

# **CHAPTER I**

## **INTRODUCTION**

### **1. BACKGROUND OF THE STUDY**

Financial statements are very important as it is one of the key elements in determining and assessing the company's financial performance. Financial statements are useful not only for internal users but also for external users. It is the communication tool between financial data of the company with those who have an interest in the data of the companies. Financial statements consist of balance sheets, profit or loss statements, and shareholders' equity reports. The profit or loss statement is a report that describes the results achieved by the company and the expenses incurred during a certain period.

The effectiveness and efficiency of management can be seen from the profits generated against the company's sales and investments as what can be seen from the elements of the financial statements. The higher the value of the ratio, the better the condition of the company based on profitability ratios. High value symbolizes the level of profit and high company efficiency that can be seen from the level of income and cash flow. Profitability ratios provide important information than the previous period's ratios and competitor achievement ratios.

In capital market activities, investors have expectations of investments made, in the form of capital gains and dividends. Capital gains are profits for investors derived from the excess selling price above the purchase price which both occur in the market. Dividends are one form of increasing shareholder wealth. The main goal of the company in general is to maximize the value of the company. The company's value is the present value of the expected revenue streams received in the future, the company's

value is influenced by various important policies in the company's financial management, one of which is the dividend policy.

In the implementation of a company's dividend policy, it will involve two parties, namely shareholders and the company. In addition, the interests of bondholders can influence the amount of dividends paid. Dividends paid to shareholders depend on the policies of each company, so it requires more serious consideration from company management. Dividend policy or dividend decision is essentially determining the portion of profits to be distributed to shareholders and which will be retained as part of retained earnings.

The size of the dividends paid to shareholders depends on the dividend policy of each company and is influenced by several factors, which are investment opportunities, tax consideration, and expected future earnings. In this study, there are several factors that can be used as a tool to predict the effect of investment returns in the form of dividend payments. Some of these factors include Return on Assets and Return on Equity as both of these ratios were parts of profitability ratios. It is a number of ratios that show the company's ability to gain profits from all sources they can get and all available sources for example: sales, cash, and etc.

Return on Assets is able to reflect the company's ability to use investments that are used for company operations. Return on Assets illustrates the extent to which the ability of assets owned by the company can generate profits. The higher the value of ROA, it can be interpreted that the company has been efficient in creating profits by utilizing all of its assets, the higher the company's profit rate will be.

On the other hand, return on Equity which is net income for shareholders divided by total shareholder equity. Shareholders certainly want to get a high rate of return on the capital they invest, and Return on Equity shows the level they have earned.

**Table 1.1 ROA, ROE, and Dividend Payout Ratio During 2014-2017**

COMPANY	YEAR	RETURN ON EQUITY	RETURN ON ASSETS	DIVIDEND PAYOUT RATIO
PT. NIPPON INDOSARI CORPINDO	2014	0.09	0.20	0.08
	2015	0.10	0.23	0.10
	2016	0.10	0.19	0.19
	2017	0.03	0.05	0.51
PT. INDOFOOD CBP SUKSES MAKMUR	2014	0.10	0.17	0.45
	2015	0.11	0.18	0.45
	2016	0.13	0.20	0.43
	2017	0.11	0.17	0.51

Source: Prepared by the Writer (2019)

As can be seen in the table above, PT Nippon Indosari Corpindo shows the increase in the dividend payout ratio when the Return on Equity and Return on Assets increase during the period of 2014-2017. On the other hand, when Return on Equity and Return on Assets decrease during 2016-2017, the Dividend Payout Ratio increase. In addition, PT Indofood CBP Sukses Makmur shows when the Return on Equity and Return on Assets ratios decrease, the Dividend Payout ratio increase. To conclude, the result shows by both of the companies is still inconsistent.

The writer is interested in conducting further research which can later provide more adequate results with relevant data on current conditions. Therefore, the title of the study is **"The Impact of Profitability Ratio towards Dividend Payout Ratio in Consumer Goods Companies Listed in Indonesia Stock Exchange"**.

## **1.2 PROBLEM LIMITATION**

The research is limited only from 2014 until 2017 and only for Consumer Goods Companies. The independent variable used in this research is Profitability Ratio (Return on Assets and Return on Equity) with Dividend Payout Ratio as the dependent variable. This study was conducted to examine the influence of Profitability Ratio on Dividend Payout Ratio.

## **1.3 PROBLEM FORMULATION**

Based on the description above, below are some of problems that occur in the company which writer needs to analyze:

1. Does ROA partially influence the dividend payout ratio in Consumer Goods Companies Listed in Indonesia Stock Exchange?
2. Does ROE partially influence the dividend payout ratio in Consumer Goods Companies Listed in Indonesia Stock Exchange?
3. Do ROA and ROE simultaneously influence the dividend payout ratio in Consumer Goods Companies Listed in Indonesia Stock Exchange?

## **1.4 OBJECTIVE OF THE RESEARCH**

The study will achieve the following objectives:

1. To figure out influence of ROA on the dividend payout ratio in Consumer Goods Companies Listed in Indonesia Stock Exchange for the 2014-2017 period.
2. To figure out influence of ROE on the dividend payout ratio in Consumer Goods Companies Listed in Indonesia Stock Exchange for the 2014-2017 period.

3. To figure out influence of ROA and ROE on the dividend payout ratio in Consumer Goods Companies Listed in Indonesia Stock Exchange for the 2014-2017 period.

## **1.5 BENEFIT OF THE RESEARCH**

The benefits of this study can be elaborated both theoretically and practically, which are as follows:

### **1.5.1 THEORETICAL BENEFIT**

Based on theoretical perspective, this research is expected to be a reference for both external and internal users of financial statements for deeper understanding regarding the influence of profitability ratio on dividend payout ratio.

### **1.5.2 PRACTICAL BENEFIT**

Based on practical perspective, this research is expected to be an input for Consumer Goods Companies in making decision for determining the dividend policy. This research is also expected to be a guide for other researchers that conduct similar research.

## **1.6 SYSTEMS OF WRITING**

In the systematics of writing, the author will briefly describe the chapter by chapter in sequence. The sequence of chapters to be presented is as follows:

### **CHAPTER I : INTRODUCTION**

This chapter discusses the Background of the Study, followed by the Problem Limitation, Objective of the Study, Benefit of the Study and Systems Of Writing.

### **CHAPTER II :LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

This chapter consists of Theoretical Background, Previous Research, Hypothesis Development, Research Model and Framework Of Thinking.

### **CHAPTER III: RESEARCH METHODOLOGY**

This chapter consists of Research Design, Population and Sample, Data Collection Method, Operational Variable Definition, Variable Measurement and Data Analysis Method.

### **CHAPTER IV: DATA ANALYSIS AND DISCUSSION**

This chapter consists of general view of Consumer Goods Companies, Data Analysis, Result of Data Quality Testing, Result of Hypothesis Testing and Discussion.

### **CHAPTER V: CONCLUSION**

This chapter consists of Conclusion, Implication and Recommendation.

