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Influence Investment Opportunity Set (IOS) With Value of The Firm in Manufacturing Company Food & Beverage Listed In Indonesia Stock Exchange

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Abstract: *This study aims to examine the influence of investment opportunity set, Corporate Governance Mechanism, dividend policy, and firm size to Value of The Firm. Object used in this research is food and beverage sector manufacturing companies listed in Indonesia Stock Exchange (BEI) period 2012-2015.*
The population of this research is food and beverage sector manufacturing company with purposive sampling as many as eight foods and beverage manufacturing companies through literature and documentation study. Data analysis techniques in this study using SEM (Structural Equation Modeling) with the application program PLS (Partial Least Square).
The results of this study have met the classical assumptions, which include: indicator used in this study is the evaluation of Average Variance Exceeded (AVE), composite reliability and discriminant validity. (2) Corporate governance mechanism has no significant effect on firm value, (3) dividend policy has significant effect to firm value, (4) firm size has no significant effect of value of the firms.
Keywords: *Investment Opportunity set (IOS), Corporate Governance Mechanism, Dividend Policy, Company Size and Values of The Firms*

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I. Introduction

A company is established with the aim of increasing the prosperity of the owner or shareholder through the improvement of Value of The Firm. As the value of the company gets higher, then the prosperity perceived by shareholders is also higher. Corporate value is considered important to reflect the company's performance so as to influence perceptions of investors towards the company (Salvatore, 2011: 9).

Investors play an important role in evaluating accurate corporate financial information with the objective of knowing the overall condition of the company, therefore the company is required to improve the performance of the company that can affect the increase of Value of The Firm. Investor confidence in companies that take investment policies in high numbers, will result in increased demand for company shares (Suartawan and Yasa, 2016). The value of the company can be observed from the market price of its shares traded on the stock, the higher the stock price is an indicator of the value of the increased company (Elizabeth, 2012).

Optimizing the value of the company, the shareholder will hand over the company's management to the company manager. Jensen and Meckling (1976) in the delegation process of this authority, often encountered issues related to conflict between managers with the shareholders (agency conflict), managers serve as agents and shareholders as a principal. Siallagan and Machfoedz (2006) argue that this agency conflict causes the opportunistic nature of management that will result in poor quality of earnings and can make the user's decision-making mistakes so that the value of the company will decrease. Jensen and Meckling (1976), larger companies will potentially be exposed to agency problems as a result of the separation between decision-making and risk-bearing functions. In these circumstances, managers have a tendency to excessively consume additional profits. Minimizing conflicts between insiders and external shareholders, a supervisory mechanism is required that aligns the relevant interests.

Researchers are interested in food and beverage companies that experienced a rapid increase in the food and beverage industry and this is greatly supported by the increasing population of Indonesia. The development of food and beverage companies is seen from the market capitalization value and the average stock price. Stocks become one of the investment alternatives in the capital market most widely used by investors. The purpose of a company investing in shares is to maximize shareholder wealth by maximizing the value of the company's stock which will ultimately reflect the share price.

II. Literature Review

Agency Theory

Jansen and Meckling (1976) describe the agency relationship that arises because of a principal contract that uses an agent to perform services that are of interest to the principal in the settlement of the right contract to align the interests of the agent and principal there may be a conflict of interest called the agency conflict between principal and agent.

Agency theory has the assumption that each individual is solely motivated by his or her own interests. The principal party is motivated to contract to welfare itself with increased profitability while motivated agents maximize the fulfillment of their economic and psychological needs in obtaining investment, loans, and compensation contracts. Conflicts of interest are increasing primarily because the principal can't monitor the activities of everyday agents to ensure agents work in accordance with the shareholders' desires.

The principal does not have enough information about the performance of agents who have more information about the capacity of the self, the work environment, and the company as a whole. This is what resulted in an imbalance of information owned by principal and agent. This information imbalance is called information asymmetry between the principal and the agent encourages the agent to present information to the principal, especially information relating to the performance measurement agent.

The value of the firm

Christiawan and Tarigan (2007) corporate values is nominal value, intrinsic value, liquidity value, book value and market value. The nominal value is the value formally listed in the articles of association of the company. Market value is the price that occurs from the bargaining process in the stock market. The book value is the value of the firm calculated on the basis of the concept of accounting. The value of liquidation is the selling value of all corporate assets after deducting all the obligations that must be met. The most representative concept for determining the value of a company is the intrinsic concept. The value of the firm in the concept of intrinsic value is not just the price of a set of asset values, but the value of the company as a business entity that has the ability to generate profits in the future. Corporate value in the concept of intrinsic value refers to an estimate of the real value of an enterprise.

Rika and Islahudin (2008:7) define the value of the company can provide maximum shareholder wealth if the stock price of the company increases. The higher the stock price, the higher the shareholder's wealth. To achieve the value of the company generally the investors handed over their management to professionals who are positioned as managers or commissioners.

Investment Opportunity Set (IOS)

Investment Opportunity Set (IOS) is the value of a company whose size depends on the expenditure set by the future management, at the moment it is still the investment choices expected to generate greater return (Putri and Rohman, 2012). In general, IOS describes the breadth of investment opportunities for a company, but is highly dependent on the expenditure of the company for the benefit of the future. Gaver and Gaver (1993) explain the IOS is unobservable, since the IOS character of this latent variable indicates that IOS can't be observed, in order to know the size IOS, IOS proxies that can be associated with other variables within the company are required.

IOS (Myers, 1997) is an investment decision in the form of a combination of asset in place and future investment options with a positive Net Present Value (NPV) that will affect the value of the company so that the opportunities investment set can be concluded a management decision in the future in the form of investments that affect the company's return and market value with the meaning of this management action can't be observed so that the management has the potential to act not in accordance with the interests of the principal.

Corporate Governance Mechanism

The Good Corporate Governance (GCG) Mechanism is a clear rules, rules and rules between the decision-making party and the party exercising control over the decision. Governance mechanisms are directed to ensure and oversee the running of Governance within an organization (Ujiyantho and Pramuka, 2007).

Purwaningtyas (2011) states that GCG is a system that regulates and controls companies that create value added for all stakeholders. Corporate Governance Mechanism is a system that regulates the relationship between interested parties for the achievement of organizational goals.

Dividend Policy

The dividend policy is a related decision in distributing the company's earnings to shareholders or to be used to increase capital in the framework of future investment financing. The dividend payout ratio becomes the determinant of the share of the amount of profit distributed in the form of cash dividends and retained earnings as a source of funding.

The value of the company is determined only by the ability of the company to generate income and business risk, while dividing the income stream into dividend and retained earnings will not affect the value of the company. Gordon (1963) with the theory of bird in the hand declared dividend policy has a positive effect on stock market prices, meaning that if the dividend distributed by the company the greater the stock market price of the company will be higher or vice versa. This happens because the dividend payout can reduce the uncertainty faced by investors. Furthermore, the theory of tax preference is the dividend tend to be taxed from the capital gains, then investors will be happy if the profits obtained by the company remain detained in the company. In the future, it is expected to increase capital gains with lower tax rates. If many investors have such a view, then investors tend to choose stocks with small dividends in order to avoid taxes.

Company Size

Investors are interested in investing in large companies, driven by ensuring business certainty and future business prospects. Larger sized companies are more in demand by investors, because they have a large total of assets and have reached the maturity stage and companies are considered to have good prospects in a relatively stable period capable of generating profits.

Hypothesis

Hypothesis in this research can be formulated as follows:
1. Significant Influence Investment Opportunity Set (IOS) with Value of The firm
2. Significant effect of Corporate Governance Mechanism on Value of The Firm
3. Significant influence of the Dividend Policy on Value of The Firm
4. Significant effect of company size with Value of The Firm

Research methods

The data collection technique is purposive sampling at Indonesia Stock Exchange with 8 from 14 food and beverage manufacturing companies in 2012 to 2015 is PT Tiga Pilar Sejahtera, Tbk., PT. Delta Djakarta, Tbk., PT. Indofood CBP Sukses Makmur, Tbk., PT. Indofood Sukses Makmur, Tbk., PT. Multi Bintang Indonesia, Tbk., PT. Mayora Indah., Tbk., Nippon Indosari Corpindo, Tbk. And PT. Sekar Laut, Tbk.
Variables used in this study are shown in the following table:

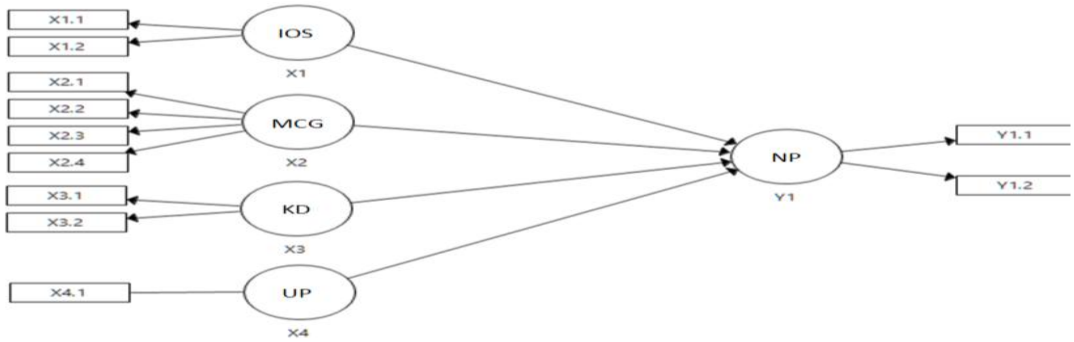
Table 1 Variables and Indicators

No	Variable Construct	Notation	Indicator	Notation
1	Investment Opportunity Set	X_1	Market to book value of equity (MVBVE) Market Value to Book of Assets (MVBVA)	$X_{1.1}$ $X_{1.2}$
2	Corporate Governance Mechanism	X_2	Committee Independent commissioner Board of Directors Institutional ownership	$X_{2.1}$ $X_{2.2}$ $X_{2.3}$ $X_{2.4}$
3	Devidend Policy	X_3	Dividend Per Share (DPS) Dividend Payout Ratio (DPR)	$X_{3.1}$ $X_{3.2}$
4	Company size	X_4	Natural log value (ln) of total company asset	$X_{4.1}$
5	Value of the firm	Y_1	Price to Book Value (PBV) Price Earnings Ratio (PER)	$Y_{1.1}$ $Y_{1.2}$

Source: Processed authors

The conceptual framework undertaken is as follows:

Figure 1 Conceptual Framework



Analysis of this research using SEM (Structural Equation Modeling) with the application of PLS program (Partial Least Square) in estimating path model using latent construct with mutipe indicator.

III. Results and Discussion

Evaluation of Average Variance Extracted (AVE), Composite Reliability and Validity

Based on the PLS assessment criteria from the model concept proposed by the researcher, there are some invalid and significant indicators below 0.50 and excluded from the model: Market to book value of equity ($X_{1.1}$), independent commissioner ($X_{2.2}$), board of directors ($X_{2.3}$), devidend per share, so that the indicators used in this study valid and meet the Convergent Validity, Discriminant Validity shown as follows:

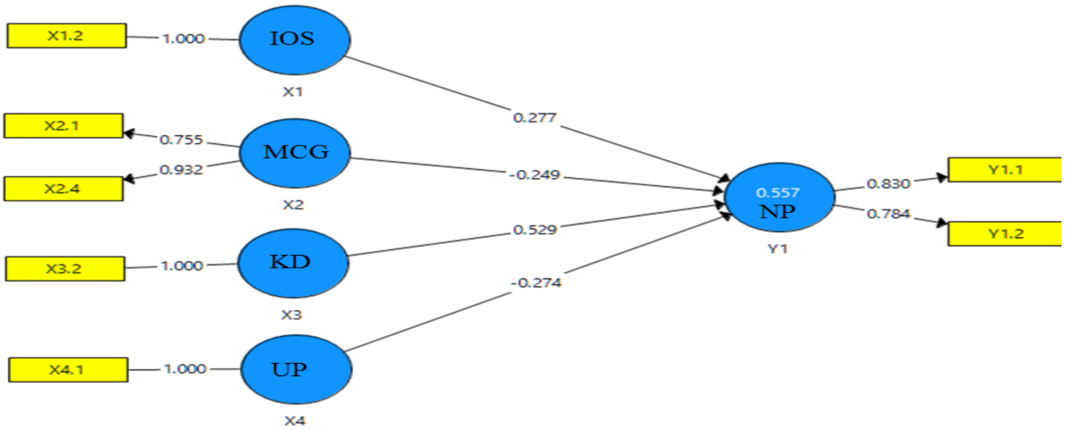


Figure 1 Outer loading Model

Structural Model Testing (Inner Model)

The test of structural model shows the influence of Investment Opportunity Set (XOS) (X1) Corporate Governance Mechanism (X_2), dividend policy (X_3), firm size (X_4) to Value of the firm (Y) gives R-Square value 55.7% , 44.3% is explained by other variables outside of the studied.

Hypothesis testing

1. The Investment Opportunity Set (IOS) relationship to Value of The Firm shows that with Market Value to Book of Assets (MVBVA) indicator significant influence with Value of The Firm and t-statistics of 2,004 (> 1,96), so H01 is accepted and reject Ha1.
2. Relation of Corporate Governance Mechanism to Corporate Values shows that the audit committee's indicators ($X_{2.1}$) and Institutional Ownership ($X_{2.2}$) have no significant effect to Value of The Firm and t-statistics of 1,600 (<1,96, so H02 is rejected and Ha2 be accepted.
3. Dividend Policy Relation to Corporate Value indicates that the Dividend Payout Ratio (DPR) indicator is significant with Value of The Firm and t-statistics is 4,210 (> 1,96), so H03 is accepted and Ha3 is rejected.
4. The Relationship of Company Size to Value of The Firm shows that the indicator of Ln Total asset has no significant effect to Value of The Firm and t-statistics is 1,267 (<1,96), so H04 is rejected and Ha4 is accepted

Discussion of Results

The results show that the construction of Investment Opportunity Set (IOS), Comporate Governance Mechanism, Dividend Policy, and Company Size on Value of The Firm in food and beverage manufacturing companies in 2012 - 2015 listed on Indonesia Stock Exchange are as follows:

1. The influent of Investment opportunity set (IOS) on Corporate Value

The Investment Opportunity Set test of firm value indicates a correlation by using a significant Market Value to Book of Assets (MVBVA) ($X_{1.2}$) of 2,004 (> 1,96). The higher the MVBVA ratio the greater the company asset used by the company, the greater the investment opportunity of the company and will affect the rising value of the company. This study does not support Hidayah's (2015) study which states that IOS proxies with MVBVE have a positive and significant impact on firm value. The MVBVE indicator in this study is invalid or unreliable so that it is deleted. The growth rate of Food and Beverage companies listed on the BEI is expressed in market price (MVBVA) which has an increase that can affect the increasing of pasa value and can give good return through high stock price.

2. The influent of Corporate Governance Mechanism on Corporate Value

Good Corporate Governance Mechanism Testing on Value of The Firm indicates that indicator of Audit Committee ($X_{2.1}$) and Institutional Ownership ($X_{2.2}$) has no significant effect of 1,600 (<1,96). The role of audit committees and institutional ownership in addressing the issue of agency conflict is very small, this is because the ownership of shares owned by members of audit committee and institutional is very high. Puteri and Rohman Research (2012) states that the number of audit committee meetings is negatively related to the level of earnings management and indicates the audit committee that meets regularly will be a better supervisor in overseeing the process and quality of financial reporting. The Corporate Governance Mechanism in Food and Beverage Company is not able to supervise the financial reporting process through the audit committee which influences the accuracy of the financial statements, resulting in an invalid financial report for investors that will reduce the value of the company.

3. Influence Dividend policy on value of the firm

Testing of dividend policy to firm value by using indicator of Dividend Payout Ratio (DPR) has significant effect 4,210 (> 1,96). Distribution of dividends can affect the company's stock market price is higher and investors more appreciate the expected revenue than the return retained by the company. Research Pamungkas (2013) indicates that the company's ability to pay dividends is not the main consideration of investors in buying shares and the value of a company is not determined by dividend payout, but by earning power company. If many investors are interested in buying shares then the stock price will increase, and will eventually increase the value of the company. This study follows the pattern of Bird In-The-Hand Theory proposed by Lintner (1962) states that the dividend policy has a positive effect on stock market prices, if the dividend distributed by the company gets bigger, then the stock market price of the company will be higher.

4. Effect of firm size on firm value

Testing firm size to firm value by using indicator Ln Total assets have no significant effect of 1,267 (<1,96). An increasingly large company does not affect the rise or fall of the stock market value of the company. Large companies do not necessarily guarantee future operations or prospects that it depends on the company in running a large asset in an investment that can affect the value of the company. Bernandhi and Muid's research (2014) explains that the larger the size of a company the value of the company will also be large. Company size is one of the factors that affect the value of the company. The results of this study in line with research Pamungkas (2013) which concluded that the size of the company does not positively affect the value of the company. The results of this study indicate that investors do not consider the size of the company when they buy shares.

This research becomes the benchmark of companies and investors who want to invest their shares in the future assuming that the increasing growth of company assets used by the company, the higher the IOS value of the company, if the company's IOS value is higher then the greater the company's investment opportunities which affects the rising market value or firm value. Ownership of shares owned by audit and institutional committee members may affect the conflict agency problem. If the agency problem is higher, it will affect the value of the company, besides the large dividend distribution can affect the stock market price of the company. Investors appreciate the expected revenue rather than returning revenues as retained earnings. Noteworthy is that larger companies have no effect on the rising or falling value of the company's stock market, as large firms may not guarantee better operations or prospects in the future.

Research Implications

For the company, high corporate value will be an attraction for investors who will invest and give the company management confidence in operationalize the entire wealth entrusted internal and external investors so as not to cause agency conflict.

Conclusion

Based on the test results presented in Chapter V Results and Discussion, it can be concluded as follows:

1. Investment Opportunity Set (IOS) significantly influence the value of the company with the increasing growth of company assets used by the company, the higher the IOS value of the company, the greater the investment opportunity of the company that influences the rising market value or Value of The Firm.
2. Corporate Governance Mechanism has no significant effect on Value of The Firm, there is role of audit committee and institutional ownership in overcoming problem of very small conflict agency. If the agency problem gets higher, it will affect the company's value.
3. Dividend policy has a significant effect on the value of the company, it is because that large dividend division can affect the stock market price of the higher company and the investor more appreciate the income.
4. The size of the firm has no significant effect on the value of the company where the larger the company does not affect the rise or fall of the stock market value of the company.

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