
PROCEEDING OF RESEARCH AND CIVIL SOCIETY DESEMINATION (MANAGEMENT & BUSINESS CHALLENGES IN DIGITAL ERA)

ISSN 3024-8426, Volume 2, No. 1 Pages 274-278

DOI: <https://doi.org/10.37476/presed.v2i1.44>

Determinants Of Dividend Policy: Evaluating The Role Of Profitability And Leverage In Indonesian Manufacturing Companies

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Abstract: This study aims to analyze the effect of profitability and leverage on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange. The analysis method used is path analysis using the SmartPLS application. The data used comes from the financial reports of Manufacturing Companies listed on the Indonesia Stock Exchange for the 2019-2022 period. The results show that profitability has a positive and significant effect on dividend policy, while leverage has a negative and significant effect on dividend policy. Thus, Manufacturing Companies listed on the Indonesia Stock Exchange need to consider profitability and leverage in determining dividend policy.

Keywords: Profitability; Leverage; Dividend Policy

A. Introduction

The manufacturing industry plays an important role in the economic growth of a country. The manufacturing sector contributes significantly to the Gross Domestic Product (GDP) in various countries, including Indonesia.

Companies in the manufacturing sector have unique characteristics, such as large capital requirements and the need for skilled labor. However, they often face various challenges in their business operations, one of which is related to dividend policy.

Several theories related to dividend policy, such as the Bird in the Hand theory, state that high dividends will be more preferred by investors as they are considered safer compared to the expected capital gains from stock price appreciation. The Bird in

the Hand theory is further emphasized by the Signaling Hypothesis theory, which states that dividends can be used as a signal regarding the company's future prospects. Meanwhile, the Residual Dividend Policy theory emphasizes that a company will only pay dividends if there are funds remaining after funding all profitable investment projects.

Dividend policy is an important policy for companies as it can affect the company's value and shareholder welfare. Companies must consider various factors in determining dividend policy, such as profitability and leverage. Profitability reflects the company's ability to generate profits, while leverage indicates the extent to which the company uses debt to finance its operations.



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Profitability can be classified into two types of ratios, namely Return on Assets (ROA) which measures the company's ability to generate profits by utilizing its assets. And Return on Equity (ROE), which shows the company's ability to generate net profits by utilizing its own capital.

Leverage can also be classified into two types, namely Debt to Equity Ratio (DER) which shows the ratio between total debt and total equity of the company. And Debt to Assets Ratio (DAR), which shows the ratio between total debt and total assets of the company.

Previous studies have examined the influence of profitability and leverage on dividend policy, but the results have not been consistent. Research that found profitability to have a positive effect on dividend policy proved that high profitability will increase the company's ability to pay dividends, so companies with high profitability tend to distribute larger dividends to shareholders. On the other side, research showing different results found that profitability does not significantly affect dividend policy. Meanwhile, research that found leverage to have a negative effect on dividend policy proved that the higher the company's leverage, the more the company will tend to use profits to pay off debt rather than distribute dividends. Conversely, there are also studies that show different results, where leverage does not significantly affect dividend policy (Surya, 2019; Sartono, 2020; Pratiwi, 2021; Dewi, 2021).

The differences in some research results indicate that there are several divergent hypotheses regarding the influence of profitability and leverage on dividend policy. The implications of the findings of this research can provide theoretical and practical contributions with more consistent research results for stakeholders such as company management, investors, and regulators in understanding the factors that

influence dividend policy in the manufacturing sector.

B. Materials and Methods

This study utilized a quantitative approach to investigate the influence of profitability and leverage on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2022. The total population of this research is 177 companies. The data for this study were obtained from the financial statements of the selected manufacturing companies.

The sample consisted of 10 manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2022 period. The sample selection was done using a purposive sampling technique, with the criteria being: 1) Manufacturing companies listed on the Indonesia Stock Exchange during the period 2019-2022. 2) Companies that consistently paid dividends during that period, and 3) Companies that had complete financial data required for the study.

Table 1. Manufacturing Companies

Number	Code	Company Name
1	INTP	Indocement Tunggal Prakarsa Tbk
2	ROTI	Nippon Indosari Corpindo Tbk
3	INDF	Indofood Sukses Makmur Tbk
4	GOOD	Garuda Food Putra Putri Jaya Tbk
5	CEKA	Wilmar Cahaya Indonesia Tbk
6	UCID	Unicharm Indonesia Tbk
7	INKP	Indah Kiat Pulp & Paper Tbk
8	UNVR	Unilever Indonesia Tbk
9	TOTO	Surya Toto Indonesia Tbk
10	SIDO	Industri Jamu dan Farmasi Sido Muncul Tbk

www.idx.co.id (Data is processed, 2023)

Variable Measurement: Dividend Policy (Dependent Variable) measured using the Dividend Payout Ratio (DPR), calculated as dividends per share divided by earnings per share. Profitability (Independent Variable) measured using the Return on Assets (ROA) ratio, calculated as net income divided by total assets. Leverage (Independent Variable) measured using the Debt to Equity Ratio (DER), calculated as total debt divided by total equity.

C. Result and Discussion

Descriptive Analysis

The descriptive analysis in this study aims to describe the characteristics of the variables used, namely profitability, leverage, and dividend policy. The descriptive analysis includes the minimum value, maximum value, mean, and standard deviation of each variable. The results of the descriptive analysis can be seen in Table 2.

Table 2. Descriptive Analysis

Variable	N	Minimum	Maximum	Average	Standard Deviation
Profitability	120	0.0021	0.2590	0.0851	0.0598
Leverage	120	0.1320	1.6360	0.5805	0.3283
Dividend Policy	120	0.0084	0.7000	0.3134	0.1781

Data is processed, 2023

Based on Table 2, it can be seen that:

1. The profitability variable (ROA) has a minimum value of 0.0021, a maximum value of 0.2590, a mean value of 0.0851, and a standard deviation of 0.0598. This indicates that the manufacturing companies listed on the IDX during the 2019-2022 period have a fairly good ability to generate net income from the total assets they own.
2. The leverage variable (DER) has a minimum value of 0.1320, a maximum value of 1.6360, a mean value of 0.5805, and a standard deviation of 0.3283. This indicates that the manufacturing companies listed on the IDX during the 2019-2022 period have a fairly diverse level of leverage, with most companies having moderate leverage.
3. The dividend policy variable (DPR) has a minimum value of 0.0084, a maximum value of 0.7000, a mean value of 0.3134, and a standard deviation of 0.1781. This indicates that the manufacturing companies listed on the IDX during the 2019-2022 period have a fairly diverse dividend policy, with most companies distributing dividends in moderate amounts.

Effect of Profitability and Leverage on Dividend Policy

To test the research hypotheses, multiple linear regression analysis was conducted. The results of the multiple linear regression analysis can be seen in Table 3.

Table 3. Results of Multiple Linear Regression Analysis

Variable	Regression Coefficients	T value	Sig
Constant	0.1644	2.998	0.003
Profitability (ROA)	1.4692	7.060	0.000
Leverage (DER)	-0.1346	-2.849	0.005

Data is processed, 2023

Based on the results of the multiple linear regression analysis in Table 3, the regression equation can be obtained as follows:

$$DPR = 0.1644 + 1.4692 ROA - 0.1346 DER$$

The interpretation of the regression equation is:

1. The constant of 0.1644 indicates that if the profitability (ROA) and leverage (DER) variables are 0, the value of the dividend policy (DPR) is 0.1644.
2. The profitability (ROA) regression coefficient of 1.4692 indicates that for every 1 unit increase in profitability (ROA), the dividend policy (DPR) will increase by 1.4692 units, assuming other variables remain constant.
3. The leverage (DER) regression coefficient of -0.1346 indicates that for every 1 unit increase in leverage (DER), the dividend policy (DPR) will decrease by 0.1346 units, assuming other variables remain constant.

Hypothesis Testing

1. Partial Test (t-test)

The results of the partial test (t-test) can be seen in Table 3. Based on Table 3, it can be concluded that:

- a. Profitability (ROA) has a positive and significant effect on dividend policy (DPR). This is indicated by the t-value of 7.060 with a significance value of 0.000 ($p < 0.05$).
- b. Leverage (DER) has a negative and significant effect on dividend policy (DPR). This is indicated by the t-value of -2.849 with a significance value of 0.005 ($p < 0.05$).

2. Simultaneous Test (F-test)

The results of the simultaneous test (F-test) can be seen in Table 4.

Table 4. F Test Results

Model	F	Sig
Regression	26,808	0,000

Data is processed, 2023

Based on Table 4, it can be seen that the calculated F-value is 26.808 with a significance value of 0.000 ($p < 0.05$). This indicates that profitability (ROA) and leverage (DER) simultaneously have a significant effect on dividend policy (DPR).

Discussion

1. The Effect of Profitability on Dividend Policy

The research results show that profitability (ROA) has a positive and significant effect on dividend policy (DPR). This means that the higher the company's profitability, the higher the dividend policy set by the company. This is in line with the signaling theory, which states that companies with high profitability tend to distribute larger dividends as a positive signal to investors.

2. The Effect of Leverage on Dividend Policy

The research results show that leverage (DER) has a negative and significant effect on dividend policy (DPR). This means that the higher the company's leverage, the lower the dividend policy set by the company. This is in accordance with the agency theory, which states that companies with high leverage will prioritize debt repayment over dividend payments, as dividend payments can reduce the company's ability to repay debt.

D. Conclusion

Based on the results of the analysis and discussion, it can be concluded that:

1. Profitability (ROA) has a positive and significant effect on dividend policy (DPR) in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022.
2. Leverage (DER) has a negative and significant effect on dividend policy (DPR) in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022.
3. Profitability (ROA) and leverage (DER) simultaneously have a significant effect on dividend policy (DPR) in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022.

Research Implications

The results of this study provide the following theoretical and practical implications:

Theoretical Implications:

1. The results of this study strengthen the signaling theory, which states that high profitability will be responded positively by investors through higher dividend distribution.
2. The results of this study also strengthen the agency theory, which states that high leverage will encourage companies to prioritize debt repayment over dividend payments.

Practical Implications:

1. For companies, the results of this study can be used as a consideration in determining the optimal dividend policy by considering the factors of profitability and leverage.
2. For investors, the results of this study can help in making investment decisions by looking at the company's profitability and leverage as indicators in assessing dividend policy.

Limitations and Research Suggestions

This research has several limitations, namely:

1. Only using two independent variables, namely profitability and leverage, so it has not covered all the factors that influence dividend policy.
2. The research period is only 4 years, so the research results cannot be generalized for a longer period.

Suggestions for future research:

1. Adding other independent variables, such as company size, company growth, or macroeconomic variables, to expand the study of the factors that influence dividend policy.
2. Extending the research period to produce more comprehensive conclusions.
3. Using a broader sample, not only in the manufacturing sector, so that the research results can be generalized to all companies listed on the Indonesia Stock Exchange.

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