

# **Effect of Investment Decision and Firm Size on Financial Performance (Empirical Study of Go Public Companies Listed on the IDX)**

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**Abstract:** *This study aimed to determine the effect of investment decisions and firm size on financial performance using the structural equation model (SEM). This model is expected to produce a more comprehensive analysis of the impact of investment decision and firm size on financial performance in public traded companies and the effect of one variable on other variables directly or indirectly on companies going public on the Indonesia Stock Exchange in 2011-2014. By using a target population of 513 companies and a sample of 315 public traded companies on the Indonesia Stock Exchange, the following research conclusions were obtained. Investment decision and firm size directly effect the financial performance of 2.34% and 9.49%, respectively. Indirectly investment decision effect financial performance by 7.82%, and firm size indirectly effect financial performance by 12.59%. The total effect of investment decision and firm size on financial performance are 10.16% and 22.08%, respectively. Of the two variables, firm size is more dominant in effect financial performance. Investment decision and firm size have a positive effect both directly and indirectly on each other. The theoretical findings from this study can be developed to make investment decision and firm size in companies going public. In other words, that these two variables have a significant effect on the company's financial performance compared to other factors.*

**Keywords:** *Investment Decision, Firm Size, Financial Performance*

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## **I. Introduction**

The company is one of the forms of corporation that runs every type of business, permanent, continuous and working in the territory of the Republic of Indonesia, for the purpose of obtaining profits and/ or profits (Article 1 letter b of Law number 3 of 1982 concerning Obligatory Registration of Companies). With the maximum profit or profit, the company can maintain the survival of the company. However, the growing world of the business is growing increasingly fast. Many new companies that have arisen so as to create a business competition that is very difficult and competitive. Because of this, all the businesses involved in the business are required to be able to manage the resources they have more effectively and efficiently to support what has been the goal of the previous company.

Investment Decision and Dividend Policy Companies listed on The IDX have fluctuated and some companies do not distribute dividends due to declining income, for the capital structure of some companies the composition of long-term debt is greater than their own capital and some companies show their own capital is greater than their long-term debt. The size of the firm in companies listed on The IDX varies with big, medium and small categories.

The development of share price changes in the sectors listed on The IDX partially decreased and some experienced increases and decreases as well as decreases and increases.

According to Brigham and Houston (2009), an increase in debt is interpreted by foreign parties about the ability of a company to pay for its mandatory future obligations or when it comes from low business, this will be positively responded by the market. There are two views about funding decisions. The first view is known by the traditional view that states that the structure of the capital influences the value of the company. Another policy that pertains to the value of the company is the investment decision, where investment decisions in this case are short-term investments and long-term investments.

According to Hidayat (2010), investment decisions are an important factor in the functioning of a company's finance, where the value of the company is solely determined by investment decisions. The purpose of an investment decision is to obtain a high level of profitability with a certain level of risk.

According to Jumingan (2011:239), Performance is a picture of the achievements achieved by the company in its operational activities, both in terms of financial aspects, marketing aspects, aspects of collection and distribution of funds, aspects of technology, and aspects of human resources.

One factor that influences financial performance is capital structure. Capital Structure is a balance between the use of loan capital which consists of: short-term debt which is permanent, long-term debt with own capital consisting of: preferred stock and customary.

In the El-Banany study (2008, 2012) it was found that the size of the firm had a significant influence on financial performance.

## **II. Literature Review**

### **Effect of Investment Decision on Firm Size**

Research conducted by Yuko Kinoshita (2008) regarding the relationship of investment decisions with firm size results in the conclusion that in a country in this case the Japanese State that companies or investors will make investment decisions when the measure is the size of the firm. Different firm size will affect investment decisions. In line with Yuko Kinoshita, research conducted by Almas Heshmati and Hans Lööf (2008) results in a positive relationship between investment decisions and firm size, the larger the size of the firm will increase investors to invest because it is considered to be profitable.

### **Effect of Investment Decision on Financial Performance**

Investments made by companies often provide opportunities for companies to increase their competitive advantage. Investment opportunities carried out with the right considerations can further enhance company performance. Conversely, investment opportunities that are not utilized properly will only cause losses (decreased performance) for the company. In contrast to the results of Soejono's research (2010) which stated investment decisions had no effect on company performance. Dewi and Suardana (2015) in their research found that investment decisions effect company value through financial performance.

### **Effect of Firm Size on Financial Performance**

Huang in Isbanah (2015: 28-41) and Talebria et al. (2010) in their study also found that there was no influence of firm size on the company's financial performance. Whereas in the study of Lin (2006) and Wright et al. (2009) found that firm size had a positive effect on financial performance. Odalo et al. (2016: 34-40) in his research found that firm size had a positive and significant effect on financial performance.

## **III. Research Methods**

This research uses causal quantitative research. Sugiyono (2013: 37) states that causal quantitative is useful for analyzing variables with other variables or how a variable affects other variables. This study belongs to the type of explanatory research, namely research that explains the position of the variables studied and the relationship between one variable with another variable (Umar, 2005: 173).

This study uses descriptive research and verification research using quantitative approaches. Descriptive research is a type of research that aims to provide a more detailed picture of a particular phenomenon or phenomenon. Verification research is a type of research that aims to test a theory or the results of previous research, in order to obtain results that strengthen or invalidate the theory or results of previous research.

This study aimed to determine the effect of investment decisions, capital structure, dividend policy and firm size on financial performance and its implications for company value using the Structural Equation Model (SEM). This model is expected to produce a more comprehensive analysis of the impact of investment decisions, capital structure, dividend policy and firm size on financial performance in publicly traded companies and the effect of one variable on other variables directly or indirectly. Besides wanting to know the implications of financial performance on the value of the company in going public companies on the Indonesia Stock Exchange in 2011-2014. By using a target population of 513 companies and a sample of 315 publicly traded companies on the Indonesia Stock Exchange, the following research conclusions were obtained.

## **IV. Results and Discussion**

Investment Decision Measurement shows that the loading factor value, investment decision indicator shows that the market to book asset ratio and Earning to Price Ratio are the most powerful indicators in explaining the investment decision variable because it has a loading factor of 0.847 and 0.826. The next sequence is capital expenditure to book value assets ratio, current assets to total assets ratio and total assets growth.

Measurement of firm size shows that the loading factor of the two indicators of firm size shows a value of 0.920 for sales and 0.803 for total assets above  $> 0.50$ , meaning that sales and total assets are strong and very meaningful in shaping latent variables of firm size.

Measurement of financial performance shows that loading factor as a result of measurement using LISREL, shows that the return on total assets with a loading value of 0.831 has a very significant influence in measuring the latent variables of company performance. Loading values of more than  $+ 0.50$  are said to be very meaningful (Bachrudin and Tobing in Hasnawati and Sawir, 2015). Likewise, the basic earning power indicator with a loading value of 0.735 is very meaningful in measuring the latent variables of company performance.

### **Analysis of The Effect of Investment Decision, Firm Size on Financial Performance**

From the structural model 1 it is found that investment decisions, Dividend policies, Capital Structure, firm size significantly influence financial performance both simultaneously and partially. Based on the results of data processing Lisrel 8.7 program for structural model 1, in accordance with the proposed hypothesis is as follows:

$$\text{Financial Performance} = \underset{\substack{(0.0704) \\ 2.169}}{0.153} * \text{Investment Decision} + \underset{\substack{(0.0687) \\ 4.487}}{0.308} * \text{Firm Size}$$

The results of data processing also show the  $R^2$  value for the above equation is 0.667 or 66.7%. This illustrates that financial performance is influenced simultaneously by investment decisions and firm size. This value also indicates that there are still other factors that influence financial performance beyond the factors of investment decisions and firm size indicated by variance error, amounting to 0.333 or 33.3%. Thus the conceptual hypothesis proposed has been tested and accepted.

Based on these results the biggest influence is the firm size variable at 22.08%. So it can be seen that all variables are interdependent to improve a company's financial performance. In addition to the four variables above, there are still many variables that have an influence on financial performance because they are based on influences outside the model, which is 0.333, meaning that financial performance is influenced by variables outside the research model of 33.3%.

### **Hypothesis Test**

#### **Testing Hypothesis Partially Investment Decision and Firm Size on Financial Performance**

##### **a. Partial Effect of Investment Decisions on Financial Performance**

Partial test results of investment decision on financial performance for the path coefficient of investment decision on financial performance of 0.153, obtained tcount value of 2.169 by taking a significance level of  $\alpha$  of 5%, then the value of t table = 1,972, so because tcount = 2.169 is greater than t table = 1.972, then  $H_0$  is rejected or in other words investment decision effect financial performance with a path coefficient of 0.153 so that any increase in investment decisions will increase financial performance by 0.153.

The results showed that investment decision have a direct effect on financial performance by a positive 2.34%. These results are supportive and consistent with the opinions expressed by Sincar et al (2000) and Dewi & Suardana (2015). The indirect effect of investment decisions on financial performance is greater than the direct effect. This indicates that financial performance cannot only be influenced by investment decisions but must be supported by other variables.

##### **b. Partial Effect of Firm Size on Financial Performance**

Based on calculations, for the firm size path coefficient on financial performance of 0.308, obtained a tcount of 4.487 by taking a significance level of  $\alpha$  of 5%, then the value of t table = 1,972, so because tcount = 4,487 is greater than ttable = 1.972, then  $H_0$  is rejected or in other words the size of the company affects the Financial Performance with a path coefficient of 0.308 so that any increase in firm size will increase financial performance by 0.308.

The direct effect of firm size on financial performance was 9.49%. The indirect effect of firm size on financial performance is greater than the direct effect. The results of this study support the research of Lin (2006) and Wright et al (2009) and Odalo et al (2016: 34-40) who find that firm size has a positive and significant effect on financial performance.

## **V. Conclusion and Suggestion**

### **5.1 Conclusion**

1. Investment decision measured by total assets growth, market to book assets ratio, earning to price ratio, capital expenditure to book value assets ratio, current assets to total assets ratio, on publicly listed companies listed on The IDX experience various fluctuations. Based on the results of loading factors show that investment decisions

using the Market to book assets ratio indicator are able to make a greater contribution compared to other indicators.

Firm Size as measured by total assets and sales shows that the size of the firm from going public has increased. Based on the results of loading factors, sales appear to be more meaningful than total assets.

2.The financial performance of publicly traded companies in Indonesia is well measured through these two indicators, namely return on total assets and basic earning power, indicating that the financial performance of publicly listed companies listed on The IDX has varied. The dimension of return on total assets has the highest percentage compared to basic earning power.

3.Investment decision has effect on financial performance in publicly listed companies listed on The IDX by 10.16%. The better investment decision, the better the financial performance of going public companies listed on The IDX.

4.Firm size has effect on financial performance in publicly listed companies listed on The IDX by 22.08%. The better size firm, it will improve financial performance in publicly listed companies listed on The IDX.

## **5.2 Suggestion**

Referring to the results of the study and the usefulness of the results of this study, it is recommended:

1.Research the factors of the application of good corporate governance (GCG) by companies going public on financial performance.

2.Concerning external factors that affect the financial performance of the company needs to be considered, considering that external factors have not been included in the modeling such as inflation rates, economic growth, currency exchange rates, politics, or industrial development. In addition, it needs to be considered.

3.Conducting research in the category of publicly traded companies that are on the main board and the development board as well as the acceleration board.

4.Future studies can use other indicators that form latent variables of investment decisions, firm size and financial performance.

5.For companies going public, the results of this study can be used as a material consideration, that it turns out investment decisions and firm size together have a considerable influence on financial performance and financial performance affects the value of the company, as well as if done separately . Therefore, it should be noted that related to investment decisions and firm size because one action taken will have a direct or indirect impact on financial performance.

6.Firm size is the biggest factor that influences financial performance so that financial performance is still a matter that must be really considered by company management to increase the value of the company and also for investors in investing in companies going public before making a decision.

7.For regulators relating to the capital market can support academic activities in the form of presenting the required data accurately and accurately, so that academics also have a strong desire to assist the development of the capital market in Indonesia through research that the benefits can really be used for academic and operational developments. In connection with the issue of data completeness and accuracy, the parties concerned such as the OJK and the Indonesia Stock Exchange can use a number of methods. First, create financial and non-financial reporting standards based on practical and academic needs. Second, regulators can collaborate academically that can support research that is beneficial for practical and educational activities. Third, publish a book containing a summary of the financial statements of all companies going public no later than 5 (months) months from the close of books or May 31 of the following year so that secondary data needed for research according to the latest conditions can be done.

8.For capital market players, especially investors, analysts, and those related to investment in the capital market. The results of this study have shown that investment decisions and firm size have a large influence on a company's financial performance. For this reason, any investment decision made in the capital market must still refer to fundamental analysis, not based on rumors or unreasonable approaches.

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