Asia Proceedings of Social Sciences

Journal Homepage: http://readersinsight.net/APSS

8th ASIA International Conference (KLCC, Malaysia)

Analysis Decisions of Investment, Dividend and Capital Structure: Case Study of Indonesian Stock

Raja Ria Yusnita*

Department Economy and Business
Universitas Islam Riau, JL. Kaharuddin Nst No.113, Kota Pekanbaru, 28285
Indonesia
rajaria16@eco.uir.ac.id

Asdelina Ritonga

Master of Management
Universitas Islam Riau, JL. Kaharuddin Nst No.113, Kota Pekanbaru, 28285
Indonesia
asdelinaritonga@gmail.com

Ardian Lilis K

Department Economy and Business
Universitas Islam Riau, JL. Kaharuddin Nst No.113, Kota Pekanbaru, 28285
Indonesia
ardianlilis@gmail.com

Dwica Hanifa Rizal

Department Economy and Business
Universitas Islam Riau, JL. Kaharuddin Nst No.113, Kota Pekanbaru, 28285
Indonesia
dwicahanifarizal@gmail.com

***Corresponding Author email: rajaria16@eco.uir.ac.id**

Submitted: 19 March 2023 *Revised: 13 June 2023* *Accepted: 19 June 2023*

Peer-review under responsibility of 8th ASIA International Conference (KLCC, Malaysia) Scientific Committee
http://connectingasia.org/scientific-committee/
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Office # 6, First Floor, A & K Plaza, Near D Watson, F-10 Markaz, Islamabad. Pakistan,
editor@readersinsight.net

https://doi.org/10.31580/apss.v11i1.2788

ABSTRACT

The objective of this research is to investigate the potential association among the LQ-45 Companies during the period from 2015 to 2019. This will be achieved by analyzing Financial Ratios, represented by investment, dividends, and capital structure, as variabels Y and X, resulting in three equations. The selection of samples will be conducted through purposive sampling while also considering outliers. The study comprised multiple samples that met the criteria, and an observation was conducted over a five-year period from 2015 to 2019 on the LQ-45 Companies listed on the Indonesia Stock Exchange (IDX). The research utilizes Two Stages Least Square analysis for hypothesis testing. The findings indicate a noteworthy inverse correlation between investment and dividends. However, no significant impact was observed between dividends and capital structure, as well as between capital structure and investment. The authors aim to examine the extent to which the interrelationship among investment, dividend, and capital structure decisions affects the company in the subsequent period through this study.

Keywords: *Investment; Dividend; Capital Structure.*

RESEARCH HIGHLIGHTS

Based on the outcomes of the analysis and the preceding discussion, several conclusions can be inferred as follow:

1. Dividends have a significant negative effect on investment and capital structure has no effect on investment.
2. Investing exerts a notable adverse impact on dividend distribution, whereas the composition of capital holds no influence over dividend allocation.
3. Investments have no effect on capital structure and dividends have no effect on capital structure.

Investors and potential investors are expected to consider the investments made by the company, dividend payments made by the company to shareholders and the amount of capital structure raised by the company for the survival of the company. In addition, other factors must be considered to assess a company.

Research Objectives

In the context of investment decision-making, dividend allocation decisions, and capital structure decisions, this research involves a deep understanding of the complex relationships between these factors and how their interactions affect company performance. Additionally, this study also investigates the key factors influencing investments decisions, dividends allocation, and capital structure in LQ-45 companies. The uniqueness of this research lies in the analysis of how investment decisions can impact dividend allocation and capital structure decisions, as well as how dividend allocation and capital structure decisions can interact with each other.. Financial Ratios which are proxied by investment, dividends, and capital structure which are also variables Y and X so as to produce three equations.

Methodology

The study's sample consisted of seven companies, observed over a five-year period, that were listed on the LQ45 index and audited by the respective companies. The financial data of these companies were obtained from the official website of the Indonesia Stock Exchange (IDX) at www.idx.co.id.

The companies taken are insurance companies that have complete financial statements in which the insurance company reports its financial statements from 2015-2019 and the company distributes cash dividends.

During the period of 2015-2019, there were a total of 22 companies that were part of the LQ45 index and were listed on the Indonesia Stock Exchange (IDX). Meanwhile, those used and listed on the Indonesia Stock Exchange (IDX) for the 2012-2017 period and in accordance with the conditions determined by the researchers were 7 companies.

Results

The study investigates the impact of dividend and capital structure decisions on investment decisions, and also analyzes the effect of investment decisions and dividend decisions on capital structure decisions, employing the Two Stages Least Square method.

For investment decisions, the analysis shows a significant negative relationship with dividends, indicating that higher investment values are associated with lower dividend values. However, capital structure does not have a significant impact on investment.

In terms of dividend decisions, the findings reveal a significant negative relationship with investment, meaning that higher dividend values correspond to lower investment values. On the other hand, capital structure does not affect dividends. Regarding capital structure decisions, investment has an effect on capital structure, while dividends do not influence it significantly.

The Goodness of Fit (Adjusted R-Square) tests indicate that the independent variables can explain a relatively small percentage of the variance in investment decisions (20.0741%), dividend decisions (18.2837%), and capital structure decisions (2.6155%). The remaining percentages are attributed to other variables.

Overall, the analysis demonstrates that dividends and capital structure collectively have a significant impact on investment decisions. However, investment and dividends do not have a substantial effect on capital structure decisions.

Findings

This aligns with previous research conducted by Baskin (1989), Allen (1993), and Adedeji (1998) who found that dividends have a negative effect on future investment. A noteworthy inverse correlation between dividends and investment, indicating a substantial negative relationship. The aforementioned study demonstrates the adverse influence of dividend policy on the range of investment opportunities available. Dividends have a negative effect on investment. The larger the company invests, the less the amount of dividends paid out.

On the other hand, the smaller the investment, the higher the dividends distributed. This is in line with research by Adedeji (1998) who found that investment has a negative effect on dividends. Baskin (1989), Allen (1993), and Adedeji (1998) found that dividends have a negative effect on future investment. Investment has a negative relationship to dividends. For dividends, the probability value is greater than the value of and the coefficient is negative, which means that dividends have no effect on the capital structure. This is because the company continues to optimize funding and payment of long-term debt to creditors even though shareholders expect dividends to be distributed because paying debts is mandatory for the company to fulfill. Otherwise, creditors may assume that the company has failed in the performance of its obligations. This will cause the company's credibility to decline.

Acknowledgement

The limitation of this research is the small number of selected samples. So that further researchers are expected to be able to redevelop the research that has been done by increasing the number of samples and replacing or adding proxies from variables that are not significant in the study.

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