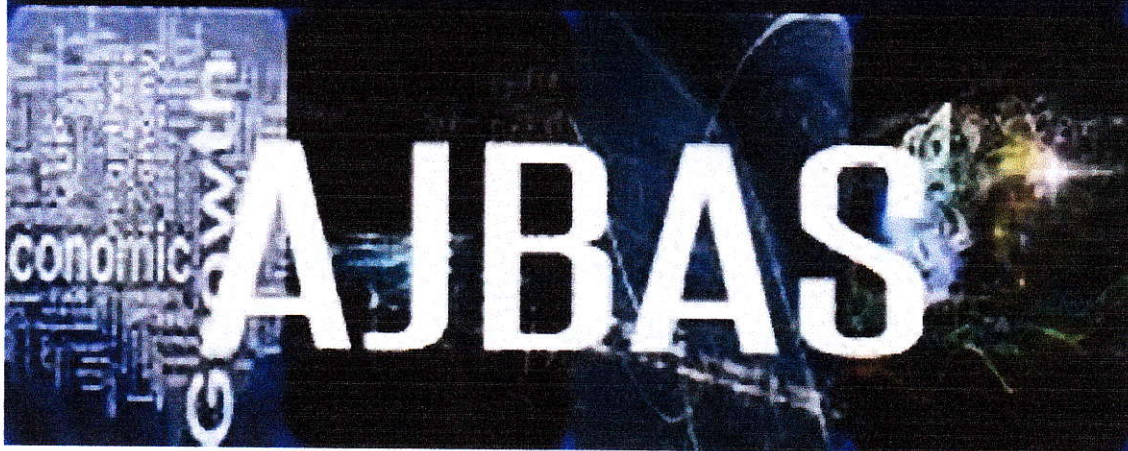


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Funding Policy, Investment Policy and the Implication to Company's Value

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ABSTRACT

Background: The goal of the company is to improve the shareholders' welfare. The successful indicator to reach the company's goal is reached by noticing improving company's value. The improvement of company's value is reached by doing continuing investment supported by the availability of money source for the investment. **Objective:** The purpose of this research is to know the impact of investment and funding policies to the company value. **Results:** The research's result proved that the fund policy and investment policy, partially or together, have impact to the company's value. **Conclusion:** Financing policy has a positive influence on company's value for the issuer that listed in Indonesia Stock Exchange from year 2010-2014. Investment policy has a positive influence on company's value for the manufacturing issuers listed in Indonesian Stock Exchange from year 2010-2014. Investment and financing policy simultaneously have a positive influence on company's value for the manufacturing issuers listed in Indonesian Stock Exchange from year 2010-2014.

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INTRODUCTION

Company's goal: to improve the shareholders' welfare proxied by the company value. Company value is the multiplying of share value with the amount of shares (Copeland & Weston, 2003). In their activities, funding policy and investment policy face business risks, so the asset and selling improvement is not always followed by the improvement of company's value. On the other side, the change of company's status to be an open company shows the asset's expansion and investment progress. The asset expansion finally improves the company's value. But the macro-economy condition also gives impact to the company's performance. The global crisis of economy also caused the performance degradation which is shown by the degradation of added value of manufacture companies in Indonesia. The performance degradation and the amount of companies that carry out the selling of stocks activity, caused by the in-efficiency of debt management which affects at the funding policy and investment policy. The decline of company's stock value, especially the companies listed in the stock market, as the result of failure in the funding policy and investment policy. Every funding policy and investment policy will influence the company's value. (Fama and French, 1998). By referring to the

research result that has been done before on other countries, giving the picture that there is a connection between the funding policy and dividend policy with the company's value, but it is not clear yet. This research tried to reveal how far the funding policy and investment policy implicate to the company's value. Is the funding associate with the investment policy; is the company's value? Is the funding associate with the company's value; is the investment policy; associate with the company's value; and is the funding policy and investment policy associate with the company's value.

Literature Review:

The research about the relationship between the financial decision and company's value started by Modigliani and Miller. (1958, 1963), continued by Fama (1978). Modigliani and Miller (1958) – with the perfect market assumption – said that any kind of funding decision and no matter how much the funding mixture is, it will not affect the company value. But in 1963, Modigliani and Miller loosen the assumption used as the basic framework of the theory of thought, by adding the tax element in the funding structure theory. The conclusion made is the funding decision that will affect the company's value.

It happened because of the paid interest could be used to reduce the tax deductible. In other word, the company who pays interests will pay the income tax, which is smaller than those who don't have any debt. Because the tax savings is the benefit for the company owner, so the company's value who has debts is bigger than the company who has not any debt. Debt and bankruptcy fee on the optimum asset structure become the minimal asset structure, so the company's value will be maximum. And if the market runs well, then the company's value will be reflected in the company stock price.

Different with Modigliani and Miller, who only saw that funding decision gives impact to the company's value and omit the investment decision, Fama (1978) tried to explain the investment decision impact and funding decision to the welfare of the stockholders and bondholders). The improvement of security holders' welfare could be reached through the investment decision, who gives positive net present value. With the funding decision only, there will be welfare/prosperity diversion from bondholders to stockholders and the risk diversion from stockholders to bondholders. Therefore, to improve the company's value, the management has to do the right funding decision and investment decision.

The research done by Wright and Ferns (1997) about the impact of investment decision announcement toward the company's value is the presence of negative impact. As for Fama and French (1998), they researched the connection between the dividend and debt with the company's value partially. The conclusion given by the research was that dividend and debt has information about profitability. Besides that, they also got conclusion that investment has positive information about company prospect in the future. By putting in the earning control variable, investment and research and development, they found negative connection between debt and company's value.

Park and Evans (2004) concluded that leverage has positive connection with the company's value, whereas dividend has negative connection with the company's value. The difference might be caused because the basic framework used by Park and Evans was based on the free cash flow concept, where the company value developed by using three different measurements of the company development level: growth level, growth level spread over the market return, and the company market value growth over the company book value.

As for Fama and French, they used the proxy difference between total market value of a firm and book value of assets, divided by total market value of a firm. The variable of funding and dividend decision developed by using the same proxy, called ratio of interest expenses to total book value of assets for the funding decision, and ratio of dividend to total book value of assets for the dividend decision.

Hasnawati (2005) did a research about the implication in investment decision, funding decision and dividend policy over company value. The result concluded – both partially and simultaneously – investment conclusion and dividend policy have positive impact toward company value.

The company's goal is to improve the welfare of the stockholder through investment and funding activities. The investment on company asset is a decision to reach the chance to improve the stockholder's wealth. The investment's goal is to improve or maintain someone's wealth, because of the tendency of money value deflation. The investment could be done directly or indirectly. Direct investment through company asset provision for the company operational accomplishment through production and selling activities to reach the company's goal.

Investment can only come true through funding activity. Company, through the funding decision, can use many fund resources.

The imperfectness of capital market caused the company owner or stockholder refused to use the extreme leverage, because it will reduce the company value. If the capital market is imperfect, it might be because the appearance of bankruptcy cost. Agency cost or asymmetric information. The cost came from the capital decision will give impact to the company value.

The size of fund that can be invested on the company asset decided by two resources: internal and external. According to the signal theory, company will use the internal resource first before the external one. External fund resource will be used when the internal resource is impossible to be used.

The amount of fund needed by the company will be determined by how big the investment plan that will be held by the company is. It depends on the effort prospect in the future. So the amount of fund resource desired by the company depends on the investment plan, and the company will limit the search of their funding resource in the amount of the investment needs. Over-funding will reduce the company performance, because in the end, the company has to pay the funding resource used.

Research Method:

The method used is cause and effect analysis, with quantitative approach. The goal is to explain the relation of 1 variable bound with 2 free variables. The data used is company finance ratio per December 31st, 2010 – 2014. We collected data by indirect communication (secondary).

Sampling method used is sampling probability with random sampling technique. The kind of data used is data panel with regression model from three alternatives: common effect model, fixed effect model, or random effect model. In order to test the research hypothesis, we will test the t test and F with Anova.

Research Result:**Chow-Test result:**

Chow testing result showed Cross section F-value dan Cross section chi-square 0.0000 or less

than 0.05. then we can conclude that the right model to be chosen is Fixed effect model. Next, we have to choose the regression model, between Fixed effect (Random Effect) model or Hausman testing.

Table 1: Likelihood Ratio (Chow-Test) Result Redundant Fixed Effects Tests, Equation: FIXED, Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.	Kriteria	Hasil
Cross-section F	12.725459	(92,184)	0.0000	<0.05	Pilih FEM
Cross-section Chi-square	557.004167	92	0.0000	<0.05	

Source: Data processing result using Eviews (Tandiontong, 2015)

Hausman Test Result:

This step is conducted if from the Chow-Test result the chosen model is FEM. Hausman Test compares Fixed effect model with Random Effect, to find out which model is the best to use in this research. The result will be shown on table 2.

Comparative result between FEM and REM with Hausman test shows that Cross section random and idiosyncratic random value consecutively 0.8000 and 0.2000 or bigger than 0.05. Then we can conclude that we will use Random effect model. However, Adjusted R-squared value is 0.011015 or 1.1015% (relatively small). To make ensure that the chosen

model is the best, we have to conduct classic assumption tests, which are heteroskedasticity, autocorrelation and multicollinearity. For that reason we have to conduct this test on FEM and REM. On Table 3, we can see some changes, some independent variable experiencing significant level change statistically. The change is caused by the result of consistent error variance that shows that we have heteroskedasticity at the first model. With Adjusted R-square value 0.966938, means that model variance attached to the model for 6.6938% and indicate that independent variable can explain its dependent variable very well.

Table 2: Hausman Test Result.

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Kriteria	Hasil
C	1.888330	0.577853	3.267837	0.0012		
INV	6.73E-14	4.60E-14	1.461782	0.1449		
DER	0.219482	0.124701	1.760068	0.0795		
Effects Specification			S.D.	Rho		
Cross-section random			4.629336	0.8000	>0.05	Pilih REM
Idiosyncratic random			2.314372	0.2000	>0.05	
Weighted Statistics						
R-squared	0.018130	Prob(F-statistic)		0.8000		
Adjusted R-Squared	0.011015					
F-statistic	2.548069	Durbin-Watson stat		1.40963		

Source: Data processing result using Eviews (Tandiontong, 2015)

Table 3: Heteroskedasticity test on Fixed Effect Model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.905297	0.092085	20.69064	0.0000
INV	8.39E-14	1.51E-14	5.538567	0.0000
DER	0.157891	0.039494	3.997885	0.0001
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.978117	Mean dependent var		13.03614
Adjusted R-squared	0.966938	S.D. dependent var		13.49098
S.E. of regression	2.261444	Sum squared resid		940.9996
F-statistic	87.49467	Durbin-Watson stat		2.631820
Prob(F-statistic)	0.000000			

Source: Data processing result using Eviews (Tandiontong, 2015)

We can see Random Effect Model or Fixed Effect from correlation matrix among independent variables. According to Gujarati (2003), multicollinearity among independent variables

happen when absolute value of correlation matrix is or bigger than 0.8. Based on that view, then we have to test multicollinearity using correlation matrix that presented on table 4.

Table 4: Multicollinearity Model Test.

	INV	DER
INV	1	-0.04377007390411342
DER	-0.04377007390411342	1

Source: Data processing result using Eviews (Tandiontong, 2015)

From Table 4 we obtain an absolute value of 0.04377. This value is less than 0.8. From this statistical analysis result we can conclude that there is no multicollinearity in this regression model.

Based on Random Effect and Fixed Effect model, we can conclude that the best model on this research is Random Effect Model (REM), even though adjusted r-square value in Fixed Effect Model is better than the one in Random Effect Model.

After regression model chosen, that is Random Effect Model, then based on result in table 3, we have a Random Effect Model Regression Equation as follows:

$$MVE = 1.640411 + 1.11E-13 INV + 0.250710 DER:$$

This equation explains that the company's value increase, that proxied by MVE, of 25.07% also determined by the increasing of funding policy, that proxied by DER, of 100%, where investment policy is constant (0). Therefore, every increasing of company's value, that proxied by MVE, of 111% also determined by the increasing of investment policy that increasing 100% where funding policy is constant (0). In other words, the increasing of company's value is determined by the increasing of funding and investment policy toward a better condition.

Statistical Hypotheses Testing:

T-test:

Testing of DER variable to MVE:

H_0 is rejected because the probability value of DER variable is 0.0000 (from table 3). This value is lower than 0.05 with 5% significance level.

Therefore, Debt to Equity Ratio (DER) has a positive influence on company's value (with Market Value Added proxy). It means that the policies that have been made by company in order to increase DER will result on the increasing of company's value.

Testing of INV variable to MVE:

H_1 is accepted because the probability value of INV is 0.0000 (from table 4.4), This value is lower than 0.05 with 5% significance level.

Therefore, investment policy (INV) has a positive influence on company's value (with Value of Equity proxy). It means that a good investment policy will increase company's value.

F-test:

F-test is conducted to find out whether all independent variables (INV and DER) simultaneously have influence to company's value.

H_0 is rejected because F-prob value is 0,0000 (Table 4.3). This value is lower than 0.05 with 5% significance level.

Therefore, funding policy that proxied by DER and investment policy that proxied by INV has an influence on company's value that proxied by MVE

– simultaneously. It means that the increasing of company's value is also determined by funding and investment policy. Determination coefficient value is shown by R^2 . This analysis result of 0.866870 is presented in table 3. This value has a meaning that variance of the model attached to the model by 86.68%. This value indicates that tested independent variable can explained its dependent variable well, while another 13.31% influenced by another factors outside the model.

Discussion of this research result refer to the result of hypotheses testing, research objective, and literature review. Analysis result showed that there is an influence of funding decision to company's value. In other words, funding policy also determined whether the value of the company increasing or decreasing, as proven in the positive relationship as the formulated research hypotheses.

This finding also strengthens the theory about the influence of funding policy on company's value. Research finding showed that in determining source of fund, both quantity and proportion, management will consider stockholder's interest. (Brigham, 1993). This is occurs from the result of debt increasing that has an impact on effect of dari corporate tax shield.

Implication from this research result give a description for management, especially financial management whose job is to manage company's debt, that entity's going concern needs future growth. One of the important decisions that have to be made by (financial) managers in its relationship with entity's going concern is financing decision. Financing decision is a financing composition taken by the company that shows internal and external capital composition. This financing policy can influence company's value.

Therefore, financing decision taken by the company is a better policy, since retained earnings can not fulfill company financing needs. This is match with Pecking Order Theory, that source of funding for investment possibility must be based on its priority description. The main priority of source of funding to exploit investment possibility is form internal sources, which is retained earnings. If it did not sufficient, then debt will be the second choice, and for the last choice is equity fund. (Mayers, 1977, Myers and Majluf, 1984).

This research results also strengthens previous researches, done by Sari (2010) and La Rocca (2007) that proved that financing policy has a positive influence on company's value. In other words, company that have debt will pay interest that will decreasing tax income, which will benefited stockholders. This tax reduction will increase company's profit and that fund can be used for future company investment or for increasing dividend distribution to stockholders. That's why financing policy has can influencing company's value.

Analysis result on the influence of investment decision to company's value has found evidence that

there is a positive relationship as formulated in research hypotheses. This finding strengthens the theory of influence of investment policy on company's value. In other words, the increasing value of the company also determined by investment policy.

Refer to description above, this research result shows that financing and investment policy simultaneously influencing company's value. In other words, financing and investment policy also determined the increasing company's value. The increasing of DER as a proxy of financing policy that showed by the increasing of company's debt will also increase company's value. If a financing decision in a company is high, that will increase investor trust to the company. This is support the researches done by De Angelo and Masulis (1980), Stulz (1990), McConnell and Servaes (1995), and Jung, Kim and Stuls (1996).

Debt increasing will be interpreted by outside party as company's ability to fulfill future liabilities or a low business risk. And market will respond positively. Investor believes that with increasing debt, company will be able to expand for the company further development. For a company that financed from investor's debt, will be more interesting for investors, because their proportion will not decrease when the company decided to share the profit.

This research result is not support the research done by Fama and French (1998) that stated that there is a negative influence between debt and company's value. The increasing debt will be a concern for investors, because it will increase the risk and as the result they will respond that policy by selling their stocks.

Investment policy variable has a positive influence on company's value. If investment level in a company is high, it will increase investors' trust in the company, because the investor have a perception that investment is good news.

After companies try to obtain the fund, it will be used to obtain profit in the future. Investment activity done by the company will determine the future profit that will be obtain and company's performance. If the company do wrong in selecting investment, then company's going concern will be disrupted and of course this will affect investor's judgment towards the company.

Implication from this research result is give a description to company's manager, especially for (financial) manager to keep the investment growth so it can achieve the objective of the company through stockholders wealth and in the end will increase company's value. This supports the researches done by Fama (1978), Modigliani & Miller (1958). Besides that, investment increasing will be considered as future company's growth. This supports research done by Meyers (1977) stated that company value developed through stock market

value indicator is very influenced by investment opportunities and discretionary expenditures in the future. This research result supports research done by Fama (1978) that conclude that company's value will be determined only with investment policy. The research done by Modigliani and Miller (1958) that concluded that investment decision would be important, and because of that, company's objective will only achieved through company's investment activity.

Conclusion:

Refer to analysis and discussion result with a formulated hypotheses base; we can conclude the solution of this research problem in conclusions as follows:

- (1) Financing policy has a positive influence on company's value for the issuer that listed in Indonesia Stock Exchange from year 2010-2014.
- (2) Investment policy has a positive influence on company's value for the manufacturing issuers listed in Indonesian Stock Exchange from year 2010-2014.
- (3) Investment and financing policy simultaneously have a positive influence on company's value for the manufacturing issuers listed in Indonesian Stock Exchange from year 2010-2014.

Recommendation:

Recommendation given on this research result is expected to give a bigger impact exceeding this research result. The recommendation focused on two parties, academicians, management, investors, and financial analysts.

Management:

Theoretically, this research result give an alternative for management in the effort to increase company's value with studying financing and investment policy in general, especially as an empirical evidence to be shown to the stakeholders. In practice, in decision making for financing policy, management should consider company's operating activity in facing business risk (combination of operating and financial risk), that the increasing of assets and sales is not always followed by the increasing of company's value.

Academicians:

Theoretically, this research result give a referral that there are a lot of factors that can have influence on the increasing of company's value, like financing and investment policy in general, especially as a literature for empirical evidence by tracking other factors besides financing and investment policy. In practice, it can be used as a reference for the researchers who have the same interest to discuss the topics on this research.

Investors:

In practice, it can become a referral that some investment can be used for business expansion, like for diversification and sales growth. This capital expansion eventually will increase company's value.

Financial:

Analyst. In practice, it is considered important to have an understanding on policy taken by management, both financing and investment policy, that can increase company's value. That is why it needs socialization for investors or management.

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