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### The Determinant Factor of Dividend Policy at Non Finance Listed Companies

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**Abstract:** This paper aims to investigate the determinant factor of dividend policy. Sample that use in this paper are non-finance company which listed in Indonesian Stock Exchange on 2006-2009 period. This paper use profitability, cash flow, sales growth, tax, debt equity ratio, dan market to book ratio as independent variable. The variables dependent of this study is dividend payout ratio, and it is measured by standard dividend payout ratio and adjusted dividend payout ratio. The purposive sampling was used to determine which acceptable company to support this paper. Method that used is ordinary least square regression. According to value of significance of the regression, profitability is the factor that affect dividend payout ratio on all measurement, then sales growth is the factor that affect dividend payout ratio only measured by adjusted dividend. The other variables are found that they are not the determinant factors of dividend payment. This result indicate that management should pay attention to profitability and sales growth when makes dividend policy.

**Keywords:** adjusted dividend payout ratio, cash flow, debt equity ratio, market to book ratio, profitability, sales growth, standard dividend payout ratio, tax.

#### I. Introduction

Dividend policy is really important for investors and company. Dividend payment is one of the investors's purpose when investing their money for the stock. Firm uses dividend to attract investor and to maximize shareholder's wealth.

Dividend payout has been a subject of debate in financial literature. Many researches revealed factors that company should consider while make dividend policy. In this study, dividend policy is policy that manager made for determine amount of distributable earning for shareholder.

Modigliani and Miller (1958, 1961) conclude that in perfect market, firm's value is not affected by payment of dividend. Based on their researches, firm's value is determined by ability of firm to obtain earning. Their researches assume no taxes, no floatation cost, and investor has same information as manager has. But at recent, many researches find contradictive evidence and conclude that dividend policy could affect firm's value.

Firm's earning can be invested into operating assets, to acquire securities, to retire debt, or distributed to shareholder. There are many reasons firm should pay or no pay dividend. For example, dividend is important for investor, because it provide information of company's income. Dividend can be used to manage stock price, but when company retained its earning, that money can be reinvested.

Since as many researches find that firm's value can be affected by dividend policy, many factors came up to be considered while make dividend policy. Research studied by Gill et al.(2010) used standard dividend payout ratio and adjusted dividend payout ratio as proxy of dividend payout. Different between two is depreciation is used on formula of adjusted dividend payout ratio. Based from the background, the purpose of this study is to analysis the impact of profitability cash flow, corporate tax, sales growth, market to book ratio and debt equity ratio with dividend payout ratio.

#### II. Literature and Hypothesis

Profitabilty has always become mayor factor when determines dividend policy (Gill et al., 2010). Amidu and Abor (2006) found that firm with high profitability tend to pay high dividend. Then profitability has positive influence to dividend payout ratio. Same result founded by Pruitt and Gitman (1991), that profitability affect dividen positively. They conclude firm's earning at current year and last year can affect dividend payment. Al-

Nazzar also found positive relation between profitability and dividend payout ratio, higher profitability makes higher dividend payout ratio.

Good cash flow position means good liquidity of firm. Alli et al.(1993) found positive relation between cash flow and dividend payout ratio. According to their study, cash flow is better than profitability to describe dividend payout ratio. The reason is because profitability is affected by accounting practices. Amidu and Abor (2006) found cash flow has positive relation to dividend payout ratio. They conclude firm will raise its dividend when has a good liquidity position, also firm with stable cash flow tend to pay higher dividend. Same result also founded by Anil and Kapoor (2008), that cash flow affected dividend payout ratio positively and cash flow is an important factor to determine dividend.

Modigliani and Miller (1961) argues that high tax liabilities will raise payment of dividend. They found positive relation between tax and dividend payout ratio. Their study assumes high tax liabilities are effect of high profitability. While high profitability has positive relation to dividend payout ratio. Amidu and Abor (2006) found positive relation between tax and dividend payout ratio. This result also found by Gill et al.(2010), that tax affected dividend payout ratio positively.

Sales growth can affect dividend payout ratio. Firm with high growth will retained their earning to reinvest it rather than to distribute as dividend. Then high growth means high needs of funding or money, so it can reduce the payment of dividend (Myers, 1984). Amidu and Abor (2006) found negative relation between sales growth and dividend payout ratio. Same result also founded by Gill et al. (2010), which conclude sales growth affect dividend payout ratio negatively.

Good market assessment means firm has better future growth. Firm that has good growth will reduce their payment of dividend, because its need of fund (D'Souza and Saxon, 1999). They found negative relation between market to book ratio and dividend payout ratio. Amidu and Abor (2006) also found negative relation between market to book ratio and dividend payout ratio. They conclude when firm has high growth, it will retained more earning thus reduce their dividend.

According to Gill et al.(2010) debt to equity ratio can be refer as gearing or leverage or risk. Pruitt and Gitman (1991) conclude that debt can affect dividend payout ratio. Firm with higher debt will reduce its dividend payment. This can happen because firm tend to pay its liabilities (debt) than to pay dividend, thus there is a negative relation between debt equity ratio and dividend payout ratio. D'Souza and Saxon (1999) found leverage affect dividend payout ratio negatively. Same result also founded by Al-Nazzar (2009), firm with higher debt tend to reduce their dividend.

### III. Hypothesis

Based from the literature review the hypothesis at this study are:

- $H_1$  : Profitability has influence relation to dividend payout ratio
- $H_2$  : Cash flow has positive influence between cash flow and dividend payout ratio
- $H_3$  : Tax has positive influence to dividend payout ratio
- $H_4$  : Sales growth has negative influence to dividend payout ratio
- $H_5$  : Market to book ratio has negative influence to dividend payout ratio
- $H_6$  : Debt to equity ratio has negative influence to dividend payout ratio

### IV. Data and Methodology

Samples in this study are non finance company which listed in INDONESIAN STOCK EXCHANGE, from 2006 to 2009. The sample should have complete financial report which require in this study. Based from this criteria there are twenty six companies as a sample.

This study is using ordinary least square regression as data analysis method.

$$STANDARD\ PAYOUT_i = b_0 + b_1 PROF_i + b_2 CASH_i + b_3 TAX_i + b_4 GROW_i + b_5 MTBV_i + b_6 D/E_i + \mu_i, t$$

$$ADJUSTED\ PAYOUT_i = b_0 + b_1 PROF_i + b_2 CASH_i + b_3 TAX_i + b_4 GROW_i + b_5 MTBV_i + b_6 D/E_i + \mu_i, t$$

STANDARD PAYOUT = standard deviation of dividend payout ratio

ADJUSTED PAYOUT = adjusted dividend payout ratio

PROF = profitability

CASH = cash flow

TAX = tax rate

GROW = sales growth

MTBV = market to book ratio

D/E = debt to equity ratio

$\mu$  = error

## V. Result and Discussion

Companies in Indonesia pay their dividend on second quartile of the year. This is occurred because the time lag from making annual reports of the company. The annual reports must meet all the terms, conditions, and other administration requirements from IFRS. That is why the annual reports is done a year after the current fiscal year. Meanwhile, dividend policy is based on the annual reports of the firms. Therefore the dividend policy must be postponed by the making of annual reports. The detail data can be seen at table 2.

Profitability has positive influence to dividend payout ratio-which measured by standard dividend payout ratio and adjusted dividend payout ratio. This result also found by Gill et al. (2010), Pruitt and Gitman (1991), and Al-Nazzar (2009). Higher profitability may make firm has more money. More money makes firm able to pay dividend and also to retain their earning. Therefore higher profitability tend firm pay more dividend.

There is no influence of cash flow to dividend payout ratio. This result is contradict with Amidu and Abor's (2006). They found a positive influence for cash flow to dividend payout ratio. However, this result is similar with Gill et al. (2010). No influence of cash flow might happen because the firm do not hang dividend policy in cash flow, but in profitability.

This research shows there is no influence from tax to dividend payout ratio (table 3). The result is contradict with Amidu and Abor (2006) and Gill et al. (2010). The different between tax policy in Indonesia with another country may be the reason behind this.

Sales growth has no influence to standard dividend payout ratio (table 3). This is contrast with Amidu and Abor (2006) and Gill et al. (2010). However sales growth has negative influence to adjusted dividend payout ratio (table 4), which is in line with result from Gill et al. (2010). Gill et al. (2010) said that this might happen because different measurement used by standard dividend payout ratio and adjusted dividend payout ratio, which is use of depreciation. Adjusted dividend payout ratio does not use depreciation when calculate net income, but standard dividend payout ratio use it. Sales growth has no influence to dividend is supported by dividend residual theory. The theory says firm will pay its dividend until all earning has been funded all acceptable investment. So as long as company still needs earning, dividend may not be paid.

Based on this research there is no influence from market to book ratio to standard dividend payout ratio which contradict to result from Amidu and Abor (2006) but same with Gill et al. (2010). Moreover, market to book ratio also has no influence to adjusted dividend payout ratio (table 4) which contrast with result from Amidu and Abor (2006) but same as D'Souza and Saxena (1999). These results might happen because there is no relation between share price to dividend, as described in dividend irrelevance. Meanwhile measurement of market to book ratio uses share price.

Debt to equity ratio has no influence to dividend payout ratio in this research. This result similar to Gill et al. (2010) and Afza and Amirza (2010), but contrast to Al-Nazzar (2009). The reason is may because firm does not use debt to pay their dividend and to settle their dividend policy. This research shows that profitability is used to pay and settle dividend of the firm instead of debt.

## VI. Conclusion

Purpose of this study is to find any influence between dividend payout ratio with profitability, cash flow, tax, sales growth, market to book ratio, and debt to equity ratio in non-financial firms which listed in Indonesian Stock Exchange year 2006-2009. Based on results and analysis, profitability has positive influence to dividend payout ratio. Sales growth has negative influence to dividend payout ratio which measured by adjusted dividend payout ratio. Variables cash flow, tax, market to book ratio, and debt equity ratio has no influence to dividend payout ratio.

Based on this research, firms can use profitability and sales growth when make dividend policy. Higher profitability makes firm has more money, so firm can pay more dividend. Higher sales growth makes firm needs more money, so it can lower payment of dividend. Profitability and sales growth can be used for investor, in their effort for dividend purposes.

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**Table 1: Variable and Measurement**

Variable	Measurement
<b>Dependent</b>	
1. Standard deviation of dividend payout ratio	$S = \sqrt{\frac{\sum(x_i - \bar{x})^2}{n-1}}$ $x_i = \text{payout ratio}$ $\bar{x} = \text{mean of payout ratio}$
2. Adjusted dividend payout ratio	$\text{Adj DPR} = \frac{\text{DIV}}{\text{Net income after tax + depreciation}}$
<b>Independent</b>	
1. Profitability	$\text{Profitability} = \frac{\text{EBIT}}{\text{Total Assets}}$
2. Cash flow (CF)	Cash flow = Log cash flow from operation activities
3. Tax	$\text{Tax rate} = \frac{\text{Corporate tax}}{\text{Net Profit Before tax}}$
4. Sales growth	$\text{Sales growth} = \frac{\text{Sales}_t - \text{Sales}_{t-1}}{\text{Sales}_{t-1}}$
5. Market to book ratio	Taken from summary report of Indonesian Stock Exchange
6. Debt to equity ratio	Taken from summary report of Indonesian Stock Exchange

**Table 2 : Statistic Descriptive**

Variables	Minimum	Maximum	Mean	Standard Deviation
Standard deviation of dividend payout ratio	0,01	1,57	0,4650	0,30759
Adjusted dividend payout ratio	0,01	1,05	0,3240	0,24541
Profitability	0,02	0,56	0,1928	0,13006
Cash Flow	3,37	7,02	5,4966	0,80213
Tax	-1,32	3,53	0,3127	0,40888
Sales Growth	-0,201	1,133	0,0505	0,1686
Debt equity ratio	0,10	8,44	0,9177	1,13243
Market to book ratio	0,22	22,79	3,4232	4,22817

**Table 3 : Regression of Standard *Dividend Payout Ratio***

Independent Variables	Coeffecient of Regression	Significance
Profitability	0,414	0,015
Cash Flow	-0,102	0,358
Tax	-0,121	0,218
Sales growth	-0,167	0,101
Debt to equity ratio	0,112	0,429
Market to book ratio	0,081	0,601

R square = 0,187      F-value = 3,727      sig = 0,002

**Table 4 : Regression of Adjusted *Dividend Payout Ratio***

Variable Independence	Coeffecient of Regression	Significance
Profitability	0,687	0,000
Cash Flow	-0,077	0,392
Tax	-0,121	0,131
Sales growth	-0,234	0,005
Debt to equity ratio	-0,008	0,924
Market to book ratio	0,098	0,433

R square = 0.465      F-value = 14.050      sig = 0.000