# CHAPTER I

# INTRODUCTION

## 1.1    Background of Study

We are living in an era where investment is very important. Nowadays, there are many people make an investment with the expectation of gaining higher return or profit in the future. According to BKPM (2020), the investment in Indonesia increased by 48.4% within 5 years (2015-2019). As shown on Figure 1.1 below, the total investment in 2019 reached Rp 809.6 trillion which is beyond the targeted amount, Rp 792 trillion. Compared to 2018, the investment increased by 12.24% from Rp 721 trillion.
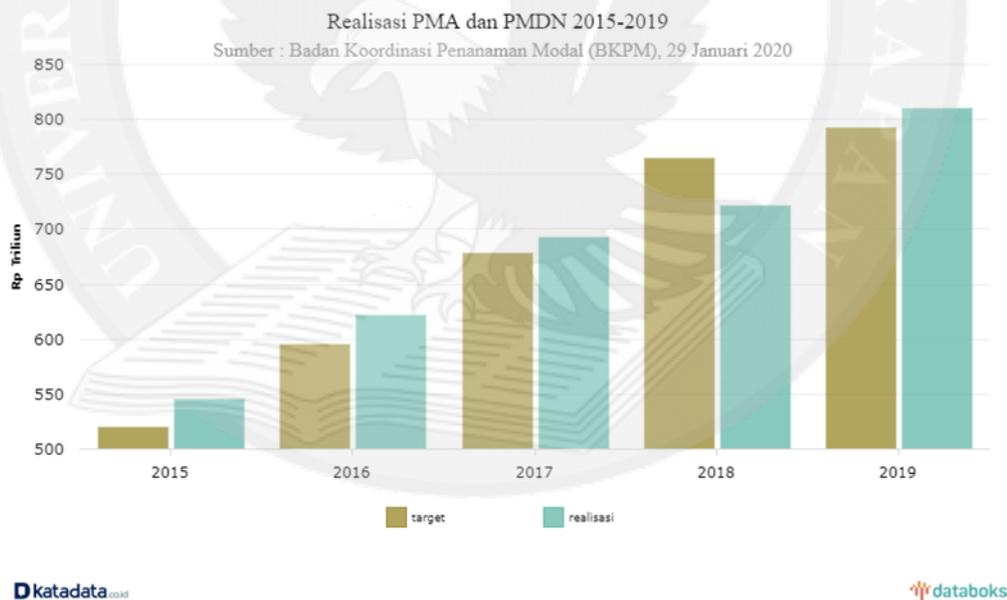


**Figure 1.1** *Realisasi PMA dan PMDN* **(2015-2019)**
Source: *Badan Koordinasi Penanaman Modal (BKPM)*

One of the sectors listed in IDX is the consumer goods industry. The consumer goods industry will affect the economic growth of a country including Indonesia. The reason is because the consumer goods industry provides the needs of the community for daily life. With that being said, the consumer industry often become the main option for investors as it is a promising investment in Indonesia. (Amelia, 2019).

A business requires capital to stay profitable. For a business to run, money is very important as it pays the employees, capital, and all the business expenses. One way to raise fund in a business is through seeking for investors. The more investors a company have, the higher the growth rate of the company. As the capital from the investors can be used as a source of funds for the company's operational activity (Muktisari, 2015).

Investing is to allocate money with the hope of gaining profit or benefit in the future. Stock investment is known for its high risk and uncertainty which is unpredictable for investors. Therefore, to minimize the risk and uncertainty that may happen, investors need several information such as a company's performance through its financial report or other relevant information like economic or politic conditions of a country (Permata, 2017).

The purpose of an investor to invest in a company is to maximize the return. What is offered to the investors are dividends, the distribution of a portion of a company's earning in return of their investment. Dividend policy determines the portion of a company's income that will be distributed for both investors and as retained earnings. When the dividends that are given to the investors are more, the

company will have less retained earnings. However, investors prefer a stable dividend. The higher the dividend, the higher the risk the company has, and vice versa. Hence, it is important for a company to make wise decision on dividend distribution (Permata, 2017).

A company must be able to allocate its earning profits to fulfill two different importance (dividends and retained earnings) which are the main purposes of dividend policy. Dividend policy is shown through Dividend Payout Ratio which is the ratio between dividend per share and earning per share. If the company's financial performance is good, then the company can pay the dividend. To determine the amount of dividends to be paid to the shareholders, a company should consider financial ratios as one of the important factors before making a decision (A'yuni, 2013).

**Table 1.1**
**Current Ratio, Debt to Equity Ratio, Return on Assets and Dividend Payout Ratio in Year 2016-2019**

| Company Name | Year | Current Ratio | Debt to Equity Ratio | Return on Assets | Dividend Pay-out Ratio |
|---|---|---|---|---|---|
| PT Gudang Garam Tbk | 2016 | 1.93 | 0.59 | 0.1 | 0.75 |
| | 2017 | 1.93 | 0.58 | 0.11 | 0.64 |
| | 2018 | 2.05 | 0.53 | 0.11 | 0.62 |
| | 2019 | 2.06 | 0.54 | 0.13 | 0.46 |
| PT Ultra Jaya Milk Industry & Trading Company Tbk | 2016 | 4.84 | 0.21 | 0.16 | 0.01 |
| | 2017 | 4.19 | 0.23 | 0.13 | 0.07 |
| | 2018 | 4.39 | 0.16 | 0.12 | 0.22 |
| | 2019 | 4.44 | 0.16 | 0.15 | 0.14 |
| PT Kalbe Farma Tbk | 2016 | 4.13 | 0.22 | 0.15 | 0.37 |
| | 2017 | 4.5 | 0.19 | 0.14 | 0.42 |
| | 2018 | 4.65 | 0.18 | 0.14 | 0.45 |
| | 2019 | 4.35 | 0.21 | 0.12 | 0.48 |

Source: Prepared by the writer (2021)

There are three consumer goods companies listed in IDX that were chosen by the writer which are PT Gudang Garam Tbk, PT Ultra Jaya Milk Industry &

Trading Company Tbk, and PT Kalbe Farma Tbk. The liquidity ratio (variable $X_1$) is represented by Current Ratio, the leverage ratio (variable $X_2$) is represented by Debt-to-Equity Ratio, the profitability ratio (variable $X_3$) is represented by Return on Assets and the dividend policy (Y) is represented by Dividend Payout Ratio.

As shown on the table above, the current ratio and the return on assets of PT Gudang Garam Tbk is increasing every year. While the debt-to-equity ratio and dividend payout ratio is decreasing every year.

For PT Ultra Jaya Milk Industry & Trading Company Tbk, the current ratio of year 2016-2017 is decreasing by 0.65. However, starting from 2017 up to 2019, the current ratio kept on increasing. For year 2016-2017, the debt-to-equity ratio increased by 0.02. Year 2017-2018, it decreased by 0.07 and year 2018-2019, the ratio remained the same which is 0.16. From the year 2016-2018, the return on assets is decreasing however in 2019, it increased by 0.03 compared to 2018. As for the dividend payout ratio, from year 2016-2018, it kept on increasing but in 2019, it decreased by 0.08 compared to 2018.

For PT Kalbe Farma Tbk, the current ratio from year 2016-2018 is increasing and by the year of 2019, it decreased by 0.3 compared to 2018. In contrary, the debt-to-equity ratio of year 2016-2018 is decreasing and by the year of 2019, it increased by 0.03 compared to 2018. The return of assets of year 2016-2017, it decreased by 0.01 and remained the same till 2018. By the year of 2019, it decreased by 0.02. While the dividend payout ratio continuously increasing from the year 2016-2019.

Based on the information above, the writer is interested in examining on how liquidity ratio, leverage ratio, and profitability ratio affect the dividend policy. From each indicator will be taken out one measurement which are Current Ratio, Debt to Equity Ratio, Return on Assets and Dividend Payout Ratio. Hence, the research paper will be titled **"The Impact of Current Ratio, Debt to Equity Ratio and Return on Assets toward Dividend Payout Ratio of Consumer Goods Companies Listed on Indonesia Stock Exchange 2016-2019"**.

**1.2 Problem Limitation**

1. This research's object is consumer goods companies listed in Indonesia Stock Exchange.

2. The independent variables used by the writer in conducting this research are Current Ratio, Debt to Equity Ratio and Return on Assets.

3. The data for this research will be taken from year 2016-2019.

**1.3 Problem Formulation**

1. Does Current Ratio has an impact towards Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019 partially?

2. Does Debt to Equity Ratio has an impact towards Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019 partially?

3.  Does Return on Assets has an impact towards Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019 partially?

4.  Do Current Ratio, Debt to Equity Ratio and Return on Assets have impact toward Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019 partially?

## 1.4     Objective of the Research

1.  To analyze whether Current Ratio has an impact towards Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019.

2.  To analyze whether Debt to Equity Ratio has an impact towards Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019.

3.  To analyze whether Return on Assets has an impact towards Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019.

4.  To analyze whether Current Ratio, Debt to Equity Ratio and Return on Assets have impact toward Dividend Payout Ratio of consumer goods companies listed in Indonesia Stock Exchange for the year 2016-2019.

## 1.5     Benefit of the Research

The benefits of this research are:

### 1.5.1 Theoretical Benefit

1. This research helps the writer in gaining knowledge regarding the impact of Current Ratio, Debt to Equity Ratio and Return on Assets toward Dividend Payout Ratio.

2. This research can be used as a reference for the following research.

### 1.5.2 Practical Benefit:

1. This research is expected to give investors an insight in decision making prior to investing in a company listed in Indonesia Stock Exchange by examining the company's financial condition.

2. This research is expected to give material consideration for companies in determining the dividend payout ratio distribution.