, firm size can have a negative effect on firm value, because in large companies, shareholders are basically separated. However, large companies have the capital and ability to generate greater profits than small companies.

Furthermore, Sartono (2014: 488) explains that company value can be measured through stock prices using a ratio called the appraisal ratio, which is a ratio related to the assessment of the performance of shares of companies that have been traded on the capital market (go public). The assessment ratio in question is Price Earning Ratio (PER), which is a comparison between the share price and the company's net income, where the share price of a company is compared to the net profit generated by the company in a year. Earning Per Share (EPS) is an indicator that shows a company's ability to provide returns on every common share issued by the company. Price Earning Ratio can be calculated **with the formula:**

$$PER = \text{Market Price} / \text{Earning Per Share}$$

2.3. Investment Policies

Investment policy is an important factor in the company's financial function, where managers must allocate funds into investment forms that will be able to bring profits in the future. The objective of the investment policy is to obtain high returns and ensure the sustainability of the company in the future.

According to Jogiyanto (2016: 105), investment policy is investment with the hope that it will get benefits in the future. Gibson in Irwan (2018: 27) explains that investment policy can be proxied through the Investment opportunities set (IOS), which is the company value, the amount of which depends on the expenses set by management in the future, where the investment made is an investment choice, which is expected to produce a large return.

Furthermore, Gibson in Irwan (2018: 27) explains that the most relevant investment opportunities set (IOS) proxies can be measured through Total Asset Growth with the formula:

$$\text{Total Asset Growth} = \frac{\text{Asset Growth}}{\text{Total Asset}}$$

$$\text{Asset Growth} = \text{Total Assets Year X} - \text{Total Assets Year X-1}$$

2.4. Dividend Policies

The dividend payment policy is the first public indication of company managers to distribute excess funds to shareholders rather than investing in new projects (Tandelilin, 2014: 168). An increase in company profits from time to time will allow the company to consistently distribute that profit to shareholders and have an impact on increasing the company's share price.

The dividend policy adopted by the company brings substantial financial responsibility consequences for the company. If once a company decides to start paying regular dividends, the company must be able to maintain consistency of dividend payments periodically.

Dividend distribution shows a significant shift in financial statements in the company's dividend policy. For investors, dividend receipts for the first time provide initial views and expectations about future performance developments, so that dividend distribution policies are the first guide for investors in determining whether or not to invest in a company.

Investors expect the company to maintain sustainability in paying periodic dividends that have been started before. Sustainability is the consistent payment of dividends or maintaining the dividend payout ratio previously determined in order to avoid a decrease or termination of payments in the next period (Hanafi and Halim, 2016: 174).

According to Hanafi and Halim (2016: 174), in measuring dividend policy, it can be proxied through the Dividend Payout Ratio (DPR) which can be calculated using the formula:

Dividend Payout Ratio = Dividend Per Share / Earning Per Share

2.5. Previous Studies

Putra and Sarumpaet (2017) found that policy investment policy has a positive and significant effect on firm value and dividend policy has a negative but insignificant effect on firm value.

Nurvianda, et al (2018) found that investment decisions have a positive but insignificant effect on firm value in the basic industry and chemical sector.

2.6. Hypothesis

Based on literature and previous research that has been put forward, the hypotheses in this study are:

- Indonesian Stock Exchange based companies have a positive and significant effect on firm value by the investment policy.
- Indonesian Stock Exchange based companies have a positive and significant effect on firm value by the dividend policy.

3. Research Methodology

3.1. Sample and Population

With the help of the purposive sampling, 7 food and beverage sub-sector companies out of a population of all 27 food and beverage sub-sector companies, have been selected. The sampling frame is Indonesia StockExchange. All of these companies have paid dividends throughout 2014 - 2018.

3.1.1. Operational Definitions

Variable definition is the definition and theoretical explanation of a variable to be observed and measured. Based on variable identification, operational definitions of variable used in the study are follows:

Investment policy is investment with the hope that it will get benefits in the future. Investment policy can be proxied by the Investment opportunities set (IOS) which can be calculated by the formula:

$$\text{Total Asset Growth} = \text{Asset Growth} / \text{Total Asset}$$

Dividend policy is a decision whether the profits earned by the company will be given to shareholders as dividends or will be retained in the form of retained. The formula of Dividend Payout Ratio (DPR) is as below:

$$\text{Dividend Payout Ratio} = \text{Dividend Per Share} / \text{Earning Per Share}$$

Company value is the price of a share that has been circulating on the stock market that must be paid by investors to own a company. Firm value is measured through Price Earning Ratio (PER) and is calculated using the formula:

$$\text{PER} = \text{Market Price} / \text{Earning Per Share}$$

3.2. Data Analysis

Based on the problems observed and hypothesis tested, the analytical tool was the multiple linear regression model in this study is formulated as follows (Sugiyono, 2017: 148):

$$Y = a + b_1X_1 + b_2X_2 + e$$

Notes:

Y = Company Value

a = Constant

X₁ = Investment Policy Variable

X₂ = Dividend Policy Variable

b₁ and b₂= regression coefficients for investment policy and dividend policy

e =Error term

4. Results and Discussions

4.1. Classic Assumption Test

The results of the classical assumption test consisting of normality test, multicollinearity test, autocorrelation test and heteroscedasticity test can be seen as follows:

One-Sample Kolmogorov-Smirnov Test				
		Investment Policy	Dividen Policy	The Value of Comany
N		35	35	35
Normal Parameters ^{a,b}	Mean	.106587	.439727	.264899
	Std. Deviation	.0878982	.3317838	.7262627
Most Extreme Differences	Absolute	.188	.200	.506
	Positive	.188	.200	.506
	Negative	-.170	-.124	-.369
Kolmogorov-Smirnov Z		1.112	1.185	2.992
Asymp. Sig. (2-tailed)		.168	.121	.070

Table 1: Normality Test

Source: Data was processed with IBM SPSS Version 21.0

Based on Table 1 the significance value of the One Sample Kolmogorov Smirnov Test for investment policy is $0.168 > 0.05$, the significance value of the One Sample Kolmogorov Smirnov Test dividend policy is $0.121 > 0.05$ and the significance value of the One Sample Kolmogorov Smirnov Test is $0.070 > 0.05$. So it can be concluded that investment policy data, dividend policy and company value are normally distributed.

4.2. Multicollinerity Test

Model	t	Sig.	Collinearity Statistics	
			Tolerance	VIF
Investment policy	.126	.901	.886	1.128
Dividend policy	-1.138	.264	.886	1.128

Table 2: Multicollinearity Test

Source: Data Was Processed With IBM SPSS Version 21.0

Based on Table 2, the value of the Variance Inflation Factor (VIF) for the investment policy variable is $1.128 < 10$ and the Variance Inflation Factor (VIF) value for the dividend policy variable is $1.128 < 10$. So it can be concluded that there is no multicollinearity in the regression model.

4.3. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	.517 ^a	.447	.412	1.714

Table 3: Autocorrelation Test

Source: Data Was Processed With IBM SPSS Version 21.0

Based on Table 3, the Durbin Watson (DW) value is 1.714. The dU value in this study was 1.5838 and the 4-dU value was 2.4162. Therefore, the Durbin Watson (DW) value is between dU and 4 - dU, which is $1.5838 < 1.714 < 2.4162$. So it can be concluded that there is no autocorrelation in the regression model.

4.4. Heteroscedasticity Test

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	.597	.233	2.556	.016
	Investment policy	.366	1.168	.313	.756
	Dividend policy	-.526	.309	-1.700	.099

Table 4: Glejser Test

a. Dependent Variable: RES2

Source: Data was processed with IBM SPSS Version 21.0

Based on Table 4, it is found that the value of the Glejser test for the investment policy variable is $0.756 > 0.05$ and the Glejser test for the dividend policy variable is $0.099 > 0.05$. So it can be concluded that there is no heteroscedasticity problem in the regression model.

4.5. Multiple Linear Regression Analysis

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.445	.303		1.471	.151
Investment policy	.190	1.514	.023	.126	.901
Dividend policy	-.457	.401	-.209	-1.138	.264

Table 5: Multiple Linear Regression analysis
Source: Data Was Processed with IBM SPSS Version 21.0

Based on Table 5, a constant value of 0.445 is obtained, the regression coefficient value of the investment policy variable is 0.190 (positive sign) and the dividend policy variable regression coefficient value is -0.457 (negative sign). Based on this value, a multiple regression equation can be made of the effect of investment policy and dividend policy on firm value in the food and beverage sub-sector listed on the Indonesia Stock Exchange as follows:

$$Y = 0,445 + 0,190X_1 - 0,457X_2$$

The meaning of the multiple linear regression equation can be explained as follows:

- A constant of 0.445 means that if there is no investment policy and dividend policy, the company value will remain at 0.445.
- The regression coefficient for the investment policy variable is 0.190, which means that if the investment policy increases by one unit, the firm value will also increase by 0.190.

4.6. The t test Partial

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.445	.303		1.471	.151
Investment Policy	.190	1.514	.023	.126	.901
Dividend policy	-.457	.401	-.209	-1.138	.264

Table 6: The Ttest Partial
Source: Data Was Processed With IBM SPSS Version 21.0

Based on Table 6, the results of the partial t test can be explained as follows:

4.7. Investment Policy

The regression coefficient value of investment policy is 0.190 with a regression significance value of $0.901 > 0.05$, so investment policy has a positive but insignificant effect on firm value in the food and beverage sub-sector listed on the Indonesia Stock Exchange. The results lead to the acceptance of the null hypothesis. So it can be concluded that the investment policy is not able to create significant impact on the investment policy.

4.8. Dividend Policy

The regression analysis gives the coefficient value as -0.457. The p-value comes .264. This is greater than .05. This leads to the acceptance of the null hypothesis. Hence it can be concluded that dividend policy has insignificant effect on firm value. Here this inference is valid for all of companies in the food and beverage segment listed on the Indonesia Stock Exchange.

4.9. The Coefficient of Determination

Model	R	R Square	Adjusted R Square	Durbin-Watson
1	.517 ^a	.447	.412	1.714

Table 7: The Coefficient of Determination
Source: Data Was Processed with IBM SPSS Version 21.0

Based on table 4.10, the value of R Square (R^2) is 0.447. Therefore, it can be explained that the contribution of the investment policy variable and dividend policy to company value in the food and beverage sub-sector listed on the Indonesia Stock Exchange is 0.447 or 44.7% while the remaining 55.3% is explained by other variables which are not researched in this study.

5. Discussion

Based on the results of the analysis using multiple linear regression, it can be explained that the effect of investment policy and dividend policy on firm value in the food and beverage sub-sector listed on the Indonesia Stock Exchange is as follows:

The regression coefficient value of investment policy is 0.190 with a regression significance value of $0.901 > 0.05$, so investment policy has a positive but insignificant effect on firm value in the food and beverage sub-sector listed on the Indonesia Stock Exchange.

This clearly indicates that along with the increment of the investment policy, the value of the company. If the investment policy reduces, it will decrease the value of the company in the food and beverage sub-sector listed on the Indonesia Stock Exchange. All of the companies are enlisted on the Indonesia Stock Exchange.

The results of this study support research conducted by Nurvianda et al. (2018) who found that investment decisions have a positive but insignificant effect on firm value in companies in the basic and chemical industry sectors. However, the results of this study contradict the results of Putra and Sarumpaet (2017). Their study found if the investment policy increases, it will increase the value of the company. The results of this study are in line with the irrelevant dividend theory (Irrelevancy Theory) or EBIT (Earning Before Interest and Tax) and company risk class. In addition, the results of this study support the customer effect theory (Clientele Effect), which states that there is a group of shareholders who do not really need money at this time and would rather be happy if the company retains most of the company's net income to expand its business in the future. The results of this study contradict the results of research by Nurvianda et al. (2018).

6. Conclusion

Based on this study the following set of conclusions has been obtained:

The companies enlisted in the Indonesia Stock Exchange found to be significantly affected by the Investment policy. The association found to be positive. Dividend policy has a negative but insignificant effect on these companies.

7. Suggestions

Based on the research conclusions, the suggestions that can be given to interested parties in this research include:

- For Investors. Investors should pay attention to the investment policies and dividend policies adopted by the company in conducting stock trading transactions. This is because based on research results that investment policy and dividend policy affect firm value.
- For further researchers. The next researcher is expected to add other variables besides investment policy and dividend policy in order to obtain varied research results and know which variables can affect firm value.

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