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# OWNERSHIP STRUCTURE, FINANCIAL DECISIONS AND THEIR IMPACT ON FIRM VALUE: JAKARTA ISLAMIC INDEX

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***Abstract:*** The Research is about ownership structure, financial decisions and their impact on firm value among companies listed in the Jakarta Islamic Index. Jakarta Islamic Index as the benchmark of the performance of the Islamic capital market has a major role in attracting investors in the Islamic capital market with the largest market capitalization and the most liquid cash traded on the Islamic capital market. One indicator of the successful performance of companies listed in the Islamic capital market from the standpoint of the investor is the value of the company. The company's value is influenced by the ownership structure, but on the other hand the value of the company is also affected by management decisions in managing corporate finance.

Samples are from 12 companies listed in the Jakarta Islamic Index for a period of 2010 to 2014. The analysis followed quantitative methodology with the tools of structural equation modeling with AMOS. The results showed that the ownership structure of firms in JII is dominated by the institutional ownership, which affects corporate dividend decision in a positive and significant, manner although the dividend's decision negatively and significantly affect the value of the company. Therefore, the influence of institutional ownership on firm value through dividend decision is negative and significant. Meanwhile, institutional ownership does not affect the company's investment decision and corporate investment affects firm value positively and significantly. Finally, institutional ownerships do not affect funding decisions and funding decisions do not affect the value of the company. The results showed that institutional ownership is more focused on the incremental value (capital gain) than dividends. The high dominance of institutional ownership to management indicates the magnitude of monitoring and involvement in the management process. Companies with the dominance of institutional ownership will result in decreasing trend of the marketability of the company itself and it causes a decrease in the value of the company which contradicts with the monitoring hypothesis.

***Keywords:*** Ownership structure, investment, dividen, financing and firm value.

## INTRODUCTION

The capital market is one of the basic indicator of a country's economic growth. Indonesia as the country with the largest Muslim population in the world has a great opportunity to become a center for the development of Sharia-compliant investment products, both at global and regional levels. Although Islamic stocks has reached more than 50% of all shares recorded in the Indonesian stock exchange but the growth of the Islamic capital market in Indonesia is still low compared to other countries in the world.

However the Islamic capital market in Indonesia is experiencing rapid growth in market share when compared with the non-Islamic. Growth in the number of Islamic stocks dominate the number of shares in the Indonesian capital market that

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is equal to 61% of the total shares in Indonesia. In addition, growth in the number of stock investors sharia in Indonesia also rose 76 percent. One of the Islamic capital market development strategy can be done through a program to encourage an increased number of supply and demand Islamic products in the capital market. Jakarta Islamic Index (JII) increased by 18.10% to a level of 691.04. JII stock market capitalization value has also increased 16.29% compared to the end of 2013 amounted Rp1.944,5 trillion, or about 37.19% of total stock market capitalization (www.idx.co.id).

The issuance of the regulations of the Otoritas Jasa Keuangan (OJK) or Financial Services Authority on the application of sharia in Indonesian capital market in 2015 has provided opportunities of synergy for the growth of Islamic capital market in Indonesia with the support of the regulator. The Jakarta Islamic Index as the benchmark of the performance of the Islamic capital market and have a major role in attracting investors in the Islamic capital market with the largest market capitalization and the most liquid traded on the Islamic capital market. In supporting the realization of growing, stable, sustainable and accountable Islamic capital market as the FSA hopes, one of the strategies that must be done is to attract investors through access to information on the performance of the companies listed.

One indicator of the good performance of companies listed in the Islamic capital market from the investor's standpoint is the value of the company. The value of the company is essential to earn the trust and a good response from the market, including investors. To survive in the global competition, companies used to compete for the high values. It can be achieved by optimizing investments in order to keep the company sustainability and develop profitable projects. High value of the company would also indicate the achievement of company's objective which is maximizing shareholder wealth. In other words, the company is designed with the fulfillment of the business owners' expectation in the level of welfare.

'The ownership structure plays an important role in aligning the interests of shareholders and managers (Dalton, et. al, 2003). Even ownership is not a case of exogenous, but is closely connected with the manager in making decisions regarding strategy and tactics of the competition (Bushee 2004, Demsetz and Villalonga, 2001). Every company is affected by the ownership structure which reflects the proportion of ownership in the company. Thereby it indicates that the goal of the company is controlled by the ownership structure, motivations and objectives of owners and other parties related to the company within the scope of corporate governance.

Optimizing value of the company would be in line with the efforts to realize the level of shareholder welfare. According to the agency theory that there is a separation in the company as principal and agent. Principal is represented by the ownership structure while an agent is a manager that make financial decisions on the interests of the principal. The owner of the company will appoint an agent or management to behave as a representative of the owner in order to create a strategy in achieving company goals. Management also implements strategies that are supported by the allocation of appropriate resources for the company in achieving its goals and ultimately optimizing the value of the company.

The company's value is influenced by the ownership structure, but on the other hand it is also affected by management decisions in managing corporate finance. Based on this background, the title of this study is ownership structure and financial decisions and their impact on the value of the company. The problem of this research focuses on the relationship directly and indirectly from the effect of ownership structure on corporate value by 3 financial decisions as intervening variables.

## Review of Literature

### *Ownership Structure*

Inside Ownership shows that the manager or the board of directors have shares in the companies they manage. While the outside ownership shows the proportion of ownership from outside the company. According to Claessens, Djnkov and Lang, (2000) the outside ownership is divided into four categories: family, government, financial institutions and companies. Whereas in other studies, the ownership structure is divided into managerial ownership, institutional ownership, individual ownership (family), public ownership and government ownership (Shinta, 2011). In some of the literature it is found that the ownership of the company broadly divided into two holdings in the inside equity and outside ownership (outside equity) (Jensen and Meckling, 1976).

The ownership structure in Indonesia has not changed. In 2000, research conducted by Claessens, Djarkov and Lang hinted that the ownership of the companies in Indonesia is still dominated by family ownership, institutional ownership and government ownership. A similar situation was also found by other researchers in 2011. Shinta (2011) indicate that the ownership structures of companies in Indonesia from 2004 to 2008 were institutional ownership, individual ownership (including families), and government ownership.

### *The Firm Value*

High firm value is the expectations of the shareholders because it indicates incremental levels of shareholder welfare. The share price is determined by market reaction to information about the company. The stock price will move with the market response. Despite stock movements are difficult to be controlled by the company, the company maintains the optimal company's stock price in maintaining the company's image in the eyes of investors. There are some quantitative variables that can be used to estimate the company's value is the book value, the market value of the company, appraisal value and the value of the expected cash flows (Keown, et al, 2004).

Variable that is often used to see the value of the company is Tobin's Q. Tobin's Q ratio displays the value of the company through the company's market value at year-end compared with the value of the acquisition (Xia, 2008). In fact, to determine the value of acquisitions in the current period is difficult so the book value of assets is used as a proxy. The market value is the total market value of the company's liabilities which include short- and long-term liabilities and the market value of equity. If the value of Tobin's Q is high then it shows that companies is rated high in the market and the company has the possibility of financing through equity markets such as stocks that can be traded at beneficial and higher prices.

## Financial Management Decisions

Financial management's decisions include funding decisions, investment decisions and dividend decisions (Keown, et al, 2004). The funding decision is known as financing activities or raising of funds. The investment decision is known as the activities of the allocation of funds or allocation of funds. While the final decision is related to the objectives of the company, especially for go public companies, which is the activities of determining amount of dividends to shareholders.

### *Investment Decision*

Investment is capital expenditure of companies to purchase capital goods and production equipment in increasing the ability to produce goods and services available in the economy (Sukirno, 2004). Investment decisions or capital budgeting is one of the main activities or functions of financial management, which is referred to as a function of the use of funds (allocation of funds) (Keown, et al, 2004). The investment decision is closely related to the selection of assets in which the fund will be invested by companies. Companies have many options to invest but the companies should choose the most appropriate investment. Therefore investment decisions can produce the maximum benefit for the company. In conclusion, the investment decision is an activity to decide or choose the most appropriate investment proposals.

Investment decisions decide 3 important things in corporate finance. It is a capital investment, the decision to reallocate capital and determination of the amount of assets owned by the company (Van Horne and Wachowiz, 2005). The capital investment is to allocate capital into profitable investment projects in the future. While the decision to reallocate capital means when capital tied to an asset may not be justified for the purchase of those assets. In determining the amount of assets owned by the company relating to the amount of funds / capital should be provided for the purchase of those assets.

### *Funding Decisions*

The funding decision is more about the company's capital structure company in running the business. In the capital structure, the company generally uses debt and equity financing for the investment. The use of debt is not only for the activities of corporate debt but can also be used as a control mechanism. The increase on corporate debt can be used to reduce or control the agency conflict. According to Jensen (1986), the debts of company indicates the obligation to repay the loan and pay interest charges periodically.

Decision of the funding is a dominant factor in output and investment decisions, both in the corporate and country levels, in some developing countries (Abor & Biekpe, 2007; Erol 2004; Reinhart, 2002; in Itturriaga and Crisostomo 2010). The Debt can play a dual role in the company's value, depending on the availability of growth opportunities, which can be explained by two complementary approaches, namely the underinvestment and overinvestment theory. The underinvestment emphasizes the negative effects of too much corporate debt to corporate value, because it can motivate managers to sacrifice profitable investment projects (Itturriaga & Crisostomo, 2010). Because priority bondholders on company cash flow relative to the shareholders, managers can release projects with positive net present value if the project profits go to the lender (McConnell and Servaes 1995). Meanwhile, overinvestment shows that companies do not have the opportunities for growth and are closely related to the free cash flow (Jensen, 1986; Lang et al 1994; McConnell & Servaes 1995). Over investment theory emphasizes the negative consequences of too much cash flow under the control of the manager. In the view of overinvestment, there is a positive relationship between debt and the company when the company did not have growth opportunities.

### *Dividend Decisions*

Dividends are the portion of net income that is distributed to shareholders. Dividend decision is a decision relating to the determination of the dividend distribution decision or retained earnings on profits from the company. This decision is important because it not only involves the management of the company, but also affects the shareholders as owners of the company. The management and shareholders have different interests, against the payment of dividend.

The decision affects the dividend is a control tool for reducing conflicts of interests of shareholders and managers. Conflicts occur agent for shareholders interested in getting dividends, but the manager would prefer to keep the revenue. The manager wants to keep the revenue to maintain control on financial resources. Agency theory suggests that dividends can be used as a corporate governance mechanism to resolve problems that occur agent (Ramli, 2010).

Jensen (1986) argues that the companies can use the dividend payment decision to reduce the agency problems. If the dividend is not paid to the shareholders, managers will begin to use these resources to benefit the interests of managers (Ullah et. al, 2012). Decision dividend helps the company to know that how they can control the agency costs by handling the dividend decision. Jensen (1986) argues that by paying dividends to shareholders, managerial control over resources will reduce. Dividend decision will not only help in reducing agency costs, but will also act as a signal to provide information to shareholders about the company's valuation.

## Hypothesis

### *The Effect of Ownership Structure to Financing Decisions*

According to Jensen and Meckling (1976), the proportion of institutional ownership and management will determine the use of debt to finance its operations. The level of ownership by management and high debt might adversely affect the company (Grossman & Hart, 1988). High stock ownership by management which leads to management in a strong position to carry out supervision and management of the company. These conditions will make it difficult for external parties to supervise the management of the company because they are on the weaker side. Kim & Sorenson (1986) also added that the companies whose shares are owned mostly by management, requiring more debt because the insider easily maintain effective control if their holdings were irresplacable. Special shareholder with 51% ownership proportion will directly have the right direct control over the company and management, including in decisions about the company's debts (Shleifer and Vishny, 1997).

Furthermore, several studies have shown that the influence of the ownership structure of the debt policy can affect positively or negatively. Research conducted by Kim and Sorenson (1986), Brailsford (1999), and Soliha and Taswan (2002) in Wardani and Hermuningsih (2011) found that the ownership structure has a positive relationship to the debt ratio of the company. Meanwhile, Bathala et al (1994) showed that the institutional ownership significantly and negatively effect on the debt ratio. Moh'd et al (1998) found that the share holding structure has a significant and negative influence related to debt ratio.

With an explanation then the hypothesis can be formulated:

**H1: The ownership structure will impact negatively and significantly on the funding decision**.

### *The Effect of Ownership Structure to Dividend Decision*

Dividend payout can be affected by the ownership structure of the company (Ullah et. al, 2012). Based on the hypothesis of free cash flow, Jensen (1986) says that the high dividend payments may limit the cash available to the manager. Thus the investment manager of the uneconomic and unprofitable project can be minimized. The relationship between ownership structure and dividend policy has been widely studied in previous studies (Moh'd et.al 1995; Iturriaga & Crisostomo 2010; & Ramli, 2010.

According to research Iturriaga and Crisostomo (2010) the ownership structure through the concentration of ownership of a significant negative effect on dividend policy. With the explanation of the relationship based on the characteristics of ownership and dividend decisions and given the condition of the ownership structure in Indonesia is still dominated by institutional ownership. it can be formulated:

**H2: There is a negative and significant impact of the company's ownership structure on dividend decision.**

### *The Effect of Ownership Structure on Investment Decisions*

The company's investment decisions are influenced by the ownership structure through the relationship in agency theory. In other words, the management as agent must be in accordance with the interests of the owners or shareholders. However, according to the theory of free cash flow, investment success is supported by the positive correlation between investment and funding internally and it is the result of over-investment by the manager where the objective is different from the enterprise value maximization (Grossman and Hart, 1988). The different findings revealed by Hadlock (1998) and Degryse and De Jong (2006), which indicates that the sensitivity of investment cash flow may be affected by any agency problem arising from overinvestment by management.

If the elasticity of investment arising from lack of conformity between management and shareholders, concentrated ownership structure will lead to poor sensitivity. According to Hadlock (1998) managerial concern will be maximizing enterprise value derived from direct observation of managerial ownership in the company. Based on disscussion, the determinant of the elasticity of investment cash flow needs to be studied more in depth, including the supervision of shareholders as a control in management decisions. Research conducted Porras and Mateo (2011) and Nasrum and Intellect (2013) indicate that the ownership structure affects investment decisions significantly and positively.

Based on the explanation above, it can be formulated:

**H3: There is a positive and significant effect of ownership structure on investment decisions.**

### *The Influence of Investment Decisions to Firm Value*

Financial management and investment decision-making is essential for sustainability and success of the company in the long term (Bennouna et. al, 2010). Therefore, many research had been done to investigate these investment decisions by analyzing capital budgeting method in accordance with the company's goals (Bennouna, et.al, 2010). However, research on investment decisions or capital budgeting are still interested and interesting to explore especially the relationship with the firm's value.

The relationship between the investment decision on the firm value has the opposite side. Investment decisions can provide spectacular returns in profits, but with the wrong decisions on investment, it might harm the business. Results of research by Arafat et. Al (2014) stated that investment decisions have a positive effect on firm value. However, investment decisions also proved to have no effect on firm value (Wahyudi et.al, 2006). Based on earlier research, it can be formulated:

**H4: There is a positive and significant influence investment decisions on the value of the company.**

### *The Influence Financing Decision to Firm Value*

Financial leverage describes the use of debt in the company's operations. Based signaling theory, when the company has good prospects in the future, the company will choose financing through debt but when the company has a lack of prospect it will choose financing through equity (Ross, 1977). In other words, debt decision taken by the company can indicate to investors that the company has adequate financial capability through debt and the company will potentially have profitability and growth that triggered an increase in the value of the company.

Research pertaining to financial leverage, among others, have been conducted by Pasternak & Rosenberg (2002), found that leverage has a negative effect but not significant to firm value (Tobin's Q). The results are consistent with the results found by Aivazian, et al (2005) and Demsentz and Villalonga (2001) who found that leverage has a significant negative effect on firm value. While McConnell and Servaes (1995), Seoungpill et.al (2006), and Uchida (2006) found that the leverage (debt) has a significant positive effect on firm value (Tobin's Q). With this explanations based on signaling theory and previous research, it can be formulated:

**H5: There is a positive and significant influence funding decisions on the firm value.**

### *The Influence of Dividend Decision to Firm Value*

Dividend decision can be attributed to the company. In a bird in the hand theory, the high dividend can increase the firm value (Brigham and Gapenski, 1990). This theory also said that shareholders prefer high dividends compared to capital gains. On the other hand, signaling theory and the theory of free cash flow may explain the effect of dividends on firm value with or without growth opportunities (Iturriaga & Crisostomo, 2010). Explanation of signaling theory is based on asymmetric information between managers and investors. The company gives the signal of growth opportunities by paying dividends. Thus, a positive relationship between dividends and the value of the company may occur (Iturriaga and Crisostomo, 2010). Based on the theory of free cash flow, higher dividend decision reducing the existing funds in the management control or better known as the free cash flow (Iturriaga & Crisostomo, 2010).

Another study conducted by Amidu (2007) indicates that the dividend decision has a negative and significant effect on firm value. This is in line with the opinion of Farrar and Selwyn (1976) who said that investors would maximize after-tax income. Therefore, within the framework of equilibrium, investors have two choices, which are the distribution of the company in the form of dividends or capital gains. But taxes paid on capital gainare smaller for shareholders than the taxes paid on dividends (Amidu, 2007). In the theory of tax preference said that investors want the company to have retained earnings thus lowering expected returns and enhance shareholder value through the increasing of stock market's value (Litzenberg & Ramaswamy, 1979). On the basis of theoretical explanations bird in hand and free cash flow as well as previous studies, it can be formulated:

**H6: There is a positive and significant effect of the dividend decision on the firm value.**

## Model Research

The research model used in this study are as follows:

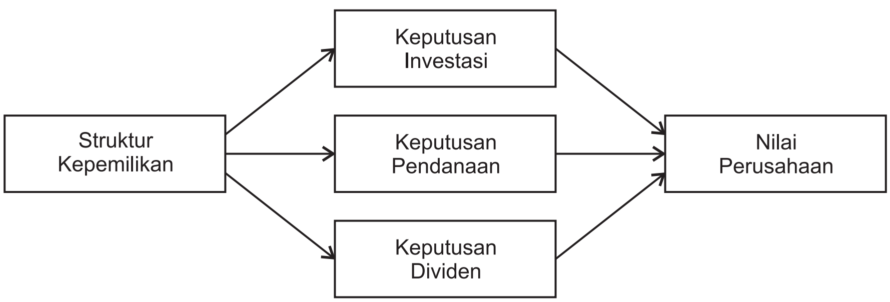


**Figure 1: Research Model**

## Research Methodology

This study uses explanatory research which describes a relationship of causality between the variables through hypothesis testing (Ghozali, 2016). This type of research has been given the objectives to be achieved include efforts to clarify the relationship and influence that occurs This study included a survey with quantitative approach.

### Population and Model

Source data from this study include the secondary data obtained indirectly through an intermediary medium. Secondary data were obtained through the annual report and the financial statements of each issuer, the company's website as well as other reliable sources. The data used in this study is quantitative data obtained from the Capital Market Reference Center Indonesia Stock Exchange (BEI) issued in the form of financial statements of companies listed on the Stock Exchange as contained in the Indonesian Capital Market Directory (ICMD). This study is performed on companies listed in the Jakarta Islamic Index The samples are taken from the 30 companies listed in the Jakarta Islamic Index from the period 2011-2014. The sample used by the sampling technique is purposive sampling with the type of judgment that is next to the sample selection by basing on certain criteria.

Sample selection criteria are as follows:

(a) A company registered in JII started in 2010-2014

(b) The financial data of the company in 2010-2014 is available in ICMD

(c) Available data on the financial statements and the data that is required in this study.

## OPERATIONAL DEFINITION

### Ownership Structure

The ownership structure is the proportion of shareholding held by a party which is usually a inividu, institutional, corporate managers, public or government.

### Firm Value

Firm value is an investor perception of the company which is usually associated with stock prices. The company's value indicates the degree of market confidence over the outlook for companies in the future. The firm's value will be measured by using the formula Tobin Q is the market value of common stock plus total debt divided by the book value of total assets.

### Financing Decisions

The financing decision is a decision taken by the management company in the use of debt in financing needs of the company. Corporate debt policy will be measured using the ratio of debt to equity or debt to equity ratio / DER.

**Dividend's Decision**

Dividend decision is a decision relating to the determination of the distribution of dividends or retained earnings on the profits from the company. Dividen is part of net income distributed to shareholders. Dividend policy will use the dividend payout ratio.

**Investment Decision**

The investment decision is a decision taken by management in determining the investment to be made by company. Investment decisions are measured using market-to-book ratio of assets. MBA explained the combination of assets in investment opportunities.

**Analysis and Interpretation**

The data used in this research is secondary data in the form of panel data. Data panel consists of 12 companies listed in the Jakarta Islamic Index from the period 2010 to 2014. Prior to the analysis, the measurement must be ensured valid models. Through the goodness of fit (GOF), the researchers can tell how well the model used in the study to produce data for analysis. There are 2 types of GOF used in this research that measures absolute and incremental measures. Absolut fit indices is a direct measurement of how well the model will be used in research generates observed data (Hair, 2002). Absolut fit indices assist researchers in conducting an assessment of the suitability of the theory with the sample data used. Assessment may use ratio chi-square value and DF, GFI, RMSEA and RMR. Based on the results of SEM analysis conducted on the model, the value of GFI, RMSEA and RMR available. The results showed that the chi-square value amounted to 4.095 with degrees of freedom equal to 4 which indicates the ratio of CMIN: DF smaller than 3: 1, which showed the model fit. GFI value in this study were 0.974 indicating statistically fit. Meanwhile, the value of RMSEA is 0.02 which indicates the fit or the model used in the study represent the population. Last value of RMR in the study 0.195 which shows the model fit. The above results indicate that the model fit for use in generating observation data. Incremental fit indices indicate that each variable in our model is not correlated or there is no other model that may increase our model (Hair, 2002). In incremental fit indices, the measure used is the CFI, TLI and NFI. When the value of CFI, TLI and NFI close to 1 then the model is fit. Hair (2002) says that when the value of TLI and NFI above 0.92 then the model is fit. Results show that the CFI value of 0.998, TLI value of 0.996 and NFI value of 0.94. It can be concluded that there is no other model that can fix this study model or models of this study is fit.

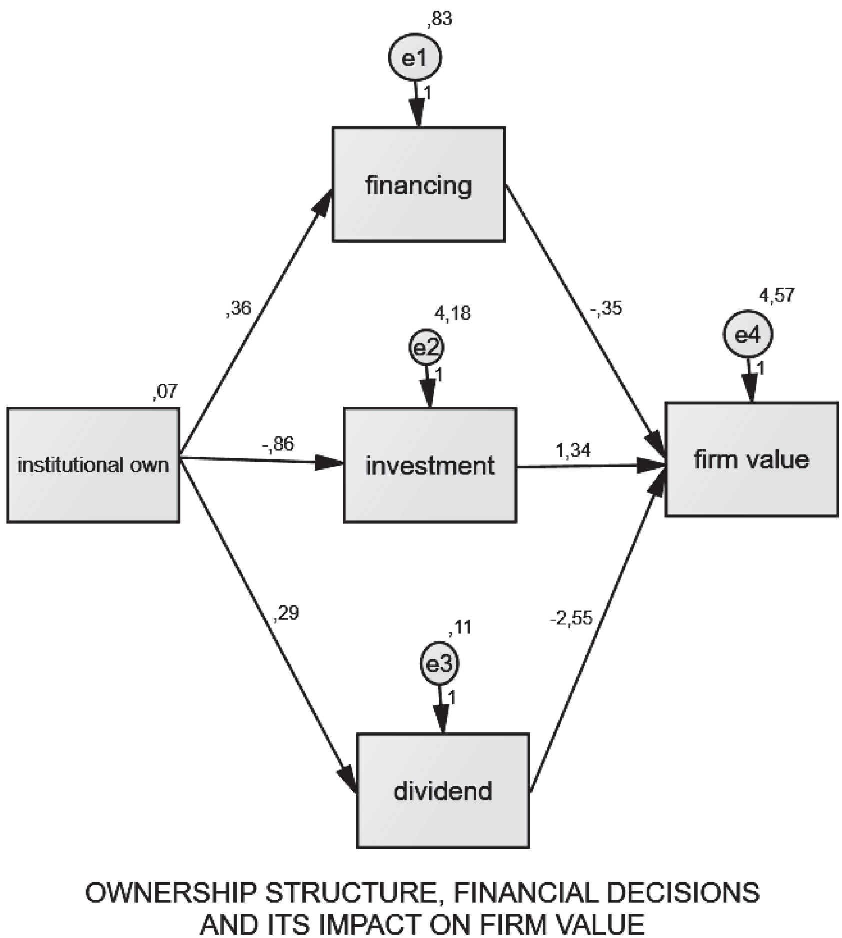


**Figure 2: Results of Research Model**

After making sure that this model meets the requirements of GOF and can be concluded that the model fit for the study, the relationship between variables in the study can be seen the significance. This research has direct relationships 6 and 3 ties indirectly. The results showed that there are two significant direct effect on the rate of 5% and 1 direct influence significant at a significance level of 10%. While three other direct effect is not significant. The 5% the direct effect significance is the influence investment decisions on firm value (p. ***) and the effect of the dividend decision on the firm value (p. 0,001). While the direct effect of the 10% significance is the influence of ownership structure on dividend policy (p .092). The effect of ownership structure on investment decisions, the effect of ownership structure on funding decisions and the effect of financing decisions on firm value is not significant. Thus, the indirect effect of ownership structure on corporate value through dividend decision is significant, whereas the indirect effect of ownership structure on corporate value through investment decisions and funding decisions are not significant.

The results showed that the direct influence of the ownership structure of the decision is positive and significant dividend with the estimated value of the parameter of 0.285. While the dividend decision directly influence the value of the company is negative and significant with parameter estimation of -0.345. Thus indirectly influence the ownership structure on firm value through dividend decision is negative and significant. Meanwhile, investment decisions directly influence the value of the company is positive and significant with the estimated value of the parameter 1.34. The total effect of the ownership structure either directly or indirectly on the value of the company ''s financial decisions as an intervening variable is negative with the parameter value of -2.001.

## RESULTS AND DISCUSSION

### The Influence of Ownership Structure on Firm Value Through Investment Decisions

Based on the research results, the ownership structure which is the dominance of institutional ownership of companies in the Jakarta Islamic Index does not impact significantly on the value of the company through investment decision. Based on that the ownership structure is not proven to be influencial on investment decisions even though the investment decisions are affecting the value of the company. From proportion of institutional ownership in the 12 companies listed in JII from the period 2011 to 2014, eight companies (AALI, ASRI, INTP, ITMG, KLBF, LSIP, UNTR and UNVR) from 12 companies are dominated by institutional ownership. So the chances of control of management by shareholders more open. This is in line with the opinion of Stiglitz (1985) and Goodhart (1993) that the more concentrated ownership structure will lead to high control over managerial practice. Nevertheless, behavior management in fixed investments yielded positive results and significant impact on the value of the company that will provide benefits in the end for shareholders. This was in line with the positive influence investment decisions and significant impact on the value of the company.

The results of the analysis showed that the ownership structure negatively affect investment decisions but not significant. In harmony with the findings revealed by Hadlock (1998) and Degryse and de Jong (2006), which indicates that the sensitivity of investment cash flow may be affected by any agency problem arising from over-investment by management. The negative relationship between ownership structure and investment decisions made by management indicates a lack of congruence between the two. But in 12 companies in JII, institutional ownership can negatively affect investment decisions, but insignificant.

On the other hand, the results of data analysis showed that the investment decision has significant influence and positive impact on the value of the company. Results were closed to the opinion of Bennouna et.al, (2010) as saying that the investment decision-making is essential for the sustainability and success of the company' in the long term. The right investment decisions will affect the market value of the company which will be a reflection of the value of the company itself. Certain financial decision will give effect to the other financial decisions and have an impact on the value of the company itself (Fama and French, 1998).

This positive relationship between investment decisions and the value of the company indicates that companies registered in JII has had an investment decision is considered favorable by investors and has the prospective benefits that can provide a return expected by investors. Although the investment decisions were taken rated over-investment or not in tune with the wishes of the investor but it can meet the expectations of investors through an increase in the value of the company itself as the investment decisions made by PT Astra International and PT Telkom Indonesia, which had a value Market to Book Ratio was considerably higher than with other companies registered in JII. Islamic principles adopted in the JII has selected and give a sense of confidence of investors in the fields of area business done by companies as an investment decision. JII only allows businesses in accordance with Islamic principles more relied on the principle of higher benefits for the community. Islamic investment has a confidence level of investors as it is considered to have the ultimate goal for the good of the community together, to have the definition of clear action, clear rules, clear supervision and has a filter associated with the preservation of the environment, human rights and the practice of transparent company (Forte and Miglietta, 2011).

## The Influence of Ownership Structure on Firm Value Through Dividend Decision

Samples of the companies listed in JII during the period 2011-2014 shows that the influence of ownership structure on corporate value through dividend decision is negative and significant value parameter estimation of –2.001. While the influence of ownership structure on the decision is positive and significant dividend with the estimated value of the parameter of 0.285 is smaller than the estimated value of the dividend decision parameter influence on firm value and significant negative amounting to –2.553. This indicates that although the ownership structure as institutional ownership directly affects the dividend decision is positive, but the impact of a larger dividend decision isnegatif to value of the company and ultimately influence the structure of ownership on the value of the company through dividend decision negatively.

The Effect of ownership structure on the dividend decision in this research is in line with research by Ramli (2010) where a company with ownership structure has a positive and significant relationship with the dividend policy. Moreover, in the sample of companies used existing majority ownership concentration that affects the management in making financial decisions. Concentration of ownership that are predominantly used by institutional ownership will encourage management to make decisions dividends in accordance with its interests as agents. On the other hand, dividend decisions negatively and significantly affect the value of the company. In other words, the higher the dividend awarded will reduce the value of the company. In the sample studied company, institutional ownership does not select DPR high but is more directed to the use of internal resources in the form of retained earnings that can be used by companies to improve profitability in the funding of new projects and ultimately enhance shareholder value. Institutional ownership prefers advantage of rising stock prices in the form of capital gains compared with the dividend payment. Effect of ownership structure on corporate value through dividend decision is negative and significant when the DPR is high and causing the value of the company down.

From the analysis of the research, it was stated that the decision of dividends from companies registered in JII negatively affect the value of the company and significant. The results presented from the study contradict the theory of bird in hand and signaling. But the research is consistent with the results of research conducted by Amidu (2007) indicates that the dividend decision has a negative and significant effect on firm value. This is in line with the opinion of Farrar and Selwyn (1976) who said that investors would maximize after-tax income. Therefore, within the framework of equilibrium, investors have two choices, which are the distribution of the company in the form of dividends or capital gains. But taxes paid on capital gains are smaller shareholders than the taxes paid on dividends (Amidu, 2007). In the theory of tax preference said that investors want the company to hold its profits and provide a refund in the form of a low dividend payout thus lowering expected returns and enhance shareholder value through stock market value increased (Litzenberg and Ramaswamy, 1979).

Based on the theory of free cash flow, higher dividend decision reducing the existing funds in the management control or better known as the free cash flow (Iturriaga and Crisostomo, 2010). So with a low dividend distribution decision will indicate the company has growth opportunities with avoiding the scarcity issues the company's internal financial resources. Thus, the company will give a good signal to the market with the decision of the distribution of dividends to investors.

### The Effect of Ownership Structure on Firm Value Through Financing Decisions

The companies listed in JII, shows that the ownership structure did not significantly affect it directly funding decisions. Results also showed that the funding decision did not significantly affect the value of the company directly. Thus, the ownership structure did not significantly affect the value of the company through the funding decision. These results are supported by the fact that companies are included in the JII are companies that have the capital structure in accordance with the requirements of JII in the ratio of debt and equity. Notwithstanding the concentration of ownership of most companies is dominated by institutional ownership, but it proved not affected financing decisions. The companies can be listed in JII has been selected on the ratio of capital structure has been established as a requirement JII. If the company does not meet the requirements of the capital structure, the company can not be listed in JII.

Furthermore, the results indicate that the ownership structure positively affects financing decisions. This is consistent with research conducted by Kim and Sorenson (1986), Brailsford (1999), and Soliha and Taswan (2002) in Wardani and Hermuningsih (2011) found that managerial ownership has a positive relationship to the decisions of corporate funding. Results also showed that the negative influence funding decisions and no significant effect on the value of the company. Pasternak & Rosenberg (2002) in his research found that the negative effect of leverage but not significant to firm value (Tobin's Q).

DER ratio of the value of the companies listed in JII seen that there are four companies that have DER value is higher than the other companies that ASII company, ASRI, LPKR and UNVR. The four companies are more reliant on the funding of debt compared to equity. Myers (1993) says that companies with debt financing that pretty much would have an incentive to reject positive NPV projects if the benefits of receiving the project will be obtained by the bondholders (Antwi, Mills and Zhao, 2012). In other words, investors as equity holders are likely to get welfare after bondholders have met the right, in the interest by the company. Although the companies listed in JII has fulfilled the selection of the portion of funding that has been specified but the use of debt is still considered to be an impact on the level of shareholder wealth so that the lower the value of the company.

## CONCLUSIONS AND IMPLICATIONS

In theory, ownership structure can affect the value of the company through financial decisions. However, research on companies listed in JII shows that ownership structure affects the value of the company only through the dividend decision. Furthermore it is proven that ownership structure did not significantly affect the financing and investment decisions and only investment decision has a positive and significant impact on the value of the company.

The concentration of ownership of the companies listed in JII which is dominated by institutional ownership provides an indication that institutional ownership is more concerned with dividend decisions. With so, it directly affects the company's value and finally impacts to the high value of shareholders' investments. The effect of ownership structure on corporate value through dividend decision is negative and significant. If the institutional ownership are taking control of management in making decisions dividend, it will reduce the value of the company. On the other hand, management must make a good consideration about the amount of dividends to be granted in respect of institutional ownership over the utilization of internal funding retained earnings and ultimately profitability of the project. Therefore the value of the company might increase. However, the results also show that investment decisions in companies listed in JII affect a positive and significant impact on the value of the company. This indicates that although the ownership structure did not significantly affect investment decisions, but the investment decisions made by these companies affect the value of the company because it will have an impact on shareholders' investments.

On companies listed in JII, the results show that the structure of ownership and significant positive influence on the decision, but if DPR increases, and it significantly and negatively influence on the value of the company. In other words, it shows that shareholders would not choose the dividend payment compared to the incremental of internal financing from retained earnings that will be used to invest in other projects. These results are consistent with the results showing that the investment decision is a positive and significant impact on the value of the company. The company's value is influenced significantly by the dividend and investment decisions in different directions. If the higher dividend will reduce the value of the company, while the higher investment made by the company has also increased the value of the company.

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