

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Investment world is currently experiencing rapid development. This is marked by enthusiastic people who attracted to various investment choices in accordance with the character of each investor. The capital market certainly has an important role because it confronts two parties, namely those who have excess funds (investor) and those who need funds (issuer).

The economic development of a country can be measured in many ways, one of which knows the level of development of the world capital market and the securities industry in that country. The capital market is a market for various long-term financial instruments in the form of equity and debt with maturities of more than one year. Activities in the capital market, investor has expectations of the investment, namely in the form of capital gains and dividend. Capital gain is a return obtained from the difference between the purchase price and the selling price of the stock transaction carried out by investor, while the dividend is part of the company's net income that is shared with the company's shareholders (Roni Parica HR, 2014).

Indonesia Stock Exchange (IDX) is a government institution that acts as an exchange organizer. That is, the Indonesia Stock Exchange has the task of facilitating securities trading in Indonesia. Indonesia Stock Exchange (IDX) acts as a capital market as a vehicle for efficient allocation of funds, where investor can invest in several companies through the purchase of newly offered securities or those traded in the capital market (Suardi Yakub et al, 2014 in Lestari, 2015).

Every company needs capital to carry out activities operational company. The capital comes from within the company (internal financing), namely the owner's deposit capital and also external namely loans. The company also needs other capital obtained by issuing its shares. The company issues these shares and then sells them to the public (go public) in the capital market (Sari, 2011).

Investors who want to invest can be done in the form of stock in company with legal entity. Stock is ownership of a company, by owning shares, the investor has ownership rights of the company (Tiocandra, 2015). Investing in stocks to required funds also requires sufficient knowledge, experience and strong business sense to analyze which stocks to buy, which stocks to sell, and which shares are held. The company's capital growth is determined by the net income earned by the company after deducting the dividend distributed to shareholders. Net income is often expressed as an indicator of the company's ability to pay dividend. This is true if management bases the dividend strictly on a certain portion of the net income gradually.

The purpose of the investor in investing share is to get dividend that is the result obtained from each sheet of shares owned. If the company has a goal to multiply shareholders wealth, the measure used to assess the performance of the company should have a direct relationship with return received by shareholders. Return for shareholders can be in the form of cash receipts of dividend, property dividend, stock dividend and liquidating dividend or changes in stock prices (capital gains). Dividend that is commonly shared by the company consists of stock dividend and cash dividend. Stock dividend is a dividend in the form of an addition to the shares given by the issuer of the shares owned by the investors, while the cash dividend is provided by the issuer.

Every public company has a goal to provide a portion of the company's profits to investors. The company must try as much as possible to enlarge or even increase the proportion of dividend distribution in the

hope that it can be increased in the future. Of course investor is more interested in the pattern of cash dividend based on liquidity aspects. The implementation of the cash dividend payment commitment must be supported by the good performance of the company's finances presented in net income and the availability of cash presented in the cash inflows for cash dividend payment (Thomas, 2014). Cash dividend is preferred by investor because can evaluate the performance and liquidity of the company. But company sometimes has large profit in a certain period, it does not reflect the actual number because income is not always received in cash but also in receivable. According to the accrual method in accounting, the company must recognize all of its income to be recorded in the financial statement although it is not in cash. This condition can affect the distribution of cash dividend. In addition dividend payment is also influenced by cash flow more precisely operating cash flow. It is generally the company's largest sources of earning profit.

Operating cash flow classified as determining the amount of net profit or loss which is an indicator that determines whether can generate sufficient cash flow to pay off loans, maintain the company's operating ability, pay dividend and make new investment without relying on sources of income Therefore, if the company has a low operating cash flow, it can affect the payment of cash dividend.

There are many considerations that a company must undertake before deciding on the distribution of dividend, through general meetings such as the availability of cash, liquidity positions, corporate policy on external financing or the ability of the company to obtain funds from outside parties. The amount of dividend paid to shareholders depends on the dividend policy of each company. The company must also consider the survival and growth of the company. The company must analyze the factors that influence profit allocation for dividend or for retained earnings. Because even if the companies earn profit, if they don't have sufficient fund, there is a possibility that the company will retain the profit

to be reinvested, not distributed in the form of dividend. Dividend distribution and company growth want to know how much net income the company gets and will be distributed as dividend.

Hence, investor needs financial information to assess company performance as reflected in financial statements such as balance sheet, income statement, cash flow statement, and capital change report which will determine the various decisions to be taken. Therefore, investor needs to analyze the prospects of the company through the performance of the company as reflected through the profit listed in the published financial statement.

This study focused on property and real estate due to activities related to physical construction such as building construction, opening of new settlements, or still need the availability of facilities and infrastructure to support economic activity and progress in other fields. And can encourage economic growth so that automatically infrastructure and superstructure development into an increasingly competitive business sector. Therefore, it is very interesting to study considering the development of the property and real estate sector is one of indicator to determine the economic growth of a country and this sector is one of the investment sector that is very promising in the future and one of the safest investment option for investors. The explanation above can be proven by the average cash dividend distribution to property and real estate companies as shown below:

Table 1.1 Average Cash Dividend Distribution in Property and Real Estate Sector 2015-2017

	Year		
	2015	2016	2017
Cash Dividend Payment (in Rupiah)	120.283.285.069	111.339.007.438	148.024.765.639

Source: Prepared by the writer (2019)

Based on the table 1.1, in 2015 the distribution of cash dividend amounting to Rp 120,283,285,069.00 was a large value and indicated that the condition of the company in that year could be considered good. Even though in 2016, the distribution of cash dividend decreased by Rp 111,339,007,438.00 from the previous year, indicating that in that year the condition of the company was not very good or did not experience a significant increase. But in 2017, the distribution of cash dividend increased by Rp 148,024,765,639.00, which means that the condition of the company in that year was very good and could be said to have benefited abundantly because of the fantastic increase in value which can be concluded that the value in 2015 is smaller than in 2017. Therefore, investment in this field will be very profitable and reliable in the future.

According to information obtained from IDX Factbook (2015-2017), the property and real estate sector is classified into the tertiary or service industry determined by the Jakarta Stock Industrial Classification (JASICA). Based on the information available, the number of listed companies in this sector has increased every year starting from 2015 to 2017 which can be seen in the table below:

Table 1.2 Development Numbers of Listed Companies in Property and Real Estate Sector 2015-2017

Year	Number of Listed Companies in Property And Real Estate Sector
2015	45
2016	47
2017	49

Source: Prepared by the writer (2019)

Table 1.2 shows that every year listed companies in property and real estate sector continue to increase. From 2015 to 2016, there are two new issuers listed in this sector also same for the next year in 2017. This

indicates that this sector is in great demand by investors, that's why many property and real estate companies choose go public.

This research regarding cash dividend has been done by Gen Norman Thomas (2014) about net income and operating cash flow to cash dividend with the result that both each net income and operating cash flow have a significant impact to cash dividend in manufacturing company that listed on the Indonesia Stock Exchange and the coefficient of determination in the study is 73.1% cash dividend can be impacted by independent variable used and the rest is 26.9% means another variable which is not included in the study. This research was also conducted by Ryezky Ramayandez Azfash, Dr. Kamaliah & Yessy Mutia Basri (2014) about accounting profit, net income and operating cash flow to cash dividend with the result that net income and operating cash flow each not have a significant impact to cash dividend in wholesale & retail trade company that listed on the Indonesia Stock Exchange. Similar to the research conducted by Riyondi Tiocandra (2015), that is, operating cash flow does not have a significant relationship to cash dividend but net income has a significant relationship to cash dividend. The researcher wants to know the ability of company to pay cash dividend to shareholders through information of net income and operating cash flow. The researcher wants to replicate update or modify data from previous studies with different year 2015-2017 and different case study which is property and real estate company.

Because the results of previous research were not consistent with each other and also because the rest of the coefficient of determination is another variable which is not included in the model, therefore the author is interested to conduct research with variables in the previous research on **"The Analysis of Net Income and Operating Cash Flow Towards Distribution of Cash Dividend in Property And Real Estate Company Listed on the Indonesia Stock Exchange."**

1.2 PROBLEM LIMITATION

In this study, researcher limited the range to be examined in the following:

1. This research will focus on two factors affecting the distribution of cash dividend namely net income and operating cash flow.
2. This research is limited to property and real estate company listed on the Indonesia Stock Exchange (IDX) period 2015-2017.

1.3 PROBLEM FORMULATION

Based on the problems that have been described, the problem of this study is:

1. Does net income partially have a significant impact towards distribution of cash dividend?
2. Does operating cash flow partially have a significant impact towards distribution of cash dividend?
3. Do net income and operating cash flow simultaneously have a significant impact towards distribution of cash dividend?

1.4 OBJECTIVE OF THE RESEARCH

The purpose of the research is:

1. To determine whether net income partially have an impact towards distribution of cash dividend;
2. To determine whether operating cash flow partially have an impact towards distribution of cash dividend;
3. To determine whether net income and operating cash flow simultaneously have an impact towards distribution of cash dividend.

1.5 BEBENEFIT OF THE RESEARCH

The results of this study are expected to provide benefits.

1.5.1 THEORITICAL BENEFIT

Give benefits to the development of knowledge, especially in the

field of financial accounting, and especially in terms of explaining the impact of net income and operating cash flow towards distribution of cash dividend.

1.5.2 PRACTICAL BENEFIT

- a. For companies, the results of this study can be used as information to determine the impact of net income and operating cash flow towards distribution of cash dividend so that they can make better decisions to determine the dividend distribution policy.
- b. For investors, the results of this study can be used as a tool to find out in advance the performance conditions of a company before deciding to invest by assessing the company's financial statement, especially in the income statement and cash flow statement as the main information in assessing and making decisions.
- c. For author, to apply knowledge that has been obtained during college through research conducted.

1.6 SYSTEM OF WRITING

Chapter I Introduction

The first chapter is about background of the study, problem limitation, problem formulation, objective of the research, benefit of the research and systems of writing.

Chapter II Literature Review and Hypothesis Development

The second chapter is about theoretical background, previous research, hypothesis development, research model and framework of thinking.

Chapter III Research Methodology

The third chapter is about research design, population and sample, data collection method, operational variable definition and variable measurement and data analysis method.

Chapter IV Data Analysis and Discussion

The fourth chapter is about general view of research object, data analysis, descriptive statistic, result of data quality testing, result of hypothesis testing and discussion.

Chapter V Conclusion

The fifth chapter is about conclusion, implication and recommendation.

