

Factors Affecting Dividend Payment Policy

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Abstract

Dividend payments are a routine activity that is usually done by the company once a year. Before dividend payments are made many factors are considered before the company pays the dividends. This study aims to determine what factors affect the payment of dividends. The sample used in this study is all non-financial sector companies that pay dividends for 3 consecutive years 2016 to 2018. This study uses the Eviews test tool and uses multiple regression tests. The results of this study indicate that profitability, life cycle and company size have positive effects while liquidity, cash flow, growth opportunities and leverage have no effect on dividend payout policies.

Keywords *Cash Flow, Company Size, Dividend Payout, Dividend Per Share, Growth Opportunities, Life Cycle, Profitability.*

1. Introduction

Companies in carrying out their operations would want to generate maximum profits. So when a company makes a profit the shareholders will also feel the impact in the form of a part of net income which is commonly called a dividend. Dividend payments are very important for companies, because with dividend payments the company is considered good by the shareholders. Dividend payments will also improve the company's image and provide a positive response to the capital market.

Dividend payments are determined by the GMS (General Meeting of Shareholders). This GMS will determine whether dividends are distributed in the form of dividends or retained as retained earnings for future working capital. There are several factors that affect dividend payments such as corporate tax, liquidity, profitability, company size, cash flow and other regulations. Fundamental factors have an important role in dividend payment policies. Many literatures have explained the relationship between fundamental factors and dividend payout policies. Research on dividend payments has been conducted abroad by (Arko, Abor, Adjasi, & Amidu, 2014) the results show that tangibility, company size and profitability have a positive effect on dividend payments. Also supported by (Yusof & Ismail, 2016) the results of his research mentioned profitability, company size and investment have a positive effect. Khan & Shamim (2017) the results of his research profitability has a positive effect while cash flow has a negative effect on dividend payments. Inversely proportional to (Brahmiah, Srinivasan, & Sangeetha, 2018) which states profitability, liquidity and company size have a negative effect on dividend payments. Jabbouri (2016) mentions company size and liquidity have a positive effect while cash flow and growth have a negative effect.

Domestic research has been conducted by Lopulusi (2013) with the results of the analysis that profitability, liquidity, growth, debt and free cash flow have a negative effect, while company size has a significant negative effect on dividend payments. In line with research (Saputra, 2016) which states that liquidity, profitability and cash flow have a negative effect on dividend payments. Research by (Apriliani & Natalylova, 2017) shows company size, profitability, cash flow and collateral assets have a positive effect on dividend payments. Also supported by (Hudiwijono, Aisjah, & Ratnawati, 2018) which results in leverage, liquidity, free cash flow, company size, company growth, business risk and profitability have a positive effect on dividend payment

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policies while the company size factor is the most dominant factor affecting dividend payment policies.

2. Literature Study

Signal Theory

Signal Theory discovered by Spence (1973) states that the information released by the company is very important for investment decisions by external parties. The information can be in the form of past, present or future conditions of a company's life. This information can be used as an analysis tool by investors for investment decisions.

Life Cycle Theory

Life Cycle Theory (Mueller, 1972) suggests that dividends follow a good corporate life cycle pattern and the dividends distributed reflect a management analysis of the importance of market conditions including aspects relating to shareholders, agency costs, information inequality, securities issuance costs and costs of securities transaction.

Firm Size

The size of the company is the total amount of wealth owned by a company, the greater the total amount of company wealth the greater the size of the company (Novyanny & Turangan, 2018). Firm size describes the size of a company that can be expressed by indicators of total assets or total net sales (Hery, 2017). The size of the company is divided into 3 categories, namely small companies (small firm), medium companies (medium firm) and large companies (large firm) (Yulia, 2013). Companies will more easily obtain funding because the size of the company is considered capable of influencing the value of the company and the company's ability to bear the risks that arise. This is because large companies are better able to deal with economic competition because they have better corporate control. *Kajian Literatur*

Previous Research

Overseas research by (Arko, Abor, Adjasi, & Amidu, 2014). The results of his research namely profitability, investment, taxation and leverage have a positive effect on dividend payments. Using panel data analysis in his research showed that company size, current profit, liquidity had a positive effect while free cash flow, leverage, growth and state of economy had a negative effect (Jabbouri, 2016).

Yusof & Ismail (2016) conducted research in Malaysia. The results of the study there are 5 factors that affect dividend payments, namely income, debt, company size, shareholders and investment. Revenue, company size and investment have a positive effect while debt and shareholders have a negative effect.

Research by (Khan & Shamim, 2017) to examine the factors that influence dividend payout policies with samples breaking down companies in various sectors and using OLS panel data analysis. The results show earnings per share has a positive impact on dividend policy in the drinks, travel, telecommunications, car and electricity sectors while the forestry and paper sectors have a negative impact. Free cash flow only has a positive effect on dividends in the telecommunications sector while other sectors have a negative effect. Leverage has a positive effect on dividend payments in the forestry, tobacco, travel and telecommunications sectors while the household goods, gas oil and pharmaceutical sectors have a negative effect.

Brahmiah, Srinivasan, & Sangeetha (2018) states that liquidity, profitability, company size and inflation have a negative influence on dividend payout policies. Singla & Samanta (2018) in their research used panel data analysis and samples of construction companies in India from 2011-2016. The results show that profitability, life cycle and company size have a positive effect while cash flow has a negative effect on dividend payments.

Research on dividend policy was conducted domestically by Lopulusi (2013) in his research using a sample of manufacturing companies in 2007-2011. The results of growth, liquidity, cash flow and debt have a negative effect while the size of the company has a significant negative effect. Wicaksono & Nasir (2014) used the SPSS analysis tool to examine the effect of liquidity, company growth, profitability, leverage and size on dividend payments. The results of his research are profitability has a positive effect and company growth has a negative effect. Company size, leverage and liquidity have no effect.

Saputra (2016) examined the factors that influence dividend payment policies and use a sample of manufacturing companies in Indonesia. The result is liquidity, free cash flow, company size, debt and profitability have no significant effect on dividend payment policies. Apriliani & Natalylova (2017) used manufacturing companies in Indonesia as a sample. The results of the study are company size, profitability, collateral assets and cash flow have an influence on dividend payments while others have no effect.

Hudiwijono, Aisjah & Ratnawati (2018) used a sample of construction companies in Indonesia. This study examines the influence of fundamental factors on dividend payment policies. The result is liquidity, free cash flow, leverage, firm growth, company size, profitability and business risk have a positive effect on dividend payment policies. Firm size is the most dominant factor affecting dividend payment policy.

3. Research Method

Quantitative method is the method used in this study. This approach has the aim to prove the existence of a causal relationship between the independent variable and the dependent variable. The independent variables contained in this study are profitability, liquidity, cash flow, growth opportunities, life cycle, leverage and company size. The dependent variable in this study is dividend payment. Quantitative approach method is important because it will test the hypothesis. Secondary data is a type of data used that is taking data from the Indonesia Stock Exchange (IDX) or the Indonesia Stock Exchange (IDX). Quantitative research methods are planned, structured and clear research.

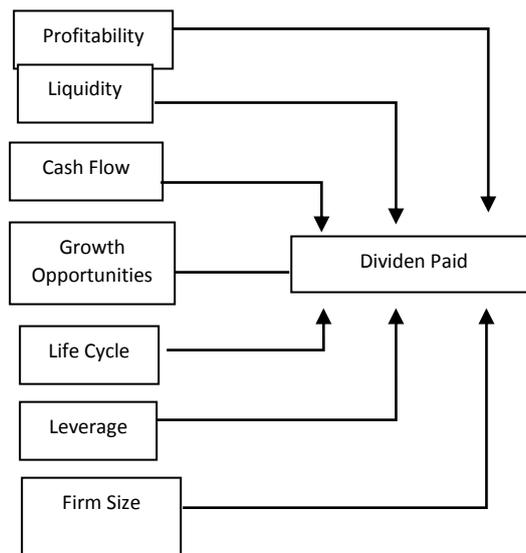


Figure 1 Reasearch Model

4. Result and Discussion

Table 1 shows the descriptive statistics as follows,

Table 1 Descriptive Statistics

Variabel	Mean	Maximum	Minimum	Std. Dev
DPS	28.3623	222.0000	1.0000	33.5427
PROF	0.0719	0.2300	0.0012	0.0437
LIQ	2.2331	7.3000	0.3200	1.3590
CF	0.0702	0.3087	-0.2126	0.0848
GRO	1.8045	6.3558	0.2238	1.2424
LC	0.5917	0.9920	0.1241	0.2370
LEV	0.4234	0.8403	0.0700	0.1811
SIZE	28.9899	32.9598	24.9475	1.4678
Sampel (N)	210	210	210	210

Source : Data Processed

This test is used to determine the right regression model to be used at the hypothesis testing stage. At this stage two tests will be conducted for each hypothesis, namely the Chow test and the Hausman test. The results of the panel data regression test output are as follows:

Table 2 Chow Test

Effect Test	Statistic	d.f	Prob.
Cross-section F	7.2072	(69.133)	0.0000

Source: Data Processed

The magnitude of the chi-square cross-section probability is 0.0000. Chi-square cross-section probability value <0.05 , the chow test results indicate that the fixed effect model is more appropriate to use than the common effect.

Table 3 Hausman Test

Effect Test	Statistic	d.f	Prob.
Cross-section random	10.7660	7	0.1492

Source : Data Processed

The magnitude of the random cross-section probability is 0.1492. The value of the random cross-section probability >0.05 , the results of the hausman test indicate that the random effect model is more appropriate to use than the fixed effect, then it is necessary to do a Lagrange Multiplier Test

Table 4 Lagrange Multiplier Test

	Test Summary	Prob.
Lagrange Multiplier	Breusch-Pagan	0.0000

Source: Data Processed

The magnitude of the breusch-pagan probability is 0.0000. The probability value is <0.05 , then the Lagrange Multiplier results show that the random effect model is more appropriate to be used to model the regression equation in hypothesis testing. Based on tables 2, 3 and 4 it can be concluded that the right model in this study is the random effect.

Table 5 Multikolinearity Test

PROF	LIQ	CF	GRO	LC	LEV	SIZE
1.00	0.34	0.49	0.58	0.48	-0.38	0.12
0.34	1.00	0.08	0.22	0.32	-0.56	-0.19
0.49	0.08	1.00	0.41	0.29	-0.27	0.02
0.58	0.22	0.41	1.00	0.33	-0.10	0.24
0.48	0.32	0.29	0.33	1.00	-0.29	0.06
-0.38	-0.56	-0.27	-0.10	-0.29	1.00	0.34
0.12	-0.19	0.02	0.24	0.06	0.34	1.00

Source: Data Processed

Based on table 5 it can be seen that the correlation coefficient between variables has values below 0.8. This indicates that the data in this study did not occur multicollinearity (Ghozali, 2016) so it can be concluded that the variable does not contain multicollinearity with other independent variables and is suitable for use in conducting regression tests.

Table 6 Heteroscedasticity Test

F-statistic	1.6182	Prob. F(20.291)	0.1319
Obs*R-squared	11.150	Prob.Chi-Square(20)	0.1322
Scaled explained SS	56.380	Prob.Chi Square(20)	0.0000
F-statistic	1.6182	Prob. F(20.291)	0.1319
Obs*R-squared	11.150	Prob.Chi-Square(20)	0.1322
Scaled explained SS	56.380	Prob.Chi Square(20)	0.0000

Source: Data Processed

Based on table 6 it can be seen that the value of * R-Squared is 8.4120 while the probability value is 0.1322 > 0.05 so it can be concluded that the data do not experience heteroscedasticity problems.

Table 7 Multiple Linear Regression Test

<i>Dividend Per Share</i>			
Variable	Expectation	Coefficient	Sig.
C		-108.624	0.0004
PROF (H1)	+	75.0808	0.0085
LIQ (H2)	+	-1.7532	0.0531
CF (H3)	+	-16.3627	0.0805
GRO (H4)	-	-0.0245	0.4906
LC (H5)	+	13.0672	0.0243
LEV (H6)	-	-4.1096	0.3339
SIZE (H7)	+	4.0163	0.0003
R-squared			0.1421
Adjusted R-squared			0.1123
Prob(F-statistic)			0.0000
N			210
Hasil Uji Model			Random

Source : Data Processed

The first hypothesis states that profitability has a positive effect on dividend payments. The hypothesis is supported if the significance value is less than 0.05. Based on table 7 the first hypothesis profitability variable produces a significance value of 0.0004. Significance value <0.05 and positive constant values mean that profitability has a positive effect on dividend payments.

The second hypothesis states that liquidity has a positive effect on dividend payments. The hypothesis is supported if the significance value is small than 0.05.

Based on table 7 of the two hypotheses the liquidity variable produces a significance value of 0.0531. Significance value > 0.05 means that liquidity has no effect on dividend payments. The third hypothesis states that cash flow has a positive effect on dividend payments. The hypothesis is supported if the significance value is small than 0.05. The third hypothesis of the cash flow variable produces a significance value of 0.0805. Significance value > 0.05 means that cash flow has no effect on dividend payments.

The fourth hypothesis states that growth opportunities negatively affect dividend payments. The hypothesis is supported if the significance value is small than 0.05. The fourth hypothesis of growth opportunities variables produces a significance value of 0.4906. Significance value > 0.05 means that growth opportunities do not affect dividend payments.

Hypothesis 5 states that life cycle has a positive effect on dividend payments. The hypothesis is supported if the significance value is less than 0.05. Based on table 7, the fifth hypothesis of the life cycle variable produces a significance value of 0.0243. Significance value <0.05 and positive constant values mean that the life cycle has a positive effect on dividend payments

The sixth hypothesis states that leverage has a negative effect on dividend payments. The sixth hypothesis of the leverage variable produces a significance value of 0.3339. Significance value > 0.05 means that leverage has no effect on dividend payments

The seventh hypothesis states that firm size has a positive effect on dividend payments. The seventh hypothesis of the firm size variable produces a significance value of 0,0003. Significance value <0.05 and positive constant values mean that company size has a positive effect on payments

5. Conclusions

Based on the results of research and discussion of the factors that influence dividend payments, it can be concluded that profitability has a positive effect on dividend payments. This explains that the higher the profitability or the company's ability to generate profits, the higher the chance of dividends will be paid by the company.

Liquidity has no effect on dividend payments, this explains that a company with a good level of liquidity does not affect dividend payments. Cash Flow has no effect on dividend payments, this is because companies prefer to invest more cash than paying dividends to shareholders.

Growth Opportunities has no effect on dividend payments because growing companies tend to use larger retained earnings to fund their operations so they prefer to hold profits rather than pay dividends.

Life Cycle has a positive effect on dividend payments, this shows that companies that have a good life cycle will pay dividends. Leverage has no effect on dividend payments, this explains that a company's leverage level has no effect on dividend payments. The size of the company has a positive effect on dividend payments, this

shows that the larger the size of the company, the greater the company will pay its dividends.

This study has several limitations. First, in terms of the sample used. The sample used in the study is only companies that pay dividends 3 years in a row, hoping for further research can use samples with a longer year. Second, the independent variables used are only seven variables while many other factors can influence dividend payments. Suggestions for future research might add to the psychological factors of shareholders in determining dividend payments.

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