

THE EFFECT OF FINANCIAL POLICY ON THE PERFORMANCE OF INDUSTRIAL COMPANIES IN THE INSURANCE SUB-SECTOR IN INDONESIA

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Abstract: Companies with good profitability will have better abilities to fund their dividends and investments. Companies experiencing a lack of funding to fund dividend payments and fund investments can use external funding through leverage. The object of this study is the industrial company of the insurance sub-sector; the selection of this object is based on the idea that insurance as a financial product is supposed to give an assurance to its customers regarding the promised coverage. This study is purposed to examine and explain the effect of financial policy on the company and its performance. The analytical method used is Partial Least Square with purposive sampling technique. The sample used is insurance companies listed on the IDX during the 2017-2019 period. Variables used in this study regarding the effect of financial policies on a company's performance are investment opportunity set, dividend policy, capital structure, and firm value. Based on the analysis results, it is shown that the mediation of Capital Structure and Dividend Policy give a significant positive effect on a company's performance as reflected in the firm value obtained. Thus good financial policies can be used as a strategy to attract investors' interest. The results of this study are expected to benefit the company's leadership in optimizing the company's value through the established financial policies.

Keywords: Investment Opportunity Set, Dividend Policy, Capital Structure, Firm Value

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The generally accepted view in financial theory is that the shareholders of an individual company can come into a homogeneous group of relatively uninvolved absent owners. It is also generally assumed that managers must act in the best interests of shareholders by receiving signals from the capital market (Easterbrook, 1984 and Rozeff, 1984). A company's

financial policies/decisions cover three areas, namely investment decisions, capital structure decisions, and dividend decisions.

The investment decision is an essential factor within the company's financial function. Fama (1978) stated that investment decisions determine a company's performance. It can be interpreted that investment decisions are crucial because the company's goal, maximizing the shareholders' prosperity, will only be achieved through its investment activities. The investment opportunity set, capital structure policy, and company's dividend policy are crucial for improving the company's performance.

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That is following stakeholder theory. From an empirical perspective, this has also been proven by Ehie and Olibe (2010), examining the effect of the investment opportunity set on a company's performance. The investment opportunity's effect on a company's performance is also based on signaling theory and information asymmetry (Myers and Majluf, 1984). The larger the investment opportunity set, the greater its debt because creditors perceive it as a positive signal (Smith and Watts, 1992). The greater the reaction to a signal that reflects the high expectations of market players, the greater the information asymmetry will be.

The first research to link the investment opportunity set (IOS) to the capital structure and dividend policy was conducted by Smith and Watts (1992). From the study results, Smith and Watts (1992) showed that the larger the company, the greater the debt and dividend yield; the greater the investment opportunity set, the lower the equity ratio towards company's performance or the higher the debt and the higher the dividend ratio towards stock prices. Research by Abbott (2001) further develops research by Smith and Watts (1992) and Gaver and Gaver (1993). Abbott (2001) examines capital structure policies and dividend policies in companies that experience changes in the investment opportunity set. The result is that the most sensitive policy towards changes in the investment opportunity set is the funding policy.

Ho et al. (2004) continued research by Gaver and Gaver (1993), adding leasing policy variables. The results showed that the growing companies have lower debt to equity ratios and dividend yields and tend to finance their assets by leasing operations than those that are not growing. Ho et al. (2004) also found that share ownership by directors weakens the relationship between the investment opportunity set and company policies (capital structure, dividends, and leasing). Capital structure can affect dividend policy, investment policy, and company performance. Companies with good profitability will have a better ability to fund dividend payments and company investments. If they are failing to fund dividend payments and investments, they can use external funding through the use of leverage

According to the debt covenant hypothesis (Kalay, 1980), companies that use high leverage will have a non-optimal ability to pay dividends. Regarding investment policy, Baert and Vennet (2009), Iturriaga and Crisóstomo (2010), and Cheng et al. (2010) examined the effect of capital structure on a company's performance. The influence of capital structure on a company's performance is based on stakeholder theory and optimal capital structure theory. This theory states that the right combination between debt and equity will result in an optimal capital structure that will improve a company's performance (Modigliani and Miller, 1958; Modigliani and Miller, 1961; Myers, 1984). Likewise, Lundstrum (2009) argued that the effect of capital structure on a company's performance is based on the optimal capital structure theory stating that the optimal capital structure maximizes a company's performance. This theory is the foundation that the capital structure can be a tool to improve a company's performance.

The effect of dividend policy on investment can be explained by the idea of Modigliani and Miller (1961), indicating that investment is the priority compared to dividend payments. The Modigliani and Miller (1961) idea comes from one assumption that builds the dividend irrelevance theory. Companies are assumed to have predetermined plans regarding investments and loans that they will make. The effect of dividend policy on a company's performance is based on the signaling theory. If dividend distribution can improve a company's performance, it is considered a positive signal by investors (Pinkowitz et al., 2006). Conversely, if dividend distribution lowers a company's performance, investors consider it a negative signal. Empirically, this also has been proven by Stevens and Jose (1982), Iturriaga and Crisóstomo (2010), and Hussainey et al., (2011), which examine the effect of dividend policy towards company's performance.

The novelty of this research is to conduct an integrated and comprehensive financial policy analysis, while previous studies are still partial. Based on the results of this study, it is expected that it will benefit company leaders in making decisions related to company financial policies so that company value

will increase optimally. The objects of this research are industrial companies in the insurance sub-sector. The selection of this object is based on the idea that insurance as a financial product should provide a safe guarantee to its customers regarding the promised coverage. However, what happens if the insurance company defaults on customer claims, as happened in October 2018 where the public was shocked by the news that Jiwasraya insurance failed to pay customer claims of Rp. 802 billion. How is it possible that SOEs engaged in insurance experience a default of almost Rp 1 trillion? Although hard to believe, this is a fact that happened. Several problems were found, including the low performance of financial policy management.

LITERATURE REVIEW

Investment Opportunity Set

According to Hartono (2016), the investment opportunity or Investment Opportunity Set (IOS) describes the breadth of investment opportunities or opportunities for a company. Myers and Majluf (1984), the investment opportunity set can be understood as the signaling theory of management to outsiders. Based on various theoretical and empirical articles, the investment opportunity set can generally be interpreted as a company's growth prospects in the future from the perspective of investors and other external parties to the company.

The investment opportunity set also plays an essential role in corporate finance theory. Because the combination of the asset in place and investment opportunities will affect the capital structure, dividend policy, and company's performance. (Smith and Watts, 1992), then the company will not grow or show growing shares simply because it has assets and profits that increase over time. The essence of growth is not expansion but the existence of a company's opportunity to invest a large number of its funds with a rate of return greater than the standard rate of return in the capital market. Companies with high investment opportunities set will generally set high-performance achievement targets for their executives accompanied by great bonus rewards if these targets are achieved.

Capital Structure

Li et al. (2018) argued that the capital structure shows a company's source of funding for its assets in the form of a mixture of debt and equity. Capital structure is a mix of debt, preferred stock, and common stock predetermined to increase a company's capital (Brigham and Houston, 2004). Debt as a component in the company's capital structure becomes a tool that can reduce agency conflicts arising from the tendency of managers to make decisions that are not in line with the shareholder's expectation through engagement costs (agency cost component). That is because debt can improve a company's performance by forcing managers to be more focused and disciplined in using their funds so that later they can reduce the tendency of inefficient use of shareholder funds. Debt can be an effective substitute for dividends because the manager binds his promise to release cash flows in the future so that a simple dividend increase cannot be fulfilled. Management can improve a company's performance by determining the right debt and equity ratio. Capital structure policy involves a balance (tradeoff) between risk and rate of return. Using more debt means increasing the risk borne by shareholders and increasing the expected rate of return. Companies often use less debt than the optimal capital structure determined to ensure that they can raise capital from debt if needed (Brigham and Houston, 2004).

Dividend Policy

Baker and Powell (2012) stated that dividend policy is used to signal investors regarding future cash flow. Fitriana et al. (2018) Stated that dividend policy is one of the indicators in the company for the welfare of its investors. If a company in its income statement receives net profit or earning after tax (EAT) for a certain period, then the management decides to distribute it to the shareholders. The profit share distributed is known as dividends. The amount of dividends paid if divided by the number of the circulated company's shares, then the dividend is referred to as dividend per share (DPS). The proportion of dividends paid from the EAT is

the dividend payout ratio (DPR). Meanwhile, EAT that is not paid to shareholders is referred to as retained earnings.

The decision about how much profit will be distributed as dividends and how much will be retained is called dividend policy (Brigham and Gapenski, 1996). If a company decides to distribute most of its profits as dividends, it will reduce retained earnings and reduce the least-cost internal resources. On the other hand, if the company decides to hold most of its profits as retained earnings, the capacity to form internal funds will be even greater. Profit is one of the most important sources of capital to finance company growth. Every company's goal is always to expect growth and pay dividends to shareholders, but the two goals are contradictory. One of the most important functions of a financial manager is to determine the allocation of EAT for dividend payments on the one hand and retain earnings as retained earnings on the other, both of which have an impact on the company's performance.

Company's Performance

Performance means to act or implement. There is also another definition of performance as a result of work or working achievement. However, actual performance has a broader meaning, not only the result of work but also how the work process takes place (Wibowo, 2007). Nugroho (2019) stated that company performance is something the company produces in a certain period by referring to the established standards.

This study uses two approaches to measuring company performance: the accounting approach (Financial Performance) and the Market approach (Firm Value). This study uses the Firm value approach as follows:

According to Wikipedia, *Firm Value* is an economic measure that reflects the market value of the entire business. That is the total claim of all security holders, debt holders, priority shareholders, minority interests, common stockholders, and others. Firm value is one of the basic metrics used in business valuation, financial modeling, accounting, and portfolio analysis. Meanwhile, according to Brealey et al. (2008), *Firm value* is translated as

the company's Present Value, or in other words, it is similar to the total separated asset values. Furthermore, Ross et al. (2000) stated that Firm value is equal to the market value from debt and equity, minus cash, which is equivalent to money owned by the company. In this study, Firm Value is proximate using market value, which is measured using the Price-Earnings Ratio.

HYPOTHESIS DEVELOPMENT

Effect of Investment Opportunity Set on Capital Structure

When realized into real growth, the high set of investment opportunities will be a positive signal for the market, which in turn can improve the company's performance. One way to realize the investment opportunity set is through an appropriate capital structure policy. The larger the set of investment opportunities, the greater its debt because creditors and investors perceive it as a positive signal (Smith and Watts, 1992). Gaver and Gaver (1993) and Abbot (2001) stated that the investment opportunity set has a negative effect on capital structure in the form of debt to equity ratios. Based on the explanation of the empirical studies of these studies, it is predicted that the investment opportunity set will affect the capital structure in the formulation of the hypothesis as follows:

H1: The investment opportunity set has a significant effect on the Capital Structure.

Effect of Investment Opportunity Set on Dividend Policy

Companies that have a set of investment opportunities but have little free cash flow will pay low dividends. However, there must be a positive influence between the proportion of assets in place and dividends. According to Rozeff (1982) and Easterbrook (1984), the issuance of new shares will reduce agency costs by providing effective monitoring because the company will not take the risk of issuing new shares if it does not want to pay dividends. Research Ho et al. (2004), tested a sample of Hong Kong companies listed in the Pacific Basin Capital Market using factor analysis, univariate test,

multiple regression, and Tobit regression. The result is that the investment opportunity set has a negative effect on dividend policy. Based on the explanation of the empirical studies of these studies, it is predicted that the investment opportunity set will reciprocally affect dividend policy in the following hypothesis formulation:

H2: Investment Opportunity Set has a significant effect on Dividend Policy.

Effect of Investment Opportunity Set on Firm Value

Signaling is the meaning of company conditions based on the perspective of people outside the company. Signals from the company will be analyzed further by analysts before investors decide to sell or buy a company's stock. If there is a positive signal, investors will be interested in buying company shares to increase the market value. Otherwise, if the information is negative, investors will choose to release shares of a company (Bhushan, 1989). A high set of investment opportunities will be a positive signal for the market, ultimately improving the company's performance. Ehie and Olibe (2010) tested a sample of manufacturing and service companies in the United States using a regression analysis tool. The results showed that the investment opportunity set affected company performance. Based on the explanation of the empirical study of these studies, it is predicted that the investment opportunity set will affect the company's performance in the formulation of the hypothesis as follows:

H3: Investment Opportunity Set has a significant effect on firm value.

Effect of Capital Structure on Firm Value

The capital structure should affect the value of the company. Still, too much debt can harm the company because it can experience financial difficulties to reduce its value. Two theories underlie the influence of capital structure on firm value, namely agency theory and optimal capital structure. Based on agency theory, agency conflict occurs between creditors and company management. Management

who decides to use funding sources in debt will get additional supervision from creditors (DeAngelo et al., 1994). This supervision is in the form of the obligation to maintain the ratios in their financial statements at a certain minimum limit. If management fails to fulfill it, it will make creditors attractive funding from the company. One of the management efforts in maintaining these financial ratios will impact the creation of Company Value. The optimal capital structure theory states that the optimal capital structure is the one that can maximize firm value (Lundstrum, 2009). Based on agency theory, management will maximize firm value for its shareholders (Jensen and Meckling, 1976). One way to increase firm value is to create an optimal capital structure (Lundstrum, 2009). The effect of capital structure on firm performance has been empirically proven by Cheng et al. (2010) and Iturriaga and Crisóstomo (2010). Based on theoretical explanations and empirical studies of these studies, it is predicted that capital structure will affect firm value in the formulation of the following hypothesis:

H4: Capital structure has a significant effect on firm value.

The Effect of Dividend Policy on Firm Value

Dividend payments are the essential communication tool to the market regarding the company's condition, especially in terms of company profits. The quick and accurate market reaction in making stock price adjustments immediately after the dividend announcement can prove that the dividend announcement has meaningful information content for investors or shareholders. The stock price will change after the dividend change is sole because of the dividend announcement information. The effect of dividends on firm performance has been empirically proven by Hussainey et al. (2011). Based on the theoretical explanation and empirical study of the research, it is predicted that dividend policy will have an effect on firm value in the formulation of the hypothesis as follows:

H5: Dividend Policy has a significant effect on Firm Value.

Effect of Investment Opportunity Set on Firm Value by the mediation of Capital Structure

The capital structure can affect the investment opportunity set because of the possibility of external funding through the capital structure carried out by shareholders and company managers to carry out optimal investment strategies. That thinking comes from the argument that the company's dependence on leverage will reduce the incentive to cooperate between company managers and company shareholders in controlling company investments in investment opportunities with positive net present value (NPV), which causes control over company investments to become more effective. Favorably on creditors compared to shareholders. Therefore, companies with high leverage seem to take little advantage of their growth opportunities compared to companies with low levels of leverage. Myers in Aivazian et al. (2005). Empirical evidence from the research results of Lopez-Iturriaga and Rodríguez-Sanz (2001) and Bolbol et al. (2005) find evidence that leverage has a significant effect in a positive direction on investment. Based on the theoretical explanation and empirical study of the research, it is predicted that the Investment Opportunity Set will affect the value of the company in the capital structure mediation in the formulation of the following hypothesis:

H6: Investment Opportunity Set has a significant effect on Company Value through the mediation of Capital Structure.

Effect of Investment Opportunity Set on Firm Value by the mediation of Dividend Policy

Dividend policy can affect the investment opportunity set, starting from the thinking of Modigliani and Miller (1961), indicating that investment is the priority compared to dividend payments. The thinking of Modigliani and Miller (1961) comes from one of the assumptions that build the dividend irrelevance theory, namely that the company is assumed to have previously determined the investments and loans to be made by the company. Empirical results from research by Chang (2009) show that there is a negative effect between the dividend payout ratio and investment. Based on the theoretical explanation and

empirical study of the research, it is predicted that the Investment Opportunity Set will affect the value of the company in the capital structure mediation in the formulation of the following hypothesis:

H7: Investment Opportunity Set has a significant effect on Company Value through the mediation of Dividend Policy.

METHOD

This study is a kind of explanatory study. Namely, it is conducted with explanatory or confirmatory intention, which gives a causal explanation or correlation between variables through hypothesis testing. The population in this study are insurance companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2019 period. At the same time, the sampling technique was conducted purposively, which is a method of determining respondents to be sampled based on certain criteria (Siregar, 2014). Furthermore, the criteria used by researchers to determine the sample are as follows:

- 1) The company is an insurance company listed in the IDX during 2017-2019
- 2) Issued audited financial statements during the 2017-2019 period
- 3) Published the annual report for the 2017-2019 period in Rupiah
- 4) Insurance companies that have never experienced a loss during the research period.

There are three types of data analysis used in the study:

- a. Financial ratio analysis
This analysis is used to calculate the company's financial ratios according to the measurement indicators of the variables used in the study.
- b. Descriptive statistical analysis
This analysis is used to describe the characteristics of each variable based on the mean percentage and its development.
- c. Inferential statistical analysis
Inferential analysis using PLS is used in this study. PLS is a variant-based SEM statistical method designed to solve multiple regression when specific problems occur in the data, such as small sample size, missing data, and

multicollinearity. Partial Least Square (PLS) was selected because there are latent (not directly measurable) variables in this study that can be measured based on the indicators (manifest variables). Therefore, indicators of the latent variables can be analyzed in more detail.

RESULTS

Description of Study Variables

From the results of the MBE description, there is an average obtained of 0,945 with a standard de-

viation of 0,755, the NBUE description showed an average of 1,592 with a standard deviation of 0,736, the NPUE description showed an average of 2,071 with a standard deviation of 1,809, the DPS description obtained an average of 69,180 with a standard deviation of 65,377, the description of the DPR showed an average of 0,545 with a standard deviation of 0.666, and the description of PER obtained an average of 16,746 with a standard deviation of 10,804.

Table 1. Description Results of the Research Variables

	MBE	NBUE	NPUE	DPS	DPR	PER
Average	0.945	1.592	2.071	69.180	0.545	16.746
Deviation Standard	0.755	0.736	1.809	65.377	0.666	10.804

Source: Research Data Processes (2020)

Analysis of Inferential Partial Least Square (PLS)

The outer model test results on the MBE, NBUE, NPUE, DPS, DPR, and PER indicators with formative measurement models for each latent vari-

able meet the test requirements, namely a significance value of less than 0,05. In addition, the Variance Inflation Factor (VIF) of each indicator is less than 10, so there is no indication of multicollinearity problems found between indicators.

Table 2. Outer Model Test Results

Variables	Indicators	Outer Weight	P-value	VIF
Investment Opportunity	MBE	1.000	0.000	1.000
Capital Structure	NBUE	0.643	0.000	1.782
	NPUE	0.450	0.003	1.782
Dividend Policy	DPS	1.001	0.014	1.001
	DPR	-0.043	0.002	1.001
Firm Value	PER	1.000	0.000	1.000

Source: Research Data Processed (2020)

From the inner model results, a coefficient of determination of 0.474 for the capital structure variable was obtained, meaning that the influence on the capital structure can be explained by 47,4 percent by the investment opportunity set. Moreover,

the coefficient of determination of 0,241 for the dividend policy variable suggests that the influence significance on dividend policy can be explained by 24,1 percent by the investment opportunity set. The coefficient of determination of 0,796 for the firm value

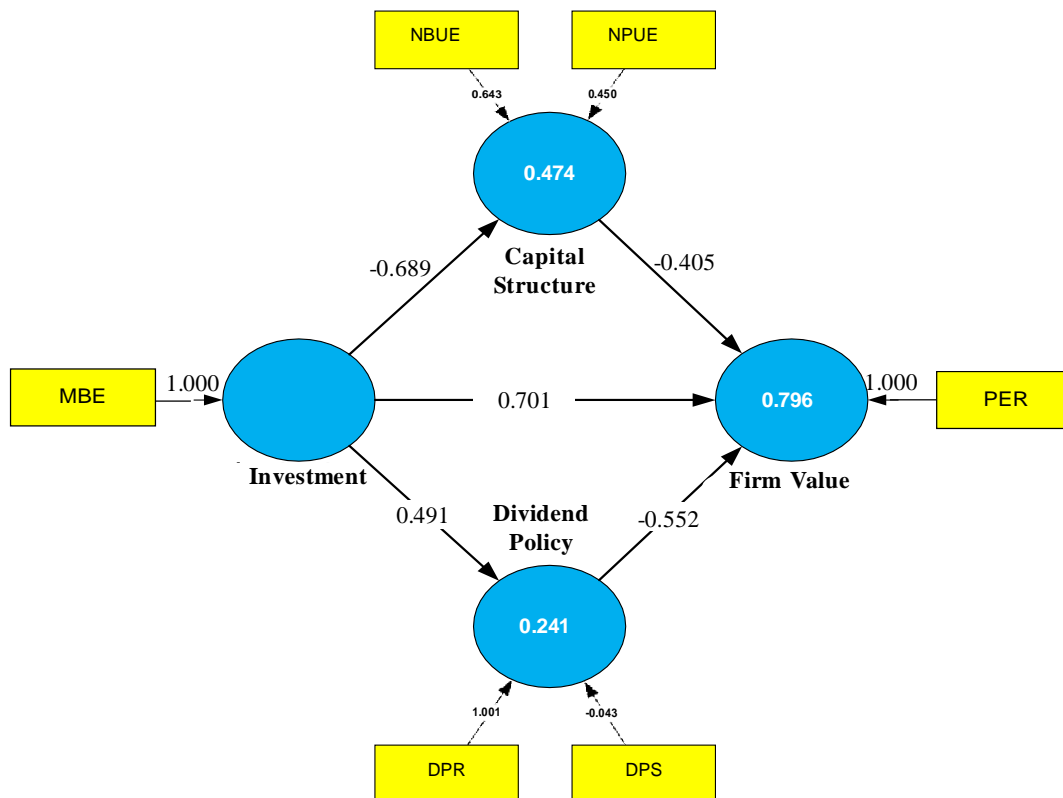


Figure 1. Partial Least Square (PLS) Analysis Results

variable means that the influence significance on firm value can be explained by 79,6 percent by the investment opportunity set, capital structure, and dividend policy.

Hypothesis Test

The following table shows the hypothesis test results based on the path coefficient value and T-Statistics / P-value:

Table 3. Hypothesis Test Results

Hypothesis	Effect	Coefficient Line	T Statistic	P Values	Explanation
1	Investment → Capital Structure	-0.689	7.863	0.000	Significant
2	Investment → Dividend Policy	0.491	2.210	0.014	Significant
3	Investment → Firm Value	0.701	3.567	0.000	Significant
4	Capital Structure → Firm Value	-0.405	2.207	0.014	Significant
5	Dividend Policy → Firm Value	-0.522	2.074	0.019	Significant
6	Investment → Capital Structure → Firm Value	0.279	1.994	0.023	Significant
7	Investment → Dividend Policy → Firm Value	-0.256	1.722	0.043	Significant

Source: Research Data Processed (2020)

DISCUSSION

The Effect of Investment Opportunity Sets on Capital Structure

The effect of the investment opportunity set on the capital structure is negative, which means that an increase in the investment opportunity set will decrease the capital structure. The results of this study, on the one hand, support the previous research conducted by Gaver and Gaver (1993) regarding the effect of the investment opportunity set on the capital structure. The result is that the investment opportunity set has a negative effect on the capital structure in the form of a debt to equity ratio. Research by Pratama et al. (2020), about the effect of investment opportunity sets and corporate governance as well as macro economics on the capital structure and performance of companies in the mining industry listed on the Indonesian stock exchange. The result of their research stated that the investment opportunity set has an insignificant negative effect on the capital structure. Research by Abbott (2001) on the effect of investment opportunity sets on capital structure. The result is that the investment opportunity set has a negative effect on the capital structure in the form of a debt to equity ratio. Research by Ho et al. (2004) on the effect of the investment opportunity set on the capital structure. The result is that the investment opportunity set has a negative effect on the capital structure in the form of a debt to equity ratio.

On the other hand, it is different from the results of previous research, namely the research of Smith and Watts (1992), regarding the effect of the investment opportunity set on the capital structure. The result is that the investment opportunity set has a significant positive effect on the capital structure. Research by Ramli and Papilaya (2015), which analyzed the significance of the effect of IOS on the company's capital structure, stated that investment opportunity set a significantly positive effect on capital structure. Research by Chang (2009) on the effect of the investment opportunity set on the capital structure shows that the investment opportunity set has a significant positive effect on the capital structure (as measured by leverage).

The results of this study do not support the signaling theory developed from Myers and Majluf's (1984) information asymmetry model. They stated that a high set of investment opportunities, when realized into real growth, will be a positive signal for the market, which can ultimately increase the company's value. One way to realize the investment opportunity set is through an appropriate capital structure policy. The larger the set of investment opportunities, the greater its debt because creditors and investors perceive it as a positive signal (Smith and Watts, 1992). The investment opportunity set is influenced by how much debt policy is used in the capital structure. The use of too much debt by ignoring the use of debt impacts the high obligation for companies to pay dividends.

The Effect of Investment Opportunity Set on Dividend Policy

The effect of the investment opportunity set on the positive dividend policy is significant. It can be interpreted that an increase in the investment opportunity set will increase the dividend policy. The results of this study, on the one hand, support the results of previous research conducted by Smith and Watts (1992). The results of his research show that the investment opportunity set has a significant effect on dividend policy. And on the other hand, there is a different direction of influence with the results of previous studies, namely the research of Gaver and Gaver (1993). The results of the study show that the investment opportunity set has a negative effect on dividend policy. Krisdiana and Subardjo (2019) showed that the investment opportunity set had a negative effect on the dividend policy. Research by Abbott (2001) shows that the investment opportunity set has a negative effect on dividend policy.

The results of this study support the signaling theory, namely the meaning of company conditions based on the perspective of people outside the company. Analysts will further analyze signals from the company before making a decision. That realized into real growth, a high set of investment opportunities will be a positive signal for the market, which can ultimately improve the company's performance

so that companies with a high set of investment opportunities generally pay higher dividends. Established and in the maturity stage, its activities are more focused on generating profits and distributing them to shareholders.

The Effect of Investment Opportunity Set towards Firm Value

The investment opportunity set has a significant effect on the towards firm value. The direction of the effect is positive. It can be interpreted that an increase in the investment opportunity set will increase the company's value. The results of this study support the results of previous research by Resti et al. (2019), the Investment Opportunity Set was observed to have a positive impact on firm value. Research by Ehie and Olibe (2010) shows that the investment opportunity set has a significant effect on firm value. The results of this study support the agency theory, which states that there should be a separation between the owner as of the principal and the management as the agent. The management's goal is to maximize shareholder value which can be met by realizing a set of investment opportunities into real growth that can ultimately improve the company's performance (Ehie and Olibe, 2010). The results of this study also support the signaling theory. This theory states that if there is a positive investment signal, investors will be interested in buying company shares to increase the market value (Akerlof, 1970). A high set of investment opportunities will be a positive signal for the market, which can ultimately increase the company's value.

The direct effect of investment decisions on firm value results from the investment activity itself through project selection or other policies such as creating new products, replacing more efficient machines, developing research & development, and mergers with other companies (Myers, 1977). In addition to determining investment decisions, the business risks faced by public companies in Indonesia may be better controlled. The implication of this conclusion is that the company's value, which is formed through the stock market value indicator,

is strongly influenced by investment opportunities and discretionary spending in the future (Myers, 1977).

The Effect of Capital Structure on Firm Value

Capital structure has a significant effect on the firm value received. Significant influence with a negative direction, it can be interpreted that an increase in capital structure will reduce the value of the company. The results of this study do not support the results of previous research by Abor (2005). The results of his research revealed a significant positive effect between capital structure and profitability. The research of Iturriaga and Crisóstomo (2010), the results of his research show that capital structure has an effect on firm value. Hirdinis (2019) stated that capital structure has a significant positive effect on firm value.

The results of this study do not support the Optimal Capital Structure Theory, which explains that the right mix of debt and equity will result in an optimal capital structure that will increase firm value (Modigliani and Miller, 1958; Modigliani and Miller and, 1961; Myers, 1984; Myers, 2001).

The Effect of Dividend Policy on Firm Value

Dividend policy has a significant effect on the firm value received. Significant influence with a negative direction, it can be interpreted that an increase in dividend policy will reduce the value of the company. The results of this study indicate that Indonesian investors prefer fixed dividends at this time compared to uncertain capital gains in the future. The result of this study is in line with Hasanuddin (2021), who indicates that dividend policy has a positive effect on firm value. The results of this study do not support the results of previous research by Pinkowitz et al. (2006) regarding the effect of dividends on firm value. The results of this study do not support agency theory, which states that the goal of management is to maximize shareholder value. One of the pieces of evidence that management maximizes firm value is its ability and willingness to distribute dividends to its shareholders (Stevens and Jose, 1992).

The Effect of Investment Opportunity Set on Firm Value by Mediation of Capital Structure

The investment opportunity set has a significant positive effect on the company's value with the median capital structure. That means that the effect of the Investment Opportunity Set on increasing firm value depends on the capital structure. This result can be interpreted that the higher the value of debt (capital structure), the higher the value of the company. That shows that if the company uses more and more long-term debt to finance its assets, it can increase its value. Following the tradeoff theory, companies can take advantage of debt while the benefits (tax savings and other costs) are greater than the sacrifices (paying interest). In addition, it is also following the Signaling theory, which states that when a company uses internal funds to fund its business, it will be seen by investors as a significant positive signal because investors' perceptions when a company uses debt means that the company can increase capacity and pay debts.

The Effect of Investment Opportunity Set on Firm Value by Mediation of Dividend Policy

Investment opportunities have a significant negative effect on firm value by mediating dividend policy. That means that the effect of the Investment Opportunity Set on the decline in Firm Value depends on the policy. The larger the number of dividends distributed by the company, the lower the value of a company. A group of shareholders are less in need of money and would prefer if the company retained a portion of the company's profits, which could increase the company's retained earnings. The company's high-profit balance will provide opportunities for the company to expand (company expansion) to attract investors to buy company shares. If many investors buy company shares, the demand for company shares will increase. Demand theory states that the higher the demand, the higher the price. If the stock price increases, the company's value also increases because the increase in the company's value is reflected in the stock price of the company.

CONCLUSION

Based on the analysis and discussion above, several conclusions can be drawn: (1) The investment opportunity set has a significant negative effect on the Capital Structure. The significant negative effect indicates that an increase in investment decisions causes a decrease in the capital structure among insurance companies. (2) The investment opportunity set has a significant positive effect on dividend policy. That illustrates that there is a unidirectional correlation between Investment Opportunity Set and Dividend Policy. A better Investment Opportunity Set will increase the Dividend Distribution Policy. (3) The investment opportunity set has a significant positive effect on Firm Value. That illustrates that there is a unidirectional relationship between the Investment Opportunity Set and Firm Value. The more investment created by the company, the more the firm value will increase. (4) Capital structure has a significant negative effect on firm value. This significant negative effect indicates that an increase in capital structure causes a decrease in firm value. (5) Dividend Policy has a significant positive effect on Firm Value. That illustrates that there is a unidirectional relationship between dividend distribution and firm value. The increasing amount of dividends distributed will increase the firm value. (6) The investment opportunity set with capital structure mediation has a significant positive effect on Firm Value. That illustrates that an increase in capital structure can mediate an increase in Firm Value. (7) The investment opportunity set with Dividend Policy mediation has a significant negative effect on Firm Value. That illustrates that an increase in dividend distribution has not mediated an increase in the Firm Value.

LIMITATIONS

This research only focuses on quantitative analysis and has not been equipped with qualitative analysis that can strengthen the results of quantitative analysis

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