CHAPTER I

INTRODUCTION

A. Research Background

Industrial development in the industrial 4.0 era, makes companies in each industry especially in manufacturing industries improve their performance to reach company's goal. Martono and Harjito (2003) stated that the company's objectives are divided into three parts, the first is achieving maximum profit. The second goal is wants to prosper the owner of the company or the shareholders (stockholders). The third objective is to increase the value of the company which is reflected in its share price.

The three objectives above are not substantially different, every company have their own priority. The higher the value of the company, the greater the prosperity that will be received by the owner of the company or investors (Fama, 1978).

To realize the company's goals, financial managers need to make various financial decisions and policies, namely funding decisions, investment decisions, and dividend policies. In addition, financial managers also need to pay attention to profitability, because the purpose of the company's operational activities is to make a profit. The three financial decisions need to be implemented because these decisions influence one another and can affect the value of the company (Jensen & Smith, 1984), (Fama & French, 1998), (Gitman, 2000), (Brigham & Houston, 2001), (Horne and Wachowicz, 2001). Therefore, by making financial decisions by financial managers, it is expected to be a signal to investors in perceiving the company's success rate.

Financial decisions made by financial managers can be seen in financial statements. From the financial decision, it is expected to give a positive signal about the company's prospects in the future. In addition, the signal can be interpreted to reduce asymmetric information about the company to investors. Thus, the market will respond positively resulting in the company's value going up.

In implementing these financial decisions, financial managers start from seeking funding. To get optimal funding, financial managers need to use internal funds (retained earnings) or external (debt and equity) or even use both.

Funds obtained by the company are then used by the company to fund the company's investment in order to achieve consistent growth and support the company's operational activities to generating profits. Things that need to be considered by companies in investing are, sources of funds for investment, the time period of the investment, and the most important thing is about the expected return of the investment.

Profit generated by the company which is supported by the company's investment activities, then will be managed by the financial manager as a dividend policy. Dividend policy is very concerned with investors or shareholders. In dividend policy, the financial manager decides whether the profits obtained by the company for one period will be distributed in the form of dividends or partly in the form of dividends and partly in the form of retained earnings.

However, several theories show that the relationship between the financial decisions and company value is still under debate. Some show irrelevant and some show relevant. Another problem is how these three financial decisions are based on relevant theories can explain and predict company value.

Theories that show irrelevance explain that company value is not influenced by leverage and dividend. According to Mogdiliani and Millier, (1958) the market value of any firm is independent of its capital structure (leverage) and is given by capitalizing its expected return at the rate cost of capital (ρ_κ) appropriate to its class. This argument has been supported by (Stiglitz, 1969), (Stiglitz, 1974), (Miller, 1977), (Fama, 1978). According to Miller and Modigliani, (1961) also, dividends also do not affect the value of the company. This argument also supported by (Fama, 1974).

In the opinion of the theory that states relevant, there are several theories that explain that leverage and dividends affect the value of the company. Balancing theory explains the trade-off between debt tax-shield and bankruptcy costs (Kraus & Litzenberger, 1973). Agency theory argues that debt reduce equity agency cost (Jensen & Meckling, 1976). Signaling theory argues that increasing debt is a good signal (Leland & Pyle, 1977). Pecking order theory reveals that managers prefer use internal financing rather than external financing due to costly external financing (Myers & Majluf, 1984). Signaling theory also argues that dividend is a good signal (Miller & Rock, 1985), and agency theory suggests that dividend mechanism reduce agency cost (Easterbrook, 1984).

Therefore, the reason for this research is to find out the results of each era. Because basically, it will depend on the conditions experienced by the company at that time. This research was carried out at different times and in normal economic conditions. In this study use profitability as a moderating variable to strengthen the relationship of investment decisions, funding decisions, and dividend policies to the value of the company. Because the three independent variables are supported by profitability. So, this research will be more interesting to study.

B. Research Problem Formulation

The main goal of companies that have go public is to improve shareholder prosperity through increasing company value. Value companies are often associated with stock prices, where prices are higher shares then the value of the company and the prosperity of the shareholders as well increase.

Company value is very important because it reflects the company's performance which can affect investors' perceptions of the company. One of company performance measures that are often used as a basis for taking decision is the profit generated by the company. Profit generated then the company will then be allocated for investment activities. Investment decision will impact on funding sources that can come from internal or external company. Profit generated by the company which is supported by the company's investment activities, then will be managed by the financial manager as a dividend policy.

Based on the background described above, the problem statement this research is as follows :

1. Does investment decisions affect company value in Indonesian Manufacture Companies?
2. Does funding decisions affect the company value in Indonesian Manufacture Companies?
3. Does dividend policy affect the company value in Indonesian Manufacture Companies?
4. Does profitability can moderate the influence of investment decisions on company value?
5. Does profitability can moderate the influence of funding decisions on company value?
6. Does profitability can moderate the influence of dividend policy on company value?

C. Research Objectives

In accordance with the formulation of the problem that has been stated, it can it is known that the purpose of this study is to obtain evidence of whether the level of financing decisions, investing decisions, and dividend policy significantly affect the company value in Manufacturing companies listed on the Indonesia Stock Exchange in 2015-2018.

Based on the background and the research problem, the objectives to be achieved from this study are:

1. Find out the effect of investing decision on Company Value in Indonesian Manufacture Companies
2. Find out the effect of funding decision on Company Value in Indonesian Manufacture Companies
3. Find out the effect of dividend policy on Company Value in Indonesian Manufacture Companies
4. Find out of profitability to moderate investing decision on Company Value in Indonesian Manufacture Companies
5. Find out of profitability to moderate funding decision on Company Value in Indonesian Manufacture Companies
6. Find out of profitability to moderate dividend policy decision on Company Value in Indonesian Manufacture Companies

D**. Benefits Of Research**

The results of the study are expected to contribute to the parties interested parties such as:

1. **Theoretical**

The results of this study are expected to add to the literature on the value of the company in the Manufacture industry, besides that this research is expected to be used as a source to strengthen previous research and can be used as reference material for future research.

2. **Practice**

a) Investor

For investor, this research is expected to be able to provide information in decision making when investing

b) Company

For companies, the existence of this research is expected to be used as consideration in decision making and determining policies to increase company value. This research is also expected to be used as a tool to find out whether the level of Financial decision.

E. Limitation Of Research Problems

By considering the limitations that exist in the author then the author focuses and limits the problems in this study at the effect of investment decisions, funding decisions and dividend policy on company value.