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Profitability, Managerial Ownership, and Investment Opportunity Set on Dividend

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A B S T R A C T

Dividend payment is one way to reduce agency costs between the company and shareholders. However, in facts that not all companies listed on the Indonesia Stock Exchange in 2016-2018 distribute dividends continuously. This study aims empirically to examine the effect of profitability, managerial ownership and investment opportunity sets on dividends. The population of this study are all listed companies on the Indonesia Stock Exchange which carry out corporate actions in the distribution of cash dividends at the Indonesian Central Securities Depository (KSEI). The research sample of 18 companies from various industries which carried out corporate actions at KSEI. This research is a quantitative study using the common effect panel data regression . The results showed that profitability had a positive effect on the dividend payout ratio and the investment opportunity set had a negative effect on the dividend payout ratio. This research contributes that the adequacy of internal funding affects the level of dividend distribution. In addition, companies that have high and stable profitability will tend to distribute dividends continuously. Conversely, if the company has many investment projects in the future, the dividend distribution will be smaller as long as the company is still focused on investment projects.

Keywords: Pecking Order Theory, Profitability, Managerial Ownership, Investment Opportunity Set, Dividend

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INTRODUCTION

The capital market is a place to do investment by the investors. Investors who already invested in the capital market hope for gaining profit. There are several instruments that can be used by investors to invest in the capital market, one of them is stock. There are 2 benefits that can be obtained by investors, namely capital gain and dividend. A capital gain (or loss) is the difference

between the purchase price and the value of the stock on selling. A dividend is a payout to shareholders derived from the profits of a company that is authorized and declared by the board of directors (Subramanyam, 2014).

Dividend payment is essential because it could attract the "risk averter investors" to earn profits with a definite value. However, the payment of dividend is not always routinely distributed annually because it requires several considerations. Horne (2013) states that there are 7 things to consider, namely company liquidity, debt covenant restrictions, profit levels, asset expansion rates, profit stability, taxes and access to capital markets.

Dividend is a way to reduce agency costs. According to agency theory, manager in a company has aggregate knowledge about the company itself rather than investors. It leads to asymmetric information between managers (agents) and investors (principals) (Scott, 2014). This asymmetric information might be harmful to investors when making investment decisions. Therefore, the dividends payment can be used as a solution to reduce agency costs. Moreover, signaling theory states that dividend is a signal to investors showing that the company has good financial conditions (Brigham and Houston, 2014). Therefore, companies are indirectly encouraged to distribute dividends regularly so that investors consider that the company has high confidence level of their financial performance.

Based on the agency theory and signaling theory, dividend has an important role in agency relations and as a symbol that shows that the company's financial condition is excellent. However, the facts proved that not all companies which are listed on the Indonesia Stock Exchange distributed dividend regularly to the investors. JCI in 2018 experienced a significant declining up to -2.54% which stated that many companies had financial problems and affected the dividend distribution policy. The declining in the JCI over the last 3 years (2016-2018) were due to the trade war between USA and China which affected the financial performances of listed companies on the IDX.

Based on the previous explanation, the dividend policy is also influenced by how resilient the company is in facing a market which tends to "fall". Therefore, researchers are interested in examining what factors boost the companies to distribute the cash dividends regularly during the bearish market. In addition, cash dividends also have an important role in increasing investor welfare and reducing agency costs.

The Board of Director has full authority to regulate all policies and one of them is the dividend policy. The Board of Directors who has stock ownership is called as Managerial Ownership (Widiari, 2017). Widiari (2017) & Sari (2016) stated that managerial ownership had a negative effect on dividend distribution. It was because managers focus on developing the company considering that the company is facing challenges with foreign competitors. The company's profit was retained so it minimizes the distribution of dividends to shareholders. On the other hand, Raiz (2017) found that managerial ownership had no influence in determining the amount of dividends.
In addition to managerial ownership, profit becomes an essential factor on determining the dividend policy. It is in line with the pecking order theory which states that the company will fund all its expenses using internal funding in advance. Dividend distribution is one form of expenditure made by the company. Utama and Gayatri (2018) stated that the positive profitability ratio value indicated company's excellent financial performance. Positive profitability value means that the company is able to generate profits in a certain period. The profit is a form of internal funding. The earned profit is expected to be allocated for dividend distribution. There are several previous studies that examined the ratio of profitability to dividends. Cahyadi (2018) found that profitability had a positive effect on dividends. Companies that were able to generate profits in a period would have a greater opportunity to distribute their dividends. This finding is in line with Nuhu's (2014) research which found that the profitability of companies in Ghana had a positive effect on dividend distribution.

Investment Opportunity Set (IOS) is a company's growth opportunity in the future which is reflected through the company's ability to invest (Prakoso, 2016). Investments made by the company could be done through the company's expansion or through research and development activities in order to generate long-term profits. Pecking order theory states that companies will tend to prioritize the use of their internal funding to fund the level of company expansion (investment) (Myers and Majluf, 1984). Therefore, high IOS companies tend to use their cash/ earnings reserves for investment purposes rather than being used for dividend distribution. Hussain and Usman (2013) found that IOS had a negative effect on dividend distribution. Nevertheless, Prakoso (2016) found that IOS had a positive effect on dividend distribution because high IOS companies guarantee their future performance so they are willing to pay higher dividends. In addition, different research finding was found by Utama and Gayatri (2018) which stated that IOS had no effect on dividends because of the uncertainty of future investments.

This research combines the Cahyadi (2018), Utama and Gayatri (2018) and Widiari (2017) researches. The variables used in this research are profitability (Cahyadi, 2018), managerial ownership (Widiari, 2017) and IOS (Utama and Gayatri, 2018). The reason for the researchers to combine the three studies is to obtain the consistency of results based on the declining of JCI in 2018. The decline in the JCI may be able to find the differences in research findings as the result of the newest research. The research population are companies listed on the Indonesia Stock Exchange through the cash dividends announcement as company's corporate actions. The research population are derived from KSEI as one of the Self Regulatory Organizations (SRO) institutions that work together with IDX to monitor every corporate action carried out by all listed companies. The researcher chose the 2016-2018 as the research period in accordance with the declining of JCI on 2018.

Dividend is a form of compensation obtained by shareholders in addition to capital gains. Subramanyam (2014:20) states that dividends are income to shareholders obtained from the allocation of the proportion of the company's net income. According to Jamil (2015) dividend is defined as part of retained earnings given to shareholders. Dividends are distributed by considering the adequacy of retained earnings first. When the company considers choosing whether profits are distributed in the form of dividends, or profits are invested in retained earnings to finance the company's future needs, it is referred to as dividend policy (Sartono, 2010: 53).

According to Scott (2014: 358) agency theory is a branch of game theory which states that agents will act against the interests of the principal. The principal is the person or group that provides resources to the agent to be managed. The agent must work responsibly to the principal. The agent must prioritize the interests of the principal. However, the agent has an opportunistic nature. The opportunistic nature of the agent means they work for their own interests and ignores the interests of the principal. The agent is the manager while the principal is the investor. Investors submit resources to be managed by managers. Managers act on behalf of investors. Managers have more complete information than investors because managers are close to the company's operational activities. This will lead to asymmetric information. When the level of asymmetric information is high, the distribution of returns in dividends is getting smaller (Halviani, 2014).

The Pecking Order Theory by Myers and Majluf (1984) arises due to the existence of asymmetric information in making funding decisions. Al-Najjar and Hussaney (2009) stated that this theory has two assumptions. First, there is asymmetric information between managers and shareholders. Second, the company will sacrifice its resources to finance a project that is considered profitable even though it must issue debt securities to cover its cash shortage.

The profitability ratio provides a measure of the management effectiveness level in managing the company. The higher the profitability ratio indicates that the management's performance is getting better. If this ratio is small or even negative, then the company is experiencing operational

sluggishness which can later have an impact on the failure of dividend payments in the next period.

Managerial ownership is share ownership whose share owners are insiders who are directly involved in operational activities (Rais, 2017). Share ownership by the Board of Directors is carried out with the aim of being equal with shareholders so that managers feel they have ownership and actively control the company's good performance. In addition, managerial ownership is expected to meet the needs of shareholders and managers' needs to reduce the agency conflicts.

The Investment Opportunity Set (IOS) is a company opportunity to expand investment in the future (Tarwiyah, 2018). Companies that have the huge possibility of expansion can be seen from the increase of real assets and investment opportunities. Companies with high investment growth tend to use most of their cash for investment.

Profitability and Dividend. According to the pecking order theory, the company finances all its expenses using the internal funding first before using the external funding. The profit generated by the company is a form of internal funding. Profit is a form of return or a measure of the company's performance for a period. Dividend payments are taken from the allocation of profits earned in one period (Al-Kuwari, 2009 and Halviani, 2014). The larger the profit will tend to generate larger future cash inflow as well. Fahmi (2014:81) stated that the profitability ratio is a financial performance measuring tool that measures the level of profit (return). Profitability ratio is a ratio that measures how big the level of profit earned in a period. When this profitability ratio is high, it is believed that the company is able to generate large profits (Cahyadi, 2018). Companies that can generate large profits can generate large future cash flows as well. This high amount of cash reserve will increase the opportunity to provide returns in the form of dividends so that it has a positive impact on the dividend payout ratio (DPR) (Amidu and Abor, 2006). Research on profitability ratios has been carried out by Nuhu (2014). The results showed that the return on assets had a positive effect on the DPR. In addition, Rahayu (2016) examines profitability ratios using return on equity. The results showed that the return on equity had a positive effect. H_1: Profitability has positive effect on DPR significantly.

Managerial Ownership and Dividend. Agency theory states that agents will act against the interests of the principal. The agents in this study are the directors as managers and the principals are shareholders. The Board of Directors has more detail knowledge of the company than the principal because the Board of Directors handles operational activities directly. This gap is called as asymmetric information. It leads to a problem for investors because investors are not able to monitor every activity carried out by the Board of Directors. Therefore, to reduce agency costs, shareholders provide shares to the board of directors in order to act equally as well as shareholders. This managerial ownership is expected to give more responsibility to the Board of Directors so that they perform better especially when designing the dividend payment policy. Management is expected to have good performance and reduce dividend payment so that the value of retained earnings is high. High retained earnings could increase the value of the company through asset expansion or the creation of more profitable projects in the future. Previous research related to managerial ownership of dividends had been carried out by Sari (2016) and Widiarti (2017). They found that there was a negative relationship between managerial ownership and dividends. Managers will tend to focus on investing their profits to enlarge the company. The Board of Directors considers that increasing the value of the company is much more profitable than increasing the value of the dividends distributed. H_2: Managerial Ownership has a negative effect on DPR significantly

Investment Opportunity Set Towards Dividend**.** The Pecking Order Theory states that the company will prioritize its internal funding to fund its investment. If internal funding is not sufficient, the company will seek for external funding. Investment Opportunity Set (IOS) is a value that states the

investment condition of a company. A high IOS means the company is actively investing. In accordance with the pecking order theory, companies with high IOS will tend to use cash or other resources owned by the company to be used in investment activities. Therefore, the distribution of dividends in the form of cash will be less. Hussain and Usman's (2013) found that companies with high IOS will pay less dividends. The company used its cash funds to expand. Utama and Gayatri (2018) stated that this negative relationship could be has no effect if there is still an uncertainty about future cash flows related to the success or failure of the company's investments. H_3: Investment Opportunity Set has a negative effect on DPR significantly

METHOD

This research is a quantitative research since it collect and analyze the numerical data. The population of this study are all companies which announce the payment of cash dividends. The selected research period is between 2016-2018. The data is taken from the websites www.idx.co.id and www.ksei.co.id. The sample of selected companies will be processed and tested. The specified sample criteria are: 1. The companies that announced the payment of cash dividends in 2016-2018. 2. The companies published complete and audited financial report data from 2016 to 2018. 3. The companies that routinely distribute cash dividends in 2016-2018. 4. All data related to the research variables are exist during research period.

Based on the criteria for selecting the sample formed, it will be presented in Table 1 below:

Tabel 1 : Sample Selection

Criteria	Number
The companies that announced the payment of cash dividends in 2016-2018	288
The company did not publish complete financial statement data and has been audited during 2016 to 2018.	(1)
The companies did not distribute dividends regularly during 2016 to 2018	(115)
Uncomplete data related to the research variables	(154)
Number of companies	18
Research Period (years)	X3
Total research sample	54

Source: Processed Data (2019)

The dependent variable of this research is dividend which is measured by using DPR. While the independent variables of this study are profitability, managerial ownership and Investment Opportunity Set (IOS). DPR is a measuring tool to measure the company's ability to distribute dividends. There are several kinds of DPR measurements. According to Kieso, et al (2010:222), DPR can be calculated by dividing cash dividends by net income after tax. Meanwhile, in previous research, Amidu and Abor (2006) calculated the DPR using the dividend per share/ earnings per share formula. The data presented in the financial statements on the www.idx.co.id website used the dividend per share/ earnings per share formula. To facilitate data processing, DPR in this study is measured by comparing dividend per share with earnings per share according to research by Amidu and Abor (2006) because the data presented also uses the same formula. DPR = deviden per share/earning per share

Profitability ratios are financial ratios used to measure the company's ability to earn profits. The profitability ratio in this study is measured by Return on Assets (ROA). ROA is a measure of the company's effectiveness in generating profits by utilizing assets used for operating activities. In Kieso, et al (2010:222) and Horne (2013:191), ROA is measured by comparing net income after tax with total assets. This formula has also been used by Halviani (2014), Cahyadi (2018) and Nuhu (2014). Here is the formula for ROA = net income after tax/total asets

Managerial ownership is the proportion of shares owned by the Board of Directors in a company. Managerial ownership in this study is measured by comparing the number of shares owned by the Board of Directors to the number of outstanding shares. Widiarti (2017) stated that Managerial Ownership is measured by comparing the number of management shares divided by the number of outstanding shares. This formula has also been used by Kasmon, Doni, et al (2016), Sari (2016) and Rais (2017). Here is the formula for Managerial Ownership : number of shares owned by directors/ total shares outstanding.

Investment Opportunity Set is an investment opportunity in the future. IOS symbolizes the value of investment activity in the future which means that the higher the value of IOS, the investment activity in the future will be high as well. Aristantia (2015), Prakoso (2016) and Utama & Gayatri (2018) measure IOS by capital expenditure to book value. Meanwhile, Hussain and Usman (2013) measure IOS with a ratio of market to book value. This study uses the market to book value ratio formula to determine IOS according to the research of Hussain and Usman (2013). Here is the market to book value formula: market price per share/book value per share

The research used panel data regression through the E-views 8 statistic software. This analysis is used to test the hypotheses. The independent variables of this study are the ratio of profitability, managerial ownership and investment opportunity set. The dependent variable is the dividend payout ratio. The form of the regression equation formula in this study is: $Yi = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \mu$, Y_i : Dividend Payout Ratio, β_0 : Intercept Factor, β_1 β_2 β_3 β_4 : Coefficient of regression, X_1 : Profitability ratio, X_2 : Managerial Ownership, X_3 : Investment Opportunity Set, μ : Error

RESULTS AND DISCUSSION

Heteroscedasticity test is conducted by regressing the absolute value of the residual and the independent variable. If the p-value > 0.05, then there is no heteroscedasticity problem. The following are statistical results related to heteroscedasticity:

Table 2. Heteroscedasticity

Variable	t-Statistic	p-Value
ROA	0,117622	0,906838617
Ownership	-1,09823	0,277362654
IOS	-0,78383	0,436838552

Source: Processed Data (2019)

Table 2 shows that the probability value of all independent variables is above 0.05. The probability value > 0.05 means that this research is free from heteroscedasticity problems.

Multicollinearity test is formulated to analyze the correlation between independent variables. Multicollinearity test is conducted by looking at the value of the correlation coefficient of each independent variable. If the correlation coefficient value is less than 0.8 then there is no multicollinearity problem. The following is the statistical output regarding the Multicollinearity test:

Table 3. Multicollinearity Test Output

	ROA	MANAJERIAL	IOS_PBV
ROA	1,000000	-	
MANAJERIAL	0,083643	1,000000	-
IOS_PBV	0,274297	0,043388	1,000000

Source: Processed Data (2019)

Table 3 shows the correlation of each of the independent variables of this study. The correlation of each variable shows a value of < 0.8 and it means there is no multicollinearity problem. Autocorrelation test using Durbin Watson test. The dL value is 1.4464 and the dU value is 1.68 while the dW value is 1.948. The study said that there was no autocorrelation problem if dW > dU and (4-dW) > dU. Therefore, this study is free from autocorrelation problems.

Descriptive statistics show a general description of the processed sample data according to the research variables. Descriptive statistics show the mean, median, maximum, minimum, and standard deviation values. The data is processed using the E-views 8 statistic software and descriptive statistics are presented in the following table:

Table 4. Descriptive Statistics

	DPR	ROA	Manajerial	IOS_PBV
Mean	0,93111174	0,065363	0,23541681	2,055
Median	0,3003	0,066177	0,17111111	1,53
Maximum	25,9067358	0,226828	0,8359365	7,45
Minimum	0,0325	0,016205	0,05056604	0,38
Std. Dev	3,56716206	0,07586	0,20919121	1,691145

Source: Processed Data (2019)

Table 4. shows the descriptive statistical values of the 4 research variables. The dependent variable of this study is the Dividend Payout Ratio (DPR). There are 3 independent variables in this study, namely Return on Assets (ROA), Managerial Ownership (Managerial) and Investment Opportunity Set (IOS). Dividend Payout Ratio (DPR) is measured by dividing the amount of dividends distributed in one period by the value of earnings per share in the same period. The average value of the sample DPR is 0.93111174. The mean value is 0.3003. The largest value is 25.9067358 and the smallest value is 0.0325 DPR. The standard deviation of the DPR is 3.56716206. The results of the descriptive analysis show that the average value is smaller than the standard deviation value. This shows that the diversity of the data analyzed is high. Return on Assets (ROA) is measured by dividing the total net income by the total assets in the same period. The average ROA value of the sample is 0.065363. The mean value is 0.066177. The largest value is 0.226828 and the smallest value of ROA is 0.016205. The standard deviation of the ROA is 0.07586. The results of the descriptive analysis show that the average value is smaller than the standard deviation value. This shows that the diversity of the data analyzed is high. Managerial Ownership (Managerial) is measured by dividing the number of shares owned by the Board of Directors and the Board of Commissioners by the number of outstanding shares in the same period. Managerial average value of the sample is 0.23541681. The mean value is 0.171111111. The largest value is 0.8359365 and the smallest managerial value is 0.05056604. Managerial standard deviation is 0.20919121. The results of the descriptive analysis show that the average value is greater than the standard deviation value. This shows that the diversity of the analyzed data is low. Investment Opportunity Set (IOS) is measured by dividing the close price of shares at the end of the period by the book value of assets per share in the same period. The average IOS value of the sample is 2,055. The median value is 1.53. The largest value is 7.45 and the smallest value for IOS is 0.38. IOS standard deviation is 1.691145. The results of the descriptive analysis show that the average value is greater than the standard deviation value. This shows that the diversity of the analyzed data is low.

Panel data regression model is divided into 3 types, namely common effect, fixed effect and random effect. The following are the results of the selection of the regression model of this study: 1) Chow test. This test is conducted to select the best model between the common effect and fixed effect. The hypotheses formed are as follows: H0 : The best common effect model, H1 : The best fixed effect model. If the value of the probability Chi-square <0.05 then H0 will be rejected. The value of the Chi-Square probability is 0.8936. This value is higher than 0.05 so that the hypothesis

H0 which states that the best common effects model is accepted. 2) Hausman test. Hausman test was conducted to select the best model between the fixed effect model and the random effect model. The hypotheses formed are: H0 : The best random effect model, H1 : The best fixed effect model.

Conclusions are drawn by looking at the probability value of a random cross section. If the probability value of random cross section < 0.05, then H0 will be rejected. The probability value of random cross section is 0.0001 (prob <0.05). The probability value of random cross-section is lower than 0.05 so that the hypothesis H0 which states that the best random effect model is rejected. The conclusion of the two tests above states that the common effects model is the best. Therefore, the lagrange multiplier test was not carried out because the two previous tests had shown relevant results.

The regression model used in this study uses the Common Effects model. The results of inferential statistics from the Common Effect test are as follows:

Table 5. Common Effect Inferential Statistical Output

	Coefficient	t-Statistic	Prob.
C	2,642438	4,076383	0,00
ROA	0,543407	2,555108	0,01
Manajerial	0,805679	1,227086	0,23
IOS_PBV	-0,454865	-2,556238	0,01

Source: Data analysis (2019)

The independent variables of this study are the ratio of profitability (ROA), managerial ownership (Managerial) and investment opportunity set (IOS). The dependent variable of this study is the dividend payout ratio (DPR). The equation in this study according to table 6. is as follows: Yi = 2.642438 + 0.543407X1 + 0.805679X2 -0.454865X3+ μ. In addition, the value of the coefficient of R^2 in this study is 14.6043%. It means the independent variable used in this study could describes 14.6043% of the dependent variable.

Hypothesis testing is indicated by finding the t test output. Criteria for acceptance of a hypothesis is conducted by looking at the p-value. If the p-value is less than 0.05 then the hypothesis will be accepted. Here are the results of hypothesis testing:

Table 6. Hypothesis Test

	t-Statistic	Prob.	Decision
ROA	2,555108	0,01	Accepted
Managerial	1,227086	0,23	Rejected
IOS_PBV	-2,556238	0,01	Accepted

Source: Data analysis (2019)

The findings of the effect of profitability (ROA) towards the DPR testing showed the p-value of 0.01 and a t-statistic value of 2.555108. These results indicated that ROA has a positive effect on the DPR. Therefore, it can be concluded that hypothesis 1 which states that profitability has a positive effect on dividends is accepted. The findings of the effect of managerial ownership towards the DPR testing showed p-value of 0.23 and a t-statistic value of 1.227086. These results indicated that managerial ownership has no effect on the DPR. Therefore, it can be concluded that hypothesis 2 which states that managerial ownership has a positive effect on dividends is rejected. The findings of the effect of the Investment Opportunity Set (IOS) towards the DPR testing showed p-value of 0.01 and a t-statistic value of -2.556238. These results indicate that IOS has a negative effect on the DPR. Therefore, it can be concluded that hypothesis 3 which states that the Investment Opportunity Set has a negative effect on dividends is accepted.

The first hypothesis states that profitability has a positive effect on dividends. The finding proved that the first hypothesis is accepted. The result of the study is in line with the previous research by (Cahyadi & et al, 2018), (Amidu & Abor, 2006), (Nuhu, 2014) and (Rahayu & Hari, 2016). The finding supported the pecking order theory which states that the company will finance all its expenses by prioritizing internal funding first. Profit is the company's internal funding source as measured by its level of profitability. If the value of the company's profitability is higher, the company will get higher internal funding as well. Companies that have large internal funding will be able to finance their expenses, especially expenditures in the form of dividends. (Amidu & Abor, 2006), (Al-Kuwari, 2009) and (Cahyadi & et al, 2018) state that high profitability will increase dividend payments. Dividend policy is generally determined from retained earnings earned in a certain period. Therefore, if the company obtains high profitability in a period, the retained earnings obtained will also be high. A high amount of retained earnings will have an impact on an increase in the amount of dividends distributed to shareholders.

The second hypothesis states that managerial ownership has a negative effect on dividends. The finding showed that managerial ownership has no effect on dividends. The result of this study is consistent with research by (Kasmon et al., 2016; Raiz & Santoso, 2017) which state that managerial ownership has no effect on dividend distribution. Agency theory states that agency relationships can be minimized by reducing the agency costs incurred. The results show that managerial ownership participation could not reduce agency costs by distributing dividends. Dividends are a form of obligation made to shareholders. Dividends could not show in detail to stakeholders the actual information that occurs in the company. (Huang & Yan, 2012) state that the right way to reduce agency costs is through full disclosure of any information in the company, either mandatory disclosure or voluntary disclosure. Managerial ownership has no effect on dividend distribution. There are several things that cause managerial ownership to have no effect. First, the salaries, bonuses and allowances received by the management are much higher than the value of the dividends received. This creates a sense of job satisfaction for every manager. Second, managers who own shares want profits from the increase in the value of the company, not profits in the form of dividends. Managers will try to use all available resources to increase the value of the company in the future (Raiz & Santoso, 2017).

The third hypothesis states that the Investment Opportunity Set has a negative effect on dividends. The finding proved that the Investment Opportunity Set has a negative effect on dividends. This finding is in line with research by (Hussain & Usman, 2013) and (Utama & Gayatri, 2018) which state that IOS has a negative effect on dividends. The Pecking Order Theory states that the company will prioritize its internal funding to fund its investment. If internal funding is not sufficient, the company will seek external funding. Investment Opportunity Set is a value that states the investment condition of a company. A high IOS means that the company is actively investing. In accordance with the pecking order theory, companies with high IOS will tend to use cash or resources owned by the company to be used in investment activities so that the distribution of dividends in the form of cash will be less.

CONCLUSION

This study aims to investigate the relationship between profitability, managerial ownership and investment opportunity set on dividends. The research samples are all companies which distribute cash dividends on the Indonesia Stock Exchange in 2016-2018. The finding proved that profitability could increase the amount of distributed dividends. High profitability can increase the company's internal funding. Pecking order theory states that internal funding is preferred to finance company expenses. Therefore, dividends will be paid by the company to the shareholders when the company has sufficient internal funding. In addition, the amount of the dividend is taken from the proportion of profits earned. Companies that are able to generate regular profits every

year will tend to distribute dividends consistently. The next finding was that the investment opportunity set (IOS) could reduce the value of dividends. IOS is an indicator to measure the level of investment made by the company. Investment activities carried out by companies are usually in the form of asset expansion or increased research and development activities to generate long-term profits. Companies which are focused on increasing investment activities will tend to use most of their cash flows to fund each investment project. Therefore, companies that have high IOS will tend to pay less dividends. Moreover, this study provided empirical evidence that managerial ownership was not a determinant of dividend distribution. Managers who own shares are focused on increasing the value of the company. Overall, companies with high profitability tend to pay high dividends. On the other hand, companies with high investment projects (IOS) tend to pay out low dividends. This information can be used as a reference for future research and for investors as consideration for making investment decisions.

The findings of this study are related to the pecking order theory. Internal funding has an important role to finance all company expenses. Profitability is one source of internal funding. If the company's profitability is high, the company will have high internal funding. Therefore, profitability can be a determining factor for companies in distributing dividends. In addition, companies that have high investment opportunities in the future will tend to pay smaller dividends. This is in line with the pecking order theory. Companies tend to spend most of their internal funding for investment projects so that the allocation of funds for dividend distribution is minimized. The results of this study provided empirical evidence that the profitability affects the level of dividend payments. Management has possibility to increase the amount of profit because it plays an important role in the availability of internal funding. Companies that have high internal funding could finance every needs easily and independently. Growing companies need large internal funding flows as well.
In addition, investors who want to receive regular dividend should invest in companies that have high profitability and tend to be stable every year. Companies that have high and stable profitability will reduce the risk of companies not paying dividends.

The R-Square of this research finding was 14.6%. it showed that there are other variables that are thought to affect the distribution of dividends. This study also proves that managerial ownership does not affect the distribution of dividends. Suggestions for further research is to consider the cash flow investment sensitivity as one of the independent variables to see in detail the potential success of investments made by the company in the future. If the investment project is successful in the future, the investment relationship to the company's cash flow will be expected to have a positive direction and have an impact on dividend distribution.

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