

The Mediation Effect of Financing Mix On Investment Opportunity Set and Profitability Relationship

Yuliani¹, LukLuk Fuadah², Kms Husni Thamrin³

^{1,3} Management Department, Universitas Sriwijaya, Palembang, South Sumatera,
yulianisyapril@unsri.ac.id

² Akuntansi Department, Universitas Sriwijaya, Palembang, South Sumatera,

(Diterima: 14 Februari 2018, direvisi: : 14 Februari 2018, dipublikasikan: 28 Februari 2018)

Pengaruh Mediasi Bauran Pendanaan Terhadap Hubungan Set Peluang Investasi dan Profitabilitas

Abstrak

Penelitian ini bertujuan untuk memberikan bukti empiris tentang pengaruh set kesempatan investasi (IOS) terhadap profitabilitas dan peran campuran pembiayaan sebagai mediasi pengaruh IOS terhadap profitabilitas. Jenis penelitiannya adalah explanatory research dengan metode survei. Unit analisis aremedium perusahaan industrial dan perusahaan industri besar di Kota Palembang adalah responden, pemilik keuangan dan staf keuangan sebanyak 56 orang. Mengumpulkan data mulai dari bulan Agustus sampai September 2017. Jenis data adalah primer melalui kuesioner. Metode analisis data adalah Partial Least Square (PLS). Temuan penelitian bahwa IOS tidak berpengaruh signifikan terhadap profitabilitas sedangkan campuran pembiayaan berperan sebagai mediasi sempurna pengaruh IOS terhadap profitabilitas perusahaan industri di Kota Palembang.

Kata kunci: Pembiayaan Mix, Investment Opportunity Set, Profitabilitas

Abstract

This study aims to provide empirical evidence about the effect of investment opportunity set (IOS) on profitability and the role of financing mix as mediating the influence of IOS on profitability. The type of research is explanatory research with survey method. The units of analysis aremedium industrial's company and large industrial's company in Palembang City which the respondents are owner, financial manager and finance staff of 56 people. Collecting the data start from August to September 2017. Data type is primary through questionnaire. The method of data analysis is Partial Least Square (PLS). The research findings that IOS is not significant affect to profitability while financing mix acts as a perfect mediation of IOS influence on the profitability of industrial companies in Palembang City.

Keywords: Financing Mix, Investment Opportunity Set, Profitability

INTRODUCTION

The company's goal is increasing profits that ultimately increase the company's value. The measure of success in a period is determined by the company's ability to generate a net income increase. The success of net income increase reflects the company is able to operate effectively and efficiently. Net income is the positive quarrel from sales minus total cost. Net income in literature of management is known as profitability. Profitability is a measure of the

corporate success which reflects the success rate in one period (Brigham & Houston, 2010). When the profit getting higher indicates that the management of the company more effective.

The manufacturing company is the company which more complex activities ranging from the preparation of raw materials to be finished products. Industrial companies will continue to improve profitability performance in order to increase the company's success. Industrial companies in Palembang City recent years has increased significantly. Referring to the Central Bureau of Statistics (BPS) of South Sumatera Province (2017) that the big and medium industry sector contributes 33.17% of total PDRB of Palembang City. BPS South Sumatera recorded the growth of production of large and medium manufacturing industry (IBS) The first quarter of 2017 increased by 15.55% from the previous year. The potential of a centralized manufacturing industry in Palembang City is increasing as the region's economic growth grows in 2016 by 5.76%.

The search of several articles on the influence of IOS to the firm performance is significant (Kallapur&Trombley, 1999; Suharli, 2007), but (Kallapur&Trombley, 1999) confirm that there is no effect of the IOS to the company performance. Some findings are still contradictory then this research fills the gap which appears and still contradicting by adding the financing variable as one of the financial decisions of the financing mix. Placing the financing mix as a mediation variable is expected to provide a clearer process in improving the profitability of the company.

This paper is described in several sub-sections where the first part is the background. The second section discusses theoretical and empirical studies of previous studies. The third part is the research method and the fourth part is the result and the discussion and the end of the paper are conclusions and suggestions.

LITERATURE REVIEW AND MODEL

Investment Opportunity Set

Investment Opportunity Set (IOS) was first introduced by (Myers, 2012) is a concept of a collection of investment opportunities. Investment as one of the financial decisions for a financial manager. The number of investment opportunities for companies has to make decisions that generate optimal return on investment selection decisions. According to (Adam & Goyal, 2008) the role of IOS becomes important because it will affect the profitability of the company. Several previous studies on the effects of IOS on profitability have been widely used, such as (I Akhtaruddin&Hossain, 2008; Burton, 2003; Yuliani, Isnurhadi, & Bakar, 2013; Yuliani, Zain, Sudarma, & Solimun, 2012) with the findings that IOS can improve company performance. These findings are still debated because other research findings show that IOS does not improve the company's financial performance (Kallapur&Trombley, 1999). Every investment decision is consequently a funding decision. The findings (Smith & Watts, 1992) show that IOS decisions have a significant effect on funding decisions. It is because when the company faces IOS then the next is choosing from various alternatives that exist.

Financing mix

Financing mix is a reflection of financial decisions made by financial managers. The financing mix measures the combination of the financial structure that compares the total debt composition and the total capital of the firm. Research in finance is more likely to use the term capital structure. But the concept of the capital structure is the comparison between short-term debt and equity while the financial structure compares long-term debt with equities. Company funding can be sourced from internal financing which is derived from the company's operating results in the form of retained earnings. Funding sources from extern

financing can be obtained from long term debt, issuing bond, issuing new stock. Special external financing is grouped into long term debt and bond and equity. Funding decisions relating to the acquisition of funds, both internal and external financing, are directly related to the company's capital structure policy. Funding decisions from firms can be seen as two related issues: financing tactics and financing policy (Haley & Scholl, 1979). Financing tactics are used for the choice of certain funding tools in the current period. Generally this funding uses the basis of an urgent need and needs to be solved at this time, so companies should seek solutions. While financing policy refers to the question of long-term funding mix. This funding policy focuses more on its use to prepare long funds, so as to be linked to long-term strategy planning and policy.

Gumanti (2007) explained that “financing mix is the way a company manages its right side components of the balance sheet. A company may have different composition of its financing and it depends on many aspects. One aspect that could affect a company’s decision of its financial structure is its life cycle”. This explanation is interpreted that the funding mix is how the company manage the liabilities component in the balance sheet. The right side of the balance sheet represents the source of funds owned by the company or called the financial structure. Review of the relationship between debt-equity trade-off and then Gumanti connects with five corporate life cycles (establishment, expansion, height, maturity and decline). The reasons stated that every stage of the life cycle of the company then the funding pattern will be different and can be identified.

The financial structure reflects the balance both in terms of absolute and relative between the total foreign capital (both short and long term) with own capital (Riyanto, 1997: 22). While the capital structure is a permanent expenditure which reflects the balance between long-term debt and own capital. If the financial structure is reflected in the overall liabilities in the balance sheet, then the capital structure is only reflected in long-term debt and their own capital elements, which both of them are either permanent funds or long-term funds. Thus the capital structure is only a part of the financial structure.

Profitability

Profitability as a measurement of the firm financial’s performance reflects the level of success within a certain period. Profitability ratios can be measured by net profit margin, return on asset, return on equity (E. Brigham & Houston, 2010). Net profit margin measures how much sales the company is able to book net income. High net profit margin reflects the company's operations more effectively and efficiently so that operational decisions in the production process are in demand by consumers. Furthermore the return on asset ratio or abbreviated with ROA. The measurement of ROA is by comparing net income to the total assets of the company. Total assets are often referred as total investments so ROA and ROI ratios are same. A positive ROA reflects that the existing asset management is capable of generating net income so that the higher profit indicates that the company operate more effective. Another profitability ratio is return on equity or abbreviated as ROE. This ratio shows how effective the available capital is able to generate net income. Just as ROA, ROE ratios measure the level of effectiveness of the management of the company's operational activities. Changes in the high and low profitability ratios will be determined by factors such as investment opportunity set and financing mix.

METHOD

The research paradigm is quantitative with the scope of discussion on IOS, financing mix and profitability. The research population is all industrial companies in Palembang City

based on data of Industry Office of Palembang City and South Sumatera Province add up to 166 companies. All industrial companies are the sample of this research by visited to all companies. Companies are willing to answer the questionnaire of 56 companies so that the final sample is 56 companies. Some reasons the company is not willing to fill out the questionnaire that the address has been moved and not found, the company is in the operational work never received a questionnaire form, financial staff not willing to match the instructions of superiors, financial managers are not in place. The data collection period is August-September 2017. Method of collecting data with instruments in the form of questionnaires that have been guaranteed internal validity.

Independent variable of this research is IOS which is measured by three indicators that is growth rate of current assets, growth rate of fixed assets, optimal balance of current assets and fixed assets. Mediation variable is financing mix measured by three indicators that is amount of debt, amount of capital and determination of external fund and profitability measured by indicator of NPM, ROA and ROE. The measurement scale is the likert scale of 1-5. The techniques of data analysis are used inferentially with a structural equation modeling based on a variant known as PLS.

THE RESULTS OF STATISTICS TESTS

Description of Research Variables

This research has three variables, namely IOS as independent variable, financing mix as mediation and profitability variable as dependent variable. Description of research variables is a description of respondents' perceptions of the statements contained in the research instrument of each research variable.

Investment Opportunity Set (IOS)

Investment decisions in the financial literature is one of the financial decisions that aims to obtain future returns. Investments in companies can be short and long term. The company will face several alternatives in the selection of investment. A collection of several investment alternatives allows companies to have opportunities and opportunities to determine the optimal investment alternatives. Investment Opportunity Set (IOS) reflects a set of investment opportunities that a company should choose. IOS variables in this study are reflected in three indicators, namely the growth of current assets, the growth of fixed assets and the balance between current assets and fixed assets. Refer to Table 1 respondents describe the current assets growth is measured from the availability of cash, the amount of receivables, inventory amount and the amount of other current assets. Based on the respondent's answer that for the cash availability of industrial companies in Palembang City as much as 34 respondents or 60.7% stated that the industrial companies effectively maintain the availability of cash. Total availability of receivables as much as 51.6% effective, availability of effective inventory amount 67.9% and total current assets of 27 respondents stated effective. Overall average growth of current assets of industrial enterprises of Palembang City is 3.7%. This score shows the average industry company effective in allocating funds in the form of short-term investment is on the component of current assets.

The next indicator as a reflection of IOS is the growth of fixed assets. Assets classified in this group are assets whose economic life is more than three years. The company's success in managing fixed assets is measured by three items of questions: growth of net Fixed Assets, growth of Intangible Assets and growth of Fixed Assets. Respondents stated that the company was able to effectively allocate funds for long-term investment of 27 respondents or 48.2%, for Intangible Assets as much as 46.4% and growth of Fixed Assets 36 or 64.3%. On

average the growth of fixed assets of industrial enterprises of Palembang City increased by 3.67%.

Table 1. Description of Respondent Perception of IOS

Indicator and items	Respondent Perception Response (X1)										Average
	1		2		3		4		5		
	F	%	F	%	F	%	F	%	F	%	
Current Assets Growth (X1.1)											
Cash availability (X1.1.1)	0	-	4	7.1	13	23.2	34	60.7	5	8.9	3.71
Amount of receivables (X1.1.2)	2	3.6	3	5.4	18	32.1	29	51.6	5	7.1	3.54
Total inventory (X1.1.3)	0	0	1	1.8	11	19.6	38	67.9	6	10.7	3.88
Other current assets (X1.1.4)	0	-	0	-	24	42.9	27	48.2	5	8.9	3.66
Average X1.1											3.70
Growth of fixed assets (X1.2)											
Growth of net fixed asset (X1.2.1)	1	1.8	2	3.6	19	33.9	27	48.2	7	12.5	3.66
Growth of intangible assets (X1.2.2)	0	-	3	5.4	26	46.4	26	46.4	1	1.8	3.45
Growth of fixed asset (X1.2.3)	0	-	1	1.8	11	19.6	36	64.3	8	14.3	3.91
Average X1.2											3.67
Optimal balance of current asset and fixed asset (X1.3)											
CA > FA (X1.3.1)	0	-	2	3.6	25	44.6	28	50	1	1.8	3.50
CA < FA (X1.3.2)	0	-	2	3.6	29	51.8	23	41.1	2	3.6	3.45
CA = FA (X1.3.3)	0	-	9	16.1	14	25.0	31	55.4	2	3.6	3.46
Average X1.3											3.47
Average of IOS Variable (X1)											3.63

Source: Primary Data, 2017

This score can be interpreted that industrial company Palembang City effective in managing fixed assets. The optimal balance indicator between CA and FA is the third indicator of IOS. The respondent's perception of this indicator is 44.6% effective company by investing bigger FA than CA, 51,8% of industrial company have amount of CA smaller than FA and amount of CA and FA tend to equal to equal to 55,4%. The average score for this indicator is 3.47%.

Financing Mix

The company funding mix is a combination of financial structure that is comparing the amount of debt with the amount of capital the company. The higher the percentage of total debt to capital indicates the company in the business activity tends to source more external funds. Variable financing mix is measured by three indicators, namely total debt, total capital, source and external determination. Description of financing mix variable presented in Table 2. Refer to Table 2 that the respondents in the company's financial structure will pay attention to the amount of debt, the amount of capital and the propensity to use external funding sources. On average the indicator amount of debt amounted to 3.7% or can be interpreted that the trend of industrial companies in the city of Palembang manage well. Respondents in the company as financial managers, finance staff and owners will pay attention to the amount of debt, debt composition, repayment and debt with suppliers.

Table 2. Description of Respondent Perception of Financing Mix

Indicators and items	Respondent perception response (Y1)										Average
	1		2		3		4		5		
	F	%	F	%	F	%	F	%	F	%	e
Total debt (Y1.1)											
Optimum debt composition (Y1.1.1)	2	3.6	4	7.1	21	37.5	25	44.6	4	7.1	3.45
Debt repayment (Y1.1.2)	2	3.6	2	3.6	14	25.0	24	42.9	14	25.0	3.82
Supplier cooperation (Y1.1.3)	0	-	1	1.8	15	26.8	22	39.3	18	32.1	4.02
No debt (Y1.1.4)	1	1.8	1	1.8	33	58.9	11	19.6	10	17.9	3.50
Average Y1.1											3.70
Total equity (Y1.2)											
Equity increase (Y1.2.1)	1	1.8	1	1.8	16	28.6	33	58.9	5	8.9	3.71
Equity ratio > debt (Y1.2.2)	0	-	2	3.6	21	37.5	26	46.4	7	12.5	3.68
No debt (Y1.2.3)	0	-	0	-	27	48.2	20	35.7	9	16.1	3.68
Average Y1.2											3.69
External financing (Y1.3)											
Banking (Y1.2.1)	0	-	4	7.1	10	17.9	22	39.3	20	35.7	3.04
Cooperative (Y1.2.2)	4	7.1	8	14.3	29	51.8	13	23.2	2	3.6	3.02
Insurance and Multi-finance (Y1.2.3)	0	-	4	7.1	11	19.6	23	41.1	18	32.1	2.98
Government (Y1.2.4)	7	12.5	9	16.1	24	42.9	14	25.0	2	3.6	2.91
Average Y1.3											2.99
Average Financing Mix (Y1)											3.46

Source: Primary data, 2017

The company's average capital of 3.69% means the tendency of industrial companies to use their own capital. At a time when profits rose as much as 58% said it would increase its own capital. The company has its own capital ratio higher than the debt of 46% means that industrial companies in Palembang City prefer to use internal fund sources of retained earnings and own capital compared with external loans. Based on Table 5.4 the respondents tend to have no debt of 35.7%.

Inclusion of finance of industrial companies more loan sourced from banking 35.7%, followed by insurance and multi-finance as much as 41.1%. 3.6% cooperative and government finance institutions and government sources of 3.6%. the average respondents

stated that 3.46% for financing mix means that industrial companies in Palembang City have an average funding pattern that does not use external funding sources. This is because many companies are able to manage the profits earned to increase their own capital.

Profitability

The ultimate goal of the company is to profit from a number of activities that run. The size of the company's profitability is reflected in three indicators, namely NPM, ROA and ROE. Respondents' perceptions of profitability are shown in Table 3. NPM performance can be seen from the increase in operating profit every year, gross profit increase every year, net profit also increase every year and profit margin also change. Research respondents are owners, financial managers and financial staff respond as much as 41.1% explain that operating profit increases every period. Furthermore ROA performance measured by the amount of assets and profits increase every year, the company routinely supervise the use of assets, in the event of an increase in profits then the asset has increased. On average 3.58% of respondents considered that the performance of ROA becomes important for the sustainability of the company. The company's success in ROE is measured by the amount of own capital increased by 53.6% of respondents provide the valuation of ROE becomes an important factor to measure the effectiveness in its own capital. On average, profitability is a measure of corporate success and respondents responded by 3.52%.

Table 3. Description of Respondent Perception of Profitability

Indicators and items	Respondent perception response (Y2)										Average
	1		2		3		4		5		
	F	%	F	%	F	%	F	%	F	%	e
Net Profit Margin (Y2.1)											
Increase operating profit (Y2.1.1)	1	1.8	3	5.4	24	42.9	23	41.1	5	8.9	3.50
Increase gross profit (Y2.1.2)	0	-	3	5.4	26	46.4	22	39.3	5	8.9	3.52
Increase net profit (Y2.1.3)	0	-	4	7.1	27	48.2	20	35.7	5	8.9	3.46
Increase profit margin (Y2.1.4)	0	-	3	5.4	24	42.9	22	39.3	7	12.5	3.59
Average Y2.1											3.52
ROA (Y2.2)											
Increase asset and profit (Y2.2.1)	1	1.8	3	5.4	22	39.3	22	39.3	8	14.3	3.59
Controlling for asset (Y2.2.2)	0	-	2	3.6	22	39.3	25	44.6	7	12.5	3.66
profit > asset (Y2.2.3)	0	-	1	1.8	29	51.8	23	41.1	3	5.4	3.50
Average Y2.2											3.58
ROE (Y2.3)											
Increase equity (Y2.3.1)	0	-	1	1.8	30	53.6	23	41.1	2	3.6	3.46
Increase equity and profit (Y2.3.2)	0	-	2	3.6	25	44.6	27	48.2	2	3.6	3.52
profit > equity (Y2.3.3)	0	-	0	-	35	62.5	19	33.9	2	3.6	3.41
Average Y2.3											3.46
Average Profitability (Y2)											3.52

Source: Primary data, 2017

Characteristics of Respondents

Respondents of this research are 50 men and 6 women means the owner position, financial manager and dominant financial staff is male. Based on their age is classified to productive age and still young that is 30.36% at age less than equal to 25 years. Respondents who fill out the questionnaire are 42.86% of financial managers so that in making financial decisions becomes the main task for the position of financial manager. The education level of respondents is 32 graduates or 57%. Companies involved in research are industrial companies with 57.14% having a workforce of less than or equal to 50 people. The size of this workforce into the dominant category selection is medium scale.

Table 4. Respondent Characteristics

No	Characteristics	Total (SME/person)	%
1	Age		
	• ≤25 year	17	30.36
	• 26 s/d 30 year	9	16.07
	• 31 s/d 35 year	15	26.79
2	• ≥36 year	15	26.79
	Position		
	• Owner	17	30.36
	• Financial Manager	24	42.86
3	• Financial Staff	15	26.79
	Gender		
4	• Man	50	89.29
	• Woman	6	10.71
5	Education		
	• ≤ DIII	24	42.86
	• Bachelor Degree (S1)	32	57.14
	• Master(S2)	-	
6	• Doctoral (S3)	-	
	Total Employee		
	• ≤50 persons	32	57.14
	• 51- 100 persons	8	14.28
	• > 100 persons	16	28.57

Source: Primary data, 2017

Analysis Model

Relationships among variables based on curve estimate are presented in Table 5 below. Seen from Table 5 the relationship between variables is linear where the financing mix relationship is non-linear relationship model. The same for financing mix and profitability relationships is non-linear. Referring to the principle of parsimony if the test results are non-linear model significant then the decision of the relationship between variables is linear so it can be continued for testing the hypothesis.

Tabel 5. Linearity Test Results

Independent variable	Dependent variable	Significance value	Test result	Description
IOS	Financing Mix	0.001	Linear model is linear significant	Linier
IOS	Profitability	0.006	Linear model is linear significant	Linier
Financing Mix	Profitability	0.805	Linear model is not linear significant	Linier

Source: Primary data, 2017

Outer model test is used to test the research instrument by testing the validity and reliability of each research indicator. The result of the instrument test looks at the convergent validity result by looking at the factor loading factor of each research indicator. Outer loading results of this study by looking at convergent validity and composite reliability. Each indicator will be valid if the loading value is 0.50-0.60 and significant at p value <0.05 otherwise if > 0.05 is not valid and will be dropped as indicator of latent variable.

Table 6. Outer Results Loading Indicators

Variable and indicators	Original sample estimate	t-statistic	p-value	Decision
IOS (X1)				
X11	0.806	4.209	0.000	Valid
X12	0.390	1.702	0.095	Not Valid
X13	0.702	4.117	0.000	Valid
Financing Mix (Y1)				
Y11	0.853	1.614	0.112	Valid
Y12	0.871	2.519	0.015	Valid
Y13	-0.622	1.951	0.056	Not Valid
Profitability (Y2)				
Y21	0.853	19.737	0.000	Valid
Y22	0.832	18.019	0.000	Valid
Y23	0.858	18.788	0.000	Valid

Source: Primary data, 2017

Table 6 shows that there are two invalid indicators, namely the growth rate of fixed assets (X12) as a reflection of the IOS variable with p value greater than 0.05. The Y13 factor is negative, namely the determination of external fund of -0.622 as a reflection of the financing mix. This invalid indicator is dropped from each latent variable. After the drop is tested again and the results of the test are shown in Table 6.

After re-examination is shown in Table 7 all indicators are valid and followed by the next stage. Table 7 also shows that the dominant IOS variables are reflected in the X13 indicator are optimal balance of current assets and fixed assets with a loading value of 0.844. The financing mix variable is reflected in the number of company capital (Y12) with loading value 0.986 and the company's profitability variable is reflected in Return on Equity (Y23) of 0.867.

Table 7. Outer Results Loading Indicators after drop

Variable and indicators	Original sample estimate	t-statistic	p-value	Decision
IOS (X1)				
X11	0.539	2.746	0.000	Valid
X13	0.844	6.159	0.000	Valid
<i>Financing Mix</i> (Y1)				
Y11	0.559	2.698	0.112	Valid
Y12	0.986	34.591	0.015	Valid
Profitability (Y2)				
Y21	0.851	21.833	0.000	Valid
Y22	0.825	15.712	0.000	Valid
Y23	0.867	18.909	0.000	Valid

Source: Primary data, 2017

Furthermore, the reliability test results of the instrument is viewed based on composite reliability with the provision reliable if > 0.70 . Table 8 shows the composite reliability results and all variables are reliable.

Table 8. Instrument Reliability Test Results

Variables	Composite Reliability	Decision
IOS	0.700	Reliable
<i>Financing Mix</i>	0.748	Reliable
Profitability	0.885	Reliable

Source: Primary data, 2017

Models will fit if supported with goodness of fit model results from empirical data. Determination of whether the fit model will be seen from the value of R^2 from each dependent variable of research that is financing mix and profitability. The result of each R^2 will be calculated, so as to obtain Q^2 called the predictive-relevance value. Closer to the number one or 100% then this model will be more fit. Based on the results of goodness of fit model presented in Table 5.10b obtained value of Q^2 of 0.549 or 54.9%.it means that this model can explain the change in profitability of industrial companies in Palembang City by 55% can be explained by IOS and financing mix. The predictive value of this research model can be blaim as a good enough so that it can be used to explain the change of profitability in industrial companies.

Table 9. Goodnes of Fit Model Results

Variables	R-Square
Financing Mix	0.388
Profitability	0.263
Predictive-relevance (Q^2)	0.549

Source: Primary data, 2017

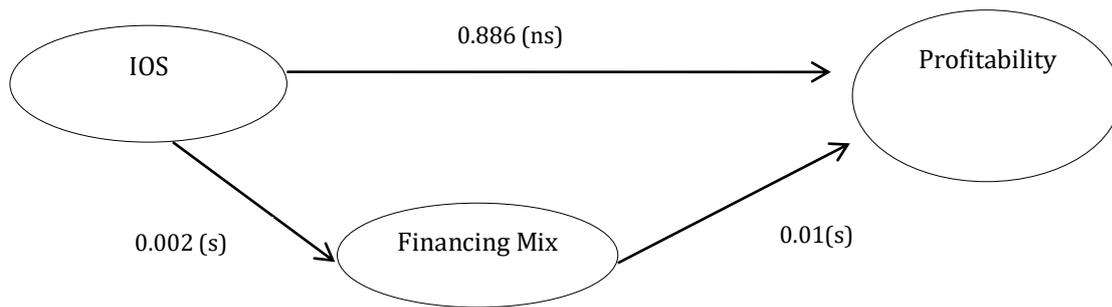


Figure 1. Results of Research Model Hypothesis

DISCUSSION

The effect of IOS on profitability was found to be insignificant and H1 was declined. This empirical finding indicates that the change in profitability in industrial enterprises in Palembang City is not proven to be determined by the number of investment opportunities known as IOS. The argument from the results of this study can be explained that industrial companies making financial decisions related to investment decisions still focus on certain types of investments considering the characteristics of medium and large scale businesses tend to one type of investment. The next argument is that only one type of investment decision in the end for the short term has no impact on the company's profit because the investments made tend to be on fixed assets such as the purchase of machinery, building construction and so on. The different results from the previous studies is not yet consistent (Akhtaruddin&Hossain, 2008; Yuliani et al., 2013; Yuliani et al., 2012) but consistent with findings (Kallapur&Trombley, 1999).

Furthermore, this study provides empirical evidence that industrial companies making investment decisions based on a set of investment opportunities will improve the financing mix so that H2 is declared acceptable. These findings provide evidence that IOS for industrial companies when it decided will have an impact on the funding mix, whether sourced from own capital or loan capital. When IOS getting higher, it will have a positive significant effect on the financing mix. It means the company will increase the debt if making investment decisions to generate optimal return.

The same result if the company performs the funding mix will boost profitability. These findings are confirmed by H3 otherwise accepted. This research is able to prove that industrial companies in financing mix strategy do combination between internal and external fund sources so that it will increase profitability. The company with external funding in Modigliani-Miller Theory that the addition of debt in the company will increase profitability because companies can use a combination of internal and external funding sources. The findings of this study also answer that the role of financing mix as mediation that is full mediation or perfect mediation. These findings confirm that when industry companies make investment decisions it is necessary to pay attention to financing mix.

CONCLUSION

The results of this study show that the higher IOS does not give contribution to the increase of profitability. Moreover, the total of IOS that varies will increase the composition of financing mix. It is also found that financing mix for industrial companies in Palembang is able to increase the profitability. Furthermore, financing mix is perfect mediating variable between IOS and profitability. This study is limited to time horizon as to see the effect of new investment on profitability. Therefore, it is suggested that future research use longer time horizon.

REFERENCES

- Adam, T., & Goyal, V. K. (2008). The Investment Opportunity Set and its Proxy Variables. *The Journal of Financial Research*, XXXI(1), 41–63.
- Akhtaruddin, M., & Hossain, M. (2008). Investment Opportunity Set , Ownership Control and Voluntary Disclosures in Malaysia. *JOAAG*, 3(2), 25–39.
- Brigham, E. ., & Houston, J. . (2010). *Dasar-dasar Manajemen Keuangan*. (A. A. Yulianto, Ed.) (11 Buku 1). Jakarta: Penerbit Salemba Empat.
- Burton, B. M. (2003). Evidence in the Extent of Relationships among Investment Opportunity Set Proxies. *Applied Economics Letter*, 10, 437–441. <https://doi.org/10.1080/1350485032000081992>
- Gumanti, T. A. (2007). Bauran Pendanaan, Prinsip Keuangan, dan Siklus Kehidupan Perusahaan. *Manajemen Usawahan Indonesia*, 2, 41–48.
- Kallapur, S., & Trombley, M. A. (1999). The Association Between Investment Opportunity Set Proxies and Realized Growth. *Journal of Business & Accounting*, 26(3), 505–520.
- Myers, S. C. (2012). American Finance Association Interactions of Corporate Financing and Investment Decisions--Implications for Capital Budgeting : Reply.
- Riyanto, Bambang. 1997. *Dasar-dasar Pembelian Perusahaan*. Badan Penerbit Fakultas Ekonomi UGM: Yogyakarta.
- Smith, W., & Watts, R. L. (1992). The investment opportunity set and corporate financing , dividend , and compensation policies *, 32(1991).
- Suharli, M. (2007). Pengaruh Profitability dan Investment Opportunity Set Terhadap Kebijakan Dividen Tunai dengan Likuiditas Sebagai Variabel Penguat (Studi pada Perusahaan yang Terdaftar di Bursa Efek Jakarta Periode 2002-2003). *Jurnal Ekonomi Akuntansi*, 9(1), 9–17.
- Yuliani, Isnurhadi, & Bakar, S. W. (2013). Keputusan Investasi, Pendanaan, dan Dividen terhadap Nilai Perusahaan dengan Risiko Bisnis sebagai Variabel Mediasi. *Jurnal Keuangan Dan Perbankan*, 17(3), 362–375.
- Yuliani, Zain, D., Sudarma, M., & Solimun. (2012). Diversification, Investment Opportunity Set, Environmental Dynamics and Firm Value (Empirical Study of Manufacturing Sectors in Indonesia Stock Exchange). *Journal of Business and Management*, 6(4), 1–15.