



The Role of Profitability Mediated the Influence of Investment Decisions on Dividend Policy

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Abstract

The company basically proposed to be achieved to maintain its survival in fierce business competition. The purpose can be interpreted when the company has successfully achieved what is desired, both short term and long term. Getting maximum profit is the main goal of a company while providing prosperity for company owners and shareholders and maximizing the value of the company is its long-term goal. This research was conducted at the Manufacturing Industrial Company on the Indonesia Stock Exchange for the period of 2016 - 2015. The total population taken was 35 companies using the census method. Based on the analysis it was found that the Investment Decision had a significant positive effect on profitability (DPR). Investment Decisions have a significant positive effect on Dividend Policy. Profitability has a significant positive effect on Dividend Policy. Profitability is able to mediate the effect of Investment Decisions on Dividend Policy in the Manufacturing Industry Sector shares in the Indonesia Stock Exchange for the period of 2017 - 2018. The research implications emphasize the tangible benefits of the results of this study for interested parties, especially for investors who are planning to invest in the capital market. Through the results of this study, companies should be able to further optimize the performance of their companies in order to increase profitability, so the company is able to share company profits with investors in the form of dividends. Companies that have a stable return and dividend policy will increase the value of the company. Evidenced by the results of research obtained and exposure to the relationship between variables that generally have a positive and significant effect.

Keywords: Profitability; Dividend Policy; Investment Decisions.

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1. Introduction

The purpose of investors investing capital in companies is to get a return on invested capital in the form of dividends. Dividends are part of the company profits given to shareholders, therefore it is necessary to have a separate policy governing the dividend problem. Dividend policy is the determination of how much profit should be given to shareholders and the amount of retained earnings that will be used for corporate investment [1]. This policy will affect the determination of whether the profits obtained by the company will be distributed to shareholders in the form of dividends or will be used as retained earnings which will later be reinvested in the company [2]. The capital market is a market for long-term financial instruments that can be traded, bonds, equities (stocks), mutual funds, derivative instruments and other instruments. Investment is a sacrifice made at the present time with the aim to get greater benefits in the future [3]. Investment decisions aim to allocate funds in the form of certain assets that are expected to bring benefits in the future [4]. The investment decision in this study is proxied by the growth of fixed assets. Assets owned by a company generally consist of fixed assets and current assets. The size of the profit is greatly influenced by how much assets are earnings power owned by the company [5]. Large total assets illustrate the greater the size of the company, this has implications for the profitability of a financial institution, the greater the size of the company will be able to increase the profit of the financial institution. This phenomenon is also consistent with the results of the study [6], which concluded that the greater the position of the company's assets, the greater the profits obtained. Asset growth is an important indicator of market revenue from the company's fund products or services. Reference [7], states by knowing how much the growth of assets, companies can predict how much profit will be obtained. Research conducted by [8,10], argue that sales growth has a positive and significant effect on profitability. However, different results found by [11] found that sales growth had a negative and not significant effect on company profitability. Research conducted by [12] shows that asset growth has a positive effect on dividend policy, while [13] research shows that asset growth has no effect on dividend policy. For more reliable investors, dividend payments are a safe choice [14]. Managers who know this are trying to increase dividends in large numbers that were not previously predicted so that they can be used to provide positive signals for investors [1]. Investors who invest their stocks certainly want the benefits of investing, so the thing investors need to pay attention to is the company's profitability ratio. Return on assets (ROA) is used as a measure of profitability, because ROA illustrates the company's ability to generate net income based on certain asset levels. The higher the rate of profit, the greater the level of dividend payments distributed to shareholders [15]. Reference [16] stated that ROA has a relationship with the rate of return of an investment in the future. The Return on Asset value is increasingly reflecting the company's better performance and shareholders will get dividend benefits received increasingly. So investors will be interested to investing in companies that have high Return on Assets. This states that Return on Assets has a positive effect on dividend policy. The results of previous studies still indicate the uncertainty between ROA and dividend policy. [17,19] state that there is a positive and significant relationship to dividend policy. Contrary to research conducted by [20] which states that ROA has a negative effect on dividend policy. The capital market in Indonesia, the Indonesia Stock Exchange (IDX), which can be a mediation between the investor and the company. The Indonesia Stock Exchange has three main sectors including the raw material producing industry, the manufacturing industry, and the service industry.

2. Hypothesis Formulation

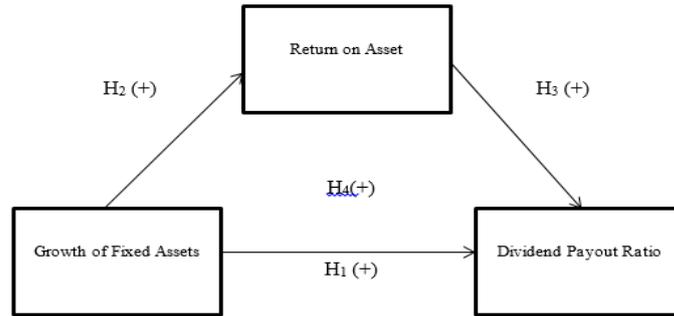


Figure 1: Research Framework

Figure 1. Research Framework

Based on the research framework in Figure 1. the hypothesis can be formulated as follows.

H1: Profitability has a positive and significant effect on Investment Decisions

H2: Investment Decision has a positive and significant effect on dividend policy.

H3: Profitability has a positive and significant effect on Dividend Policy

H4: Profitability is able to mediate the effect of investment decisions on profitability

3. Research Methods

Table 1: Sampling Criteria

Criteria	Number of Company
Manufacturing Industry Companies listing in the Indonesia Stock Exchange for the period 2017 - 2018	155
Manufacturing Industry Companies that were delisted on the Indonesia Stock Exchange for the period 2017 - 2018	(30)
Number of Manufacturing Industry Companies that are still listed on the Indonesia Stock Exchange for the period 2017 - 2018	125
Manufacturing Industry Companies that do not have data	(90)
Number of Manufacturing Industry Companies that have complete data in the period 2017 – 2018	35

This research used quantitative approach in the form of associative. The population in this study are

manufacturing industry company in the Indonesia Stock Exchange in 2017-2018. Census techniques are used in this research. Census technique is a sampling technique where all members of the population are sampled. Based on observations in three years in the period 2017 to 2018, obtained 35 Manufacturing Industry Sector companies listed on the Indonesia Stock Exchange. Following are the criteria for determining the sample can be seen in the following Table 1.

Data collection used nonparticipant observation methods. Researchers were not directly involved in research and only as observers. The data in this study were obtained by observing and recording financial data included in the Manufacturing Industry Sector Companies in the Indonesia Stock Exchange period 2017 - 2018 by accessing the site www.idx.co.id. The data analysis technique used in this study is path analysis. The mediation hypothesis is tested by Sobel Test.

4. Results and Discussion

This study uses a path analysis technique (path) to test the hypothesis of direct and indirect effects of Profitability (ROA) on Investment Decisions with Dividend Policy (DPR) as a mediating variable. Following are the path analysis test results presented in Tables 2. and 3.

Table 2: Regression Model Path Analysis Test Results 1

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.104	1.937		4.183	.000
PAT	.256	.073	.390	3.490	.001

- a. Dependent Variable: ROA
- b. Predictors: (Constant), PAT

Explanation:

PAT : Growth of Fixed Assets

ROA : Return Of Asset

DPR : Dividend Payout Ratio

Table 3: Regression Model Path Analysis Test Results 2

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	19.455	3.562		5.461	.000
PAT	.145	.131	.111	1.108	.272
ROA	1.188	.199	.601	5.974	.000

- a. Dependent Variable: DPR

b. Predictors: (Constant), ROA, PAT

Formulating structural equations

Substructure I:

$$\text{ROA} = \beta_1 \text{PAT} + e_1$$

$$\text{ROA} = 0.256X + 0.920$$

Which is,

$$e_1 = \sqrt{(1 - R^2)} = \sqrt{(1 - 0.152)} = 0.920$$

Substructure II:

$$\text{DPR} = \beta_2 \text{PAT} + \beta_3 \text{ROA} + e_2$$

$$\text{DPR} = 0.145 \text{PAT} + 1.188 \text{ROA} + 0.758$$

Which is,

$$e_2 = \sqrt{(1 - R^2)} = \sqrt{(1 - 0.425)} = 0.758$$

β_1 = coefficient PAT variable has a positive value of 0.256, meaning that PAT has a direct effect on the level of return on assets. The high PAT shows the growth of assets in large companies so that the impact on company returns is increasing.

β_2 = PAT coefficient variable has a positive value of 0.145, meaning that PAT has a direct effect on dividend payments. The higher PAT shows that the growth of company assets is getting better, so the impact on dividend payments is getting higher.

β_3 = ROA variable coefficient has a positive value of 1,188, meaning that the value of ROA has a direct effect on dividend payments. The higher the value of ROA reflects the profit generated by large companies, so the impact on companies paying dividends will increase.

The diagram in Figure 2. illustrate briefly the relationship between each variable, namely PAT as an independent variable, ROA Policy as a mediating variable, and DPR as the dependent variable. The path diagram form in Figure 2 can be described as follows. Based on the path diagram in Figure 2., the magnitude of direct and indirect effects and the total effect between variables can be calculated. The calculation of influence between variables is summarized in Table 4 as follows.

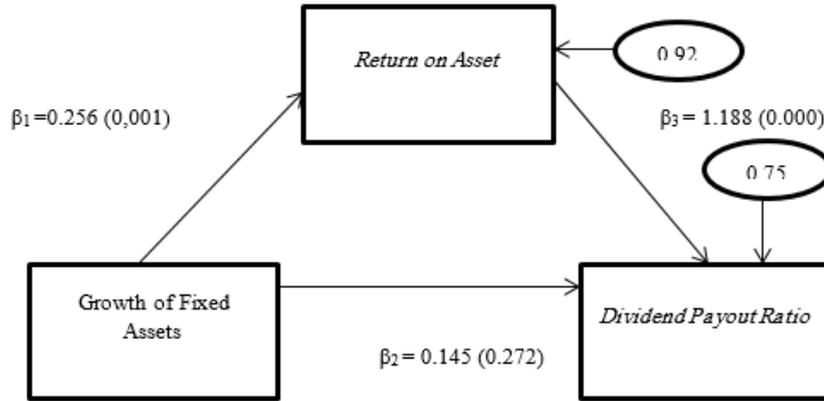


Figure 2: Path Diagram of the Effect of PAT on ROA and the Effect of PAT and ROA on Parliament.

Based on the calculation of the effect of error (Pe_i), the result of the effect of error (Pe_1) is 0.920 and the effect of error (Pe_2) is 0.758. The results of the total determination coefficient are as follows:

$$\begin{aligned}
 R^2_m &= 1 - (Pe_1)^2(Pe_2)^2 \\
 &= 1 - (0.920)^2(0.758)^2 \\
 &= 1 - 0.486 \\
 &= 0.514
 \end{aligned}$$

Table 4: Direct Effects and Indirect Effects and Effects of ROA (X), DPR (Z), and Investment Decisions (Y)

Variables	Direct Effect	Indirect Effect	Total Effect	Sig.	Explanation
PAT → ROA	0.256	-	-	0,001	H ₁ Accepted
PAT → DPR	0.145	-	-	0.272	H ₂ Rejected
ROA → DPR	1.188	-	-	0.000	H ₃ Accepted
PAT → ROA → DPR	-	0.304	0.449	-	Being able to mediate

A total determination value of 0.514 means that 51.4 percent of the variation in the DPR is influenced by variations in PAT and ROA, while the remaining 48.6 percent is explained by other factors not included in the model. The Sobel Test is formulated with the following equation and can be calculated using the Microsoft Excel 2010 application. If the Z calculation value is greater than 1.96 (with a 95 percent confidence level), the mediator variable is assessed to significantly mediate the relationship between the dependent variable and the independent variable.

$$t = \frac{ab}{\sqrt{(b^2 [sa]^2 + a^2 [sb]^2 + [sa]^2 [sb]^2)}}$$

Keterangan:

$$a = 0.390$$

$$Sa = 0.005$$

$$b = 0.361$$

$$Sb = 0.039$$

$$t = (0.390 \times 0.361) / \sqrt{((0.361)^2 (0.005)^2 + (0.390)^2 (0.039)^2)}$$

$$t = 0.234/0.091$$

$$t = 2.571$$

Based on the results of the Sobel Test, it shows that the results of tabulation $Z = 2.571 > 1.96$ with a significance level of $0.000 < 0.05$, which means that the mediator variable, ROA, is significantly assessed as mediating the relationship between PAT and the DPR.

4.1. Effect of investment decisions on profitability

The results of this study indicate that PAT has a positive and significant effect on ROA in Manufacturing Companies Listed on the Indonesia Stock Exchange Period 2017-2018. The results of statistical tests on PAT partially showed a positive and significant effect on ROA, this was indicated by a significant value of 0.001 smaller than the significance level of 0.05 and a regression coefficient of 0.256. This study is in line with the results of research conducted by [21,23], which suggests that PAT has a positive and significant effect on ROA.

4.2. The effect of investment decisions on dividend policy

The results of this study indicate that PAT has a positive and significant effect on the Parliament of Manufacturing Companies Listed on the Indonesia Stock Exchange Period 2017-2018. The results of statistical testing on PAT partially show that there is no significant positive effect on the DPR, this is indicated by a significant value of 0.272, greater than the significance level of 0.05 and a regression coefficient of 0.145. The greater the level of asset growth, the smaller the level of dividend distribution will affect. The higher growth of the company's assets requires a large amount of funds in the future as well, resulting in a reduced level of dividend distribution distributed to shareholders [24]. This research is in line with the results of research conducted by [13] which states that PAT has no significant effect on the DPR.

4.3. The effect of profitability on dividend policy

The results of this study indicate that ROA has a positive and significant effect on the Parliament of

Manufacturing Companies Listed on the Indonesia Stock Exchange Period 2017-2018. The results of statistical testing on ROA partially showed a positive and significant effect on the DPR, this was indicated by a significant value of 0,000 smaller than the significance level of 0.05 and a regression coefficient of 1,188. This research is in line with the results of research conducted by. [25], [26] who stated that profitability had a positive and significant effect on dividend policy.

4.4. The role of profitability in mediating the effect of investment decisions on dividend policy

The results of this study show the results of the Sobel Test in Table that the results of tabulation Z obtained a value of $2,571 > 1.96$ with a significance level of $0,000 < 0.05$ which means that the mediator variable ROA is considered to significantly mediate the relationship between PAT and the DPR. This indicates that hypothesis 4 is supported. The company must be able to increase its return so that the company is able to increase the value of the company so that in addition to the profits to be obtained by the company is greater, the relationship between investors and the company will be well established. Return on Assets can reflect the company's growth in carrying out economic and business activities. A good company ROA will increase the company's obligation to pay high dividends, so that the company's value in the eyes of the company's investors is good. Dividend policy is able to mediate the effect of company size on firm value [27]

5. Conclusion and Recommendation

Conclusions that can be taken based on the results of research and discussion that have been described previously are investment decisions that have a significant positive effect on profitability in the Manufacturing Industry shares on the Indonesia Stock Exchange period 2017 - 2018. Investment decisions have a significant positive effect on the Dividend Policy in the Manufacturing Industry Sector in Indonesia Stock Exchange period 2017 - 2018. Profitability has a significant positive effect on Dividend Policy on Manufacturing Industry Sector shares on the Indonesia Stock Exchange period 2017 - 2018. Profitability is able to mediate the effect of investment decisions on Dividend Policy on Manufacturing Industry Sector shares on the Indonesia Stock Exchange period 2017 - 2018. Based on the conclusions that have been stated, the researcher can suggest a number of things, namely for investors, in making investment decisions to better consider the existing financial statements through profitability (ROA), and the growth of fixed assets because they have been proven to have a significant influence on Dividend Policy. The high growth of company assets, balanced with high return on assets, the greater the distribution of dividends is given, so that investors' decisions to invest their capital will be higher. The company management is expected to pay attention to financial ratios, especially profitability (ROA) and the distribution of dividend policies that prove to have a significant effect on investment decisions and maintain / improve company performance with management functions (planning, organizing, controlling, and directing) and company functions (marketing, finance, human resources, and operations). Companies that are able to carry out management functions and corporate functions, then the company's performance will be good, this will affect the high value of the company and the investor's decision to invest capital of a company that has high company value. For further researchers who want to examine investment decisions, it is better to use other additional variables that reflect the company's internal financial performance in terms of liquidity, solvency, and business activities as independent variables so that other indicators related to investment decisions are obtained.

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