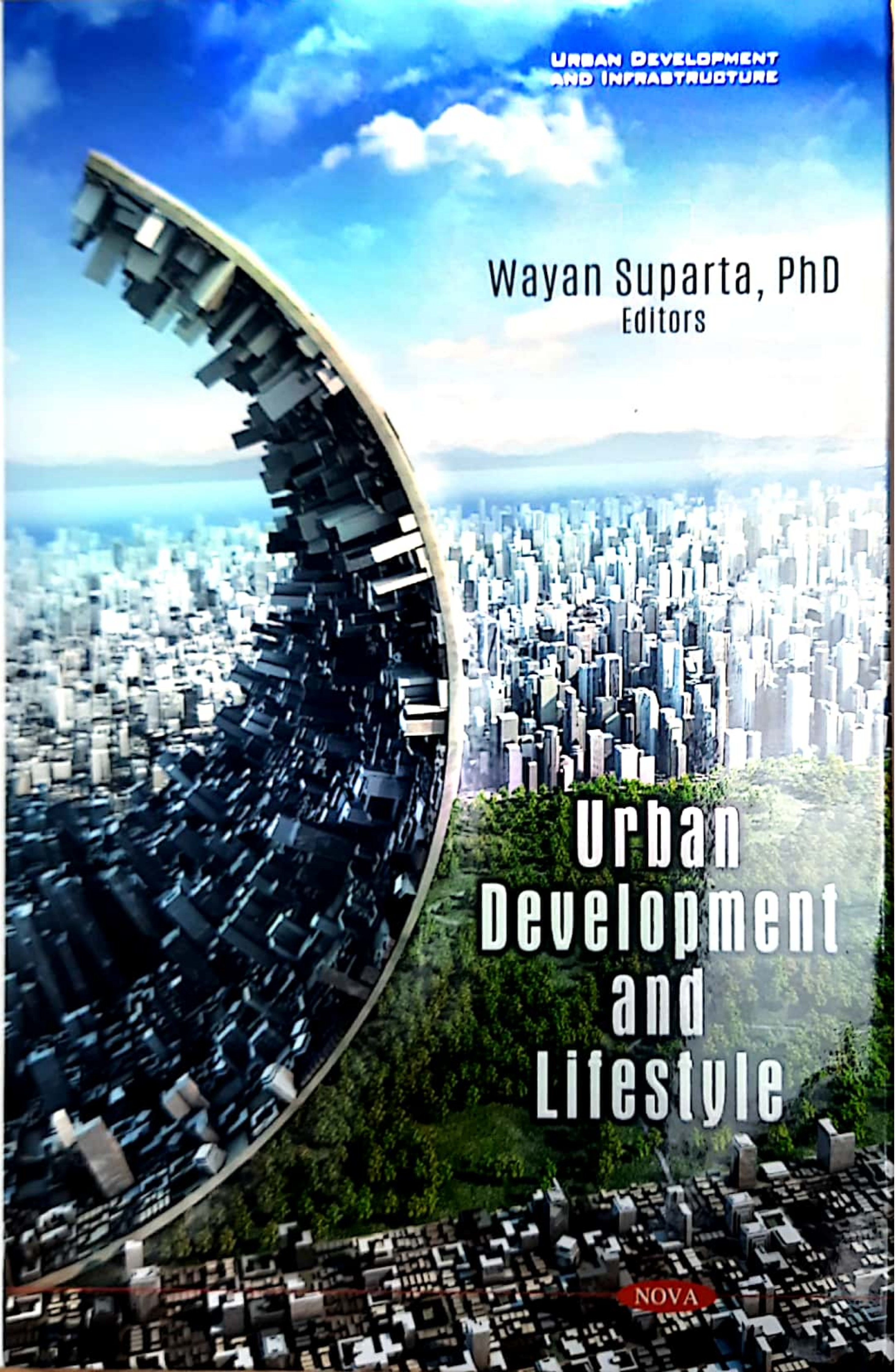

URBAN DEVELOPMENT
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Wayan Suparta, PhD
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As Professor at the Universitas Pembangunan Jaya, with daily activities in lecturing, doing research, as well as water resources development planning, I really praise the Nova Science Publishers for publishing selected papers from "2020 International Conference on Urban Sustainability, Environment, and Engineering (CUSME 2020)". Hence, this publication would be useful for professionals, reseachers, scholar, policymakers, and NGO. I believe that currently, many professionals would like to give more attention on development of sustainable urban. In addition, this publication could be used as reference for City authorities to make appropriate policy choices to protect the provision of equitable housing, health, and transportation services.

Prof. Ir. Frederik Josep Putuhena M.Sc., Ph.D
Center for Urban Studies – Universitas Pembangunan Jaya

Urban Development and Lifestyle are trend issues for the cities around the world. Learning from experiences is the most effective way to support the cities to be sustainable developed. This book offers the knowledge sharing among countries which covers variety of cities' issues. It also provides the great lessons for researchers, officers and policy makers on coping with several urban problems.

Associate Professor Sarintip Tantanee, Ph.D.
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Center of Excellence on Energy Technology and Environment (CETE)
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CONTENTS

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Chapter 19

THE INFLUENCE OF FINANCIAL DECISION AND CORPORATE SOCIAL RESPONSIBILITY ON VALUE OF THE FIRM: EVIDENCE FROM MANUFACTURING COMPANIES IN INDONESIA

I Gede Adiputra*, Nyoman Suprastha and Kevin Andreas
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ABSTRACT

The purpose of the study is to analyze the factors that affect the value of an enterprise. This research has independent variables of investment decision that is measured by price earning ratio, financial decision measured by debt to equity ratio, dividend decision measured with dividend dummy, corporate social responsibility measured by the cost of Corporate Social Responsibility (CSR), and the dependent variable of the firm's value measured by PBV. Researches on the influence of investment and financial decisions on the value of a firm have been widely reviewed with different periods and samples, and this research wants to answer these limitations by adding variables on the decision of Corporate Social Responsibility. The research used 35 manufacturing companies listed on the Indonesia Stock exchange in the period of 2016-2018. The results of this study show that investment decisions and financial decisions have a significant effect on a company's value. While dividend and corporate social responsibility decisions do not significantly affect the value of a firm.

Keywords: investment decisions, financial decisions, dividend decisions, corporate social responsibility, the value of the firm

INTRODUCTION

The economy is one of the main focuses and references of each country in planning every government policy. It aims to advance the country's economy and enrich the community. One

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of the indicators that are used to measure the economic progress of a country is Gross Domestic Product (GDP). In the last 10 years, Indonesia's GDP has consistently risen. According to the United Nations Statistics Division in 2017, the largest contributor to Gross Domestic Product came from manufacturing industries with contributions of up to 22%. Even if one calculated from the pre-production, production, and post-production processes, Indonesia's manufacturing industry contribution was able to penetrate 30%. That confirmed that Indonesia was ranked 4th out of the 15 countries that contributed significant GDP. However, the contribution of the manufacturing industry to Indonesia's GDP within the last 5 years has decreased significantly. The phenomenon of descending in the manufacturing industry contributions was caused by the occurrence of deindustrialization. Over the years, Indonesia has relied more on economic growth in the service sector where labor absorption is low and only on the urban areas. Therefore, the government should rely on the industrial sector of manufacturing to expand its economy.

Although the contribution of the manufacturing industry to Indonesia's GDP has experienced a downward trend, it turns out that in the past 5 years, the manufacturing industry has consistently grown both in terms of the level of contribution to GDP and the sectoral manufacturing price index. If the growth of the manufacturing industry continues to grow consistently and the government has finally focused to increase the manufacturing industry, it will attract many new entrepreneurs to plunge into the manufacturing sector. This will lead to the increasingly tight new competition. For this reason, the company's owners or shareholders will always strive to employ agents who can answer the competition by realizing the shareholder's desire to maximize the value of the firm.

There are 3 main decisions in financial management, i.e., investment decisions, financial decisions, and dividend decisions [1]. The exact combination of these three variables will increase the value of the firm. These will anticipate the agents to process these three decisions wisely to increase the value of the firm. Price Earning Ratio (PER) can be used as a reference for making investment decisions [2]. The high PER indicates investors anticipate greater returns in the future. According to some research results, financial decisions have a significant and positive effect on the value of the firm [2]. Therefore, the financial manager should pay attention to PER as a consideration in making investment decisions to increase the value of the firm.

According to some research results, dividend decisions measured by the Dividend Payout Ratio (DPR) have a positive and significant impact on the value of the firm [3, 4]. Though theoretically, if the dividend is distributed greater then the retained profit that can be reinvested, it will be reduced. It is backed by the Signalling theory that the manager has more information than investors, so it can be used as a signal of self-confidence towards the company's prospects to external parties [5]. The step is commonly taken by managers when the company is undervalued or they want to increase the value of the firm. It is supported by some research results that the dividend decision has no significant effect on the company's value [6].

Researches on the influence of investment and financial decisions on the value of the firm have been widely reviewed with different periods and samples. Researchers wanted to answer the limitation by adding a new variable that is CSR decisions. Researchers chose the variable because CSR is the implementation of good corporate governance in the firm. The manager makes decisions following the main objectives, which is to maximize the value of the firm and will produce a positive impact on the environment including the community. CSR is also now a warm issue among entrepreneurs, which commenced from the establishment of LAW No. 40 the year 2007 about limited liability and government regulation and LAW No. 47 the year 2012 on social and environmental responsibility and limited liability of firms that require companies to implement and report on the results of CSR activities.

Literature Review

The company is a unit of combined production activities that produce goods and services. Generally, all activities undertaken in a company are aimed at obtaining profit. But not only to pursuit profit, but many companies also have other objectives such as creating new jobs, political considerations, prestige, as well as efforts of self-devotion to the community that can be reflected in CSR activities.

The firm's goal is to maximize the value of the firm, specifically to maximize the value of the firm's stock market so that it can enrich the shareholders [7]. Therefore, shareholders must choose a manager as an agent who can carry out the duties and obligations to achieve the wishes of shareholders. Most assumptions that a firm's goal is to maximize profit is true, but it is not the corporate priority goal. The value of the firm is an investor's appreciation of the firm [4]. These values can be reflected in the firm's share price. The more valuable a firm, the more investors are interested in investing in the firm. Therefore, increasing the value of the firm is the main goal of the firm to be able to enrich the shareholders. A firm's value is useful when comparing two or more companies despite having different capital structures. The value of the firm is the current value of cash inflow that will be generated by the firm in the future [8].

The investment decision is the most important decision of the three major financial decisions in increasing the value of the firm. Investment decisions include determining the number of assets a firm must have or invest [9]. An investment decision is a decision that considers the asset side of the balance sheet, such as the decision to offer a new project or product [10].

Financial managers should be able to decide on alternatives to appropriate investment options that meet security, liquidity, and profitability principles [11]. Financial managers also need to consider the reasons and returns from the realization of the investment. Therefore, financial managers should have the expertise to identify the most ideal reason and return for effective investment decision making. The investment decision is one of the functions in financial management that regulates the allocation of funds originating from internal and external companies to various forms of investment [4]. The goal is to get a bigger return than the cost of the capital and increase the firm's value in the future.

In Signalling Theory, the investment decision can be used by the manager as a signaling giver that will send a positive signal to the investor who also interprets the signal as a form of a promise that the firm has a good prospect in the future because the realization of investment is in growth. This means that the investment decision has a positive effect on the firm's value. It is supported by the research results of [2, 4]; that the investment decisions measured by Price Earning Ratio have a significant and positive impact on the value of the firm. The goal of investment decisions is not only to seek profit but also to maximize the value of the firm [4]. He also argues that investment opportunities can be assessed just by looking at the value of the firm. Kusiyah and Arief [2] also argued that investment decisions will increase investor demand to increase the value of the firm. Meanwhile, Mahmood and Waheed [12] stated that Price-Earning Ratio has a significant and positive effect on the share price. The company needs to make financial decisions to acquire working capital. In making financial decisions, two theories will be discussed in this research, namely, the trade-off theory and pecking order theory. In the Trade-off theory, managers make financial decisions by increasing the ratio of debt to an optimal point to get a balance between tax savings and capital costs [7]. If the cost of capital can be suppressed, the value of the firm will increase.

According to [13] the key in the concept of trade-off theory is to balance the benefits or returns and costs of the use of debt. Therefore, it can be concluded that the Trade-off Theory supports the increase of debt ratio as leverage to the optimal point to increase the value of the firm. It is in line with researches by [4, 6] that financial decisions have a significant and positive relationship with the cost of capital and corporate value. Pecking order theory suggests financial managers prioritize the use of internal financial sources to avoid negative sentiments from external parties. But if external financial sources are required, the use of debt will take precedence over common stock issuance due to the use of debt that will minimize negative sentiment from external parties when compared to stock issuance [7]. If positive sentiments can be maintained, the share price will increase. According to [14], the Pecking Order Theory was first introduced by Myers and Majluf (1984). They argued that no debt ratio is said to be optimal. The company wills priorities the use of internal financial sources. If the internal financial source is inadequate, then the company uses external financial sources. It is supported by the research results of [15] that financial decisions are significant and negative to the value of the firm.

According Paramasivan and Subramanian [11] stated that dividends are closely related to the profits that can be distributed to shareholders. This is because dividends are part of profit distributed to shareholders. According to the Institute of Chartered Accountant of India, dividends are the remaining revenue or deposit distribution available to shareholders. This study will use two dividend theories, namely Bird in The Hand theory and dividend irrelevance theory [17]. stated that high dividend payments will increase the firm's value and shareholder satisfaction. The statement is based on Bird in The Hand Theory, which explains that dividend payout ratio (DPR) has a positive effect on a firm's value. In real practice, Tanushev argued that investors are more comfortable with a definite dividend payout than future capital gains at risk. According Ekaningtias [4], Bird in The Hand Theory, which was triggered by Myron Gordon and John Lintner, stated that the dividend distribution has a positive effect on the value of the firm because it is considered that dividends received now have more value and less risk than future capital gains. This means that investors will be eyeing stocks with high dividends. Therefore, to increase the value of the firm, the manager should be able to make a dividend decision by increasing the dividend payout ratio as it can increase investors' demand on the company's shares. Therefore, dividend decisions positively affect the value of the firm. It is in line with the research results of [3] that the dividend decisions measured by the dividend payout ratio positively and significantly have an impact on the firm's value. Signaling Theory also discusses the effect of announcing dividend distribution which signals that the firm has a good prospect in the future. Similarly, the results of [16] stated that dividend decision has a positive and significant effect on the firm's value. He argued that by distributing dividends it will reduce the available free cash flows. This will reduce the agency cost and increase the value.

The dividend decision is irrelevant to the firm's value and the welfare of shareholders [17]. The statement is based on the concept developed by Su et al. [20] that the stock price is not influenced by the rate of dividend payment assuming the perfect capital market condition, rational action, zero tax, transparency of information, and open company implementing investment policies are not influenced by the dividend payment rate. According to [4, 18], the value of the firm only depends on the firm is benefiting from asset investing. It can be concluded in the Dividend Irrelevance Theory that the dividend decision does not affect the firm's value, because the value of the firm depends only on how the company can increase the profits gained from Asset investment. It is in line with the research results of [6] and [7] that dividend decision has no significant effect on the firm's value.

Signaling Theory can generally describe actions taken by corporate executives. Signaling theory commences from the asymmetric phenomenon of information occurring between management with external parties of the company. According to Stiglitz [19], asymmetrical information occurred due to "different people know different things". This means that because some information is closed, asymmetrical information occurs between the parties who have that information with the person who can make the appropriate decision if they have that information. Companies who are active in conducting social activities give a positive signal to the company's external parties, considering that the company has a contribution to community development [20].

In the study of Signalling Theory, CSR can be used as a signal of accountability and transparency of the firm to external parties so that it can cause trust from external parties to the firm. Also, according to Agency Theory, Corporate Social Responsibility can be used as a form of good Corporate governance implementation to reduce Agency cost. With trust and good corporate governance practices, the value of the firm can be increased. The cost of CSR positively affects financial performance (CFO, ROA, SAR). This means that Corporate Social Responsibility is not merely doing charitable activities because the synergy of the signaling effect is more dominant than the realization of the CSR investment. In terms of the dimension of cost, according to the research results of [21], the cost of public relations positively affects financial performance (Risk-Adjusted Performance). The cost of social activity at first hurts Risk-Adjusted Performance, but when it reaches a point, its influence becomes positive so that it forms the U curve. The cost of CSR positively affects the price of shares measured by a model, namely the combination of growth, cost of capital, and the probability of survival. However, it is contrary to the research results of [21] that the performance of CSR has a negative and insignificant impact on the firm's value (PBV and Tobin's Q). In terms of the dimension of CSR costs, environmental and employment costs negatively affect financial performance (Risk-Adjusted Performance). Likewise, the research results of [22] showed that the cost of CSR negatively affects the financial performance measured through Earning After Tax (EAT).

Based on the theory above, the formulation of the hypothesis that will be proposed to be tested in this study:

H_1: Investment decisions have a positive and significant influence on the value of the firm

H_2: Financial decisions have a negative and significant influence on the value of the firm

H_3: Dividend decision has a positive and significant influence on the value of the firm

H_4: Corporate Social Responsibility has a positive and significant influence on the value of the firm

METHODS

Data obtained is secondary data that is the annual financial reports of manufacturing companies accessed from the Indonesia Stock Exchange and the firm's official website. The sample selection technique used is non-probability sampling, which is the purposive sampling where the researchers set the sample selection criteria as follows:

(a) Companies that published annual financial statements during the research period (2016-2018).
(b) Companies that present relevant information to this research in full.
(c) Companies that do not suffer losses.
(d) Companies that do not experience IPO, delisting, bankruptcy, and acquired during the research period (2016-2018)
(e) Financial reports of the firm are in Rupiah currency.

After conducting the selection based on the criteria specified, the sample size outlined in the study was as many as 35 companies. Research objects are investment decisions, financial decisions, dividend decisions, corporate social responsibility, and corporate values. Variable operationalization consists of price earning value, debt to equity ratio (financial decisions), dividend dummy (dividend decision), and CSR fees as independent variables while price-to-book value (firm value) as the dependent variable. Price-earnings ratios can be measured by the closing stock price divided by earning per share.

$$\textit{Price Earning Ratio (PER)} = \frac{\textbf{Closing Stock Price}}{\textbf{Earning Per Share}} \tag{1}$$

The debt to equity ratio can be measured by dividing total debt with total equity.

$$\textit{Debt to Equity Ratio (DER)} = \frac{\textbf{Total Debt}}{\textbf{Total Equity}} \tag{2}$$

The measurement of investment decisions will be prescribed with Dividend Dummy based on the Dividend Payout Ratio (DPR). This measurement refers to the research conducted by Suwabe (2006). The Dividend Dummy (DIV) is formulated as follows:

$$\begin{array}{r} \textbf{1: distributed dividends} \\ \textbf{0: not distributed} \end{array} \tag{3}$$

CSR fees can be obtained directly from the firm's annual financial report.

Price-to-book value can be measured by closing stock price divided by the value of the stock book.

$$\textit{Price to Book Value (PBV)} = \frac{\textbf{Closing Stock Price}}{\textbf{Stock Book Value}} \tag{4}$$

RESEARCH RESULT

Objects on this research are *Price-to-Book Value, Price Earnings Ratio, and Debt to Equity Ratio, Dividend Decisions, and Corporate Social Responsibility*. The following is the result of double linear regression analysis of the data panel via Fixed Effect Model:

Based on Table 1, the regression equation can be obtained as follows:

$$\mathbf{PBV} = 12.39528 + 0.031846\mathbf{PER} - 0.842958\mathbf{DER} + 0.518472\mathbf{DIV} + 0.073284\mathbf{CSR} \quad (5)$$

where
C = Constant
PBV = Firm Value Variable
PER = Investment Decision Variable
DER = Financial Decision Variable
DIV = Dividend Decision Variable
CSR = Corporate Social Responsibility Variable

As shown in Table 1 that the investment decision variable (PER) has a significant rate of 0.0401 with a degree of error Alpha of 5%. It can be concluded that the investment decision is significant to the value of the firm with a negative directional coefficient. The Financial decision variable (DER) has a significant level of 0.0387, then it can be concluded that the financial decision is significant to influence the firm's value in the negative direction at a rate of alpha 5%. The dividend decision variable (DIV) has a significant level of 0.2484, then it can be concluded that the dividend decision is not significant to the value of the firm. The CSR has a significant rate of 0.3856 then it can be concluded that the corporate Social Responsibility is not significant to the value of the firm.

Table 1. Multiple linear regression with fixed effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	12.395286	0.536825	3.948567	0.0083*
PER	0.0318467	0.018467	2.484755	0.0401*
DER	- 0.842958	0.473874	- 1.791986	0.0387*
DIV	0.518472	0.528467	0.652021	0.2484
CSR	0.073284	0.018345	0.482390	0.3856
R-squared	0.429478			
Adjusted R-squared	0.403857	Prob (F- Statistic) 0.0427*		

Note: * significance 5%, ** significance 10% (Source: EViews version 10 data processing results)

Simultaneously Investment Decisions, Financial Decisions, Dividend Decisions, and CSR Costs have a positive effect on the value of the firm, this is indicated by the Prob (F-statistic) value of 0.0427 where the value is less than a degree of error of 0.05. The contribution of investment decision variables, Financial Decision, Dividend Decision and CSR Costs to Firm Value is 40.38%, this is indicated by the R-square value of 0.403857 while the remaining 59.62% is contributed by other factors not included in this study.

DISCUSSION

Investment decision has a positive and significant effect on the value of the firm. This is similar to the signaling theory that if the information submitted by the manager is investment information, it can be reflected through the price earning value and interpreted by the investor as a positive signal to the firm's prospects in the future. It is also in line with the opinion of [4] that the purpose of investment decision is not only to seek profit but also to maximize the value of the firm. He also argued that actual investment opportunities can be assessed just by looking at the value of the firm. Also, the company growth is a factor considered by investors who hope that the company will continue to grow to ensure investors will get the expected return. According Mahmood and Waheed [12] also argued that investment decisions will increase investors' demand to increase the value of the firm. This is inversely proportional to the agency theory where the manager as an agent invests in more prioritizing benefits of self-esteem exceeding the firm's value so that the manager's investment decision will be ineffective and potentially increase the risk of financial distress.

Financial decision negatively and significantly affects the value of the firm. This is by Pecking Order Theory where the debt is used only after the internal financial source is insufficient. The company will prioritize the use of internal financial sources. Signaling theory also discussed that the use of debt will be interpreted by investors as a signal that the company has financial problems. This can be proved by PT Hanjaya Mandala Sampoerna Tbk who has no debts but surprisingly has the highest value of the firm among other subjects. The results of this research are in line with the research results of [16] in which the financial decision has no significant effect on the firm's value. They argued that the results of the research contradicted the trade-off theory due to the MM Xblig considering bankruptcy cost. Bankruptcy cost will increase the cost of capital because creditors will ask for high interest in exchange for an increased risk. Therefore, it can be concluded that the increase in debts will decrease the value of the firm.

The dividend decision is not significant to the firm's value. This is by the Dividend Irrelevance Theory whereby the stock price is not influenced by the rate of dividend payment assuming the perfect capital market condition, rational action, zero tax, transparency of information, and the open company implementing Investment policies are not affected by the dividend payment rate. According to Ekaningtias [4] and Stiglitz [19] argued that the value of the firm only depends on the company is benefiting from asset investing.

But the results of this research are inversely proportional to Bird-in-the-Hand theory where investors are more interested in companies that distribute dividends larger because dividends have a greater return and lower risk than firm value. This means that companies share almost all of its profit as dividends, but surprisingly have the highest value of the firm. The results of this research are inversely proportional to the research results of [18] which suggested that companies raising their dividend distribution ratios indicate that the firm is signaling a good prospect in the future. Likewise, signaling theory that increases dividend distribution ratio information will be interpreted by investors as a good signal. Similarly, the research results of [4] said that dividend decision is positive and significant to the value of the firm.

Corporate Social Responsibility is not significant to the value of the firm. This can be explained by the agency theory where the firm's agency conducts corporate social responsibility activities only as a condition of fulfilling law No. 40 the year 2007 concerning limited liability company and government regulation number 47 the year 2012 on the firm's social and environmental limited responsibilities. The results of this research are in line with the research results of [22] that CSR has no significant effect on a firm's value. This is inversely proportional to the signaling theory that investors interpret corporate CSR activities.

To sum up, investment decisions, financial decisions, dividend decisions, and corporate social responsibility equally have a positive and significant influence on the values of the firm. This can be explained with the agency theory that good corporate governance can overcome the problem of agencies. One form of Good Corporate Governance (GCG) is to conduct corporate social responsibility activities that strengthen the sustainability of a company. As the problem of the agency can be overcome, the decision making in investment, financing, and dividends can be done correctly according to the purpose of the firm that is to maximize the value of the firm and the welfare of the shareholders.

CONCLUSION

This research aims to analyze the influence of investment decisions that are prescribed with Price Earnings Ratio (PER), the financial decision that is prescribed with debt to equity ratio (DER), the decision of dividends that is prescribed with the dividend dummy (DIV), and corporate social responsibility that is prescribed with the cost of CSR to the value of the firm that is prescribed with price-to-book value (PBR).

Based on the results of data analysis Investment decisions positively and significantly affect the value of the firm. This shows that increased investment will affect increasing the company's value as investors interpret the increase in investment as a good signal for the company's prospects. Financial decisions negatively and significantly affect the value of the firm. This indicates that the increase in debts will decrease the value of the firm because it can increase the risk of financial distress and investors can interpret the risk as a threat. Therefore, managers are advised to use the internal financial source to fund the firm's capital.

The dividend decision is not significant to the firm's value. This indicates that the increase in dividend distribution does not affect the value of the firm because it is based on the dividend irrelevance theory that in certain market conditions the dividend becomes a factor that is not calculated in the effort to increase the value of the firm. Corporate Social Responsibility is not significant to the value of the firm. This indicates that the cost of CSR invested by the company does not affect the value of the firm because the manager considers CSR only as an obligation so that the effect becomes insignificant in increasing the value of the firm.

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