THE INFLUENCE OF CAPITAL STRUCTURE AND DIVIDEND POLICY ON INVESTMENT DECISIONS

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Abstract

The purpose of this research is to provide empirical evidence on the impact of capital structure and dividend policy on investment decisions in pharmaceutical companies listed in Indonesian Sharia Stock Index in 2020 to 2022. Historical data were taken from the Indonesia Stock Exchange web page. The research population consists of 10 companies, but after applying the purposive sampling method, 4 companies were selected as research sample. Data analysis was conducted using Panel Data Regression. The result of the research show that partially, Capital Structure show a negative and significant impact on Investment Decisions (Total Assets Growth) and Dividend Policy does not have a significant influence impact on Investment Decisions. While simultaneously, Capital Structure and Dividend Policy collectively influence Investment Decision.

Keyword: *Capital Structure; Dividend Policy; Investment Decision; Panel Data Regression*

A. INTRODUCTION

The pharmaceutical industry is one of the industries that experienced growth during the COVID-19 pandemic, even though the Indonesian economy contracted in 2020. This is shown by the increase of the growth of the national pharmaceutical industry in 2021 is 10.81% (GPFarmasi, 2022). However, this did not last long, in 2022 the pharmaceutical industry experienced slow growth by 0.69% compared to 2021 along with the decline of the COVID-19 pandemic (Putri, Azari, & Winarto, 2023). The increase in sales in the pharmaceutical industry has an impact on investment decisions in the pharmaceutical sub-sector of the Indonesian Sharia Stock Index (ISSI), as illustrated in Table 1.

Table 1. Investment Decision of Indonesian Sharia Index Pharmaceutical Industry (ISSI)

No	*Pharmaceutical Information Sector*	*Investment Decisions (TAG)*		
		2020	*2021*	*2022*
1	Kalbe Farma Tbk.	11,34%	13,74%	6,13%
2	Merck Tbk.	3,20%	10,36%	1,11%
3	Phapros Tbk.	-8,61%	-4,04%	-1,75%
4	Industri Jamu dan Farmasi Sido Muncul Tbk.	9,06%	5,70%	0,30%

Source: Data processed, 2024

Table 1 above showed, the investment decisions of the pharmaceutical industry from 2020-2022 experienced an increase and decrease due to COVID-19 pandemic. In facing these dynamics, investor interest in the pharmaceutical industry in the Indonesian Sharia Stock Index (ISSI) has not decreased, but has increased and caused a surge in investment during the COVID-19 pandemic (Azizah, Fredy, Zoebaedi, & Wahyoeni, 2022). Therefore, investment decisions are an important step that must be taken by the Pharmaceutical Industry, because it will affect the company's development in the future (Aprilia, Utari, Carolina, & Pratiwi, 2022). An investment decision is the process of determining the amount of capital in the form of current assets to obtain profit (Saputro, 2021). The higher investment decisions will provide good growth and have a chance to get a rate of return on capital.

Factors that influence investment decisions are capital structure and dividend policy. Capital structure is the ratio between debt and liability (Suhardjo, Karim, & Taruna, 2022). The better capital structure will

increase a company's investment. Research conducted by (Aprilia, Utari, Carolina, & Pratiwi, 2022) find a significant positive influence on investment decisions.

Dividend policy is a decision whether the profits earned by a company during one period will be fully distributed to shareholders or partially retained as earnings (Windasari, Gana, & Astiti, 2023). The higher a company's profits, the more likely it is to distribute dividends. However, research conducted by (Wardatul & Sutjahyani, 2021) found that dividend policy does not impact investment decisions, as companies may rely on debt, in addition to profits, to fund their dividends.

B. RESEARCH METHODOLOGY

This research uses quantitative descriptive regression analysis method. The data utilized in this research are secondary data. Data obtained from financial reports of pharmaceutical sub-sector companies in the Indonesian Sharia Stock Index (ISSI) 2020-2022. The population of this research is 10 pharmaceutical sub-sector companies in the ISSI, from which 4 companies were selected as the sample using purposive sampling based on the established research criteria.

The dependent variable is investment decision, represented by changes in the company's total assets (TAG). According to (Wardatul & Sutjahyani, 2021), TAG formula:

$$Investment\ Decision\ (TAG) = \frac{TA_t - TA_{t-1}}{TA_{t-1}} \quad (1)$$

Notes:
TAG: Total Assets Growth
TAt: Current Total Asset
TAt-$_1$: Initial Total Asset

Independent Variable :

1. Capital structure, measured by the Debt to Equity Ratio (DER). According to (Hutabarat, 2022)

$$Capital\ Structure\ (DER) = \frac{Total\ Debt}{Total\ Equity} \quad (2)$$

2. Dividend policy, measured by the Dividend Payout Ratio (DPR). According to (Syahri & Robiyanto, 2020)

$$Dividend\ Policy\ \ (DPR) = \frac{Dividend\ per\ share}{Earning\ per\ share} \quad (3)$$

Conduct panel data regression analysis to test the influence of capital structure and dividend policy on investment decisions. The model used is a random effect model using EViews 12 software. The regression equation applied in this research is :

Y= 0.17504067863 - 0.114243084754*DER + ε

C. RESULT

Table 2. Descriptive statistics

	TAG	*DER*	*DPR*
Mean	0.0375	0.5850	0.6783
Maximum	0.13	1.58	1.00
Minimum	-0.08	0.16	0.39
Std. Dev	0.06426	0.54662	0.22184
Skewness	-0.285	1.194	0.147

Source : Data processed, 2024

Table 2 above showed, the average of the investment decision (TAG) is 0.0375 with standard deviation (Stdev.) 0.06426, indicating TAG for the pharmaceutical industry in Indonesia has a homogeneous value. TAG is the key for companies to measure the level of investment that will be received. This high average value indicates that, overall, the pharmaceutical industry in Indonesia has a high investment value. The result shows that pharmaceutical companies have an attraction for investors to do the investment.

In addition, the minimum TAG value of -0.08 (or -8%) indicates that the pharmaceutical industry experiences low losses. The negative skewness value (-0.285) also shows that the distribution of TAG skewed left, but the value is quite close to zero, which indicates the distribution of TAG is almost normal. TAG in these pharmaceutical companies has the opportunity to become the choice of the investor.

The capital structure reflected in DER and DPR shows a greater average value than TAG. DER has an average of 0.5850 or around 58.5%, and DPR has an average of 0.6783 or around 67.83%, both higher than TAG with an average of only 0.0375 or 37.5%. The high average DER indicates that the company's debt and equity ratio is an important factor for the company to make decisions.

In addition, the high DPR shows that most of the pharmaceutical industry shows that the company's net profit is distributed as dividends to shareholders. The Skewness value is positive in DER (1.194) and DPR (0.147) confirms that this data shows almost normal data. Indicating a normal capital structure and dividend policy in this pharmaceutical industry. A stable capital structure and a clear dividend policy provide confidence for companies to make investment-related decisions to shareholders.

Table 3. Regression analysis (random effect model)

Variabel	*Coefficient*	*Std. Error*	*Prob*
C	0.175041	0.067648	0.0293
DER	-0.114243	0.032058	0.0061
DPR	-0.104239	0.078990	0.2195
R-Squared	0.667745		
F-statistic	9.043803		
Prob (F-statistic)	0.007025		

Source : Data processed, 2024

Table 3 above showed, DER has significant negative impact on TAG, with a coefficient of -0.114243 and a probability (p-value) of 0.0061. Based on these results, the hypothesis is accepted, meaning DER has significant effect on TAG. Meanwhile, the DPR variable shows a negative and insignificant effect on TAG, with a coefficient of -0.104239 and a probability (p-value) of 0.2195. This finding rejects that DPR has a positive effect on TAG. DER and DPR simultaneously affect TAG with a Prob (F-statistic) value of 0.007025 with an R-squared (coefficient of determination) of 0.667, meaning 66.7% of the variation in TAG can be explained by changes in DER and DPR. Other 33.3% is influenced by other factors not studied such as cash flow and liquidity.

D. DISCUSSION

The findings revealed that DER has significant negative impact on TAG, indicating that an increase in the debt to equity ratio (DER) tends to decrease the company's investment level. This result contradicts the study by (Aprilia, Utari, Carolina, & Pratiwi, 2022) says that DER has significant positive impact on TAG. But this study is in line with the pecking order theory (Aprilia, Utari, Carolina, & Pratiwi, 2022) states that companies with higher capital structures (more debt) tend to limit their investment decisions due to the burden of interest costs and increased financial risk. This makes the company more cautious in making new investments, due to limited internal capital and the potential increase in the cost of external capital.

The findings indicate that DPR has negative and insignificant impact on TAG in line with the findings of (Wardatul & Sutjahyani, 2021). This shows that the distribution of dividends is greater than the company's retained earnings. As a result, companies do not only rely on profits to pay dividends, but also have to use other sources of funds to settle dividends.

E. CONCLUSION AND SUGGESTION

This research examines the asscociation between capital structure, dividend policy on investment decisions, measured using DER, DPR and TAG. The result of regression analysis shows that capital structure has significant negative influence on investment decision, while dividend policy has negative and insignificant influence on investment decision. This shows that if the capital structure of the pharmaceutical industry increases, investment decisions will decrease, and vice versa. While the dividend policy does not influence investment decisions, distributing dividends that is greater than retained earnings will cause the company to require other sources of funds to pay dividends.

From conclusion above, the suggestions can be given are :

1. Companies need to evaluate and balance between debt and equity in their capital structure. This can minimize financial risk and lead to better investment decisions. In addition, companies should prioritize using profits for reinvestment rather than distributing high dividends.
2. Future researchers are expected to replace and add other variables that can affect investment decisions, such as company size or market conditions with qualitative approaches, such as interviews with managers to obtain in-depth understanding.

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