

DIVIDEND POLICY STRATEGY: Moderating the Effect of Financial Conditions and Investment Opportunities on Corporate Profit Growth

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ABSTRACT

This study aims to determine the effect of the company's financial condition and investment opportunity set on profit growth with dividend policy as a moderation in food and beverage sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2021. The type of research used is quantitative associative. The data used are secondary data obtained from the Indonesia Stock Exchange for the research period. Sample selection was carried out based on the purposive sampling method with certain criteria so that 19 company samples were obtained. Data processing using statistical program evIEWS version 10. The research method uses regression analysis, namely t test, f test and moderated regression analysis. The results of the t test show that the company's financial condition has a positive and significant effect on profit growth, the investment opportunity set has a positive and significant effect on profit growth, the company's financial condition and investment opportunity set simultaneously affect profit growth, and the dividend policy is able to moderate the investment opportunity set on profit growth. However, the dividend policy does not moderate the company's financial condition against Profit growth in food and beverage sector companies for the 2016-2021 period.

Keywords : Company Financial Condition, Investment Opportunity Set, Dividend Policy, Profit Growth, Financial statements

INTRODUCTION

Profit growth is a change in the percentage increase in profits obtained by the company. Companies that experience positive profit growth every year can attract investors to invest in the company and the company can predict the company's future prospects regarding the company's performance. Good profit growth indicates that the company has good finances, which in turn will increase the value of the company because of the amount of dividends that will be paid in the future when depending on the company's financial condition.

Profit growth is the percentage of increase or decrease in profit from one period to the next (Putri & Rahmawati, 2022). Profit in the current year can be used as a

prediction to earn profits in the future. For investors, profit is very important information for making investment decisions. In analytical techniques to predict future profit growth can be done by analyzing its financial ratios. To achieve its goals, company management must be done well in order to be able to compete with other companies. The manifestation of good company management can be seen from the company's performance which can be assessed through profit growth.

One way to predict a company's profit is to use financial ratios. Financial ratio analysis is the most frequently used analysis method because it is the fastest method to determine financial performance. By knowing its performance, companies can make business decisions that are right for their goals (Ningsih, 2022). In this study the variables used are the company's financial condition (Altman Z-score), Investment Opportunity Set (Market Value Asset), profit growth and dividend policy.

The company's financial condition reflects the true health of the company, auditors almost never give a going concern audit opinion to companies that do not experience financial difficulties. Auditors are more likely to issue a going concern audit opinion when the likelihood of bankruptcy is above 28 percent. (Aprianto, et, al., 2021) stated that the worse the company's financial condition, the greater the profitability of the company receiving a going concern audit opinion.

A company's financial statements are one source of information related to company performance. When an investor will invest in a company, he needs to know the company's financial condition, especially regarding the company's business continuity. Accounting information is the most basic need for decision making for investors in the capital market, this information can be seen from the financial statements that have been made by the management of the company concerned (Mahanavami, 2021).

Investment opportunity set generally describes the breadth of investment opportunities or opportunities for a company. Companies that have a high investment opportunity set have high growth opportunities (Rosmawati, et, al., 2022). Companies that have high growth opportunities are expected managers to take advantage of existing investment opportunities by increasing sales growth, companies require large funds, these funds are obtained from internal sources of funds in the form of retained earnings. Investment opportunity set is the value of the investment opportunity and is an option to

make investments in the future. This investment opportunity set is related to the company's growth opportunities in the future. The growth of the company is like an opportunity to invest in the future.

Dividend policy is a company's decision to distribute dividends to shareholders or hold them in the form of retained earnings to finance future investments (Rulianto & Nopiyanti, 2022). Dividend policy represented by dividend payout ratio (DPR) is the percentage share of net profit distributed to shareholders. Attractive dividend policy is used as a moderation variable between the company's financial condition and investment opportunity set in this study, because the company will maximize profit growth can be achieved if the company pays attention to stakeholders or shareholders. The balance of achieving the goals of the company's stakeholders has the opportunity to get optimal profits so that the company's financial condition will be assessed well by investors. The company's financial condition represented by a healthy Altman Z-Score will be responded positively by investors.

This positive response will be shown by the increasing demand for company shares. If the demand for shares increases while those who already own the shares are also reluctant to sell (because the company's financial condition is healthy) then the stock price will increase. Increasing stock prices will increase profit growth, because profit growth is one measure by adding up current profits minus previous earnings (Sianturi, 2022).

THEORETICAL BASIS

Financial Condition of the Company

A Company's Financial Condition refers to the overall picture of a company's financial health at any given point in time. It includes a number of factors and metrics that assess the balance between assets, liabilities, and capital, as well as a company's general financial performance. The company's financial condition reflects the stability and sustainability of the company in the long term as well as the company's ability to meet its financial obligations (Setiawan & Supriyadi, 2020).

An analysis of a company's financial condition is important because it helps stakeholders (such as owners, investors, and creditors) understand how healthy the company is. By examining these factors, they can make informed decisions about

investments, loans, and other engagements with the company. The company's financial condition illustrates the company's actual health level (Amanah, 2022).

This condition is illustrated from financial ratios that can give an indication of whether the company is in good condition or in bad condition. Good companies have great profitability and tend to have reasonable financial statements so that the potential to get a good opinion will be greater than if profitability is low.

Investment Opportunity Set

IOS (Investment Opportunity Set) is an opportunity for companies to grow, IOS is used as a basis for determining the classification of future growth. For companies that have a high set of investment opportunities, always expanding in their business strategy, it will increasingly need external funds. Companies that have a high investment opportunity set (IOS) have high growth opportunities that will affect profit levels and determine the quality of profit information (Sinai, 2022).

Investment Opportunity Set according to (Apriliyanti, et, al., 2019) is the investment opportunity value which is the present value of the company's choices to make investments in the future. For companies that cannot use the investment opportunity will experience a higher expenditure compared to the lost opportunity value. Companies that have a high set of investment opportunities have high growth opportunities that will affect the level of profit and determine the quality of profit information

The Investment Opportunity Set helps entities to make efficient and effective selection and allocation of resources based on a combination of potential return and risk. Management and decision-making regarding IOS is an important aspect of long-term business and development strategy. For companies that have a high set of investment opportunities, always expanding in their business strategy, it will increasingly need external funds.

Profit Growth

Profit growth refers to the increase or development of a company's financial results over time. It reflects positive changes in profits generated by the company from period to period. Profit growth is an important indicator in financial analysis that shows a company's ability to generate greater profits over time (Utami, et, al., 2019).

Profit growth is an important indicator for stakeholders such as investors, owners, and financial analysts. It indicates the company's financial health, future growth potential, and the company's ability to generate added value. However, it is important to pay attention to context and other factors that can affect profit growth, such as risk, market competition, and economic conditions (Irena, et, al., 2022).

The main focus of financial statements is profit. Operating profit is the difference between realized revenue arising from transactions during a period and the costs associated with that income. Increased profits are good news for investors, while declining profits are bad news for investors.

Dividend Policy

Dividend policy refers to a series of decisions and approaches taken by a company in deciding how much profit to distribute to shareholders as dividends and how much profit will be retained for reinvestment in company operations or other projects (Simanjuntak, et, al., 2021). Dividend policy becomes important because it regulates the distribution of income to the shareholders of the company.

Decisions regarding dividend policy involve a consideration between the interests of shareholders who want current income and the interests of companies that may need funds for future growth and investment. Factors that affect dividend policy include the company's financial performance, capital requirements, growth potential, risk, shareholder preferences, as well as market and economic conditions (Kalsum & Oktavia, 2021).

A company's choice of dividend policy can have a significant impact on investor perception, stock price, and a company's ability to achieve its long-term goals. Therefore, management should consider various factors carefully before making a decision regarding dividend policy. Dividend policy should be formulated on a purposeful basis with due regard to the maximization of wealth from the owners of the company and sufficient financing.

METHOD

Research Method in this study uses associative quantitative approach method. The quantitative approach method focuses on collecting and analyzing data that can be measured in the form of numbers. Quantitative research seeks to measure the

relationship between variables using statistical tools, so as to provide information about the extent to which one variable affects other variables. The associative approach in research involves identifying and analyzing the relationship between two or more variables. This is done to determine if there is a causality or correlation relationship between those variables.

The population in this study is all food and beverage companies listed on the Indonesia Stock Exchange in 2016-2021. The total population to be studied in this study is 26 companies. Sampling technique using purposive sampling, the sample of this study was 19 food and beverage companies listed on the Indonesia Stock Exchange. The research method in this study uses regression analysis, namely t test, f test and moderated regression analysis.

RESULT

The Effect of the Company's Financial Condition on Profit Growth

The results of data calculations using regression obtained a probability value of 0.0371 smaller than 0.05 and a t-statistical value of 0.906305, then the first hypothesis (H1) stating the company's financial condition against profit growth was accepted. Thus, there is strong enough evidence to support the relationship between a company's financial condition and profit growth. A healthy company's financial condition will have an impact on increasing the value of a company. Good profit growth will attract investors to invest in the company in the hope that they will get a profit (dividends).

Based on the results of research from the description above, it can be concluded that the better the company's financial condition of a company, the higher the company's ability to generate profits. When the profits generated continue to increase, the dividends received by investors also increase or it can be said that the welfare of shareholders increases. Investors whose welfare is maintained will automatically give a good assessment to the company.

The Effect of Investment Opportunity Set on Profit Growth

The results of data calculations using regression obtained a probability value of 0.0139 lower than the general significance threshold usually used, which is 0.05. This means that there is strong evidence that the relationship between investment opportunity set and profit growth has significance and a t-statistic value of 2.508102, so the second

hypothesis (H2) that states investment opportunity set has an effect on profit growth is accepted. These results provide strong evidence that there is a significant relationship between how large the investment opportunity set is and how a company's profit growth occurs.

This means that as the Investment Opportunity Set (IOS) increases, Profit Growth also tends to increase. In this case, there is a positive relationship between the two variables. That is, the greater the investment opportunities available to the company (IOS), the more likely that the company will experience better profit growth. In a statistical context, significance means that the relationship between the two variables did not just happen by chance, but rather has been tested using statistical tools and found to have a solid basis.

The Effect of Financial Conditions and Investment Opportunity Set on Profit Growth

The results of data calculations using regression, obtained the probability value of 0.022361 smaller than 0.05, it can be concluded that the company's financial condition and investment opportunity set simultaneously affect profit growth. So the third hypothesis (H3) which states the company's financial condition and investment opportunity set simultaneously affects profit growth. In this context, the company's financial condition and investment opportunity set work together to shape the impact on profit growth.

It refers to the financial situation of a company, including aspects such as liquidity, solvency, profitability, and other financial performance. If the company's financial condition is good, it can help support and facilitate profit growth. IOS refers to the pool of investment opportunities available to a company to allocate its financial resources. If the company has many promising investment opportunities, this can contribute to the potential for higher profit growth.

So, the statement indicates that in the context of research or analysis that has been done, it is found that both the company's financial condition and investment opportunity set together have an impact on profit growth. This could mean that when both of these factors are good or increasing, the company tends to experience better profit growth. In other words, good financial conditions and promising investment opportunities work together to influence a company's profit growth.

Dividend Policy Moderates the Relationship Between a Company's Financial Condition and Profit Growth

The calculation results from the data above show that the probability value of 0.1735 is greater than 0.05, the resulting coefficient is -0.007431. So the fourth hypothesis (H4) that states dividend policy is able to moderate the relationship between the company's financial condition and profit growth is rejected. This indicates that there is no strong evidence to support the significant effect of dividend policy as a moderation variable.

In a statistical context, rejecting the moderation hypothesis means that the moderation variable (in this case, dividend policy) has no significant effect in influencing the relationship between "a company's financial condition" and "profit growth." This means that dividend policy does not play a significant role in moderating (influencing) the effect of a company's financial condition on profit growth.

So, the statement implies that based on the analysis that has been done, there is no strong evidence to support the idea that dividend policy has a significant influence in changing or moderating the relationship between a company's financial condition and profit growth. In the context of the study, the rejection of this hypothesis indicates that dividend policy does not have a strong impact in changing the pattern of the relationship between the two variables.

Dividend Policy Moderates the Relationship between Investment Opportunity Set and Profit Growth

The calculation results from the data above show that the probability value of 0.0500 is equal to 0.05, the resulting coefficient is 0.051805, then the fifth hypothesis (H5) which states dividend policy is able to moderate the relationship between investment opportunity set to growth in earnings received. This indicates that there is potential for the influence of dividend policy as a moderation variable, but the level of significance is right at the threshold.

IOS is a collection of investment opportunities available to companies. IOS reflects how well a company can allocate its financial resources for profitable investments. The larger the IOS, the greater the company's chances for high profit growth. It refers to the increase in revenue or net profit achieved by a company over time. Profit growth is often considered an important performance indicator.

In the context of the statement, the acceptance of the hypothesis means that the analysis shows that dividend policy has an important role in moderating or regulating the influence between the investment opportunity set and the company's profit growth. In this case, it found evidence supporting the idea that dividend policy has an impact in regulating the extent to which investments offered by IOS affect profit growth.

CONCLUSION

Based on the analysis conducted, there is evidence to support the idea that "dividend policy" can play a moderating role in the relationship between "investment opportunity set" and "profit growth". In other words, dividend policy can change or regulate the effect of the investment potential offered by the investment opportunity set on the company's profit growth.

Moderating regression analysis test, this is a statistical method used to test whether a particular variable (in this case, dividend policy) has a moderating effect on the relationship between the other two variables (IOS and profit growth). That is, whether dividend policy affects or changes the impact of IOS on profit growth. The results of the analysis show that dividend policy serves as a moderating variable in the relationship between IOS and profit growth. This means that dividend policy has a role in regulating or influencing the extent to which IOS influences profit growth.

The conclusion is that based on the results of the analysis, it was found that dividend policy has the ability to change or moderate the relationship between investments offered by IOS and their impact on corporate profit growth. In other words, dividend policy is able to play a role in regulating the effect of investment on profit growth, and this result is supported by the statistical analysis methods used.

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