Determinant Analysis Of Dividend Policy: Empirical Study on Islamic Capital Market in Indonesia

by Sutrisno Bagus Panuntun

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Abstract

Dividends are a very important issue in the financial management function because dividend policies are considered by investors as a signal of company performance. Companies that distribute dividends are considered to have good market performance. The purpose of this study is to examine the determinants of dividend policy. The determinants of the tested dividend policyare profitability measured by return on assets (ROA) and return on equity (ROE), liquidity measured by current ratio (CR), leverage measured by debt to equity ratio (DER), and firm size is calculated using the natural logarithm of total assets. Whereas dividend policy is measured by the dividend payout ratio (DPR). The population in this study are companies registered in the Islamic capital market with a sample of 100 companies taken by purposive sampling method. To test the hypothesis using multiple regression analysis tools with a significance level of 0.05. The results showed that profitability measured by ROE and liquidity had a significant and positive effect on dividend policy, while profitability as measured by ROA, leverage and firm size did notaffect dividend policy

Keywords: dividend policy, profitability, liquidity, leverage, firm size

Backgorund

The Islamic capital market is an attraction for Muslim investors who consider that the conventional capital market is not in accordance with Islamic legal principles. As reported by Bisnis.com that the number of investors in the Islamic capital market until the end of October 2019 experienced a 41% increase to 62,840 investors compared to the previous year (Tari, 2019).The growth is higher than the total investor growth which reached 20%. The growth cannot be separated from the role of the Indonesian Stock Exchange which continuously introduces the services, functions and role of the Islamic capital market in Indonesia. The bourse's efforts have been able to increase capital market literacy rates, particularly the Islamic capital market.

The Financial Services Authority (OJK) also contributed to the development of the Islamic capital market by creating a 2014-2019 Islamic capital market map with the tagline 'building synergies for a growing, stable and sustainable Islamic capital market'. The road map is being revised to suit current economic conditions (Kontan.co.id, February 17, 2020). Until the end of 2019, there have been 368 companies included in the list of Islamic securities. Issuers registered in the Islamic capital market are selected qualitatively through screening, namely that the type of business must not violate sharia and quantitatively the issuer does not have more than 41% debt to conventional banks compared to its own capital.

One of the most important functions of financial management is dividend policy, which is to determine how much the composition of dividends is distributed against the company's profits (Brigham and Ehrhardt, 2010). Dividends are a reflection of company performance that is directly enjoyed by shareholders. Dividend policy is a positive signal for investors who indicate that the company has good business performance. Profits obtained by the company can be used to compensate the owners in the form of dividends, but there are not shared which will be used todevelop the company. Dividend policies often lead to conflicts between company management and shareholders. Company managers often have different interests from shareholders (Triani and Tarmidi, 2019), where company management wants profits that the company uses for company operations, especially if there are investment opportunities. While shareholders wantthe company's profits to be distributed to shareholders as dividends. This conflict can cause the company's goals to not be achieved in order to increase the value of the company (Gunawan et.al, 2018).

Dividend policy is determined through a General Meeting of Shareholders (GMS) as the highest authority holder. The portion of the dividend distributed to shareholders is called the dividend payout ratio (DPR), which is the amount of dividend distributed divided by the profit after tax obtained. In determining the amount of dividends distributed, the company will look at several factors including profitability, liquidity, the need to pay debts. Profitability is a major consideration in providing dividends because the greater the profit the greater the company's ability to pay dividends. Dividends represent profits received by shareholders in exchange for therisk taken because of owning shares. The greater the profit received, the greater the expected dividends will be distributed. Mehta (2012), and Gunawan and Tobing (2018) confirm that profitability has a positive effect on the amount of dividends paid. However, there are also research results that find profitability has no effect on dividend policy (Ahmed, 2015 and Rizkia et.al, 2013).

Dividend payments require large funds, although high profitability will not necessarily be used to pay dividends. The variable that needs to be considered is company liquidity. Liquidity shows the availability of funds to pay dividends, the higher the liquidity the greater the company's ability to pay dividends. Liquidity as a measure of the availability of current assets isa measure of the availability of these funds. The better company liquidity allows companies to pay large amounts of dividends. Malik et.al (2013) argues that high liquidity mainly includes current assets in the form of cash, while there is no good business opportunity, there is a tendency to distribute more dividends. This is supported by the results of research by Gunawan and Tobing (2018) and Ahmed (2015) who found a positive and significant influence between liquidity and dividend policy. Instead Mehta (2012) found that liquidity had no effect on dividend policy.

Profitability obtained by the company is not only divided as dividends and retained earnings, but it is possible to pay in installments or pay off debt. If the company has a lot of debt,it is likely that the profit gained is absorbed to pay off the debt, thereby reducing the opportunity to divide as dividends (Yusuf, 2019). The amount of debt can be seen from leverage or its capitalstructure, the higher the leverage the higher the company's debt, so the higher the leverage can reduce the ability to pay dividends. Fajaria et.al (2018) and Malik et.al (2013) found significant and negative effects of leverage on dividend policy. Whereas Rizkia et.al (2013), Jaara et.al (2018) and Mehta (2012) actually found leverage has no effect on dividend policy.

The size of the company shows its ability to make a profit. Companies with large sizes generally have an optimal production capacity that is able to produce goods with a minimum cost, so as to produce optimal profits. Large companies have reputations and access to financial institutions so that operations are guaranteed. Being able to generate large profits, it is able to distribute large dividends. The results of the study by Mehta (2012) and Jaara et.al (2018) founda positive influence between company size and dividend policy. The opposite result was found by Rizki et.al (2013), and Moradi et.al (2010) that there was no significant influence between company size and dividend policy.

Hypothesis Development

Profitability and dividend policy

The company's management is chosen by the shareholders to be able to operate the company effectively and efficiently, with the hope that the company will be able to generate profits. From this amount of profit, it will be decided how much will be distributed to shareholders as dividends and how much profit is not distributed as retained earnings. Dividend policy can be done after the company has sufficient profitability. Thus, the dividend policy will be influenced by the company's ability to earn profits. Profitability is obtained with all assets owned by the so-called return on assets (ROA) and some are based on own capital called return on equity (ROE). Gunawan and Tobing (2018) and Malik et.al (2013) use profitability ROA, while Jaara (et.al (2018) and Mehta (2012) use ROE measurement.The results of Gunawan and Tobing (2018) and Mehta (2012) research strengthen alleged that profitability has an effect on dividend policy, Malik et al (2013) also found the effect of profitability as measured by return onequity (ROE) has a positive and significant effect on dividend policy.

H1: Profitability as measured by ROA has a positive effect on dividend policy

H2: Profitability as measured by ROE has a positive effect on dividend policy

Liquidity and dividend policy

In executing a dividend policy, sufficient flow of funds must be provided by the company. Availability of funds in the company will be reflected in the level of liquidity they have. If liquidity is low, the company cannot pay enough dividends, but if liquidity is high, the company has the opportunity to pay dividends. Thus the dividend policy will be influenced by the level of company liquidity (Griffin, 2010). This is in line with research by Malik et.al (2013), Gunawan and Tobing (2018) and Ahmed (2015) who found a positive and significant effect between company liquidity and dividend policy.

H3: Liquidity has a positive effect on dividend policy

Leverage and dividend policy

The source of company funding can come from owners called equity and from creditors' loans. There is no single company that has no debt, because to accelerate the growth of the company is not possible to rely solely on their own capital. If the company operates using debt, it means the company has a capital structure or leverage. Leverage shows how much the company'soperations are funded from debt. The higher the leverage shows the higher the debt. The higher the debt, the greater the obligation of the company to provide funds to pay principal and interest. Thus the amount of leverage will reduce the company's ability to pay dividends. This is confirmed in the research results of Malik et.al (2013) and Moradi et.al (2010) who found leverage to have a significant and negative leverage effect on dividend policy.

H4: Leverage has a negative effect on dividend policy

Firm size and dividend policy

The size of the company shows the size of the company that can be measured by several indicators such as the amount of total assets and the amount of sales. The bigger the company, the more it has a good reputation in the community, has good access to financial institutions so that it can produce optimal production and maximum profit. Thus also has the ability to provide greater dividends. The results of Mehta's (2012) and Jaara et.al (2018) research found that company size had a significant and positive effect on dividend policy.

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H5: Firm size has a positive effect on dividend policy

Research Method

Based on the background, the formulation of the problem and the proposed hypothesis,the research concept can be described as follows.

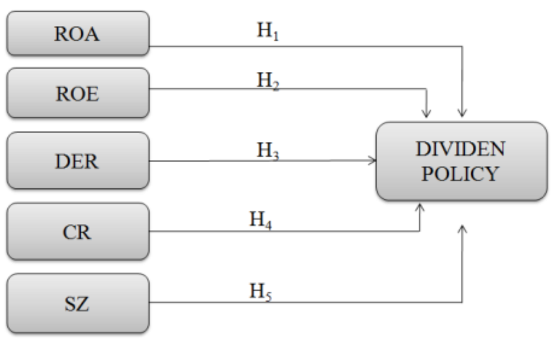

Figure1: Research Concept

RESEARCH METHOD

Population and Sample

The population in this study are all companies listed on the Islamic capital market, which are listed companies listed on the Syariah Securities List. The number of issuers registered in the List of Sharia Securities is more than 300 companies, and 100 companies are sampled using the purposive sampling method. The observation period is 3 years (2016 - 2018).

Variables

In this study there is one dependent variable namely dividend policy which is calculated by the dividend payout ratio (DPR) and five independent variables consisting of profitability (returnon assets and return on equity), liquidity, leverage and company size. The measurements of each variable are as follows.

Table 1: Variables and Measurement

No	Variables		Measurement
1	Dividend Payout Ratio	DPR	Dividend paid/EAT
2	Return on Assets	ROA	EAT/Total Assets
3	Return on Equity	ROE	EAT/Equity
4	Current ratio	CR	Current assets/Current Liabilities
5	Debt to equity ratio	DER	Total debt/Equity
6	Firm Size	SZ	Ln Total assets

Data analysis

To test the hypothesis will use multiple regression analysis tools with a significance levelof 0.05. The regression equation is as follows:

$$DPR = \alpha + \beta 1ROA + \beta 2ROE + \beta 3CR + \beta 4DER + \beta 5SZ + \varepsilon$$

Where:

DPR : dividend policy
ROA : profitability based on total
ROE : profitability for own capital
CR : liquidity
DER : leverage
SZ : firm size

Result And Discussion

Descriptive statistics

Based on the results of data processing using SPSS version 21.0, an overview of the datafor each variable is obtained as follows:

	N	Minimum	Maximum	Mean	Std. Deviation
DPR	300	0.000	8.3047	.5059	.80031
ROA	300	-.1343	.9210	.0842	.09044
ROE	300	-.1981	2.2446	.1479	.20732
CR	300	.4230	15.1646	2.6789	1.95779
DER	300	.0105	3.3800	.8072	.67932
SZ	300	24.9476	33.4737	29.1827	1.56897
Valid N (list wise)	300				

Based on the results of descriptive statistics, the dividend payout ratio (DPR) paid has a verylarge maximum value of 830.47%, but there are also companies that adopt a policy of not paying dividends that show a minimum value of 0.00, with an average of 50.59%. Profitability measuredby ROA has a maximum value of 92.10% with a minimum value of -13.43 %% with an average value of 8.42%, while profitability as measured by ROE shows a very high maximum value of 224.46%, a minimum of -19.81 with an average value averaged 14.79%. Liquidity (CR) shows a maximum value of 15.16 times and a minimum value of 0.42 times with an average value of 2.59 times. While leverage (DER) has a very large maximum value of 3.38 which means that the company's debt is 3.38 times compared to its own capital and a minimum value of 0.01 times so that the company practically has no debt, while the average value is 80.72%.

Hypothesis Test Results

Hypothesis test results between independent variables on dividend policy using multiple regression analysis. Hypothesis test results (sig) were compared with a significance level of

0.05.If the significance value is smaller than 0.05, the hypothesis is proven, on the contrary if it is greater than 0.05, the hypothesis is not proven

Table 3: Hypothesis Result

Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	-0.443	1.110		-0.399	0.691
ROA	-2.071	1.544	-0.262	-1.341	0.091
ROE	1.157	0.671	0.349	1.723	0.043
CR	0.057	0.031	0.184	1.811	0.036
DER	-0.148	0.106	-0.164	-1.39	0.083
SIZE	0.03	0.037	0.071	0.802	0.212

Profitability and Dividend policy

Table 3 shows that profitability calculated by ROA results in a significance level of 0.091 greater than the significance level set at 0.05, so it can be concluded that ROA is statistically insignificant in effect on dividend policy, meaning that the rise and fall of ROA does not affect the dividend policy adopted by the company. This is possible because ROA is a benefit that is obtained with all the capital working in the company, both own capital and debt. ROA based profits are not distributed to shareholders but must still be reduced by interest expense as compensation using debt and paying taxes as compensation to the government. As such ROA- based benefits are not considered by management in dividend distribution. These results are consistent with the findings of Malik et.al (2013), Nasution et.al (2019) and Rizkia et.al (2013) who found no significant effect between ROA and dividend policy, but contrary to Tamrin et.al (2017) and Gunawan and Tobing (2018) who found ROA has a positive effect on dividend policy.

Profitability as measured by ROE has a significant value of 0.043 smaller, thus profitabilityas measured by ROE significantly has a positive effect on dividend policy. This means that the higher the ROE the greater the portion of the dividends distributed. Return on equity (ROE) is the company's ability to generate profits with its own capital meaning ROE shows the level of profit for the owner. This profit will be distributed to shareholders. Therefore, it is appropriate that the amount of ROE positively influences dividend policy. Especially when viewed from the sample company data where the average ROE is almost 15%, making it possible to be distributedas dividends with a larger amount. This result is supported by Mehta (2013), Jaara et.al (2018), and Nasution et.al (2019) who find that ROE has a positive and significant effect on dividend policy.

Liquidity and dividend policy

The results of the liquidity hypothesis test on dividend policy show a significance value of 0.036 smaller than the stated significance level of 0.05, so it can be concluded that liquidity has asignificant and positive effect on dividend policy. The policy of giving cash dividends is of course very dependent on the availability of money in the company (Malik et.al, 2013). Liquidityshows the ability of a company to meet its short-term financial obligations, meaning that the higher the liquidity the more available funds to pay short-term obligations, including to pay dividends (Ahmed, 2015). Thus the higher the liquidity the more ability to pay dividends. Liquidity that is too high if not utilized will result in idle funds, therefore if there is high liquidity, the company can use it to pay dividends. This is consistent with the results of research by Malik et al (2013), Gunawan and Tobing (2018), Ahmed (2015), Khan and Ahmad (2017) and Mehta (2012) who determine a positive and significant difference between liquidity and dividend policy.

Leverage and dividend policy

Hypothesis testing between leverage and dividend policy yields a significance value of 0.083 greater than the significance level set at 0.05, meaning that leverage has no significant effect on dividend policy. Leverage shows the amount of debt compared to own capital, meaningthat the higher the leverage the greater the company's debt and the greater the interest expense that must be paid. It turns out that the amount of debt has no effect on dividend policy. This is possible because the benefits obtained are not intended to pay the loan principal. The leverage position of the sample companies is also still quite low with an average of 80% compared to theirown capital (table 2). This finding is in accordance with the research of Rizkia et.al (2013), Nasution et.al (2019) and Mehta (2012) who found that leverage influences dividend policy. However, the results of research by Malik et al. (2013) found no significant effect between leverage and dividend policy

Firm size and dividend policy

The influence of firm size on dividend policy in the hypothesis test produces a significance value of 0.212 greater than the significance level of 0.05, meaning that the firm size has no effecton dividend policy. The size of the company shows the size of the company in this study measured by total assets, meaning that the size of the company does not affect the size of the dividends paid. This result shows that not only large companies can distribute high dividends. Companies with small size have a high level of efficiency it is possible to generate high profits so they can distribute high dividends. Therefore, the size of the company is not an indicator of the size of the dividend policy. These results are consistent with research by Moradi et al. (2010),and Ahmad and Wardani (2014) who found firm size has no effect on dividend policy.

CLOSING

Based on the results of the hypothesis test, it can be concluded that the factors that significantly influence dividend policy are profitability as measured by return on equity (ROE) and liquidity. These results indicate that the higher profitability accompanied by high liquidity will be able to provide high dividends. While profitability as measured by ROA, leverage and firm size does not affect dividend policy.

The results of this study are certainly still not perfect because the population is only on shares in the Islamic capital market with a sample of 100 companies from 460 population companies. Therefore, it can be developed by further researchers by taking more samples and adding other variables that might also affect dividend policy.

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