Pinisi Discretion Review
Volume 6, Issue 2, March 2023 Page. 293- 298
ISSN (Print): 2580-1309 and ISSN (Online): 2580-1317

Dividend Policy of Manufacturing Companies Reviewed based on Managerial Ownership and Profit Growth

Hariany Idris[1], Helmia Nursyaqila Hamda[2]
[1,2] Department of Accounting, Faculty of Economics and Business, Universitas Negeri Makassar
Email : hariany.idris@unm.ac.id[1]

ABSTRACT

Thisl study aims to determine whether there is an effect of managerial ownership and profit growth on dividend policy in manufacturing companies. The variable of this research is managerial ownership as the independent variable (X1) which is measured by the percentage of the number of shares owned by management to the total number of shares owned by the company then multiplied by 100%. Profit growth as (X2) as an independent variable as measured using the ratio of current year's net profit (Yt) minus the previous net profit (Yt-1) to the previous year's net profit (Yt-1) then multiplied by 100%. And Dividend Policy asl the dependentl variable (Yl) as measuredl by thel Dividend Payout Ratio is the ratio that shows the results of the comparison between cash dividends per share and earnings per share then multiplied by 100%. The populationl in thisl study arel all manufacturing companiesl listed onl the Stockl Exchange. Indonesian Securities (IDXl) with al sample of three years froml 2019 to 2021 which was taken using a purposivel sampling ltechnique. Data collectionl was carried out usingl a documentation technique. Datal analysis wasl performed usingl descriptive statistical analysis, classic assumption test and hypothesis test with the help of IBM SPSS 25 software. The results of this study indicate that based on the results of simultaneous test calculations (F test), it can be seen that the calculated F value is 4,426 > F table 3,15 with a significant level of 0,016 < 0,05. So that managerial ownership and profit growth simultaneously or jointly have a significant effect on dividend policy. And the t test in the table shows the calculated t value for the managerial ownership variable of 1,889 and t table of 2,000. If the two are compared, then the t count is smaller than the t table (1,889 < 2,000). This shows that managerial ownership has no effect on significant dividend policy. As well as the profit growth variable, the value of t count is 2,553 > t table 2,000, which means that profit growth affects significant dividend policy. This is also supported by a significant value of 0,013< 0,05, which means that there is a significant influence between profit growth and dividend policy.

Keywords: Managerial Ownership; Profit Growth; Dividend Policy

INTRODUCTION

Dividend is a portion or the entire profit of a company in running its business that is distributed to shareholders (Brinker & Eisenberg, 2021; Li et al., 2020; Simshauser, 2023;

Volume 4, Issue 2, March 2023 Page. 293- 298

Wang & Qiu, 2023). In the distribution of dividends in a company, the company must make decisions that must be taken through dividend policies. Dividend policy is an integral part of the company's financing decisions (Ahmad et al., 2023; Basse et al., 2021; Brinker & Eisenberg, 2021; Li et al., 2020; Poretti & Blal, 2020; Simshauser, 2023; Wang & Qiu, 2023; Xu & Woo, 2020). Meanwhile, dividend policy also relates to the issue of the use of profits that become the rights of shareholders (Avanzi et al., 2020; Harakeh et al., 2019).

Basically, dividends are the distribution of the net profit of the company to the shareholders. In the process of making dividend policies, there are two main parties involved, namely the company's management and shareholders. However, conflicts of interest often arise between the two parties. Both parties have different interests between company management and shareholders in dividends.

Dividend policy is reflected in the dividend payout ratio, which is the percentage of profits distributed in the form of cash dividends, meaning that the size of the dividend payout ratio will affect the investment decisions of shareholders and on the other hand, can affect the company's financial condition. The larger the level of profits distributed in the form of dividends, the more attractive it will be for potential investors, and it can show a healthy company condition and have good prospects for the future.

Companies that choose to distribute profits as dividends will reduce the total internal sources of funds. Companies that choose to retain profits obtained will result in greater internal fund formation capabilities (Fernau & Hirsch, 2019; Trinh et al., 2022). Factors suspected to affect company dividend policies in this study are managerial ownership and profit growth.

High managerial ownership causes dividends paid to shareholders to be low. The determination of dividends is due to managers having investment expectations in the future funded by internal sources. If some shareholders prefer high dividends, it creates a difference in interests, requiring an increase in dividends. Managerial ownership is the ownership of shares by the company's management measured by the percentage of the number of shares owned by management (Miller et al., 2022).

According to Chen et al., (2019), profit growth is a ratio that shows a company's ability to increase net profit compared to the previous year. Profit growth is an increase or decrease in profits obtained in a certain period. Profit growth obtained can affect dividend policies. One indicator of a good company is the ability to generate profits in a certain period or if profit growth increases from the previous period."

METHOD

Variables and Research Design

The variables in this research are as follows: Managerial Ownership as an independent variable which can be symbolized by (X1), Profit Growth as an independent variable which can be symbolized by (X2), and Dividend Policy as a dependent variable which can be symbolized by (Y1). This research uses quantitative methods in which the data is in the form of numbers and statistical analysis. The object of this research is manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. The independent variables in this research are managerial ownership and profit growth, while the dependent variable is dividend policy. The data was collected using annual financial report documentation techniques. The analysis methods used in this research are: Classical Assumption Test, Descriptive Statistical Analysis, and Hypothesis Test (Creswell & Creswell, 2017).

Data Collection Technique

The data collection method in this research is obtained through the documentation method, which involves collecting, recording, and examining secondary data indirectly through intermediary media such as annual reports and financial statements from all relevant companies in this case, manufacturing companies listed on the Indonesia Stock Exchange during the period of 2019-2021.

Data Analysis Technique

This study uses quantitative data analysis techniques. Quantitative analysis is used to analyze a problem that is expressed quantitatively. In this study, quantitative analysis is carried out by quantifying research data to produce the required information. The analysis method used in this study is multiple linear regression analysis. In addition, there are also three analyses in this study: classical assumption tests, descriptive statistical analysis, and hypothesis testing. To test the relationship between managerial ownership and profit growth for manufacturing companies listed on the Indonesia Stock Exchange during the period of 2019-2021, multiple linear regression analysis is used. The reason for choosing the multiple linear regression model is to test the influence of several independent variables on the dependent variable.

RESULT AND DISCUSSION

Result

1. **The Simultaneous Influence of Managerial Ownership and Profit Growth on Dividend Policy**

The simultaneous influence of managerial ownership (X1) and profit growth (X2) on dividend policy (Y) refers to the relationship between two independent variables (managerial ownership and profit growth) and one dependent variable (dividend policy). Overall, the analysis results show that managerial ownership and profit growth together have a significant influence on the company's dividend policy. Based on the simultaneous test calculation (F-test), it is known that the calculated F value of 4.426 > the table F value of 3.15, with a significance level of 0.016 < 0.05. Therefore, it can be concluded that managerial ownership and profit growth simultaneously have a significant influence on dividend policy. This means that the research results are in line with the hypothesis that has been made or H1 is accepted.

The calculation result of the table obtained an R-square value of 0.129, which means that the contribution of managerial ownership and profit growth is 12.9%. It can be seen that the Adjusted R-square value is 0.100, which means that the influence of managerial ownership and profit growth on dividend policy is 10%, while the remaining 90% is influenced by other factors outside of this study. The Adjusted R-square value is more adjusted and usually more accurate.

This research is in line with the research conducted by Cholifah and Priyadi (2014) and Rice and Sulia (2014) which state that managerial ownership and profit growth simultaneously have a significant influence on dividend policy. This means that managerial ownership and profit growth have a significant influence on dividend policy. If management has a significant stock ownership and the company experiences strong profit growth, management may tend to retain dividends and reinvest profits back into the company to increase long-term growth. However, if management has a significant stock ownership and the company experiences slower profit growth, management may be more inclined to pay higher dividends to meet investor expectations and improve returns for shareholders.

Volume 4, Issue 2, March 2023 Page. 293- 298

2. The Partial Influence of Managerial Ownership on Dividend Policy

The partial influence of managerial ownership (X1) on dividend policy (Y) refers to the direct influence of stock ownership by managers or executives of the company on the company's decision to pay dividends to shareholders. Based on the t-test in Table 12, the calculated t-value for the managerial ownership variable is 1.889, and the table t-value is 2.000. If compared, the calculated t-value is smaller than the table t-value (1.889 < 2.000). This indicates that managerial ownership does not have a significant influence on dividend policy. This is also supported by the significance value of 0.064 > 0.05, which means that there is no significant influence. Therefore, the results of this study show that managerial ownership does not have a significant influence on dividend policy. Thus, it is not in line with the hypothesis that has been made or H2 is rejected.

The results of this study are in line with the research conducted by Samsul Arifin and Nur F. Asyik (2015) which state that managerial ownership does not have a significant influence on dividend policy. This is because low ownership of management shares can make them not have enough control in dividend payment decisions. In this situation, management may be more inclined to consider other factors, such as investment opportunities, rather than paying dividends.

Discussion

The study examines the influence of managerial ownership and profit growth on dividend policy. The results show that managerial ownership and profit growth have a significant influence on dividend policy, and the contribution of these factors to dividend policy is 12.9%. The study finds that if management has a significant stock ownership and the company experiences strong profit growth, management may tend to retain dividends and reinvest profits back into the company to increase long-term growth. However, if management has a significant stock ownership and the company experiences slower profit growth, management may be more inclined to pay higher dividends to meet investor expectations and improve returns for shareholders.

In contrast, the study also examines the partial influence of managerial ownership on dividend policy. The results show that managerial ownership does not have a significant influence on dividend policy. This is because low ownership of management shares can make them not have enough control in dividend payment decisions. In this situation, management may be more inclined to consider other factors, such as investment opportunities, rather than paying dividends (Chen et al., 2019; Fernau & Hirsch, 2019; Harakeh et al., 2019; Miller et al., 2022; Trinh et al., 2022).

These findings are consistent with previous studies conducted by Lakhal et al.,(2023); Harakeh (2020) and Herdhayinta et al.,(2022) on the simultaneous and partial influence of managerial ownership on dividend policy. Therefore, the study contributes to the existing literature by providing further evidence on the role of managerial ownership and profit growth in determining dividend policy.

CONCLUSION

The study examined the simultaneous and partial influence of managerial ownership and profit growth on dividend policy. The results indicate that these variables have a significant simultaneous influence on dividend policy. This suggests that both factors are important considerations for companies in making decisions regarding dividend payments. However, when considered individually, the partial influence of managerial ownership on dividend policy was found to be insignificant. This implies that factors other than managerial ownership may play a more significant role in dividend payment decisions. On the other hand, profit growth was found to have a significant partial influence on dividend policy. This means that profit growth is a dominant variable that affects dividend policy. In summary, while both managerial ownership and profit growth have a simultaneous influence on dividend policy, profit growth is the more dominant factor in determining dividend payment decisions.

REFERENCES

Ahmad, M. F., Aziz, S., El-Khatib, R., & Kowalewski, O. (2023). Firm-level political risk and dividend payout. *International Review of Financial Analysis*, *86*, 102546. https://doi.org/https://doi.org/10.1016/j.irfa.2023.102546

Avanzi, B., Lau, H., & Wong, B. (2020). Optimal periodic dividend strategies for spectrally positive Lévy risk processes with fixed transaction costs. *Insurance: Mathematics and Economics*, *93*, 315–332. https://doi.org/https://doi.org/10.1016/j.insmatheco.2020.05.012

Basse, T., Klein, T., Vigne, S. A., & Wegener, C. (2021). U.S. stock prices and the dot.com-bubble: Can dividend policy rescue the efficient market hypothesis? *Journal of Corporate Finance*, *67*, 101892. https://doi.org/https://doi.org/10.1016/j.jcorpfin.2021.101892

Brinker, L. V., & Eisenberg, J. (2021). Dividend optimisation: A behaviouristic approach. *Insurance: Mathematics and Economics*, *101*, 202–224. https://doi.org/https://doi.org/10.1016/j.insmatheco.2021.08.008

Chen, J., Song, W., & Goergen, M. (2019). Passing the dividend baton: The impact of dividend policy on new CEOs' initial compensation. *Journal of Corporate Finance*, *56*, 458–481. https://doi.org/https://doi.org/10.1016/j.jcorpfin.2019.04.004

Creswell, J. W., & Creswell, J. D. (2017). *Research design: Qualitative, quantitative, and mixed methods approaches*. Sage publications.

Fernau, E., & Hirsch, S. (2019). What drives dividend smoothing? A meta regression analysis of the Lintner model. *International Review of Financial Analysis*, *61*, 255–273. https://doi.org/https://doi.org/10.1016/j.irfa.2018.11.011

Harakeh, M. (2020). Dividend policy and corporate investment under information shocks. *Journal of International Financial Markets, Institutions and Money*, *65*, 101184. https://doi.org/https://doi.org/10.1016/j.intfin.2020.101184

Harakeh, M., Lee, E., & Walker, M. (2019). The effect of information shocks on dividend payout and dividend value relevance. *International Review of Financial Analysis*, *61*, 82–96. https://doi.org/https://doi.org/10.1016/j.irfa.2018.10.009

Herdhayinta, H., Lau, J., & Shen, C. H. (2022). Cash holdings of minority family businesses in Indonesia. *Emerging Markets Review*, 100968. https://doi.org/https://doi.org/10.1016/j.ememar.2022.100968

Volume 4, Issue 2, March 2023 Page. 293- 298

Lakhal, F., Kuzey, C., Uyar, A., & Karaman, A. S. (2023). The relationship between dividend payout and corporate social responsibility: The moderating effect of shareholder friendliness and board monitoring. *Journal of Cleaner Production*, *394*, 136297. https://doi.org/https://doi.org/10.1016/j.jclepro.2023.136297

Li, W., Zhou, J., Yan, Z., & Zhang, H. (2020). Controlling shareholder share pledging and firm cash dividends. *Emerging Markets Review*, *42*, 100671. https://doi.org/https://doi.org/10.1016/j.ememar.2019.100671

Miller, D., Amore, M. D., Quarato, F., & Corbetta, G. (2022). Family Ownership Dispersion and Dividend Payout in Family Firms. *Journal of Family Business Strategy*, *13*(3), 100436. https://doi.org/https://doi.org/10.1016/j.jfbs.2021.100436

Poretti, C., & Blal, I. (2020). The asset-light strategies and the dividend puzzle: International evidence from the hospitality industry. *International Journal of Hospitality Management*, *91*, 102639. https://doi.org/https://doi.org/10.1016/j.ijhm.2020.102639

Simshauser, P. (2023). On dividend policy and market valuations of Australia's listed electricity utilities: Regulated vs. merchant. *Economic Analysis and Policy*, *77*, 696–715. https://doi.org/https://doi.org/10.1016/j.eap.2022.12.009

Trinh, Q. D., Haddad, C., & Tran, K. T. (2022). Financial reporting quality and dividend policy: New evidence from an international level. *International Review of Financial Analysis*, *80*, 102026. https://doi.org/https://doi.org/10.1016/j.irfa.2022.102026

Wang, Q., & Qiu, M. (2023). Strength in numbers: Minority shareholders' participation and executives' pay-performance sensitivity. *Pacific-Basin Finance Journal*, *79*, 102015. https://doi.org/https://doi.org/10.1016/j.pacfin.2023.102015

Xu, R., & Woo, J.-K. (2020). Optimal dividend and capital injection strategy with a penalty payment at ruin: Restricted dividend payments. *Insurance: Mathematics and Economics*, *92*, 1–16. https://doi.org/https://doi.org/10.1016/j.insmatheco.2020.02.008