The interdependence of managerial capabilities toward investment decisions of manufacturing companies on IDX period 2014-2016

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Abstract

Following the opening of the ASEAN Economic Community (AEC), Indonesian companies must have a reliable manager to benefit from the existence of this AEC. This research aims to explain the effect of managerial ability on investment decisions. Therefore, the dependent variable in this study is the company's fixed-asset investment decision, while the independent variable is the managerial ability to improve the efficiency of company resources. The sample of this study is go-public manufacturing companies in 2011-2016. This study uses multiple linear analysis techniques such as data envelopment analysis with a banxia frontier analyst as an analysis tool. The results showed managerial ability harmed the investment decision that reflected by the company's fixed assets improvement.

Keywords: go-public manufacturing companies; investment decision; managerial ability.

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Abstrak

Setelah pembukaan Masyarakat Ekonomi ASEAN (AEC), perusahaan-perusahaan Indonesia harus memiliki manajer yang dapat diandalkan untuk mengambil manfaat dari keberadaan AEC ini. Penelitian ini bertujuan untuk menjelaskan pengaruh kemampuan manajerial terhadap keputusan investasi. Oleh karena itu, variabel dependen dalam penelitian ini adalah keputusan investasi aset tetap perusahaan, sedangkan variabel independen adalah kemampuan manajerial untuk meningkatkan efisiensi sumber daya perusahaan. Sampel penelitian ini adalah perusahaan manufaktur go-public *pada 2011-2016. Penelitian ini menggunakan teknik analisis linier berganda seperti analisis envelopment data dengan* banxia frontier analyst *sebagai alat analisis. Hasil penelitian menunjukkan bahwa kemampuan manajerial memiliki pengaruh negatif yang signifikan terhadap keputusan investasi yang tercermin dari peningkatan aset tetap perusahaan.*

Kata kunci: *kemampuan manajerial; keputusan investasi; perusahaan manufaktur* go-public.

INTRODUCTION

The phenomenon of globalization in the economic field has a positive impact on local companies. One of them is to open up opportunities for companies to get involved in the broader business environment (James & Steger, 2014). Opening up opportunities for companies to expand their market share also becomes a challenge for companies. It is because they have to accept competitors from all over the world. Indonesia is part of the Southeast Asian region and is incorporated in ASEAN. Therefore, ready or not, Indonesia, with all its strength, must be able to survive in the ASEAN Economic Community (AEC) (Pomfret, 2013).
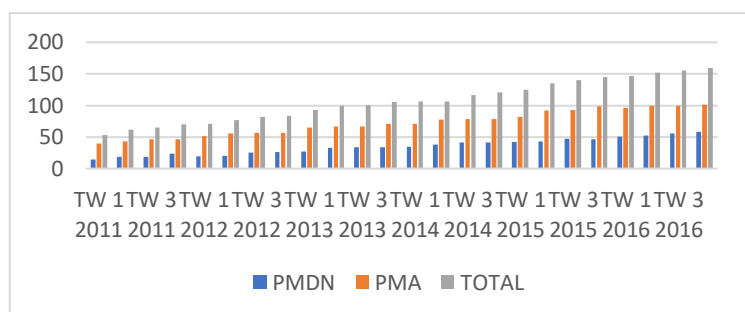
Source: Bank Indonesia, 2009
Figure 1. Investment Realization Development Data for 2011-2016

Based on the data in Figure 1, it can be observed that the level of foreign investment in Indonesia is higher when compared to domestic investment. The highest foreign investment in Indonesia occurred in 2016. Referring to the data, an indication emerged that foreign investment has increased significantly in 2016 since the opening of AEC (Pomfret, 2013).

The investment realization (PMA and PMDN) in the first semester of 2015 rose 16.6% (compared to the first semester of 2014) with a nominal value of Rp 259.7 trillion. If calculated from the first quarter of 2015, investment realization increased by 8.4%. This year's target is the nominal investment realization reaches Rp 519 trillion, or an increase of about 14% from the achievement in 2014. In 2016, PMA and PMDN investment in the 4th quarter to 612.8 trillion reached an increase of 18.07%. Indonesia achieved the highest investment increase in 2016 compared to 2015 (Bank Indonesia, 2009).

Managerial skills can be shown from the extent to which efficiency is applied by managers in managing company resources to produce outputs that are profitable for the company (Demerjian et al., 2012). All activities carried out by a company, which are related to the company's financial activities, will affect the company's assets, liabilities, capital, expensesm and income (Andersson & Evers, 2015). Therefore a reliable manager is needed to make the right policy formulation so that the company gets the maximum profit (Javidan & Bowen, 2013).

The choice of a company's investment policy is influenced by how brave the manager is to take risks and how stable the company's cash flow is and also considers the economic condition of the company's country, competition, and manager's nature. According to Demerjian et al. (2012), measuring managerial skills becomes the core of many research questions, such as examining managerial contributions to company performance and investment decisions, executive compensation, corporate governance, the economic impact of company ownership (Carnahan et al., 2010), and differences in productivity across countries. Previous research has shown that managerial skills (skills, talents, reputation, or style) influence economic outcomes. Therefore it is essential to conduct economic research, finance, accounting, and management research and practice (Koijen, 2014).

High managerial skills can guarantee of the quality of the company in the capital market, because of the lack of information asymmetry about the value of the company between the insiders of the company and outsiders to achieve lower capital costs (Andreou et al., 2017). A reduction in information asymmetry enables creditors to anticipate future performance and more accurately assess the possibility of defaults, which defined as lower debt costs and more flexible contract terms such as maturity, covenant restrictions, or collateral requirements (Andreou et al., 2017).

Therefore, the higher the ability of the manager is considered capable of resolving problems with a better agency, managers can improve the credibility of the manager and the company in the eyes of creditors and other stakeholders in general. Credibility is essential, especially during the financial crisis, because this period increased friction in the external capital market (Carnahan et al., 2010).

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Such friction hinders a company's capacity to obtain capital to pursue investment projects (Javidan & Bowen, 2013).

Managerial skills have measurement variables that are generic or do not have specific measurement criteria. Therefore managerial ability is measured based on the ability of managers to obtain optimal income by managing all resources efficiently by Data Envelopment Analysis (DEA). For example, considering several sources of income, including the company's total assets, total workforce, days COGS inventory (DCI), and days sold outstanding (DSO) (Proudlove, 2000), the output used is sales (Cook et al., 2014).

Research conducted by Andreou et al. (2017) provides evidence that managerial skills have a positive impact on corporate investment policies during the 2008 financial crisis period. In this study, managerial skills are an essential dimension because they affect the quality and performance of the company during a crisis period (Wilden et al., 2013). With excellent managerial skills, the company can reduce the problem of underinvestment by gaining access to more resources so that it can increase the value of the company. This research was applied to 2748 manufacturing companies to see the impact of managerial skills during the crisis and before the crisis.

Bligh et al., (2006) researched this topic to 78,000 companies from 1989 to 2009. This research also used company data during the crisis. In the research carried out and providing empirical evidence that managers who have managerial abilities that meet the category are not always directly proportional to the company's progress. Managers who have skill levels beyond the usual standard are more likely to make opportunistic decisions or try to use the opportunities available for their interests rather than meeting investor expectations (Bahri et al., 2015). A manager who has high skills with an opportunistic nature does earnings management. The practice of earnings management is to implement low-cost earnings management, so it tends to be careful in managing accruals (Berrospide & Edge, 2010).

If we observe the results of previous studies, the results are inconsistent. Therefore, it is necessary to conduct a re-study of the effect of managerial ability on investment policies of manufacturing companies (Chen et al, 2015). With these considerations, this research is expected to complement existing research and be compatible for consideration by investors to consider the competency side of company managers before deciding to invest (Berrospide & Edge, 2010). The choice of manufacturing companies considers the fact that manufacturing companies can hardly be affected by fluctuations in the country's economic conditions. Manufacturing companies still exist and survive due to the products produced (Oh, Yang & Kim, 2014). The demand for products has also remained stable even though the country's economic conditions are declining (Koijen, 2014).

This study took a research sample in the form of a manufacturing company registered at the Indonesia Stock Exchange (IDX) in the 2011-2016 periods. The

choice of manufacturing companies in this study is due to the demand for manufactured goods that will remain stable and not too affected by the ups and downs of a country's economy. The purpose of this study was to determine the effect of managerial skills on manufacturing company investment, managerial skills in this study had a positive influence on company performance. The better managerial skills possessed by the management of a company would result in a higher Return on Assets (ROA). Besides, this research also looks at the influence of capital structure owned by the company on company performance. Based on the description above, researchers are interested in researching the effect of company managerial skills on investment policies chosen by manufacturing companies.

Agency Theory

According to Shapiro (2005), an agency relationship is a contract in which one or more principals assign other people (agents) to perform services on behalf of the principal by delegating decision-making power to the agent. In this study, the principal is a shareholder or investor, while an agent is the management of a company. This agency theory is a theory that can explain the contractual relationship between company owners and their managers.

Managerial Ability

Demerjian et al. (2012) stated that managerial ability is the manager's ability to strategize, manage, and manage the company to use the input or resources owned by the company to maximize output or income. Each working capital investment policy has weaknesses and goodness. A company should choose investment policies, depends on the characteristics of managers and the characteristics of each company (Silva, 2010). According to Demerjian et al. (2012), the managerial ability is considered high when managers generate more significant income using certain levels of resources, or vice versa, when they minimize resources used for certain income levels (Koijen, 2014). Measurement of managerial ability in this study uses Data Envelopment Analysis (DEA) to model company efficiency that requires estimation of the value of company efficiency which is defined as the ratio of output produced by the company to the input or resources used as in formula (1), (2), and (3). In this research, the output used is sales. The inputs of this study are total assets, total workforce, DCI or Days COGS in Inventory, and Outstanding Sales Days (DSO).

$$Max_y\, \theta = \frac{\sum_{j-1}^{s} u_i y_{ik}}{\sum_{j-1}^{m} v_j x_{jk}} \quad (k = 1,....., n) \dots\dots\dots\dots\dots\dots\dots\dots (1)$$

$$V_1, V_2, \dots, V_m \geq 0 \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (2)$$

$$U_1, U_2, \dots, U_m \geq 0 \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (3)$$

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Note:
θ = The level of efficiency of a company k (in numbers)
U_i = The quality of income i can produce by the company k
Y_{ik} = Total total income i from company k and calculated from i = 1 up to s
V_j = The quality of income used by the company s
X_{jk} = The total revenue of j from company k is calculated from j = 1 up to m

The Types of Managerial Characteristics

Each leader has specific characteristics to provide direction in carrying out business activities based on the goals to be achieved by the company (Berk & Stanton, 2007). Company leaders, as executives, have two characteristics, namely risk-taker and risk-averse. Executives who are risk-takers are executives who are bolder in making business decisions because the higher the risk taken, the higher the benefits. In contrast to risk-taker, executives who have the character as risk-averse are less likely to like risk (Stoian & Rialp-Criado, 2010).

Investment Policy

Corfee-Morlot et al. (2012) state that investment is a commitment to several funds or other resources made at this time to obtain several benefits in the future. Accordingly, investment decisions related to the process of selecting one or more investment alternatives that are considered profitable from several investment alternatives available to companies. The investment policy in this study was measured using capital expenditure divided by total net assets at the beginning of the year (Giat, 2013).

Data Envelopment Analysis (DEA)

Proudlove (2000) This method is one of the evaluation tools to examine the performance of an activity in an entity unit. Demerjian et al. (2012) suggested that DEA is a mathematical programming technique used to evaluate the relative efficiency of a collection of Decision-Making Units (DMU) in managing the same type of input.

Operational Definition

Company Investment Policy

The fixed asset investment policy is a decision taken by a company to choose an investment decision that is profitable for the company (Javidan & Bowen, 2013). The company's investment is calculated by the ratio of Capital Expenditure to total assets of the company. The formula (4) measures company investment.

$$Investment = \frac{Capital\ Expenditure}{Total\ assets\ of\ the\ company}$$ ....(4)

Managerial Ability

In this study, the managerial ability is measured using a comparison between input and output using the data envelopment analysis approach. Managerial skills represent the level of efficiency of managers in managing company resources to produce company output. A manager is said to be efficient can be seen from the comparison between inputs or resources used by managers in producing maximum output levels. The manager will try to achieve the targets set to produce company performance that is in line with expectations, especially the expectations of investors (Koijen, 2014). The size of a company is a comparison of company size defined by the Natural Logarithm of total assets (Demerjian et al., 2012).

MTB (Market-to-Book Ratio)

MTB or Market-to-book ratio is the result of the ratio between the two variables, namely the market price per share and the company book value (Wakil, 2014). In this study, MTB was calculated as in formula (5).

$$MTB = \frac{Market\ price/share}{Book\ value/share}$$ ....(5)

Leverage

Leverage is the book value of debt divided by the book value of the company's total assets (Adrian & Shin, 2014). In this study, leverage is calculated as in formula (6).

$$Leverage = \frac{Total\ Amount\ of\ debt}{Total\ assets}$$ .... (6)

Stock Return

Stock returns are returns that are calculated using a comparison of stock prices in a certain time (Rapach et al., 2013). In this study, stock returns are calculated as in formula (7).

$$Return = \frac{(P_t - P_{t-1})}{P_{t-1}}$$ .... (7)

Return on Assets (ROA)

Return on Assets (ROA) is the company's ability to generate profits and taxes using all assets owned by the company (Mubin et al., 2014). In this study, ROA was calculated as in formula (8).

$$ROA = \frac{Earning\ Before\ Interest\ and\ Tax}{Total\ Assets}$$ .... (8)

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Cash Flow

Cash Flow is a description of the amount of cash that comes in with cash out at the company (Disatnik, Duchin, & Schmidt, 2014). The company's cash flow was calculated as in formula (9).

$$Cash\ Flow = \frac{Operating\ income\ before\ depreciation}{Net\ assets\ beginning\ of\ the\ year} \quad \text{.....................} \quad (9)$$

Hypothesis

In this study, the dependent variable used is the investment policy of the manufacturing company's fixed assets. Meanwhile, the independent variable (independent variable) is a variable that influences, causing changes in the dependent variable. This study uses managerial ability (DEA) as an independent variable. This study uses several *control variables* that aim to know the relationship between the dependent variable and the independent variable, which remains consistent. The control variables are (1) Company size; (2) Market-to-Book Ratio (MTB); (3) Leverage (LEV); (4) Stock returns; (5) Return on Assets (ROA); (6) Cash Flow (CF). Relationships between variables are also illustrated in Figure 1.

H1: Managerial skills have a positive effect on the investment policy of fixed assets of manufacturing companies listed on the IDX.

H2: Size of company (size) has a positive effect on the company's fixed asset investment policy.

H3: MTB (Market-To-Book ratio) has a negative effect on the company's fixed asset investment policy.

H4: Leverage has a positive effect on the company's fixed asset investment policy.

H5: Stock return performance has a positive effect on the company's fixed asset investment policy.

H6: Return on Assets (ROA) has a positive effect on the company's fixed assets investment policy.

H7: The company's cash flow has a positive effect on the company's fixed assets investment policy.
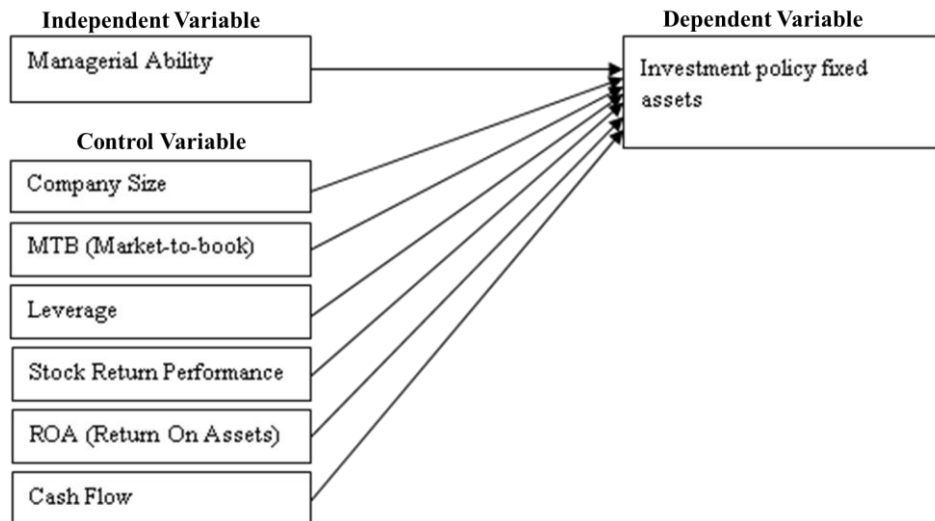
Figure 2. Conceptual Framework

METHODS

This study uses a quantitative approach that emphasizes its analysis of numerical data (numbers), which are dealt with by the statistical method. Quantitative research is used to test a theory, present a fact or describe statistics, show relationships between variables and some are developing concepts, developing understanding, and describing many things (Zhao et al., 2015). This research studies some previous studies relating to the problem to be studied. Then, creating a formulation of the problem to be answered and formulating the hypothesis as the beginning of the research.

This study takes all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2011 to 2016. Meanwhile, the sample data is part of the number and characteristics of the population using purposive sampling (Cook et al., 2014). In this study, the selected sample has characteristics by the required data and the following criteria, namely: (1) Manufacturing companies listed on the Indonesia Stock Exchange from 2011 to 2016; (2) Manufacturing companies have complete financial reports and annual reports from 2011 to 2016; (3) Manufacturing companies that have complete data and information following the research variables from 2011 to 2016.

Furthermore, the data collection procedures use several procedures, namely: (1) Preliminary survey method to find information data needed in this study and find out the main problems of this study; (2) Literature study method that contains every journal, article, book, and research related to managerial skills, fixed assets investment policy of manufacturing companies, and other matters regarding research content, which are studied in depth; (3) Secondary data collection needed as a source of research data using archived data collection techniques. The secondary data consists of financial reports and annual reports on the Indonesia

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Stock Exchange website and the websites of each company in the selection of the company sample; (4) Documentation method by collecting secondary data taken from the site www.idx.co.id. After the data is obtained and collected, the researcher will tabulate to classify and document the data.

Data processing of the results of the study was carried out by analyzing, we applied this method to be able to provide an explanation and interpretation of the data obtained, the technique used in this study was a multiple linear regression analysis technique. Moreover, the data envelopment analysis used to measure the independent variables. It is an excellent method to measure the level of managerial skills in finance by using MA-Score as an analysis tool. MA-Score will give a high value to managers who can generate higher income (Proudlove, 2000). There are several steps in carrying out multiple linear regression tests, as follows: (1) Calculate research variables consisting of managerial skills, fixed assets investment, firm size, MTB (Market-to-book) ratio, leverage, stock return performance, ROA (Return On Assets) ratio, and cash flow, as explained in the operational definition during the study period; (2) Conduct a classical assumption test to see whether a regression model is feasible or not used in research. The test consisted of a normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test; (3) Perform multiple linear regression analysis using data from the results of previous calculations assisted by using SPSS 23 software; (4) Determination Coefficient Test (R2); (5) The T-test is conducted on partial hypothesis testing to determine whether there is an influence of the independent variables individually on the dependent variable.

RESULTS AND DISCUSSION
Result

Table 1. Summary of Result of Multiple Linear Regression

Variable	Coefficient	T Statistics	Sig. T
A constamt	-0,090	-2,037	0,042
DEA	-0,016	-1,912	0,057 **
SIZE	0,005	3,081	0,002 ***
MTB	0,003	1,238	0,217
LEV	-0,30	-2,443	0,015 **
RET	0,015	2,211	0,028 **
ROA	-0,155	-2,197	0,029 **
CF	0,217	3,617	0,000 ***
R^2	0,137		

Source: SPSS Output, Data Processed

Based on the results of the regression analysis shown in Table 1, the managerial ability (DEA) has a regression coefficient of -0.016 with a significance value of 0.057, which means α is higher because it has a value of 0.10 so H0 fails or in other words asset investment policies nonetheless the company

was significantly affected negatively by the DEA. If the manager of a company has high ability, it will affect the mental condition of the manager, which arises a feeling of overconfidence and tends to make decisions carelessly, causing a decrease in corporate investment. Empirical evidence reveals that excessive confidence carried out by managers can cause distortions in corporate investment decisions (Sun, 2016).

Managerial ability (DEA) regression coefficient value of -0.016 with a significance value of 0.057 smaller than α: 0.10, so H0 is rejected, which means DEA has a significant negative effect on the company's fixed-asset investment policy.

The size of the company (SIZE) has a regression coefficient of 0.005 with a significance value of 0.002 smaller than α: 0.01, so that H0 is rejected. This means that the investment policy of the company's fixed assets is significantly positively influenced by SIZE or company size. From these calculations, it can be interpreted that the larger the scale of a company, the greater the funds that will be spent on operations and investment. The source of funding used can be in the form of debt or equity.

Market-to-book (MTB) has a regression coefficient value of 0.003 with a significance value of 0.217 greater than α: 0.10 so that H0 is accepted and H3 is rejected. This means that MTB does not significantly affect the company's fixed-asset investment policy. Then, from these data, it can be formulated that the higher the value of a company in market conditions, it does not also affect the investment in fixed assets made by the company because fixed asset investments made by companies do not require company access to the stock market.

Leverage coefficient (LE) value is a regression of -0.030 with a significant scale value: 0.015 and smaller than the coefficient α: 0.05, which results in H0 failure. It means the LEV has a negatively significant effect on the company's fixed-asset investment policy. Therefore, when investors find out that the company that they are aiming for relies on debt in their funding, investors will catch a bad sign to the company because of the possibility that the company has obstacles related to capital structure problems.

The coefficient of performance return (RET) value is a regression of 0.015 with a significant value: 0.028, which means it is smaller than α: 0.05, so H0 fails. From the data, it means that RET has a significant positive effect on the company's fixed-asset investment policy. Then, if the stock return rate gets higher, the higher the investment of the company's fixed assets because investors have already gotten enough return from capital gains, so they do not expect returns from dividends. Therefore, the profits obtained by the company can be allocated more in the amount of retained earnings to fund investment in the company's fixed assets.

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The coefficient of Return on Assets (ROA) is a regression of -0.155 with a significance value of 0.029 smaller than the coefficient α: 0.05, so H0 fails. From these data, it can be concluded that ROA has a significant negative effect on the company's fixed-asset investment policy. This means that if a company has reached an adequate level in the use and management of its assets, the company tends not to need much-fixed asset investment.

The coefficient value of Cash Flow (CF) is a regression of 0.217 with a significance of 0.000 where the value is smaller than the coefficient α of value: 0.01 the data results in H0 rejected or can be interpreted that CF has a positive effect on the company's fixed-asset investment policy. Based on the Pecking Order Theory, the company relies more on internal funding in advance so as not to cause a mismatch of information with the company's external parties. Therefore, the company does not need to distribute dividends and pay interest on the debt from cash if there is no investment from external parties.

The value of R square in multiple linear regression shows the value of 0.137, which means that the managerial ability variable, company size, market-to-book ratio, leverage, return performance, return-on-assets, and cash flow can explain the variable policy of the company's fixed assets investment by 13.7%. Meanwhile, the remaining 86.3 percent is explained by other reasons outside the model.

The first classical assumption test is performed to obtain the results free from bias. The classic assumption test conducted in this study uses 4 (four) tests, consisting of normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test. The classical assumptions in this study using SPSS 23 software.

A classical assumption test aims to know whether a regression model is feasible or not used in research. Also, to test the symptoms of irregularities in the regression model. The classic assumptions that must be met include normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

The results of the normality test are presented in the table below. The Kolmogorov-Smirnov test results have a value of 0.068 which is greater than 0.05 (α = 5%), so based on the significance value it can be said that the data is normally distributed.

The results of tolerance testing of all independent variables are above 0.1 and the VIF value is below 10 then it can be concluded that the regression model does not occur multicollinearity.

This study uses a scatterplot diagram that can be seen that the scattered points do not collect and do not form a distinctive pattern. Thus it can be concluded that there are no symptoms of heteroscedasticity in the regression model because there is no relationship between the confounding variable with the independent variable and the dependent variable is really only explained by the independent variable.

The results of the Durbin-Watson Test amounted to 1.322 which means that the results were between -2 and 2 ($-2 < DW < 2$) then it showed that the regression model used in this study did not experience autocorrelation symptoms.

The Effect of Managerial Ability on the Company's Fixed Asset Investment Policy

The managerial ability of the company has a negative influence on the company's investment policy. If a manager has achieved the effectiveness of his production, he will tend to reduce his investment. This result does not support the previous research conducted by Andreou et al. (2017), which examines the impact of managerial skills on company investment during a crisis. In this study, researchers used the theory of Demerjian et al. (2012) that a manager who has high ability will tend to be more capable because he has more ability about business and industry, produces good judgment in the eyes of investors, knows market demand, masters technology and industry trends, and knows employees efficiently.

From the perspective of rent-extraction, it is revealed that more managers are prioritizing the improvement of their careers and thus make more investment decisions that can exacerbate agency costs. Manager who has high ability, might be too confident and make wrong investment decisions that cause a decrease in corporate investment. Empirical evidence reveals that excessive confidence carried out by managers can cause distortions in corporate investment decisions (Huang et al., 2011 and Lin et al.,2005).

In the agency theory, the relationship between shareholders as the principal and management as agents is explained. Management is employed by the company to achieve the company's interests. Management is given the task by the shareholders to control the company so that the company does not experience losses and can achieve what is desired by shareholders. This research shows that managers can help produce an achievement that is needed by the company and meet the expectations of shareholders.

Managers who selected by companies must have managerial skills such as proficiency in the sense of being able to generate profits for the company with its managerial capabilities. Besides, managers also must direct their subordinates to work well in accordance with company goals. Managers must be able to create investment opportunities for the company. Managers who can generate substantial profits for the company will lead to good performance appraisal in the market and increase investment opportunities in the market.

Managers with competent abilities can utilize their inputs or resources to generate revenue from company sales. In this study, a high managerial ability will tend to reduce company investment. It means that if the company has achieved operational efficiency, a manager will tend to reduce investment in the company's

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fixed assets. It is because, at a certain level of certain fixed assets, the company can generate income efficiently for the company. Therefore, the manager no needs to increase the amount of the company's fixed assets. Furthermore, adding the amount of investment that will continue to result in companies experiencing over-investment which will increase agency costs, which will ultimately reduce the company's efficiency.

The Influence of Other Factors on the Company's Fixed Asset Investment Policy

The size of the company has a significant positive effect on the company's fixed-asset investment policy. The bigger the company is, the higher the funds that will be spent on operations and investment. The source of funding used can be in the form of debt or own capital in maintaining or developing the company. The larger the company is characterized by the increasing number of fixed assets, stable cash flow, the actual corporate value in the market, the more accessible access to the company's opportunities to get external funding can be in the form of debt or stocks for investment.

The market-to-book ratio has no significant effect on the company's fixed-asset investment policy. Market-to-book ratios are a reflection of a company's valuation in the eyes of investors through stock prices. The higher the value of the company's MTB ratio shows the higher the market value of a company compared to the book value. The higher market value of the company does not affect fixed asset investment made by the company. Because fixed asset investments made by companies, it does not require company access to the stock market.

The company's financial leverage has a significant negative effect on the company's fixed-asset investment policy. Investment in fixed assets of the company can be made using internal and external funding of the company. Based on the Pecking Order Theory, companies are more likely to choose funding that comes from internal rather than external companies. The company uses an external source of funds if the company's internal sources are insufficient.

Hence, when they find out the company is using debt to fund its investments, investors will catch a wrong signal to the company because of the possibility that the company has obstacles related to capital structure problems. This will cause investors to hesitate to invest capital for the company, so the company will find it challenging to get additional funds for investment if the company's leverage is high, which might negatively influence a company's investment policy.

Stock return performance has a significant positive effect on the company's fixed-asset investment policy. Returns in this study are calculated using stock prices. Profit generated by the company is allocated to retained earnings and distributed as dividends. Then, the higher the stock return, the higher the investment of the company's fixed assets because the investor has enough return

from capital gains, so he does not expect returns from dividends. The company profits can be allocated to more retained earnings to fund the company's fixed-asset investment. Moreover, the stock return performance has a significant positive effect on the company's fixed-asset investment policy.

Return on Assets has a significant negative effect on the company's fixed-asset investment policy. Companies with high ROA indicate that the company can benefit from its assets. Profitability is a measure to determine the effectiveness of overall management in creating company profits. If the company has reached a practical level in the use of its assets, the company's investment does not require investment in many fixed assets in the company. Hence, the return on assets has a significant negative effect on the company's investment policy.

The company's cash flow has a significant positive effect on the company's fixed-asset investment decisions. Corporate cash is a source of internal funding for the company. Then, the higher the cash flow owned by the company, the greater the flow of funds that can be used by the company for its investment activities. Based on the Pecking Order Theory, the company relies more on internal funding in advance so as not to cause information asymmetry with the company's external parties. That way, the company does not need to distribute dividends and pay interest on the debt from cash if there is no investment from an external party. The cash allocation can be used to increase investment in the company's fixed assets. Thus, cash flow has a significant positive effect on the company's fixed-asset investment policy.

CONCLUSION

Based on the results of data analysis and discussions that have been carried out to determine the effect of the relationship between managerial capacity and investment policies of manufacturing companies in 2014-2016, it can be conclude that the managerial ability has a negative and significant impact on the company's fixed-asset investment policy. This finding shows that the higher the ability of a manager, the tendency to reduce the level of fixed asset investment in the company because it has achieved operational efficiency. The control variable in this study also provides a significant influence on the company's fixed-asset investment policy. Firm size has a significant and positive effect on the company's fixed-asset investment policy, market-to-book ratio does not affect the company's fixed-asset investment policy, leverage has significant and negative effect on the company's fixed-asset investment policy, return performance has a significant and positive effect on the company's fixed asset, return on assets has a significant and negative effect on the company's fixed-asset investment policy, and cash flow has a significant and positive effect on the fixed asset investment policy company.

Furthermore, this research implies that the board of directors of a company in excellent corporate finance or competitive industrial conditions must employ

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and retain well-capable managers to enhance the company's growth in the future. For investors, potential investors, and other users of financial statements, making financial decisions in the stock market need to pay attention to managerial ability to find targets with better investment opportunities. For policymakers or regulators, the findings in this study can be taken into consideration in making regulations such as the imposition of company compensation for the better. For further research, this study only uses managerial skills so that it can be considered for further research to use fast network proxies with public or managerial power variables that are always respectful.

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