

THE DETERMINANT FACTORS OF AUTOMOTIVE INDUSTRY INVESTMENT DECISION IN INDONESIA

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Abstract

Automotive industry contributes directly and indirectly to economic growth in Indonesia. Investment in this industry has increased after declining in the previous years. This paper examines some internal and external factors influencing the investment decision in this industry by using E-views for listed automotive company in Indonesia Stock Exchange from 2013 to-2017. This study finds that both net cash flow from operation and investment opportunity set (IOS) as internal factors have a significant and positive relationship to the investment decision. The capital market pressure as an external factor has a significant and negative relationship to the investment decision. The composition of the independence commissioner as an external factor does not have a significant relationship to the investment decision. By comparing the coefficient of the significant variables, the net cash flow from operation is a dominant factor in the investment decision. This fact relates to the report published by Bank Indonesia, as a central bank, that the increasing free cash flow of corporation enhances the investment in Indonesia. This study contributes as a reference to the free cash flow literatures and the capital market authority especially in the developing country.

Keywords: investment, cash flow, investment opportunity set, capital market pressure, automotive.

JEL Classification: D24, D25, L11, L62