

CHAPTER I

INTRODUCTION

1.1 Background

Investment activities in a company can strengthen the financial position which aims to maintain the company's position, therefore the company tries to attract many investors for all types of company funding activities. Capital market is a place for potential investors or investors to see how well a company's financial position is or how the company is expected to earn profits in the future, and make the financial statements published by the company become a useful benchmark for investors to make an assessment. the company (Krisardiyansah and Amanah, 2020).

According to Handini (2020: 3), the main goal of a company is to increase the company's profit, especially a company that is profit oriented. However, high profits alone are not enough for current conditions. Thus, there is another goal that is considered better than the company, namely by maximizing the welfare of shareholders. Because, maximizing the welfare of shareholders is more important because a company that has high profits may not necessarily reflect the welfare of its owners as well. Moreover, if the manager does not side with the owners and shareholders.

A manufacturing company is a company that processes a material into an item with a higher value based on use and processing. Or in other words add value

to the material by changing its shape or by combining it with other materials that have been modified in such a way (Sulistyarini et al, 2018: 5).

The manufacturing sector was chosen because the manufacturing industry pays more dividends each year, compared to other industrial sectors. The manufacturing industry occupies a dominant position in the Indonesian economy. In the Indonesia Stock Exchange, not all companies distribute dividends either in cash or in the form of shares. This is because each company has different considerations and policies to make policy decisions in paying dividends (Rusli and Sudiarta, 2017).

Dividend policy has a relationship with the decision to share profits or vice versa, namely by withholding these profits or often referred to as retained earnings where these retained earnings will then be reinvested into the company (investment decisions). The existence of a maximum dividend policy gain in a company means that the policy is balanced between the current dividend yield and the company's growth, such as an increase in stock prices in the future so that the company's value can reach the maximum (Darmawan, 2018: 4).

According to Dirman et al (2016), dividend policy is considered a signal for investors in assessing the good and bad of a company, and is also considered important because the dividend policy will be able to influence prospective and investors to carry out investment activities in a company. This is because the dividend policy can affect the company's stock price.

In the distribution of dividends, not all companies will distribute to their shareholders. In addition to the company not distributing dividends in a certain

period, there are also fluctuations in the distribution of dividends in a company. As is the case with several manufacturing companies in the food and beverage sub-sector, namely PT. Tunas Baru Lampung Tbk, PT. Multi Bintang Indonesia Tbk, and PT. Indofood Sukses Makmur Tbk. The following is a table of the percentage distribution of dividends and the percentage level of profitability of the three companies.

Table 1.1
Percentage of Profitability and Dividend Distribution

Year	Profitability percentage TBLA	Dividend distribution percentage TBLA
2016	18,15%	20,55%
2017	23,85%	16,79%
2018	15,97%	52,41%
2019	12,32%	20,20%
2020	11,55%	19,38%
2021	12,19%	16,65%
Tahun	Profitability percentage MLBI	Dividend distribution percentage MLBI
2016	119,67%	93,96%
2017	124,14%	81,20%
2018	104,90%	91,58%
2019	105,24%	101,51%
2020	19,92%	0,17%
2021	60,58%	149,75%
Year	Profitability percentage INDF SM	Dividend distribution percentage INDF SM
2016	11,34%	29,59%
2017	10,77%	40,94%
2018	12,72%	41,75%
2019	12,15%	22,78%
2020	11,67%	26,41%
2021	13,99%	20,12%

Source : www.idx.co.id in 2016-2021

Description :

TBLA : PT. Tunas Baru Lampung Tbk.

MLBI : PT. Multi Bintang Indonesia Tbk.

INDF : PT. Indofood Sukses Makmur Tbk.

From the table above, it can be concluded that the distribution of dividends at PT. Tunas Baru Lampung Tbk, PT. Multi Bintang Indonesia Tbk, and PT. Indofood Sukses Makmur Tbk has fluctuated from year to year (2016-2021). In addition, seen from the percentage level of high profitability does not always reflect a high dividend distribution, and vice versa. Because, when viewed from the data above, there is an unequal level of profitability percentage and dividend distribution between the two.

In this study, conducted research on the factors that can affect the distribution of dividends, including the effectiveness ratio, profitability ratio, liquidity ratio, and leverage ratio. In the effectiveness ratio, if there is an increased asset turnover ratio in a company, then the company can provide returns for investors and shareholders in the form of dividends which tend to be high compared to companies whose total asset turnover ratio has decreased (Patin et al, 2020).

In addition, there is also a profitability ratio. The existence of high profitability means that there are good company prospects (Yanti and Darmayanti, 2019). Companies that are able to generate profits will give a signal to investors about the company's ability to earn profits. If the income in the company is stable,

the dividends to be distributed to shareholders are greater value (Angelia and Toni, 2020).

In addition to profitability, a company also needs information related to liquidity. Liquidity is used to measure the ability of a company to pay its current debts using the company's current assets (Wahyuni and Hafiz, 2018). The high level of liquidity shows investor confidence in the company in paying dividends (Angelia and Toni, 2020).

Furthermore, there is also a leverage ratio, Leverage explains if the financial policy or funding policy regulates the balance of the company's capital sources so that the company's performance runs optimally (Ngadiman, 2020). Companies that have large debts in their capital structure will pay larger dividends when compared to companies that have low debt from the capital structure in terms of the dividend payout ratio (Afriyeni and Deas, 2019).

Previously, there were several studies that also conducted studies on the effect or relationship of effectiveness, profitability, liquidity, and leverage on dividend policy. However, from these studies there are findings of differences in results. In the research of Hamidah et al (2020) and Syahputra and Ijma (2020) the effectiveness variable is stated to have no effect on dividend policy. However, it is inversely proportional to the results of research from Rusli and Sudiarta (2017) where the effectiveness variable has a positive and significant influence on dividend policy.

Research by Sulhan and Herliana (2018) states that the profitability variable has a positive and significant effect on dividend policy. Meanwhile, the research

conducted by Nasution et al (2019) found that profitability has a negative and insignificant effect on dividend policy.

Nasution et al (2019) in their research found that the liquidity has a negative and insignificant effect on dividend policy. Meanwhile, research conducted by Wahyuni and Hafiz (2018) shows that the liquidity variable has no effect on dividend policy. And research conducted by Hidayat et al (2018) that the liquidity variable has a positive and significant influence on dividend policy.

Research conducted by Endang et al (2020) found that the leverage variable had a negative and significant effect on dividend policy. Meanwhile, in the research conducted by Nurchaqqi and Suryarini (2018), the leverage variable has a positive and significant effect on dividend policy.

This study was conducted with the aim of conducting a study of the factors that can influence dividend policy, especially dividend policy in manufacturing companies in the food and beverage sub-sector in the 2016-2020 period. Based on the phenomenon and the results of previous research, it has been shown that there are some differences and inconsistent results so that further research needs to be done. Therefore, the authors are interested in conducting research with the title "Analysis of the Effect of Effectiveness, Profitability, Liquidity, and Leverage on Dividend Policy in Manufacturing Companies listed on the IDX for the 2016-2020 period".

1.2 Scope of the research

From the background, this research requires a problem limitation so that the existing problem don't expand. The problem constraints used are as follows :

1. There are four independent variables (X), namely Effectiveness (X1), Profitability (X2), Liquidity (X3), Leverage (X4), and the dependent variable (Y) namely Dividend Policy.
2. The object of this research is the food and beverage sub sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2021.

1.3 Problem Formulation

Based on the above background, the formulation of the problem that occurs is the fluctuation of dividend distribution and the imbalance of profit levels in several manufacturing companies in the food and beverage sub-sector in 2016-2021.

According to the description above, the research questions can be formulated as follows :

1. Does Effectiveness have a positive or negative effect on Dividend Policy?
2. Does Profitability have a positive or negative effect on Dividend Policy?
3. Does Liquidity have a positive or negative effect on Dividend Policy?
4. Does Leverage have a positive or negative effect on Dividend Policy?

1.4 Purpose

1. To determine and analyze the effect of Effectiveness on Dividend Policy.
2. To determine and analyze the effect of Profitability on Dividend Policy.
3. To determine and analyze the effect of Liquidity on Dividend Policy.
4. To determine and analyze the effect of Leverage on Dividend Policy.

1.5 Usefulness

1.5.1 Practical Use

1. For companies, this research is expected to assist decision making in distributing dividends.
2. For investors, this research is expected to provide certain information regarding the effect of Effectiveness, Profitability, Liquidity, and Leverage on Dividend Policy for making investment decisions.

1.5.2 Teoritical Use

1. To provide empirical evidence regarding the effect of effectiveness, profitability, liquidity, and leverage on dividend policy in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2021 period.
2. For academics, this research is expected to provide information and knowledge about the factors that influence Dividend Policy, especially regarding the effect of Effectiveness, Profitability, Liquidity, and Leverage on Dividend Policy and can be used as reference material for further research.