CHAPTER 1

INTRODUCTION

1.1 RESEARCH BACKGROUND

The capital market is one aspect that plays a role in the economy of a country. The capital market is a meeting place for companies and other institutions that need funds for business development, expansion, additional working capital, and investors who want to invest their funds. To obtain funds, the company or institution issues shares or debt securities, and the investor "funds" the company or institution by buying the equipment directly or in the form of mutual funds in the capital market. Therefore, the capital market plays an important role in the economy of a country. The high interest of investors to invest is supported by the increase in the company's performance. Investors must be able to analyze and evaluate shares before deciding to invest in the company.

A corporate action is an action/policy/decision of a company that has an impact on investors or shareholders which will affect the percentage of share ownership, the number of shares owned, and the interests of other shareholders. The various impacts can be positive and negative depending on what cooperative actions are taken by the shareholders regarding the cooperative action. And of course this shareholder perception will greatly affect the share price in question. One of these cooperative actions is dividend policy

The dividend policy is an important policy for the company, because this policy is related to the company's policy to determine the amount of profit to be distributed to shareholders or withholding profits for future investment costs, which will determine the growth opportunities for the company (Cheng, Cullinan, & Zhang, 2014). This makes many companies worry whether the company's assets can be managed properly or otherwise, so that the company's goals can be achieved in the future and can attract the attention of investors. Therefore, every company must prepare a strategy to face competition and take the right decisions to achieve company goals

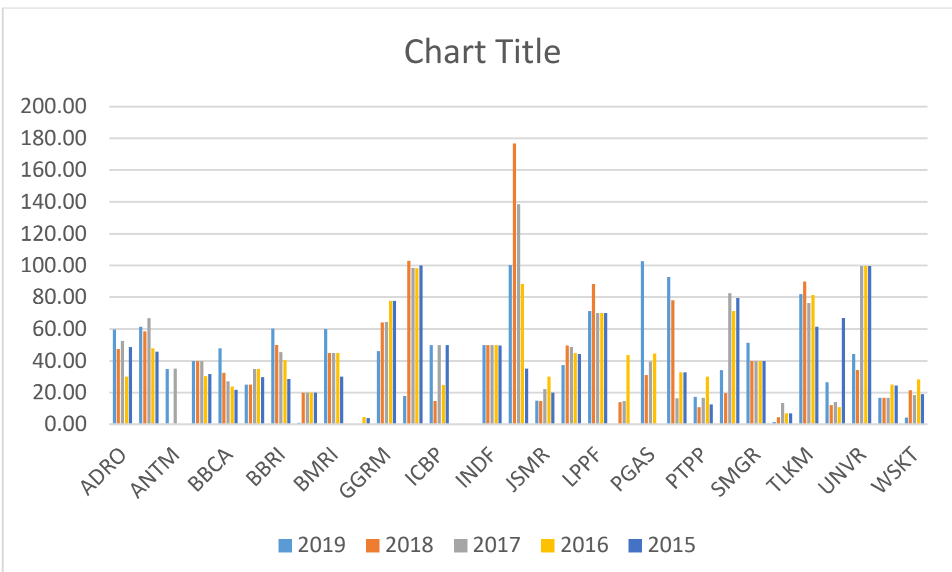

Figure 1. 1 Dividend Payout Ratio Charts

Some companies that are known for being generous in distributing dividends such as H.M. Sampoerna Tbk (HMSP), Indocement Tunggal Prakarsa Tbk (INTP), PT Perusahaan Gas Negara Tbk (PGAS), these three companies have a dividend payout ratio above 100%, which means the company distributes more dividends to shareholders than profits in that year. Aneka Tambang Tbk (ANTM), Bumi Serpong Damai Tbk (BSDE), Media Nusantara Citra Tbk (MNCN) did not distribute even though they made a profit. This proves that there are several factors that influence dividend distribution, which causes the dividend policy of each company to be different.

The distribution of dividends has a very important impact on investors and companies that will distribute their wealth in the form of dividends. The size of the dividend to be paid by the company depends on the dividend policy of each company, so management consideration is needed. This means that companies need to consider factors that can influence dividend policy such as Profitability, Leverage, Firm Size, Growth, Earning, and Share Price.

Profitability is the company's effort to generate profits in the company's operations from sales and investment (Hermuningsih, 2012). The profitability of a company affects the amount of dividends distributed to shareholders. Shareholder profitability may be a symbol of choosing to invest in their company's shares. Meanwhile, for company management, profitability is the benchmark in leading the company's success. This makes profit the main role of the company in distributing dividends. Therefore, companies need to earn profits by distributing dividends. This may imply that the greater the profitability, the greater the company will generate profits. If the company's profits increase, this indicates a better level of company performance. The better the company's performance, the greater the investor's demand for these shares (Sujoko & Soebiantoro, 2007). In research (Al-Malkawi, 2007), (Louth & Lantara, 2015), (Khan & Ahmad, 2015) stated that profitability has a significant positive effect on company dividend policy, while research (Al-kayed, 2017) and (Tanjung, 2017) stated that profitability has a significant negative effect on the company's dividend policy.

Companies with high profitability will pay their debts without difficulty. Debt is the company's ability to fulfill its financial obligations and measure the company's ability to use debt to fund its operations (Husnan & Pudjiastuti, 2012). Companies that have a lot of debt in total assets usually do not pay dividends to investors. The reason is, companies must hold their profits and prioritize debt payments. Therefore, the higher the level of debt, the less dividends the company will pay, or the company should keep it as cash. (Miller & Modigliani, 1961) Stated that an increase in the level of debt is a good signal for the company's future prospects and will increase the company's value which will affect the company's desire to pay higher dividends. The results of research conducted (Myers & Bacon, 2004) and (Trang, 2012) state that leverage has a significant positive effect on dividend policy. However, different results are shown by research (Khan & Ahmad, 2015) and (Al-Kuwari, 2009) which states that leverage has a negative effect on dividend policy.

Company growth is the company's ability to develop the company from year to year or maintain its position. (Higgins, 1981) Shows a direct relationship between company growth and funding needs. According to (Suherli & Harahap, 2004), high company growth will affect dividend policy because the company will allocate company funds for investment thereby reducing dividend distribution to shareholders. This is because companies prefer to hold profits in the form of financial investment projects, expand their business, and use internal financing rather than distribute dividends to shareholders. This suggests that growth opportunities have a negative impact on dividends (Gul & Kealey, 1999).

Firm size is a company that describes the size of total assets, market value of shares and level of sales owned by the company (Brigham & Houston, 2011). The size of the company provides a reflection of the condition of the company as measured by the company's total assets. It can be said that large companies have a high level of profitability and even stability and tend to pay dividends. This is because large companies tend to generate larger revenues, allowing for more personal payments to shareholders. Large shareholders who have a larger proportion of shares means more control over management, namely by putting pressure on management to ensure that shareholder wealth is maximized by distributing higher dividends, therefore investors are more attracted to large companies than companies small.

One of the most important determinants of dividend policy, according to (Lintner, 1956), is current year earnings. Earnings per Share (EPS) is the level of net profit that a company can achieve when it runs its company for the benefit of its investors. If the company makes a profit, dividends will be paid out. Profits which should be distributed to shareholders are profits after all interest and tax obligations have been met (Brigham, Houston, & Yulianto, 2010). Furthermore, according the pecking order model, more profitable firms can still pay higher dividends without financing investments with risky equity and debt. In the eyes of investors, companies that generate large net profits were performing effectively. The higher the value of EPS, the higher the interest to investors, and the more attractive the stock, the higher the demand for shares.

According to (Shiller, 1981), the market model is the change in stock prices associated with new information about future dividends. This statement is in line with the view of (Bhattacharya, 1988) that an increase in dividends usually follows an increase in stock prices, which is related to information from the dividends themselves. According to (Copeland, 1983), if the change in dividends is temporary, the impact of price changes will be minimal, but if the dividend change does make a fundamental change in the dividend growth rate of investors, even the dividend change is also very small and can cause large price changes. This is because small changes in dividends can affect large changes in the dividend growth rate and investors' assessment of the company.

Based on the description of the above problems and there is a research gap that shows the inconsistency of the research results, the researcher will conduct a research entitled "**Determinants Of Corporate Dividend Policy In Indonesia**" (study on LQ45 companies listed on the stock exchange in Indonesia 2019-2016).

1.2 PROBLEM STATEMENT

Based on the background described, the authors propose the following problem formulation:

A. Does the profitability ratio have a significant positive effect on dividend policy on companies listed on the Indonesia Stock Exchange in the 2019-2016 period?
B. Does the leverage ratio have a significant negative effect on dividend policy on companies listed on the Indonesia Stock Exchange in the 2019-2016 period?
C. Does growth have a significant negative effect on dividend policy on companies listed on the Indonesia Stock Exchange in the 2019-2016 period?
D. Does the firm size have a significant positive effect on dividend policy on companies listed on the Indonesia Stock Exchange in the 2019-2016 period?
E. Does the Share Price have a significant positive effect on dividend policy on companies listed on the Indonesia Stock Exchange in the 2019-2016 period?
F. Does the Earning have a significant positive effect on dividend policy on companies listed on the Indonesia Stock Exchange in the 2019-2016 period?

1.3 RESEARCH OBJECTIVE

Based on the background and the research problem, the objectives to be achieved from this study are:

A. To find out the effect of profitability on dividend policy in LQ45 companies for the period of 2019-2016

B. To find out the effect of leverage on dividend policy in LQ45 companies for the period of 2016-2019

C. To find out the effect of growth on dividend policy in LQ45 companies for the period of 2016-2019

D. To find out the effect of firm size on dividend policy in LQ45 companies for the period of 2016-2019

E. To find out the effect of Share Price on dividend policy in LQ45 companies for the period of 2016-2019

F. To find out the effect of Earning on dividend policy in LQ45 companies for the period of 2016-2019

1.4 RESEARCH BENEFIT

In addition to the goals to be achieved, the authors also hope the results will benefit. The benefits that can be taken in this study are as follows:

A. Theoretical

It is expected that it will be useful in the field of management as a source of reading and reference that will provide information to those who will conduct further research and add to the bibliography.

B. Practically

- For writers, it is expected to be able to add knowledge about the Determinants of Corporate Dividend Policy in Indonesia.

- It is expected to be beneficial to company management to improve the company's performance in the future so that it can attract investors to invest in the company and become information that can be considered in making decisions about the distribution of dividends.
- For investors, it is expected to be able to provide information for consideration of decision making in investing in the company and can determine which companies have good financial ratios and reduce losses when investing.