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Determinants of Affecting Investment Decision on Public Companies of Manufacturing Sector in Indonesia

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Abstract

This research aims to examine the effect of pro forma index disclosure, market expectations, profitability, profit benchmarks, and company age on investment decisions. Data obtained from public companies of manufacturing sector listed on the Indonesia Stock Exchange (IDX) during 2015-2019. Panel data is processed from 50 companies or 250 observations using the E-Views application, and the resulting fixed effect regression equation is the best regression. The results in the study indicate that the pro forma index disclosure, profitability, and profit benchmarks have a significantly positive effect on investment decisions. However, pro forma index disclosure has the highest positive compared to profitability and profit benchmarks. Then, market expectations have the highest negative effect on investment decisions while company age does not affect investment decisions. Therefore, this study concludes that the disclosure of pro forma indexes, profitability, and benchmarks can improve the quality of investment decisions. However, the market expectation has the highest negative effect, and company age does not affect investment decisions. The results of this study have implications in providing additional references as determinants of affecting investment decision on public companies of manufacturing sector in Indonesia

Keywords: Investment Decisions, Pro forma Index, Market Expectations, Profitability, Profit Benchmarks, company age.

1. Introduction :

Cumulative Abnormal Returns (CARs) are the variance between actual returns and expected returns (Stephen J. Brown and Jerold B. Warner, 1985). CAR is an important concept in consideration for investment decision making and investors who understand the condition of CAR certainly have deeper differences regarding the perception of getting returns from business results and the risk opportunities that will be faced by them in the future. An understanding of CAR will make it easier for investors to make decisions regarding stock investment. CAR provides information about how much profit and risk to consider and when investors must take action in a timely manner regarding their investment. By using CAR all investors will make investment decisions more responsibly than before. Abnormal returns refer to the conditions under which they can become an inefficient market. In the efficient market theory, it is explained that abnormal returns will only occur in inefficient market conditions. One sign that the market is experiencing inefficiency is if many investors get abnormal returns under abnormal conditions. This abnormal condition often refers to the existence of certain announcements announced by the company recently and in a short time so that investors can get an abnormal return. These factors have provided a signal to determine the CAR level or score. Based on the signal theory that a certain result can lead to other results depending on how big the signal is received (Stephen A. Ross, 1977). Followed by David Eil and Justin M. Rao, (2012) linking this signal theory by stating the existence of

good news and bad news. Good news means that news must get a good response proven by good deeds, while bad news means that news will get a bad response as evidenced by bad deeds, for example selling, saving and buying actions by stock investors. On the other hand, Brian L. Connelly et.al, (2011) stated that signal is a channel that will be used to reduce the influence of stakeholder asymmetric information. In other words, any information from the company can be a signal for investors in making investment decisions. A market is categorized as a semi-strong form if the security price reflects all published information including those contained in financial statements (A.Q. Khan and Sana Ikram, 2010). This means that the published information will affect the company's stock price. We discuss general investment decision-making, not only carried out by companies but also investment policies of all investors.

Disclosure is stated as a way to provide beneficial information for users of financial reporting, and the disclosure itself is not a part of the financial statements, Scott (2009) revealed that the intended disclosure is an attempt to convey simple arguments that can force management to convey information internally. The information presented by the management was not only good news but also bad news. Independence in delivering news is very important because whether a decision is right or not depends very much on the transparency of the information provided. Regarding the relationship between pro forma index disclosure and pro forma financial reports, as stated by Suwardjono, (2008), pro forma index disclosure is one of the sources of information that is useful to support investment decision making. The purpose of pro forma disclosure is to protect unfair management behavior and smart investors understand that the information provided is positive disclosure (Vincent, 2009).

Signaling theory reveals that the information conveyed must have value, therefore the company seeks to manage the information in such a way as to meet market expectations. If the market has high expectations in a positive sense, the company will try to convey information to provide clarity to the market. On the other hand, if the market has a tendency towards negative expectations, the market will try to provide uncertainty to the market.

Based on the signaling theory, a company that has a quality product will provide a signal to the market through disclosure. Therefore, good management performance will be good news, especially for financial reporting and disclosure, will not be hidden but will be disclosed soon. It's just that management will try to cover up bad performance in the form of bad news so that it can't be accessed by the market. According to Horne & Wachowicz (2005) and Tandelilin (2010), it is revealed that profitability affects investment decisions by using the proxy Return on Assets (ROA) which is calculated by dividing Net Operating Income to total assets (assets).

Based on agency theory, agents tend to hide bad information or news and highlight good information or news. Therefore, if the company's operating profit does not meet the profit benchmark, the company will try to divert the attention of investors and potential investors through pro forma disclosures. If profit decreases, according to Bhattacharya, (2007) it is very logical and rational to find alternative solutions in responding to the fulfillment of the earnings benchmark.

According to Philips, (2003) that based on stakeholder theory, it is said that the success of a company that has constituents depends on the efforts of its constituents. Constituents or stakeholders expect management to carry out activities and report them to them. Management's performance must be reported regardless of whether the information provided is used or not. Company accountability is not only used in mandatory reporting but also in voluntary. Companies that are relatively young tend to provide more information to shareholders because these companies are not widely known by all stakeholders, while older companies are relatively more well-known by stakeholders, so there is a tendency to be more passive in conveying information.

Furthermore, every investor certainly expects a return on investment, and an investor can be said to be a successful investor if he can get the maximum return on investment with minimal risk. In addition, the link between the expected return on investment and risk, according to Kolani Pamane and Anani Ekoue Vikpossi (2010), is described as a profitable instrument package. Every investor has made an investment decision to find an effective instrument package. However, the maximum profit taking step and the minimum risk are related to the problem of the accuracy of making investment decisions. The investment decisions taken by investors depend on the availability of information. Why do we need information? Information that is often used to measure an investment decision is known as Cumulative Abnormal Returns (CARs). As stated by Stephen J. Brown and Jerold B. Warner, 1985) that CAR can be calculated by reducing or equalizing the actual return with the expected return. Most investors use company performance information as a basis for making investment decisions. We will find out how there is an abnormal return in our investment considerations. Investment policy on stocks as measured by CAR and influenced by various dominant factors, including the pro forma index, market expectations, profitability, profit benchmarks and company age. As we know, these factors are collected from many sources separately so that their influence on investment decisions is fully analyzed. Accounting information is very important data, even Vincent S; Mutswenje (2014) stated that accounting information is a type of information that explains both expectations and the future.

2. Methods :

This study aims to examine the effect of pro forma index disclosure, market expectations, profitability, profit benchmarks, and company age on investment decisions. Data obtained from public companies of manufacturing sector listed on the Indonesia Stock Exchange (IDX) during 2015-2019. The population in this study involves 141 public companies of manufacturing sector in the 2015-2019 periods; then, 50 companies were obtained as valid samples. This study has independent variables, namely pro forma index, market expectations, profitability, profit benchmark, company age. Panel data is processed from 50 companies or 250 observations using the E-Views application, and the resulting fixed effect regression equation is the best regression.

3. Result & Discussion :

3.1. Research Result :

The research results of 250 observations are presented with the analysis that the average Cumulative Abnormal Returns (CARs) in manufacturing companies listed on the IDX for the 2015-2019 periods are 0.1902 and the standard deviation is 0.599176. The company with the highest Cumulative Abnormal Return (CAR) score of 3.7668 was Tempo Scan Pacific Ltd. (TSPC) in 2015.

This means that it is a good signal for investors to increase their investment while the lowest Cumulative Abnormal Return (CAR) score is -1, 053609 is Champion Pacific Indonesia Ltd. (IGAR) in 2019.

The average Pro Forma Index of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2015-2019 periods was 82% with a standard deviation of 0.048257. This means that the companies listed on the Indonesia Stock Exchange (IDX) have met OJK regulations which was previously named BAPEPAM on SE-02 / PM / 2002 which was released on December 27, 2002. The company with the highest disclosure of the pro forma index was Semen Indonesia Ltd. (SMGR) amounting to 93% in 2015, meaning that investors have received good signals as a good pro forma index and have responded directly to companies that have presented a pro forma disclosure index. The company that has the lowest pro forma index is Citra Tubindo Ltd. (CTBN) in 2017 at 71%.

The average market expectation in the 2015-2019 periods was 19.76953 and the standard deviation was 18.97429. The highest market expectation score of 114,0143 was achieved by Multistrada Arah Sarana Ltd. (MASA) in 2015, this shows that market expectations are quite high. The lowest market expectation score was Sepatu Bata Ltd. (BATA) in 2017.

The average ROA for the period 2015 - 2019 is 13,0334 and a standard deviation of 13,3600. The highest ROA to be achieved by Charoen Pokphand Indonesia Ltd. (CPIN) of 83,7277 in 2019 has provided a good signal for investors to invest in securities while the lowest ROA of 0.13999 was obtained by Indo-Rama Synthetics Ltd. (INDR) in 2018.

The benchmark for the average income of manufacturing issuers for the 2015-2019 period can be used to measure the positioning of the company in its industry. The profit benchmark measurement generates three categories, namely: a score of 1 for under average, a score of 2 for the approximate average and a score of 3 for above average. Based on these categories, it can be seen that the average income benchmark is 2 and the standard deviation is 0.84913. The highest profit benchmark score is 3 while the lowest profit benchmark score is 1. The average age of the company for all companies is 18.57 years in the 2015-2019 periods and a standard deviation of 5.72297.

3.2. The effect of pro forma index disclosure on investment decisions :

Based on the research results, the pro forma index disclosure has a significant and positive effect on investment decisions. If the independent variable has a score of 0, the registered manufacturing company CAR is -0.739639. The regression coefficient for the pro forma index is 1.434690, which means that there is an effect on CAR if the pro forma index changes one unit, it will significantly change the CAR by 0.739639. The investment decisions prepared by investors based on the research results are positively influenced by the 21st pro forma index. This means that when an investor sees the potential for profit or loss, an investment decision can be made by a rational investor. Analysis of the pro forma index disclosure has also been carried out to identify the share of income or loss that can be generated by investors. This analysis is also carried out on pro forma financial reports to strengthen decisions. The fundamental difference between conventional and pro forma analysis methods is the data from the source, in other words conventional uses actual data while pro forma data is based on standard information. Most of the investments decisions occur because of the contribution of the pro forma index disclosure

measurement results consisting of 21 disclosure items, namely change in accounting principles and write-offs of accounting receivable / other assets

3.3. The effect of market expectations on investment decisions :

The market expectation coefficient of -0.001152 has a negative influence on the market expectations variable on CAR. If market expectations go up by one unit, the CAR of the manufacturing companies will drop significantly by -0.001152. An increase in market expectations does not automatically increase investment decisions. In fact, based on research results, market expectations have a negative effect on investment decisions. Market expectations using the formula for the share price divided by EPS have the opposite effect on investment decisions because stock prices do not show a significant effect on decision making. The results showed that the fluctuation of the selling price of shares is a negative factor in making investment decisions

3.4. Effect of profitability on investment decisions :

The probability coefficient of 0.006407 means there is a positive effect of probability on CAR. If the probability increases by one unit, the CAR of the manufacturing companies will also increase significantly by 0.006407. Profitability has a significant and positive effect on investment decisions, although the effect is not too large. Investors in deciding to invest are not always based on profitability because profitability only benefits parties in the company, such as bonuses for management and dividends for shareholders. Meanwhile, for investors themselves who buy investments in the form of shares in the secondary market, it is hoped that future stock trading will be capital gains so that the level of profitability obtained by the company becomes less attractive.

3.5. Effect of profit benchmarks on investment decisions :

The profit benchmark coefficient is 0.103041, which means that there is a positive effect of benchmark earnings on CAR. If the profit benchmark increases by one unit, the CAR for the manufacturing companies will also increase significantly by 0.103041. Profit benchmarks (benchmarks of income) strengthen investors to make investment decisions. As we know, investors or anyone with interesting information regarding investment decision making must have adequate benchmarks. Based on the research results, in the public manufacturing company sector whose types of business vary widely, it turns out that the profit benchmark also affects investment decisions, although this influence is considered less relevant because the effect is quite low. There is one variable that is more influential than the profit benchmark variable, namely the pro forma index variable. The effect of the pro forma index for this study was more dominant than the other independent variables.

3.6. The influence of company age on investment decisions :

The company's age coefficient is 0.028168, which means that there is a positive influence on the company's age on CAR. If the company age increases by one unit, the registered manufacturing company CAR will also increase by 0.028168 but not significant. The results of this study are very logical because it is difficult to link the maturity of the company with the ability to make investment decisions. A company that has just become a public company or a company that has been a public company for a long time does not have a significant difference in making investment decisions,

especially in this study; manufacturing companies are used as the object of research. In the manufacturing sector.

4. Conclusion :

The results in the study indicate that the pro forma index disclosure, profitability, and profit benchmarks have a significantly positive effect on investment decisions. However, pro forma index disclosure has the highest positive compared to profitability and profit benchmarks. Then, market expectations have the highest negative effect on investment decisions while company age does not affect investment decisions. Therefore, this study concludes that the disclosure of pro forma indexes, profitability, and benchmarks can improve the quality of investment decisions. However, the market expectation has the highest negative effect, and company age does not affect investment decisions. Although there are some objections from various parties who say that pro forma financial reports can mislead investors in making investment decisions (Kristian D. Allee, et.al, 2006), however, based on the results of this study it is evident that the pro forma index disclosure is still trusted by investors in helping make decisions that are shown to be a significant and positive influence. In the case of Indonesia, the performance of pro forma financial statements is reported as non-audit reports or unrecognized reports made without using GAAP and however investors still use pro forma financial statements as one of the important company documents to support investment decision making. Furthermore, the results of this study have implications in providing additional references as determinants of affecting investment decision on public companies of manufacturing sector in Indonesia.

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