

Analysis of Factors Influencing Dividend Payout Ratio: Case Study to Company Listed in Indonesia Stock Exchange Period 2011-2016

Nurwulansari¹, Brady Rikumahu²

¹Faculty of Economics and Business, Telkom University, Jl. Telekomunikasi No. 1, Dayeuhkolot, Sukapura, Dayeuhkolot, Bandung, Jawa Barat 40267
nwulansr[at]gmail.com

²Faculty of Economics and Business, Telkom University, Jl. Telekomunikasi No. 1, Dayeuhkolot, Sukapura, Dayeuhkolot, Bandung, Jawa Barat 40267
bradyrikumahu[at]telkomuniversity.ac.id

Abstract: *Dividend policy is a very important policy, because it will involve two parties, namely the shareholders and the management company may have different interests. Dividend policy determines the placement of the profit, which is between paying to shareholders and reinvesting in the company. This study was conducted to examine the factors that affect the dividend payout ratio in the companies listed in Indonesia Stock Exchange period 2011-2016 by using variable Firm Size, Institutional Shareholding, Free Cash Flow, Growth and Return on Asset. The analysis are performed using the data derived from the financial statements of firms listed in Indonesia Stock Exchange during a six-year period. Sampling technique to be used is purposive sampling on criterion (1) the company that trade their stock in Indonesia Stock Exchange; (2) excluding financial company; (3) The company published financial statement for period 2011-2016; (4) the company continually share their dividend per December 2011-2016; (5) the company get the positive profit. The secondary data is obtained based on document published in www.idx.com. It is gained sample amount of 40 companies from 539 companies those are listed in BEI. The analysis technique used here is Panel Data Analysis and hypothesis test using t-statistic to examine partial regression coefficient and f-statistic to examine the mean of mutual effect with level of significance 5%. The result shows that there is relationship between firm size, institutional shareholding, free cash flow, growth and return on asset with dividend payout ratio which simultaneously have significant relationship with dividend payout ratio and the value is 54.81%. The result of this research also shows that institutional shareholding and growth have a positive and significant relationship with dividend payout ratio. Firm size and return on asset have a negative and significant relationship with dividend payout ratio. While the free cash flow has a positive relationship and insignificant relationship with dividend payout ratio.*

Keywords: Dividend Payout Ratio, Firm Size, Institutional Shareholding, Free Cash Flow, Growth, Return on Asset

1. Introduction

Keown said, "The main objective of the firm is maximizing value or the firm's stock price" (Keown, 2010:199). To achieve the goal, the firm should run all the function well. One of the function is financial function. According to Riyanto (2011) financial management is all activities related effort to get funds and using them or allocated them. According to Husnan (2011), financial management in its activities should make a decision known as function of financial management, stands for 1). Using funds, known as investment decision; 2). Getting funds, known as funds decision; 3). Profit sharing, known as dividend policy. Investment decision is a decision to allocate funds to profitable investment in the future. Funds decision is a decision to choose available source of funds for investment. Dividend policy is a decision whether to pay or not to pay dividend.

According to Waygant et al (2005), A dividend is a distribution by a corporation to its stockholders on a prorata (proportional) basis. Dividend is actually the part of profit which is distribute among the shareholders and play as an important factor for the success.

Many conflicting theories have been argued the dividend policy to answer question like "Why do corporate pay

dividends?" and "Why do investors pay attention to dividends". The irrelevant dividend theory (Modigliani and Miller, 1961) is a theory which states that dividend policy has no influence, either on company value or capital cost. Modigliani and Miller (MM) (1961) stated that the dividend payout ratio is irrelevant, the value of a firm is not determined by the size of the dividend payout ratio but is determined by the net profit before tax (EBIT) and business risk.

According to Gordon and Lintner (1956) in Bringham and Houston (2011), the required rate of return will increase if the dividend payout is reduced as investors are more confident of dividend receipts than the capital gains that will result from retained earnings. Gordon and Lintner's (1956) opinion by MM was given the name bird-in-the-hand fallacy. Tax Preference Theory is a theory proposed by Litzenberger and Rasmuswamy (1979) in Bringham and Houston (2011) which states that because of the tax on dividends and capital gains, investors prefer capital gains because they can delay tax payments. The signaling hypothesis is the theory that investors value dividend changes as a signal of earnings forecasts by management. This theory states that the increase in dividends is often followed by a rise in stock prices. Conversely, a decrease in dividends in general causes the stock price to fall. The clientele effect theory asserts that the investors or the "clienteles" prefer a specific dividend yield; investor who are in high income tax bracket could find it more beneficial to hold

low dividend yield stock, while those have lower income tax bracket inclined to have high dividend yield stock.

2. Theoretical Overview

There are different theories of dividend which are critical to understand. The **irrelevant dividend theory** (Modigliani and Miller, 1961) is a theory which states that dividend policy has no influence, either on company value or capital cost. Modigliani and Miller (MM) (1961) stated that the dividend payout ratio is irrelevant, the value of a firm is not determined by the size of the dividend payout ratio but it is determined by the net profit before tax (EBIT) and business risk. Thus the dividend policy is actually not relevant to be question.

According to Gordon and Lintner (1956) in Bringham and Houston (2011), the required rate of return will increase if the dividend payout is reduced as investors are more confident of dividend receipts than the capital gains that will result from retained earnings. Gordon and Lintner's (1956) opinion by MM was given the name **bird-in-the-hand fallacy**. Gordon and Lintner think investors see that a bird in hand is worth more than a thousand birds in the air. However, MM argues that not all investors are interested in reinvesting their dividends in the same company with the same risk, therefore the risk level of their future earnings is not determined by the dividend payout ratio but it is determined by the level of risk of new investment.

In Bringham and Houston (2011), **Tax Preference Theory** is a theory proposed by Litzenberger and Rasmuswamy (1979) in Bringham and Houston (2011) which states that because of the tax on dividends and capital gains, investors prefer capital gains because they can delay tax payments. If capital gains are taxed at rates lower than the tax on dividends, then high-growth stocks will be responded positively by investors. On the contrary, if capital gain is taxed equal to dividend income, then capital gain's profit will decrease. Nevertheless, the tax on capital gains is still better than the tax on dividends because the tax on newly acquired capital gain is paid after the shares are sold, while taxes on dividends are payable annually after dividend payout. In addition, the investment period also affects the income of investors. If the investor only buys the stock for a period of one year, then there is no difference between the tax on capital gains and the tax on dividends. So investors will ask for higher after-tax profits on stocks with high dividend yields than stocks with low dividend yields. Therefore, this theory suggests that companies should determine a low dividend payout ratio or even not dividend.

Another theory, **Signaling Theory**, it describe that signals are an action taken by the management of a company that provides guidance to investors about how management sees the prospect of the company. The signal or information charge hypothesis is the theory that investors value dividend changes as a signal of earnings forecasts by management. This theory states that the increase in dividends is often followed by a rise in stock prices. Conversely, a decrease in dividends in general causes the stock price to fall.

This observation is used to prove MM irrelevant theory error, that stock price action after the change of dividend payout

indicates that investors prefer dividend rather than capital gain. However MM has a different opinion. They noted that companies are reluctant to reduce dividends, so the company will raise dividends if there is greater anticipated earnings in the future to support higher dividends. So MM argues that dividends above the expected amount is a signal to investors that the company's management forecast a good profit in the future. Conversely, a decrease in dividends, or a small increase in expected amount, is a signal that management foresees a poor future profit. If the position of MM is true, then a change in stock price after a dividend increase or decrease does not indicate a preference for dividends compared to retained earnings. The price change only indicates the dividend announcement has a signal charge or information about future earnings.

Managers often have better information about future dividend prospects compared to public shareholders, so there is obviously an information content in the dividend announcement. However, it is difficult to ascertain whether changes in stock prices that follow a dividend increase or decrease reflect only the impact of a signal (such as MM opinion) or dividend preferences as well as signals. However, the impact of signals should take into account when a company considers changes in its dividend policy.

The Clientele Effect Theory suggests that different groups of shareholders will have different preferences on corporate dividend policies. In essence, investors will be sorting themselves by buying stocks that match their choice either for dividends or capital gains. Group of shareholders who need income at this time prefers a high dividend payout ratio. Conversely, the less-pressed shareholder group today is more likely if the company holds most of its net income. In other words there will be a client effect. The Company attracts certain clients with their dividend policy. Investor clients are likely to lead us to believe that corporate dividend policies are important. However, if there is no greater aggregate demand for a given policy than the market can satisfy, dividend policy is not important, one policy is as good as the other. Impact Clients remind companies to avoid making unexpected changes in dividend policy. With the company's investment decisions that have been made, the dividend rate still remains unimportant. Changes in the policy are only important when it suits other migrating clients.

Jensen and Meckling explain the agency relationship in **Agency Theory** that agency relations are "a contract under which one or more persons (the principal (s)) engage another person (the agent) to perform some service on their behalf which involve delegating some decision making authority to the agent" (Jensen and Meckling, 1976:5). The statement can be interpreted that agency relationship is a contract between the owner of the resource (principal) and the manager (agent) who take care of the use and control of these resources.

Agents are managers of the company who know more about the company's internal information and prospects in the future than the company's principal. Managers have an obligation to provide information about the company with financial statements, the report is important to the owners of the company because they are outside of the company that does not

know for sure the condition of the company and have great uncertainty.

Agency theory has the potential to create a conflict of interest created when managers who make decisions have personal goals (Brigham, 2006). According to Meisser, et al. (2006) this agency relationship resulted in two problems: 1). The occurrence of asymmetric information (information asymmetry), where there is an imbalance of information acquisition between the management as a provider of information with the investors as users of information. Asymmetric theory says that the parties associated with the company do not have the same information about the prospects and risks of the company. Certain parties have better information than others. Managers usually have better information than the investors because it can be said to occur asymmetry information between managers with investors. 2). The occurrence of conflict of interest due to inequality of purpose, where management does not always act in accordance with the interests of the owner. According to Jensen and Meckling (1976), differences in interests between managers and shareholders are particularly vulnerable. The reason is that the decision makers do not have to bear the risk of mistakes in business decisions, as well as if they can not increase the value of the company. The risk is fully borne by the owners. Because it does not bear the risk and does not get pressure from other parties in securing the investment of shareholders, then the management tends to make decisions that are not optimal. In an effort to overcome or reduce the agency problem will lead to agency costs that will be borne by both principals and agents. Jensen and Meckling (1976) divide the agency costs into three parts: 1). Monitoring cost; 2). Bonding cost; and 3). Residual loss

3. Descriptive Studies on Dividend

- 1) D'Souza & Saxena (1999) investigated the effect of agency cost, market risk and investment opportunity on dividend policy on international companies. The results of the study suggest that there is a negative effect of agency cost and market risk on dividend policy, while the relationship between dividend policy and investment opportunity show an insignificant relationship.
- 2) Short et al. (2001) investigated the relationship between dividend policy and institutional ownership. The result of the research is that there is a positive relationship between dividend payout policy and institutional ownership. Furthermore the results for the revenue trend model provide a positive revenue trend component to the relationship between institutional ownership and dividend payout ratio. In addition, there is evidence to support the hypothesis that there is a negative relationship between dividend policy and managerial ownership.
- 3) Hatta (2002) conducted an investigation of the relationship between dividend policy and corporate investment decisions. The result of the research is there is relationship between dividend payout ratio with company focus, total asset, insider ownership, number of common shareholder, free cash flow and growth. Two variables that significantly influence the dividend payout ratio, the Company Focus and Total Assets.

- 4) Amidu and Abor (2006) conducted a research entitled Determinants of Dividend Payout Ratios in Ghana. The results showed a positive relationship between dividend payout ratio with profitability, cash flow, and tax. The results also show a negative relationship between dividend payout ratio and risk, institutional holding, growth and market-to-book value.
- 5) Kumar (2007) conducted a research titled Analysis of the influence of Ownership Structure, Investment Opportunity Set (IOS), and Financial Ratios on Dividend Payout Ratio (dividend payout ratio) (Comparative study on PMA and PMDN companies in Jakarta Stock Exchange Period 2003-2005). The results showed that in the PMDN companies, ROA has a significant positive effect on dividend payout ratio while the ownership of management shares, institutional ownership, IOS and DER no significant effect on the dividend payout ratio In the PMA company, the ownership of management shares, ISO, ROA and DER have a significant positive effect on the dividend payout ratio while the institutional share ownership does not significantly affect the dividend payout ratio.
- 6) Chasanah (2008) conducted a research with the title Factors Affecting Dividend Payout Ratio (DPR) On Companies Listed in Indonesia Stock Exchange. The results of his research showed that the return on assets and institutional ownership have a significant and positive influence on the dividend payout ratio in companies whose shares are owned by management. While return on asset and firm size have a significant and positive influence on dividend payout ratio in companies whose shares are not owned by management.
- 7) Puspita (2009) in a study entitled Analysis of Factors Influencing Dividend Payout Ratio Policy, found that cash ratio, firm size and return on assets have a positive and significant impact on dividend payout ratio. Debt to total assets show a positive and insignificant influence on dividend payout ratio. While the debt to equity ratio has a negative and insignificant effect on the dividend payout ratio. The growth has a negative and significant effect on dividend payout ratio.
- 8) Hikmah (2010) with the title of research Analysis of Factors Affecting Dividend Policy: Stakeholder Theory Approach, found that the size of firms, agency cost and growth had negative effects significant to dividend payout ratio. The concentration of ownership has a significant positive effect on the dividend payout ratio. While free cash flow does not have a significant effect on dividend payout ratio. And ownership concentration is the dominant variable affecting dividend payout ratio.
- 9) Setiawan Phua (2013) under the title Corporate Governance and Dividend Policy in Indonesia found that corporate governance practices in Indonesia are still low, even weakest in Asia. The results of his research also shows that firm size does not affect dividend policy, profitability has a positive relationship with dividend policy, grow influence dividend policy positively.

4. Data Description

Based on the previous research, there are some variables which is widely used in research about dividend payout ratio. This research finally uses five independent variables in this study. The five variables are taken from nine references that have

been reviewed before because these variables have more data references than others and provide the final results of different studies with each other. These independent variables are firm size, institutional shareholding, free cash flow, growth and return on asset.

Required data regarding dependent and independent variables could be shown as follow:

Table 1: Variable Description

Variabel	Symbol	Description
Dividend Payout Ratio	Y	Dividend per share / Earning per share (Ang,1997)
Firm size	X1	Log natural asset (Ghozali, 2006)
Institutional Shareholding	X2	Institutional shareholding / Total share (Moh'd et al, 1998)
Free cash flow	X3	(Net operating profit - tax + depreciation - changes in capital expenditure- changes in net operating working capital) / Total asset (Titman, Keown and Martin, 2014)
Growth	X4	(Asset this year - Asset last year) / Asset last year (Halim, 2005)
Return on asset	X5	Net income after tax / Total asset (Ang, 1997)

5. Hypotheses

This paper aim at testing the following hypotheses:

H1: Firm size, institutional shareholding, free cash flow, growth and return on asset simultaneously have a positive significant relationship with dividend payout ratio

H2: Firm size has a positive significant relationship with dividend payout ratio

H3: Institutional shareholding a positive significant relationship with dividend payout ratio

H4: Free cash flow has a positive significant relationship with dividend payout ratio

H5: Growth has a positive significant relationship with dividend payout ratio

H6: Return on asset has a positive significant relationship with dividend payout ratio

6. Research Model

The panel data regression method is used to examine the relationship between the dividend payout ratio and firm size, institutional shareholding, free cash flow, growth and return on asset of the companies in the Indonesia Stock Exchange. Data is analyzed with the use of EViews version 9 software. The result of the regression analysis is an equation that represents the best prediction of a dependent variable from several independent variables.

The regression equation that is estimated as follows:

$$Y_{it} = \alpha_i + \beta'X_{it} + \epsilon_{it} \quad (1)$$

Where, Y=dependent variable,

X=independent variable,

α = intercept,

β =slope,

ϵ =regression error,

$i = 1,2,\dots,N$, where N =sum of the firm,

$t=1,2,\dots,T$, where T =sum of period

7. Scope of Research

The study covers data on financial performances of 539 listed firms in Indonesia Stock Exchange for the period 2011 to 2016.

8. Sample

This research use purposive sampling method for define the sample. The criterion such as the firm is not the financial firm, it provide the complete data for the period, it shares the dividend during the period 2011-2016 and it always has a positive profit. From the criteria above, then it obtained 40 companies that meet the criteria. Therefore, this study uses financial report data from 40 companies listed in Indonesia Stock Exchange during the period 2011-2016.

9. Source of Data

The data used in this study is categorized as secondary data. Secondary data according to Sugiyono (2011) is a source that does not directly provide data to data collectors. The data used in this study is data obtained indirectly in the form of documents, archives, and information obtained by researchers associated with the object researchers. The data stand of: a). Company registered in the Indonesia Stock Exchange Period 2011-2016 obtained from the site www.sahamok.com. b). The data of Firm size, institutional shareholding, free cash flow, growth and return on assets are taken from the financial statements of the period 2011-2016 from www.idx.co.id. c). Data of rupiah rate from Bank Indonesia's website in www.bi.go.id. d). Previous research that supports this research, taken form journals, thesis and articles. e).The books that support this research

10. Data Analysis and Result Discussion

In order to find the impact of the selected set of independent variables on the dividend payout ratio of various financial firms, different analysis is used.

Descriptive statistics

Descriptive statistics gives minimum values, maximum values, the range between minimum and maximum values, mean values and standard deviation from the mean values about the data including each dependent and independent variable.

Table 2 presents the descriptive statistics for all the regression variables. This shows the average indicators of variables computed from the financial statements. The average (median) dividend payout ratio (measured as dividend per share/ earnings per share) is 38.1056 percent (38.1056 percent) and the average (median) firm size, determined as the natural logarithm of total asset has a mean (median) of 29.54512 (29.80021). Institutional shareholding has mean (median) of 68.2164 percent (65.0174 percent). Free cash flow on average is 8.3197 percent (6.2305 percent). Average (median) percentage of growth in asset is 16.8237 percent (14.0784 percent). and the average (median) return on asset is 13.5239 percent (10.1482 percent).

Table 2: Descriptive statistic of dependent variables and independent variable

	Dividend payout ratio	Firm Size	Institutional Shareholding	Free Cash Flow	Growth	Return on Asset
Mean	0.401779	29.545120	0.682164	0.083197	0.168237	0.135239
Median	0.381056	29.800210	0.650174	0.062305	0.140784	0.101482
Maximum	2.251729	33.198810	0.981786	0.639323	0.848539	0.657201
Minimum	0.029206	26.193820	0.279741	-0.492156	-0.216538	0.000541
Std. Dev.	0.298405	1.5913180	0.156550	0.150661	0.175253	0.105044

Regression results

The regression is run in a panel manner. Various options of panel data regression were run, common effect, fixed effects and random effects. The most robust of all was the fixed effect, thus we report results of the fixed effect regression in Table II. The dividend payout ratio is regressed against the five explanatory variables. These variables include firm size (X1), institutional shareholding (X2), free cash flow (X3), growth (X4) and return on asset (X5).

Table 3A: Redundant Fixed Effect - Likelihood Ratio

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.550956	(39,195)	0.0000
Cross-section Chi-square	155.328802	39	0.0000

Table 3B: Correlated Random Effects – Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	63.292897	5	0.0000

Table 3A the value of P is 0.0000 which shows the significant effect. The significant value of cross section chi-square suggests opting fixed effect model rather than a common effects model. Table 3B shows the results of Hausman Test. The Hausman test actually used to select the model i.e. which model is appropriate for selected data. It is used to select the model from the fixed effect model and random effect model. The P value of Hausman test is 0.0002 which is significant. P-value suggests choosing a fixed effect model rather than the random effect model.

R-squared actually represents the correlation between the observed value and the predicted value of the dependent variable. It is also said to be a determination of coefficient. It is explained variation for an individual variable.

Durbin-Watson is used to test the serial correlation of the model. According to the rule, if the values of DurbinWatson ranges from 1.50 to 2.5 then no problem of auto correlation exist, less or more creates the problem of auto correlation.

Table 3C: Regression Model Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	-0.137493	0.059025	-2.329405	0.0209
X2	0.826322	0.316077	2.614309	0.0096
X3	0.026092	0.141751	0.184072	0.8541
X4	0.209480	0.099484	2.105674	0.0365
X5	-1.400099	0.384854	-3.638004	0.0004
C	4.052287	1.820580	2.225822	0.0272

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.548103	Mean dependent var	0.401779
Adjusted R-squared	0.446136	S.D. dependent var	0.298405
S.E. of regression	0.222079	Akaike info criterion	-0.004204
Sum squared resid	9.617246	Schwarz criterion	0.648416
Log likelihood	45.50446	Hannan-Quinn criter.	0.258754
F-statistic	5.375317	Durbin-Watson stat	2.042417
Prob(F-statistic)	0.000000		

Table 3D: Coefficient Cross-Section Each Firm

No	Firm	Coefficient Cross-section									
1	ADHI	-0.116898	11	CTRA	-0.002479	21	KLSF	0.281228	31	SMGR	0.957497
2	ADRO	0.932643	12	EKAD	-0.747421	22	LSIP	0.095575	32	SMSM	0.099713
3	AKRA	0.395262	13	FISH	-0.500271	23	MERK	0.027500	33	TCID	-0.237509
4	ASGR	-0.157753	14	GEMA	-0.662403	24	MKPI	-0.151291	34	TKIM	-0.088203
5	ASII	0.582321	15	GGRM	0.313210	25	MULB	0.469472	35	TOTL	0.077693
6	AUTO	-0.169956	16	GMTO	-0.672445	26	MTLA	-0.603040	36	TOTO	-0.363368
7	BATA	-0.379901	17	HMSP	0.895390	27	PTBA	0.159625	37	TURI	-0.505711
8	BSDO	-0.181392	18	INDF	0.336418	28	PWON	-0.198825	38	UNTR	0.414250
9	CASS	-0.578648	19	INTP	0.398078	29	RUIS	-0.178735	39	UNWR	0.462191
10	CPIN	0.206776	20	ITMG	0.300590	30	SCMA	0.477028	40	WIKA	-0.226212

Based on the output of fixed effect model in table 3C and 3D, so the regression equation that is estimated as follows :

$$Y = (\text{Coefficient each firm}) + 4.052287 - 0.137493X_1 + 0.826322X_2 + 0.026092X_3 + 0.209480X_4 - 1.400099X_5 (2)$$

Based on the regression equation can be analyzed the influence of each independent variable to the dependent variable, namely:

Constanta α of 4,052287 states that if the value of the size of the firm, the institutional ownership, free cash flow, growth and return on assets is constant (0) then the value of dividend payout ratio is 4.052287 plus the cross-section coefficient of each firm. Based on the cross-section coefficients of each firm produced by the fixed effect model in Table 3D, if the value of firm size, institutional ownership, free cash flow, growth and return on assets is constant (0), then the firm with the cross-section coefficient positive will have a larger dividend payout ratio compared to firms with negative cross-section coefficients.

Table 3C presents the regression result for equation 2. In this model, dividend payout ratio regressed against five independent variables. These variables are firm size, institutional shareholding, free cash flow, growth and return on asset. This regression confirms the statistically negative and significant relationship between dividend payout ratio with the independent variables firm size and return on asset. It also

shows the positive and significant relationship between dividend payout ratio with institutional shareholding and growth, and it shows positive and insignificant relationship between dividend payout ratio with free cash flow.

Adjusted R-squared shows the coefficient for whole independent variables. Here the value of adjusted R-squared is 0.548103. This shows that there is 54.8103% effect on dependent variables from the independent variables.

F-statistics show a fitness of the model. If it is more than probability of F-statistics this shows the fitness of the model. Here the value of F-statistics is 5.375317 and its probability is 0.0000. So, it is concluded that this model is fits. So it can be concluded that the hypothesis that the firm size, institutional shareholding, free cash flow, growth and return on assets simultaneously have a significant positive effect on the dividend payout ratio is acceptable.

The results also indicate a statistically significant and negative relationship between firm size and the dividend payout ratio. This is explained by the fact that, highly firm size tend to declare and pay low dividend. Thus, they would have exhibited low payout ratios. The results is similar to Hikmah (2010) who states that the size of the firm has a negative and significant influence on the dividend payout ratio, but not similar to Chasanah (2008) and Puspita (2009) who states that the size of the company positively and significant to dividend payout ratio, Setiawan and Phua (2013) who states that the size of the firm does not affect the dividend payout ratio and Hatta (2002) who states that the size of the firm affect the dividend payout ratio.

The results of this study show a positive and significant relationship between institutional shareholding and dividend payout ratios, The results of this research is similar to Short et al (2001), Chasanah (2008) and Hikmah (2010) stated that institutional shareholding has a positive and significant effect on dividend payout ratio. However, the results of this research is not similar to D'Souza and Saxena (1999) who states that institutional shareholding has a negative and significant effect on dividend payout ratio and research of Amidu and Abor (2006) and Setiawan and Phua (2013) the ownership of the institution has a negative and insignificant effect on the dividend payout ratio, and Hatta (2002) that stated the institutional shareholding has no effect on the dividend payout ratio.

The results indicate a positive but insignificant relationship between free cash flow and dividend payout ratios. The results of this research is similar to Amidu and Abor (2006) who stated that free cash flow has a positive and significant effect on dividend payout ratio. However, the results of this study is not similar to Hikmah (2010) who stated that free cash flow has a negative and insignificant effect on the dividend payout ratio, and Hatta (2002) who stated that free cash flow has no effect on dividend payout ratio.

Contrary to our hypothesis, the results of this study surprisingly show a positive relationship between growth and dividend payout ratios. The result of this research is not similar to Amidu and Abor (2006) and Puspita (2009) who stated that growth has negative and significant effect on dividend payout ratio and

Chasanah (2008) who states that growth has negative and insignificant effect on dividend payout ratio. The results of this research is not similar to D'Souza and Saxena (1999) and Hatta (2002) who mentions that growth does not affect the dividend payout ratio, and Setiawan and Phua (2013) who mentions that growth effect on dividend payout ratio.

Firms with higher return on asset value tend to have lower dividend payout ratios. The results of this research is not similar to Chasanah (2008) and Puspita (2009) who stated that the return on assets has a positive and significant effect on the dividend payout ratio. While Kumar (2007) and Setiawan and Phua (2013) mentioned that the return on assets affect the dividend payout ratio.

11. Conclusion

This research is about the analysis of factors influencing dividend payout ratio in case of the financial of firm in Indonesia Stock Exchange for period 2011-2016. The dividend is an important part of the company's net profit. This part is given to the shareholders of the companies. The impact of dividend on the company is that if it would be paid to the shareholders of the firm at an appropriate time, it gives a good impact to the shareholders. The dividend impacts the three parties associated with the companies i.e. managers, lenders and the investors of the firms.

It is concluded that not all variables have a significant effect on the dividend payout ratio. The firm size and return on asset have a negative, but significant effect on the dividend payout ratio. The negative influence of firm size means that the larger the size of the company the smaller the dividend payout ratio is paid. The negative influence of return on asset means that the higher return on asset the smaller the dividend payout ratio is paid.

While institutional shareholding and growth have a positive and significant effect on the dividend payout ratio. The positive influence of institutional shareholding means that with the ownership of shares by the institution, the supervision of the company management becomes higher. Management will show good performance that will increase the company's profit. This increase in profits will have an impact on increasing dividends and then the positive influence of growth means that the company has achieved a growth rate in such a way that the company has been well established, where its funding needs can be met with funds derived from capital markets or other external fund sources, so that the company can set a high dividend payout ratio.

The free cash flow have a positive influence but insignificant effect on the dividend payout ratio. The higher the free cash flow, the higher the dividend payout ratio. However, the effect of free cash flow on dividend payout ratio is not significant.

Hence the firm size, institutional shareholding, growth and return on asset are important for the companies to pay dividend.

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Author Profile



Nuwrulansari graduated from Telkom University, Sarjana (S1) in Industrial Engineering. At present she works at TCU unit of PT Telekomunikasi Indonesia. Her work experiences among others are in the field of HRM including carrier management, performance and organization development.