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The Influences of Capital Structure, Ownership Structure and Investment Opportunity Set on Corporate Valuation

Neni Meidawati[a*], Mahmudi[b], Wahyuningtyas[c], Yunice Karina Tumewang[d], [a,b,c,d]Department of Accounting, Universitas Islam Indonesia,

The purpose of a company to maximise its corporation value can be achieved by establishing an optimum capital structure, ownership structure and Investment Opportunity Set (IOS). This research examines the influences of capital structure, managerial ownership, institutional ownership and Investment Opportunity Set (IOS) on corporate value. The research sample is the manufacturing companies registered on the Indonesian Stock Exchange for the period of 2015-2017. The data were collected from the IDX website and the companies' websites which were then scrutinised using regression analysis. This research has found that the capital structure, institutional ownership and managerial ownership have significant and positive impact on corporate value, however, Investment Opportunity Set (IOS) has no influence on the corporate value.

Key words: *Corporate Value, Capital Structure, Institutional Ownership, Managerial Ownership, Investment Opportunity Set.*

JEL: G2, G3, M4

Introduction

This research aims at examining the factors influencing the corporate value of manufacturing companies in Indonesia. Specifically, this research examines whether or not capital structure, ownership structure and Investment Opportunity Set (IOS) influence company performance. The research divides the ownership structure into two categories, which are the institutional structure and the managerial ownership structure. The previous study conducted by Pasaribu et al. (2016) indicates that the managerial ownership structure has an impact on corporate

value. A similar study conducted by Hariyanto and Lestari (2015) however, shows that a managerial ownership structure negatively influences corporate value. In addition, the studies performed by Puteri (2012) and Rika (2010) demonstrate that a managerial ownership structure has no influence on corporate value. The influence of Investment Opportunity Set (IOS) on corporate value is also examined by Hariyanto and Lestari (2015) as well as Puteri (2012), who prove that IOS significantly influences corporate value.

The purpose of a corporate going public is to increase the shareholders' welfare; one way of which is by maximising the corporate value. Corporate value is a reflection of a corporate work performance that can influence investors' perspective of the corporation, as it transmits a signal that will be interpreted by the prospective investor as a good or bad signal. Also, corporate value is one of the considerations for investors wanting to get maximum return on their investments, and the value is showcased in the stock price of the corresponding corporate in the stock exchange.

A company needs capital to finance its operational activities in order to achieve the company's goals. According to Keown and Scott (2000), capital structure is a combination of both internal and external long-term financial resources used by a company. An optimum capital structure is a must for a company since it has a direct influence on the company's financial position. A company might bear a large burden if the capital structure of the company is not good, or if the company has large liability.

The policy related to the ideal capital structure of a company will impact risk and return. The company risk will increase if the company conducts debt increment; nevertheless, the expected return of the company will also increase. The incremental risk due to debt increment tends to devalue the stock price; in contrast, the return increase will result in a stock price increase. Brigham and Houston (2001) mention that the stock price will be at the maximum level when a company capital structure is in the optimum position where the risk is balanced with the return.

In addition to capital structure, corporate value is also influenced by ownership structure as shown by the previous research. The ownership structure of a company comprises institutional ownership, managerial ownership and public ownership (Yuniati, et al. 2016). The ownership by the shareholders, and both institutional and managerial ownership, may influence the company's performance in the process of achieving goals to maximise the corporate value of the company. The shareholders and management must cooperate in making decisions in order to increase the corporate value of the company. In practice, both parties have different interests which can result in conflict. The conflict can be minimised if a manager is included in the company ownership. Thus the manager has two roles: as a manager and as a stockholder. Because the manager is also the company stockholder, he/she

will have the same interest as the other shareholders of the company. Additionally, institutional ownership is also considered to be able to influence corporate value. The higher the ownership level by the investors, the better the external inspection toward the company. A high level of institutional ownership will lead to stricter supervision of management performance, so the management will be more careful in making decisions.

In addition to capital structure and ownership structure, Investment Opportunity Set (IOS) has a contribution in a company's performance. IOS was firstly introduced by Myers in 1977 in relation to the attempt to reach the company goal. Myers (1976) states that IOS was an investment decision in the form of a combination between owned assets and future investment options with positive Net Present Value (NPV), which would impact the corporate value. In other words, IOS is future investment opportunity options. The investment opportunities of a company very much influence the corporate value, which is indicated by stock exchange value. The investment opportunity signifies the future company growth which in turn reflects a good signal and which can increase the stock price and value of the company.

The research object of this study comprises 73 manufacturing companies registered on the Indonesian Stock Exchange. The research involved manufacturing companies because this type of company processes its products continuously from raw material purchase up to the finishing stage. All of these activities are conducted independently by the company, meaning the company requires long-term resources to fund their operation. Also, the existing fund resource of the company will be used as the fixed asset investment of the company.

Corporate value is a situation in which a company achievement is able to reflect the society's trust in it after a long process of activities since the establishment of the company. Brigham and Houston (2001) suggest that corporate value is one of the very important aspects because shareholders' prosperity will ensure the level of corporate value. Fuad et al. (2006) argue that the indicator of corporate value of a go public company is its stock price. This is based on the assumption that the prosperity of the shareholders will increase along with the increase in the stock price.

The findings of this current study reveal that investors and market actors will consider capital structure and ownership structure in making investment decisions. However, there is no evidence that IOS contributes to company performance. This research has proven that IOS is not taken into consideration by the actors of the stock market in Indonesia, owing to the psychological condition of Indonesian stock market actors who still cannot differentiate between a company with a high level of IOS and one with a low level. Not all market actors carefully use the financial report information to make decisions; in fact, they tend to choose other factors which are easier to observe in evaluating a company.

Literature Review and Hypothesis Development

The Influence of Capital Structure on Corporate Value

Capital structure is a combination between long-term debts, which are used as long-term fund resources by a company and equity. Trade-off theory states that a company's capital structure is considered optimal if all costs of debts equal the amount of additional income from tax. This theory asserts that additional investment funding must be acquired using debt if a company wants to increase its corporate value. A company will be on the brink of bankruptcy if the company fails to manage the investment which results in an inability to repay the loan principal and interest. The costs of debt usage include interest expenses, financial distress costs and agency costs. The agency cost arises due to the increase in the company monitoring resulting from the potential loss experienced by the debtor. The monitoring is conducted in the forms of monitoring costs (stricter requirements) or an interest rate increase.

Trade-off theory, which was proposed by Myers in 1976, suggests that capital structure will influence the corporate value. The relation between capital structure and corporate value will create an optimum debt ratio when it can balance the advantages of tax saving and a larger debt usage expense. The corporate value will increase with the debt usage up to a certain level, however, if it exceeds the optimum level, the corporate value will decline. This decline is caused by the emergence of a larger bankruptcy cost from the profits of that debt use (Myers, 1976).

According to Siegel and Shim (1999), capital structure is composed of regular stocks, preferred stocks, retained earnings and long-term debts that are used by a company to fund its assets. Companies require funds to fulfill their expenses. The funds can be derived both from internal and external sources. Capital structure is a proportion used to determine the fulfillment of the expenses which are the combination of those two fund sources (Rodoni & Ali, 2010). Based on the assumptions above, it can be concluded that capital structure is a combination between loan capital and own capital. A capital source has its own capital cost which can affect the overall capital costs.

The research conducted by Haryono et al. (2015) also proves that capital structure affects corporate value. They conclude that in the beginning, every time a company uses debts, each increase in debt rate would increase the corporate value of the company. However, this happens only up to a particular optimum point. Exceeding the point, every debt increase will result in a decrease in corporate value. Moniaga (2013), as well as Manopo and Arie (2016), also share the same opinion that capital structure significantly influences corporate value where the change in capital structure would significantly amend the corporate value. Therefore, the first proposed hypothesis is as follows:

H1: Capital structure positively influences corporate value.

The Influence of Institutional Ownership on Corporate Value

Ownership structure is a distribution of stock ownerships of a company. There are several types of ownership structure including institutional ownership, individual ownership and managerial ownership. An institutional ownership structure involves the ownership of stocks by external parties that act as the company external supervisor. Shien et al. (2006) argue that institutional ownership is the ownership of stocks by government, financial institutions, legal entities, foreign institutions, trust funds and other institutions. Stock ownership is a source of power that can be used to support or challenge management decision; hence, institutional ownership is able to encourage more optimum supervision on the management performance. Brous and Kini (1994) state that the level of supervision strictness conducted by an institutional investor strongly depended on the amount of the investment. Bathala et al. (1994) also found that institutional ownership substituted managerial ownership in controlling agency costs. The power of institutional vote and force in supervising management is influenced by the amount of ownership by financial institutions.

The Theory of Agency Cost mentions that agency-related problems often take place in a company in the form of conflict between manager and shareholders. The conflict can be minimised with the mechanism of supervision on the management performance and the mechanism can monitor the company. Institutional ownership produces effective monitoring toward a company because an institution has more expertise, resources and professionalism compared to an individual investor. In addition, the supervision carried out by institutional investors upon the activities of a company is based on the strong motivation to push and discipline the management performance. This supervision will encourage the managers to increase attempts to improve the welfare of the shareholders and corporate value (Jensen & Meckling, 1976).

The increase in institutional ownership will decrease the opportunistic acts of managers. Besides, the managers will use the company assets efficiently and control the agency costs to leverage the corporate value. Therefore, the higher the institutional ownership, the better the control conducted by external parties toward a company. This will also result in a decrease in agency costs which can further promote corporate value.

Putri (2012) in her research concluded that institutional ownership significantly influences the profit quality and corporate value. Haryono et al. (2015) and Pasaribu et al. (2016) show that institutional ownership positively and significantly influences corporate value. They conclude that the larger the proportion of institutional stock ownership, the more votes and forces that can be applied by the financial institution to monitor the management in order to

be more disciplined and to optimise the attempts to increase corporate value. Based on the above-mentioned description, the following hypothesis is proposed.

H2: Institutional ownership positively influencess corporate value.

The Influence of Managerial Ownership on Corporate Value

A condition where the management of a company that is still active in decision making processes owns the company stocks is called managerial ownership. Managerial ownership will create double roles for the management, as managers and owners. Applying such a condition will balance the interests of the management (agent) and shareholders (principal) of a company (Abdullah, 2005). Managers and shareholders have their own interests in a company, so this interest difference often triggers a conflict which is called an agency problem. The problem can be minimised with managerial ownership.

An agency problem arises due to a disruption between both managers and shareholders' interests. Such conflict of interests can be resolved with managerial stock ownership because in addition to its position in the company management, a manager also becomes a shareholder, thus, the manager can be affected by the benefits and losses resulting from the decisions he or she makes. The proportion of managerial ownership in a company tends to make the management more careful in making decisions and actions that may affect the company. The management will also work harder for the sake of the shareholders' interest because the management is also a part of the shareholders. This signifies that managerial ownership can align the interest of management and that of shareholders, consequently, it will also minimise the agency problem.

The studies by Pasaribu (2016) and Puteri (2012) reveal that there was a significant influence of managerial ownership on corporate value. Both studies conclude that if the management had a contribution in the form of company stocks, the management would be determined to work hard to achieve maximum results and to increase corporate value. Based on the description above, the hypothesis is proposed as follows.

H3: Managerial ownership positively influences corporate value.

The Influence of Investment Opportunity Set (IOS) on Corporate Value

To keep developing, a company needs asset investment; therefore, a selection of investments is required for the future of the company. Investment is an activity of fund disbursement or capital placement in a particular period to attain profit. A company that invests will use its assets and expect wealth growth. A company will make an investment based on the existing

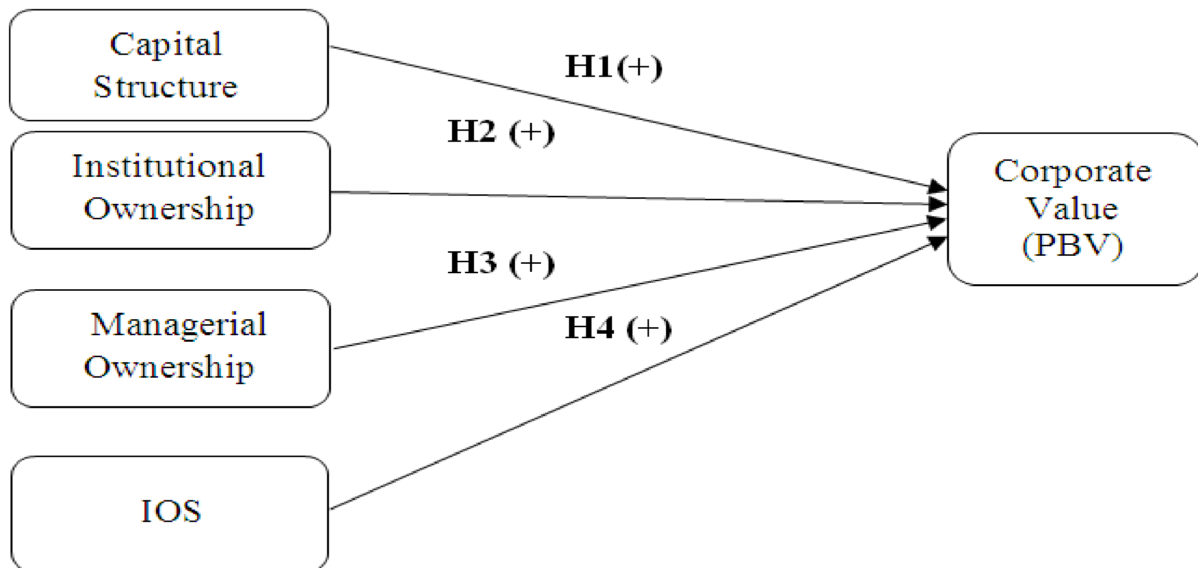
investment opportunity. Investment Opportunity Set (IOS) is a set of investment options for companies in the future (Haryetti & Ekayanti, 2012). According to Gaver and Gaver (1993), investment opportunity significantly affects financing decisions.

Modigliani and Miller (1961) state that the objective of every company was to maximise corporate value, and it could be realised by making the right decision on investment and producing positive net present value. IOS is the options of future investments that are expected to result in return. The decision on investment is crucial because the investment activities of a company can maximise corporate value. IOS gives a good sign of future income growth, so it significantly influences corporate value. Management will make a decision on investment to enhance company growth based on the existing options of investment opportunity. IOS can determine the future performance of a company and affect investor evaluation of the company. Thus, the company survival will be disrupted if the company selects a bad investment. Reaching the company goals is an absolute purpose for a company, to determine and keep investment growth. The goal is to maximise the welfare of the shareholders through the improvement of corporate value.

IOS will provide the information on the future income prospect. If the management successfully makes a decision on good investment, the assets invested will produce an optimum performance that later results in a positive return, so it can transmit a good signal to the investors. A high level of investment will provide the information on the future income growth of a company. The information gives a sign to the external parties and is interpreted as a good signal, which influences investors to have a good perception of the company performance and eventually affects the company's corporate value. The studies conducted by Hariyanto and Lestari (2015) prove that IOS positively and significantly influences corporate value. Consequently, IOS can appeal to investors as the investments might profitable for the investors in the future. In regard to the previous explanation, the hypothesis is proposed as follows.

H4: Investment Opportunity Set positively influences corporate value.

Research Model



Research Method
Research Sample

The sample of this research is the manufacturing companies registered on the Indonesian Stock Exchange for the period 2015 to 2017. Purposive sampling method was used to select the research sample with the criteria as follows:

1. Manufacturing company registered on the Indonesian Stock Exchange for the period 2015-2017;
2. Manufacturing company that published its financial report and annual report in the period of 2015-2017;
3. Manufacturing company with complete financial data to calculate the variables of this research during the observation period of 2015-2017.

Data Collection Technique

The data used in this study are quantitative data. The data collection was started by gathering the financial reports and annual reports of the sample companies. The secondary data were collected from the Indonesian Stock Exchange website at *http://www.idx.co.id*.

Operational Definitions and Variable Measurement

The independent variables of this research are capital structure, institutional ownership, managerial ownership and Investment Opportunity Set (IOS), and the dependent variables is corporate value.

Dependent Variable (Y)

Corporate value is a reflection of public evaluation of the real performance of a company, which can be measured through its stock price in the market (Harmono, 2011). Corporate value in this study was measured using Price to Book Value (PBV) ratio.

The formula to calculate Price to Book Value (PBV) according to Brigham and Houston (2001) is:

$$\text{PBV (Y)} = \frac{\text{Price per share}}{\text{Book value per share}}$$

$$\text{Book value per share} = \frac{\text{total equity}}{\text{Total number of shares}}$$

Independent Variables (X)

Capital Structure

Capital structure is a combination of long-term fund sources that are used by a company (Keown & Scott, 2000). The capital structure in this study used Debt to Equity Ratio (DER) and Debt to Equity Ratio Quadrate (DERQ). These indicators are the same as those used in the study conducted by Haryono, Fitriany and Fatimah (2015). The formula for Debt to Equity Ratio (DER) is the same as that in the research of Pasaribu et al. (2016), and the formula for Debt to Equity Ratio Quadrate (DERQ) is the same as that in the study by Haryono, Fitriany and Fatimah (2015), as follows:

$$\text{DER (X1)} = \frac{\text{Total debt}}{\text{Equity}} \text{ x } 100\%$$

$$\text{DERQ (X2)} = \text{debt to equity ratio}^{2}$$

Ownership Structure

Ownership structure is one of the methods that can minimise conflict of interest between management and shareholders (Mei et al., 2016). In this current research there are two

indicators of capital structure, namely institutional ownership and managerial ownership structures.

Institutional Ownership

Institutional ownership is share ownership by the government, financial institutions, legal entities, foreign institutions, trust funds and other institutions at the end of the year (Shien et al., 2006). Institutional ownership in this research is formulated as follows (Hariyanto & Lestari, 2015).

$$\text{Institutional Ownership (X3)} = \frac{\text{Number of institutional shares}}{\text{Total number of shares}} \text{ x } 100\%$$

Managerial Ownership

Managerial ownership is the percentage of share ownership by the management, which is still active in the decision-making process of a company. Wahidahwati (2002) suggests that managerial ownership is the percentage of share ownership by the parties which are still active in the decision-making process of a company at the end of the year. Managerial ownership in this research is formulated as follows (Hariyanto & Lestari, 2015).

$$\text{Managerial Ownership (X4)} = \frac{\text{Number of managerial shares}}{\text{Total number of shares}} \, x \, 100\%$$

Investment Opportunity Set (IOS)

According to Gaver and Gaver (1993), IOS is the options of investments which are expected to produce large return in the future. In this research, IOS was proxied using Price Earning Ratio (PER). The indicator is aligned with the study by Hariyanto and Lestari (2015).

The formulae of Price Earning Ratio (PER) and EPS are as follows.

$$PER \text{ (X5)} = \frac{\text{Stock price}}{\text{EPS}} \, x \, 1$$

(Hariyanto & Lestari, 2015)

$$EPS = \frac{\text{Net profit}}{\text{Number of shares}}$$

(Kasmir, 2012)

Data Analysis Method

The method of data analysis used to test the hypotheses is double linear regression analysis with the model below.

$$PBV = \alpha + \beta_1 DER + \beta_2 DERQ + \beta_3 KI + \beta_4 KM + \beta_5 PER + e$$

Where:
PBV = Corporate value
α = Constanta
β1-β5 = Regression coefficient
DER = Debt to equity ratio
DERQ = Squared debt to equity ratio
KI = Institutional ownership
KM = Managerial ownership
PER = Price earning ratio
E = Error term

Data Analysis and Discussion
Description of Research Object

The population of this research is manufacturing companies registered on the Indonesian Stock Exchange (BEI) in the period of three years from 2015 to 2017. The sample of this research was selected using purposive sampling method, and the number of manufacturing companies which fulfilled the criteria was 73.

Descriptive Statistical Analysis

Table 1: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DER	219	.00	92.30	1.34	2.28
DERQ	219	.01	8,519.29	46.32	577.50
KI	219	.01	145.22	63.06	25.44
KM	219	.00	243.71	11.08	24.04
PER	219	-225.00	698.00	23.64	81.00
PBV	219	-9.85	82.45	3.18	10.13
Valid N (listwise)	219				

Hypothesis Test and Discussion

Table 2: Result of regression analysis

Independent Analysis	Dependent Variable	
	Corporate Value (PBV/Y1)	Conclusion
Capital Structure (DER/X1)	.876	H1 is supported
	3.309	
	.001**	
Capital Structure (DERQ/X1)	.007	
	6.826	
	.000***	
Institutional Ownership (KI/X2)	.099	H2 is supported
	3.430	
	.001**	
Managerial Ownership (KM/X3)	.069	H3 is supported
	2.160	
	.032**	
IOS (PER/X4)	.013	H4 is not supported
	1.664	
	.098*	
Constanta	-5.641	
	-2.648	
	.009*	
Corporate value (PBV/Y)		
R^2	.269	
Adjusted R^2	.252	

*** sig. < 1%; ** sig. < 5%; * sig. < 10%

Source: Processed data

PBV = -5.641 + 0.876 DER + 0.007 DERQ + 0.099 KI + 0.069 KM + 0.013 PER + e

Result of Hypothesis Test

The first hypothesis of this study states that capital structure influences corporate value. The research finding shows that the capital structure, which was proxied with Debt to Equity Ratio and Debt to Equity Ratio Quadrate, positively influenced corporate value (Table 2). It can be seen in Table 2 that the regression coefficient of Debt to Equity Ratio (DER) variable is 0.876 with the significance value 0.001. With α significance level = 5%, the significance value amounting between 0.001 < 0.05 indicates that DER positively and significantly influences corporate value. The regression coefficient of Debt to Equity Ratio Quadrate (DERQ) variable is 0.007 with the significance value 0.000. This shows that DERQ has

positive and significant influence on corporate value. Therefore, the first hypothesis of this research is supported.

The second hypothesis of this research mentions that institutional ownership positively influences corporate value. Table 2 shows that the regression coefficient of institutional ownership variable is 0.099 with the significance value 0.001. With significance level of α = 5%, the significance value amounting 0.001 < 0.05 shows that institutional ownership positively and significantly influences corporate value. This indicates that the second hypothesis of this study is supported.

The third hypothesis assumes that managerial ownership positively influences corporate value. The regression coefficient of managerial ownership variable in Table 2 is 0.069 with the significance value 0.032. With α significance level = 5%, the significance value amounting 0.032 is less than 0.05. This signifies that managerial ownership positively and significantly influences corporate value. This means that the third hypothesis of this research is supported.

The fourth hypothesis of this research states that IOS positively influences corporate value. IOS which was proxied with Price Earnings Ratio (PER) shows the regression coefficient for this variable at as much as 0.013 with the significance value 0.098 in Table 2. With α significance level = 5%, the significance value amounting 0.098 is less than 0.05. This shows that PER does not significantly influence corporate value. This demonstrates that the fourth hypothesis of this research is not supported.

Discussion

The Influence of Capital Structure on Corporate Value

Corporate value in this research was proxied with Price to Book Value, and capital structure was proxied with Debt to Equity Ratio (DER) and Debt to Equity Ratio Quadrate (DERQ). The finding shows that DER had positive and significant influence on corporate value, so did DERQ. Therefore, it can be concluded that capital structure positively influences corporate value.

The result is aligned with Trade-off Theory which states that capital structure may influence corporate value. This study has revealed the same finding as the other studies conducted by Haryono et al. (2015), Moniaga (2013), as well as Monopo and Arie (2016), which state that debt use would significantly influence corporate value. Haryono et al. (2015) conclude that in the beginning of debt use, each increase in the debt rate would increase corporate value because of tax benefit; however, this would only take place up to a particular point. Exceeding the point will result in a decrease due to bankruptcy risk. As revealed by

Zainuddin, et al. (2017), the short term and long-term debt are negatively related to financial performance.

The Influence of Institutional Ownership on Corporate Value

The result of this research shows that institutional ownership had positive and significant impact on corporate value. This indicates that institutional ownership will influence corporate value since the more company stocks owned by institutional entities, the easier monitoring activities toward the company and management activities are for the purpose of avoiding unexpected occurrences. Institutional ownership can attract investors to make investment in the company and eventually increase corporate value.

The existence of institutional ownership is considered effective and efficient as a part of monitoring activity toward the company and the decisions made by the management. A company with institutional ownership of more than 5 percent indicates its ability to monitor, encourage and discipline the company management's performance. In addition, a larger proportion of institutional ownership will result in the efficiency of company asset use. The institutional investors also have a role in providing a trusted mechanism for the information presentation to investors, which can be seen from the market reaction toward the profit announcement of the company. In this context, the larger the institutional ownership, the higher the corporate value.

This finding agrees with the study carried out by Haryono et al. (2015) which concludes that the larger the share ownership by institutional investors, the more votes and encouragement there is to monitor the management and to discipline the management performance in order to increase the welfare of the shareholders and corporate value.

Also, Pasaribu et al. (2016) conclude that the more shares owned by institutional investors, the stricter the monitoring would be conducted by the institutions, which results in corporate value improvement. Moreover, Puteri (2012), Pirzada et al. (2015), Suhartanti and Asyik (2015), as well as Hermiyetti and Katlanis (2016) argue that institutional ownership has significant impact on corporate value.

The Influence of Managerial Ownership on Corporate Value

The result of this study shows that managerial ownership positively influences corporate value. Managerial ownership in this notion is a condition where the management positions itself as the owner of a company since it has shares of the company. With this, the management will be motivated to enhance the corporate value. The management will be more active in decision making, so the benefits and loss arising from the decisions can also be felt

by the management. The management will also make a decision for the interest of the company by disseminating the information as widely as possible to improve the company image. In other words, the management will not act based on its own interest, especially if the decision it makes will bring disadvantage to the company.

A larger portion of managerial ownership tends to push the management to improve its performance for the interests of the shareholders and the management. As a result, the management will be motivated to make more profits which can increase the company stock price and eventually improve corporate value. The higher percentage of shares owned by the management assumes that the management will be more careful in making decisions so that the company will not suffer from loss. This ownership will limit the opportunistic behaviour of the management and will further attract external investors to invest their money. This will result in a higher stock price, which will secure higher corporate value.

This finding is in line with that of Puteri (2012), Yuniarti (2014), Hermiyetti and Katlanis (2016), as well as Pasaribu et al. (2016), who conclude that managerial ownership has positive and significant influence on corporate value.

The Influence of Investment Opportunity Set (IOS) on Corporate Value

In this research, Investment Opportunity Set (IOS) was proxied with PER. The result shows that PER did not affect corporate value. Signalling Theory argues that investors will positively respond to a company with a high investment rate since it signifies a larger return prospect or positive company income growth in the future. Nevertheless, a study performed by Jati (2005) demonstrated that a company with a high level of IOS had less dividend payment policy compared to that with a lower level of IOS. Thus, it can be concluded that if return is the reason for an investor to invest his/her money, IOS will not serve as the right option.

This is also affirmed by the psychological conditions of the actors of the stock exchange in Indonesia, who are not yet familiar with the difference between a company with a high level of IOS with one with a lower level of IOS (Syifa, 2015). This shows that the signal of company growth reflected from a company with high level of IOS is not responded to differently from that of a company with a lower level of IOS by the market actors when making their investment decision. This is due to the fact that Investment Opportunity Set (IOS) is a difficult thing to observe, so that investors choose other, easier factors to observe the corporate value. Syifa (2015) states that not all market actors used all the information in a financial report to make an investment decision. Also, it is not impossible that they only rely on technical analysis or others to make decision. This finding concurs with the research of

Wahyudi and Pawestri (2006), Bertuah (2015) and Syifa (2015), which concludes that Investment Opportunity Set does not influence corporate value.

Conclusion and Recommendation

This study has empirically proven that Debt to Equity Ratio (DER), Debt to Equity Ratio Quadrate (DERQ), institutional ownership and managerial ownership had positive and significant influence on the corporate value of manufacturing companies registered on the Indonesian Stock Exchange during the period 2015 – 2017. However, Investment Opportunity Set (IOS) did not affect corporate value. The result of this research also shows that Signaling Theory could only explain the phenomenon partially, that the management of a company could only give partial signals to the investors about the factors which might influence corporate value. Similarly, Trade-off Theory, which states that the additional investment financing must be done using debt if a company wants to increase its corporate value, is not evident.

Investment Opportunity Set (IOS) does not influence corporate value. This result might be due to the psychological conditions of the stock market actors of Indonesia who still could not differentiate between a company with high level of IOS with that with a low level of IOS. It seems that the investors tended to look out for the dividend. This fact is supported by the research of Nurrohim and Ambarwati (2008), which states that the investors of Indonesia still saw dividend as more informative and considered it as the most important source of information to evaluate the future prospect of a company. Besides which, the dividend paid by a company indicated that the company offered more certain profitability. Dividend payment was more assured, rather than the fact that the company held the profit for the company growth. Additionally, Investment Opportunity Set (IOS) is difficult to observe, and not all market actors used all financial information meticulously to make an investment decision. They preferred other, easier factors to observe the corporate value of a company.

The result of this study is expected to be used as a significant input for investors on the importance of financial report analysis to evaluate whether or not a company has optimally received its fund sources from debt and equity. If the company has funding sources more from debts than equity, future problems may arise from the ability of the company to repay the debt principal and its interest.

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