The Company Size as a Moderating Variable for the Effect of Investment Opportunity Set, Debt Policy, Profitability, Dividend Policy and Ownership Structure on the Value of Construction Companies Listed on the Indonesia Stock Exchange

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Abstract: This study aims to prove and analyze the effect of investment opportunity set, debt policy, profitability, devidend policy, and ownership structure, with company size as a moderating variable, on firm value in construction companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2017. The population is 30 construction companies listed on the IDX in 2017, while 14 companies meet the requirements to be used as research samples. This is an explanatory research, which explains the causal relationship between independent variables and dependent variable strengthened by moderating variables, through hypotheses testing. The data analysis technique used in this study is WarpPLS. The results of this study showed that investment opportunity set has a positive significant effect on firm value, while dividend policy and company size has a negative significant effect on firm value. Whereas debt policy, profitability, and ownership structure have no significant effect on firm value. The smaller the company size will increase firm value and vice versa. The company size is an absolute moderating variable.

Keyword: Company Size, Debt Policy, Dividend Policy, Firm Value, Investment Opportunity Set, Ownership Structure, Profitability.

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1. INTRODUCTION

The growth of the property business in Indonesia has an effect on increasing the performance of the property stock index on the Indonesia Stock Exchange (IDX). In 2015, the increase in profit of companies in the property sector listed on the IDX reached 57.5 percent, higher than the chemical industry, trade, and other investments. This is due to an increase in property prices in Indonesia, which averaged 11.5% per year. In 2016, the shares in property sector became the driver of the growth of the Composite Stock Price Index. This sector index was able to grow up to 29.02% since the beginning of the year.

Several studies analyzed the influence between investment opportunity set, debt policy, profitability, dividend policy, and ownership structure on firm value, moderated by company size, but the results still showed inconsistencies. Handriani & Irianti [16], Giriati [13], Rosdini [27], Rizqia *et al*. [26] stated that the investment opportunity set has a positive and significant effect on firm value. This means that to achieve company goals by maximizing the value of the company, managers make investment decisions to produce a positive net present value. But Suartawan *et al*. [32], Lestari [20], and Nugraha *et al*. [23] stated that investment opportunity set has a negative effect on firm value.

Siboni and Mohammad [29] found that debt policy has a positive effect on firm value. The use of debt will provide benefits to the company in the form of tax savings. On the other hand, the use of debt will increase cost for the company, namely the cost of bankruptcy, if the company is unable to pay off its debt. However, Lestari [20], Assagaf and Yunus [7] stated that debt policy has a negative effect on firm value.

Diani [11] found that profitability has a positive effect on firm value. Companies that produce high profits are generally considered to have good prospects so investors are interested in buying their shares, so that the value of the company will increase. This is in accordance with Prasetio and Bambang [25], Rizqia *et al*. [26], Martazela and Fenny [21], Utami [33]. But this is not in accordance with the results of the study of Yakub *et al*. [34], Sabrin *et al*. [28], and Yuanita *et al*. [36].

Chowdhury *et al*. [10] stated that firm size has a significant positive effect on firm value, but Arko *et al*. [6], Anandasayanan and Velnampy [4] stated otherwise.

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