

How to Attract Attention of Investors Through Dividend Policy on the Consumer Goods Industries?

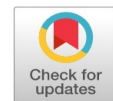
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Abstract: This paper aims to examine the effect of leverage on dividend policy, leverage on profitability, and profitability on dividend policy. The number of samples was collected 8 out of 36 companies of the Consumer goods industries listed on the Indonesia Stock Exchange (IDX) period of 2008 - 2014. The Statistical method is analyzed by using Path Analysis. We found that the direct effect of leverage on dividend policy is negative (-0.648); it might be happening because the degradation of leverage could be the management of Consumer goods industries more focused on holding on their profit rather than increasing their leverage. On the other hand, leverage has a positive effect (0.872) on profitability. Then, profitability has a positive effect (1.004) on dividend policy. When the dividend payout ratio's tendency falls down, the number of investors who want to invest in the consumer goods industries decreases. It was predicted because several firms of the consumer goods industry prefer to reinvest their profits. Therefore, this result implies that the companies must be serious attention to dividend policy to attract investor attention.

Keywords: Dividend Payout Ratio (DPR), Profitability, Leverage

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INTRODUCTION

Indonesia is emerging country which have good economics potential. Business growths in Indonesia shows very promising prospect, especially in the consumer goods industry sector. The reason is simply that the contribution of Consumer Goods Industry sector can improve Gross Domestic Product (GDP) in every year. This condition has attracted many investors to invest in Indonesia.

When the tendency of dividends pay-out ratio is falling down, the number of investors who wants to invest in the consumer goods industries becomes decreasing. It was predicted because several firms of the consumer goods industry prefer to reinvestment their profits, It was related to leverage and dividend policy on the Consumer Goods Industry sector includes of Food and Beverage company, tobacco company, pharmaceutical company, cosmetics and household products company, and household appliances company. Whereas, the other firms prefer to pay a dividend on shareholders. If the companies prefer to reinvestment their profits, that will affect to unstable dividend pay-out ratio which paid on their shareholders. That will affect consideration of dividend policy in their companies. Then, the shareholders of the companies worried to continuously invest their capital on the Consumer goods industry sector. Furthermore, the companies will be lost of the funding sources from leverage. Julian Benavides et.al give an argument about dividend payout policies for firm, they suggest if the firms want to anticipate the risky securities, the firm can avoid the risky securities by expected a new financing which more profitable firms because a more profitable firms can pay more dividends, firms with more leverage and more investment opportunities will pay fewer dividends, firms with more volatile income will pay fewer dividends (Benavides, Berggrun, & Perafan, 2016; Hussain & Md Rus, 2017).

There are some controversy research about dividend policy, Barros, Matos, and Sarmiento (2020) give an argument dividend policies on the firm depending on some firms characteristics; The lower levels of information asymmetry can reduce agency conflict over dividend policy (Harakeh, 2020); The short-term investor pressure, corporate governance pressure, and share turnover can affect on dividend payout

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(Driver, Grosman, & Scaramozzino, 2020), Firms increasing dividends by a large amount subsequently increase leverage (Cooper & Lambertides, 2018; Nuriansyah, Juniar, & Redawati, 2017), Leverage has positive effect on DPR, one factors that influence on dividend policy is leverage (Wicaksono & Nasir, 2014), leverage has positive effect on DPR, leverage has positive effect on dividend policy (Mnune & Purbawangsa, 2019), leverage has negative impact on dividend policy (D. P. Silaban & Purnawati, 2016), leverage has negative effect on dividend policy (Debi Monika & Sudjarni, 2017; Endang & Risal, 2017), leverage has positive effect on dividend policy (Mokhtar, Mousa, & Jaffar, 2013), leverage has effect on dividend policy, profitable firms are less stricken of bankruptcy because they take debt to avoid tax or to boost their performance (Onofrei, Tudose, Durdureanu, & Anton, 2015), leverage has effect on profitability (Ahmad, Salman, & Shamsi, 2015), leverage has positive effect on profitability (Sari & Wiksuana, 2018), profitability does not have contribution on leverage (Akhmadi, Hardiyanti, & Paramitha, 2018), leverage has negative effect on profitability (Onofrei et al., 2015), leverage has effect on profitability (Sari & Wiksuana, 2018), The factors of motivate the dividend policy is Return on Equity (ROE), sales growth, current ratio, debt to total assets, percent of insider ownership, percent of institutional ownership, expansion (Kania & Beacon, 2005), the factors that affect the DPR is financial leverage, Investment Opportunity, sales growth, firm size, and property (Kaźmierska-Jóźwiak, 2015), the present earnings and liquidity are the most likely factors for the firm deciding of payout policy (Adnan, 2018).

Based on the research problems, the purpose on this study are determine the effect of leverage on dividend policy, the effect of leverage on profitability, the effect of profitability on dividend policy.

LITERATUR REVIEW

The effect of leverage on dividend policy

Dividend policy is the policy of company management to decide a payment of the company's profits in the form of dividends to shareholders rather than holding it as retained earnings (Nurchaqqi & Suryarini, 2018). In increasing profitability, companies use leverage to increase the effectiveness of capital by leverage. Firms increasing dividends by a large amount subsequently increase leverage (Cooper & Lambertides, 2018). Komrattanapanya and Suntraruk (2013) found that leverage has positive effect on DPR.

Afza and Mirza (2010) said that "large companies more reluctant to pay high dividends because of large companies prefer to save more cash for reinvesting than to pay a dividend. Whereas, small companies prefer to improve the demand of their shares by paying dividends to accumulate required sum of money from issuance of equity shares at better price".

Nurchaqqi and Suryarini (2018) say that "One factors that influence on dividend policy is leverage. Higher leverage will make a company use the profits to pay-off leverage, the companies with higher leverage tend to share dividends in small amount. In other words, leverage has a negative effects on dividend policy".

Mahaputra and Wirawati (2014) said "leverage has positive effect on DPR". Mnune and Purbawangsa (2019) said leverage has positive effect on dividend policy. While, C. N. Silaban and Pengestuti (2017) found that leverage has negative impact on dividend policy. Debi Monika and Sudjarni (2017) found that leverage has negative effect on dividend policy. Leverage has positive effect on dividend policy (Mokhtar et al., 2013). Mahaputra and Wirawati (2014) found that leverage has effect on dividend policy.

In this study, we determine the effect of leverage on dividend policy. The following is hypothesis proposed on this study.

H1: Leverage has effect on dividend policy.

The effect of leverage on profitability

Profitability is ability of companies to get a profit. In order to perform its business activities, the company needs funding from leverage. If the company prefers to hold their profits as retained earnings, the profit to be paid as dividends will be smaller. However, if the company prefers to distribute its profits as a dividend, so the company will get a continued capital from shareholders to invest their equity in the company. A company is considered credible if it has a rapid profit rate. Kartikasari and Merianti (2016) believe that leverage can improve firms profitability.

Mnune and Purbawangsa (2019) use profitability, leverage, company size, and business risk as indicators that can influence dividend payout policies. They found that “profitability positively significantly influences on dividend policy, leverage positively significantly influences on dividend policy, company size does not affect on dividend policy, and business risk negatively significantly affects on dividend policy”.

According to Cooper and Lambertides (2018) “the firms will increase the dividend, then the increasing leverage”. A big firm will choose to increase their leverage to avoid its tax of dividend. According to research by written Onofrei et al. (2015) “based on trade-off theory, profitable firms are less to stricken of bankruptcy because they take debt to avoid tax or to boost their performance. Contradictory theoretical with pecking order theory, profitable firms prefer to self-financing to using external financing sources”. The leverage has effect on profitability (Ahmad et al., 2015). Sari and Wiksuana (2018) found that leverage has positive effect on profitability. Akhmadi et al. (2018) found that profitability does not have contribution on leverage. The leverage has negative effect on profitability (Onofrei et al., 2015). Leverage has effect on profitability (Sari & Wiksuana, 2018).

In this study, we examines the effect of leverage on profitability. The following is hypothesis proposed on this study.

H2: Leverage has effect on profitability.

The effect of profitability on dividend policy

The factors of motivate the dividend policy is ROE, sales growth, current ratio, debt to total assets, percent of insider ownership, percent of institutional ownership, expansion (Kania & Beacon, 2005). Komrattanapanya and Suntraruk (2013) said the factors that affect the DPR is financial leverage, investment opportunity, sales growth, firm size, and property. The present earnings and liquidity are the most likely factors for the firm deciding of payout policy (Adnan, 2018). The research by D. P. Silaban and Purnawati (2016) highlighted that profitability has effect on dividend policy. Natalia and Santoso (2017) “profitability has effect on dividend policy”. Profitability positive effect on dividend policy (Wicaksono & Nasir, 2014). Profitability is able to mediate the effect of financial leverage on dividend policy (Sari & Wiksuana, 2018). While, Kaźmierska-Jóźwiak (2015) found that profitability has negative effect on dividend policy.

In this study, we find the effect of profitability on dividend policy. The following is hypothesis proposed on this study

H3: Profitability has effect on dividend policy

RESEARCH METHOD

The data using secondary data by eight companies on the consumer goods industries. The number of samples was collected purposively of eight companies consisting of PT Gudang Garam Tbk, PT Handjaya Mandala Sampoerna Tbk, PT Indofood Sukses Makmur Tbk, PT Kimia Farma (Persero) Tbk, PT Kalbe Farma Tbk, PT Multi Bintang Indonesia Tbk, PT Mandom Indonesia Tbk, and PT Unilever Indonesia Tbk. The statistical analysis estimation result by using statistical tools (SPSS) and path analysis. Path analysis using on the reseacrh to determine direct and indirect effect on independent and dependent variable.

The variable of the research consists of dependent variable is Dividend Policy (Y), independent variable is Leverage (X), and intervening variable is Profitability (Z). However, due to difficulties of calculating dividend policy proxied by DPR, Leverage proxied by Debt to Equity Ratio (DER). In additon, the Profitability variable was proxied by ROE.

Moreover, the framework estimates of all variable above as a follow figure below:

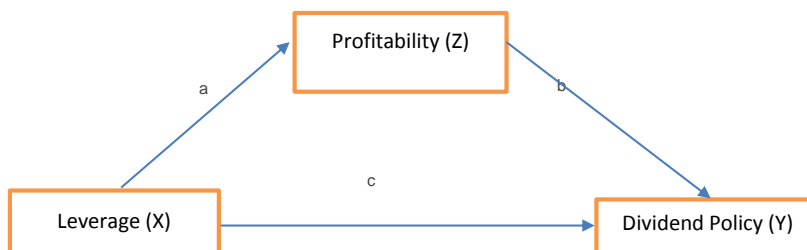


Figure 1. Framework variables estimate

RESULT AND DISCUSSION

Table 1: SPSS output

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.542 ^a	.293	.267		29.25695

a. Predictors: (Constant), Profitability, Leverage

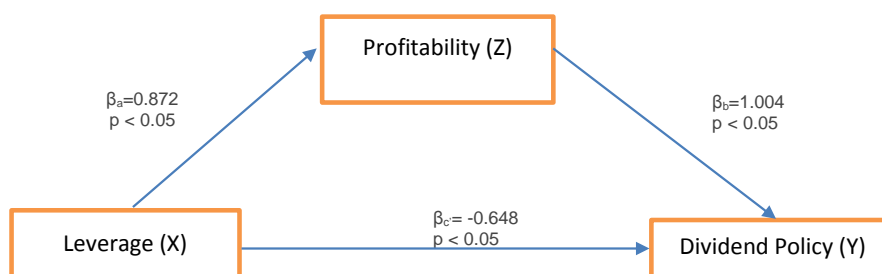
Table 2: Relation between leverage, profitability and dividend policy

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	42.276	5.210		8.114	.000
Leverage	-.178	.065	-.648	-2.748	.008
Profitability	.497	.117	1.004	4.257	.000

a. Dependent Variable: Dividend policy

$$Y = a3 + c'x + bz = 0.872 - 0.648x + 1.004z \tag{1}$$

The output shows that the correlation between Profitability and Dividend Policy is a positive effect (1.004) and significant with the significance of $0.00 < 0.05$. While, the effect of leverage on dividend policy is a negative effect (-0.648) with significance $0.01 < 0.05$. Thats mean profitability can affect dividend policy, and leverage can affect dividend policy.



Direct effect = -0.648

Indirect effect = 0.872 x 1.004 = 0.875

Total Effect = 0.227

Figure 2. Path analysis

Leverage has effect on dividend policy

The finding data shows that the effect of Leverage (X) on dividend policy (Y) is -0.648 with significance value is $0.01 < 0.05$. The direct effect of leverage on dividend policy is a negative effect, it might be happening because of degradation of leverage could be the management of companies more focus to holding on their profit rather than to increase their leverage. If the leverage is increasing, so the operational activities of the company must to focus on repayment the company's leverage, then it will be the reducing of company's ability to obtain an optimal net profit that will have an impact on dividend payments. Finally, the Consumer Goods Industries should give serious attention on dividend policy that proxied of DPR.

The result of the research is supported by theory of Silaban and Pangestuti, leverage has negative impact on dividend policy (C. N. Silaban & Pengestuti, 2017). According to Debi Monika and Sudjarni (2017) leverage has negative effect on dividend policy. The finding data provide proof that the increasing leverage can give negative impact on dividend policy because the firms will focus on the repayment of leverage than to pay dividend on shareholders. The finding data accordance with research by Afza and Mirza (2010) i.e., "large companies more reluctant to pay high dividends because of large companies prefer to save more cash for reinvesting than to pay a dividend, whereas, small companies prefer to improve the demand of their shares by paying dividends to accumulate required sum of money from issuance of equity shares at better price". The implication about this result is the Consumer Goods Industries must be serious attention on dividend policy to attract attention of investor.

Leverage has effect on profitability

The finding data determines that the effect of leverage on profitability have positive effect is 0.872 (87.2%) and significance value is 0.00 ($0.00 < 0.05$). That's mean a hypothesis on this paper is accepted, leverage has effect on profitability. The implication of the result is leverage can improve a company profit.

The result of this study is supported by theory of Kartikasari and Merianti (2016) which believe that leverage can improve firms profitability. Leverage has positive effect on profitability (Sari & Wiksuana, 2018). Then, the result According to research "based on trade-off theory, profitable firms are less to stricken of bankruptcy because they take debt to avoid tax or to boost their performance" (Onofrei et al., 2015).

We concluded when the Consumer Goods Industries using leverage in their operational activities, the consumer goods industries can improve their profit.

Profitability has effect on dividend policy

The finding data shows that profitability has effect on dividend policy as amounted 1.004 (10,04%) with significance value $0.00 < 0.05$. The finding data give implication that the profitability could be an indicator which has the effect on dividend policy.

The result of this study is supported by theory of D. P. Silaban and Purnawati (2016) i.e., profitability has effect on dividend policy. Natalia and Santoso (2017) said profitability has effect on dividend policy. Profitability positive effect on dividend policy (Wicaksono & Nasir, 2014). "Profitability is able to mediate the effect of financial leverage on dividend policy" (Sari & Wiksuana, 2018).

We concluded that the Consumer Goods Company could be to consider the level of profitability to decide on dividend policy.

CONCLUSION AND IMPLICATIONS

In this study, we assume that dividend policy is influenced by leverage and profitability as an intervening variable that can affect leverage and dividend policy. In our findings we found that leverage has negative effect on dividend policy. This is consistent with was stated by (C. N. Silaban & Pengestuti, 2017) and (Debi Monika & Sudjarni, 2017), leverage has negative effect on dividend policy. We conclude that the increased leverage can increase profitability but if leverage is higher than profits earned by the company then it will have an impact on the company's dividend policy, where company management will focus more on the payment of leverage rather than to pay dividend on shareholders. That it is in

accordance with quoted by (Wicaksono & Nasir, 2014) higher leverage will make a company use the profits to pay-off leverage, the companies with higher leverage tend to share dividends in small amount. In other words, leverage has a negative effects on dividend policy.

Meanwhile in this study we found that leverage has positive effect on profitability, profitability has positive effect on dividend policy. The result gives implication that the leverage can increase the profitability, and the profitability can determine dividend policy. Based on the data, we conclude the companies can use leverage for increasing profit and improve the value of companies. However, companies must be careful in using leverage. Then, the companies can consider dividend policy based on profitability which to earned.

Furthermore, the companies must give serious attention to dividend policy to attract the attention of investor. If the companies want to increase their investor, they must be careful about using their leverage. Finally, we conclude that the size of the use of leverage and the earning of profit as consider of dividend policy depends on the characteristics of the company itself. This is accordance with argument (Barros et al., 2020), dividend policies on the firm depending on some firms characteristics.

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