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FACTORS AFFECTING DIVIDEND PAYOUT RATIO OF HIDIV20 INDEX FIRMS

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Abstract: *This research are conducted with the purpose to test factors that affect Dividend Payout Ratio. Independent variables tested are Return on Equity, Return on Asset, Debt to Equity, Growth, and Firm Size. The population studied in this research was firms listed on HIDIV20 Index member. Sample tested in this research were 6 firms that fulfill the sample selection criteria with purposive sampling method. Data analysis are conducted using multiple regression method. The result of this research shows that Return on Equity have positive effect on Dividend Payout Ratio, while Return on Asset, Debt to Equity, and Growth have negative effect and Firm Size has no effect to Dividend Payout Ratio.*

Keywords*: Dividend Payout Ratio, Return on Equity, Return on Asset, Debt to Equity, Growth, Firm Size*

Abstrak: Penelitian ini dilakukan dengan tujuan untuk menguji faktor yang memengaruhi *Dividend Payout Ratio*. Variabel independen yang diuji adalah *Return on Equity, Return on Asset, Debt to Equity, Growth,* dan *Firm Size.* Populasi yang dipejari dalam penelitian ini adalah perusahaan yang tedaftar dalam Indeks HIDIV20. Sampel yang diuji dalam penelitian ini adalah 6 perusahaan yang memenuhi kriteria pemilihan sampel yang diseleksi dengan metode *purposive sampling*. Analisis data dilakukan menggunakan metode regresi linear berganda. Hasil penelitian ini menunjukkan bahwa Return on Equity berpengaruh positif terhadap Dividend Payout Ratio, sementara Return on Asset, Debt to Equity, dan Growth berpengaruh negatif dan Firm Size tidak memiliki pengaruh terhadap Dividend Payout Ratio.

Kata Kunci: *Dividend Payout Ratio, Return on Equity, Return on Asset, Debt to Equity, Growth, Firm Size*

INTRODUCTION

Capital market have been a huge contributor to the national development of a country. The trend of investing in capital market itself is increasing rapidly since the start of the Covid-19 pandemic. An article by Indonesian Ministry of Finance stated that there are 3.880.753 investors in Indonesia at the end of year 2020. Investor could gain profits from capital gain in stock price increases and from dividends. Dividends are a form of appreciation from management to shareholders and the distribution is different in number for each company (Kusuma et al. 2018).

According to Yanuarti and Dewi (2019) a company has the goal to maximize the welfare of the shareholders and can be achieved by increases in company value through the increase of the company stock price. Company's stock price are reflected by it's earning potential. When a firm have a high potential in earning profit then the demand for

their share would increase and therefore increasing their stock price.

Dividends policy is firm's decision in dividends payment to shareholders, whether to pay dividends or to retain their earning and allocate it for reinvesting on future projects (Destriana 2016). There are several indicators to dividend policy, one of it is dividend payout ratio. Dividend payout ratio itself is a ratio that shows the total amount of dividends the company paid out to shareholders relative to the net income the company earned.

The object studied in this research are firms who have been listed in the High Dividend 20 (HIDIV20) index since it's launch date at 2018. HIDIV20 index itself is an index consisting of 20 stocks that has high dividend yield and consistently disburse dividend for the last 3 years. In general, the shareholders wish to have a relatively stable dividend share to minimize the uncertainty of expected investment result which in turn made dividend paying company stock value to rise. The HIDIV20 historical performance from 2013 until february 2022 shows member firms to have a higher performance compared to Jakarta Composite Index (JCI), but around 1 year after it's launch date, the index performance decreased below the JCI.

The purpose of this research was to test and learn how Return on Equity, Return on Asset, Debt to Equity, Growth, and Firm Size affect Dividend Payout Ratio. This research was the replication from prior research by Priyantara and Thamrin (2020) with a few modification. This research added return on equity as independent variable and observe different research object with longer observation period from 3 years in prior research to 10 years.

Irrelevant Dividends Theory

A theory by Modigliani and Miller (1961) stated that dividend policy doesn't affect shareholder wealth (Labhane and Das 2015). This theory was developed with the idea that in a perfect market a firm's value depends on it's investment decisions, the probability of it's assets and the competence of it's managers (Zutter and Smart 2022). Based on this theory, if dividend policy did affect firm's value then this mean that the market are imperfect.

Bird in the Hand Theory

The Bird in The Hand Theory which developed by Gordon and Lintner (1956) stated that investors prefer dividends because they are more spesific than capital gains and that based on time value of money concept, dividends paid now have higher value than expected future capital gains (Kusuma et al. 2018). This is because how the imperfect market are full of uncertainty and dividend are seen to provides investor with a more safer investment. Based on this theory, dividend policy can affect the firms value through the increase in stock price from paying dividend than from retained earning.

Tax Preference Theory

The idea of tax preference theory is that investors will prefer to have investment return in capital gain rather than dividend due to tax effect on dividend (Tahir and Mushtaq 2016). The difference in tax treatment of dividends and capital gain will affect both their demands because investor are interested in the after-tax return that they would receive and when considering the firm's goal to maximize shareholders wealth then managers should put it into consideration, whether to pay more dividends or to retain more earnings.

Pecking Order Hypothesis

The Pecking Order Hypothesis was first introduced by Meyrs and Majluf (1984). This theory stated that in funding operational activities, internal source of financing is the most preferred source for the firms, followed by debt and finally equity financing through issuance of stocks (Tahir and Mushtaq 2016). Internal funding was provided from retained earning which was also where dividend are taken from. This means that how company plan their funding sources could affect Dividend Payout Ratio.

Agency Theory

According to Jensen & meckling (1976) agency cost is the sum of charges to make oversight of agents. Agency cost emerges from the difference of interest that managers (agent) and investors (principal) have on the firm. The agency theory suggests that the dividends help reduce the agency's cost in connection with the separation of ownership and control of the company (Priyantara and Thamrin 2020).

Return on Equity and Dividend Payout Ratio

Return on Equity is an indication of whether the company is capable of generating return worth investment risk or not. It is the ability of the capital itself to generate profits for shareholders (Alfisah and Kurniaty, 2018). Return on Equity measures how much net income resulting from investment in the company's shareholders (Kharisma and Rachman 2017). If a company have an efficient management of equity then it can be concluded that they would be more capable to disburse dividend.

H1 Return on Equity have effect on Dividend Payout Ratio

Return on Asset and Dividend Payout Ratio

Return on Asset shows the rate of return of the entire business or investment that has been done (Kharisma and Rachman 2017). It was used to measure the company's ability to generate profits by using the current amount and costs used for analysis (Kusuma et al. 2018). A high profitability allow company's to pay more dividend to their shareholders which affect Dividend Payout Ratio.

H2 Return on Asset have effect on Dividend Payout Ratio

Debt to Equity and Dividend Payout Ratio

In general, a high Debt to Equity ratio indicates that the company may not be able to generate enough cash to pay its debt obligations (Gitman & Zutter 2014). Debt to Equity ratio reflects the company's ability to meet all its obligations. It measure the level of use of debt to the total equity of shareholders owned by the company (Kusuma et al. 2018). If company ability to fulfill it's debt obligation are low, than they would need to take internal fund, retained earning, to pay their debt first. The decrease of retained earning will then affect the company Dividend Payout Ratio.

H3 Debt to Equity have effect on Dividend Payout Ratio.

Growth and Dividend Payout Ratio

Sales reflects the success of past investments and is useful for forecasting future growth (Martin and Panggabean 2020). High sales growth will increase profit. Though a fast growing company had shown to prioritize available investment opporunity than dividend payment and affect company's Dividend Payout Ratio.

H4 Growth have effect on Dividend Payout Ratio

Firm Size

Firm size influenced price earning ratio significantly (Putranto and Darmawan 2018) and could be used to measure how large or small a firm is (Samrotun 2015). Larger firms tend to pay dividend rather than smaller, developing firms which means that the size of a firm could affect their Dividend Payout Ratio.

H5 Firm Size have effect on Dividend Payout Ratio

Reseach Model

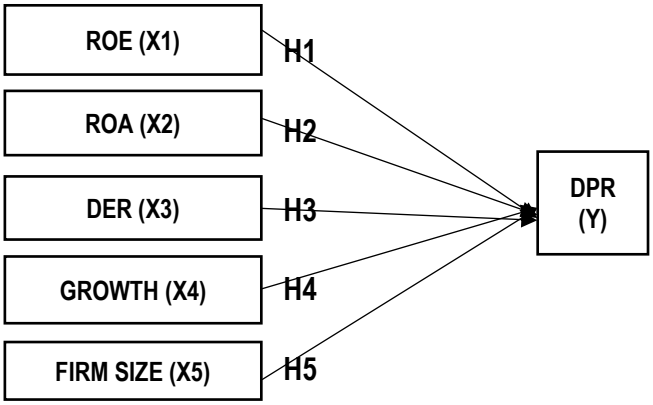

Figure 1 Research Model

Research Method

This research use multiple regression analysis and secondary data. Sample selection are conducted using purposive sampling method with HIDIV20 index member firms as it's population. The sample selection procedure are shown in table 1 below:

Table 1 Sample Selection Procedure

Sample Criteria	Total Firm
1. Firms that had listed as a member of HIDIV20 index at Indonesian Stock Exchange.	26
2. HIDIV20 index member firm that hadn't consistently listed as a member from the index establishment at 2018 until 2021.	(12)
3. Selected HIDIV20 index member firm from banking sector	(4)
4. Selected HIDIV20 index member firm that didn't publish their financial report or annual report for the period of 2012-2021.	(2)
5. Outlier data	(2)
Total selected sample firms	**6**
Observation period	**10**

Total sample data	**60**

Source: Data Collection Result at IDX

In this reasearch, Dividend Payout Ratio was measured by dividing total dividend with the firm or company's net income. The measurement used in this research is (Priyantara and Thamrin, 2020):

$$\text{DPR} = \frac{\text{Total Dividend}}{\text{Net Income}}$$

Return on Equity is a ratio that shows the firm's reliability in generating return from their investing activities. The measurement of return on equity used in this research is (Trimawan and Bertuah (2020):

$$\text{ROE} = \frac{\text{Earning After Tax}}{\text{Total Equity}} \times 100\%$$

Return on Asset shows how reliable the firm's management on their assets to earn income. That makes Return on Asset as one indicator of the firm's profitability. Return on Asset could be measured by dividing the earning after tax with the total asset. The measurement used in this research is (Priyantara and Thamrin, 2020):

$$\text{ROA} = \frac{\text{Earning After Tax}}{\text{Total Assets}}$$

Debt to Equity ratio is a ratio used to calculate how much the firm rely on debt and their ability to fulfill their obligations. Debt to Equity could be measured using this formula (Priyantara and Thamrin, 2020):

$$\text{DER} = \frac{\text{Total Debt}}{\text{Equity}}$$

Sales growth is described by the changes in the sales of the firm. The changes could be an increase in sales or a decrease in sales from year to year. These changes could be seen from firm's income statement. The measurement of growth used in this research is (Priyantara and Thamrin, 2020):

$$\text{Growth} = \frac{\text{St} - \text{St}_{-1}}{\text{St}_{-1}} \times 100\%$$

The size of a firm or company can be shown in total assets, total sales, and average sales (Riyanto 2011). Firm size could be measured through the natural logarithm of total asset because of the high resources large firm or company tend to have. The measurement of firm size used in this research is (Priyantara and Thamrin, 2020):

$$\text{Firm Size} = \ln \text{Total Assets}$$

Research Result

This research data descriptive statistics analysis can be seen at table 2 below:

Table 2 Descriptive Statistic Analysis

	DPR	ROE	ROA	DER	GROWTH	FIRM_SIZE
Mean	0.756337	0.410078	0.185988	0.897510	0.062036	16.45652
Median	0.694515	0.218380	0.131400	0.673066	0.045527	17.07810

Maximum	2.074187	1.450882	0.446758	3.412716	0.688955	18.57152
Minimum	0.124723	0.049348	0.041238	0.153484	-0.285249	12.11327
Std. Dev.	0.429506	0.431414	0.123045	0.789868	0.162369	1.857953
Observations	60	60	60	60	60	60

Source: Eviews10 Output

From 60 observation data, we can see that DPR variable have a mean of 0,756337, maximum value of 2,074187, minimum value of 0,124723, and a standard deviation of 0,429506.

From 60 observation data, we can see that ROE variable have a mean of 0,410078, maximum value of 1,450882, minimum value of 0,049348, and a standard deviation of 0,431414.

From 60 observation data, we can see that ROA variable have a mean of 0,185988, maximum value of 0,446758, minimum value of 0,041238, and a standard deviation of 0,123045.

From 60 observation data, we can see that DER variable have a mean of 0,897510, maximum value of 3,412716, minimum value of 0,153484, and a standard deviation of 0,789868.

From 60 observation data, we can see that GROWTH variable have a mean of 0,062036, maximum value of 0,688955, minimum value of -0,285249, and a standard deviation of 0,162369.

From 60 observation data, we can see that FIRM_SIZE variable have a mean of 16,45652, maximum value of 18,57152, minimum value of 12,11327, and a standard deviation of 1,857953.

Tabel 3 t test result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROE	4.675176	1.404450	3.328830	0.0017
ROA	-11.28983	2.474229	-4.562971	0.0000
DER	-1.217334	0.364216	-3.342342	0.0016
GROWTH	-0.529343	0.242926	-2.179033	0.0342
FIRM_SIZE	0.012021	0.146740	0.081923	0.9350
C	1.866506	2.474195	0.754389	0.4542

Source: Eviews10 Output

DPR = 1,866506 + 4,675176 ROE – 11,28983 ROA – 1,217334 DER – 0,529343 GROWTH + 0,012021 FIRM_SIZE + e

H1 test result shows that tstatistic (3,328830) ≥ ttable (2,00488) which make tstatistic to be in Ho rejection area. This decision was also supported by the Return on Equity probability value at 0,0017 < α (0,05) that means Ho can be rejected. Thus, Return on Equity variable have effect on Dividend Payout Ratio. Return on Equity indicates the company ability to manage it equity. A high return on equity would allow company to pay higher dividend to their shareholders. This result was consistent with past research by Trimawan and Bertuah (2020) and Trisnadewi rt al. (2019) who found ROE to

have a positive relationship to Dividend Payout Ratio. This result was inconsistent with research result by Destriana (2016) and Eliyanti and Stella (2019).

H2 test result shows that tstatistic (-4,562971) ≤ ttable (-2,00488) which make tstatistic to be in Ho rejection area. This decision was also supported by the Return on Asset probability value at 0,0000 < α (0,05) that means Ho can be rejected. Thus, Return on Asset variable have effect on Dividend Payout Ratio. This ratio shows how well the company manage it's asset by the return it receive. Negative relationship indicate that companies prioritize to spend their profit to available investment opportunity more than paying dividend. This result was consistent with research by Yesyurun (2021) and Priyantara and Thamrin (2020) while it was inconsistent with the result found by Permataningrum and Yap (2017), Herawati and Fauzia (2018), Kusuma et al. 2016), and Labhane and Das (2015).

H3 test result shows that tstatistic (-3,342342) ≤ ttable (-2,00488) which make tstatistic to be in Ho rejection area. This decision was also supported by the Debt to Equity probability value at 0,0016 < α (0,05) that means Ho can be rejected. Thus, Debt to Equity variable have effect on Dividend Payout Ratio. Companies with a high DER would prioritize using the fund available to pay their debt. According to pecking order theory, companies preferred to use internal funding first, therefore reducing company's retained earning and the fund that could be used to pay dividend, resulting in a negative relationship. This result was consistent with the research by Priyantara and Thamrin (2020), Trisnadewi et al. (2019), and Labhane and Das (2015). This result was inconsistent with what Herawati and Fauzia (2018) and Kusuma et al. (2016) found.

H4 test result shows that tstatistic (-2,179033) ≤ ttable (-2,00488) which make tstatistic to be in Ho rejection area. This decision was also supported by the Growth probability value at 0,0342 < α (0,05) that means Ho can be rejected. Thus, Growth variable have effect on Dividend Payout Ratio. A high rated growth company would prefer to seek more investment to expand their business rather than paying dividend which resulting in a negative relationship between growth and dividend variables. This result was consistent with research by Raphael and Mnyayanu (2018) and was inconsistent with the research result by Priyantara and Thamrin (2020), Trimawan and Bertuah (2020), Eliyanti and Stella (2019), Martin and Panggabean (2020), and Tahir and Mushtaq (2016).

H5 test result shows that tstatistic (0,081923) ≤ ttable (2,00488) which make tstatistic to be in Ho acceptance area. This decision was also supported by the Firm Size probability value at 0,9350 > α (0,05) that means Ho can not be rejected. Thus, Firm Size variable have no effect on Dividend Payout Ratio. Larger and mature company tend to pay more dividend than smaller and growing company, but larger doesn't necessarilly means that the company was a mature company which makes Firm Size to have no significant effect to Dividend Payout Ratio. This research result was consistent with Priyantara and Thamrin (2020), Trimawan and Bertuah (2020), Raphael and Mnyayanu (2018), and Permataningrum and Yap (2017). This result was inconsistent with Labhane and Das (2015) and Tahir and Mushtaq (2016).

CLOSING

From the data analysis result, this research concluded that Return on Equity have a positive effect while Return on Asset, Debt to Equity, and Growth have a negative effect on Dividend Payout Ratio, and that Firm Size have a positive but no significant effect to Dividend Payout Ratio.

The limitation this research had was object limitation where this research sample were small and couldn't fully represent the population. There were also limitation to observation period of 10 years, the existance of data multicollinearity, and that there were only 5 independent variables tested.

Recommendation for future researcher to manage research limitation is to select another object that can provide better sample numbers, adding or updating observation period, and adding another independent variables that affect Dividend Payout Ratio.

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