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Impact of Profitability, Liquidity, Solvency, Institutional Ownership, and Activity on Investment Decisions in IDX 80 Companies Listed on the Stock Exchange from 2016-2021

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Abstract

The purpose of this study was to determine the effect of profitability, liquidity,solvency, institutional ownership, and activity on investment decisions. The population for this study was collected from 80 companies that were specifically selected according to certain criteria, to become 28 companies. The data used in this research is quantitative. Source of data in this research is secondary data. Data collection was done by writing method and data analysis was done by different linear test, F test and t test. (Y) can be explained by variations in profitability, liquidity, solvency, institutional ownership, and activity on investment decisions, while the remaining 63.5% is explained by other factors not included in this study. The results of the study partially show that institutional ownership and performance have a positive and significant effect on investment decisions, profitability has no significant negative effect on investment decisions, and liquidity and solvency have no significant effect on investment decisions. The research findings also show that profitability, liquidity, solvency, and institutional ownership influence investment decisions.

Keywords: *Profitability, Liquidity, Solvency, Institutional Ownership, Activity on Investment Decision.*

1. Introduction

The stock market plays a crucial role in a country's economy. Therefore, the government strives to strengthen the role of the stock market, due to its role in societal development as a source of wealth for the business world and a vehicle for local investment. Every company must share the primary goal of increasing shareholder wealth. Every investor who invests hopes to profit in the future. Investing through the stock market not only involves interest but also risk. A challenge often faced by investors when investing is making investment decisions. Investment decisions are important for investors because they reflect the life of the company. Without new investments, a company is considered negative. This makes investment decisions critical as they affect success in achieving business objectives and are a fundamental element in any investment analysis.

Investment decisions can be made by reviewing the company's financial reports. Financial reports provide information about the performance and financial condition of the company over a certain period. To assess the performance of a listed company, shareholders can refer to financial reports published on the official Indonesia Stock Exchange website or the company's official website. Here is a table phenomenon with data on profitability, liquidity, solvability, institutional ownership, and investment decisions of 80 companies listed on the Indonesia Stock Exchange for the period 2016-2021.

IDX80 is one of the stock market sectors experiencing phenomena like those seen in the company UNVR, where the company's net profit fell by 18.84% in 2018-2019, but was not followed by a total debt reduction of 0.76%, which seems problematic. For the ASII company whose working capital increased by 27.78% in 2017-2018 but its total assets did not decrease by 2.6%, this company is troubled. For companies in UNVR, where total debt increased by 1.49% in 2019-20, but was not followed by a total asset decrease of 0.5%, it indicates that this company is in trouble. In INDF company, the number of outstanding shares fell 24.83% in 2016-2017, but was not followed by a total asset decrease of 25.8%, signaling the company is in trouble.

Profitability is essential in investment decisions. Profitability is used to measure overall management efficiency, targeting sales profit margins, and investments. The better the profitability, the greater the company's ability to generate higher profits. Investment decisions can also be seen from the financial feasibility of the company. Debt financing is the company's ability to meet its short-term obligations on time. A lack of funds affects the trust of investors or creditors in the company, making it difficult for the company to get external funds. The company is believed to be able to meet its obligations because it ends when current assets exceed current liabilities.

Solvability in this study is defined by the debt ratio (DER), which shows that DER can reflect a company's risk level, defining capital structure risk, and the higher the company's DER index, the greater the risk to be borne with respect to higher debt financing than equity (deposits). The greater the institutional ownership, the greater the control and administrative oversight. Therefore, the company wants more dividends, so the higher the dividends paid to the company, the higher its investment. Increasing a company's institutional ownership can increase external control over the company and result in managers reducing their interest in increasing their ownership. Based on a series of conclusions that have existed previously, the researcher will further investigate "profitability, liquidity, institutional ownership, and the impact of DER on investment decisions in 80 companies listed on the Indonesian BEI. Scientific Year 2016-2021.

2. Literature Review

Profitability on Investment Decisions

According to Rahmiati dan Huda (2015), if a company's earnings are high, the company can distribute it for future investment, which is the earnings related to the profits produced by the company and the company's nature. The accumulated profits should be used to fulfill needs. According to Endiana (2017), profitability has also been identified as a tool used by companies to analyze managerial performance. Economists are very attentive to a company's ability to generate profits and grow. The company's revenue position is determined by the company's earnings position. According to Hartono and Wahyuni (2017), profitability has a positive effect on financial decisions. Profitability reflects a company's ability to generate profits. A high ROA indicates that the company's resources are used efficiently, which in turn increases the company's profitability. As a company's profits increase, so do the break-even value and stock prices.

Solvency on Investment Decisions

According to Herdianti and Husaini (2018), money can be used to illustrate a company's character and status to others. A company can perform well if its equity is higher than its debt. As a result, the company can repay its debt to creditors. The more liquidity a company has, the greater the risk of loss for the company. According to Hartono and Wahyuni (2017), if a business can find money to invest, it shouldn't be difficult to invest. The more wealth a company has, the smaller its capital structure or debt, because the more wealth a company has, the more money can be used to meet the company's needs through donations, rather than taking risks. According to Yunita and Yuniningsih (2020), their research does not affect financial decisions. It doesn't influence investment decisions. Even though, companies that invest for the long term require large assets. Therefore, when investing, companies use their fixed assets rather than their current assets.

Liquidity on Investment Decisions

According to Herdianti and Husaini (2018), credit can be used to explain the character and status of a company to others. A company can be said to be good if the company's equity is greater than its debt. Consequently, the company can pay its debts to creditors. The higher a company's debt, the greater the risk of loss to the company. According to Hartono and Wahyuni (2017), a company's finance can mean that a company can meet its short-term and long-term financial obligations if the company goes bankrupt. A liquidated business means the business owner has sufficient assets to pay off all their debts and vice versa. And (Kanigara, 2018) research on investment or leverage has a positive but insignificant effect on investment decisions. This is because the interest rate is higher than the investment cost, so the company's decision level is low.

Corporate Governance on Investment Decisions

Wahyuni (2015) stated that not all accountants want to earn more money because they also want to increase by paying dividends, but spend less on goods. Despite playing an important role in the company, the fact remains that people appreciate their organizations more than companies. Sri Wahyuni and Muhammad Arfan (2015) The higher the level of regional authority, the higher the district supervision, the higher the level of responsibility of regional devices, the higher the response, the more entrepreneurs pay directly to local groups. The larger the social control of the company, the larger the company's exchange size, and this causes a decrease in managers' interest to increase their control.

Research Model

Figure 1 shows the research model in this research:

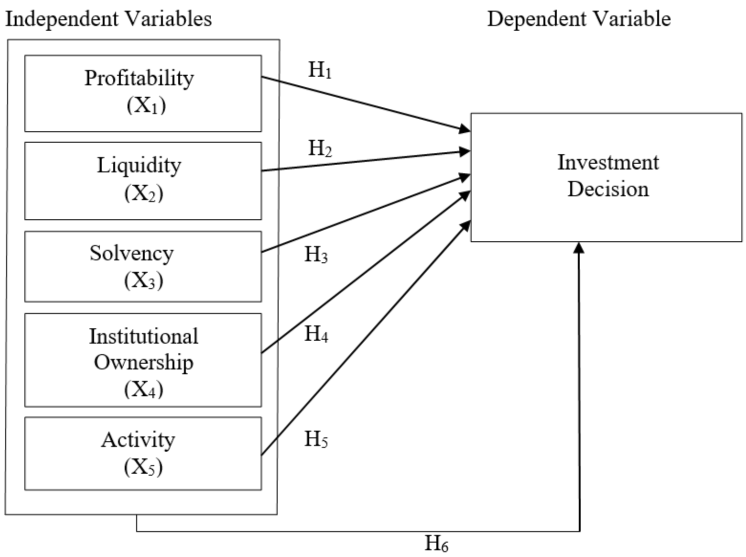

Figure 1. Research Model

3. Methodology

This research employs a quantitative method. Quantitative method, according to Sugiyono (2020:16), is a research approach based on positivist philosophy, used to analyze a specific population sample, utilizing data collection tools, and implementing quantitative or statistical data analysis to test hypotheses. This is a descriptive study. As Sugiyono (2020:64) suggests, a descriptive research methodology aims to investigate whether variables are quantitative or qualitative, whether they are similar, and how they relate to one another, including exploring the intended relationships and changes among the variables. The population for this study includes 80 companies listed on the IDX 80 of the Indonesia Stock Exchange from 2016 to 2021. The selection of the sample for this study was carried out using a purposive sampling method, a technique of drawing samples based on specific criteria. In this case, the set criteria were:

1. Companies listed on the IDX 80 from 2016 to 2021.
2. Companies on the IDX 80 that published their financial reports from 2016 to 2021.
3. Companies on the IDX 80 that made profits from 2016 to 2021.

The research sample consists of 28 companies, observed over five years, amounting to 168 companies from the IDX 80 list of the Indonesia Stock Exchange from 2016 to 2021. The data collection method in this research is documentation. Sugiyono (2020:225) defines a document as a historical record that can be in the form of personal writings, images, or monuments. Desk research complements the observation and interview methods of quantitative research. Data was collected using a documentation technique, specifically gathering secondary data from the annual financial reports of companies listed on the IDX 80 from 2016 to 2021. They include variables such as Profitability (X1), Liquidity (X2), Solvency (X3), Institutional Ownership (X4), Activity (X5), and Investment Decision (Y), each of them is described and measured in detail according to specific ratios and standards.

Data Analysis Techniques

Research Model This research utilizes multiple linear regression analysis. The regression model measures the influence of one or more independent variables on the dependent variable (Investment Decision). The multiple linear regression model used is:

$$\mathbf{Y = a + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + e}.$$

Classic assumption tests include normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. These tests are carried out using SPSS 20 software. Partial Hypothesis Testing (t-test) Hypothesis tests measure the simultaneous or individual influence of independent variables (Profitability, Liquidity, Solvency, Institutional Ownership, and Activity) on the dependent variable (Investment Decision).

4. Result and Discussion

Descriptive Statistics

In this study, the results of the descriptive statistical test can be found in the Table 1 as follows:

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	168	,00112	19,57113	,4532634	2,31077220
Liquidity	168	,00846	11,09402	2,0448784	1,77870277
Solvency	168	,02474	2,55107	,5240165	,37409101
Institutional Ownership	168	,00240	6,64972	,8113659	,84617293
Activity	168	,00013	,88296	,1606492	,14510750
Investment Decision	168	-,73239	10,26346	,2163714	,88759859

Source: Research Results, 2023 (Processed Data)

Profitability has a minimum value of 0.00112 and a maximum value of 19.57113 with an average value of 0.4532634 and a standard deviation value of 2.31077220. Liquidity has a minimum value of 0.00846 and a maximum value of 11.09402 with an average value of 2.0448784 and a standard deviation value of 1.77870277. Solvency has a minimum value of 0.02474 and a maximum value of 2.55107 with an average value of 0.240165 and a standard deviation value of 3.7409101. Institutional Ownership has a minimum value of 0.00240 and a maximum value of 6.64972 with an average value of 0.8113659 and a standard deviation value of 0.84617293. Investment decision has a minimum value of -0.73239 and a maximum value of 10.26346 with an average value of 0.2163714 and a standard deviation value of 0.88759859.

Normality Test

In this research, the data meets the normality hypothesis, because the significance value obtained is 0.084 which is greater than 0.05. Below are the results of the normality test, which you can see in Figure 2 below:

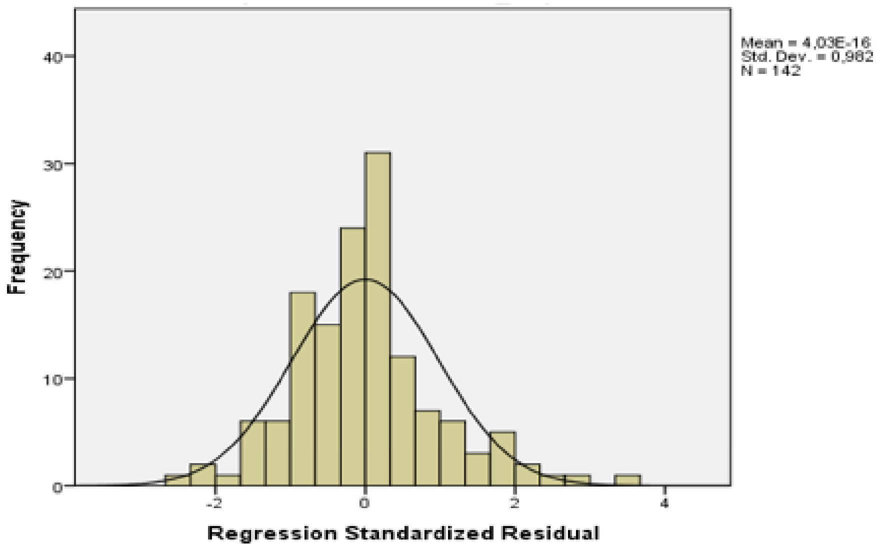

Figure 2. Normality Test Histogram

Source: Research Results, 2022 (Data Processed)

The histogram graph in Figure 2 shows that the curve is now a symmetrical (U) curve and does not shift to the left or right, indicating that the data is dispersed.

Heteroskedasticity Test

In this study, the heteroskedasticity test was employed using statistical methods and graphical methods, where the chosen statistical method used the Glejser test.

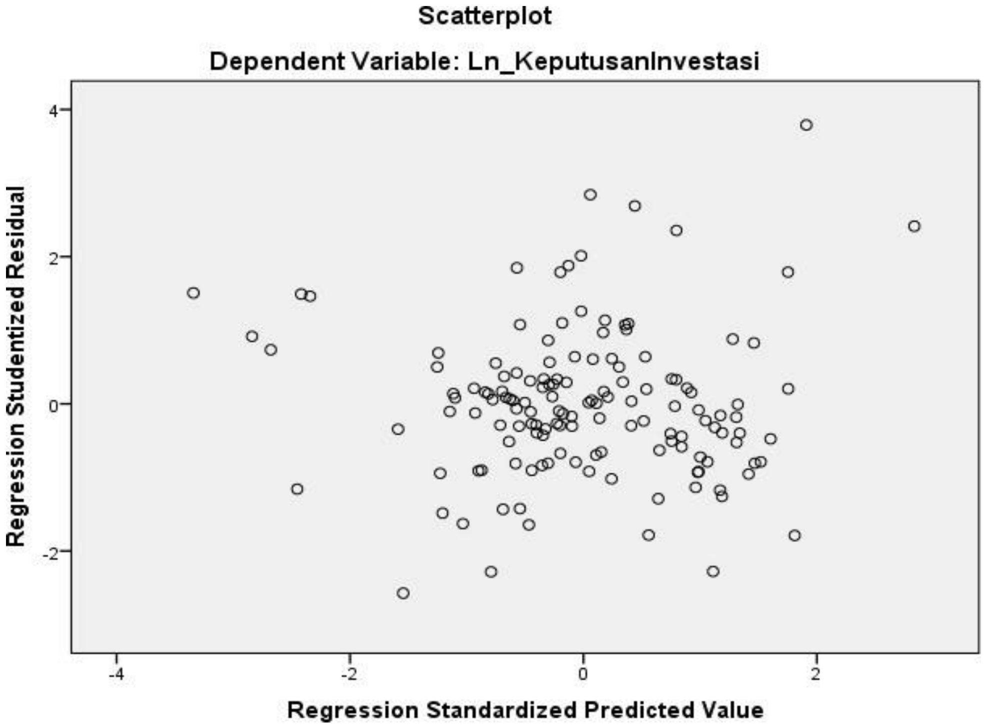

Figure 3 Heteroskedasticity Test

Source: Research Results, 2022 (Data Processed)

Based on the scatterplot (see Figure 3), it can be observed that the points are evenly dispersed on the Y-axis (0) above and below the image and are not clustered, thus the above image indicates that there is no heteroskedasticity.

Multiple Linear Regression Analysis

Table 2. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-1,967	,329	
	Profitability	-,134	,072	-,185
	Liquidity	,012	,082	,018
	Solvency	-,154	,147	-,099
	Institutional Ownership	,142	,071	,174
	Activity	,327	,127	,237

Source: Research Results, 2022 (Data Processed)

The section on multiple linear regression analysis presents a table showcasing the equation for the Multiple Linear Regression Analysis. The equation derived from this analysis is:

Ln Investment Decision = -1.967 - 0.134 X1 + 0.012 X2 - 0.154X3 + 0.142 X4 + 0.327X5

The meaning of the aforementioned multiple linear regression equation is as follows:

1. The multiple determinant value of profitability, financing, institutional ownership, and operational is zero (0), while the financial decision (Y) is -1.967.
2. If the specific return rate is -0.134 and experiences a 1% decrease in productivity, then the investment decision (Y) decreases by -0.134.
3. The smoothness value of the financial productivity regression is 0.012, indicating that for every 1% increase in investment, the investment decision (Y) increases by -0.012.
4. The regression unit value for credit feasibility is -0.154, demonstrating that for every 1% decrease in credit feasibility, the investment decision (Y) decreases by -0.154 units.
5. The regression unit value of institutional ownership is 0.142, meaning that for every 1% increase in investment, the investment decision (Y) increases by 0.142.
6. The functional regression coefficient is 0.327, meaning that for every 1% increase in labor, the investment decision (Y) decreases by 0.327.

Discussion

Profitability on Investment Decisions

The results of this study prove that profitability has a non-significant negative effect on investment decisions of IDX 80 companies listed in the IDX from 2016 to 2021. This aligns with the research conducted by Sri Wahyuni et al. (2015), which showed how high profitability negatively impacts a company's investment decisions. According to Endiana (2017), profitability is also considered a tool used by companies to analyze management performance. Investors in the capital market pay close attention to the company's ability to generate and increase profits. The company's profit position is depicted by the company's profitability rate.

Liquidity on Investment Decisions

The research results prove that liquidity does not significantly influence the investment decisions of IDX 80 companies listed in the IDX from 2016 to 2021. This is in line with Yunita and Yuningsih (2020), who state that liquidity does not significantly affect investment decisions. According to Khikmah et al. (2020), poor liquidity will cause the company to struggle in settling its short-term debt that has matured and will affect the company's creditworthiness, making it difficult for the company to invest with the remaining assets.

Solvency on Investment Decisions

The research results prove that solvability does not significantly influence the investment decisions of IDX 80 companies listed in the IDX from 2016 to 2021. This is in line with research conducted by Ramadhan et al. (2017), which states that solvability does not affect investment decisions. According to Ramadhan et al. (2017), the non-effect of solvability on investment decisions is due to the interest rate being higher than the return on investment, causing the company's investment decision level to decrease. The higher the debt costs the company has to pay, the lower the company's profitability, reducing the rights of shareholders. The reduction of shareholders' rights will affect the interest of potential investors.

Institutional Ownership on Investment Decisions

The research results prove that institutional ownership significantly positively affects the investment decisions of IDX 80 companies listed in the IDX from 2016 to 2021. This is in line with the research of Sri Wahyuni et al. (2015), which shows how high institutional ownership positively affects a company's investment decisions. According to Sri Wahyuni and Muhammad Arfan (2015), the higher the level of regional authority, the higher the district supervision, the higher the level of organization of the regional device responsible, the higher the response, the more entrepreneurs pay directly to local groups. The greater the social control of the company, the larger the size of the company's foreign exchange, and this causes a decrease in the manager's interest to increase his control.

Activity on Investment Decisions

The research results prove that activity has a significant positive effect on the investment decisions of IDX 80 companies listed in the IDX from 2016 to 2021. This aligns with the research of Rinnaya et al. (2016), which states that Activity has a positive and significant effect on Investment Decisions. According to Rustan DM (2022), investment decisions increase with greater activity. Performance is an index of how far the company uses its resources to increase sales. According to the Mirai Management Journal, the higher the total asset price, the more effectively the company uses its assets to increase sales.

5. Conclusions

The research findings suggest that profitability has a non-significant negative effect on the investment decisions of IDX 80 companies listed in the Indonesia Stock Exchange (BEI) from 2016 to 2021. It was also determined that liquidity and solvency do not significantly impact these investment decisions. In contrast, institutional ownership was found to exert a significant positive effect on the investment decisions of these companies. Similarly, activity was shown to have a significant positive impact on these decisions. Moreover, it was concluded that profitability, liquidity, solvency, institutional ownership, and activity collectively have a significant impact on the investment decisions of these companies. From these findings, several recommendations can be drawn. Firstly, investors are advised to bear in mind that the objective of investing in shares or capital should be to generate a higher level of profit from the initially invested capital. Secondly, this research can serve as useful material for library studies at the Universitas Primia Indonesia. Lastly, future researchers are encouraged to broaden the scope of their research beyond IDX 80 companies to encompass other sectors listed on the Indonesia Stock Exchange. Additionally, future studies could explore other factors apart from the ones included in this model that might influence a company's investment decisions, such as company size, share ownership, and budget.

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