American Research Journal of Business and Management
ISSN-2379-1047
Volume 5, Issue 1, 7 Pages

AMERICAN RESEARCH JOURNALS
An Academic Publishing House

Research Article Open Access

Factors Influencing of Dividend Payout in Indonesia Stock Exchange

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Abstract: This research aims to determined the factors that impact dividend policy. The sample used in this research is a manufacturing company that in listed on the Indonesia Stock Exchange (IDX) in the period 2011-2015. Independent variable in this research is liquidity, investment opportunity, profitability, leverage dan firm size and dependent variable is dividend policy. The amount of the sample of the research amounted to 35 manufacturing companies. The empirical result of this research using the program software Eviews 9.0 by multiples regression analysis. The result of this research indicate that profitability, leverage and firm size has a significant negative effect on dividend policy, while liquidity and investment opportunity have no impact on dividend policy.

Keywords: dividend payout ratio, firm size, investment opportunity, leverage, liquidity dan profitability.

Introduction

Generally dividend policy is a problems that is often encountered management and shareholders. In decision dividend policy, management have to make an optimal dividend policy decide the proportion earnings will be given to shareholders and the amount earnings that will be maintained to finance its new investment projects so that to increases future earnings (Mui and Mustapha, 2016). In addition, management also needs to objective in choosing investment that has good prospects, and not otherwise choose investment could even reduce earnings at the expense of earnings that should be distributed to shareholders (Al-Malkawi, 2007). Dividend policy can help to reduce the agency cost.

According to Khan, Naeem, Rizwan and Salman (2016), the high level of liquidity cash reserves larger and more capable of distributed dividend, while companies with low liquidity being a weak in distributed dividend.

Investment opportunity is an opportunity for companies to make new investments to increase return on profit in the future (Mui and Mustapha, 2016). According Al-Kuwari (2009), a firm prioritizes to use internal funding sources to finance investment projects to avoid use of external financing which is relatively more expensive so companies need the proportion pay fewer dividends.

Profitability describe the ability firm in generate profits (Badu, 2013). Earnings obtained are shared to shareholders as a form dividend, this is commitment managements to reward in fulfilling the weatlh maximization shareholders (Yusof and Ismail, 2016). Shareholders expectation companies can create high earnings levels can also distributed a greater amount of dividend.

The use of debt is intended to supporting capital internal as the company gets additional funds other than from shareholders. According Nuhu (2014), companies that uses funding through leverage has an obligation to pay off debts along with interest, so that earnings available to holders are reduce.

Variable last used in this research is firm size. Large companies generally have access more likely to enter the market capital in obtain funding with the relatively lower. So that it can potentially provide higher dividends compared to smaller companies (Al-Malkawi, 2007). The optimal source of capital market funding can fulfilling all funding needed for operational activities. This has lead to the company able to generate earnings to maximum efficiency for shareholders.

Based on the above introduction, with reference to research conducted by Mui and Mustapha (2016), it will be done research with title DETERMINANTS OF DIVIDEND POLICY ON MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

Research Methods

The research design used for this research is hypothesis testing with purposed to understand the influence of liquidity, investment opportunity, profitability, leverage dan firm size on dividend policy. Data collected from financial report of manufacturing company that shared dividend has continuously for 5 years and listed in Indonesia Stock Exchange for period of 2011-2015. The analysis toll this research is regression using E-views 9.

Variables and Measurement

Dependent Variable

Dependent variable in this study is dividend policy use measured by dividend payout ratio with the formula as follows (Mui and Mustapha, 2016):

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

Independent Variable

Independent variables in this study liquidity, investment opportunity, profitability, leverage and firm size with the formula as follows (Mui and Mustapha, 2016):

a. Liquidity

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

b. Investment opportunity

$$\text{Market to Book Ratio} = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

c. Profitability

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}}$$

d. Leverage

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

e. Firm size

Size = Natural Logarithm of Total Assets

Data Analysis Method

Analysis method used in this study is multiple linear regression. Purpose of this analysis method is to identify relationship of independent variables toward dependent variable. Multiple regression model in this study :

$$DIV=\alpha+\beta_1\ LIQ+\beta_2\ INV+\beta_3\ ROE+\beta_4\ LEV+\beta_5\ SIZE+\ \varepsilon_i$$

where:

DIV = Dividend payout ratio

LIQ = Liquidity

INV = Investment opportunity

SIZE = Firm size

ROE = Return on equity

LEV = Leverage

T test is used to examine the influence of independent variables individually toward dependent variable. Independent variable liquidity, investment opportunity, profitability, leverage and firm size to dependent variable is dividend policy.

Results and Discussion

The objects of this study is manufacturing companies listed in Indonesia Stock Exchange for period of 2011 - 2015. Sampling technique used for this study is purposive sampling method, the sampling based on certain criteria, namely manufacturing companies that have gone public and listed in Indonesia Stock Exchange and distribute it dividend continuously for period of 2011 – 2015. Data gathered from 35 companies within a period of 5 years.

Table1. *Descriptive Statistics*

	N	Mean	Median	Maximum	Minimum	Std. Dev
DIV	175	0,470023	0,431000	1,458000	-0,588000	0,297423
LIQ	175	2,670303	2,124000	11,74300	0,416000	1,848906
INV	175	5,619137	3,065000	58,48100	0,411000	9,053497
PROF	175	0,255314	0,183000	1,435000	-0,019000	0,264172
LEV	175	0,720943	0,560000	3,029000	0,108000	0,561360
SIZE	175	28,87253	28,52300	33,13400	24,61200	1,830905

Source: Eviews 9

Table2. *T test result*

Variable	Coefficient	Probability	Conclusion
C	4,445163	0,0029	-
LIQ	-0,010987	0,4449	Insignificant
INV	0,008048	0,1393	Insignificant
PROF	-0,617035	0,0018	Significant
LEV	-0,170057	0,0168	Significant
SIZE	-0,128527	0,0130	Significant

Source: Output data *E-views 9*

Liquidity on Dividend Policy

The result of the coefficient showed liquidity insignificant on dividend policy. The result of this study supported Aqel (2016) found liquidity has no significant on dividend policy. According Gitman and Zutter (2015), this is for current assets are less able to generate profits compared to repairing assets. Fixed assets considered more can give benefits companies because fixed assets can provide value added to products produced company, so liquidity has no effect on dividend policy.

Investment Opportunity on Dividend Policy

The result of this study reported investment opportunity has no significant effect on dividend policy. It is supported by literature on study Nuhu (2014) that investment opportunity does not effect dividend policy. When investment opportunity of the firm increasing, it will not determine the amount of dividend policy paid by the firm. Khan et al., (2016) showed companies prefer to used earnings obtained through investment into investment opportunities to increase earnings in the future, so did not effect the amount of dividend distributed to shareholders.

Profitability on Dividend Policy

The result of the coefficient showed the influence of profitability on dividend policy is -0,617035. Statistical test showed the p-value is 0,0018 < 0,05. The result this study supported research by Khan et al., (2016) showed negative effect profitability on dividend policy. Firms with higher profitability generate sufficient amount of earnings and are more able to have retained earnings for reuse the work investment that would improve earnings growth in the future. Based on study Jozwiak (2015) that companies listed of Polish, found a significant negative effect probitability on dividend policy. Companies with high profitability will not fully use earnings for dividend distribution but the earnings is used as a source of investment capital so it will pay a low dividend for shareholders

Leverage on Dividend Policy

The result of the coefficient showed the influence of leverage on dividend policy is -0,170057. Statistical test showed the p-value 0,0168 < 0,05. The result of this study reported leverage has a negative effect on dividend policy. The result this study supported research by Patra et al., (2012) that companies of Greece found negative effect of leverage on dividend policy. Firm used external financing through leverage that companies have the obligation to pay the loan along with interest on the loan. So that it reduce the remaining net income used to paying dividends. Research by Al-Kuwari (2009) also found negative effect and significant of leverage on dividend policy.

Firm Size on Dividend Policy

The result of the coefficient showed the influence of firm size on dividend policy is -0,128527. Statistical test showed the p-value 0,0130 < 0,05. The result of this study reported firm size has a negative significant effect on dividend policy. According the result by Kouki (2013), large companies generally have a high level of liability because debtholders is more trusted to lend funds to large companies so that company must reduce dividend to paying obligations. While small companies that have little access to the capital market tried to increase demand for their shares to obtain greater funding by paying greater dividends so that if the demand for share by investors increases, companies could issue shares at a better price on the market.

Conclusion

This study aims to determine the effect of liquidity, investment opportunity, profitability, leverage and firm size on dividend policy. This study uses to 35 manufacturing companies listed on the Indonesia Stock Exchange period of 2011-2015. Based on above analysis and discussions, it can be concluded that Liquidity and Investment opportunity has no effect on dividend policy. But Profitability, Leverage and Firm Size have negative effect on dividend policy.

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Citation: Henny Setyo Lestari, Erie Febrian, Sulaeman Rahman Nidar, Rahmat Sudarsono. *"Factors Influencing of Dividend Payout in Indonesia Stock Exchange". American Research Journal of Business and Management. 2019; 5(1): 1-7.*