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Manufacturing Company Dividend Policy: Which Financial Performance is the Determinant?

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ABSTRACT
The purpose of this study is to examine among the financial performance of profitability, liquidity, leverage and managerial ownership portion, which one is representative in determining dividend policy. This research is quantitative research with a hypothesis testing approach. The population and sample studied were manufacturing companies in Indonesia and secondary data were collected from www.idx.co.id for the period 2014-2018. Using simple regression analysis, the dependent and independent variables are dividend policy and financial performance. The results show that the profitability variable is a determinant of the dividend policy of manufacturing companies. ROA ratio is used as a proxy for profitability variables.

Keywords: *Dividend policy, dividend payout, simple regression, financial performance, manufacturing company.*

1. INTRODUCTION

[1] stated that the management will pay dividends to give a signal about the success of the company in posting profits. The signal concludes that the company's ability to pay dividends is a function of profits. If the company chooses to distribute profits as dividends, the company will reduce retained earnings and further reduce internal financing. On the other hand, if the company chooses to hold on to the profits earned, then the ability to form internal funds will be even greater. In determining the dividend policy, it is necessary to consider financial performance factors that are allegedly influencing the company's dividend policy, including managerial ownership.

[2] stated that the theory of corporate dividend policy can be categorized into two broad groups. The first contains theory that attempt to exploit the role of corporate and personal tax code in determining an optimal dividend policy. The second category expand the analysis to include

Several studies related to dividend policy have been carried out. The results show that there are a number of factors that influence the company's dividend policy. Among them are research conducted by [3]-[15]. Methodologically all these studies use analytical techniques that explain the partial and simultaneous role of the company's fundamental performance on its dividend policy.

In general, research on the causal relationship of dividend policy as a response variable with several explanatory variables is expressed by multiple regression models. Where the focus of the analysis rests on the simultaneous and partial influence of a number of exogenous variables on the variation of the endogenous variables. In other words, the role of estimation of an exogenous variable on changes in the value of endogenous variables is highly dependent on the presence and volatility of other exogenous variables. That is, there is no information on the results of empirical analysis of individual causality of exogenous variables in explaining the volatility of the response variables. That is an important issue to study.

If the response variable is indicated by the dividend policy indicator, while the explanatory variable is a number of financial performance indicators of manufacturing companies, the research question that must be answered is which financial performance indicator plays a role as a determinant of the dividend policy of manufacturing companies in

Indonesia? Is it profitability, liquidity, leverage or managerial ownership? Based on this description, the purpose of this research is to examine which financial performance is representative in determining whether or not the dividend policy is tight. The financial performance in question includes the performance of profitability, liquidity, leverage and managerial ownership portion.

2. THEORETICAL REVIEW

The results of several studies that have been referred to indicate the influence of several factors on dividend policy. Each study gives different results, for example, [3] shows that profitability has a significant effect on dividend policy, investment opportunities have no significant effect on dividend policy, liquidity can be used as a reinforcing variable because it provides significant results in influencing profitability and opportunity. investment.

[4] shows that managerial ownership, institutional ownership, debt policy, profitability and firm size have no significant effect on dividend policy. Meanwhile, [5] states that free cash flow, liquidity and leverage have no effect on dividend policy, while profitability has a significant effect.

Then, research by [6] shows that profitability and MTBV have a significant effect on dividend policy, while sales growth (SG) has no significant effect on dividend policy. These results are not much different from his research by [7]-[10] showing that company size and investment opportunities have a significant effect on dividend policy, while leverage has no significant effect.

[11] research explains that debt, profitability and liquidity policies affect dividend policy. Almost the same results were found in [12] study, which showed that liquidity and firm size had an effect on dividend policy. Research by [13] states that managerial policy has a significant effect on dividend policy. Research by [14] also explains that managerial policy has a significant effect on dividend policy. Furthermore, [15] states that profitability, liquidity, firm size have a significant positive effect on dividend policy.

Based on these various studies, almost all researchers use financial performance variables (profitability, liquidity and leverage) as explanatory variables. Meanwhile, there are also those who add managerial ownership as an explanatory variable. This study differs in the use of multivariate techniques. This refers to an attempt to answer the research problem.

The research hypothesis and the chart of the relationship between variables used are presented in figure 1 to 4 as follows:

a. Profitability affects dividend policy

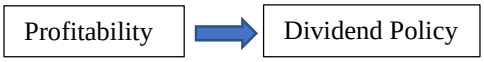

Figure 1 Relational profitability and dividend policy

b. Liquidity affects dividend policy

Figure 2 Relation of liquidity and dividend policy

c. Leverage affect dividend policy

Figure 3 Relational leverage and dividend policy

d. Managerial Ownership affect dividend policy

Figure 4 Relational managerial ownership and dividend policy

3. METHODOLOGY

This research is a quantitative research with a hypothesis testing approach. Data analysis uses financial ratio data of manufacturing companies from [16] collected from the Indonesia Stock Exchange website (www.idx.co.id) for the period 2014 - 2018. The research variables consist of independent variables, including: profitability, liquidity, leverage and managerial ownership, while the dependent variable is the company's dividend policy. The data for all variables used an interval scale.

The proxies used for the variables of profitability, liquidity, leverage and dividend policy are return on assets (ROA), current assets (CR), debt to equity ratio (DER) and dividend payout ratio (DPR). The operational definition of managerial ownership variable is the size of the share owned by the manager of the company concerned. The formula for determining the value of each variable is:

$$ROA = \frac{EAT}{Assets} \quad (1)$$

$$CR = \frac{current\ assets}{current\ liabilities} \quad (2)$$

$$DER = \frac{long\text{-}term\ debt}{equity} \quad (3)$$

$$KM = \frac{jumlah\ saham\ yg\ dimiliki\ manajer}{outstanding\ stock} \quad (4)$$

$$DPR = \frac{dividend\ per\ share}{earning\ per\ share} \quad (5)$$

The statistical analysis tool used is simple regression analysis with the following equation model:

$DPR_{it} = f\ (ROA_{it})$ or $DPR_{it} = a_0 + a_1\ ROA_{it} + e_{it,1}$ (6)

$DPR_{it} = f\ (CR_{it})$ or $DPR_{it} = b_0 + b_1\ CR_{it} + e_{it,2}$ (7)

$DPR_{it} = f\ (DER_{it})$ or $DPR_{it} = c_0 + c_1\ DER_{it} + e_{it,3}$ (8)

$DPR_{it} = f\ (KM_{it})$ or $DPR_{it} = d_0 + d_1\ KM_{it} + e_{it,4}$ (9)

Which is:

DPR_{it} : Dividend policy with dividend payout proxy
ROA_{it} : Profitability with return on assets
CR_{it} : Liquidity by proxy current ratio
DER_{it} : Leverage with debt to equity ratio proxy
KM_{it} : Managerial ownership share
a_i, b_i, c_i, d_i : regression coefficient
e_{it} : error term

Hypothesis testing was carried out based on the results of the t-test of the effect of each financial performance variable on the dividend policy variable or the company's DPR. The statistical hypotheses used are:

H_0: $a_1 = 0$, or $b_1 = 0$, or $c_1 = 0$, or $d_1 = 0$.

This means that the company's financial performance variable has no effect on the company's dividend policy.

H_a: $a_1 \neq 0$, or $b_1 \neq 0$, or $c_1 \neq 0$, or $d_1 \neq 0$.

This means that the company's financial performance variables affect the company's dividend policy.

Furthermore, to answer the research objectives, a comparison of the coefficient of determination (R^2) indicators for each model was carried out.

$$R^2 = 1 - \frac{\sum(Y - \hat{Y})^2}{\sum(Y - \bar{Y})^2} \quad (10)$$

If one of the (6), (7), (8) or (9) model has the highest R^2, then that model represents that the independent variable is better able to explain variations in the company's dividend policy than other equation models.

4. RESULT AND DISCUSSION

4.1 Result

The results of [16] used a sample size of 35 companies for 5 years of observation. Presentation of data using pooled method in order to obtain 175 observations.

The results of data processing on the t-test are presented in Table 1. The model built refers to models (6), (7), (8) and (9).

Table 1. T-Test Results on Regression Models (11), (12), (13) and (14)

Model	intercept	Slope	Independent Variable	Sign.	R^2
(11)	32,37	1,11	Profitability	0,000*)	0,42
(12)	49,08	0,01	Liquidity	0,325	0,075
(13)	59,80	-0,102	Leverage	0,033**)	0,161
(14)	49,24	5,82	Managerial Ownership	0,234	0,09

Note: *) significant at = 1%; **) significant at = 5%
Source: [16], processed.

Based on Table 1, the simple regression models that were successfully built using the model formulas (11), (12), (13) and (14) were:

$DPR_{it} = f\ (ROA_{it}) \equiv DPR_{it} = 32,37 + 1,11\ ROA_{it}$ (11)

$DPR_{it} = f\ (CR_{it}) \equiv DPR_{it} = 49,08 + 0,01\ CR_{it}$ (12)

$DPR_{it} = f\ (DER_{it}) \equiv DPR_{it} = 59,80 - 0,102\ DER_{it}$ (13)

$DPR_{it} = f\ (KM_{it}) \equiv DPR_{it} = 49,24 + 5,82\ KM_{it}$ (14)

According to the four models, only models (11) and (13) show that the null hypothesis (H0) is rejected based on the level of significance (α) of 1% and 5%. On the other hand, models (12) and (14) show that H0 cannot be rejected. Thus the first and third research hypotheses are proven. That is, the profitability or leverage performance of the company is a financial performance that affects the variability of the DPR or its dividend policy. Meanwhile, according to models (12) and (14) the liquidity and managerial ownership variables do not significantly affect the volatility of the DPR.

Still according to Table 1, model (11) has a coefficient of determination (R2) of 0.42 or 42% while model (13) has an R2 of 0.161 or 16.1%. Thus, the profitability ratio achieved by the company will determine the 42% change in its DPR. Meanwhile, the fluctuations in the company's leverage factor determine the 16.1% change in the company's dividend policy. Thus, the most representative model to answer the research title is model (11) which has the largest R2.

4.2 Discussion

In the introduction, it is stated that the purpose of this study is to assess financial performance in determining strict policies for dividends for manufacturing companies. The financial performance in question includes the performance of profitability, liquidity, leverage and managerial ownership portion. The strict dividend policy reflects the tendency of these manufacturing companies not to distribute dividends to shareholders. This means that the DPR tends to be small. The welfare of shareholders is expected to be obtained through profits after they sell their shares on the stock exchange. On the other hand, a restrictive dividend policy will encourage companies to pay high dividends per share, even if it may reach 100% of the DPR. This means that the DPR tends to be high. Through this research, these objectives are answered by simple regression analysis.

The result of statistical execution shows that it is the profitability (model 11) or leverage of the company (model 13) that influences the level of DPR or the tightness of the dividend policy. The two simple regression models (11 and 13) have 42% and 16.1% dividend determination policies for manufacturing companies in Indonesia. Thus, after comparing the two models of the coefficient of determination (11) and model (13) it can be stated that the financial performance that represents the tightness of the dividend policy of manufacturing companies in Indonesia is profitability, which is indicated by the ROA ratio. This decision is based on the model R2 (11) is larger than the model R2 (13). In other words, the determining dividend policy for manufacturing companies in Indonesia is profitability.

Profitability in this study reflects the company's ability to achieve a level of profit through asset management. The size of the reported profits has always been the focus of attention of shareholders because the value of profits which is the main component is the expected return of shareholders, in the form of dividend yields. The size of the dividend per share (DPS) is determined based on negotiations between shareholders and company management in the GMS. The theoretical logic states that if the company's profit on its assets increases, the dividends distributed to shareholders also increase, and vice versa. That is, the company's dividend policy is determined and determined by the volatility of ROA, or profitability.

The results of this study support the research of [3], [5]-[7], [11]-[13], and [15]. Although using a different analytical tool from this research, it finally states that profitability affects dividend policy. The results of the comparison are different, where the findings of this study are not in line with the conclusions of empirical research conducted by [4], and [14].

5. CONCLUSION

This research examines the effect of individual causality on the financial performance of manufacturing companies on their dividend policy. The financial performance includes the performance of profitability, liquidity, leverage and the portion of managerial ownership. After the research has been carried out, it can be concluded that the determinant of the dividend policy of manufacturing companies in Indonesia is profitability.

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