CHAPTER I

INTRODUCTION

1.1   Background of The Study

Capital market is place for investor to invest to company and expect return of investment inform of dividend and capital gains (Widyasti & Putri, 2021). Dividend is preferred by shareholder or investors because promise of certain amount return of investment. From year to year there always have issue on dividend policy whether the company decided to give the dividend to its shareholder or not. The decision of amount of dividend to be paid is decided from general meeting of shareholders (GMS) (Damayanti & Palinggi, 2023). Dividend company is from net income that already reduced for retained earnings. Dividend policy are important for those who are involved, especially the management of company and shareholders, for management of company, they have to keep all net income for sustainable operating activities and for shareholders, they want get benefits from their investment of the company in form of dividend from company. Therefore, dividend policy can be defined as one of the ways the company to improve the welfare of its shareholders.

Most of company having schedule for giving the dividend in form of cash, If the company declare giving dividend, it will increase interest of investor to become shareholder of company, while for another side, if company declare too much of giving dividend it will increase the risk of having cash flow which leads to

unsustainable of operating activities of company, it will be backfiring for company because have to manage cash flow or taking loans with interest, making company hard to generate more income. Because of the difference of interest of dividend, dividend policy need to be align with of all parties who are involved (Widyasti & Putri, 2021).

There many of regulation of dividend policy of company, how they manage the company to having decisions for all stakeholders. Because of that there are some example how company distribute the dividend, as follows:

Table 1.1 Research Phenomenon

Company	Year	Net Income	Dividend Distribution
PT Barito Pacific Tbk (BRPT)	2021	4,217,211.73	256,446.00
	2022	500,189.09	310,580.00
	2023	1,537,947.26	154,140.00
PT Buana Artha Anugerah Tbk (STAR)	2021	10,513.09	-
	2022	1,749.86	-
	2023	2,730.17	-
PT Cemindo Gemilang Tbk (CMNT)	2021	254,670.00	-
	2022	(88,204.00)	-
	2023	159,292.00	-
PT Chitose Internasional Tbk (CINT)	2021	(98,210.94)	1,000.00
	2022	(4,149.46)	1,000.00
	2023	5,860.39	1,000.00
PT Indomobil Sukses Internasional Tbk (IMAS)	2021	(255,340.00)	58,689.00
	2022	562,551.00	152,657.00
	2023	777,342.00	163,888.00

Source: S&P Capital IQ database
Prepared by Writer (2024)

Based on Table 1.1 Research Phenomenon data there are inconsistencies in dividend distribution when the net income generates profit or loss. For example, BRPT and STAR have having profit from 2021 until 2023, indicating there will likely chance to have a distribution of dividends, but only BPRT are the one who distribute the dividends. Meanwhile, STAR are the ones not distributed despite the net income generated profits. While CMNT, CINT, and IMAS are having a loss in one of the years, but CINT and IMAS still distribute the dividend, for CMNT even some of the year are generate profit and other are loss, but still the company are not distributing any dividend.

In this research, the writer use profitability as metric to determine measurement of efficiency and effectiveness whether company generate profit or loss (Widyasti & Putri, 2021). Dividend distribution is from profit of company after paying its obligations. The greater of profitability, the greater chance company to have given dividends to shareholders, because the company have financial resources to distribute the earnings to shareholders, while if the company having losses, the company will have difficulties distributing the earnings to shareholders or even company will decide to not having distribution at that period (Widyasti & Putri, 2021).

According from some previous research, the result of the variable was in many forms, stated from the journal study by (Susellawati et al., 2022), (Rahmawati, 2023) and (Onylia Ahyanna & Surpriono, 2023) profitability have impact to dividend while some journal (Widyasti & Putri, 2021) and (Qurochman, 2022) was stated profitability was do not have any impact to dividend Policy.

This research area uses the manufacturing sector as the subject. Because manufacturing includes all kinds of businesses related to daily needs, such as packaged foods, clothing, hygiene products, household products, furniture, electronics, and so on. Manufacturing companies play critical roles in providing essential goods that people use every day and ensuring that the products are convenient and meet customer quality standards.

Table 1. 2 Research Gap

Company Sector	Total Company	Total Company Distribute Dividend from 2019 – 2023	Total percentage of company distribute the dividend based on its own sector
Manufacturing	283	58	20.4%
Agriculture	19	6	31.5%
Mining	59	13	22.0%
Transportation	106	15	14.1%
Finance	194	31	15.9%

Source: S&P Capital IQ database
Prepared by Writer (2024)

Based on Table 1.2 Research Gap, there are some different for proportion of each sector of company have consistency distribute the dividend from 2019 until 2023. Which leads to research gap, because there indicate that distribution of dividend of every sector are very low.

Based on all previous studies of empirical findings comparison, the writer uses profitability main independent variable and liquidity, leverage, free cash flow, and sales growth as control variables, whereas the previous study only had some variable control (no more than four variable control that are identical with the writer) in one paper or journal, the writer also uses manufacture sector and the period of research is 2019 - 2023 where the previous study period mostly based on before 2022, this research uses the quantitative method and use the analytical method by using descriptive statistics, correlation test, classical assumption test, specification test and hypothesis test

Because of the result of several previous empirical findings of dividend policy practices are different, raising a research gap between whether the actual factors that can effect the company dividend Policy. Therefore, based on the background study above, the writer conducting research with the title "**The Effect of Profitability to Dividend Policy**".

1.2   Problem Formulation

According from previous background of the study above, the problem formulation can be identified as follows:

Does profitability have positive significant impact towards dividend policy on manufacturing sector listed on Indonesia Stock Exchange (IDX)?

1.3   Objective of the Research

According from problem formulation, the objective of research is as follows:

To determine whether profitability have significant impact towards dividend policy on manufacturing sector listed on IDX.

1.4   Benefits of the Research

The benefits of research is as follows:

1.4.1   Theoretical benefits

The writer hopes this research will give benefit and become the reference for another researcher who want to do more research about the dividend policy of the company. The writer hopes that the research will give more insightful understanding of what factors that impact towards dividend policy on the manufacturing sector listed on the IDX.

1.4.2   Practical benefits

The writer hopes the practical benefits can be used to:

1.   Students can use this study as the basis for consideration to be used as research material, information about what factors affect the stock distribution policy.

2.   Investors can use this study as information material for consideration in investing in the company and providing information effectiveness to the company.

3.   Company can use this study for reference to consideration for decision-making for internal policy.

1.5   Problem Limitation

Limitations in this study are needed to determine specific explanations and understanding variables. Therefore, the problem limitations of this research are:

1.   The research using secondary data method from S&P Capital IQ that are already registered Indonesia Stock Exchange in period is limited from 2019 – 2023.

2.   The variable dependent of the research is dividend policy.

3.   The company which use USD in the currency are translated into IDR currency based from S&P Capital IQ.

4.   The research model is limited to examining only independent variables in form of main variable is profitability that projected by using Return on Asset (ROA), in addition, there are control variable by using Liquidity, Leverage, Free Cash Flow (FCF) and Sales Growth.