

THE FACTORS AFFECTING DIVIDEND POLICY OF MANUFACTURING COMPANIES IN INDONESIA STOCK EXCHANGE

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Abstract: Dividends as returns on investment in company shares are expected to increase investor wealth. Companies are not required to pay dividends every year but shareholders value stocks that pay dividends regularly. The purpose of this study is to analyze dividend policy in manufacturing companies listed on the Indonesian stock exchange. We analyze the relationship between company dividend policy and various determinant variables which are variables used as company life cycle, profitability, capital structure, liquidity, company assets, and institutional share ownership. By using data panel analysis and multivariate regression analysis, we process financial statement data for the period 2014-2016. We find that profitability, capital structure and assets have a significant effect on dividends while other variables have no effect. This research provides additional empirical evidence that explains the theory of life cycles in growth level and signaling explanation.

Keywords: dividend payout, life cycle, profitability, capital structure, firm's characteristics

Abstrak: sebagai pengembalian atas investasi pada saham perusahaan diharapkan dapat meningkatkan kekayaan investor. Sesungguhnya perusahaan tidak diharuskan membagi dividen setiap tahun, tetapi pemegang saham lebih menghargai saham-saham yang membagikan dividen secara rutin. Tujuan penelitian ini adalah untuk menganalisis kebijakan dividen pada perusahaan manufaktur yang terdaftar di bursa efek Indonesia. Kami menganalisis hubungan antara kebijakan dividen perusahaan dengan berbagai variabel penentu yang digunakan yaitu siklus hidup perusahaan, kemampuan, struktur modal, likuiditas, aset perusahaan, dan kepemilikan saham institusional. Dengan menggunakan analisis panel data dan analisis regresi berganda, kami mengolah data dari laporan keuangan untuk periode tahun 2014-2016. Kami menemukan bahwa kemampuan, struktur modal dan aset perusahaan berpengaruh secara signifikan terhadap dividen. Penelitian ini memberi tambahan bukti empiris yang menjelaskan teori siklus hidup dan pensinyalan pada kebijakan dividen perusahaan.

Kata kunci: dividen, siklus hidup, profitabilitas, struktur modal, karakteristik perusahaan

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INTRODUCTION

The investor's expectation of investment in the form of shares is certainly to maximize his wealth. This investment return will be obtained either through dividends and or capital gains. On the other hand, dividend distribution by the company can be done in cash or the form of shares. Dividends are part of the company's profits that can be received repeatedly by investors as long as the investment is still owned by shareholders, while capital gains are returns at the end of ownership or when the shares are sold.

Dividend policy is related to decision making which is essentially the authority of management with the approval of the Board of Directors through a general meeting of shareholders (GMS). Distribution policy involves (1) level of distribution, (2) Form of distribution (cash, stock, or assets) and (3) the stability of distribution following the basic principles, rules and certain practices used by the company. Companies, as an entity that receives investor funds, is not required to pay dividends every year. Likewise, there is no definite provision with the proportion of profit that must be distributed. However, when viewed from Table 1, it appears that companies listed on the Indonesia Stock Exchange (IDX) that distribute dividends are quite large, which is around 41-45% of the number of companies listed on the IDX and about 60% companies consistently pay the dividend in 4 years. The shareholders want to pay dividends for investments that have been made. Shareholders, although taxed on dividend receipts, will be more appreciative of shares that routinely distribute dividends. Hence, dividend policy can affect stock prices (Baker & Powel, 2012). Shareholders fact face substantial risk because of the determination of dividends by the company. Thus, the true dividend policy as a persistent riddle in modern finance is the dividend puzzle (Frankfurter & Wood, 2002).

In the literature there have been many theoretical models and empirical examinations conducted by researchers to explain corporate dividend behavior, such as models of information asymmetries and life cycle theory (Frankfurter, 2001).

In the market imperfection, the concept of asymmetric information assumes that the internal parties of the company know more about the future of the company than investors who are the outside parties of the company. The mitigation of the information asymmetries between managers and owners is the basis for three distinct efforts to explain corporate dividend policy, those are signaling models, Agency cost theory and the free cash flow hypothesis (Frankfurter, 2001). Companies can use dividends as a positive signal to investors concerning stock prices (Baker & Powel, 2012 and Pettit, 1972). Deviations or disturbances in the perspective of signaling theory can occur if the market does not capture the signal properly. Benartzi, Michaely, & Thaler (1997) concluded there was no evidence of a positive relationship between changes in dividends and changes in future earnings. Companies rarely decrease dividends even if their prospects are grim (Frankfurter, 2001).

In the Asymmetric Information Model, dividend policy can reduce conflicts of interest between shareholders and company managers especially when the organization generates substantial free cash flow Agency cost theory explains (1) the benefit of debt in reducing agency cost of free cash flow, (2) how debt can substitute for dividend and (3) managerial ownership can minimize agency costs (Jensen, 1986).

The concentration of ownership from institutional investors can also increase supervision because company decisions can be controlled to protect their investments. They control the board of directors and monitor managers to avoid investment in low-return projects to generate the cash for debt service and to increase the value of equity (Jensen, 1986).

Table 1. Companies that distribute dividends for the period 2014-2017

Item	Year			
	2017	2016	2015	2014
Numbers of Listed Companies on IDX	555	539	525	502
Companies Distribute Dividends	244	219	230	228
Percentage (%)	44%	41%	44%	45%
Companies Consistently within 4 years	139 (57%)	139 (63%)	139 (60%)	139 (61%)

In addition to signaling information about earnings and cash flow, dividend policy also contains information about changes in the company's life cycle. The empirical study by Fama & French (2001) explains the life cycle (maturity) hypothesis, which states that there are changes in the characteristics of the company affecting dividend payments. Firms with current high-profitability and lower growth rates tend to pay dividends, while low-profit/high growth firms tend to retain profits (Fama & French, 2001; DeAngelo et al. 2006; El-Ansary & Gomaa, 2012 and Thanatawee, 2011). In Indonesia, the maturity level firm has older age, lower sales growth and lower capital expenditure tend to pay high dividend payment (Cempaka sari et al. 2019; Yusra et al. 2018; Indriyani & Ratmono, 2014)). While in the start-up, growth and decline stages, Lestari & Yulianto (2017) find the retained earnings to total equity does not have an effect significantly on dividend payout.

Several studies have shown this matter, such as, Amidu & Abor (2006) in Ghana found positive relationships between payout ratio and profitability, cash flow, and tax; Denis & Osobov (2008) found in The US, Canada, UK, Germany, France, and Japan, the propensity to pay dividends is higher among a large, more profitable firms and those for which retained earnings comprise a large fraction of total equity. In Indonesia Baker & Powel (2012) have the evidence shows that managers perceive that the dividend policy affects firm value and view the most important determinants of dividend as the stability of earnings and the level of current and expected future earnings. In terms of share ownership, Ali et al. (2015) research found that Institutional and managerial ownership can increase dividend value. However, some studies revealed different results in terms of alternative theories.

Among the variety of variables in the literatures, that might potentially be associated with the dividend payout policy in manufacturing firms, we selected explanatory variables based on alternative theories. As reported in empirical work, a set of proxy variables includes RETA (Retained Earning on Total Asset), ROA (Returned on Asset), DER (Debt to Equity Ratio), OCF (Operating Cash Flow), TA (Total Asset), and KI (Institutional Ownership). Our study want to explore the signaling and life-cycle explanations influencing dividend policies in Indonesia's manufacturing companies.

METHODS

This research is a quantitative research that intends to explain the association between variables and prove the hypothesis conducted in Jakarta, Indonesia in 2018. The hypothesis based on literature review which presented empirical models to explain the issued that still unresolved and open for further empirical studies (Ali et al. 2015). To test the proposed hypothesis, the financial statements of companies that consistently distribute dividends in the 2014-2016 period are used. The analysis are performed using data derived from the statement of firms listed on Bursa Efek Indonesia (BEI), Indonesian stock exchange.

The data analysis technique uses panel data that combines time series and cross section data. Panel data can produce complete information with a high degree of variability, reduced collinearity between variables, more degrees of freedom and more efficiency. The panel regression equation differs form a regular time-series or cross section regression by the double subscript attached to each variable. Various options of panel data regression were run, Ordinary Least Square (OLS) panel, fixed effect model, and random effect model.

Development of Hypotheses

Dividends are the distribution of company profits to shareholders. Shareholders have the right to get a proportionate share of the shares held. Shareholders in a certain class will receive the same dividend (Harrison et al. 2011). This profit distribution can be in the form of cash as a cash dividend, or in the form of other assets of the company or stock.

The company's life cycle can be grouped in four stages, namely the start-up, growth, maturity and decline stages (Gup & Aggrawal, 1996). Companies that at the initial/start-up and growth / growth stages prioritize the acquisition of profits to be reinvested in the hope that profits will continue to increase in the future. This will certainly reduce the opportunity for dividend distribution to shareholders. For mature companies, the opposite applies, investment opportunities are not as aggressive as new companies grow, so the opportunity to start profit sharing can be done routinely. In the study of DeAngelo et al. (2006) The company's life cycle which is proxy as RETA (Retained Earning on Total Asset) and RETE (Retained Earning on Total Equity). RETA value is a percentage of Retained

Earning to Total Assets. According to DeAngelo, et. al. (2006), dividend distribution is directly proportional to the company's retained earnings structure. A high RETA value actually reflects that the company is in the maturity stage. At this stage RETA has a positive effect on dividend policy (De Angelo et al. 2006; Indriyani & Ratmono, 2014). The hypothesis is formulated as follows:

H1: RETA has a positive effect on the DPR.

The profitability of companies is generally a major factor in the directors' consideration in paying dividends. Dividend policy is actually a form of returning a portion of the net profit that the company receives to shareholders. The higher the net profit, the dividend distribution will also increase. Thus net income has a positive effect on dividend policy (Murhadi & Wijaya, 2011). Companies with stable profits are more likely to pay dividends (Amidu & Abor, 2006; Naufina & Rafik (2017). However, in the research of Suci & Andayani (2016) and Susanto & Tirok (2013) profitability has no effect on dividend policy. In fact, profitability can have a negative influence on dividend policy, because profit is preferred for investment and is not intended to be distributed as dividends (Nuriningsh, 2005; Dewi, 2008). Based on the life cycle theory, companies at the growth level generally prefer to delay dividend distribution. rather than dividing dividends for abundant investment opportunities, the inconsistency of the results of previous research and the abundance of investment opportunities in Indonesia are formulated as follows:

H2: ROA has a negative effect on the DPR.

Companies that have debt, if funds are available, they can be sure to pay off debts before distributing dividends to their shareholders. This happens because the company have contract to the loan installment payment obligation agreement with interest. In conditions of financial distress, companies are more funded by debt than their own equity. The higher the debt the more potential to make financial distress (Santoso, Anggraeni and Pranowo, 2020). Thus the funding structure (Leverage) of the company contributes to giving effect to dividend dividing. Corporate leverage, which is proxy as Debt to total assets, has a negative effect on dividend policy (Dewi, 2008). However, in the research of Suci & Andayani (2016) the opposite applies, funding through debt has a positive effect on dividend policy. Risk due to its true debt related to profit. Thus indirectly the level of corporate leverage is directly proportional to

dividend distribution (Suci & Andayani, 2016). Even companies in Thailand share dividends with debt (Thanatawee, 2011). In the research of Indriyani & Ratmono (2014), leverage does not affect dividend policy. Dividend distribution is done after the company fulfills its debt obligations (Nuriningsh, 2005; Santoso, 2007; Pujiastuti, 2008). Therefore the hypothesis is formulated as follows:

H3: DER has a negative effect on the DPR.

Cash is the most liquid financial asset for the company's operations, including payment of debt and dividend distribution. In relation to dividend payments, liquidity is needed because profits to be distributed are accrual data while dividend payments require liquidity readiness. Therefore, the company's liquidity certainly affects the dividends to be paid. The stronger the company's liquidity position towards the prospect of receiving funds in the future, the higher the cash dividend that can be paid. However, on the other hand there are also companies that, although the conditions of liquidity are quite good, but the level of dividend payments is quite low because the company's cash is more intended for investment purposes such as in the form of machinery, equipment, inventory or other assets. Cash in the Free Cash flow category is free cash outside for payment of company operational activities. Thus, this free cash flow can be used to pay debts or for dividends for shareholders. Companies with high Free cash flow, pay dividends are also high as well as to reduce the possibility of these funds being wasted on unprofitable projects. Free cash flow has a positive effect on dividend policy (Suci & Andayani, 2016; Susanto & Tirok, 2013; Amindu & Abor, 2006; Indriyani & Ratmono, 2014).

H4: Operating Cash Flow has a positive effect on the DPR.

Large companies are in fact able to enter the capital market due to large asset ownership. Thus large companies are more oriented to being able to distribute dividends compared to small companies for their reputation before their shareholders (Denis & Osobov, 2008; Thanatawee, 2011). Small companies prefer to delay the distribution of profits for the progress of the company for investment opportunities and ultimately are expected to increase their assets in the future. Firm size with a logarithm value of equity market values shows a positive influence on dividend policy (Dewi, 2008; Naufina & Rafik, 2017). Likewise, the logarithmic value of total assets also shows a positive

influence on dividend policy. However, the results of Suci & Andayani's (2016) research show the opposite, Collateral Asset has a negative effect on dividend policy. Even in the research of Murhadi & Wijaya (2011), Nuriningsh (2005), Setiawan & Phua (2013), Susanto & Tirok (2013 and Pujiastuti (2008), showed that the size of assets did not affect the company's dividend policy. to provide empirical evidence by formulating hypotheses as follows:

H5: TA has a positive effect on the DPR.

The controlling shareholders and / or institutional shareholders can actually exercise control over the management of the company's assets. They can carry out exploration, namely to hold dividend holdings in several periods for the needs of funds for short-term and long-term corporate activities. Institutional ownership is estimated to be able to encourage companies to be more optimal in improving their performance due to better control of the institution that owns the shares. The government, financial institutions, legal entities, institutions from abroad, trust funds, and so on are examples of institutional ownership that can affect company performance because generally the supervisory function will run well. Institutional ownership has been shown to have a positive influence on dividend policy (Embara, Wiagustini, & Badjra, 2012; Kurniawati et al. 2015; El-Ansary & Gomaa, 2012; Ali et al. 2015). However, in the study of Dewi (2008); Putri & Nasir (2009) showed the opposite, institutional ownership had a negative effect on dividend policy. Zeckhauser & Pound (1990) found that the presence or absence

of large shareholders seems to make no significant difference in dividend payout rates. The inconsistency of the results of previous studies has encouraged researchers to prove that institutional ownership has a positive effect on the DPR.

H6: Institutional Ownership has a positive effect on the DPR.

Figure 1 presents the illustration of our research hypotheses. The following Table 2 displays the operational definition of independent and explanatory variables. The dividend payout ratio (DPR) is regressed against the six explanatory variables. These variables include Retained earnings to total asset (RETA), Return on assets (ROA), Debt to Equity ratio (DER), Operating cash flow (OCF), Total assets (TA), and Institutional ownership (KI). The operational variables are explained in Table 2.

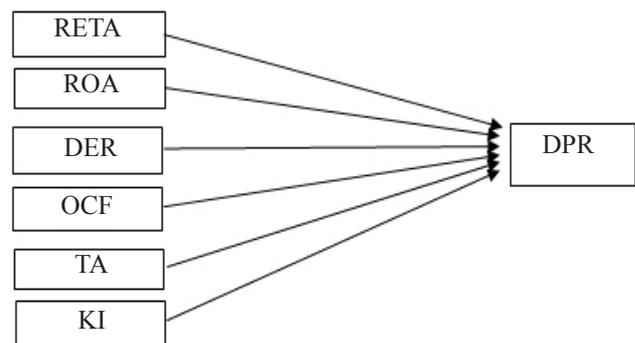


Figure 1. Research framework

Table 2. Operational definition of variables

Definition	
Dividend Policy (DPR)	Payout Ratio used to represent Dividend policy. Many previous studies have used this such as DeAngelo et al. (2006). It is calculated as Dividend per share divided by Earning per share.
Company Life cycles (RETA)	Company life cycle reflects the maturity level of a company. It is calculated as Retain earning divided by Total asset (DeAngelo et al. 2006).
Profitability (ROA)	The company's ability to make a profit. It is calculated as Net profit divided by Total asset.
Capital Structure (DER)	The amount of debt used in the funding structure of a company. It is calculated by Total Debt divided by Equity.
Liquidity (OCF)	Availability of cash funds to pay dividends. It is calculated by logarithm of Net Operating Cash flow.
Size (TA)	The size of company calculated by Natural logarithm of Total asset.
Institutional Ownership (KI)	The proportion of institutional shareholder

The data analysis method is done by panel data regression model, which combines time-series data and cross-section. The following are the research model equations:

$$\text{DPR} = \beta_0 + \beta_1 \text{RETA} + \beta_2 \text{ROA} + \beta_3 \text{DER} + \beta_4 \text{OCF} + \beta_5 \text{TA} + \beta_6 \text{KI} + \varepsilon$$

Information: DPR (Dividend Payout Ratio); RETA (Retained Earning to Total Assets); ROA (Return to Asset); DER (Debt to Equity Ratio); OCF (Operating Cash Flow); TA (Total Assets); KI (Institutional Ownership).

The estimation of panel data regression model is done by testing 3 approaches, namely Common Effect, Fixed Effect, and Random Effect. To find out which panel data regression model is more appropriate, some tests are carried out. First, the Chow Test is done by comparing the Common Effect and Fixed Effect. As the p-value for the redundant fixed effect chi-square statistic was lower than 0.05, fixed effect model would be better used for analysis. Next, we continued to assess our model by running Hausman test to find out the better model between Fixed Effect Model and Random Effect Model.

RESULTS

The research data is secondary data obtained from the website www.idx.go.id. Companies in Classification (3) Basic Industry and Chemicals, (4) Miscellaneous Industry, (5) Consumer Goods Industry which is listed on the Indonesia Stock Exchange with the reporting period of 2014 - 2016. The research samples were obtained by purposive sampling method. The criteria for selecting samples in Table 3. The description of the research variables based on existing samples can be seen in Table 4. It shows, on average, that the dividend payout ratio (DPR) of 42.90% in Indonesia is relatively moderate compare to Thailand's 63.91% (Thanatawee, 2011). Earned equity to total asset (RETA) of 43.20% in sample firm is relatively high compare to 34.1% reported by DeAngelo et al (2006) in the U.S. The profitability (ROA) of 11.82%, on average, are same with Thai Firm at about 12.04% (Thanatawee, 2011) but higher than that U.S firms at 8.6% (DeAngelo et al. 2006), Canada at 6.3%, U.K at 7.7%, Germany at 4.9%, France at 5.6% and Japan at 2.7% (Denis & Osobov, 2008). The capital structure (DER) of 67.5% in Indonesia is closed to 38.22% (total debt to total assets) in Thailand.

Based on assessing the three panel data regression model, Common effect, Fixed effect and Random effect Model, by running Chow test and Hausman test, we obtained Fixed Effect Model as the best choice to be used in analysing dividend policy. To be solve from the heterocedasticity problem in Fixed effect regression we run that model by using GLS weight cross-section. Table 5 represents the summary of the statistical result of the panel regression.

Table 3. Sample selection procedur

Total number of manufacturing firm in category 3, 4, 5, on Indonesia Stock Exchange	147
Total number of firms that distribute dividends during the period 2014-2016	50
Number of firms that had loss, negative cash flow and delisting's during the period	(8)
Company releasing financial statement in foreign exchange	(5)
Total sample firms	37

Table 4. Description statistics

Variables	Mean	Maximum	Minimum	Standard Deviation
DPR	42.904	196.320	0.680	29.4196
RETA	43.206	81.243	0.023	19.9741
ROA	11.823	43.169	0.009	9.1125
DER	0.675	3.028	0.000	0.5641
OCF	2.411	7.148	1.707	0.9429
LnTA	8.255	12.475	4.896	1.7235
KI	0.648	0.962	0.000	0.2161

Based on Fixed effect model, the results of this study indicate that dividend policy is influenced by profitability, capital structure and Total assets as shown by statistic significant at 1% and 5% (Table 5). While company life cycle, liquidity and institutional ownership have no effect.

Company Profitability (ROA)

As dividends are partially company profits, so dividend distribution should pay attention to the profitability of the company. Our study find that Profitability (ROA) has significant relationship with a negative effect on dividends. This means the company continues to distribute profits with a decreasing amount when its profitability increases. This indicates that Companies at the growth level which generally prefer to delay increasing dividend payments for abundant investment opportunities. Indications the company in the growth level is seen on mean value of high profitability - ROA (11.82%), high debt funds - DER (67.5%) and middle earned equity as indicator of company financial life cycle - RETA (43.2%) (DeAngelo et al. 2006). Growth firms choose not to distribute dividend for they tend to plough back the earnings for future operations or growth (Ali et al. 2015). However, Company continue to pay dividends even though with a smaller value. The results of this study are consistent with the study (Nuriningsih, 2005; Dewi, 2008) in Indonesia and Ali et al (2015) in Pakistan. Thus, this study supports the life cycle theory. According to this theory, companies at the growth level generally prefer to withhold

dividend distribution for investment opportunities. Unlike the results of this study. shows that there is a positive influence on profitability on dividend policy (Denis & Osobov 2008; Amidu & Abor, 2006; Setiawan & Phua 2013).

Company Capital Structure (DER)

Our study find Leverage has significantly relationship a negative effect on dividend policy. This means that the higher the company leverage, the lower the amount of dividends to be distributed. Low dividend policy when high debt levels are a positive signal for creditors that their interests are preferred. Conversely, companies with low debt levels tend to pay large dividends as an increase in the welfare of shareholders because they do not have the interest burden to be paid. Besides that the use of debt to fund the operational needs of the company actually reduces conflict between managers and shareholders because it reduces the need for funds from equity and reduces the possibility of waste that management does over the use of excess cash (Jensen, 1986). This finding is in accordance with the free cash flow hypothesis that predicts a negative relation between debt ratio and dividend payouts because firms with higher debt ratio are more likely to be financially constraint (Thanatawee, 2011). The results of this study are in line with the research conducted by Dewi (2008), Nuriningsih (2005), Santoso (2007), Pujiastuti (2008), Susanto & Tirok (2013), and Ardestani, Rasid, Basiruddin, & Mehri (2013) in Indonesia but contrast with findings in Thailand (Thanatawee, 2011).

Table 5. Regression analysis

	Common Effect	Fixed Effect Model	Random Effect Model
	Coefficient (Prob)	Coefficient (Prob)	Coefficient (Prob)
Constant	25.30169 (0.1274)	14.57060 (0.6722)	26.71244 (0.1312)
RETA	-0.403356 (0.0063)***	-0.147191 (0.2528)	-0.423899 (0.0072)***
ROA	1.929699 (0.0000)***	-1.521752 (0.0000)***	1.598098 (0.0000)***
DER	-15.78325 (0.0033)***	-31.67423 (0.0000)***	-17.44414 (0.0019)***
OCF	- 6.051556 (0.0565)*	3.04065 (0.1749)	-6.272517 (0.0381)**
LnTA	6.79005 (0.0001)***	11.14823 (0.0040)***	7.243156 (0.0001)***
KI	-0.558354 (0.9598)	-38.88691 (0.2965)	2.496397 (0.8379)
Adjusted R ²	0.342919	0.984197	0.213282
F-statistic	10.56783	100.8324	5.970226
Redundant fixed effect		27.338278 p-value = 0.0000	
Hausman Chi-square statistic			43.796279 p-value = 0.0000

note: ***, **, and * denote statistical significance at 1, 5, and 10% levels respectively.

Company Assets (LnTA)

Firm size with LnTA proxy shows a positive significant effect on dividend policy. It shows that the size of the company determines the amount of dividends distributed so large firms tend to pay higher dividend payout ratio. Large companies tend to distribute high dividends also to maintain reputation among investors. This finding supports the concept of asymmetric information that mitigates agency cost of free cash flow hypothesis. This research is in line with the research conducted Indriyani & Ratmono (2014), Dewi (2008), Naufina & Rafik (2017), Santoso (2007) in Indonesia, in Thailand (Thanatawee, 2011), and empirical studies in six countries by Denis and Osobov (2008). However, different results were obtained by Murhadi & Wijaya (2011), Nuriningsih (2005), Setiawan & Phuan (2013), Susanto & Tirok (2013) and Pujiastuti (2008) that show Company size has no effect on dividend policy.

Company Life cycles (RETA), Company Liquidity (OCF) and Institutional Ownership (KI)

Earned equity to total asset (RETA) which is a reflection of the company's life cycle, Operating Cash flow (OCF) as company liquidity and Institutional share ownership (KI) have no significant effect on dividend policy. Based on Thanatawee (2011), company, that have value of RETA on average 43.2%, can be categorized as companies in the stage of growth (growth) and have not entered the mature stage. At the stage of growth, companies generally need substantial development funds so they tend not to distribute dividends and prioritize earnings retention rather than profit distribution in the form of dividends. In other words, companies with low RETA are at the stage of capital infusion (DeAngelo et al. 2006). Companies face relatively abundant investment opportunities so that with limited resources, they will prefer profit retention and delay dividend distribution. This research is consistent with Imayanti (2013), RETE and RETA have no effect on dividend policy. Likewise in the research of Lestari & Yulianto (2017), RETE did not influence the DPR for companies at the start-up, growth, and decline stages while at the mature stage RETE had a positive effect on the DPR. The results of El-Ansary & Gomaa (2012), Murhadi & Wijaya (2011), Susanto & Tirok (2013), Indriyani & Ratmono (2014), and Denis & Osobov (2008) also show that RETE has a positive effect on the DPR.

Operating cash flow as company liquidity shown also no significant relationship with positive effect on dividend policy. This study indicates that cash flow does not determine company dividend policy. Managers decrease dividends only when absolutely necessary--in the event of poor earnings with reserves insufficient to fund the dividend (Frankfurter & Wood, 2001). This result is in line with Pujiastuti (2008), Raissa (2017) in Indonesia, and Thanatawee (2011) in Thailand. However, on the contrary, the result of Suhartono (2015), Amidu & Abror (2006), DeAngelo et al. (2006).

The results of hypothesis testing indicate that the institutional share ownership (KI) coefficient and probability value of dividend policy is -38.886 and 0.2965 not significant. Institutional ownership does not affect dividend policy. It can be explained that companies at the growth stage and with institutional shareholders on average 64.8% can control the management of company assets which will be more confronted with investment opportunities so they prioritize the emergence of investment, through dividends retention in several periods due to holders controlling share. According to Zeckhauser & Pound (1990), the result do suggest that in the presence of large shareholders, higher dividend do not have a useful role as a signal of higher expected future profits, but are expected to have differentially higher future profit rates. This mitigates the need for other financial policies to convey this information to the market. The results are consistent with Sumartha (2016), Dewi (2008), Suhartono (2015), Zeckhauser & Pound (1990) and Kilincarslan (2016). On the contrary, however, the results of Kurniawati, et. al. (2015), El-Ansary & Gomaa (2012), Ali et al. (2015) show that institutional share ownership has a positive relationship to dividend policy.

Managerial Implications

Based on the analysis of dividend policy in listed manufacturing companies can be formulated a number of managerial implications for investor and potential investor, corporate manager, as well as bank and other financial institution, as follows: (1) For investors and potential investors who prioritize the return of their shares in the form of dividends, it is necessary to pay attention to the level of profitability, capital structure and the size of company assets. (2) The dividend policy of the company during its growth period tends to reduce the amount of dividends distributed by increasing the existing profitability. (3) Company's dividend policy is not affected by the presence of the company's liquidity and the presence of institutional ownership in the company.

CONCLUSIONS AND RECOMMENDATIONS

Conclutions

This study concluded that dividend policy was influenced by Profitability (ROA), funding structure (DER) and Company's assets, while the company's life cycle was reflected in the proportion of retained earnings (RETA), company liquidity (OCF), and Institutional Ownership (IO) have no significantly effect. Company in the growth stage indicate with high profitability, high debt ratio and moderate earned to total assets ratio (RETA) will delay the dividend distribution for abundant investment opportunities. Therefore RETA which indicate life cycle of company does not affect dividend policy. This also happened to company liquidity factors (OCF) and institutional share ownership (KI). This empirical proof supports the Firm life cycle and Signaling theory of dividends.

Recomendations

It is recommended that this research continue, with the growth of the capital market in Indonesia to obtain mature companies. For the next study, we suggest using all sectors of the company to find out the behavior of dividend policy in different sectors. Since DeAngelo et al. (2006), scaled measures of retained equity, RE/TE, and RE/TA, have been widely used as a firm life-cycle indicator in the literature. However, this result is based on a sample of U.S. firms and comes from a developed financial market with high disclosure requirements. Therefore, it is necessary to develop a firm lifecycle indicator to analyze the dividend-lifecycle relationship in a low-disclosure regime to overcoming country-level obstacles to external investment such as Indonesia (Flavin and Thomas, 2017).

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