Effect of Financial Performance and Investment Decision on Company Value in Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract

The purpose of this research is to analyze effect of financial performance and investment decision on company value in Manufacturing Companies Listed on the Indonesia Stock Exchange. The type of research used in this research is quantitative research. The sample in this study is Manufacturing Companies listed on the Indonesia Stock Exchange with the observed period from 2018 to 2021. The sample selection method in this study is purposive sampling. Based on the criteria, the research sample was 36 companies, so the observations that were used as samples for this study were 108 observational data. Hypothesis testing in this study uses a partial test. The results show that financial performance has not significant effect on company value in Manufacturing Companies listed on the Indonesia Stock Exchange. Investment decision has significant effect on company value in Manufacturing Companies listed on the Indonesia Stock Exchange.

I. Introduction

The development of an increasingly advanced global economy at this time encourages Indonesian business competition from day to day to experience rapid growth. The number of new companies that continues to grow makes business competition increasingly fierce and requires companies to survive and compete with other companies so as not to be left behind in running their business. The competition makes the company increasingly improve its performance so that the company's goals are achieved. For companies that go public, the company's short-term goal is to maximize profits by using existing resources. While the long-term goal of the company is to maximize shareholder wealth through increasing company value.

Signaling theory is the shareholder's perspective on the company's opportunities to increase the value of the company in the future, where the information is provided by the company's management to shareholders. Signaling theory explains the reasons why it is important for companies to have an incentive to provide financial statement information to external parties.

The value of the company in a publicly traded company is reflected in its share price. Every company wants to have a high company value. Increased company value can be achieved if the company is able to achieve the targeted profit. A high company value will reflect the welfare of good shareholders so that investors will be interested and think that the company is good. More people who invest means that the demand for shares will increase and the share price can be increased by the company.

Firm value is an investor's perception of the company's level of success which is closely related to its share price (Sujoko and Soebiantoro, 2007). The value of the company is seen as a measure of the success of a company because the value of the company can describe the state of a company. With many investors who want to invest in a company, it will advance the company because the company gets funds that can be used for operational activities, maintain its survival, and distribute dividends to shareholders. Firm value in this study was measured using the price to book value ratio. Price to book value ratio is the ratio between the stock market price and the book value per share (Christiana and Putri, 2017). Price to book value shows the comparison between the stock price and the book value of the company.

The manufacturing industry is the most listed industry on the Indonesia Stock Exchange. This condition certainly creates intense competition between companies. This competition will surely make every company improve its performance. The rapid investment in manufacturing companies is expected to grow production in the manufacturing sector and continue to increase until 2021.

The goal to be achieved by each company must be the same, namely maximizing the value of the company. The company must earn as much profit as possible. The profit generated by the company comes from sales and investment decisions made by the company (Putri and Ibrahim, 2017). The profits obtained from investment decisions with a good investment composition will attract the attention of potential investors and investors to invest in the company. According to Afzal (2012), investment decisions are an important factor in the company's financial function where investment decisions are stated as the only factor that determines the value of a company. This means that in achieving the company's goal of prosperity through increasing the value of its shares, there is only one way that can be taken, namely investment decisions. Signaling theory states that investment spending gives a positive signal about the company's growth in the future, so it can increase stock prices which will also increase company value (Wahyudi and Pawestri, 2006). The appropriate investment decisions are expected to provide positive growth for all parties. For investors, positive growth is a profitable prospect, because optimal returns can be generated from the investments invested. This means the availability of investment opportunities for companies to determine various investment options if the growth is positive. This research is motivated by differences in the results of previous studies where Rakhimsyah and Gunawan (2011) concluded that investment decisions have a positive effect on firm value, but different results were found by Yuliariskha (2012) concluding different results that investment decisions have no effect on firm value.

Firm value is also influenced by firm size. Company size is the total assets owned by a company. The larger the size of a company, the easier it is for the company to obtain additional funds in the capital market for its operational activities. The ease of obtaining these funds is considered by investors as a positive signal that the company has good prospects. Large companies will also find it easier to get the attention of investors so that they will be more focused on maintaining the company's financial stability. Company size can be used as a benchmark for companies to be able to manage their assets well so that

they can generate profits. The previous research conducted by Nurhayati (2013) found that firm size had a positive effect on firm value.

In addition to investment decisions and company size, company value is also influenced by the company's financial performance. Performance itself can be interpreted as a condition of the company's ability to manage its resources. Maintaining financial performance is an obligation so that the company remains in demand by investors because financial performance is a reflection of the good and bad of a company in managing its resources. The company's financial performance can be seen through its financial statements. The measurement of financial performance is useful for measuring the company's achievements. Research on the effect of financial performance as proxied by return on equity on firm value shows inconsistent results.

The purpose of this research is to analyze effect of financial performance and investment decision on company value in Manufacturing Companies Listed on the Indonesia Stock Exchange.

II. Research Method

The type of research used in this research is quantitative research. This type of research is research that emphasizes analysis on numerical data processed by statistical methods (Asyraini et al., 2022; Octiva, 2018; Pandiangan, 2015). This quantitative research uses a causal associative research design, namely research that analyzes the relationship and influence between the independent variable and the dependent variable, and how one variable affects other variables (Jibril et al., 2022; Pandiangan et al., 2018; Pandiangan, 2022).

The sample is a part taken from the whole object of research and is considered to represent a true picture of the population (Octiva et al., 2021; Pandiangan et al., 2021; Pandia et al., 2018). The sample in this study is Manufacturing Companies listed on the Indonesia Stock Exchange with the observed period from 2018 to 2021. The sample selection method in this study is purposive sampling. Purposive sampling is the determination of the sample by setting certain criteria (Octiva et al., 2018; Pandiangan, 2018). Based on the criteria, the research sample was 36 companies, so the observations that were used as samples for this study were 108 observational data.

Hypothesis testing in this study uses a partial test. Partial test is carried out so that it can be seen how much influence an independent variable has partially on the variation of the dependent variable (Pandiangan et al., 2022; Tobing et al., 2018).

III. Results and Discussion

3.1 Manufacturing Companies

According to Hasibuan (1994) macro definition of industry is all sectors that can generate added value and broadly can be divided into two parts, namely industries that produce goods and industries that produce services. Understanding the micro industry is defined as a collection of companies that can produce goods that are homogeneous or can replace each other closely (Hasibuan, 1994). Efforts to produce goods from raw materials or raw materials through the cultivation process in large quantities so that these goods can be obtained at the lowest possible unit price but with the highest possible quality.

A location where production activities will be held. Industry does not always produce tangible products, but industry can also produce abstract products such as in the

service industry. In the service industry, the resulting product is not a concrete product but an abstract product, namely a break-even feeling for what they have spent.

Judging from the form of the production process, an industry or factory can be grouped into 5 types, namely (Hasibuan, 1994):

1. Process Industry (Chemical Process)

The process industry usually uses a chemical process, which is a production system whose production process uses chemical properties in the form of chemical processes such as reactions of various elements. For example food companies (PT Indofood, Garuda Food, Nestle, and others), and fertilizer industry (Pupuk Kalimantan Timur, Pupuk Kujang, and others).

2. Manufacturing Industry

The industrial process in the manufacturing type industry is characterized by a change in form from input to output. For example, the furniture and furniture industry (chair industry, table industry, and others), and garment industry (clothing industry).

3. Assembling Industry

The assembly industry is characterized by an assembly process that combines components into a final product. The assembled components do not have to be made by themselves but can be supplied by partner companies. For example, the automotive industry (PT Astra Honda, PT Toyota Astra, and others), the electronics industry (computer industry, mobile phone industry, TV industry, and others).

4. Transportation Industry

The transportation industry is characterized by a production process that is more directed at creating the movement of goods or services. For example PT POS, PT Garuda, PT Damri, mining industry, and others.

5. Service Industry

The production process in the service industry is characterized by products and services provided not in tangible form but in something abstract. Service industry products can only be felt in the form of information, security, health, preparation of necessary information data and so on. For example Banks, Hospitals, Educational Institutions, and others.

Manufacturing is a production process to produce physical products. Manufacturing is the process of converting raw materials into physical products through a series of activities that require energy, each of which creates a change in the physical or chemical characteristics of the material (Hasibuan, 1994).

In processing raw materials into finished goods, other resources such as human labor, machines, and supporting equipment are needed. This processing activity is also known as manufacturing, which is carried out on a large scale with the aim of being sold to the wider community so that it can make a profit. Manufacturing is a series of interrelated operations and activities that include designing, selecting materials, planning, manufacturing, quality assurance, managing, and marketing products (Hasibuan, 1994).

The definition of the manufacturing industry according to experts is an industry whose main activity is converting raw materials, components, or other parts into finished goods that meet specification standards. Manufacturing industries are generally capable of producing on a large scale. Manufacturing industry is a processing industry, which is a business that processes or converts raw materials into finished goods or semi-finished goods that have added value, which is carried out mechanically with machines, or without using machines. The manufacturing industry is defined as a group of companies that process raw materials into a type of finished goods that are produced in large quantities and sold to the public for profit. Almost all the goods that we use everyday are the result of

processing the manufacturing industry. A manufacturing industry does not only function in the production process, there are several other functions to support the implementation of all activities and objectives of the manufacturing industry, including marketing, administrative, general, and financial functions. The production function is the main activity of the manufacturing industry, without the production function there will be no goods produced that can be sold (Hasibuan, 1994).

3.2 Partial Test Results

The test criteria are:

1. $H_0:b_1=0$, which means that partially there is has not significant effect of independent variable on dependent variable.

2. $H_a:b_1\neq0$, which means that partially there is has significant effect of independent variable on dependent variable.

Table 1. Partial Test Results

Variable	Sig.
Financial Performance	0.059
Investment Decision	0.000

Dependent Variable: Company Value

The results show that financial performance has not significant effect on company value in Manufacturing Companies listed on the Indonesia Stock Exchange. Investment decision has significant effect on company value in Manufacturing Companies listed on the Indonesia Stock Exchange.

IV. Conclusion

The results show that financial performance has not significant effect on company value in Manufacturing Companies listed on the Indonesia Stock Exchange. Investment decision has significant effect on company value in Manufacturing Companies listed on the Indonesia Stock Exchange.

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