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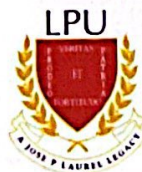
Integrated View to International Development:
Society Empowerment Through
Economics, Agriculture, and Engineering Approach



PROCEEDING

KHOIRUL HIKMAH

Directorat of Development and Cooperation
University of Mercu Buana Yogyakarta



INTERNATIONAL SEMINAR 2015
Integrated View To International Development

**Society Empowerment Through Economics, Agriculture, and
Engineering Approach**

PROCEEDING

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FOREWORD

This proceeding was arranged based on the International Seminar on Society Empowerment through Multidimensional Approach: an Integrated View to International Development. The Seminar was held by University of Mercu Buana Yogyakarta (UMBY). It was also a realization of MoU between UMBY with foreign universities such as Budapest Business School (Hungary) and Lyceum of the Philippines University (the Philippines).

The Seminar was 2-day seminar with plenary session on the first day during which the prominent speakers from Indonesia and other countries such as Australia, the Philippines and Hungaria had give the presentations. Parallel session was held at the end of the first day and on the second day during which about 51 papers had presented. The purpose of the seminar is strengtening the academic partnership among higher education institutions from Indonesia and other countries especially those who was participated in this seminar, and bridging closer collaboration between educational and non-educational instituions.

The purpose of arranging this proceeding is to deliver the ideas and research finding was presented in the seminar into the broader society. This effort is in order to make many discussion about variative and integrated ways to empower the society. According to the purpose of this seminar, we hope the proceeding can make harmoniuosly together in empowering society to meet the international development, and achieve the goals of international development.

We realize that this proceeding still need many improvement to be better. So that we ask for any suggestion. We wish this proceeding will give benefit for all concerning to the better world development.

Yogyakarta, January 18, 2016

Editors

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HEAD OF COMMITTEE SPEECH

Dear participants,

On behalf of the International Seminar Committee, I am very pleased to welcome you to the International Seminar on Society Empowerment through Multidimensional Approach: an Integrated View to International Development.

The Seminar is organized by the International Seminar Committee of University of Mercu Buana Yogyakarta (UMBY) in coordination with APTISI V Yogyakarta. It is also a realization of MoU between UMBY with foreign universities such as Budapest Business School (Hungary) and Lyceum of the Philippines University (the Philippines).

The Seminar is 2-day seminar with plenary session on the first day during which the prominent speakers from Indonesia and other countries such as Australia, the Philippines and Hungaria will give their presentations. Parallel session will be held at the end of the first day and on the second day during which about 51 papers will be presented. The purpose of the seminar is strengtning the academic partnership among higher education institutions from Indonesia and other countries especially those are participating in this seminar, bridging closer collaboration between educational and non-educational instituions to harmoniuosly together in empowering society to meet the international development, and formulating and providing an integrated approach or strategy in empowering society to achieve the goals of international development.

The seminar is held in Yogyakarta. Yogyakarta is well known as a city of education and a city of tourism as well. The seminar participants can enjoy the specific nuance of the city after participating in the seminar. I sincerely look forward to sharing some wonderful and fruitful seminar days with you. It will be my great pleasure to host you together with UMBY team.

Dr. Ir. Bambang Nugroho, M.P.

Head of the Seminar Committee

***Director of Direcorate of Development and
Cooperation***

University of Mercu Buana Yogyakarta

	Andung	(Gender Discriminative Discourse Of News On Violence Against Women In "Pos kupang.com")	
6	Clara R,P. Ajisuksmo	Education For The Disadvantaged Children In Indonesia	Psychology/Education
7	Fany Rifqoh	The Role Of School And Methods To Manage Slow Learners Students	Psychology/Education

Day 1 B

Time : 14.00-16.00

Venue : Ballroom

Moderator : Prof Dwiwati Pujimulyani. MP
Arvina

Petugas Ruang : Resti, Fenti,

No	Name	Title	Group
1	Eri Yusnita Arvianti	Youth Interest On Transformation Farmer Agricultural Sector In District Ponorogo	Agriculture
2	Bayu Kanetro	Community Empowerment Of Kalirejo Kulonprogo Special Region Of Yogyakarta For Developing Oyek Into Artificial Rice As Staple Food	Agriculture
3	Yunida Sofiana	Economic Challenges Versus Creative Design (Case Study In Banjarharjo Village, Bantul, Yogyakarta)	Economics and Business
4	Khoirul Hikmah, SE, M.Si	Advantages And Limitations Of Antecedents Effect Against Company for Investment Opportunities Set And Influence On Funding Policy In Agency Theory Perspective	Economics and Business
5	Kurnia Martikasari	The Evaluation Of Financial Performance For Economic Sustainability In Credit Union	Economics and Business
6	Ria Arafiah	The Expert Systems Prevention Of Epidemic Dengue Hemorrhagic Fever Based Community Development	Economics/ Information System
7	Alimuddin/Fatah Sulaiman	Early Warning System Analysis Of Accident Due To Weather Conditions Flood Parameters Of Temperature On The Rail Scale Laboratory	Information System
8	Alimuddin	Design Of Automation Control System Parameter Humidity Fertigation Aeroponics System In Caisim	

ANTECEDENT INFLUENCE OF COMPANY ADVANTAGES AND DISADVANTAGES ON INVESTMENT OPPORTUNITY SET AND FINANCING POLICY FORM THE PERSPECTIVE OF AGENCY THEORY

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ABSTRACT

Global financial crisis of 2007-2008 began with the U.S. financial crisis that resulted in global crisis. Under a proposed free trade system for 2015, companies around the world must take extra care when implementing their policies. Company policies are greatly influenced by the objectives of a company in improving its Investment Opportunity Set (IOS). The study attempts to elaborate and analyze the influence of multinationality, size, and profitability (AlNajjar K. Fouad and Ahmed, 2001) as company advantages, and leverage and systematic risk (AlNajjar K.Fouad and Ahmed, 2001) as company disadvantages on the change in investment opportunity set with its appropriate proxy and influence on company funding arrangements. The present study employed a survey method. Population of this study consists of 152 companies. The sampling was conducted based on purposive sampling technique, and the sample that meet the criteria amounted to 87 companies. Data analysis was conducted in two ways: a) Confirmatory Factor Analysis (CFA) to find appropriate proxies; and b) SEM and Partially Least Square (PLS). Results: company advantages were proven to have a positive effect on Investment Opportunity Set (IOS). Company disadvantages were not proven to have a negative effect on Investment Opportunity Set (IOS). Investment Opportunity Set was proven to have a positive effect on corporate financing policies at 10% significance level. Company advantages were proven to have a negative effect on corporate financing policies. Company disadvantages were proven to have a negative effect on corporate financing policies. IOS was proven to mediate the influence of company advantages on corporate financing policies at 10% significance level. IOS was proven to mediate the influence of company disadvantages on corporate financing policies. Company disadvantages have no significant influence on investment opportunity set. This is because companies in Indonesia have yet considered the leverage and systematic risk in determining the directions of corporate investment policies to grow and develop as well as in determining their financing policies.

Keywords: *multinationality, profitability, leverage, sytematic risk, Investment Opportunity Set, financing policies*

The 2008 financial crisis, the presence of free trade system in 2015, and political changes characterize the time course of Indonesia Stock Exchange and strengthen further the rôle of stock exchanges in Indonesia's economy. Stock exchange as one of financial asset markets in Indonesia constitutes an important aspect for national economic growth

and financial development. Stock exchanges that serve to mobilize funds to promote the success of national development could be affected if unhealthy practices are left unresolved. Any information gap between managers and investors must be reduced to provide certainty for investors in their investment decisions and in dealing with the risks of investment in certain companies. Conflicts of interest are not uncommon between corporate management and shareholders. Such conflicts are referred to, here, as agency conflicts. Agency theory suggests that the distinction between decision-making function (agent) and risk taking function (principal) give rise to agency conflicts (Karsana and Supriyadi, 2004:234; Jensen and Meckling, 1976).

Companies around the world must take great care of their policy implementation. Company policies are influenced by the objectives of a company in improving its Investment Opportunity Set (IOS). Factors which lead to companies' failure in their investment include: paying less attention to company advantages and disadvantages (AlNajjar dan Belkaoui, 2001), the increasingly fierce competition, and government policies that are less favorable for the growth of companies and industries. Investment opportunities play a critical role in the theory of corporate finance. Assets in place and investment opportunities combined affect the capital structure (Myers, 1977; Smith and Watts, 1992; Hartono, 1999; Tim Adam & Vidhan K. Goyal, 2007; Cyril H. Ponnu, 2008), dividend policy (Smith and Watts, 1992; Ahmed Riahi Belkaoui, 2001; Ahmed Riahi Belkaoui & Ronald D. Picur, 2001; Fouad K. AlNajjar and Ahmed Riahi Belkaoui, 2001; Jones, Stewart, 2001; Mahadwarta Putu and Jogiyanto Hartono, 2002; Hikmah, 2004&2008; Thomas O'Connor, 2010; Ravichandran K, Subramaniam & Mohammed S.Shaiban, 2011; Ravichandran Subramaniam, S. Susela Devi and Maran Marimuthu, 2011;), financing policy (Gaver & Gaver, 1993; Smith & Watts, 1992; Gul, A. Ferdinand et.all, , 2000; Barclay, Morellec & Smith, 2001; Jones, 2001; Kallapur & Trombley, 1999; Hikmah, 2004 & 2008; Ratnawati, Tri, 2007; Félix J. López Iturriaga, 2008), compensation (Smith and Watts, 1992; Gaver and Gaver, 1993; Hikmah, 2004), accounting policy (Skinner, 1993; John R. Becker-Blease and Donna L. Paul, 2006), disclosure (Cahan and Hossain, 1996; Hossain & Cahan, 2000; Akhtaruddin, M. & Hossain, 2008), leasing policy (Sami, et al., 1999), stock price (Crutchley and Hansen, 1989; Belkaoui & Picur, 2001), Corporate Governance (Jerry Sun , Ontario George Lan & Zhenzhong, 2009; Dini Rosdini, 2010; Godwin chigoze okpara, 2010), cash Flow (Armen Hovakimian & Gayan'e Hovakimian, 2009; Fabio Bertoni, Massimo G. Colombo and Annalisa Croce, 2010),

Earning Management (Ken Y. Chen, Randal J. Elder, and Shengmin Hu, 2010), Performance (Balachandran Muniandy, John Hillier & Suvan Naidu, 2010; leverage policy (Khanqah, Vahid Taghizadeh, et al, 2013), and general model of growth opportunities (AlNajjar & Belkaoui, 2001).

According to Gaver and Gaver (1993), investment options or growth options for a company are inherently unobservable; thereby IOS needs a proxy variable (Hartono, 1999). The more proxy variables for IOS, the more accurate they will be for determining a company's group or characteristics and, therefore, reducing the mistakes in classifying the growth rate for a company (Sami et al., 1999; Gaver & Gaver 1993).

Baker (1993) notes that continual improvement and development of the existing proxies are necessary because all proxies, especially those employed individually, have measurement errors (Smith & Watts, 1992; Gaver & Gaver 1993). Bartholomew (1987) in Purwanto (2001), states that consideration is necessary for data simplification by combining the observed variables into a composite variable. The combining of observed variables into a composite variable helps the researchers understand and describes the phenomenon under investigation as well as analyze them further in regression analysis (Purwanto, 2001).

A number of studies on IOS conducted in Indonesia are, among others: Subekti (2000) that adds implications of IOS for stock return; Fijrianti (2000) studies the relationship between the proxies of IOS and the realized growth using individual proxies, factor scores, and instrumental variables; Prasetyo (2000) studies the relationship between IOS and beta and market reaction; Norpratiwi (2001) studies the correlation between IOS and stock return; Julianto Agung (2003) studies the confirmatory factor analysis of a composite proxy for IOS and the relationship with growth realization; Maria Agnes Indri Purnama Sari (2012) studies the effect of financial ratios on investment opportunity set in manufacturing company life cycle stages; Ayuningtias, Dwi (2013) studies the influence of profitability on firm value: dividend policy and investment opportunity as intervening variables.

The current study attempts to elaborate and analyze the influence of multinationality, size, and profitability (AlNajjar K. Fouad and Ahmed, 2001) as company advantages, and leverage and systematic risk (AlNajjar K. Fouad and Ahmed, 2001) as company disadvantages on the change in investment opportunity set with its appropriate

RESEARCH METHODS

The current study uses a survey method. According to Sekaran (2010), survey is a study that selects sample from a population. Population in this study consists of public companies listed in Indonesia Stock Exchange (BEI) registered for the 2010-2013 period. The sampling was conducted based on purposive sampling method to obtain representative samples in compliance with the predetermined criteria. The population of this study consists of 152 companies. The companies declared eligible because their compliance with the criteria for purposive sampling amounted to 87 companies.

Operational Definitions of Variables

Operational definitions of the variables in this study are as follow:

1. Advantages and Disadvantages

AlNajjar & Belakaoui (2001) introduce a general model of growth opportunities in view of the effect of the model of growth opportunities on IOS. The model includes company advantages (multinationality, size and profitability) and disadvantages (leverage and systematic risk) which are among the characteristic of a company.

a. *Multinationality*

A multinational company has advantages in a competition and benefits in setting up the company's cash flow (AlNajjar & Belkaoui, 2001; Belakaoui & Picur, 2001).
Multinationality = foreign sales/total sales (FSTS); foreign profit/total profit (FPTP); foreign assets / total assets (FATA).

b. *Size*

Large size reflects the operational scale of a company and its competitive advantages over its competitors because of its relatively large assets. Size is measured by the logarithm of total assets.

c. *Profitability*

Profitability assumes that a company with a large amount of profits will have greater opportunities to compete with its competitors.

Profitability is measured by the return on assets (ROA) = Earning After Tax/Total Assets or net income/total asset.

d. Leverage

Leverage ratio indicates the debt to equity ratio in a company's financing. It indicates the amount of company assets generated or financed by debt. In this study, leverage is measured by dividing the total debt by total assets or long term debt/total assets for firm j in year t .

e. Systematic Risk

Systematic risk is measured using beta market, or more precisely beta correction, with the following equation:

$$E(R_i) - E(R_F) = E[(R_m) - E(R_F)] \beta_i$$

Where,

$E(R_F)$ = risk free rate

$E(R_m)$ = expected return on a market factor

$$\beta_i = \text{cov}(R_i, R_m) / \text{var}(R_m)$$

2. Investment Opportunity Set (IOS)

IOS represents a decision to invest in a combination of owned assets and future choices of investment where it would affect a firm value. Proxies of IOS are varied. Measurement of IOS using alternative proxies:

- a. $MVE/BVE = (\text{number of shares outstanding} \times \text{stock's closing price}) : \text{total equity}$
- b. $MVABVA = (\text{total assets} - \text{total equity} + (\text{number of shares outstanding} \times \text{stock's closing price})) : \text{total assets}$
- c. $PER = \text{Stock's closing price} : (\text{profit after tax} / \text{number of share outstanding})$ or $\text{stock's closing price} / \text{earnings per share}$
- d. $CAPBVA = (\text{book value of fixed assets}_t - \text{book value of fixed assets}_{t-1})$
- e. $CAPMVA = (\text{book value of fixed assets}_t - \text{book value of fixed assets}_{t-1}) : (\text{total assets} - \text{total equity} + (\text{number of shares outstanding} \times \text{stock's closing price}))$

3. Financing Policy

Debt is another mechanism to minimize or control agency related conflicts. Financing policies are measured by Debt to Equity Ratio (DER) = Liability/Shareholder's Equity or total long-term debt/total equity.

Data Analysis Techniques

Data analysis technique and model employed in this study is Structural Equation Model (Mediating SEM). SEM basically consists of Measurement Model and Structural Model. SEM has the advantages in analyzing multivariate data simultaneously. Thus, using SEM, research model will undergo a simultaneous statistical test. Structural Equation Model can be completed using several statistical programs, such as Lisrel, AMOS, or PLS. For this study, the author prefers PLS on consideration that PLS is capable of analyzing variables with one indicator or two.

Partial Least Square is a powerful analysis method as it does not assume that the data should be measured using certain scale for a small sample. PLS also serves to confirm a theory. For prediction, PLS seems to be more appropriate. PLS approach assumes that all measures of variance are variants worth describing. Since the approach to estimate latent variables is considered as a linear combination of indicators, it avoids indeterminacy and provides precise definition (Score World 1982 in Imam Ghozali, 2008). PLS provides a general model that includes canonical correlation technique, redundancy analysis, multiple regression, multivariate analysis of variance (MANOVA) and principle component analysis. Model identification in PLS poses no difficulty for recursive model, and it does not assume certain distribution for a variable scale.

RESULTS AND DISCUSSION

A. Factor Analysis of IOS

Steps in factor analysis:

1. *KMO and Bartlett's Test of Sphericity*

Based on the factor analysis in Table 1, the value of KMO and Bartlett's test is 0.814 at a significance level of 0.000. Therefore, as the value is greater than 0.5 and the significance level is well below 0.05 ($0.000 < 0.05$), the existing variables and samples could be further analyzed. The image correlation indicates that all variables have the value greater than 0.5, thereby could be further analyzed. The factor analysis indicates the following results:

Table 1. Factor Analysis Results

Factor Analysis	Value
KMO MSA	0,414
BTS Chi Square	601,468
df	10
Sig	0,000
Variables	MSA
MVEBVE	0,450
MVABVA	0,451
PER	0,230
CAPBVA	0,051
CAPMVA	0,379

Source: Processed Secondary Data, 2015

2. Communalities

The communalities measure the percentage of variable's variance explicated by factors. The extreme values of communalities range from 0.0 to 1.0. While the estimated 0.0 means that a variable is not correlated to other variables, the estimated 1.0 means that a variable's variance is completely caused by common factors.

Table 2. Communalities

Communalities

	Initial	Extraction
MVEBVE	1.000	.967
MVABVA	1.000	.975
PER	1.000	.778
CAPBVA	1.000	.741
CAPMVA	1.000	.553

Extraction Method: Principal Component Analysis

Source: Processed secondary data, 2015

Communality for activities ranges from 0.553 to 0.975. The result indicates that all of the variables have sufficiently high communality and, therefore, they have communality with other variables in one group.

3. Extraction

The next step is to calculate the factors. The factors are extracted using the principal component analysis. The idea of this step is to determine what factors to use. Criterion for factor extraction used in this study is Latent Root Criterion: the factors extracted are those with Eigenvalue greater than 1.

Table 3. Total Variance Explained

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.947	38.939	38.939	1.947	38.939	38.939
2	1.056	21.119	60.058	1.056	21.119	60.058
3	1.011	20.223	80.281	1.011	20.223	80.281
4	.936	18.725	99.006			
5	4.970E-02	.994	100.000			

Extraction Method: Principal Component Analysis.

Using this criterion, factor extraction generates 3 factors to use. Factor 1 has eigenvalue of 1.947 and variance of 38.939%; factor 2 has eigenvalue of 1.056 and variance of 21.119%; and factor 3 has eigenvalue of 1.011 and variance of 20.223%. Thus, all of these factors have variance of 80.281% of total variance.

4. Rotation

The clustering of variables in factors that occur in factor matrix can be interpreted directly as there might be variables with almost equal factor loadings in 2 factors, thereby difficult to determine the occurrence of variable clustering in factors. To interpret the factors more reasonably, factor rotation is performed to obtain a theoretically and practically more significant factor solution. Factor rotations in most cases will improve the interpretation by reducing several dualisms frequently come with the initial solution for the factors that have not been rotated (Hair et al, 1998). The method of factor rotation adopted in this study is Varimax, for the reason that the method maximizes the variance. The results of factor rotation can be seen in Table 4.

Table 4. Factor Rotation Analysis Results

Rotated Component Matrix^a

	Component		
	1	2	3
MVEBVE	.982	-.047	-.005
MVABVA	.984	.077	.020
PER	-.014	.093	.877
CAPBVA	.064	.835	.200
CAPMVA	-.066	.576	-.466

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 4 iterations.

Source: Processed secondary data, 2015

The stock test result constitutes factor 1 with a correlation of 0.982 and 0.984; items of assets constitute factor 2 with a correlation of 0.835 and 0.576; and PER constitutes factor

3 with a correlation of 0.877. The results indicate that those 5 variables can be reduced to 3 factors. Thus, the stock-related factors amount to 38.939%, asset-related factors amount to 21.119%, and PER-related factor amount to 20.233%. This demonstrates that the three factors represent the IOS by 80.281%.

B. Analysis of Intervariable Effects

1. Validity Test

Validity of model is evaluated by convergent and discriminant validities as the indicators.

a. Discriminant validity index

Discriminant validity index is measured by cross loading and comparing square root of AVE and Latent variable correlations. Discriminant validity index by cross loading can be seen in Table 5.

Table 5. Cross Loading

	IOS	Policy	Disadvantages	Advantages
CAPBVA	0.757	0.011	-0.067	0.396
CAPMVA	0.020	0.010	-0.008	-0.040
DER	-0.130	1.000	0.153	-0.430
LEVERAGE	0.041	0.144	0.276	-0.131
MULTINATIONALITY	0.107	-0.130	-0.158	0.415
MVABVA	0.899	-0.139	-0.087	0.632
MVEBVE	0.865	-0.163	-0.256	0.573
PER	0.242	-0.004	-0.014	0.090
PROFITABILITY / ROA	0.480	-0.528	-0.332	0.842
SIZE	0.511	0.047	0.047	0.515
SYSTEMATIC RISK	-0.186	0.115	0.954	-0.247

Source : Processed secondary data, 2015

Based on the cross-loading values in Table 5, we can see that the loading item of each construct has the values greater than those of indicator loadings of other constructs. This indicates that the items have good discriminant validity.

The discriminant validity index seen from the square root of AVE and latent variable correlations is presented as follows:

Table 6. Square root of AVE correlation

	IOS	Policy	Disadvantages	Advantages
IOS	0.661			
Policy	-0.130	1.000		
Disadvantages	-0.166	0.154	0.703	
Advantages	0.647	-0.429	-0.276	0.618

Based on Table 6, the value of square root of AVE is higher than the correlations between other variables, except for advantages that have a bit smaller value of square root of AVE. However, it can be said that the variables in this study still have good discriminant validity.

b. *Convergent validity*

Convergent validity of a measurement model with reflexive indicator is determined based on the correlation between item scores and construct scores calculated using PLS. Convergent validity index is measured by AVE, communality and loading factors. The AVE index and communality can be seen in the following table:

Table 7. AVE and comunalitiy

	AVE	Composite Reliability	R Square	Cronbachs Alpha	Communality	Redundancy
IOS	0.437	0.734	0.419	0.580	0.437	-0.002
Policy	1.000	1.000	0.224	1.000	1.000	-0.131
Disadvantages	0.494	0.599		-0.047	0.494	
Advantages	0.382	0.629		0.303	0.382	

Source: Processed secondary data, 2015

From Table 7, we can see that the values of AVE and communality for IOS, disadvantages and advantages are slightly below 0.5. Thus, the variables' convergent validity value is not as good as that of policy that has high convergent validity value because it is comprised of only one indicator.

Convergent validity index as measured by factor loadings can be seen in the following table.

Table 8. Factor Loadings

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O /STERR)	Sig.
CAPBVA <- IOS	0.757	0.706	0.170	0.170	4.453	0.000
CAPMVA <- IOS	0.020	0.024	0.143	0.143	0.142	0.887
DER <- Policy	1.000	1.000	0.000			1.000
LEVERAGE <- Disadvantages	0.276	0.344	0.485	0.485	0.570	0.571
MULTINATIONALITY <- Advantages	0.415	0.418	0.154	0.154	2.696	0.009
MVABVA <- IOS	0.899	0.888	0.109	0.109	8.236	0.000
MVEBVE <- IOS	0.865	0.869	0.079	0.079	10.988	0.000
PER <- IOS	0.242	0.271	0.116	0.116	2.082	0.042
PROFITABILITY / ROA <- Advantages	0.842	0.847	0.067	0.067	12.506	0.000
SIZE <- Advantages	0.515	0.469	0.207	0.207	2.493	0.015
SYSTEMATIC RISK <- Disadvantages	0.954	0.661	0.479	0.479	1.992	0.051

Source: Processed secondary data, 2015

Table 8 indicates that there remain several items with outer loadings of <0.7; thus significance test for the outer loadings is necessary. The significance test for outer loadings indicates that the whole items have a relatively lower significance, except for CAPMVA. Therefore, those items should be excluded from the research model.

The convergent validity index as measured by factor loadings, after excluding CAPMVA from the model, is presented in the following table.

Table 9. Factor Loadings

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)	Sig.
CAPBVA <- IOS	0.752	0.710	0.147	0.147	5.127	0.000
DER <- Policy	1.000	1.000	0.000			1.000
LEVERAGE <- Disadvantages	0.288	0.397	0.479	0.479	0.602	0.549
MULTINATIONALITY <- Advantages	0.413	0.419	0.164	0.164	2.513	0.015
MVABVA <- IOS	0.902	0.902	0.047	0.047	19.293	0.000
MVEBVE <- IOS	0.865	0.877	0.029	0.029	29.442	0.000
PER <- IOS	0.241	0.294	0.111	0.111	2.178	0.033
PROFITABILITY / ROA <- Advantages	0.841	0.840	0.071	0.071	11.926	0.000
SIZE <- Advantages	0.518	0.475	0.202	0.202	2.561	0.013
SYSTEMATIC RISK <- Disadvantages	0.951	0.596	0.527	0.527	1.803	0.076

Source: Processed secondary data, 2015

From Table 9 we can see that there remain several items with outer loadings of < 0.7; therefore significance test is necessary. Significance test for outer loadings indicates that all leverages have a high level of significance; however, considering that all of these leverages play important role in the research model, that is to test hypothesis 4, they will remain in the research model.

2. Reliability Test

The results of *cronbach's alpha* reliability and composite reliability tests can be seen in Table 10.

Table 10. Cronbach's alpha and composite reliability scores

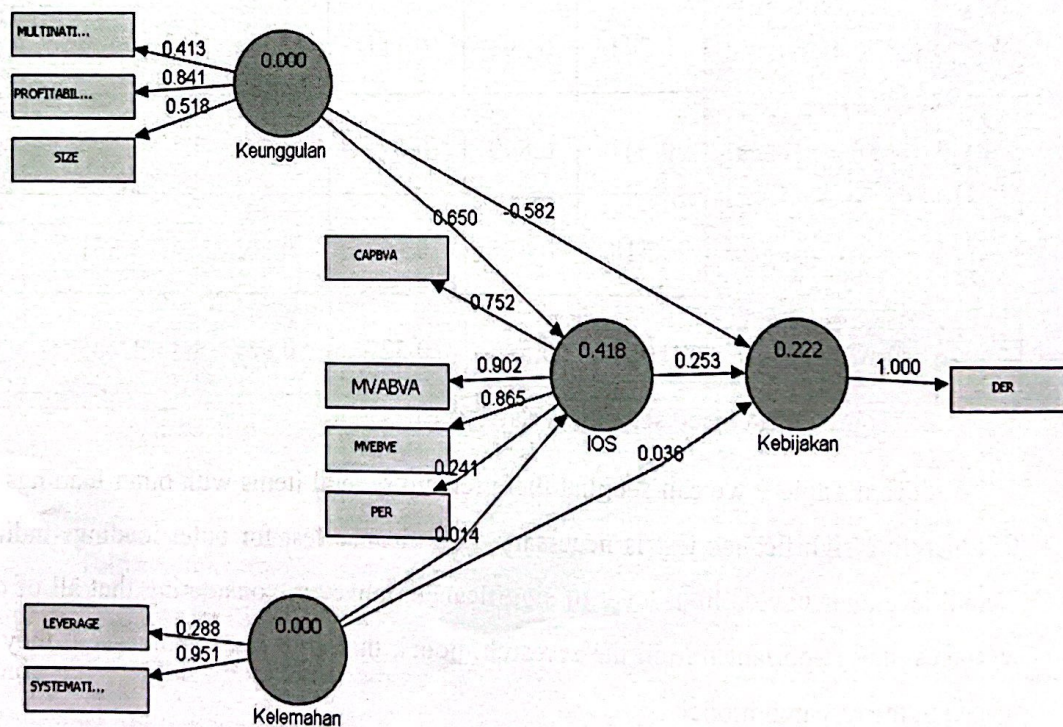
	Composite Reliability	Cronbachs Alpha
IOS	0.808	0.691
Policy	1.000	1.000
Disadvantages	0.602	-0.047
Advantages	0.629	0.303

Source: Processed secondary data, 2015

From Table 10 we can see that the composite reliability score is greater than 0.6, which indicates that the variable should be considered reliable. The Cronbach's alpha values indicate that disadvantages and advantages scored low; therefore, these variables are categorized as less reliable.

3. Hypothesis Testing

Hypothesis formulation in this study is performed by analyzing the required data correlation and the correlation between exogenous and endogenous variables by Partial Least Square (PLS). The results of the analysis are as follow.



Source: Processed secondary data, 2015

Figure 3
Path Coefficients

Table 11

Path Coefficient of the Variables

Hip.	Indikator	Eksogen	Endogen	Eksogen						Endogen						Sobel Test			Keputusan
				Estimate	SE	CR	DB	P-Value	Estimate	SE	CR	DB	P-Value	axb	Z-test	p-value			
1	Multinationality	Keunggulan	IOS	0.413	0.164	2.518	259	0.012	0.650	0.055	11.818	259	0.000	0.268	2.463	0.014	Signifikan 5%		
2	Size	Keunggulan	IOS	0.518	0.202	2.564	259	0.011	0.650	0.055	11.818	259	0.000	0.337	2.506	0.012	Signifikan 5%		
3	Profitabilitas	Keunggulan	IOS	0.841	0.071	11.845	259	0.000	0.650	0.055	11.818	259	0.000	0.547	8.366	0.000	Signifikan 5%		
4	Leverage	Kelemahan	IOS	0.288	0.479	0.601	259	0.548	0.014	0.126	0.111	259	0.912	0.004	0.109	0.913	Tidak Signifikan		
5	System Risk	Kelemahan	IOS	0.951	0.527	1.805	260	0.072	0.014	0.126	0.111	260	0.912	0.013	0.111	0.912	Tidak Signifikan		
6		IOS	Kebijakan	0.253	0.131	1.931	261	0.055									Signifikan 10%		
7	Multinationality	Keunggulan	Kebijakan	0.413	0.164	2.518	262	0.012	-0.582	0.142	-4.099	262	0.000	-0.240	-2.146	0.032	Signifikan 5%		
8	Size	Keunggulan	Kebijakan	0.518	0.202	2.564	263	0.011	-0.582	0.142	-4.099	263	0.000	-0.301	-2.174	0.030	Signifikan 5%		
9	Profitabilitas	Keunggulan	Kebijakan	0.841	0.071	11.845	264	0.000	-0.582	0.142	-4.099	264	0.000	-0.489	-3.873	0.000	Signifikan 5%		
10	Leverage	Kelemahan	Kebijakan	0.288	0.479	0.601	265	0.548	0.036	0.106	0.340	265	0.734	0.010	0.296	0.767	Tidak Signifikan		
11	System Risk	Kelemahan	Kebijakan	0.951	0.527	1.805	266	0.072	0.036	0.106	0.340	266	0.734	0.034	0.334	0.739	Tidak Signifikan		
12	Keunggulan	IOS	Kebijakan	0.650	0.055	11.818	267	0.000	0.253	0.131	1.931	267	0.055	0.164	1.906	0.057	Signifikan 10%		
13	Kelemahan	IOS	Kebijakan	0.014	0.126	0.111	268	0.912	0.253	0.131	1.931	268	0.055	0.004	0.111	0.912	Tidak Signifikan		

Source: Processed secondary data, 2015

Based on the values presented in Table 11, the results can be summarized as follow:

- a. The effect of corporate multinationality on Investment Opportunity Set (IOS) has a value of path coefficient of 0.268 at significance level of 0.014, which is lower than 0.05. Thus, the first hypothesis is supported.
- b. The effect of firm size on Investment Opportunity Set (IOS) has a path coefficient value of 0.337 at 0.012 level of significance, which is lower than 0.05. Thus, the second hypothesis is supported.
- c. The effect of corporate profitability on Investment Opportunity Set (IOS) has a path coefficient value of 0.547 at 0.000 level of significance, which is lower than 0.05. Thus, the third hypothesis is supported.
- d. The influence of firm leverage on Investment Opportunity Set (IOS) has a path coefficient value of 0.004 at 0.913 level of significance, which is greater than 0.05. Thus, the fourth hypothesis is unsupported.
- e. The effect of firm's systematic risk on Investment Opportunity Set (IOS) has a path coefficient value of 0.013 at 0.912 level of significance, which is greater than 0.05. Thus the fifth hypothesis is unsupported.
- f. The effect of Investment Opportunity Set (IOS) on corporate financing policy has a path coefficient value of 0.253 at a significance level of 0.055, which is lower than 0.10. Thus, the sixth hypothesis is supported at 10% significance level.
- g. The effect of firm's multinationality on corporate financing policies has a path coefficient value of -0.240 at 0.032 significance level, which is lower than 0.05. Thus, the seventh hypothesis is supported.
- h. The effect of company size on corporate financing policies has a path coefficient value of -0.301 at 0.030 significance level, which is lower than 0.05. Thus, the eighth hypothesis is supported.
- i. The effect of company profitability on corporate financing policies has a path coefficient value of -0.489 at 0.000 significance level, which is lower than 0.05. The ninth hypothesis is, thus, supported.
- j. The effect of company leverage on corporate financing policies has a path coefficient value of 0.010 at 0.767 significance level, which is greater than 0.05. Thus, the tenth hypothesis is unsupported.

- k. The effect of company systematic risk on corporate financing policies has a path coefficient value of 0.010 at 0.739 significance level, which is greater than 0.05. The eleventh hypothesis is, thus, unsupported.
- l. The effect of company advantages (multinationality, size, profitability) on corporate financing policies has a path coefficient value of 0.164 at 0.057 significance level, which is lower than 0.05. Thus, the twelfth hypothesis is supported at 10% significance level.
- m. The effect of company disadvantages (leverage and systematic risk) on corporate financing policies has a path coefficient value of 0.004 at 0.912 significance level, which is greater than 0.05. The thirteenth hypothesis is thus unsupported.

4. Discussion

Hypotheses 1, 2, and 3 indicate that corporate multinationality, size, and profitability have a positive and significance effect at %5 significance level on Investment Opportunity Set (IOS). The results of this study supported the existing theory and also the study conducted by ALNajjar and Belkaoui (2001) indicating a positive and significance result at 5% significance level. This study, however, not supported the study conducted by Gagaring Pagalung (2003), the results of which indicating that only the company reputation that has significant influence on IOS.

The results indicate that company advantages (multinationality, size, profitability) were confirmed by the model employed in the study conducted by AlNajjar and Belkaoui (2001). Thus, multinationalitu, size and profitability can serve as indicators for the measurement of company advantages. However, such measurement of company advantages remain hotly debated in terms of its representativeness.

Hypotheses 4 and 5 indicate that leverage and systematic risk of company has a positive, yet not significant, effect on Investment Opportunity Set (IOS). The results of this study do not support the existing theory and also do not support the results of the study conducted by AlNajjar and Belakoui (2001) that demonstrates negative and significant results at %5 significance level. The results of this study also do not support those of the study conducted by Gagaring Pagalung (2003) that demonstrates significant

results at 1% and 5% significance level. However, Gagaring Pagalung (2003) also demonstrates that leverage generates a positive correlation with IOS.

The results indicate that company disadvantages (leverage and systematic risk) were inconsistent with earlier studies (Gaver & Gaver, 1995; Smith & Watts, 1992; dan Gul & Kealey, 1999). This could possibly be due to the fact that Indonesia's economy has not fully recovered from the 2008 global financial crisis affecting almost all countries. Because the author used the data from 2009, the corporate financing structures were not similar to the companies not affected by the crisis. The results of this study become interesting for further studies to determine what factors that make such a condition differs and to determine whether or not such differences were caused by the differences in economic condition (while previous studies in the United States were conducted prior to the financial crisis using the data from 1987 to 1993, the current study was conducted in Indonesia using the data from 2009, or after the crisis). This is necessary for further exploration in future studies.

A. The sixth hypothesis stating that Investment Opportunity Set (IOS) has a positive influence on corporate financing policies is supported at 10% significance level. The results of this study are consistent and supported previous studies (Gaver & Gaver, 1993&1995; Smith & Watts, 1992; and Gul & Kealey, 1999; Hartono, 1999; Sami et al, 1999; Julianto Agung 2003; Hikmah, 2004 & 2008 and Khanqah, Vahid Taghizadeh, et al, 2013).

Hypotheses 7, 8, and 9, stating that corporate multinationality, size and profitability have a negative but significant effect at 5% significance level on financing policies. The results of this study supported those of studies conducted by Gaver & Gaver, 1993 & 1995; Smith & Watts, 1992, although their results do not specifically used corporate nationality as variable (as it is a novelty in this study). Gaver & Gaver and Smith & Watts, however, used those variables to determine their influence on company decision making in terms of financing policies.

Hypotheses 10 and 11 of this study indicate that leverage and systematic risk have a positive, insignificant effect on financing policies. Based on the existing theory, the results of this study do not support Brigham (2000) theory. They also do not support the results of the studies by Gaver & Gaver, 1993 & 1995; Smith & Watts, 1992 and

AlNajjar & Belkaoui, 2001, although their results do not specifically indicated that leverage and systematic risk serve as the measures for company disadvantages (as this a novelty in this study).

Hypothesis 12 indicates that IOS is capable of mediating the influence of company advantages (multinationality, size, profitability) on corporate financing policies at 10% significance level. Fama and French (1998) found that investment stimulated by dividend policy and leverage generates positive information on the future of a company, thereby positively affects the company's value. According to Chung and Charoenwong (1991), differences in investment decision made by a company in efforts to stay ahead of its competitors attempting to enter its market, and the varied strategic alternatives of the company in effort to secure competitive advantages have made IOS varies between companies (Gaver & Gaver, 1993).

Hypothesis 13 indicates that IOS is incapable of mediating the influence of company disadvantages (leverage and systematic risk) on corporate financing policies. This is a novelty in this study as the IOS serves a mediating variable to determine the effect of company advantages and disadvantages through IOS. This also consistent with the hypothesis stating that company advantages has a significant effect on IOS. On the other hand, company disadvantages have a non-significant effect on IOS. Thus, when path analysis was conducted to determine the effect of IOS, as a mediating variable, on financing policies, the result is similar: that is, IOS has no significant effect on company disadvantages.

CONCLUSION

1. Company advantages (multinationality, size, profitability) were proven to have a positive effect on Investment Opportunity Set (IOS).
2. Company disadvantages (leverage and systematic risk) were not proven to have a negative effect on Investment Opportunity Set (IOS).
3. Investment Opportunity Set (IOS) has a positive effect on corporate financing policies at 10% significance level.

4. Company advantages (multinationality, size and profitability) were proven to have a negative effect on corporate financing policies.
5. Company disadvantages (leverage and systematic risk) were not proven to have a positive effect on corporate financing policies.
6. IOS is capable of mediating the effect of company advantages (multinationality, size, profitability) on corporate financing policies. Thus, it is supported at 10% significance level.
7. IOS is capable of mediating the effect of company disadvantages (leverage and systematic risk) on corporate financing policies. Thus, it is not supported.

RECOMMENDATIONS FOR FUTURE RESEARCH

1. Additional proxy variables of IOS are necessary, based either on price, investment, or variance.
2. Characteristics of a company in the forms of advantages and disadvantages can be expanded by additional measurement variables that are more representative, especially for companies in Indonesia.
3. The samples can be further expanded to include not only manufacturing companies, but also all companies listed at BEI.
4. Observation period can be extended to 5 years or more, rather than 3 years.

RESEARCH LIMITATIONS

1. The variables that serve as proxies of IOS are five only (MVABVA, MVEBVE, CAPBVA, CAPBVE and PER), which are the variables generally used by previous researchers. In fact, the proxy measurement varies widely and unobservable in nature. Thus, the more variable, the better it would be.
2. The representativeness of company advantages and disadvantages in the model adopted by AlNajjar and Belkaoui (2001) is somewhat different from that of this study and are adjusted to the data available at BEI. Therefore, additional variable measurements are necessary to represent the characteristics of a company in terms of the actual advantages and disadvantages.

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