CHAPTER I

INTRODUCTION

1.1 Background of the Study

In the present age of globalization, investors who wish to invest their Asset in company that have gone public in the Indonesian capital market are starting to target the capital markets of the capital markets. This trend is beginning to target the capital markets of Indonesia. Because the primary objective of investors when they put their money into the stock market is to obtain a profit or a rate of return on their investment, either in the form of capital gains (retained earnings) or dividends that will be distributed to investors by the company that issued the stock. In point of fact, investors anticipate the level of dividend returns to be substantial or, at the very least, generally steady in amounts substantial or, at the very least, reasonably stable for each and every year (Akbar & Fahmi, 2020).

The capital market serves as a platform for investors to engage in investment activity. Investors who allocate their funds anticipate receiving returns on their investment in the shape of dividends or capital gains. Capital gain refers to the financial gain realized from the difference between the purchase price and the selling price of shares. On the other hand, dividends are a portion of the net profit that is distributed to shareholders. The disbursement of dividends by a company is contingent upon the policies or regulations established by said company.

Diverse policies are implemented by companies due to the absence of regulations mandating the payment of a specific dividend amount. The determination of whether the corporation will allocate dividends and the specific dividend amount is established (Widyasti & Putri, 2021).

The decision to focus on researching the manufacturing industry is driven by its critical role in Indonesia's economy. These industries are crucial for economic growth, employment, and technological advancement. In Indonesia, manufacturing faces unique challenges such as infrastructure disparities, bureaucratic complexities, and economic policy fluctuations, yet it continues to progress through investments in technology and innovation. Understanding these dynamics provides insights into how manufacturing companies manage financial strategies, including dividend policy. This research not only enhances understanding of financial management in manufacturing but also sheds light on broader economic impacts and sustainability efforts within Indonesia.

The novelty of this research is accessible while examining dividend policies at manufacturing companies listed on the Indonesia Stock Exchange for the year 2019-2021. By concentrating on the manufacturing sector, it conducts a thorough exploration into the development and implementation of dividend policies within this industry, which encounters specific operational intricacies and financial variables. Through a focused analysis of these sector-specific factors, the research seeks to reveal detailed insights into how dividend policies are crafted and managed to suit the distinct conditions faced by manufacturing companies operating in Indonesia. This research incorporates profitability, liquidity, leverage, and firm size as variables in its comprehensive examination of dividend policy determinants. These factors are essential in financial management practices and have well-established effects on dividend allocations in various contexts. By studying these variables together in Indonesian manufacturing companies, the study seeks to uncover detailed insights into how companies make decisions about dividends. Moreover, the emphasis on the listed companies ensures a focused analysis of dividend dynamics within Indonesia's distinctive economic and regulatory framework, providing valuable insights and practical guidance for financial decision-making in the manufacturing sector.

One of the criteria that is most often connected with dividend distribution is a company's profitability. This is obvious due to the fact that dividends are essentially a transfer of corporate earnings or shareholder profits to the corporation. For the purpose of this research, the return on Asset and return on equity will analyzed as the indicator for the profitability variable. If a company has a high ROA, it will be able to earn a bigger profit from the management of its Asset. As a result, the company will have a better capacity to distribute profits to shareholders in the form of cash dividends, which will result in a rise in the dividend payout ratio (Tjhoa, 2020).

On the other hand, return on equity will also be analyzed in this research. When a company's profitability is high, the dividends that will be given to shareholders are also high. This helps to explain why, if the level of ROE in the company is strong, it will offer a favorable signal connected to the success of the company for shareholders when they are making investment choices (Tjhoa, 2020).

The capacity of a business to rapidly satisfy its short-term commitments is one of the most common definitions of liquidity. The evaluation of the company's liquidity is often the first and most important step in the dividend decision-making process. A strong liquidity position will provide a positive message to the firm, its investors, its creditors, and its owners about the company's financial success. The conclusion is that there will be an increase in the value placed on the policy of dispersed dividends (Opu & Indriakati, 2022).

Moreover, the utilization of leverage offers an overall picture of the organization's capacity to meet its commitments. In addition to this, the corporation places a high priority on debt repayment because of the high leverage value. As a result, the quantity of cash that is utilized for debt repayment has been reduced. payment of debt, resulting in a reduction in the amount of cash available to be utilized for dividend payments; the firm does not have sufficient money for investment. To put it another way, the company's exposure to risk will increase proportionately with the value of its leverage (Nainggolan & Wahyudi, 2023).

Lastly, the size of the company is another factor that goes into determining its dividend policy. This is due to the fact that big companies often have relatively simple access to the capital market. Because of this, it has recently become much simpler for businesses to get sufficient funding on their own. These funds are available for use in the distribution of dividends to the company's shareholders. Therefore, the level of dividend payments can be expected to increase in proportion to the size of the company (Wahyuni, 2021). Further, if the company can obtain good stability and profitability, it will give a good sign for investors, this is because if the firm size is more established and larger, it will have the ability to carry out automatic dividend payments (Sudiartana & Yudantara, 2020).

During the year 2019 to 2021, some of the followings are the data gathered from manufacturing companies listed on the Indonesia Stock Exchange including 3 companies as the analysis which is BUDI (PT Budi Starch & Sweetener Tbk), GGRM (PT Gudang Garam Tbk), and KLBF (PT Kalbe Farma Tbk). The data are as follows:

Table 1.1 The Phenomenon of Profitability, Liquidity, Leverage, and Firm Size toward Dividend Policy

No	Name of the Company	Year	ROA	ROE	CR	DER	SIZE	DPR
1	PT Budi Starch & Sweetener Tbk	2019	0.02	0.05	1.33	1.01	28.73	0.35
		2020	0.02	0.05	1.24	1.14	28.72	0.40
		2021	0.03	0.07	1.16	1.17	28.73	0.29
2	PT Gudang Garam Tbk	2019	0.14	0.21	0.54	2.06	32.00	0.46
		2020	0.10	0.13	0.34	2.91	31.99	0.65
		2021	0.06	0.09	0.52	2.09	32.13	0.89
3	PT Kalbe Farma Tbk	2019	0.13	0.15	0.21	4.35	30.64	0.49
		2020	0.12	0.15	0.23	4.12	30.75	0.45
		2021	0.13	0.15	0.21	4.45	30.88	0.42

Source: Prepared by Writer (2023)

According to the data in Table 1.1 above, there are some conflicting phenomena between profitability which proxied by Return on Asset (ROA), Return on Equity (ROE), Liquidity (CR), Leverage (DER), Firm Size (SIZE), and Dividend Policy (DPR) on manufacturing companies listed on the Indonesian Stock Exchange for the years 2019 to 2021 that have met specific criteria.

According to the table above, the ROA of PT Budi Starch & Sweetener Tbk exhibited a significant rise during the period of 2020-2021, while concurrently observing a marked decline in the DPR value. The comparison of profitability and dividend policy reveals a contradictory pattern. An additional inconsistent trend is evident at PT Gudang Garam Tbk, where the return on Asset (ROA) underwent a noteworthy decline in the period spanning 2019 to 2020. In the interim, there has been a notable increase in the debt-to-equity ratio (DPR) of PT Gudang Garam Tbk. The present inquiry employs the return on Asset (ROA) measurement to ascertain profitability. In the event that a company's profitability level is elevated, a larger percentage of the company's profits will be allocated towards disbursing dividends to its investors.

PT Budi Starch & Sweetener Tbk's Return on Equity increased significantly between 2020 and 2021, but the DPR value decreased significantly. A comparison of profitability and dividend policy indicates a diametrically opposed trend. Another inconsistency can be seen in PT Gudang Garam Tbk, where the return on equity (ROE) fell significantly between 2020 and 2021. In addition, PT Gudang Garam Tbk's dividend payout ratio (DPR) has increased significantly. ROE has a huge influence on a company's value. A high profitability rate indicates that the company's prospects are bright, and a good company shows a positive corporate growth rate. As a consequence, investors will have a positive view of the company's performance, and investors will be able to enhance the company's worth at the same time. This happens because the company that has succeeded in increasing profits might signal that the company has strong performance.

The liquidity of PT Kalbe Farma Tbk, as indicated by its current ratio, exhibited an upward trend while its debt-to-equity ratio declined during the period 2020 to 2021. By way of comparison, there was a significant decrease in PT Gudang Garam Tbk's CR, while the DPR experienced an increase during the period from 2020 to 2021. A company's liquidity and ability to pay its current liabilities are positively correlated with its current ratio. Specifically, a higher current ratio indicates greater liquidity of the company's Asset. Nevertheless, a high current ratio could potentially signify underutilization of the company's Asset.

The DER of PT Kalbe Farma Tbk exhibited a decline during the period of 2019-2020, accompanied by a decrease in their DPR for the same period. In contrast, PT Budi Starch & Sweetener Tbk's Debt-to-Equity Ratio (DER) and Dividend Payout Ratio (DPR) experienced an upward trend during the 2019-2020 period. A lower DER (Debt-to-Equity Ratio) is considered more favourable in financial analysis. A low debt-to-equity ratio (DER) indicates that the organization's liabilities are less than its Asset, enabling it to settle all outstanding debts in the event of bankruptcy. In contrast, when the Debt-to-Equity Ratio (DER) is high, it indicates that the liabilities of the company exceed its net worth, leading to a significant external financial obligation. The increasing magnitude of obligations towards external parties indicates a significant dependence of the organization's financial resources on external sources. In the event of inadequate debt management, the financial well-being of the organization may be adversely affected.

Lastly, the firm size ratio of PT Gudang Garam Tbk exhibited a decline during the year 2019-2020, but also experience an upward trend for the DPR ratio. Meanwhile, another inconsistency can be seen in PT Kalbe Farma Tbk, where the firm size ratio increases along with the decrease of the DPR ratio during the year 2019-2020. The size of a company is typically measured on a scale, with larger companies having established access to the capital market. There is a positive correlation between the size of a company and the amount of dividend distributed.

Based on the above explanation, it can be concluded that there are some conflicting phenomena between Return on Asset (ROA), Return on Equity (ROE), Liquidity (CR), Leverage (DER), Firm Size (SIZE), and Dividend Policy (DPR) of the manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021. As a result, it suggests that the fluctuation of dividend policy in the manufacturing companies is worth researching. Since investors seek for the most efficient way to get return from the capital market, one of the primary factors that every investor considers when making decisions is to keep a close eye on the dividend payments.

Based on the background of the study that has been provided and explained above, it encourages the writer to do research entitled **"The Impact of Profitability, Liquidity, Leverage and Firm Size toward Dividend Policy in Manufacturing Companies Listed on the Indonesia Stock Exchange"**.

1.2 Problem Limitation

In order to avoid deviations from the topic, the writer set some problem limitations as below:

1. The object of this research is manufacturing companies classified as consumer goods industry listed at Indonesia Stock Exchange from 2019 to 2021.
2. In this research, the dependent variable is Dividend Policy, while the independent variables are Profitability proxied by Return on Asset (ROA) and

Return on Equity (ROE), Liquidity (CR), Leverage (DER), and Firm Size (Ln TA).

1.3 Problem Formulation

According to the previously outlined background, the formulation of the research problems are as follows:

1. Does Return on Asset have significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange?
2. Does Return on Equity have significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange?
3. Does Liquidity have significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange?
4. Does Leverage have significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange?
5. Does Firm Size have significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange?

1.4 Objective of the Research

The research's objectives are as follows:

1. To find out whether Return on Asset has significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange.

2. To find out whether Return on Equity has significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange.
3. To find out whether Liquidity has significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange.
4. To find out whether Leverage has significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange.
5. To find out whether Firm Size has significant impact toward Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange.

1.5 Benefit of the Research

This research is supposed to be beneficial to all parties involved and the benefits can be divided into two categories, such as:

1.5.1 Theoretical Benefit

The author of this study considers that it has an opportunity to become a source of literature and reference material for other academics who want to do more research on dividend policy. This is the author's theoretical expectation. The author of the paper also has high expectations that the findings of this study would expand knowledge and awareness about the factors that have an impact on dividend policy, including profitability proxied by return on asset and return on equity, liquidity, leverage, and firm size.

1.5.2 Practical Benefit

The author expects that this research can have practical applications in the following manner:

1. For Scholars

   The expected result of the research is to provide pertinent data, scholarly sources, and empirical substantiation to fellow researchers who intend to pursue research in the corresponding area of inquiry.

2. For Investors

   The anticipated results of this investigation are poised to furnish insights and exemplars pertaining to the state of the corporations, particularly those scrutinized in this scholarly inquiry