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The Effect of Conservatism and Visionary Attitude toward Investment Policy and Dividend as a Moderating Variable

Sobrotul Imtikhanah
STIE Muhammadiyah Pekalongan
emmaferdiz@yahoo.co.id

Abstract. This study examines managerial attitude toward company investment policy with dividend as a moderating variable. The research method used is Moderated Regression Analysis. The samples of this research are 36 companies with 3 years' observation samples. The result indicates that managerial attitude has an effect on the investment policy with the effect size of 51,2%, while dividend failed to moderate the effect of managerial attitude toward investment policy. Meanwhile, 48.8% of the factor affecting investment policy is explained by another unobserved variable. Furthermore, when gender is used as a control variable, it can explain that male managers are more visionary in determining investment policy compared to female managers.

Keywords: dividends, managerial attitudes, investment policies

INTRODUCTION

This study examines the effect of management attitude on investment policy with dividend variable as moderator. In this study the attitude of management is differentiated into two, namely the conservative management attitude and visionary management attitude. Management with a conservative attitude is likely to be more careful in making investments whereas management with a visionary attitude tends to be more aggressive in investing with the expectation of benefiting the company. Often management desire to increase the company's profits with their main objectives to increases profit is limited by investor's desire through General Meeting of Shareholders (GMS) in terms of dividend pay-out policy. The amount of dividend is determined by the GMS so that management does not have the ability to directly determine the amount of dividends to be distributed [1]. So dividends can be an obstacle to the visionary management's desire to invest and likely to be a saviour for conservative management. This research uses gender variable as a control variable. Female management (CEO) prefers greater cash holding than male manager (CEO). Male CEOs tend to view cash as assets that should be invested [2]. Female CEOs tend to be less to invest in risky projects in comparison with the male CEOs [3].

According to the FASB Statement of Concept No.2 in GAAP (2004) that conservatism is a cautious reaction to deal with the uncertainty in trying to ensure that the uncertainties and risks to the business situation have been considered. The conservatism is an important principle in financial reporting so that the recognition and measurement of assets and profits are done with great caution, because economic and business activities often deals with uncertainty [4].

Furthermore, [5] explained that conservatism as a prudent reaction to uncertainty is aimed at protecting the rights and interests of shareholders and debtholders which determine a higher standard verification to recognize good news than bad news. The describes conservatism as an attitude in facing uncertainty to take action or decision on the basis of the worst appearance of the uncertainty [6]. The implication of this concept in accounting is to produce low profit and asset figures, as well as high cost and debt figures. This tendency occurs because conservatism adheres to the principle of slowing income recognition and accelerating cost recognition [7].

Management chooses a conservative attitude in making decisions when management has concerns if such decisions can be bad for the company in the future. In contrast to visionary attitudes, Management with a visionary attitude tends to be more adaptive to time changing and daring to make decisions. A visionary leader is able to create a clear vision and purpose with regard to an understanding of a steadier future and more targeted efforts to improve quality.

A visionary manager usually tends to think creatively for the future of the organization he/she leads. This ability is obtained through various learning processes as well as experience, whether it is formal or informal education.

Visionary manager usually has the courage to take risks to achieve his/her mission.

Conservative managers or leaders tend to be conventional in deciding on investment decisions, but managers with a visionary attitude tend to take extreme investment decisions that allow for risk in investment decisions taken.

Referred to dividends, companies with conservative management tend to retain earnings for internal financing for the company in the future so that the Retained Earnings Value is relatively high so that it will have

impact on the dividends paid to investors. The higher the Retained Earning, the smaller the dividends are distributed because the company chooses to reinvest the funds rather than distribute them to the shareholders in form of dividends [8].

Similarly, when the Retained Earnings is high, the investment policy undertaken by the company should be high. However, due to the determination of the dividend-sharing policy taken in the General Meeting of Shareholders (GMS), the management does not have the major authority or vote. This may cause the dividends to be expected to strengthen or weaken the company's investment policy. On the contrary, for a visionary management, they allow a small Retained Earnings so that the dividends could be distributed to shareholders and rise their cash flow in the future. This condition suggests that the investments made by the company are relatively lower due to the investments made are just from internal financing.

Visionary management can use the funds of third parties through bondholders and shareholders Pyle (1977) in [9] asserted that the decision of the manager can be a signal if the company is well performed upon their decision to use external funds. It is known that only companies with relatively stable income that dare to increase its debt.

The financing decision is a corporate policy to determine how much additional debt and capital are required, the type of debt and additional capital, and when the time for the acquisition of debt and capital [10], which can be used for financing the operations of the company [11]. The investment decision refers more to the problem of capital budgeting decisions aimed at acquiring assets in the form of fixed assets that will be used to create goods and services and to support the company's operations [11].

METHOD

This research is quantitative research using sample of manufacturing companies that listed in Indonesian stock exchange during 2015-2017. The analysis technique used is Moderated Regression Analysis (MRA) and the samples obtained are 36 manufacturing companies. Measurement of variables used in this study is proxied by some proxies. This research defines managerial attitude by dividing the two attitudes of visionary attitude and conservative attitude. Visionary attitudes are seen from the relatively declining R/E growth of the sample companies while for conservative attitudes in view of the positive value of R/E growth.

The variable of management attitude is proxied by Retained Earnings Growth. While, Dividend variable is proxied by Dividend Pay-out Ratio and Investment Policy variables is proxied by Capital Expenditure to Book Value of assets (CAP / BVA).

This research uses gender as a control variable to assert about managerial attitude

RESULTS AND DISCUSSION

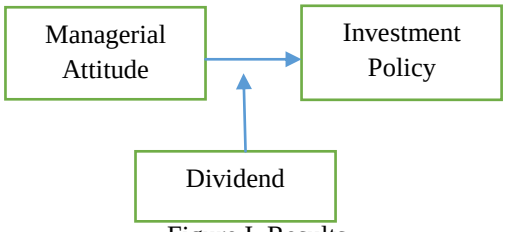

Figure I. Results

The test results of the first model below are:

$$CAPBVA = \alpha + \beta 1 . RE + \varepsilon$$

Obtained from the result that statistically Retained Earning, which is the proxy for managerial attitude, has a significant effect towards the amount of company's investment policy, with the effect size of 51,6%.
While the second model below:

$$CAPBVA = \alpha + \beta 1 . RE + \beta 2 . DPR + \beta 3 . RE*DPR + \varepsilon$$

Statistically concluded that the amount of paid dividends cannot moderate the effect of managerial attitude in determining investment policy. Statistically, it also found that conservative attitude has 49.5% effect on investment policy taken. Manager with conservative attitude tend to fit the Pecking Order Theory Concept, which suggests that firms have a internal funding priority to pay dividends and financing. Retained earnings (R/E) is one of the most important sources of funds in the growth of the company, because it can be used to company's operation.

Managers with visionary attitude are also found to be able to affect as much as 63,9% toward investment policy. It can be concluded that the attitude of the visionary manager has a higher impact than the conservative manager's attitude. It means that Manager with a visionary attitude in *signaling theory* said that managers' decisions can be a signal if the company is well performed when the company decides to use external funds, because only companies with relatively stable income dare to increase its debt. Isimiyati and Hanafi [12] also argue that shareholders will monitor the management. If the company needs a higher monitoring cost, they will use third parties (debtholders and or bondholders) to assist monitoring. Debtholders who have invested will try to monitor their fund itself. Usually monitoring conducted by debtholders as a debt covenant mechanism.

The statistical results also show that gender as control variables show that male managers are more visionary than female managers. It is proved by R^2value for male gender has affectedthe managerial attitud amounted as 0.739 whereas female gender R2 is only 0.577.It can be concluded that male managers have more visionary attitude compared to that of female managers.Gender diversity has a negative effect on

investment policy. This is because female tend to avoid high risk in the decision-making process than male.

The findings of this research are in accordance with [13] that female take lower risksthan male for investment efficiencies.

The Finding ssupport that companies with female CEOs will make less risky corporate decision choices and produce less stable outcomes. This is a direct consequence of higher risk aversion. Second, avoiding risky projects with positive net present value expectations that will reduce the efficiency of the capital allocation process. [14]

Table 1
Regression model 1

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error o the Estimat
1	.719[a]	.516	.512	4.6822784

a. Predictors: (Constant), RE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.959	.737		4.016	.000
	RE	.603	.057	.719	10.639	.000

a. Dependent Variable: CAPBVA

Table 2
Regression model 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.958	1.636		1.197	.234
	RE	.693	.127	.826	5.443	.000
	DPR	2.537	3.583	.105	.708	.480
	INTERAKSI	-.230	.289	-.161	-.794	.429

a. Dependent Variable: CAPBVA

The direct influence of Retained Earnings growth variable, which is a proxy of managerial attitude toward investment policy, gives a significant effect of 51.2%. This indicates that managers have a certain motivation and purpose in determining the amount of Retained Earnings that will be used for corporate investment if management chooses investment funding from internal financing. While the amount of dividends cannot moderate the influence of managerial attitude toward investment policy. It can be explained that the dividend payment decision is not dependent on the management, in this case by the determination of Retained Earning, butthe shareholders in the General Meeting of Shareholders (GMS) determine itso management cannot fully intervene with those decisions.

CONCLUSION

Managerial attitude strongly affects the company's investment policy. Visionary managers are more likely to increase the size of Retained Earnings to meet the management's willingness in conducting corporate investment policies.

Male Managers tend to be more visionary in determining investment policies than female managers.

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