

BUSINESS RISK, EFFICIENCY, AND QUALITY OF INVESTMENT DECISIONS

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ABSTRACT

The quality of investment decisions made by companies has a central role in supporting the achievement of maximizing shareholder value. This study aims to provide empirical evidence regarding the role of business risk and efficiency in explaining the variability of investment decision quality. The sample in this study includes all companies in the property, real estate, and building construction sectors from 2014 to 2018. The number of samples in this study were 62 companies with a research period of 5 years so that the total observations in this study were 320 observations. The analytical tool used is linear regression. The results of the study provide evidence of the importance of the role of business risk and efficiency in explaining the quality of the company's investment quality. In this case the business risk variable has a negative and significant effect on the quality of investment decisions and the efficiency variable has a positive and significant effect on quality of investment decisions.

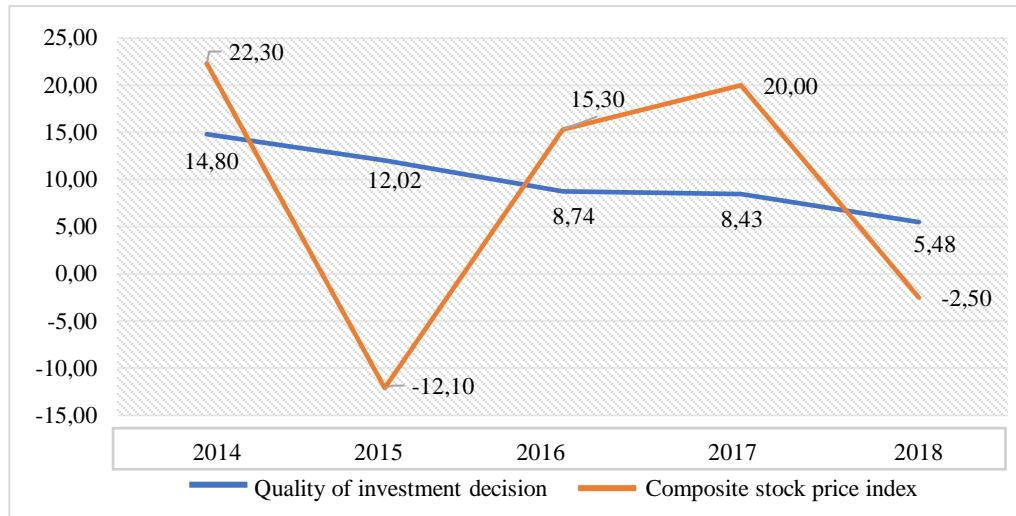
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INTRODUCTION

The quality of investment decisions reflects the company's performance and ability to generate profits. Financial performance according to Taouab & Issor (2019) is a set of indicators that provide information about the company's success in achieving financial goals. The higher the value of the quality of investment decisions represents that the financial decisions are taken by the company make a significant contribution to the achievement of the company's financial goals. The quality of large investment decisions represents several competitive advantages that allow the creation of greater returns and returns to investors (Bunea et al. 2019). Conversely, the lower the value of the quality of investment decisions represents the lower the company's capability to generate profits.

The strategic role of the quality of investment decisions is theoretically inversely proportional to reality, this condition is represented by the quality of investment decisions in companies that are members of the property, real estate, and building construction sectors in the 2014 to 2018 period.



Source: secondary data processed, (2021)

Figure 1. Average KKI and IHS values

The average value of the quality of investment decisions is represented through return on equity in Figure 1 shows that there is a decline in the value of the quality of investment decisions in the period 2014 to 2018. In 2014, the average value of the quality of investment decisions was 14.80 percent and decreased to 12.02 percent, 8.74 percent, 8.43 percent, and 5.48 percent in 2014, 2015, 2016, 2017, and 2018 respectively. Reporting from marketbisnis.com (2018), the weakening performance in this sector is due to a continuous weakening cycle that has occurred since 2014. Besides, the continued decline in performance in this sector is due to weak sales because the public has not been able to keep up with the growth rate of property prices due to inflation. The decline in financial performance on an ongoing basis can have an impact on the survival of the company, it is not impossible if the company will experience financial difficulties and even bankruptcy (Ninh et al., 2018).

The decline in financial performance certainly had an impact on the performance of the property, real estate, and building construction sectors in the capital market. Based on the data in Figure 1, the composite stock price index in this sector is very volatile. From the 2014 to 2015 period, it was noted that the lowest composite stock price index value occurred in 2015, namely -12.10. Reporting from marketbisnis.com (2018), the market performance of the property, real estate, and building construction sectors until 2018 is still sluggish. The quality of investment decisions is a benchmark for investors to assess the success of a company in creating profits and influence investors' views of the company (Syapruddin, 2017). A decrease in the value of the quality of investment decisions will result in a decrease in the level of market confidence in the

success of the company. Based on this phenomenon, further studies on the factors that can affect the quality of investment decisions are still needed. This is because the property sector has a strategic role in the development of the national economy in the form of absorption of large numbers of workers and has a large enough multiplier effect for other economic sectors (Kumparan, 2018).

The quality of investment decisions depends on the capability of the company in making operational and strategic decisions, this includes financing decisions and operational decisions (Egbunike & Okerekeoti 2018). Making financing decisions and operational decisions appropriately will improve the quality of the company's investment decisions. Financing decisions are represented by the composition of the capital structure used by the company to support the expansion process. When a company uses too high leverage, it can become a business risk for the company. Meanwhile, operational decisions refer to how efficiently the company manages its resources (Karimi & Barati 2018). In this study, the factors that are thought to have a role in explaining the variability in the quality of investment decisions are efficiency and business risk.

One of the business risks is the financial risk which can be reviewed based on the capital structure or the leverage value of the company (Egbunike & Okerekeoti 2018). Dao & Ta (2020) explained that the capital structure is a determinant of the overall cost of capital directly and contributes to the level of corporate risk. The choice of the composition of the capital structure indicates a significant financial decision of a company based on the amount of money and has a sustainable impact on the company (Wassie 2020). Pecking order theory explains that companies have a preference for financial instruments, namely internal funds, debt, and equity (Dao & Ta 2020). Using a larger source of external funding (eg debt) will increase the risk faced by the company (Utami et al. 2020).

Efficiency is defined as the level of efficiency of a company in managing company assets. Karimi & Barati (2018) revealed that optimal economic and financial performance in a company depends on how efficiently the finance department works. The financial manager is responsible for determining how company resources are allocated to different assets. This represents how the company invests in its productive assets.

The urgency regarding the quality of investment decisions has not been supported by consistent research results. This can be proven through research results Li et al. (2019) which

states that high financial leverage will result in a high financial risk impact as well as a larger payment burden on the company, thus negatively affecting the company's performance and will hinder the company's potential performance and development capabilities. The results of this study are supported by research results by Dao & Ta (2020); Wassie (2020); and Dasouqi (2017) which revealed that the level of corporate leverage has a negative relationship to the company's financial performance. Another opinion expressed by Dalci (2018); Egbunike & Okerekeoti (2018); and Mishra & Dasgupta (2019) states that there is a positive relationship between the level of leverage and the company's financial performance.

Houmes et al. (2018) in their research revealed that greater efficiency in the use of assets represents an increase in financial performance driven by an increase in sales in profit margins and asset turnover. This opinion is supported by Bunea et al. (2019) which states that efficiency (asset turnover) has the strongest influence among the other five financial ratios. Thus, inconsistent research results indicate that further studies are needed regarding the role of business risk and efficiency on the quality of investment decisions.

This study aims to provide empirical evidence regarding the role of business risk and efficiency in explaining the variability in the quality of investment decisions. This research generally contributes to the development of financial management knowledge, especially in the quality aspects of investment decisions in companies that are members of the property, real estate, and building construction sectors.

LITERATURE REVIEW

Quality of Investment Decisions

The quality of investment decisions represents the company's financial performance which is defined as the company's capability to create profits. The company's financial performance in the context of this study is defined as the capability and ability of the company to efficiently utilize the availability of financial resources to achieve company goals. Financial performance can be used as a measure of the company's success in achieving financial goals (Taouab & Issor 2019).

Business Risk

The concept of risk can be defined extensively in several fields (economics, statistics, finance, engineering, psychology). In a business context, the risk is defined as the process of

risk management by analyzing all stages and business activities (Crovini et al., 2020). Business risk is the potential loss that will be borne by the company in a certain period. In the financial sector, business risk is closely related to the company's capital structure (Elkhal, 2019). Capital structure is defined as the optimal composition of the use of debt and equity in meeting the investment needs of the company (Saif-Alyousfi et al. 2020; Vo 2017; Bolarinwa & Adegboye 2020). Li et al. (2019) revealed that the higher the level of debt use will increase the company's financial risk.

Efficiency

Efficiency is defined as a measure of the company's success in gathering company resources efficiently (Eling & Jia, 2018). Company efficiency is a process of how companies can minimize the use of limited resource inputs to produce maximum output (Rahman et al., 2018). Efficiency is a benchmark used to determine the extent to which company management can minimize company costs, maximize revenue, operate the company on an efficient scale, adopt best practice technology, and use inputs according to the company's marginal productivity (Eling & Jia, 2018). In this study, efficiency is defined as the extent to which the level of efficiency of the company is using all assets to improve the company's financial performance (Houmes et al. 2018). Karimi & Barati (2018) revealed that the efficiency of the finance department will improve the company's economic and financial performance optimally. Efficiency assessment is carried out to evaluate the company's financial performance and determine how to allocate company resources in the company's productive assets.

Pecking Order Theory

Pecking order theory explains that companies have a preference for funding sources that are based on the problem of asymmetric information (Myer, 1984; Myers & Majluf, 1984). The company will use internal financing, if internal financing is unable to meet the company's investment financing, the company can issue safer securities first. In other words, the preference for financial instruments must be prioritized, namely internal funds, debt, and equity issuance (Dao & Ta, 2020; Hang et al. 2018; Haron 2018). This is because the use of internal sources has a lower risk than debt and equity funding sources. Likewise, sources of debt funds have a lower risk than the issuance of securities (Zhang & Liu, 2017).

Business Risk and Quality of Investment Decisions

In a financial context, business risk is closely related to the composition of the company's capital structure (Elkhal, 2019). Pecking order theory explains that companies have a preference for financing sources consisting of internal funding, debt, and issuing equity as the last option. The use of internal sources of funding is considered to have lower financial risks than the use of debt and equity sources of funds. Li et al. (2019) revealed that the company will maintain the use of leverage at a low level because the use of large leverage will increase the company's financial risk, thus hindering the company's performance and development capabilities.

The higher the level of use of debt, the higher the interest paid by the company, so that it will result in less available cash. The high level of leverage causes higher interest rates and collateral requirements, which will reduce the company's performance as a result of reduced cash flow, limitation of assets, and adequate resources. Minnis & Sutherland (2017) explained that debt with low credit risk will minimize the risk of default by continuing to monitor it to obtain greater profits in the future. Ahmed & Afza (2019) revealed that a high ratio of use of debt will lead to reduced investment and a decline in the company's market value.

Christopoulos & Barratt (2016); Mentel et al. (2016); and Oláh et al. (2019) revealed that financial risk has an impact on company performance. Dao & Ta (2020); Wassie (2020); and Dasouqi (2017) explained that the level of corporate leverage has a negative relationship with the company's financial performance. Thus, the first alternative hypothesis proposed in this study is as follows:

H1: Business risk affects the quality of investment decisions.

Efficiency and Quality of Investment Decisions

Efficiency is a measure of the company's success in gathering company resources efficiently (Eling & Jia, 2018), by using limited resources to produce maximum output (Rahman et al., 2018; Eling & Jia, 2018). A high level of company efficiency will encourage greater profit creation. This opinion is strengthened through empirical studies González et al (2019) which reveals that efficiency has a significant effect on profitability. Companies with a greater level of efficiency have a higher flow of financial resources (such as assets), thus becoming the key to future company productivity. (Cabaleiro-Cerviño & Burcharth 2020).

Houmes et al (2018) revealed that increasing efficiency through the use of assets, increasing sales in profit margins, and asset turnover play a role in increasing the value of the company's financial performance. This opinion is strengthened by Karimi & Barati (2018)

which reveals that operational efficiency (such as asset turnover) refers to the company's performance capability. The support of inventory and asset management appropriately and efficiently will result in increased income, profit, and cash flow resulting in higher financial performance (Hilmola, 2020).

Bunea et al. (2019) and Houmes et al. (2018) revealed that efficiency has a positive role in the company's financial performance. The more efficient management of the finance department will improve the company's economic and financial performance optimally (Karimi & Barati 2018). Allocation of company resources into productive assets will generate potential benefits for the company's investment policy. The higher the efficiency level of the company will increase the value of the quality of the company's investment decisions. Thus, the second alternative hypothesis proposed in this study is as follows:

H2: Efficiency affects the quality of investment decisions

Based on the hypotheses, the research model is obtained as follows:

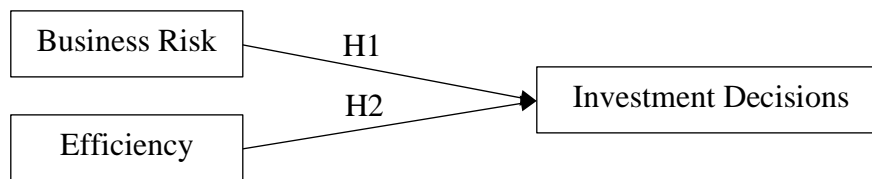


Figure 2. Research Model

METHODS

This research belongs to the type of associative research, namely research conducted to investigate the relationship between one variable and another. The research population is all property, real estate, and building construction companies listed on the Indonesia Stock Exchange (IDX) for the period 2014 to 2018. The property, real estate, and building construction sector is the construction sector which includes the business of building, renovating, demolishing houses and buildings. Real estate includes the business of buying, renting, selling, and operating residential and non-residential buildings. The research sample was obtained through the purposive sampling method. This method is used to obtain research samples according to predetermined criteria. The sampling criteria include:

1. Property, real estate, and building construction companies were listed on the Indonesia

Stock Exchange from 2014 to 2018 respectively.

2. Property, real estate, and building construction sector companies that publish financial reports and annual reports that have been audited consecutively in the 2014 to 2018 period.
3. Property, real estate, and building construction sector companies that have complete data on the value of business risk from 2014 to 2018.
4. Property, real estate, and building construction sector companies that have complete data on the value of efficiency in the period 2014 to 2018.
5. Property, real estate, and building construction sector companies that have complete data on firm size values in the 2014 to 2018 period.
6. Property, real estate, and building construction sector companies that have complete data on the quality value of investment decisions in the period 2014 to 2018.
7. Based on the sampling criteria, the research sample was 64 companies or 320 observations.
The research sample estimates are shown in table 1.

Table 1. Research sample estimates

Information	Amount
Property, real estate, and building construction companies listed on the Indonesia Stock Exchange from 2014 to 2018 respectively	64
Property, real estate, and building construction sector companies that do not publish financial reports or annual reports that have been audited consecutively in the 2014 to 2018 period	0
Property, real estate, and building construction sector companies that do not have complete data on the value of business risk from 2014 to 2018	0
Property, real estate, and building construction sector companies that do not have complete data on the value of efficiency in the 2014 to 2018 period	0
Property, real estate, and building construction sector companies that do not have complete data on firm size values in the 2014 to 2018 period	0
Property, real estate, and building construction sector companies that do not have complete data on the quality value of investment decisions in the 2014 to 2018 period	0
Property, real estate, and building construction sector companies that meet the research criteria	64
Research sample in the period 2014 to 2015	320

Source: processed data

The dependent variable in this study is the quality of investment decisions. The quality of investment decisions in this study is measured by a comparison between net income and total shareholder's equity, known as return on equity (ROE) (Brealey, Myers, & Marcus 2020). Return on equity (ROE) represents the income earned by shareholders from every rupiah spent to meet the company's investment needs. Return on equity (ROE) is formulated as follows:

$$\text{Return on equity (ROE)} = \frac{\text{net income}}{\text{total shareholder's equity}}$$

The independent variables in this study are business risk and efficiency. Business risk in this study is measured by a comparison between the company's total debt and the company's total equity or better known as the debt to equity ratio (DER) (Egbunike & Okerekeoti 2018). The debt to equity ratio (DER) represents a business risk in terms of company leverage. The debt to equity ratio (DER) is formulated as follows:

$$\text{Debt to equity ratio (DER)} = \frac{\text{total debt}}{\text{to total equity}}$$

Efficiency in this study is measured based on the comparison between revenue and total assets or better known as the asset turnover ratio (Karimi & Barati 2018). The asset turnover ratio represents the efficient use of assets to boost the company's financial performance. The asset turnover ratio is formulated as follows:

$$\text{Asset turnover ratio} = \frac{\text{revenue}}{\text{total asset}}$$

The control variable used in this study is firm size. Firm size is defined as the size of the company represented by the natural logarithm of the company's total assets (Egbunike & Okerekeoti 2018). The firm size is formulated as follows:

$$\text{Firm size} = \text{natural logarithm (total asset)}$$

The operational definitions of research variables are briefly summarized in table 2 below.

Table 2. Summary of Research Variables and Operational Definitions

Variable	Operational definition	Measurement	Scale
Quality of Investment Decisions	a comparison between net income and total shareholder's equity.	$ROE = \frac{\text{Net Income}}{\text{Total Shareholder's Equity}}$	Ratio

<i>Business Risk</i>	a comparison between the company's total debt and the company's total equity.	$DER = \frac{Total\ Debt}{Total\ Equity}$	Ratio
<i>Efficiency</i>	the comparison between revenue and total assets.	Asset Turnover Ratio = $\frac{Revenue}{Total\ Asset}$	Ratio
<i>Firm Size</i>	the size of the company represented by the natural logarithm of the company's total assets.	Firm Size = Natural Logarithm (Total Asset)	Ratio

Source: Egbunike & Okerekeoti (2018); Karimi & Barati (2018); Brealey, Myers, & Marcus (2020).

The data used in this study are secondary data obtained through documentation studies regarding the information provided by the data provider sources. Documentation studies are carried out by reviewing and reviewing audited financial reports or annual reports that are published on the websites of each company to obtain relevant information and data.

The data analysis method used is multivariate analysis through regression analysis, the regression equation model built in this study is stated as follows:

$$Y = \beta_0 + \beta_1 BRs + \beta_2 Efc + \beta_3 Control + \epsilon$$

Information:

Y = Quality of investment decisions

β_0 = Constant

β_1 = Business risk variable coefficient

β_2 = Coefficient of variable efficiency

BRs = Business risk

Efc = Efficiency

Control = Control Variable (Firm Size)

ϵ = Error terms

RESULTS

The results of the regression model estimation can be presented in the following table:

Table 3. The results of the regression model estimation

Research variable	Predictors	Regression Coefficient	Standard Error	t value	P> t
Business Risk (X1)	DER	-0.1429	0.0487	-2.93	0.004
Efficiency (X2)	ATO	0.1804	0.0262	6.87	0.000
Firm Size (Control)	FSize	1.7714	0.3097	5.72	0.000
	Constant	-20.2307	4.3962	-4.60	
	<i>Prob> F</i>	0.000			
	R ²	0.2663			

Source: secondary data processed

The goodness of Fit Regression Model

Coefficient of Determination

Based on the results of the regression model estimation in Table 2, the coefficient of determination was 0.2663 or 26.63 percent. So it can be concluded that 26.63 percent of the determinants of the quality of investment decisions can be explained through independent variables consisting of business risk and efficiency and firm size as a control variable. Meanwhile, 73.37 percent of the quality of investment decisions is influenced by other variables outside the model.

Statistical Test F

From the results of data processing in the F Statistical Test, it can be concluded that the regression model built in this study is feasible. This is evidenced by the value Prob> F (0.0000) lower than the significance level ($\alpha = 5\%$). Based on the results of the F statistical test, the regression model has been correctly specified.

Statistical Test t

Based on the results of the t statistical test, it proves that the variables of business risk, efficiency, and firm size have a significant effect on the quality of investment decisions. In a quantitative approach, t-test analysis analyzes the significance of the independent variables and considers the suitability of the hypothesis with the literature review. Based on the results of the t statistical estimation test, the analysis of alternative hypothesis testing can be explained as

follows:

a. Hypothesis 1

In table 3, the t statistical test results show the value of $P > |t|$ business risk variable is 0.004 with a t value of -2.93. The t value of -2.93 indicates that the direction of the coefficient of the business risk variable is negative. P value $> |t|$ of 0.004 <the assumption of the significance level ($\alpha = 5\%$) means that the first hypothesis in this study is accepted. The result of the interpretation of the first hypothesis is that it is proven that the business risk variable affects the quality of investment decisions.

b. Hypothesis 2

In table 3, the t statistical test results show the value of $P > |t|$ the efficiency variable is 0.000 with a t value of 6.87. The t value of 6.87 states that the direction of the coefficient of the efficiency variable is positive. At the value of $P > |t|$ The t statistical test shows the value of 0.000 <the assumption of the significance level ($\alpha = 5\%$), which means that the second hypothesis in this study is accepted. The result of the second hypothesis interpretation is that it is proven that the efficiency variable affects the quality of investment decisions.

DISCUSSION

Business Risk and Quality of Investment Decisions

This study concludes that there is a significant relationship between business risk and the quality of investment decisions represented by a comparison between net income and total equity. The significant results indicate that this study has sufficient evidence regarding the role of business risk on the quality of firm investment decisions. The significant results provide evidence that the quality level of investment decisions is influenced by the size of the business risk represented by a comparison between total debt and company equity.

The results of this study support the pecking order theory. The use of internal sources of funding is considered to have lower financial risks than the use of debt and equity sources of funds. Li et al. (2019) revealed that the use of greater leverage will increase the company's financial risk so that it will hinder the company's performance and development capabilities.

The higher the use of debt has an impact on the greater the interest paid by the company so that it will result in less and less available cash flow. A high degree of leverage leads to higher interest rates and collateral requirements, resulting in reduced cash flow, limitation on assets,

and adequate resources that will reduce the company's performance. Minnis & Sutherland (2017) explained that debt with low credit risk will minimize the risk of default by continuing to monitor it to obtain greater profits in the future. Ahmed & Afza (2019) revealed that a high ratio of use of debt will lead to reduced investment and a decline in the company's market value.

The results of this study support the results of the study Christopoulos & Barratt (2016); Mentel et al. (2016); and Oláh et al. (2019) which shows that financial risk has an impact on company performance. Dao & Ta (2020); Wassie (2020); and Dasouqi (2017) explained that the level of corporate leverage has a negative relationship with the company's financial performance. Thus, the greater the business risk will reduce the quality of the company's investment decisions. The results of this study are also in line with the pecking order theory which says that companies are advised to maximize the use of internal funding before deciding to use external funding (Myers, 1984; Myers & Majluf, 1984). Dao & Ta (2020); Hang et al. (2018); Haron (2018) also states that companies will prioritize the use of internal funds before external financial instruments when making investment policies because internal funding has a lower risk level so as to minimize the risk of bankruptcy.

Efficiency and Quality of Investment Decisions

This study concludes that there is a significant relationship between efficiency and the quality of investment decisions represented by a comparison between net income and total equity. The significant results indicate that this study has sufficient evidence regarding the role of efficiency on the quality of firm investment decisions. Significant results provide evidence that the level of quality of investment decisions is influenced by how efficient the company is represented by a comparison between revenue and the company's total assets.

The results of this study support the results of the study Houmes et al. (2018) and Bunea et al. (2019) which reveals that efficiency has a positive role on the company's financial performance. Houmes et al (2018) revealed that increased efficiency in the use of assets supported by increased sales in profit margins and asset turnover played a role in increasing the value of the company's financial performance. Operational efficiency (eg asset turnover) refers to the company's performance capability (Karimi & Barati, 2018). Hilmola (2020) explained that efficiency with the support of proper inventory and asset management will generate income, profit, and cash flow which will result in higher financial performance and shareholder value.

Karimi & Barati (2018) revealed that the efficiency of the finance department will

improve the company's economic and financial performance optimally. The allocation of company resources into the company's productive assets will generate potential returns on the company's investment policy. The level of efficiency of the company is getting bigger so that the quality value of the company's investment decisions is increasing. Thus, the more efficient the management of the company's assets will improve the quality of the company's investment decisions.

CONCLUSION

The results of this study provide empirical evidence regarding the role of business risk and efficiency on the quality of investment decisions. This conclusion is evidenced by the estimated negative and significant relationship between business risk and the quality of investment decisions, as well as the estimated positive and significant relationship between efficiency and the quality of investment decisions. Thus, the objectives in this study have been achieved. The results of this study provide policy recommendations for companies in the property, real estate, and building construction sectors. First, companies need to consider the level of use of debt because the greater the level of use of debt will increase the financial risk faced by the company. The results showed that the greater the business risk, the lower the quality of investment decisions. Second, companies need to improve the efficiency of asset management because more efficient asset management will improve the quality of the company's investment decisions. This research is expected to contribute to the company, especially in formulating investment policies. This research practically provides recommendations for companies to develop investment policies by taking into account the level of business risk and efficiency. This research is expected to contribute to the development of management science, especially those related to investment decisions. This research is limited to a study of the role of business risk and efficiency on the quality of investment decisions. Future research is expected to use aspects of behavioral finance such as managerial capability on the quality of investment decisions.

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