

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

Indonesia has tremendous economic potential. Indonesia has the largest economy in Southeast Asia and is one of the world's fastest growing market economies. According to World Bank, Indonesia ranked fourth most populous country in the world. As a member of G-20, Indonesia also ranked tenth as the largest economy by purchasing power parity. By the fact, Indonesia has a lower-middle income, Indonesia is classified as a new potential industrial country. Indonesia has the world's 15th largest nominal GDP (Gross Domestic Product) and ranked 7th in terms of PPP (Purchasing Power Parity).

**Table 1.1 Indonesia GDP year 2016-2021(in IDR)**

Year	Growth Domestic Product (GDP)	Growth Domestic Product (GDP) Per Capita
2016	12,406.8 trillion	47.96 million
2017	13,588.8 trillion	51.89 million
2018	14 837.4 trillion	56.0 million
2019	15 833.9 trillion	59.1 million
2020	15,434.2 trillion	56.9 million
2021 (second quarter)	4,175.8 trillion	

Source: *Badan Pusat Statistik* (2016-2021)

Based on the data from *Badan Pusat Statistik (BPS)*, during 2016 to 2019 Indonesia economy keep growing. Due to the Covid-19 pandemic, Indonesia's economy was contracted in 2020 compared to the previous year. Ministry of Industry, Airlangga Hartarto said: "The government remains optimistic that economic growth until the

end of 2021 will remain positive, ranging from 3.7 percent to 4.5 percent year on year”.

Business sectors play a crucial role in Indonesia’s economic development. Manufacturing company is one of the Indonesian business sector that significantly contribute to the country’s economy. As the largest manufacturing industry base in ASEAN, Indonesia makes a significant contribution to the national economy, with 20.27 percent of total GDP. The growth and expansion of Indonesia's manufacturing industry has enabled the country to make the transition from a commodity-based economy to a manufacturing-based economy. The manufacturing industry is considered to be more productive and capable of having a wide chain impact, allowing it to increase the added value of raw materials, increase the workforce, generate the greatest source of foreign exchange, and also be the largest contributor to taxes and customs revenue.

**Table 1.2 contribution of manufacturing industry**

Year	Contribution to Indonesia
2016	20.27% to Indonesia’s GDP
2017	20.16% to Indonesia’s GDP
2018	19.86% to Indonesia’s GDP
2019	19.62% to Indonesia’s GDP
2020	Experienced a growth contraction of 2.52%.
2021 (second quarter)	1.35% to Indonesia’s GDP

Source: *Badan Pusat Statistik* (2016-2021)

With a 20.27 percent contribution to the national economy, Indonesia has become ASEAN’s largest manufacturing industrial. According to the data released by the United Nations Statistics Division in 2016, Indonesia ranks fourth in the world among 15 countries with a manufacturing industry that contributes more than 10% of Gross Domestic Product (GDP). Indonesia has ability to contribute up to

22% of Gross Domestic Product (GDP). While, according to *Badan Pusat Statistik* (BPS), the manufacturing industry is still the largest contributor to the national Gross Domestic Product (GDP), accounting for 20.16 percent in 2017. *Badan Pusat Statistik* (BPS), also said that the manufacturing industry is the largest contributor toward the value of Indonesian exports. The export value of the manufacturing industry was 125 billion US dollars in 2017. This figure provides the highest contribution of up to 76 percent of the total value of Indonesia's exports which reached 168.73 billion US dollars. As stated by Ministry of Industry, Airlangga Hartarto, Manufacturing industry's contribution is not only as the largest contributor to the national Gross Domestic Product (GDP), but it also able to provide the highest contribution as a tax payer. In 2018, the manufacturing industry contribution to the national Gross Domestic Product is 19.86%. According to Ministry of Industry, the industrial product exports increased by 3.98% in 2018 compared to previous year. The total value of export was 130.09 billion US dollars. The total export value of industrial products contributed up to 72.19% of the total national exports in 2018 worth USD180.21 billion. In 2019, the manufacturing industry contribute 19.62% to national Gross Domestic Product (GDP). The Ministry of Industry explained that this industry in 2019 grew 4.68% which were slower than growth in the previous year which was 5.02%. Total exports from the industrial sector in January-December 2019 were recorded at USD126.57 billion and accounted for 75.5% of Indonesia's total exports. The *Badan Pusat Statistik* (BPS) released Indonesia's 2020 economic growth figure, which experienced a 2.07 percent contraction compared to 2019 due to several factors. One of the factor was the manufacturing industry experienced a 2.52 percent growth contraction. Despite

the COVID-19 pandemic, the manufacturing industry has consistently contributed significantly to the national economy through the realization of investment. Based on the records of *Badan Koordinasi Penanaman Modal (BKPM)*, in January-December 2020, the manufacturing sector contributed 33 percent or Rp. 272.9 trillion or of the total national investment value which reached Rp. 826.3 trillion. Ministry of Industry stated that the Indonesian manufacturing industry is still able to perform its best in the COVID-19 pandemic situation. This can be observed in the contribution of the manufacturing industry to Indonesia's economic development in the second quarter of 2021. According to Ministry of Industry, Indonesia's manufacturing industry contributed the most to the country's economic growth, which reached 17.34 percent. The manufacturing industry's export performance was USD81.06 billion in the January-June 2021 period, accounting for 78.80% of total national exports which recorded at USD102.87 billion.

Manufacturing industries in Indonesia are subdivided into cosmetic and household, food and beverages, house-ware, pharmaceuticals, tobacco manufactures and others. Consumer goods company is a company engaged in manufacturing that processes raw materials into finished goods, where consumer goods products will later be consumed by society. Consumer goods company can be considered as fast moving company that drive and contribute to Indonesia's economy, as well as one of the factors that influence the growth of Indonesia's economy because it provides significant and stable contribution to the growth of manufacturing industry sector in Indonesia. With the growth of economy in Indonesia, Indonesia is under the spotlight by foreign investors and local investors. Many local and foreign investor are attracted to invest in consumer goods

companies due to some factors. Consumer goods plays most crucial roles because as we know that daily consumption must be fulfilled and can't be missed. Better economic growth and infrastructure developments, which predicted to improve consumer product distribution, are factors that have a beneficial impact on the consumer goods markets.

When it comes to investing, investors are more attracted to invest in company that has a good and long track record of success. Dewi et al. (2018), opined that investors invest their capital in a company with the primary goals of obtaining a return on their investment in in form of dividends and capital gains. Dividend refers to what an investor expects to get from a company in exchange for their investment. As stated in Sejati et.al (2020), The general public believes that the higher profit that company obtained, the dividends distributed to investors will also higher. In fact, that assumption are not necessarily true. Dividends are not always distributed to shareholders by every company that are listed on Indonesia Stock Exchange. Before companies decide to distribute dividend, they also face number of considerations. Aside from that, the company held an annual General Meeting of Shareholders (GMS) to make financial decision about dividend distribution in order to compensate shareholders for taking on the risk of investing in the company.

In dividend distribution, profits will be distributed to shareholders in the form of cash dividends or share dividends. Cash dividends are preferred by investors over other forms of payment because it reduces investor uncertainty in company investment activities. Dividend payment is an important factor that

management should pay more attention to, as it has a significant impact not only on the external but also on the internal side of the business.

Information regarding the performance of a company can be detected through the company's financial report. Financial report provides crucial details and information about the performance of a company, daily operations and reflect true image of company. Financial Statements contain crucial details about a company's financial position. It provides information about the company's success and activities, as well as a true image of the company. Financial report can be used by a variety of people, including investors, workers, shareholders, lenders, the government, and the general public. It is crucial for investors because it is one of the most valuable ways for them to learn about their investment condition. There are also some significant concern for investor regarding investing their fund in consumer goods companies, because the fluctuation in demand and supply of goods would bring impact to net profits as well as the share price and dividend policy.

**Table 1.3 Cash Dividend, Return on Equity, Current Ratio and Leverage by some companies in Year 2018-2020**

Company	Year	Cash Dividend (in IDR)	ROE	Current Ratio	Leverage
MYOR	2018	29	21%	2.65	106%
	2019	30	21%	3.44	92%
	2020	52	19%	3.69	75%
ROTI	2018	10	4%	3.57	51%
	2019	26	8%	1.69	51%
	2020	48	5%	3.83	38%

Source: Prepared by Author (2021)

From the table 1.3, there are some differences happened in PT MYOR and PT ROTI in the year of 2018 to 2020. PT MYOR Cash Dividend increase from 2018 to 2020. PT MYOR Return on Equity was greater in 2018 and 2019 but as we can see in 2018 and 2019 the Dividend distributed was lower compared to 2020. In

2020, PT MYOR was able to make profit during pandemic. The profit increased compared to previous year, so the Dividend distributed was higher too. PT MYOR's Current Ratio increased in 2018 to 2020. PT MYOR had the highest current ratio in 2020. The Leverage decreased from 2018 to 2020. PT MYOR had the lowest Leverage percentage in 2020.

Therefore, PT ROTI was indicated with the increase of cash dividend in 2020. PT ROTI's Return on Equity was fluctuating and had the highest return on equity percentage in 2019. The current ratio was also fluctuating. In 2020, the company's had the highest current ratio compared to previous two years. The company's percentage of leverage were decreased in 2020. From the explanation above regarding table 1.3, it indicated that the dividend payment might be affected significantly or insignificantly by Return on Equity, Current Ratio and Leverage.

According to Izdihar et al. (2020), profitability partially has significant impact toward dividend policy while leverage has insignificant impact toward dividend policy. In addition, from the outcome of Jati, W. (2020) research, it shows that current ratio and return on equity simultaneously affect dividend policy. While according to Hudiwijono et al. (2018), based on their research's result, it shows that Leverage has positive impact and significant toward dividend policy but liquidity and profitability have negative impact and not significant toward dividend policy. The result of Abrar et al. (2019), profitability and leverage were found to have significant impact toward dividend policy. Lastly, According to Purnasari et al. (2020), liquidity and profitability simultaneously and partially affect dividend policy. Regarding the statement above, the author will analyze the impact of Return on Equity (ROE), Current Ratio and Leverage toward Dividend Policy. Some

research that are related to the impact of Equity (ROE), Current Ratio and Leverage toward Dividend Policy have analysis results that are not consistent.

Based on the phenomenon of inconsistent result of previous research, this research will entitle “**The Impact of Return on Equity, Current Ratio and Leverage towards Dividend Policy of Consumer Goods Companies Listed on Indonesia Stock Exchange.**”

### **1.2 Problem Limitation**

There are several limitation at this research:

1. The independent variable of this research are Return on Equity, Current Ratio and Leverage. The dependent variable is dividend policy.
2. Focus on consumer goods companies listed in Indonesia Stock Exchange.
3. The period of the research is from 2016 to 2020.

### **1.3 Problem Formulation**

In line with the background of the research that has been described above, the problems that can be discussed and identified by the author are:

1. Does Return on Equity have significant impact towards dividend policy of consumer goods companies listed on Indonesia Stock Exchange?
2. Does Current Ratio have significant impact towards dividend policy of consumer goods companies listed on Indonesia Stock Exchange?
3. Does Leverage has significant impact towards dividend policy of consumer goods companies listed on Indonesia Stock Exchange?
4. Do Return on Equity, Current Ratio and Leverage simultaneously have significant impact toward dividend policy of consumer goods companies listed on Indonesia Stock Exchange?

#### **1.4 Objective of the Research**

Regarding to the problem that stated in the background. The objectives of these research are:

1. To identify whether Return on Equity has a significant impact towards dividend policy of consumer goods companies listed on Indonesia Stock Exchange.
2. To identify whether Current Ratio has a significant impact towards dividend policy of consumer goods companies listed on Indonesia Stock Exchange.
3. To identify whether Leverage has a significant impact towards dividend policy of consumer goods companies listed on Indonesia Stock Exchange.
4. To identify whether Return on Equity, Current Ratio and Leverage simultaneously have significant impact toward dividend policy of consumer goods companies listed on Indonesia Stock Exchange.

#### **1.5 Benefit of the Research**

Based on the research objectives written above, this research is expected to obtain some benefits for various parties, as follow:

##### **1.5.1 Theoretical Benefit**

1. This research is aimed to give author deeper understanding regarding the impact of Return on Equity, Current Ratio and Leverage toward dividend policy.
2. This research is expected to provide useful information and additional references for future researchers who are planning to examine problem that related to this studies.

##### **1.5.2 Practical Benefits**

1. For Researchers:

This research is expected to provide deeper understanding of each variable that simultaneously bring significant impact toward dividend policy.

2. For investors and Financial Statement Users:

This research is expected to be guidance for investors regarding the role of Return on Equity, Current Ratio and Leverage toward dividend policy in order to help the investors to make better investing decisions on consumer goods company listed in Indonesia Stock Exchange.

