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Propose Research Models and Hypotheses on the Impact of Current Ratio, Return on Assets, Total Assets Turn Over, Leverage Index, Total Accrual on Total Assets to Dividend Payout Ratio for Manufacturing Enterprises

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ABSTRACT: The dividend payout ratio is an important criterion for investors to evaluate the performance of a business. However, determining the level and rate of dividend payment has a great influence on the development strategy and business activities of the enterprise in the future. Therefore, the decision on the dividend payout ratio is always considered and considered carefully by businesses. The objective of this study is to propose a model and develop a research hypothesis so that investors and management can consider the factors affecting the dividend payout ratio. The article uses two research methods, which are the document review method and the meta-analysis method. The authors have proposed three theories including signal theory, agency cost theory, optimal capital structure theory and presented the results of outstanding studies. Analyzing the theoretical basis and reviewing the research, the authors have drawn the financial indicators that affect the dividend payout ratio, namely Current Ratio, Return on Assets, Total Assets Turn Over, Leverage Index. Combining these factors and proposing a new factor, Total Accrual on Total Assets, the authors have built a model of 5 independent variables, respectively Current Ratio, Return on Assets, Total Assets Turn Over, Leverage Index, Total Accrual on Total Assets and dependent variable Dividend Payout Ratio. The article also builds research hypotheses for independent and dependent variables. According to the hypothesis stated, these variables have an impact on the dividend payout ratio of the enterprise and when the independent variables increase, the dividend payout ratio will increase accordingly. The proposed model will be a means of supporting investors and the management board to have an appropriate plan to achieve efficiency for both parties in investment and production and business.

KEYWORDS: Dividend Payout Ratio, Financial indicators, Manufacturing enterprises, Model, Hypothesis.

1. INTRODUCTION

Dividend policy and dividend payout ratio have an influence on the business risk of the enterprise and the growth of the investor's dividend income. Enterprises can look for investors by paying dividends because paying dividends is a signal that the business is a developing production business. An enterprise with a good dividend policy will satisfy the requirements of investors and create a corporate reputation. Reputable businesses will easily raise capital through the issuance of more shares and improve their ability to increase profits in the future. However, the choice of dividend payout ratio also greatly affects the financial and development plans of the business. In particular, manufacturing enterprises always have to invest most of their capital in the development of assets such as machinery and factories. If a manufacturing enterprise deducts after-tax profits to increase the dividend payout ratio for investors, it will lose its ability to reinvest and expand production. Although paying investors will help them increase their income, in the future it will adversely affect the development ability of the business. If the enterprise pays stock dividends, it will help the enterprise retain profits, but this may increase charter capital and reduce the value of shares. For the above reasons, manufacturing enterprises are always careful in deciding the dividend payout ratio for investors. The objective of this study is to propose a model and research hypothesis to clarify the relationship and level of impact of factors on the dividend payout ratio in the group of manufacturing enterprises. The results of the study will help us identify which factors will determine the level of payment and dividend payout ratio in manufacturing enterprises.

2. LITERATURE REVIEW

2.1. Signaling theory

Spence (1973) studied the labor market and first proposed the signaling theory. The author's research results suggest that workers who want to find a job need to signal or, in other words, that workers need to actively provide personal information to the labor market to show their ability by themselves (pp.355-374). A study by Verrecchia (1983) suggested that the problem of information asymmetry occurs because companies have tried to provide information or signals to investors. This information is provided by the company for the purpose of showing investors that the company is better than other companies in the market and thereby attracting investors and enhancing the position of the company (pp. 179-194). Research by Sejati et al. (2020) argues that dividend payment policy will reduce information asymmetry and thereby signal investors (pp.110-131). According to Adnan et al. (2014), dividend payments are the company's signal to investors. Through paying dividends, the business shows investors its prospects and potential for future development (pp.89-100). From the above statements, we assess that businesses always use signal theory as a measure to attract investors. Companies send signals to their stakeholders to minimize information asymmetry. But companies often tend to send signals in their favor. Companies are designed to hide weaknesses and increase competitiveness to attract investment capital. In other words, signaling theory explains how managers use tools to provide investors with the most profitable information about a company.

2.2. Agency Theory

The book of Fama & Miller (1972) first mentioned the theory of financial structure based on agency costs. The author argues that the theory of financial structure accepts the existence of an optimal financial structure for the business due to the presence of agency costs. Conflicts between the interests of shareholders, business owners and business managers give rise to agency costs. The study of Jensen & Meckling (1972) showed that there are two types of agency conflict, namely, conflict between investors and business managers and conflict between investors and business owners. Research results show that these two contradictions create agency costs. Black & Scholes (1974) based on the theory of group effect to conduct research and said that shareholders and investors have different needs but they always tend to buy the shares issued by the company have a dividend policy that meets their needs and desires (pp.1-22). Further research by Jensen & Meckling (1976) continues to show that dividend payments aim to ensure the harmony and interests of each stakeholder and help reduce agency costs among the three parties. The subjects are investors, business owners and managers. At the same time, the authors also argue that asymmetric information always exists between the three objects mentioned above and that dividends are the most effective method to balance information between them (pp.305-360). Thus, in the above studies, we see that agency cost theory suggests that an optimal financial structure can be achieved through the balance between agency costs with the benefits of using debt and costs. This reduces the benefits of using debt for financing.

2.3. The theory of optimal capital structure

The optimal capital structure theory states that the optimal capital structure exists at which the average cost of capital is the smallest and the value of the firm highest. This theory also shows that when a firm uses a lot of debt, it will increase the risk of the business but can lead to a higher expected rate of return. While the element of risk increases the likelihood of a stock price decline, a high return has the potential to increase the stock price. Thus, the theory of optimal capital structure based on the tax shield of the enterprise asserts that the cost of capital depends on the capital structure of the enterprise. Capital structure is the extent to which financial leverage is used to affect the rate of return for shareholders. The optimal capital structure is the capital structure that balances risks and returns. Groppelli & Nikbakht (2000) argue that the most important thing is that the company's management correctly recognizes the risks that exist when using financial leverage and finds a way to maintain the optimal capital structure in a balanced way between Debt and Equity (p.225). Melicher et al. (1988). The capital structure and debt ratio can decrease or increase influenced by internal policies and decisions from the business. However, this ratio can be reduced by respecting investors' assessment of the company's ability and financial position (pp.254-255). According to Groppelli & Nikbakht (2000), key corporate considerations include maintaining credit ratings, stable dividend policy and good earnings reporting through which to attract capital from investors (p.244). Therefore, the optimal capital structure is the capital structure that balances risk and return, thereby maximizing the value of the enterprise or the stock price of the enterprise with the lowest cost of capital.

2.4. Overview

Analysis by Fitri et al. (2016) on the factors affecting the dividend payout ratio of companies listed on the stock market. The study was conducted in Jakarta with a sample size of 60 listed companies from 2009-2014. The secondary data used in the analysis were obtained from the annual report provided by the Stock Exchange of Indonesia. This study was conducted by the authors with the objective of assessing the impact of (1) Return on assets, (2) Debt to equity ratio, (3) Asset growth and (4) Dividend payout ratio in a previous year to Dividend payout ratio. To solve the research objective, the authors used quantitative research methods and the data were included for multiple regression analysis. The analysis results have shown that factor (4) The dividend payout ratio one year ago has a strong impact on the dividend payout ratio and factor (3) Asset growth has a negative and negative impact. to the dividend payout ratio. In addition, factors (1) Return on assets, (2) Debt to equity ratio have no impact on Dividend payout ratio (p.87).

Research by Hanif & Bustamam (2017) on dividend payout ratio under the influence of three factors: (1) Debt to equity ratio, (2) Return on assets, (3) company size and (4) Average earnings per share. The sample size includes 18 companies listed on the stock market in the period 2011 to 2015. The research sample was selected through the purposeful sampling method. Secondary data used in quantitative research is collected from the balance sheet. After including data in multivariable linear regression analysis, the authors obtained two main results. Firstly, all four factors selected for the study have a positive influence on the dividend payout ratio. Second, while the debt-to-equity ratio and the firm size factor do not affect the dividend payout ratio, the return on assets and earnings per share factors do not affect the dividend payout ratio has a positive effect on dividend payout ratio (pp.73-81).

The study of Arsyad et al. (2021) on the effect of liquidity, operating ratio and profitability on dividend payout ratio (pp.36-44). According to the authors, for investors, the investment benefit is the most important and this is shown through the dividend payment of the enterprise. Businesses also use dividend policies to retain investors or otherwise, their shareholders. To be able to do this, the company needs to have financial policies and financial indicators that improve year by year. The research was carried out in the consumer goods industry and is one of the key industries in Indonesia. The research sample was selected according to the purpose method from the companies listed on the stock market in the period 2015 to 2019. By quantitative research method, the multiple regression results show that the dividend payout ratio is impaired positively and strongly by the rate of return on invested capital. The author also said that the research results help investors to accurately assess the ability to achieve investment profits when based on positive signals from the profitability ratio (Arsyad et al., 2021, p.36).

Research by Parsian & Koloukhi (2014) on the impact of profitability and free cash flow on dividend payout ratio in companies listed on the stock market (pp.63-70). In this study, the author believes that dividend payment policy and decisions play an important role in every business. The payment of stable dividends over time will help reduce the volatility of the company's shares and directly affect the return of investors. Therefore, the author considers that analyzing the influence of independent factors such as free cash flow, profitability, company size, and leverage ratio on dividend payout ratio is a study very necessary. Through the purposeful sampling method, 102 listed companies in the period 2005 to 2010 were selected for the study. The authors used time series regression analysis to test the study's hypothesis. The results show that leverage ratio has a significant and positive impact on dividend payout ratio. On the contrary, Dividend Payout Ratio is negatively and negatively affected by free cash flow and current rate of return. The remaining factors such as company size, growth opportunities have no effect on dividend payout ratio (Parsian & Koloukhi, 2014, p.63).

Research by Sari et al. (2022) on the influence of three independent factors including profitability, liquidity and leverage ratio on the dividend policy of food companies listed on the stock market. The objective of the study is to determine the relationship of three independent factors to the dependent factor. The research sample was used by authors using the intentional sampling method from listed companies in the period 2016 to 2020. Through linear regression and some tests such as T-test, and test F, the results from the analysis show that the factors of Profitability, Liquidity, Leverage and Activity Ratio have a significant influence on dividend policy and dividend payout ratio in these enterprises. (p.1365).

Research by Rehman & Takumi (2012) examines the determinants of dividend payout ratio of some companies on the largest stock exchange in Pakistan, Karachi. Impact of debt-to-equity ratio, operating cash flow per share, profitability, market-to-book ratio, current ratio, and corporate tax rate. Dividends of 50 companies announcing 2009 dividends were analyzed. The authors analyzed the relationship between debt-to-equity ratio, profitability, liquidity ratio and corporate tax. Although the relationship with dividend payout ratio is considered positive, operating cash flow per share and market-to-book ratio have a negative relationship with dividend payout ratio. Profitability, debt-to-equity ratio and market-to-book value are considered to be the main factors influencing dividend payout ratios for investors (p.20).

Muhammad et al. (2021) stated that dividend policy is very important in retaining investors. The author's research is carried out on a sample of manufacturing companies in the consumer goods industry listed on the Indonesian Stock Exchange in the period 2015 to 2019. The results of the multiple regression analysis of the study show that return on invested capital has a positive and significant impact on Dividend Payout Ratio. This study provides empirical evidence that Return on Investment is an important determinant of dividend policy alongside Total Assets Turn Over and Current Ratio. The analysis results also show that the signal theory is suitable for dividend policy from a profit perspective. The author also recommends that investors should increase their understanding of the information circulating in the capital markets and better understand the financial statements to avoid making mistakes when making investment decisions. Return on Investment value information can be used by investors interested in returns in the form of dividends when considering investments (p.36).

Research by Duong et al. (2019) on the impact of factors on the cash dividend policy of listed companies. The authors' study used REM regression method. This analytical method helps the authors to measure the impact of independent factors such as profitability, financial leverage, solvency, income tax, and business growth rate on business performance. The dependent factor is the cash dividend policy. The research sample was selected according to the purposeful method in the companies listed on the Vietnam stock market in the period from 2011 to 2017. With 102 enterprises corresponding to 714 observations, the research results show that there is a loss of stock policy. Cash income is positively affected by three factors: profitability, solvency and income tax. In contrast, factors such as growth rate, financial leverage have opposite effects with this policy.

Thus, in Vietnam, there are very few studies on dividend payout ratio. Some of the case studies presented above show that dividend payout ratio is affected by many different factors and the degree of influence of each factor is also different. Therefore, the construction of evaluation models for manufacturing enterprises is responsive to the novelty of the research and is necessary.

3. METHODS

The study used two methods, which are the literature review method and the meta-analytical method. With the method of document research, the authors have searched for relevant documents such as Signaling theory, Agency Theory, and Optimal capital structure to build a theoretical basis for the research. Next, the authors searched for reports, articles and documents related to the content of the dividend payout ratio and the factors affecting it. From the relevant documents found, the authors have summarized and presented the article to clarify the overview of the study. Through the analytical method, the authors rely on the theories and results of other authors, evaluate and analyze the financial factors that affect the dividend payout ratio or have different impacts according to each study and applied in building research models. Factors that have no impact or very small impact, the authors choose to give up and not include in the proposed research model.

4. RESULTS

4.1. Financial indicators in the proposed model

Dividend Payout Ratio

According to Allen & Michaely (1995), the dividend is part of the after-tax profit paid by the business to the owners or can be called shareholders and the dividend payout ratio is calculated as dividends divided by par value (pp.793-837). According to Appannan & Sim (2011), dividends are the value of the company's after-tax earnings after deducting a portion of the company's retained earnings. The value of the current dividend is based on the accumulation of dividend value many years ago. The two authors' research also shows a positive correlation between the dividend payout ratio of the previous year and the current dividend payout ratio, which is because businesses always try to maintain and find ways to increase their dividend payout ratio compared to the previous year (pp.946-976). Research by Ramli & Arfan (2011) suggests that the higher the current year's dividend payout ratio, the higher the previous year's dividend payout ratio (pp.126-138). Thus, the dividend payout ratio is the ratio of the total dividends paid to shareholders based on the company's net income and it is expressed as a percentage. The unpaid amount to shareholders is retained by the company to pay off debt or reinvest in its core business. The dividend payout ratio is sometimes referred to simply as the payout ratio. The dividend payout ratio is calculated as follows:

Dividend Payout Ratio = Net Income / Dividends Paid

Current Ratio

The current ratio is also known as current ratio or current ratio. Current ratio indicates the ratio between current assets and current liabilities and it reflects the ability of the business to pay short-term liabilities in the present. Brigham & Ehrhardt, (2017) argue that the liquidity ratio is the ability of the enterprise to pay its obligations which is related to the dividend payment policy (p.104). Author Ahmed (2015), says that the ability to meet short-term debts and other liabilities depends on the conversion of current assets into cash or in other words the current liquidity ratio of the business (pp.73-85). Some studies by Sarmento & Dana (2016), Wahyuni & Hafiz (2018) on Current ratio have the same assumption that Current ratio is decisive for the policy and dividend payout ratio of enterprises. But some other studies by Rahayu & Hari (2016), Astiti et al. (2017) argue that the Current ratio has a very small influence on dividend policy and payout ratio. Current Ratio is calculated as follows:

Current Ratio = (Current Assets) / (Current Liabilities)

Return on Assets

The Return on Assets index is simply understood as the return on the total assets of the business. In other words, Return on Assets is an important indicator in the financial statements of the business and its mission is to measure the profitability of each dollar of capital of the business. According to Le & Nguyen (2023), Return on Assets measures the efficiency in using assets of an enterprise to generate profit after tax and regardless of the source of assets formed from borrowed capital or equity. (p.2168). Refra & Widiastuti (2014) argue that the profitability of dividends depends on the net profit earned by the business because a part of the net profit will be used to pay dividends if the business is favorable (pp. .84-105). The studies of Amidu & Abor (2006), Al-Malkawi (2008), all agree that profit is an important and decisive factor in the dividend payout ratio of enterprises. Therefore, Return on Assets is always a concern of investors, owners and business managers. Based on Return on Assets, they can analyze the profitability of the investment amount, on the total assets of the business to make business decisions of the business and adjust accordingly. A high Return on Assets ratio shows that the business is using capital effectively. Return on Assets is calculated as follows:

ROA = (Net profit or profit after tax for shareholders / Total invested capital of the business) * 100

In there:

Profit after tax is the total amount received by the company after deducting related expenses.

Total capital is borrowed capital and owner's equity

Total Assets Turn Over

Total Assets Turn Over is a financial metric used to gauge how efficiently a business uses its assets to generate revenue. This index shows how much revenue each dollar spent buying assets generates for the business. According to Putry & Erawati (2013), the higher the value of Total Assets Turn Over, the faster total asset turnover will help the business achieve greater profits. This high indicator also shows the efficiency of the management's use of revenue-generating assets (pp.22-34). According to Muhammad et al. (2021), the value of Total Assets Turn Over will increase the likelihood that corporate management will choose the direction of retaining profits to expand the production business in the future instead of distributing dividends to investors and shareholders (p.37). Thus, Total Assets Turn Over affects the dividend payout ratio of the enterprise. This indicator is calculated as follows:

Total Assets Turn Over = Revenue / Average Total Assets

In there:

Average total assets are calculated by averaging the total assets of the business at the beginning and the end of the period.

Leverage Index

Leverage Index is a form of business leverage that describes the relationship between debt and equity. A low index shows that investors have financial autonomy and vice versa, they are not effectively taking advantage of the benefits of this tool. Many companies consider financial leverage to be a useful tool to increase earnings and return on equity. However, some companies have gone into debt or even gone bankrupt due to abusing this strategy. Research by Parsian & Koloukhi (2014) and Sari et al. (2022) all suggested that leverage ratio has a significant and positive impact on dividend payout ratio. The study by Duong et al. (2019) showed that financial leverage has a negative effect on the cash dividend payment policy. According to Trang & Phuong (2017), financial leverage also has a insignificant impact on the dividend payment decision of the enterprise. Thus, the Leverage Index is an index with different levels of impact in the studies. Of the four studies we found, there are two studies with the goal of assessing the influence of the Leverage Index on dividend policy. The Leverage Index is calculated as follows:

$$\text{Leverage Index} = \frac{\text{Short-term debt (t)+Long-term debt(t)/Total assets (t)}}{\text{Short-term debt (t−1)+Long-term debt(t-1)/Total assets (t-1)}}$$

Total Accrual on Total Assets

Due to the accrual nature of accounting, when revenue and expenses are recognized is different from when cash flows actually return to the business. The large gap between earnings before tax and net cash flow from operations will raise doubts among investors about the company's ability to apply inappropriate accounting standards. According to Beneish (1999), Total Accrual on Total Assets measures the index of accruals relative to total assets. It measures the extent to which managers change earnings based on accounting choices. The larger the index, the higher the possibility of profit manipulation (pp.24-36). Thus, the manipulation of profits is the fact that businesses make profits increase in reality. The rate of dividend payment depends on the net profit of the business after tax, if the profit is an inflated number, paying a high dividend rate is likely to make the business difficult, then they will consider paying dividends. Total Accrual on Total Assets is calculated as follows:

TATA = (Income from the Continuing Operations t – Cash Flows from the Operations t) / Total Assets t

4.2. Proposing models and hypotheses to evaluate the impact on the dividend payout ratio for the group of manufacturing enterprises

Proposed model

The research team based on Signaling theory, Agency Theory, Optimal capital structure given in the theoretical basis, combined with research overview to propose a research model. Before proposing the research model, we synthesize and review financial factors used as independent variables and Dividend Payout Ratio factor as dependent variables in previous studies. General information about the research variables and their symbols is shown in Table 1.

Table 1: Variables used in the research model

Variables	Symbol	Previous
Dividend Payout Ratio	DPR	Fitri et al. (2016), Hanif & Bustamam (2017), Arsyad et al. (2021), Parsian & Koloukhi (2014), Sari et al. (2022), Rehman & Takumi (2012), Muhammad et al. (2021)
Current Ratio	CR	Arsyad et al. (2021), Sari et al. (2022), Muhammad et al. (2021), Duong et al. (2019)
Return on Asset	ROA	Fitri et al. (2016), Hanif & Bustamam (2017), Parsian & Koloukhi (2014), Sari et al. (2022), Rehman & Takumi (2012), Muhammad et al. (2021)
Total Assets Turn Over	TATO	Muhammad et al. (2021)
Leverage Index	LVGI	Trang & Phuong (2017), Duong et al. (2019), Parsian & Koloukhi (2014), Sari et al. (2022)
Total Accrual on Total Assets	TATA	The research team proposes to use

Source: Author's compilation and construction

The analysis we recommend is a multivariate regression analysis with observations that are not normally distributed. The proposed research model is as follows:

DPRt = a + a1CRt + a2ROAt + a3TATOt + a4LVGIt + a5TATAt + et

In there:

CR, ROA, TATO, LVGI, TATA are independent variables; DPR is the dependent variable

a: is a constant

e: is the intercept coefficient

Formulate research hypothesis

From the research model proposed above, we put forward the following research hypotheses:

Hypothesis H1: Current Ratio has an impact on Dividend Payout Ratio. As the Current Ratio increases, the Dividend Payout Ratio increases.

Hypothesis H2: Return on Asset has an impact on Dividend Payout Ratio. As Return on Asset increases, Dividend Payout Ratio increases.

Hypothesis H3: Total Assets Turn Over has an impact on Dividend Payout Ratio. When Total Assets Turn Over increases, the Dividend Payout Ratio increases.

Hypothesis H4: Leverage Index has an impact on Dividend Payout Ratio. As the Leverage Index increases, the Dividend Payout Ratio increases.

Hypothesis H5: Total Accrual on Total Assets has an impact on Dividend Payout Ratio. When Total Accrual on Total Assets increases, the Dividend Payout Ratio increases.

5. Conclusion

This study has completed the research objective which is to build a model and hypothesis to study the influence of financial indicators on the dividend payout ratio for the group of manufacturing enterprises. The model is built from 6 factors, including 1 dependent factor, dividend payout ratio and 5 independent variables. In the group of independent variables, there are 4 factors considered by the author to apply from previous studies of the authors. These applied factors are evaluated by many authors and all have an impact on the dividend payout ratio in different groups of enterprises. The other independent variable is a new factor proposed by the authors. This new factor has not been mentioned and studied before by any author. Next, the authors came up with 5 research hypotheses. These hypotheses all suggest that independent factors have a positive impact on dependent factors in manufacturing enterprises. With this model, we hope to be able to help investors, business owners and management have more grounds to evaluate their investment ability and make an accurate plan for their business activities. At the same time, the use of this model, will help the management to take measures to affect the targets and help the dividend rate to increase according to the wishes of investors but without affecting the plan. expand the scale of production in the future of the enterprise.

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