

# Analysis of Factors Affecting Dividend Payout Ratio Policy (Case Study on Companies Listed on LQ45 Index Period 2013-2017)

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**Abstract:-** This research was conducted to test the influence of variable Current ratio, Return On Asset (ROA), Debt to Equity Ratio (DER), Growth, and Firm size on Dividend Payout Ratio (DPR) Case study on 22 samples of companies registered with LQ45 in 2013-2017. The results of the study were debt to equity ratio (DER) affecting Dividend Payout Ratio, while Current Ratio, Return On Asset (ROA), Growth and Firm Size had no effect on Dividend Payout Ratio.

**Keywords:-** Current ratio, Return On Asset (ROA), Debt to Equity Ratio (DER), Growth, Firm size, Dividend Payout Ratio (DPR).

## I. INTRODUCTION

Investment activity is an activity faced with a variety of risks and uncertainties that are often difficult for investors to predict.

To reduce the likelihood of risks and uncertainties that will occur, investors need a wide range of information, both information obtained from the company's performance and other relevant information such as economic and political conditions in a country.

Dividend policy is an important part of the company's decision. Percentage of profit to be shared dividends to shareholders are referred to as *Dividend Payout Ratio* (DPR).

In general, the definition of dividends is a form of profit or profit sharing to shareholders in a given period based on the number of shares held by those shareholders.

The announcement of cash dividend distribution is one of the corporate actions derived from the internal issuer, which is also one of the important factors that can influence investors to invest.

The following are the average dividend payouts or *Dividend Payout Ratios* to shareholders in 2013-2017 at LQ45 companies.

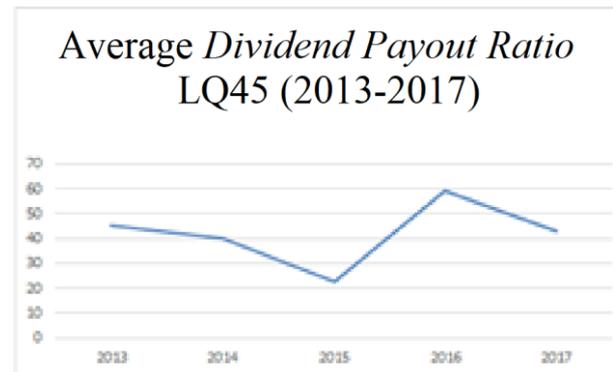


Fig 1.1 Average Dividend Payout Ratio LQ45 (2013-2017)

Source : Secondary Data

Based on the chart above it is known that during the period 2013-2017 in companies including the LQ45 index showed significant movements where the lowest average DPR distributed to shareholders was in 2015 at 22.88% while the highest average DPR distributed was in 2016 of 59.35%.

The increase in debt will result in a small amount of net income available to shareholders as well as a small dividend that will be received because the company prefers to pay down existing debt rather than share dividends.

## II. LITERATURE

### A. Dividend Policy Theory

Eugene and Houston (2004), explained about the dividend policy, among others as follows:

### B. Dividend Irrelevance Theory

It states that the company's dividend policy has no effect on the value of the company or its capital costs. Increased dividend payments are only possible if the company's profit also increases. The profit made on the share price increase due to dividend payments will be offset by a decrease in the share price due to the sale of new shares. Therefore shareholders can receive cash from the company at this time in the form of dividend payments or receive it in the form of *capital gains*. Shareholder prosperity is once again not affected by current or future dividend policies.

C. *The Bird in Hand Theory*

This theory holds that investors feel safer to earn income in the form of dividend payments than waiting for *capital gains*. Dividends are better than earnings balances, because ultimately the possible retained earnings will never materialize as dividends in the future. Equity costs will rise if dividends are reduced, as shareholders will pay higher profits and risk considerations and certainty of their reinvestment. On the other hand, equity costs will decrease as dividend payments increase because investors are less confident about receiving capital gains that should come from retained earnings than dividend receipts.

D. *Tax Preference Theory*

This theory states that investors want the company to withhold profit after tax and be used for investment financing than dividends in cash. Therefore the company should determine a *low dividend payout ratio* or not even distribute dividends. Since dividends tend to be taxed higher than *capital gains*, investors will ask for a higher rate of return for stocks with high yield dividends.

III. CONCEPTUAL FRAMEWORK

In this study the authors aim to analyze whether variable *Current ratio, ROA, Debt to Equity Ratio (DER), Growth and Firm Size* affect dividend *payout ratio (DPR)* in companies listed in the LQ45 Index.

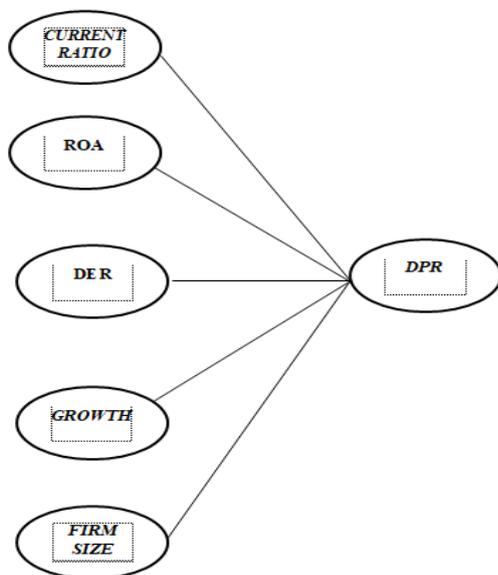


Fig 1 : Conceptual Framework

- H1 : *Current Ratio* has a positive effect on dividend policy.
- H2 : *Return On Asset (ROA)* has a positive effect on dividend policy.
- H3 : *Debt to Equity Ratio (DER)* negatively affects dividend policy.
- H4 : *Growth* negatively affects dividend policy.
- H5 : *Firm Size* has a positive effect on dividend policy.

IV. RESEARCH METHODS

His research used the quantitative research method in examining factors that influence dividend policy in companies listed on the LQ45 Index. Methods for finding and collecting data that can be measured by numbers or percentages, usually the data obtained will be further processed using mathematical models, theories, and formulas, so that from that data can be drawn a conclusion.

V. DATA SOURCE

1. *Growth*

The sample of research data consisted of 22 companies included in the LQ45 group on the Indonesia Stock Exchange (IDX) during the period 2013-2017.

VI. RESEARCH RESULTS

The results of the analysis are as follows:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.629757	1.234547	4.560181	0.0000
CR	-0.007926	0.036798	-0.215380	0.8299
ROA	0.093618	0.082904	1.129237	0.2614
DER	-0.201960	0.100445	-2.010664	0.0469
GROWTH	-0.040452	0.034642	-1.167726	0.2456
FIRM_SIZE	-0.582120	0.411448	-1.414809	0.1601

Effects Specification		S.D.	Rho
Cross-section random		0.432200	0.5875
Idiosyncratic random		0.362169	0.4125

Weighted Statistics			
R-squared	0.105351	Mean dependent var	1.269327
Adjusted R-squared	0.062339	S.D. dependent var	0.378864
S.E. of regression	0.366865	Sum squared resid	13.99734
F-statistic	2.449349	Durbin-Watson stat	1.935006
Prob(F-statistic)	0.038496		

Unweighted Statistics			
R-squared	0.309714	Mean dependent var	3.617155
Sum squared resid	33.11406	Durbin-Watson stat	0.817929

Table 1 : Data Panel Results

So the data panel regression model is as follows:

$$DPR_{it} = X + 5.629757 + (-0.007926)CR_{it} + 0.093618ROA_{it} + (-0.201960)DER_{it} + (-0.040452)GROWTH_{it} + (-0.582120)FS_{it} + \epsilon_{it}$$

Based on the equation above, the equation can be broken as follows:

1. A constant of 5.6297 states that if the variable values of CR, ROA, DER, *Growth* and *Firm size* are equal to zero (0) then the house nilia is 5.6297.
2. The CR coefficient of -0.0079 means that if the CR value increases by 1, it will impact the increase of the House of Representatives by -0.0079..
3. Roa coefficient of 0.0936 means that if the roa value increases by 1, it will impact the increase of the House of Representatives by 0.0936..

4. Der coefficient of 0.2019 means that if the der value increases by 1, it will impact the increase of the House of Representatives by 0.2019..
5. Coefficient of *Growth* of -0.0404 means that if the *growth value* increases by 1, it will impact the increase of the House of Representatives by -0.0404.
6. *The Coefficient of Firm Size* of 0.5821 means that if the Value of *Firm Size* increases by 1, it will impact the increase of the House of Representatives by 0.5821..

#### a) Test of significance

1. Overall model, significant with a determination coefficient of  $R^2$  of 30.97%
2. Of the 5 independent variables; *Current Ratio*, *Return On Asset* (ROA), *Debt to Equity Ratio* (DER), *Growth* and *Firm Size*, only one variable is variable *Debt to Equity Ratio* (DER).
3. The relationship is negative with the variable coefficient of *Debt to Equity Ratio* (DER) of 0.105351. This means that the greater the debt to equity ratio (DER), the company will lower its dividend share thus the opposite.

## VII. DISCUSSION

### 2. *Current Ratio* (CR)

Based on the results of research shows that the *Current Ratio* (CR) has increased one-unit then the *Dividend Payout Ratio* (DPR) will decrease. Sartono explained that the higher the *Current Ratio* (CR) means the greater the company's ability to meet short-term financial obligations. The results of this study were supported by Andi (2007) with the results of research showing that the *Current Ratio* (CR) has no effect and significant on the *Dividend Payout Ratio* (DPR).

### 3. *Return On Assets* (ROA)

Based on the results of research shows that *Return On Asset* (ROA) has increased one-unit then *Dividend Payout Ratio* (DPR) will decrease. Based on Fahmi's opinion (2013:137) *Return On Asset* (ROA) is a ratio that looks at the extent to which investment or total assets that have been invested are able to provide a return on return as expected. If the *Return On Asset* in the company is high, then the company has the ability to generate profit so that investors will be more confident that investing in it will be profitable. Because with the higher *Return On Asset*, it means that the company has been efficient in creating profit by processing all its total assets. The results of this study are supported by Febryanno (2015) which shows *Return On Asset* (ROA) has no effect on *Dividend Payout Ratio* (DPR). And research conducted by Henny (2013) that shows *Return On Asset* (ROA) has no effect on *Dividend Payout Ratio* (DPR).

### 4. *Debt to Equity Ratio* (DER)

Based on the results of research shows that the *Debt to Equity Ratio* (DER) has increased one-unit then the *Dividend Payout Ratio* (DPR) will decrease. Based on Hery's opinion (2016) explained that the higher debt to equity ratio (DER) is used to measure the company's ability to fulfill all its liabilities, both short-term liabilities and long-term liabilities. The results of this study supported by

Rembulan (2016) which showed *Debt to Equity Ratio* (DER) affecting *Dividend Payout Ratio* (DPR), Fira (2009) showed that DER affects *Dividend Payout Ratio* (DPR), Febryanno (2015) shows *Debt to Equity Ratio* (DER) has an effect on *Dividend Payout Ratio* (DPR). Yudha et al (2017) *Debt to equity ratio* (DER) has a positive effect on dividend payout ratio. And also in Ali's research (2015) shows that DER affects the *Dividend Payout Ratio* (DPR).

### 5. *Growth*

Based on the results of research shows that *Growth* has increased one-unit then *Dividend Payout Ratio* (DPR) will decrease. According to Kallapur and Trombley (2001:3-15), explaining that the company's growth is the company's ability to increase the size of the company through increased assets. The rapid rate of growth indicates that the company is expanding. Failures caused by expansion will increase the company's burden because the company has to cover the return of expansion expenses. This caused dividends to decline for shareholders. Such conditions can cause investors to no longer be interested in investing in the company so it is likely to sell the shares it owns. The results of this study supported by Andi (2007) which showed *Growth* had no effect on *dividend payout ratio* (DPR), Amalia (2008) showed *Growth* had a negative and insignificant effect on the House of Representatives. And research by Sandra (2016) states *Growth* has no effect on the House of Representatives.

### 6. *Firm Size*

Based on the results of research shows that *Firm Size* has increased one-unit then *Dividend Payout Ratio* (DPR) will decrease. Based on Hatta's opinion (2002) Companies with larger sizes are expected to have the ability to generate greater earnings, so will be able to pay higher dividends compared to smaller companies. The results of this study are supported by Henny (2013) which shows *Firm Size* has no effect on *Dividend Payout Ratio* (DPR). In Muammar and Hanif's research (2017) *firm size* had no effect on *dividend payout ratio*. In mafizatun research (2013) *Firm Size* has no effect on *Dividend Payout Ratio*.

## VIII. CONCLUSIONS AND RECOMMENDATIONS

### a) Conclusion

1. The effect on *dividend payout ratio* (DPR) is only variable *Debt to Equity Ratio* (DER), negative relationship.
2. Interested parties should maintain and pay attention to the amount of DER from the company to maintain the company's nerja.
3. Der variable is only able to describe 10.5351% of DPR variables

### b) Recommendations

#### 1. For Investors

Investors before investing should pay attention to the amount of DER of the company that will buy the shares.

#### 2. For Next Researcher

The next researcher should add a research variable considering that in this study the coefficient of determination is only 10.6361%.

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