

## CHAPTER I

### INTRODUCTION

#### 1.1. Background

Generally, the company has two goals there are long terms and short term. For the short term, the purpose is like maximized the income with the resources owned by the company. And for the long term goal is to maximize the company value. This is can be categorized as the main goals of the company. The success of the company can be measured by using company value. Basically, the purpose of financial management is maximizing the value of the company. But behind this goal, there is a conflict between shareholders and managers and with fund providers as a creditor. Shareholders will tend to maximize value shares and forces managers to act in accordance with interests they are through the supervision they do. Creditors on the other side tend to try to protect their funds invest in companies with guarantees and supervision policies strict ones too. Managers also have the urge to pursue their interests. It is even possible for the people managers to make investments even though they cannot maximize shareholder value. These differences in interests create frequent conflicts called agency conflict. According to Brigham and Houston (2011), companies channeling some of the excess cash flow to shareholders through high dividends and other alternatives are the use of debt to reduce the conflict. It is expected that with more debt high can force managers to be more disciplined. Some research explained that financial management concerns the settlement of important

decisions taken by the company, among other investment decisions, financing decisions, and dividend policies. Something the optimal combination of the three will maximize the value of the company which will further increase the prosperity of shareholders.

Company value is often associated with the value of the company's stock. A company can be said to be good if it has a good value also including the performance of the company. When the value of the company's stock is high, it can be pointed out that the company has good value. The company's goal is to increase the prosperity of shareholders. Fajaria et al. (2017) explain that in investing especially in the manufacturing sector, the investor consideration is like the level of returns to the investment and the level of risk of the effect on the investment. Because usually investors will expect a higher rate of return than the level of risk, but in reality, it does not always happen like that way. As we know the higher the level of risk that investor gets will give the higher the rate of return also. But currently, there are still few investors who are risk lover. High stock values indicate that the company has high profits and good performance.

As we know one of the company's goals is to maximize shareholder value and company value. These goals can be achieved by making the right financial decisions. Based on Fajaria et al. (2017) explain that the financial function includes three major decisions that must be taken by the company they are investment decisions, funding decisions, and dividend policy. These three decisions are mutually connected because investment decisions can be made if supported with sufficient funds, while to get the funds to need to be made

appropriate funding decisions and in accordance with the conditions of the company and influenced by the dividend policy.

The financing decision is a decision on finding the source of funds to finance the investment and determining how much the composition of the funding source will be used. Funding comes from within, such as retained earnings, own capital, and cash, and some from external sources such as debt and equity. The purpose of funding is to fund investments. Based on the previous research results, show that funding decisions have a positive and significant impact on firm value. In contrast with several studies suggest that funding decisions negatively affect insignificant value to the firm. This indicates that the effect of funding decisions on corporate value varies.

Another decision is the dividend policy. According to Fajaria et al. (2017) the dividend policy is a policy that organizes of how much of the proportion of profits to be distributed to shareholders of both ordinary shareholders and preferred shareholders. The purpose of dividend payout is to improve performance and motivate stakeholders thereby increasing the value of the company. Based on the previous research conducted by Putri and Iin (2012) shows that dividend policy, have a negative effect on company value. In contrast, research conducted by Oktaviana (2013) shows that dividend policy has a positive and significant effect on firm value. This shows that the effect of dividend policy on corporate value still varies.

Investment decisions can be measured using the formula Total Asset Growth (TAG). Funding decisions can be measured using the Debt to Equity Ratio (DER) formula. The dividend policy can be measured using a Dividend Payout Ratio (DPR). Corporate value is a company's performance that is reflected by the stock price formed by demand and supply in the capital market reflecting the public opinion about the company's performance. Company value can be measured by using the Price to Book Value (PBV) formula. Based on some research that explains above, a researcher wants to research about **the effect of investment decision, financing decision, and dividend policy toward company value in manufacture companies sector that listed at Indonesia Stock Exchange (IDX) in 2015-2017.**

## 1.2. Research Questions

This research is purposed to find out about these questions:

- a) Does the investment decision have an effect on company value?
- b) Does the financing decision have an effect on company value?
- c) Does the dividend policy have an effect on company value?

## 1.3. Research Objectives

This research aims to obtain empirical evidence about:

- a) The effect of investment decision on the company value.
- b) The effect of financing decision on the company value.
- c) The effect of dividend policy on the company value.

#### 1.4. Research Benefits

This research is expected to provide benefits in the form of:

a) For researcher

The results of this research are expected to provide insight and knowledge as well as be able to prove empirically about the influence of investment decision, financing decision, and dividend policy on the company value.

b) For the company

This research is expected can contribute to the company that factors effect and can use it as a reference in determining the factors that influence company value.

c) For reader and others

The results of this research are expected to add insight and knowledge of the reader in the field of the company value so that this research can be used as a reference for further research.

#### 1.5. The Scope of Research

This research was conducted to analyze the factors that influence the company values. This study focused on several factors such as investment decision, financing decision, and dividend policy.

#### 1.6. Writing Systematic

The discussion in this study is described in five chapters with a systematic discussion to make it easier for readers in understanding this research. Writing systematic gives an overview of each chapter as follows:

## CHAPTER I INTRODUCTION

The introduction will discuss the general description that becomes the basis of this research. It consists of background, problem definition, research objectives, research benefits, research scope, and writing systematically.

## CHAPTER II LITERATURE REVIEW

Literature Review discusses the theory that has the relationship with the research problem. This is useful as a rationale for solving problems. Moreover, this chapter also looks at previous research, theoretical framework, and the hypothesis that will be tested in this research.

## CHAPTER III RESEARCH METHODS

Research method provides an overview of the plan for conducting the research. This chapter includes the research design, research model, operational definition and research variable, population and sampling, data and data collection method, and analysis method.

## CHAPTER IV RESULTS AND DISCUSSION

This chapter will discuss the description of the research object and analysis as well as discussion of the research results regarding the influence of investment decision, financing decision, and dividend policy on company value.

## CHAPTER V CONCLUSIONS

Conclusions are drawn from the research results, limitations of this research, and also the suggestions for further research.