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The Impact of Decision Investment, Capital Structure and Growth on Profitability and Company Value in Manufacturing Sector of Firms in Indonesia

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ABSTRACT

Purpose of this study is to analyze investment decisions, profitability, capital structure, company growth and firm value population 149 manufacturing companies with 55 samples. Used Analysis Path. The results of the study show that the results of this study are expected to contribute to the development of financial management studies.

Keywords: Investment Decision, Capital Structure, Growth, Profitability and Corporate Value.

1. INTRODUCTION

Almost all investments contain uncertainty or risk. Investors do not know for sure the results to be obtained, so investors can only estimate what the expected profit is and how far the actual results deviate from the expected. Investment options cannot only consider the expected return but also the level of risk that will be faced.To ensure that the company's goals can be achieved and determine the effectiveness of the operations company's in achieving the goal (Haruman, 2008).
However, based on the theory of capital structure, capital structure when the position is above the target capital structure lengths, then any increase in debt will lower the value of the company. The essence of the trade-off theory of capital structure is to adjust benefits and tradeoffs that arise from the use of debt. As far larger benefits, additional debt is still allowed. When sacrifice for a greater use of debt already, the additional debt is not allowed (Kusumajaya, 2011).

The growth of manufacturing industry in Indonesia, namely at the beginning of the New Order, the manufacturing industry is relatively slow to growth. That is because the original local industry is still small, almost all types of machines to be imported. Causing the government should provide strict controls on imports, and this restriction is a serious obstacle for building industries. The company's growth is a prospect for any reason the company can provide the positive aspects of the company, as investment will be invested in the hope of providing a high return. Because of this high-growth companies will be interested in its shares by investors (Fanani, 2010). Growth is how far the company put itself in the overall economic system or economic system for the same industry. In general, companies that grow quickly obtain positive results in the competitive world of business, enjoy increased sales significantly and are accompanied by an increase in the market. So, companies with a high growth rate require more funds in the future, especially external funding to meet the investment needs and to satisfy the need to finance its growth.

One of the company's values is determined by profit, low profit and quality will decide the users of financial statements to be biased. Profit reflects the ability to make a profit in relation to sales,equity and total assets (Soliha and Taswin, 2002). Profit is the main attraction for the owner of the company as a result of the profit earned by the fund management business in investment by shareholders and also reflects the distribution of benefits they are entitled. Companies with high levels of profitability will demand shares by investors so as to increase the company's value (Mardiyati et al. 2012). The growth of manufacturing companies listed in Indonesia Stock Exchange the upward trend in sales, asset growth has also increased and profit growth volatility. More specifically indicated phenomenon based on the data support the company's growth as follows:

Table 1: Company Growth Manufacturing sector

Growth	Years (Rp)			Average (Rp)
	2014	2015	2016	
Sales	498.925.992.662,71	474.009.148.733,49	299.666.758.453,10	424.200.633.283,10
Assets	599.095.285.041,29	551.930.648.197,01	534.191.341.775,59	561.739.091.671,30
Earnings	838.919.420,92	20.582.169.571,80	10.082.726.425,43	10.501.271.806,05

The table shows that the increase Asset and capital does not necessarily give rise to a gain or in other words not guarantee the capital asset and profit growth proportionally.

2. BACKGROUND

Firm's value

The firms' value is the price that potential buyers are willing to pay when the company was sold (Husnan, 2004). Other scholars view describes the company as the market value of debt and equity securities of companies that are outstanding (Keown, 2004). The value of many companies interprets meaning that the value of the company reflects the present value of the expected income in the future and reflects the value of the company is the result of a decision taken by the financial manager of the company's stock price. The higher the stock price the higher the value of the company. The high value of the company to the wishes of the owner of the company, for a high score indicates prosperity shareholders also high (Keown 2000: 555).

The investment decision

Financial managers should help companies identify promising projects and decide how much wills the investment in each project. On the other hand, investment decisions also referred to the decision of the capital budget, because most companies provide an annual operating budget consists of capital investment Certificate (Brealey et al, 2008: 4). The investment decision-making concerning the allocation of funds both funds from the company and the funds that come from outside the company in various forms of investment both short-term investments and long-term investments (Ningsih and Indarti, 2012). Investment can reflect the company's growth in economic activity and business conduct. Decision-making on investments is usually difficult, since it requires an assessment of the situation in the future that are not easy to predict because of the uncertainty in the future (Ayuningtyas, 2013).

The value of a company depends on the company's production in the future (Fitriana and Pangestuti, 2014). Investment decisions positively and significantly to the value of the Company (Fenandar and Raharja, 2012; Qadariah, 2013).

Capital Structure

The capital structure is a mixture or blend of debt, preferred stock, common stock of that company in the capital structure of the company (Brigham and Houston, 2010: 150). The same view was expressed that the structure of capital expenditure remained reflected through the balance between equity capital and long-term debt (Riyanto, 2010: 22). Optimal capital structure of a company is defined as a structure that will maximize a company's stock price. The capital structure of the company concluded a funding mix to be in the good governance so as to maximize the value of a company (Brigham and Houston, 2010: 155).

The results in the selection of the source of funds are important because it will affect the company's capital structure, which ultimately will affect profits. Capital structure decisions are done improperly will cause fixed costs in the form of high capital, which in turn can lead to low profitability (Kusumajaya, 2011). High profitability of companies will have more internal funds of the company's low profitability.

Company Growth

The company growth is how far the company put itself in the overall economic system or economic system for the same industry (Machfoedz, 1996). (Copeland, 2008: 124) growth is the company's ability to increase the size. So, the company's growth can be defined as an increase in a company. A company in the industry that has a high growth rate should provide sufficient capital to fund the expenses of the company. Fast growing company tends to use more debt than a company that develops slowly (Weston and Brigham, 1997). The level of opportunity to develop a fast-growing company will be able to find a way that the company is in a development. The growth of companies is constantly increasing and the increase in value of the assets is expected to drive the expectations of investors for investment opportunities with expected benefits to be achieved. A newly established company or a small company at the level of sales growth increased demand for asset additions, as growth will not occur as expected without an increase in its assets.

Empirical evidence suggests that growth affect profits. The discovery explains that the assets held to have an effect on productivity and efficiency, which in turn have an effect on profits. Total assets as determined by considering the size of the growth is relatively stable compared to the value of assets market value capitalized and sales. So, asset growth is calculated as the percentage change in assets at some point over the previous year (Kusumajaya 2011). The company's growth has a direct and positive influence on stock price movements. (Darwiah,2010). The company's growth has a direct and positive impact on the changing value of the company (Myers and Bacon, 2002; Darwiah, 2010; Nurdin, 2013).

Profitability

The higher gain means the better, because the prosperity of the owner of the company with increasing profitability. High profitability shows good prospects for the company so that investors will give a positive response signal and the company rose (Soebiantoro and Sudjoko, 2007). The purpose of the analysis is to analyze the differences gain in operating profit due to the growth factor. The higher the level of profitability of a company the greater the level of prosperity provided by the company will attract investors to the company and will have a positive impact on stock prices in the market. This means that it will raise the value of the company. Kusumajaya (2011) revealed that the ratio of profit or profitability ratio shows the company's success in generating profits. In this study, the benefits are measured by return on equity (ROE) ratio is very important for the owners of the company (the common stockholder).

3. METHODOLOGY

This research uses explanatory research approach. This study was conducted at the Indonesian Stock Exchange on the manufacturing industry companies listed on the Indonesia Stock Exchange (IDX) with years of observation is 2014 to 2016. The data used stems from the Indonesian Capital Market Directory (ICMD). The criteria used in the extraction of samples, one of which is the Company did not incur losses during 2014 - 2016, which will cause the company to be low in order to obtain a sample of 55 companies. Hypothesis testing is done using (Path Analysis).

4. FINDING

Investment decisions effect on profitability

Tests on the hypothesis 1 (H1) who stated that investment decisions have an effect on profitability is accepted, can be proved by the path coefficient 0,527 and with the p-value 0.000 < 0.05. It can be construed that the right investment decisions lead to higher company profits, first proposed the hypothesis that proved acceptable that investment decisions is positive and significant effect on the profitability. The cause of the significance of cause and effect between these variables because as managers in decision making attempts to provide reinforcement that investment decisions are always based on the book value of fixed assets. The results of this study support the findings of previous research that the higher level of investment activity reflects the breadth of investment opportunities and increasing the operating results of the company (Yuliani et al. 2013).

Investment decision effect on firm values

Tests on the hypothesis 2 (H2) which states that investment decisions have an effect on firm values can be proven otherwise rejected by the path coefficient of 0.130 and the p-value 0.152 < 0.05, so it can be explained that investment decisions do not contribute to the company. The study's findings refute the findings of previous research, that investment decisions relating to the process of selecting one or more alternative investment is considered beneficial from a number of investment alternatives available to the company (Yuliani et al. 2013). The situation is caused because taking monetary policy at the company's manufacturing industry has always considered investment decisions with respect to the increase in the book value of fixed assets and total assets of the company to influence the level of the company, but a sample of the company and the indicator in the study showed that taking investment decisions tend considering the benefits without paying attention to the value of shares that cannot affect the value of the company. This research is based on the Ferlic (2008) which states that there is a negative correlation between investment decisions of companies with the financial resources of the company. The results of this study reject the findings of other researchers, that the investment decision is positive and significant impact on the value of the Company (Fenandar and Raharja, 2012; Qadariah, 2013).

The capital structure effect on profitability

The hypothesis 3 (H3), capital structure effect on profitability of proven otherwise accepted or supported by empirical evidence. The path coefficient of 0.230 and p-value of 0.032 <0.05, so it can be stated that the capital structure of the company can increase profits. This study supports the findings Kusumajaya (2011) that the capital structure and significant positive effect on the company. The situation is caused because the capital structure that is done improperly will cause fixed costs in the form of high capital, which in turn can result in lower profits.

The owner can use a considerable debt to limit its managers. High debt ratio will increase the threat of bankruptcy to be more careful and not waste money shareholders. The results in the selection of the source of funds are important because it will affect the company's capital structure, which ultimately will affect profits. Capital structure decisions are done improperly will cause fixed costs in the form of high capital, which in turn can lead to low profitability (Kartini and Arianto, 2008).

The capital structure effect on firm values

The hypothesis 4 (H4), capital structure positive and significant effect on firm values is not supported by empirical evidence. The path coefficient is a 0.072 and then the p-value 0.452 > 0.05, so it can be stated that the capital structure does not contribute to the company. This stud y refutes the findings of researchers (Kusumajaya 2011; Hermuningsih 2012; Dewi et al. 2014) that the capital structure and significant positive effect on the value of the company at the company.

The company's growth effect on profitability.

The hypothesis 5 (H5), which states that the company's growth and significant positive effect on the profitability of proven otherwise received and supported by empirical facts. The path coefficient of 0.250 and p-value of 0.001 <0.05, so it can be stated that the company's growth contributed to the increase in company profits. The study's findings are relevant to the study results prove that Growth affect profits. That the company with its assets to increase productivity and efficiency, which in turn affects the profit (Darwiah 2010; Kusumajaya, 2011)

The company's growth effect on firm values

The hypothesis 6 (H6), company's growth had a positive and significant on firm values proven otherwise accepted or supported by empirical facts. The path coefficient of 0.187 with a p-value of 0.023 <0.05, so it can be stated that the company's growth can contribute to the increased value of the company. These findings support previous research studies conducted that growth companies have a positive influence on the company (Myers and Bacon, 2002; Darwiah 2010; Nurdin, 2013). The company's growth in terms of sales growth, asset growth and profit growth, direct and significant positive effect on the company. It is envisaged that the better the sales growth and the market value of the company's assets is increasing and ultimately increase profit growth. States are required to enhance the company's growth through increased sales growth; profit growth, asset growth and that directly affect significantly the value of the company.

Profitability effect on firm values

The hypotheses 7 (H7) which states that the profit positive and significant impact on the company's proven otherwise accepted or supported by empirical facts. The path coefficient of 0.259 with a p-value of 0.019 <0.05, so it can be stated that profitability could increase the company's value. The findings of this study support the findings of previous research that the higher the return, the higher the company's ability to generate profits and will create high corporate profitability (Firman, 2015; Kusumajaya 2011; Rizqia and Sumiati, 2013; Fitriana and Pangestuti, 2014).

Effect of Investment Decisions on Corporate Values Through Profitability

The results of testing the hypothesis obtained that indirectly investment decisions through profitability have no significant effect on firm value. Investment opportunity is a company value, the amount of which depends on the expenditures set by management in the future, in this case at the moment it is investment choices that are expected to generate greater profits. The value of a company formed through indicators of stock market value is strongly influenced by investment opportunities. The value of the company is solely determined by investment decisions. This statement is in accordance with the results of research by Fama and French (1998) which found that investments generated from dividend and leverage policies have positive information about the company in the future, then have a positive impact on company value.

Effect of Capital Structure on Corporate Values Through Profitability

The results of testing the hypothesis obtained that indirectly funding decisions through profitability have a significant influence on the value of the company. The tradeoff theory explains that before reaching the maximum point, debt will be cheaper than selling shares because there is a tax shield. But after reaching the maximum point, the use of debt by the company becomes unattractive because the company must bear agency costs, interest costs, and bankruptcy costs.

Effect of Company Growth on Corporate Values Through Profitability

The results of testing the hypothesis obtained that indirectly the growth of the company through profitability has a significant influence on the value of the company. This means that if the company plans to develop its company, investors will invest their funds in the company and expect high profits.

5. CONCLUSION

Investment decisions are measured by indicators Gross Book Value of Property, Plant, and Euipment to the Book Value of the Assets Ratio (PPE / PBA), Market to Book Value of Equity Ratio (MVA / BE), Market to Book of Assets Ratio (MVA / BVA) and the Additional Capital to Assets Book Value Ratio (CAP / BVA) proved to increase the profitability of manufacturing companies listed in Indonesia Stock Exchange. Capital structure, as measured by indicators of Debt to Equity Ratio (DER), Debt to Total Assets Ratio (DAR), Long Term Debt to Equity Ratio (LTDER) and Market Debit Equity Ratio (MDE) has a positive effect on profitability.

The company's growth as measured by indicators of sales growth, asset growth and profit growth proved to increase the profitability of the company. Profitability consisting of indicator: Net Profit Margin (NPM), Gross Profit Margin (GPR), Return on Assets (ROA) and Return on Equity (ROE) proven to increase the firm value as measured by the Price Earnings Ratio (PER), Asset Market to Book Ratio (MBA) and Price Book Value (PBV).

The study recommends to researchers continued expanding the research by extending the study period by increasing the years of observation and also expanding the number of samples for future research. Then do some research development by developing the research model, the model hypotheses or development of multiple variables wider scope in analyzing the profitability and firm values.

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