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“The Review and Outlook of The Economy after Covid 19 Pandemic”*

**DIVIDEND POLICY: INVESTMENT OPPORTUNITY SET,
SALES GROWTH, AND MANAGERIAL OWNERSHIP**

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ABSTRACT

A dividend policy is a decision taken by the company related to dividends, whether the profits will be distributed to shareholders as dividends or the profits will be retained to finance investment in the future. This study aims to determine the effect of the investment opportunity set, sales growth, and managerial ownership on dividend policy in state-owned companies listed on the Indonesia Stock Exchange in 2015-2020. The research sample consisted of 8 companies with 48 data on the financial statements of state-owned companies listed on the Indonesia Stock Exchange in 2015-2020. The sampling was carried out using the purposive sampling method with specified criteria. The research was analyzed using software Eviews 10. The results showed that investment opportunity set and managerial ownership did not affect dividend policy. Meanwhile, sales growth affects dividend policy. Investment opportunity set, sales growth, and managerial ownership have a simultaneous effect on dividend policy.

Keywords: investment opportunity set, sales growth, managerial ownership, dividend policy.

1. INTRODUCTION

Dividend policy is an important subject in corporate finance. A company always wants to give large dividends to its shareholders, but on the other hand, the consideration that arises is whether the company should reinvest the money for its shareholders, which may be more profitable than paying it. If the company chooses to pay dividends, the question that arises is whether the company should give it a large or small percentage of the company's profits (Hutagalung and Setiawati, 2019; Ross et al., 2017).

The company's ability to generate profits will make management tend to make new investments rather than pay dividends to shareholders. Investment Opportunity Set (IOS) is a set of investment opportunities that are investment options in the future and reflect the opportunity of assets and equity growth. In general, IOS reflects the potential breadth of investment opportunities or opportunities for a company, but this is also very dependent on the spending policies made by the company in the future. The Investment Opportunity Set (IOS) is a future investment opportunity whose amount depends on the expenditures set by management in the future, which at this time are investment choices that are expected to generate greater returns (Utama and Gayatri, 2018). ; Fidhayatin and Dewi, 2012). There have been previous studies that used the Investment Opportunity Set (IOS) in previous studies, namely research conducted by Siti Nur Aini, Aristha Purwanthari Sawitri, (2020), Puteri Prihatini, et al, (2018), found that the Investment opportunity set had an effect on policy dividends, while research conducted by Utama, N. P. S. P, dan gayatri (2018), Putu

sri ariandani and I ketut yadnyana, (2016), found that the investment opportunity set does not affect dividend policy.

Profit is the best indicator of company performance. Assessment of the good or bad performance of the company can be seen from the large or small profits generated by the company. One of the factors that affect the profit of a company is the condition of sales. Sales growth shows the extent to which the company can increase sales compared to total sales as a whole (Hutagalung and Setiawati, 2019; Kasmir, 2017). Sales Growth describes the level of sales growth. Management needs to consider appropriate funding sources for investment spending (Aini and Sawitri, 2020; Poernawarman, 2015). The higher the level of sales growth, the more the company's need for funds will increase so that it will result in lower dividends to be paid.

Managerial ownership is share ownership by commissioners and directors who play an active role in decision making to encourage managers to act cautiously because they share the consequences for whatever decisions will be taken, including decisions regarding dividend policy (Bodie, Kane, & Marcus, 2014). There have been previous studies that used managerial ownership, namely research conducted by Putri Indah Ismiati and Tri Yuniati, (2017), Damris Simanjuntak and Kiswanto, (2015), found that managerial ownership affects dividend policy, while conducted by Sabrang Damar Pamungkas and Yuliasuti Rahayu, (2019), Bella Novianti Rais and Hendra F. Santoso, (2017), found that managerial ownership does not affect dividend policy.

Based on the above background, the aims of this research are as follows:

1. To determine the effect of the investment opportunity set, sales growth, and managerial ownership on dividend policy.
2. To determine the effect of the investment opportunity set on dividend policy.
3. To determine the effect of *sales growth* on dividend policy
4. To determine the effect of *managerial ownership* on dividend policy

2. LITERATURE REVIEW

Effect of Investment Opportunity Set, Sales Growth, and Managerial Ownership on Dividend Policy

The investment opportunity set describes the breadth of investment opportunities for a company, but it depends on the company's choice of expenditure in the future. (Yudiana and I Ketut Yadnyana, 2016; Suharli (2007) stated that if the company's condition is good, the management will tend to prefer new investments rather than paying high dividends. Funds that should be paid as dividends to shareholders will be used to purchase investments profitable.

Sales growth reflects the success of a company is investing in the past and can be used as a prediction of future growth. If sales growth is high, the company's income also increases so that dividend payments tend to increase (Hutagalung and Setiawati, 2019).

The amount of sales growth of a company will affect the number of funds needed for operations or investment activities. If the company focuses more on company growth, the need for funds will be higher which forces management to pay low or no dividends (Darmayanti and Mustands, 2016).

Managerial Ownership According to Ismiatidan Yuniati, (2017) the greater the managerial ownership, the lower the dividend paid by the company to shareholders. On the other hand, the lower the managerial ownership, the greater the dividend paid by the

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company. This is due to the high level of managerial ownership, the company tends to allocate profits to retained earnings rather than paying dividends because internal funding sources are more efficient than external funding sources. While the level of managerial ownership is low, the company will pay large dividends to give a good signal about future performance, thereby increasing the company's reputation in front of investors.

H1: It is suspected that there is a simultaneous influence of investment opportunity set, sales growth, and managerial ownership on dividend policy.

Effect of Investment Opportunity Set on Dividend Policy

According to Utama and Gayatri (2018), the net profit generated by the company can be allocated for two things, namely, it is distributed to investors in the form of dividends or the profit is retained for reinvestment. A high IOS has the opportunity to increase the company's growth and is offset by a decreased dividend distribution. This is because the company has the assumption that the available funds will be better to invest and hold as retained earnings. The higher the company's investment opportunity, the higher the number of funds needed to provide so that this opportunity can be utilized. This is in line with the pecking order theory which states the tendency of companies to use internal funding sources compared to external funding sources then the company will tend to hold profits rather than distribute them as dividends. The majority of internal sources of funds that come from retained earnings will affect the dividend payment policy if the company gets a profitable investment opportunity. This is supported by research conducted by Siti Nur Aini, Aristha Purwanthari Sawitri, (2020), Puteri Prihatini, et al, (2018), which found that the investment opportunity set affects dividend policy.

H2: It is suspected that there is a significant influence of the investment opportunity set on dividend policy.

Effect of Sales Growth on Dividend Policy

According to Purnami and Artini, (2016), A company that has high growth must provide sufficient capital to finance company spending. Sales growth reflects the investment success of the past period and can be used as a prediction of future growth. The higher the potential of growth of the company, the higher the need for investment funds. New investments must be made so that the company continues to grow in sales. The investment funds will be taken from retained earnings in a certain proportion. The greater the proportion of retained earnings taken, the smaller the proportion of profits to be distributed. The higher the growth rate of a company, the greater the need for funds to finance the company's expansion. The greater the need for funds in the future, the more likely the company will retain profits and not give them as dividends. The company's growth potential is an important factor that determines dividend policy. The results of this study are supported by the results of research by Tyas Prastika, and Dahlia Br. Pinem, (2015), Olivia Maria Luisiana, and Sumarno Dwi Saputra, (2015) found that sales growth affected dividend policy.

H3: It is suspected that there is a significant influence of sales growth on dividend policy.

Effect of Managerial Ownership on Dividend Policy

Managers have the opportunity to be involved in shared ownership to equalize positions with shareholders. Through this policy, managers also expect high dividends. Every decision taken will have an impact on the manager so the manager must be careful in every decision making. According to Ismiati and Yuniati, (2017) the greater the managerial ownership, the lower the dividend paid by the company to shareholders. On the contrary,

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the lower the managerial ownership, the greater the dividend paid by the company. This is because the level of managerial ownership is high, so companies tend to allocate profits to retained earnings rather than paying dividends because internal funding sources are more efficient than external funding sources. If managerial ownership is high, the information asymmetry between managers and principals (owners) will be lower, because managers also act like owners. Meanwhile, at a low level of managerial ownership, the higher the information asymmetry, so that the company will pay large dividends to give a good signal about future performance, thereby increasing the company's reputation in front of investors. The results of this study are supported by the research results of Putri Indah Ismiati and Tri Yuniati, (2017), Damris Simanjuntak and Kiswanto, (2015), finding that managerial ownership affects dividend policy.

H4: It is suspected that there is a significant influence of managerial ownership on dividend policy

3. DATA AND RESEARCH TECHNIQUE ANALYSIS

The data used in this study are state-owned companies (BUMN) listed on the Indonesia Stock Exchange in 2015-2020.

Variable Operation

Table 1: Variables and Measurements

Nu	Variable	Indicator	Scale
1.	Dependent variable Dividend Policy Payout Ratio expressed in decimal units with a scale ratio. (Prastika and Dahlia Br. Pinem, 2015)	$DPR = \frac{\text{Divident Per Share}}{\text{Net Profit Payout Ratio}}$	Ratio
2.	The Investment Opportunity set is an investment option in the form of a combination of assets or capital and the value of growth opportunities for the company in the future. (Aini and Sawitri 2020)	$MBVE = \frac{\text{Total shares outstanding} \times \text{K Closing price}}{\text{Total Equity}}$	Ratio
3.	Sales Growth is a ratio that shows the percentage increase in sales this year compared to last year. Sales Growth expressed in decimal units with a ratio scale (Prastika and Dahlia Br. Pinem, 2015)	$\text{Sales Growth} = \frac{\text{this year's sales} - \text{last year's sales}}{\text{last year's sales}}$	Ratio

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4.	Managerial Ownership is the percentage of management's share ownership that actively participates in decision making. (Ismiati and Yuniati, 2017)	$\text{MOWN} = \frac{\text{Total of shares owned by managerial} \times 100\%}{\text{Total shares outstanding}}$	Ratio
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The data analysis technique used in this study uses panel data regression with the help of Eviews 10 software and Microsoft Excel 2010.

4. RESULT AND DISCUSSION

Analysis of Descriptive Results

Table 1: Descriptive Statistics Test Results

<i>Dependent Variable: Dividend Policy</i>					
Variable	Y	X1	X2	X3	
Mean	0.611823	1.847217	0.118357	0.001885	
Median	0.268285	1.168405	0.082070	0.000000	
Maximum	7.061420	10.95362	0.994780	0.016220	
Minimum	-0.306170	0.000650	-0.484170	0.000000	
Std. Dev.	1.184314	2.074128	0.295227	0.003547	
Skewness	3.902229	2.618449	0.876553	2.339533	
Kurtosis	20.17127	11.10634	4.410688	8.168034	
Jarque-Bera	711.5244	186.2756	10.12685	97.20445	
Probability	0.000000	0.000000	0.006324	0.000000	
Sum	29.36752	88.66643	5.681150	0.090460	
Sum Sq. Dev.	65.92223	202.1943	4.096474	0.000591	
Observations	48	48	48	48	

Source: Output Eviews 10, 2021

Based on the table above, the maximum value of the dividend policy is 7.061420, the minimum value is -0.306170, the standard deviation is 1.184314 and the average value (mean) is 0.611823. Sales growth's maximum value is 0.994780, the minimum value is -0.484170, with a standard deviation of 0.295227, and the average value (mean) is 0.118357. The maximum value of managerial ownership is 0.016220, the minimum value is 0.0000, with a standard deviation of 0.003547, the average value (mean) is 0.001885.

Hypothesis Test Result

Hypothesis testing is carried out to obtain an overview of the relationship between the independent variable and the dependent variable and the results are shown in the following table.

Table 2: Partial Results (t-test)

<i>Dependent Variable: Dividend Policy</i>				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.833773	0.276711	3.013150	0.0043
X1	-0.028263	0.082660	-0.341919	0.7340
X2	-1.801550	0.544497	-3.308649	0.0019
X3	23.07395	48.06222	0.480085	0.6335

Source: Output Eviews 10, 2021

Based on the table of partial test results, it can be concluded that the results of hypothesis testing are as follows::

1. The investment opportunity set variable has a probability value of 0.7340 with a significant value of 0.05 (5%) and a coefficient value of -0.028263 (Negative). This means that if prob > 0.05 (0.7340 > 0.05), it means that the investment opportunity set does not affect dividend policy.
2. The sales growth variable has a probability value of 0.0019 with a significant value of 0.05 (5%) and a coefficient value of -1.801550 (Negative). This means that if prob < 0.05 (0.0019 < 0.05), it means that sales growth hurts dividend policy.
3. The managerial ownership variable has a probability value of 0.6335 with a significant value of 0.05 (5%) and a coefficient value of 23.07395 (Positive). This means that if prob > 0.05 (0.6335 > 0.05), it means that managerial ownership does not affect dividend policy.

Simultaneous Test (F Test)

*Table 3: Simultaneous Test Results (F Test)
Effects Specification*

Cross-section random		0.350873	0.0956
Idiosyncratic random		1.079488	0.9044
Weighted Statistics			
R-squared	0.220180	Mean dependent var	0.478646
Adjusted R-squared	0.167011	S.D. dependent var	1.155875
S.E. of regression	1.054947	Sum squared resid	48.96814
F-statistic	4.141094	Durbin-Watson stat	1.587186
Prob(F-statistic)	0.011390		

Source: Output Eviews 10, 2021

From the table, it is known that the value of the simultaneous investment opportunity set, sales growth, and managerial ownership on dividend policy is obtained by the calculated F value of 4.141094 with a probability of 0.011390. The probability value < 0.05 (0.011390 < 0.05) means that the probability value is less than 0.05, so the investment

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opportunity set, sales growth, and managerial ownership together (simultaneously) have a significant effect on dividend policy.

Discussions

The results of our study indicate that the investment opportunity set (IOS) and managerial ownership variables do not affect dividend policy in state-owned companies. This is due to the unique characteristics of state-owned companies. In state-owned companies, the government is always the controlling shareholder with an ownership level of more than 50% so every important decision through the GMS will be determined by the government so that managers do not have the power to determine the number of dividends to be distributed.

The level of investment opportunity set (IOS) will not guarantee the level of dividends that will be paid to investors. In state-owned companies, the level of investment opportunity does not affect dividend policy because dividend policy is more influenced by government political decisions, namely how much funds are needed to finance the government budget.

The level of managerial ownership does not affect dividend policy because managerial ownership and the ownership of other investors are always non-controlling shareholders so they do not have the power to determine important decisions, including dividend policy decisions.

Sales growth has a significant effect on dividend policy. In maintaining the stability of the company's income, it is necessary to have a stable investment expenditure as well. This investment expenditure can reduce dividends paid to shareholders. This finding indicates that the government has an interest in increasing dividends available to finance the government budget in the future. Related to this interest, the government also includes the sales growth variable as one of the considerations in determining dividend policy.

5. CONCLUSION

This study was conducted to analyze the effect of the investment opportunity set, sales growth, and managerial ownership on dividend policy in state-owned companies listed on the Indonesia Stock Exchange for the 2015-2020 period. Investment opportunity set, sales growth, and managerial ownership have a simultaneous effect on dividend policy. It can be concluded that the investment opportunity set, sales growth, and managerial ownership could be means that BUMN companies can give a positive signal to investors to invest in these BUMN companies. This is evidenced by the stronger the position of the investment opportunity set of state-owned companies towards projects needed for operational expenses in the future, the more a dividend policy can occur, namely by distributing dividends. The investment opportunity set has no significant effect on dividend policy. The level of investment opportunity set (IOS) will not guarantee the level of dividends that will be paid to investors. In state-owned companies, the level of investment opportunity does not affect dividend policy because dividend policy is more influenced by government political decisions, namely how much funds are needed to finance the government budget. Sales growth has a significant effect on dividend policy, this result indicates that in maintaining the stability of the company's income in terms of investment success stable investment spending is also required. This investment expenditure reduces the dividends paid to shareholders. Meanwhile, managerial ownership does not affect

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dividend policy in state-owned companies. In state-owned companies, the controlling shareholder is the government, so the managers, though they also are shareholders, do not have the power to determine the number of dividends that must be distributed.

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