**Solid State Technology**
**Volume: 63 Issue: 3**
**Publication Year: 2020**

# The Influence of Financial Leverage and Growth Opportunities on Dividend Policies in Go Public Manufacture Companies Listed in Index LQ 45 Indonesia Stock Exchange

Gita Genia Fatihat
Universitas Widyatama, Jl. Cikutra No.204A, Sukapada, Cibeunying Kidul, Bandung 40125, Indonesia
*Gita.genia@widyatama.ac.id*

**Abstract-** The objectives of this research are to determine which factors that significantly affect dividend policy in manufacturing listed company on The LQ45 Index of Indonesia Stock Exchange. The methodology of this research was panel data regression. The sampling technique used was purposive sampling. The sample used 9 companies engaged in the manufacturing listed company on The LQ45 Index of Indonesia Stock Exchange from 2015 to 2019. The results of this study indicate that the variable financial leverage has a significant negative effect on dividend policy and there is insignificant effect Growth Opportunities on dividend payout ratio. Based on the results, this research suggests that managers should consider the major factors affecting stock returns. Managers need to pay attention to the capital structure owned by the company because with the lower debt, company can increase the proportion of the distribution of dividend.

***Keywords:*** *Financial Leverage, Growth Opportunities Dividend Policy.*

## INTRODUCTION

The capital market plays an important role as an alternative for people to invest in other than banking. Investors make investments with the aim of getting returns in the form of dividends or capital gains. Dividends are one of the components considered by investors who expect profits from dividends distributed by companies and capital gains. In the long term, investors are more interested in certainty of dividends compared to capital gains (Asadi & Oladi, 2015).

The company's performance can improve one of them by announcing profits and dividends distributed to the company's shareholders. LQ45 company is the most liquid company on the Indonesia Stock Exchange.

There are 29 manufacturing companies in LQ45. Manufacturing companies are the most companies in LQ45, so it can describe the situation of other companies. Companies with the LQ45 index category are companies that have the largest capitalization and liquidity values. LQ 45 can be an appeal for investors in measuring the dividend policy carried out by the company. Dividend policy is an inseparable part of the company's funding decisions. Dividend Policy is a policy to determine how much profit must be paid (dividends) to shareholders and how much must be reinvested (retained earnings).

In relation to the virtue of dividends, this is one of the returns that can be controlled by the company and is related to the company's performance. Investors expect stable dividends every year or an increase in terms of

dividend payments, but on the other hand, companies are faced with various considerations such as the need for more profitable re-investment, increasing the need for company funds and maintaining the level of liquidity of the company.

In investing in a company, investors must be able to analyze so that their investment can get maximum returns. Dividend policy is an indicator used by investors to determine which companies to invest in. To be able to analyze a company's dividend policy, investors can use financial ratios. Financial ratios can help investors see the company's financial health condition and be able to see whether the company's performance is in good or bad performance (Allozi & Obeidat, 2016). Jaara, Al-ashhab and Omar Jaara in 2018 found that there are several factors that are believed to have an influence on dividend policy, namely, Financial Leverage and growth opportunities

The choice of sources of funds, either from internal sources of funds from the company itself or external sources of funds in the form of debt, becomes a consideration for itself by comparing the advantages and disadvantages of each alternative (Sartono, 2010). Debt can be used to control excessive use of free cash flow by management, thereby reducing unnecessary investment so as to increase company value. Companies that use debt will incur interest on loans that can reduce taxes. In addition, the company does not share profits with lenders, what must be done is to pay the loan on time. Companies with low leverage are less likely to lose risk if economic conditions are down, but also have lower returns if economic conditions improve. On the other hand, companies with high leverage carry a large risk of loss, but also have the opportunity to obtain high profits.

Investors and management hope that the company can always grow to be bigger. The opportunities for the development of a company are shown from the growth opportunities of the company, where the greater the growth opportunities, the greater the company can develop, this will have an impact on the amount of funds needed by the company and consequently, if management focuses on the development of the company, it results in the funds needed to develop it. the company will get bigger so that the company retains the profits it gets and reduces the dividend rate given to investors (Pribadi & Sampurno, 2012). Research on growth opportunities conducted by Singhania and Gupta (2012), Labhane and Mahakud (2016) and strengthened by Nadiem et al. (2018) stated that growth opportunities have a negative effect on a company's dividend policy.

Based on the research that has been done previously and the explanations that have been stated, the researcher is interested in discussing the research entitled "The Influence of Financial Leverage and Growth Opportunities on Dividend Policy in Go Public Manufacturing Companies Listed on the LQ45 Index of the Indonesia Stock Exchange".

## II. LITERATURE REVIEW

### Dividend

Dividends are the amounts that are distributed to the shareholders of the company. Dividends can be in cash or shares. Stock dividends are not very popular or controversial and decisions from dividend policies are problematic on cash dividends (Khalid & Rehman, 2015). Dividend decisions are very important because the distribution of cash flow allocations is set aside for shareholders, while retained earnings are one of the most important sources of funds to finance company growth (Horne & Wachowicz, 2008).

### Dividend policy

Dividend policy is the distribution of profits obtained by shareholder companies in the form of cash dividends or holding profits to be reinvested as retained earnings (Gitman & Zutter, 2015). Dividend policy

is the decision of the board of directors regarding the amount of remaining profit (past or present) which can be distributed to shareholders in a company which is approved in the general meeting of shareholders (GMS). For investors, dividends are the level of increase in investment in a company. Dividend policy is said to be optimal in a company when the policy creates a balance between current dividends and future growth in order to maximize the company's stock price (Brigham & Houston, 2012). Companies that distribute large dividends are able to motivate investors to buy company shares. Companies that have the ability to pay dividends are considered profitable companies.

**Financial Leverage**

Companies in carrying out their operational activities definitely need capital. This capital can come from the company's own capital or capital from loans. Companies that use external sources of loan funds for both short-term and long-term financing are a leverage policy.

Sudarmadji and Sularto (2007) explain that leverage is a measure of assets that are financed by debt. The debt used to finance assets comes from creditors, not from shareholders or investors. Kasmir (2014) states that the Debt to Equity Ratio is a ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt, and total equity.

The impact of leverage:

a. Leverage will generate interest because we borrow from creditors. This can lead to reduced tax obligations, and greater profits for investors.

b. Debt can be used to buy company assets, pay interest, the rest can be given to shareholders which will boost the return on equity. With a note if operating profit exceeds the interest rate on debt.

**Growth Opportunities**

Growth opportunity or company growth opportunity can be defined as a company investment opportunity that can increase company value in the future. have a profitable investment project. Companies that predict that they will experience high growth in the future tend to prefer to use stocks to fund company operations. On the other hand, if the company expects to experience low growth, they will try to share the risk of low growth with creditors by issuing debt, which is generally in the form of long-term debt (Mai, 2006). One of the fundamental reasons for this pattern is that the floating cost of issuing ordinary shares is higher than that of bond securities. Thus, companies with high growth rates tend to use debt more than companies with slower growth.

**Variable**

The variables consist of the dependent variable and the independent variable. The dependent variable is the variable that is the main concern of the research, the variable that directly answers the research problem and is influenced by other variables. Meanwhile, the independent variable is the independent variable that affects the dependent variable either positively or negatively. In this study, the dependent variable is dividends, and the independent variables are financial leverage and growth opportunities.

## III. METHODOLOGY

The analytical method used in this research is linear regression with panel data which aims to test and analyze the influence between variables.

**1. Model Selection Test**

Chow test to choose between Common Effect and Fixed Effect models. Hausman test to choose between Fixed Effect or Random Effect models. Lagrange Multiplier (LM) test to choose between Common Effect or Random Effect models.

**2. Classic Assumption Test**

Heteroscedastity test to test the inequality of variants from the residuals of one observation to another. Multicolonierity test to test the correlation between independent variables.

**3. Hypothesis Testing**

The F test is a model test used to test multiple regression equations worthy of use. The independent variable Goodness of fit (Adjusted R2) test is tested to explain the changes in the dependent variable. The partial impact hypothesis test (t test) to test the independent variable has a significant effect on the dependent variable by assuming other variables are constant.

## IV. RESULTS

### Descriptive Statistical Analysis

Descriptive statistics explain the characteristics of the data in the study.

| Variable | Mean | Std. Dev | Maximum | Minimum |
|---|---|---|---|---|
| DPR | 0.454535 | 0.218768 | 0.998732 | 0.000000 |
| LEV | 0.437117 | 0.147823 | 0.726383 | 0.157146 |
| GO | 0.354858 | 0.229558 | 0.949006 | 0.012128 |

The DPR has an average value of 0.454535 with a standard deviation of 0.218768. The maximum value of the DPR is 0.998732 and the minimum value is 0.000000. The LEV variable has an average value of 0.437117 with a standard deviation of 0.147823. The maximum value of LEV is 0.726383 and the minimum value is 0.157146. The GO variable has an average value of 0.354858 with a standard deviation of 0.229558. The maximum value of GO is 0.949006 and the minimum value is 0.012128.

### Data Panel Regression Analysis

#### a. Model Selection Test

#### Chow test

The prob. Chi-square cross-section is 0.0472 <0.05, meaning that Ho is rejected so that a more suitable model is the Fixed Effect. If the model chosen is the Fixed Effect model, testing the Fixed Effect model and the random effect with the Hausman test is required.

**Chow test**

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 1.563492 | (8,30) | 0.1778 |
| Cross-section Chi-square | 15.682204 | 6 | 0.0472 |

**Hausman Test**

The prob. values. The random cross-section is 0.0685> 0.05, meaning that Ho cannot be rejected, so the model used is the Random Effect. However, from the Hausman test it can be seen that this test produces a warning that the estimated cross-section random effects variance = 0; this means that the results of this test cannot be said to be conclusive because the process is not convergent so that the standard error of the estimated cross-section random effects variance is treated as zero. This means that there is no constant difference between companies. So, it cannot be concluded whether the Random Effect is better than the Fixed effect.

**Hausman Test**

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 11.722641 | 4 | 0.0685 |

** Warning: estimated cross-section random effects variance is zero.

**Lagrange Multiplier test**

The prob. values. Breusch-Pagan both is 0.357475 with a prob. value of 0.5499> 0.05, meaning that Ho is accepted so that the model used is a common effect. The chow test produces a better fixed effect test than the common effect test and the LM test produces a better test than the random effect test. It can be concluded that the fixed effect model is the best model used in this study.

**Lagrange Multiplier test**

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

Test Hypothesis

| | Cross-section | Time | Both |
|---|---|---|---|
| Breusch-Pagan | 0.357475 | 0.020166 | 0.377641 |
| | (0.5499) | (0.8871) | (0.5389) |
| Honda | -0.597892 | 0.142008 | -0.322359 |
| | -- | (0.4435) | -- |
| King-Wu | -0.597892 | 0.142008 | -0.229244 |
| | -- | (0.4435) | -- |
| Standardized Honda | 0.549616 | 0.568739 | -2.772824 |
| | (0.2913) | (0.2848) | |
| Standardized King-Wu | 0.549616 | 0.568739 | -2.561450 |
| | (0.2913) | (0.2848) | -- |
| Gourierioux et al.* | -- | -- | 0.020166 |
| | | | (>= 0.10) |

| *Mixed chi-square asymptotic critical values: | | | |
|---|---|---|---|
| 1% | 7.289 | | |
| 5% | 4.321 | | |
| 10% | 2.952 | | |

**b. Classic assumption test**

**Heteroscedasticity Test**

Based on the heteroscedasticity test table shows that all variables have a sig value of t> 0.05, meaning that Ho is accepted so that the model used is that there is no symptom of heteroscedasticity.

**Heteroscedasticity Test**

Dependent Variable: RESABSFEM

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 2.505934 | 3.221139 | 0.777965 | 0.4427 |
| LEV | -0.008247 | 0.308180 | -0.026761 | 0.9788 |
| GO | 0.060958 | 0.148101 | 0.411595 | 0.6836 |

**Multicolonierity Test**

The bivariate correlation between all independent variables <| 0.8 |. There is no indication of a strong correlation between independent variables (multicollinearity does not occur).

**Multicolonierity Test**

| | LEV | GO |
|---|---|---|
| LEV | 1.000000 | 0.123444 |
| GO | 0.123444 | 1.000000 |

**c. Data analysis**

**Multiple Regression**

The results of the regression equation from this study are as follows:

DPR = -8.962579 - 1.115289 LEV + 0.137280GO

From the regression equation it can be seen that:

1. Constant value, i.e. if LEV and GO are constant (constant), then the Dividend Policy (DPR) is - 8.962579.
2. The LEV regression coefficient of -1.115289 indicates that the LEV relationship to the DPR is negative.
3. The GO regression coefficient of 0.137280 indicates that the relationship between GO and DPR is positive.

**Chaos Test (Test F)**

Based on the F-test calculation on the results of the fixed effect estimation, it is known that the probability value of F is 0.000045 <0.10, which indicates that the independent variables used together have a significant effect on the independent variable and the regression is feasible.

**Simultaneous Regression Test Results**
(Test Statistic F)
Model 1 F-statistic 5.508352
Prob. (F-statistic) 0.000045

**Correlation Coefficient Test and Coefficient of Determination**
The amount of the multiple coefficient of determination (Adjusted R2) is 0.589234 indicating the Lev and GO variables are able to explain the variation of the Dividend Policy (DPR) variable of 58.9234%, while 41.0766% is a variation of the independent variable which is not the object of research.

**The Result of Determination Coefficient Test**
Adj. R Squared 0. 589234

**T test**
The decision making is as follows:
H1: There is a significant effect of financial leverage on dividend policy.
P-value is 0.0999 <0.10 with a regression coefficient of -1.115289 so it can be concluded that financial leverage has a negative and significant effect on dividend policy, at the level of significance of 10%.
H2: There is a significant effect of growth opportunities on dividend policy.
P-Value of 0.6668> 0.10 so that the growth opportunities do not have a significant effect on dividend policy
H3: There is a significant effect of Financial Leverage and Growth Opportunities together on dividend policy.
Based on the results of the F-test analysis on the results of the fixed effect estimation, it is known that the probability F value is 0.000045 <0.10, so it can be concluded that Financial Leverage and Growth Opportunities together have a significant effect on dividend policy.

**T-test**

| Variable | Coefficient | Prob. | Result |
|---|---|---|---|
| C | -8.962579 | 0.2017 | |
| LEV | -1.115289 | 0.0999 | Significant |
| GO | 0.137280 | 0.6668 | Not Significant |

**DISCUSSION**
**The impact of financial leverage on dividend policy**
The results showed that financial leverage has a negative and significant effect on dividend policy. This result is in line with what was done by Jaara et al. (2018), Nuhu et al. (2014), Alzomaia and Al-Khadhiri (2013) which stated that financial leverage has a negative and significant effect on dividend policy. This is because the greater the company's financial leverage indicates that the level of the company's debt is getting bigger so that the company will maintain the profit it gets to be used in paying debt or as a reserve fund.

**The impact of the influence of growth opportunities on dividend policy**
The results showed that growth opportunities did not have a significant effect on a company's dividend policy. This result is not in line with research conducted by Jaara et al. (2018) which states that growth opportunities have a negative and significant effect on dividend policy. However, research conducted by

Ahmad et al. (2016), Apriliani and Natalylova (2017) found results consistent with the results of this study which stated that growth opportunities do not have a significant effect on a company's dividend policy. Companies that have good performance will get high profits and will pay large dividends. However, not all companies that have high profits will pay dividends in high amounts either. Companies that have high profits prefer to hold this profit as the company's retained earnings because the company is in need of funds for the company's operational activities or to finance its future expansion.

## IV CONCLUSION

### Conclusion

a. Financial Leverage has a negative and significant impact on Dividend Policy.
b. Growth Opportunities has no influence on Dividend Policy.
c. The variables of Financial Leverage and Growth Opportunities together have an influence on dividend policy.

### Suggestions

1. For the company

The results showed that Financial Leverage has a negative and significant effect on Dividend Policy in manufacturing companies listed on the LQ45 index of the Indonesia Stock Exchange. In this case the company must be able to maintain the leverage ratio so that it does not increase and it is adjusted to the needs and ability of the company to pay, so that the company is able to minimize the negative impact on the DPR so as to increase the level of the company's dividend policy.

2. For Investors

Investors should consider factors that can affect the amount of dividends to be distributed by the company. This factor is Financial Leverage. The greater the level of corporate leverage, the company will pay dividends that are smaller and have a high investment risk, so investors must be careful in investing in companies with high levels of leverage.

3. For further researchers

Further research can add to the sample of companies listed on the Indonesia Stock Exchange (BEI). In addition, you can also add other independent variables, such as Liquidity, Free Cash Flow and Price Earning Ratio.

## REFERENCES

1. Ahmad, G. N., Dewi, F. A., & Mardiyati, U. (2016). The Influence of Market to Book Value, Annual Tax, and Risk Towards Dividend Policy in Banking Company Listed in Indonesia Stock Eexchange (IDX) Period 2010-2014. Jurnal Riset Manajemen Sains Indonesia, 7(1), 157-175.
2. Alzomaia, T. S., & Al-Khadhiri, A. (2013). Determination of dividend policy: The evidence from Saudi Arabia. International Journal of Business and Social Science, 4(1).
3. Apriliani, A., & Natalylova, K. (2017). Faktor-faktor yang mempengaruhi kebijakan dividen pada perusahaan manufaktur di Bursa Efek Indonesia. Jurnal Bisnis dan Akuntansi, 19(1a-1), 49-57.
4. Asad, M., Yousef, S. (2014), Impact of leverage on dividend payment behavior of Pakistani manufacturing firms. International Journal of Inovation and Applied Studies, 6(2), 216-21.
5. Baah, B. K., Richard, T., & Febiri, E. O. (2014). Industry Sector Determinants of capital structure and Its

Effect on Share Prices in Ghana. International Journal of Economics, Business and Finance, 2(5), 1-19.

6. Brigham, E. F., & Houston, J. F. (2012). Fundamentals of financial management. Cengage Learning.
7. Baker, H. K., & Powell, G. E. (2000). Determinants of corporate dividend policy: A survey of NYSE firms. Financial Practice and Education, 10, 29-40.
8. Gitman, L. J., & Zutter, C. J. (2015). Principles of Managerial Finance.
9. Idawati, I. A. A., & Sudiartha, G. M. (2014). Pengaruh Profitabilitas, Likuiditas, Ukuran Perusahaan terhadap Kebijakan Deviden Perusahaan Manufaktur di BEI. E-Jurnal Manajemen, 3(6).
10. Jaara, B., Alashhab, H., & Jaara, O. O. (2018). The determinants of dividend policy for non-financial companies in Jordan. International Journal of Economics and Financial Issues, 8(2), 198.
11. Khalid, S., & Rehman, M. U. (2015). Determination of Factors effecting the Dividend policy of Organizations. International Journal of Information, Business and Management, 7(3), 319.
12. Labhane, N. B., & Mahakud, J. (2016). Determinants of dividend policy of Indian companies: A panel data analysis. Paradigm, 20(1), 36-55.
13. Nuhu, E., Musah, A., & Senyo, D. B. (2014). Determinants of dividend payout of financial firms and non-financial firms in Ghana. International Journal of Academic Research in Accounting, Finance and Management Sciences, 4(3), 109-118.
14. Septian, R., & Lestari, H. S. (2016). Faktor yang Mempengaruhi Dividend Policy pada Perusahaan Non-financial yang Terdaftar di Bursa Efek Indonesia. Seminar Nasional Cendekiawan, pp. 30-31.
15. Singhania, M., Gupta, A. (2012), Determinants of corporate dividend policy: Atobit model approach. Journal of Business Perspective, 16(3), 153-162
16. Yusof, Y., & Ismail, S. (2016). Determinants of dividend policy of public listed companies in Malaysia. Review of International Business and Strategy, 26(1), 88-99.