

**COMPANY VALUE AS A MATERIAL FOR CONSIDERATION IN  
MAKING INDIVIDUAL STOCK INVESTMENT DECISIONS  
(HERMENEUTICAL-CRITICAL STUDIES)**

Diah Rani Nartasari

Doctoral in Economics, University of 17 August 1945 Surabaya, Indonesia

Email : [1272000039@surel.untag-sby.ac.id](mailto:1272000039@surel.untag-sby.ac.id)

---

**Abstract**

Individual stock investor has many options in an investment and investment decision was influenced by so many factors, one of them is value of the firm. Value of the firm is often associated with stock price. The higher stock price means the better value of the firm. This mini-research used critic-hermeneutic research approach. Hermeneutic used for interpretation of text which told by individual stock investors in the interview. There were 8 informant interviewed in this mini-research, who had different backgrounds i.e employee, entrepreneurs, and college students. The result showed that value of the firm as useful value for investors, actually didn't entirely used by individual stock investors, especially for investors who used technical analysis and another non-fundamental analysis in their stock analysis. Investor's sophistication in value of the firm analysis also influenced by the other investor, so they didn't analyze it anymore. When value of the firm didn't influence the investment decision of investor, no-effect hypothesis was applied. Where as more sophisticated investor considered value of the firm in their investment decision. When value of the firm influenced to the investment decision of investor, mechanistic hypothesis was applied.

**Keywords: Individual stock investor, investment decision, value of the firm.**

---

**INTRODUCTION**

The capital market is one of the main drivers of the world economy, including Indonesia. The capital market is widely known to have an important role for economic growth. Companies can obtain funds to carry out their operational activities through the capital market. This has resulted in an increase in the number of companies listed on the Indonesia Stock Exchange (IDX) to offer shares to potential investors. With its new strength in the investment sector and capital market. (IDX) until 2020 shows a pretty good track record. This assessment is based on observations of fluctuations in the Composite Stock Price Index (JCI) on the IDX, because the JCI reflects the overall performance of the IDX. This fact shows that investment activity in Indonesia has begun to grow rapidly. So it is inseparable from the investment decisions made by individual investors.

The main focus is on the investment decision-making process by individual investors. Accounting information as one of the information bases in making investment decisions, is an internal content that can be obtained from the

DOI :

ISSN :

company's financial statements through fundamental analysis techniques. Fundamental analysis or analysis of financial statements (financial statements analysis) aims to provide data related to companies that are needed in the investment decision-making process. The investment decision in question is the decision to buy, sell, or maintain share ownership. The underlying concept is that the value of shares is one indicator of the success of a company in managing, if the company always experiences an increase in share prices, investors or potential investors judge that the company is successful in carrying out its business. The expectations of investors or potential investors are very beneficial for issuers, because the more people who believe in the issuer, the stronger the interest in investing in the issuer. The more demand for shares on the issuer, the higher the share price. If the stock price is high and can be maintained, the confidence of investors or potential investors in the issuer will also be higher and this can increase the value of the issuer (Zuliarni, 2012).

The stock price is the closing price of the stock market during the period of observation carried out on each type of stock sampled and its movement is always observed by investors. The stock price is a reflection of the value of a company, a good company will achieve the desired results, this means that the company's shares can be in demand by many investors (Husaini, 2012).

Based on these thoughts, this mini-research was compiled to find out the reality of using accounting information related to firm value in making individual stock investors' decisions. This research uses interview techniques to investors and interprets the opinions conveyed by these informants regarding investment decision making. Every meaning of "text" always requires an interpretive effort that aims to gain an understanding of the "text" in question. Efforts to interpret texts to gain understanding are referred to as hermeneutics or hermeneutics (Schmidt, 2007). In addition, this study also aims to criticize investor behavior and then give a suggestion about good investor behavior in making investment decisions (critical-hermeneutics).

Investment by definition is the placement of a number of funds at this time with the hope of generating profits in the future (Halim, 2005). So that in making investment decisions, individual investors as parties who make investments need information which are important factors as a basis for determining investment choices. From the available information, then form a decision-making model in the form of investment appraisal criteria to enable investors to choose the best investment among several available investment alternatives.

Investment Decisions are the most important of the company's three main decisions when it comes to the creation of corporate Value. It is started by determining the total number of assets that must be held by the company (Jatmiko 2017). Investment decisions are the most important of the other two policies in financial management, namely funding policy and dividend policy. Investment capital as the main aspect of financial management policy because investment is a form of capital allocation whose realization must generate benefits or profits in the future (Fahmi, 2014:9)

The growth of total assets reflects how the company invests funds which it holds to existing assets expecting a rate of return which is greater in the future. So

how can information related to company value be useful for investors? Firm value that is useful for investors is empirically investigated through the relationship between accounting data presented to the public and changes in the price of a company's securities.

According to Mukhtaruddin et al. (2014), every company will do its best to increase the value of the company. Because basically the perception of investors at the level of the success of the company is demonstrated through company value. Increase profits and maximizing the value of the company into important criteria for the company in keeping his survival (Putra and Lestari, 2016). The value the company can provide prosperity or profit for the holder stock to the maximum.

The higher the price stock, the higher the profit for investors so that investors will have a high interest in investing and the value of the company will also increase (Susanti and Mildawati, 2014).

If the relationship is significant, then the evidence indicates that the firm value information is useful with respect to the firm's valuation. To be useful, the presentation of accounting information must be able to help investors predict future returns on investment (Puspitaningtyas, 2010). It is hoped that based on this information, rational investors can make an optimal investment decision.

Contrary to research by Puspitaningtyas (2010) which states that accounting information contained in financial statements has value relevance and is useful for investors in making investment decisions, investors can use it as a reference in investing so that their investment activities can generate the desired profit, research by Aprilianto (2014) shows that the behavior of stock investors in making investment decisions tends to be influenced by their stock analysis techniques. Accounting information as a value that is useful for investors, especially individual stock investors, is not always the main reference in making investment decisions. Even the intensity of the use of accounting information in their investment decisions is not always intense and dominant. The complexity factor in analyzing accounting information is the causative factor. The existence of investment activities as a side income is the dominant factor that makes them apply practical and uncomplicated investment principles.

## **METHODS**

### **Types of research**

This mini-research is a type of qualitative research, using a hermeneutic approach. This study interprets what the informants understand about stock investment decision making and what is the reality of using accounting information in their investment decision making? The answers to these questions are issues related to the meaning of "text". Every meaning of "text" always requires an interpretive effort that aims to gain an understanding of the "text" in question. Efforts to interpret the text to gain this understanding as hermeneutics (hermeneutics).

### **Data Types and Sources**

DOI :

ISSN :

The type of data used in this study is subject data which includes opinions, attitudes, experiences, or characteristics of the informants consisting of related practitioners. Based on the data source, this study uses primary data, which is a source of research data obtained directly from the original source (not through intermediary media). In this study, primary data were obtained from direct tracing and through interviews with individual stock investors.

### **Research Informants**

This mini-research uses eight individual stock investor informants. The selection of these informants was done intentionally, based on certain criteria such as:

- a) each individual investor of shares listed on the Indonesia Stock Exchange (IDX)
- b) stock investors who have investor identity cards issued by the Indonesian Central Securities Depository (KSEI)
- c) Investors who have a stock portfolio on the IDX
- d) investors who are active in trading, at least make 1 trade in one month or at least 12 trades in one year
- e) investors who have done buying, selling, and holding shares
- f) investors who have invested in IDX for at least one year,
- g) Investors who have received returns from capital gains
- h) investors who have experienced not achieving the expected results (the occurrence of risk)
- i) investors who have or have used technical analysis and fundamental analysis in making their investment decisions
- j) investors who have backgrounds that are identical to the capital market or who are not identical to the market

Table 1. Research Informants

<b>No.</b>	<b>Name</b>	<b>Age</b>	<b>Background</b>	<b>When to Start Investing</b>
1.	Goddess Rakhmawati	29	Private sector employee	2013
2.	Akbar Nugroho	26	Student	2015
3.	M. Afifi Rahman	29	Lecturer	2017
4.	Andreas Teddy Kumala	30	Private sector employee	2017
5.	Marta Sandhi Aji	33	ASN/PNS	2017

### **Data collection technique**

The technique of collecting data or information is done by interview. Interviews in this mini-research are included in informal conversation interviews where the questions asked are very dependent on the interview itself, so it depends on the spontaneity of asking questions to the interviewee. Interviews were conducted in an unstructured, unscheduled manner, and carried out in such a way that in providing information so that the informants did not tend to process or prepare the information in advance, and could provide an explanation as it was.

### **Data analysis technique**

The analysis of data or information in this mini-research goes through various stages or analysis processes, namely:

1. Data Coding Process

*Data coding* carried out to facilitate the process of data analysis, where the data from interviews will be grouped based on the level of data similarity. The data grouping is divided into (a) investment objectives, (b) investment basis used in buying shares at the beginning of investors' investment activities, (c) investor identification of risk, (d) investor understanding of the definition of company value.

2. Analysis With Hermeneutic-Critical Approach

After the data has been successfully grouped, the next stage is the text interpretation process. Initially, the opinions of the informants in the form of text were analyzed according to three main components, namely text, context, and contextualization. Then a critical interpretation of investment practice by informants is carried out, where the analysis seeks to highlight and discuss in more detail to find gaps between theory and practice.

If associated with this research where this research seeks to find the reality of the use of accounting information in investor decision making. What investors should do based on investment management theory and the capital market, then compare it with what actually happened. So at this critical analysis stage trying to find errors that exist in investors in the proper use of accounting information. If there is an error, then the result will be studied philosophically.

Philosophical analysis aims to understand more carefully and deeply. The aim is to find out the philosophy of the informants in arguing. In this section, the researcher tries to understand and study the individual character, awareness, and motivation of informants in investing. This philosophical analysis is also useful if there are differences of opinion by the informants by studying their philosophy of opinion so that conclusions can be found between these differences.

### **DATA VALIDITY CHECK TECHNIQUE**

The technique of checking the validity of the data used in this mini-research is a triangulation technique with theory. In this study, triangulation with sources applied is to compare and check back the degree of confidence of an

information obtained through different times. The researcher conducted two interviews where the second interview was intended to check the validity of the first interview data. If the results of the first and second interviews are the same/tend to be the same, then the data is declared valid. In addition, this triangulation is also done by comparing with theory. This triangulation is carried out based on the assumption that facts cannot be checked with one or more theories.

## **RESULT AND DISCUSSION**

### **Investment Purpose**

All investors who became informants in this study agreed that the main objective in a stock investment is to gain profit/profit from capital gains. Here are their statements:

- "First to develop my capital, I look for profit/profit in the capital market" (Dewi Rakhmawati),
- "Investing capital in order to obtain a return from capital gains" (Akbar Nugroho),
- "Seek profit from capital gains" (M.Afifi Rahman),
- "My main goal is to seek profit from capital gains" (Andreas Teddy Kumala),
- "The goal is to want to make a profit from capital gains. Because I tend to be short term, so I prefer capital gains" (Marta Sandhi Aji),

### **Investor's Foundation at the Beginning of Investment**

Based on the results of interview analysis, there are nine investor bases that they use as a reference at the beginning of their introduction to investment including technical analysis, fundamental analysis, friends' followers, foreign followers, market trend followers, the reality of issuer products in the real market, recommendations, global issues, and choose blue chip stocks.

Dewi Rakhmawati stated, "Initially, I was more inclined to follow the trend. So, when

I decided to start trading in stocks and started as a follower and also followed the trend, in its development my decision changed, so I looked more at fundamentals, I looked more at feeling and external factors from regional and domestic indications."

Furthermore, Akbar Nugroho stated, "In the beginning, I joined a friend, when the first time IPO telkom. I bought Telkom's shares, but I don't know how to sell them. Until I left it for years, then I knew how to do the transaction, until now I am actively investing". Similar to Akbar Nugroho, M. Afifi Rahman also stated the same thing, "I usually follow foreigners, based on their price movements. If a foreigner sells it, I will sell it too." Both are almost the same, they also as follower investors also switch to other investors' foundations, then it is known that there are creative investors. They are unfamiliar with everything in the capital market, but they have a creative mindset. Here are some snippets with them:

- "At first it was trial and error. So if the selection of shares is seen in reality, the form of company products that go public in real life" (Andreas Teddy Kumala).

- "Then also follow the recommendations of brokers, securities companies, and research" (Marta Sandhi Aji).

The two investors are already in accordance with investment theory before making investment decisions, especially at the beginning of their investment decisions. Based on the description of their opinion, it can be translated that as potential investors, they try to equip themselves with careful considerations. They use the analyzes that have been suggested in the theory of investment decision making.

### **Investor Identification Against Risk**

The capital market theory (capital march theory) as described by Gumanti (2007) that the purpose is related to testing how the capital market sets the price of securities by studying how individual investments choose among various financial assets based on their level of preference for risk and return. Risk is a vital thing in an investment, especially stock investment. Risk is identical with the possibility of loss. When the informants were asked about their identification of investment risk, their

answers varied. It is known that there is a risk for informant 5, namely Marta Sandhi Aji, she firmly stated "I am anti-risk" (Marta Sandhi Aji). In his statement, the informant firmly stated that he was an anti-risk investor. The rationale for this is because he doesn't want to have his shares fall too sharply when he is about to trade again. As an explanation, that risk averse will choose stocks with low risk rather than high risk even with the same level of return.

In addition to risk averse, it turns out that there are 3 investors who tend to be risk neutral.

- "I'm neutral on risk. The level of risk is not a problem" (Dewi Rakhmawati).

- "I like risk. But yeah, I don't really like it. Neutral" (Akbar Nugroho).

- "I am aware that capital market investment is risky. I try to increase my knowledge continuously from reading, seminars so that I can limit my risk more. So it's more neutral" (M. Afifi Rahman).

From these 3 statements, it appears that Dewi Rakhmawati and Akbar Nugroho view risk as something that does not have a significant effect on their investment decisions. Risk is not treated with a positive response, but also not negative, sometimes there is no response.

So if analyzed more deeply, these two investors tend not to consider risk as one of the investment considerations. The high and low level of risk of a stock is not a dominant problem in their investment decisions. So they declare themselves as neutral risk.

Turning to the third statement by M. Afifi Rahman, his statement suggests that his efforts to become a smart investor and understand investments have shaped him into the character of an investor who understands risk. He did not close himself to risk, he realized that investing in stocks contains risks. Then the additional knowledge about risk he made the basis for starting to limit himself to investment risk. He understands that risk is the possibility of losing an investment.

These types of investors are those who usually calculate the level of return that is equal to the risk of their investment.

Like the parable, it turns out that there is one investor who claims to be a risk taker. High risk is not a problem for them. Even the higher the risk the better. The reason is because the higher the risk, the higher the level of abnormal return that they will potentially earn. Here are some statements of investors who tend to be risk takers:

- "I tend to be a risk taker, so when we invest in stocks, we already know what the risks are? The risk is that if we buy it, there will be a decline, it won't go up immediately, there will be a decline. So we have understood the risk first, so we are ready if the price will go down. But we must have a benchmark price, where we have to sell at a loss. I tend to be brave, but in my opinion it has gone down a long way and it might take a long time to come back again. It's okay to sell it, because we can look in other sectors" (Andreas Teddy Kumala).

Based on the opinion of the informant, it can be clearly seen that according to them investment activities cannot be separated from risk, especially stock investment. They are not against high-risk stocks, in the sense that they are not against stocks that have the potential to experience a fairly high stock price decline. This is because the level of return and abnormal return offered is also high.

When they know the risk is high, they try to anticipate it with mature investment decisions so that the risk does not occur, and the expected return will be achieved. This type of risk taker will choose stocks with high risk rather than low ones even though they have the same rate of return. These risk-takers are motivated by their investment goals to add as much value to wealth as possible. So interested in buying high-risk stocks, because the rate of return offered is also high. Suggestions for risk takers in making investment decisions, so that they don't just think that behind high risks there is also a high return. However, the investment decision must also pay attention to other aspects that accompany these shares in order to obtain a proper valuation of a share.

### **Investor's Understanding of Company Value**

As many as 4 out of 5 investors are known to have knowledge and understanding of company value. When asked about the definition of company value according to them, they are:

- "The result of the company's performance. The most consideration related to return is net profit compared to previous years" (Dewi Rakhmawari).
- "The value of the company comes from the financial statements, referring to profit or not, whether the shares are in demand or not, that's all" (Marta Sandhi Aji).
- "I use it often. My first to choose macro I see stick to fundamentals. I have to know what the company's business is and whether the fundamentals are good or not. Just buying momentum, at what price did I use technicals" (M. Afifi Rahman).



- "The better the performance of a company, then this is reflected in the value of the company, the more people who want to buy its shares" (Andreas Teddy Kumala).

These statements imply that they already understand and understand the value of the company. Although some are technical analysts, that's not an excuse not to understand the value of the company. They understand what the value of the company is, where according to them, the value of the company is a reflection of the value of a company, a good company will achieve the desired results, this means that the company's shares can be of interest to many investors. student majoring in business administration who claimed not to understand the value of the company. However, he tried to learn and finally understand what is the value of the company.

## **CONCLUSION**

The behavior of stock investors in making investment decisions tends to be influenced by their stock analysis techniques. Accounting information in the form of company value as a value that is useful for investors, especially individual stock investors, is not always the main reference in making investment decisions. Even the intensity of using the value of the company in their investment decisions is not always intense and dominant. The complexity factor in analyzing accounting information is the causative factor. The existence of investment activities as a side income is the dominant factor that makes them apply practical and uncomplicated investment principles.

This result also proves that the existence of financial statements as a provider of useful information for investors is not fully proportional to the thoughts of investors. In fact, the value of the company is one of the vital information bases in making investment decisions, but it turns out that investors do not fully use it, some even do not understand it. Investment decision making should be a complex and impractical process. Individual stock investors must utilize and use various stock analyzes and information on the market and issuers in order to obtain maximum returns and avoid investment losses. Work background and status do not become obstacles and reasons to become a naive investor, as long as they have a passion for learning to become a sophisticated investor.

## **REFERENCES**

- Aprillianto, Bayu. 2014. Behavior of Individual Stock Investors in Investment Decision Making: Hermeneutics-Critical Study. e-Journal of Business Economics and Accounting, Volume 1 (1): 16-31
- Brigham, Eugene F., Joel F. Houston, Hsu Jun-ming, Kong Yoon Kee, dan A.N. Bany-Ariffin. 2014. Essentials of Financial Management Third Edition. Singapore: Cengage Learning Asia Pte, Ltd.
- Gumanti, Tatang Ary. 2007. Investment Management. Jember: Center of Society Studies.

- 
- Godfrey, Jayne, Allan Hodgson, Ann Tarca, Jane Hamilton and Scot Holmes. 2010. *Accounting Theory* 7th Edition. Australia: John Wiley & Sons Australia Ltd.
- Halim, Abdul. 2005. *Investment Analysis*, Edition 2. Jakarta. Salemba Four.
- Husaini, A. (2012). The Influence of Return On Assets, Return On Equity, Net Profit Margin and Earning Per Share Variables on Stock Prices, 45–47.
- Jatmiko, D.P. (2017). *Pengantar Manajemen Keuangan*. Yogyakarta: Diandra Kreatif.
- Mukhtaruddin, Relasari, dan Messa Felmania. 2014. Good Corporate Governance Mechanism, Corporate Social Responsibility Disclosure on Firm Value: Empirical Study On Listed Company In Indonesia Stock Exchange. *International Journal of Finance and Accounting Studies*, 2(1), 1-10.
- Puspitaningtyas, Zarah. 2010. The Value Relevance of Accounting Information and Its Benefits for Investors. *Jember: Equity: Journal of Economics and Finance* ISSN 1411-0393.
- Putra, AA Ngurah Dharma Adi dan Putu Vivi Lestari. 2016. Pengaruh Kebijakan Dividen, Likuiditas, Profitabilitas dan Ukuran Perusahaan terhadap Nilai Perusahaan. *E-Jurnal Manajemen Unud*, 5(7), 4044 – 4070.
- Schmidt, DJ 2007. Speaking of Language: On The Future of Hermeneutics. *Research in Phenomenology* 37: 271-284.
- Susanti, Rina dan Titik Mildawati. 2014. Pengaruh Kepemilikan Manajemen, Kepemilikan Institusional, dan Corporate Social Responsibility terhadap Nilai Perusahaan. *Jurnal Ilmu & Riset Akuntansi*, 3(1), 1-18.
- Suwardika, I Nyoman Agus dan I Ketut Mustanda. 2017. Pengaruh Leverage, Ukuran Perusahaan, Pertumbuhan Perusahaan, dan Profitabilitas terhadap Nilai Perusahaan pada Perusahaan Properti. *E-Jurnal Manajemen Unud*, 6(3), 1248-1277.
- Zuliarni, S. (2012). The Effect of Financial Performance on Stock Prices in Mining and Mining Service Companies on the Indonesia Stock Exchange (IDX). *Journal of Business Applications*, 3(1), 36–48.