

## Cash Dividend Policy Analysis in The Property Industry Listed on IDX

Yuliana<sup>a\*</sup>, Naning Putri Utami<sup>b</sup>

<sup>a</sup> Faculty of Economy and Business, Esa Unggul University

<sup>b</sup> School of Economic and Management, Southwest Jiaotong University

\* [vincentiamonika17@gmail.com](mailto:vincentiamonika17@gmail.com)

**Abstract** – The purpose of this study is to examine the relationship between the current ratio, debt-to-asset ratio, return on asset ratio, firm size, and asset growth and the dividend payout ratio in the property, real estate, and building construction industry as represented by the Indonesia Stock Exchange (IDX) from 2016 to 2018. The research population was comprised of all property, immobilier and building subsectors traded publicly at the Indonesian Stock Exchange (IDX) between 2016 and 2018, with a total of 51 companies. Gather data from the 14 firms featured in the research has been employed with purposive sampling. Data from the IDX annual report were received, which can be accessed at [www.IDX.co.id](http://www.IDX.co.id). In this research, a regression of panel data was used to analyze the data. The current ratio, asset return and company size appear to have no significant influence on decisions on cash dividends. Only the debt-to-asset ratio and asset growth have an important impact on decisions concerning cash dividends

**Keywords:** current ratio, debt to asset ratio, return on asset ratio, firm size, asset growth, dividend payout ratio

### A. Introduction

The market capitalization is a market for various long-term financial instruments in equity and debt with maturities of more than one year. Investors anticipate their investment to return in the form of capital gains and dividends, in particular. The financial system may become more competitive and efficient via a functioning capital market. Popoola et al. (2017) have indicated that corporations have kept profits without a capital market on internal financing. The fundamental goal of investors investing in a firm in general is to get a return on their investment (return). Bird in the Hand theory (Gordon & Lintner, 1961) said that many categories of investors favor cash dividends that are certain to be accepted now than capital gains that are not necessarily received in the future (Halim, 2015: 38). Dividend payments reduce uncertainty because investors are more certain to receive dividend income than capital gains income so that the increase in Investors will be attracted to the level of dividend payments, expressed in the Dividend Payout Ratio (DPR), which will affect stock prices and firm value rise.

The difference in the level of dividend payments is influenced by many factors, including changes in the value of net profits, availability of cash and investment opportunities. The size and financial risk of the organization are other factors that might impact dividend distribution rates. Companies with a high level of debt have a more significant interest expense to be paid, which affects the net profit value and impacts dividend payments. In addition, earnings arrangements have been kept as the ten major imperative classes in the account. If the company makes a profit, management is committed to carefully diversifying and exempt this profit by distributing dividends or keeping revenue for capital and other commercial activities.

This policy covers a decision as to whether the profits made by the firm over a period are dividend income paid to investors or reinvested in the context of the income retained (Puspitaningtyas, 2017). The amount of the dividend received by the shareholders is dependent on the policy of the company. The policy for a dividend depending on how much the earnings received from the company for dividend payments to the shareholders or the company makes such a dividend in the form of a retained profit are split between the revenues received by the company in respect of the shareholders. (Putra & Mahfud, 2017).

So the company must have a dividend policy that can balance the interests of the company and the interests of investors. Dividend policies are included as a proportion of earnings

delivered in cash in the dividend payout ratio. Researchers are interested in additional research on dividend policy on the basis of the results of the study. In previous research (Utami & Gumanti, 2019), it is stated the dividend given to investors does not determine the value of a firm. Changes in earnings, cash availability affect the policy on the number of dividend payments.

Based on the above phenomena and literature, this study will examine the relationship between the current ratio, debt to asset ratio, return on asset ratio, firm size, and asset growth to the dividend payout ratio. Several previous studies have focused more on analyzing several industry groups. The aim of this study is therefore to explore the dividend payouts ratio for the 2016-2018 Indonesia Stock Exchange listed subsector property, property and building construction.

## **B. Literature Review**

### **Current Ratio**

The current liquidity ratio is described as Fitri et al. (2016) as its capacity to cover short-term liabilities that will soon be due to the total current assets accessible. "The security level (margin of security) of short-term creditors, or the capacity of the corporation to pay obligations is shown in this ratio" says Munawir (2007).

### **Debt to Asset Ratio**

The debt to asset ratio (DAR) is a ratio reflecting the ability of the corporation to fulfill all its responsibilities, as shown in multiple parts of its assets utilized to pay off the debt. Firms having a large leverage ratio must pay lower dividends first since their profits are utilized to settle their obligations (Fitri et al., 2016). High-leverage companies tend to have poor dividend distributions.

### **Return on Asset**

The return on assets (ROA) is the ratio used to quantify a company's profit-making performance. This ratio may show that the management in cost control or property management is good or terrible. This ratio also commonly serves as a tool for measuring the return rate on total assets following interest or tax charges. (Heikal, Khaddafi, and Ummah, 2014). The third independent variable, Profitability (ROA), reveals that the firm benefits. The corporation provides minimal dividends at a high level of profitability. This is because most firms provide half of their income as an internal source of financing. At high ROA, regular dividends are given since profits are used to boost income. In order to delay usage of debts or issue of new shares, internal funding is thereby boosted. Instead, substantial dividends are given out if ROA is low. The result was the reduction in the earnings of the firm in order to retain its reputation in the eyes of investors.

### **Firm Size**

Company size represents the easier availability of large and well-established corporations to the financial market than new or tiny enterprises. (Arifin, Z, 2012). Companies that are still new or small because of their limited access to the capital market so that their ability to obtain capital and obtain loans from the capital market is also limited. Therefore, they tend to hold their profits to finance their operations, which means that the dividends that shareholders will receive will be smaller. The bigger the company size (firm size), the dividends that will be distributed will also be more extensive, and vice versa. The size of the firm therefore has a favorable influence on the dividend payout ratio The natural logarithm of total assets represents company size. Company size is utilized as the fourth independent dividend policy variable. The firm's size plays an important part in understanding the dividend payout ratio of the

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organization. Large companies tend to be more mature and access to finance markets more easily. It will lower their reliance on internal financing to pay big dividends (Vogt, 1994).

### **Asset Growth**

The asset is an asset employed for the business operations of the firm; the more the asset, the larger the operating result produced by a firm is expected. The increase in assets followed by an increase in operating results will further increase the confidence of outsiders (creditors) in the company. A company's growth rates are quicker, which means more funding is needed for its expansion. The company would generally prefer to hold its income rather than be paid out as dividends, given the limitations on its costs. Dividends play an essential role in the capital structure; The faster the growth rate of the firm, the larger the amount of capital necessary to finance expansion, the bigger future capital requirements and the more probable it will be to keep earnings rather than pay as dividends. This asset growth can be defined as the change or annual growth rate of total assets. A high-income growth rate indicates a high investment opportunity that requires funding, so if the company has to pay dividends, the company must seek external funds. Efforts to obtain additional funds from external parties will incur transaction costs. High transaction costs cause companies to think again about paying dividends if there are still investment opportunities that can be taken, and it is better to use funds from internal cash flows to finance these investments.

### **Dividend Payout Ratio**

The Dividend Payout Ratio (DPR) defines the amount of profit that may be held and becomes a source of funding. Dividend Payout Ratio The more the income kept, the lower the profit for dividend payments (Fitri et al., 2016). The DPR is the profit percentage paid by dividends or the equilibrium between the profit paid by dividends and the overall profit accessible to shareholders (Sartono, 2001). A higher DPR will benefit investors, but it will weaken internal finance from the company side because it reduces retained earnings. The smaller the dividend payout ratio, however, will be harmful to shareholders (investors), but the internal financial situation of the company is getting stronger. The payout ratio of dividends is often associated with the theory of signals. A reduced dividend payout ratio can reflect diminishing company profits, and as a result, a wrong signal will appear because it indicates that the company is short of funds. This condition will cause investor preference for stock to decrease because investors have an extreme selection for dividends, so that the company will always try to maintain the dividend payout ratio even though there is a decrease in the amount of profit it gets.

## **C. Hypothesis Development**

### **1. Current Ratio and Dividend Payout Ratio**

Companies with a low current ratio level tend to pay dividends in a small ratio because the company's cash is stored to meet urgent funding needs, such as paying corporate debt when maturity and vice versa if the current ratio is high (Utami & Gumanti, 2019). Al-Ajmi & Abo Hussain (2011) found that the cash ratio has a positive and significant effect on the Dividend Payout Ratio (DPR). It means that a higher cash ratio leads to a higher dividend payout.

H1: The cash ratio affects Dividend Payout Ratio positively.

### **2. Debt to Asset Ratio and Dividend Payout Ratio**

High leverage increases the transaction costs and risk of the company. The debt ratio is not a measure of liquidity in the short run. Rather, it evaluates the long-term risk of creditors. The lesser the number of creditors financed overall assets, the lesser the likelihood that the

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firm will not be able to service its loan. A reduced amount owed will help pay dividends. The result is that companies will use their profits to provide a larger share of the dividends. From an investor's point of view, the lower the debt ratio, the safer the company's position is (Purwanto & Ellen, 2017).

H2: The debt ratio negatively affects the cash dividend decision.

### 3. Return on Asset and Dividend Payout Ratio

Lintner J. (1956) showed that future profitability is directly related to managers' dividend rates. So, when a manager feels that the company has good profit prospects, he will increase the dividend payout and vice versa. High-profit companies tend to retain their returns for future investment significantly when expanding the business. Meanwhile, companies at the maximum maturity level have no other investment alternative except to pay dividends from their profits. Companies that have stable profits tend to pay dividends at a fixed percentage to maintain their image. Empirical evidence shows that companies with high profits pay more dividends than companies with low profits (Abor & Bokpin, 2010). That is, an increase in profits will lead to an increase in dividends.

H3: ROA affects the cash dividend decision positively.

### 4. Firm Size and Dividend Payout Ratio

Firm size is a variable that investors take into account to see the firm's value. According to Thakur & Workman (2016), company size can be measured using the company's total assets, sales or capital. Companies with significant assets are considered to have good prospects in a relatively stable period and can generate profits compared to companies with small total assets (Utami & Gumanti, 2019).

H4: Firm size affects Dividend Payout Ratio positively.

### 5. Asset Growth and Dividend Payout Ratio

Companies with lower growth rates usually have lower investment spending, which contributes to higher retained earnings than dividend payments (Utami & Gumanti, 2019). (Miller & Modigliant, 1961) showed theoretically that the rate of asset growth determines the dividend rate. In this case, companies tend to keep their profits at high growth rates. The faster the company grows, the more funds it needs for business expansion.

H5: Asset growth negatively affects Dividend Payout Ratio.

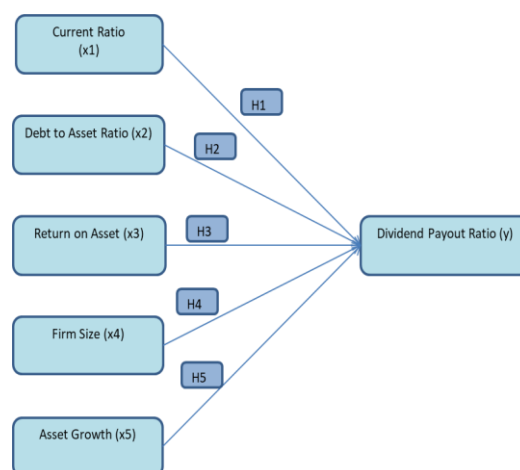


Figure 1. Research Design

**D. Method**

The demographic considered in this analysis by the author is the property, immobilization and building construction sub-sector listed on the Indonesia stock exchange from 2016 to 2018. The sampling technique used in this research is purposive sampling, namely the sampling technique of data sources with specific considerations with a population of 51 registered companies and a sample of 14 companies where these companies have the criteria set by the author in sampling:

1. Sub-sector companies listed on IDX in the 2016-2018 period of property, immobilier and building construction. The property, immobilization, and construction subsector of companies publishes their Indonesian Bourses financial annual reports for the period 2016-2018.
2. Companies in the property, real estate and building construction sub-sector companies consistently distributed cash dividends during the study period from 2016-2018.

**E. Result And Discussion**

**Result**

In determining the regression model to be used based on panel data, this research was carried out by conducting a Regression Model Test using the Chow, Hausman and Breusch Pagan Test (BP Test). Then we get the correct regression model to be used in this study is the Common Effect Model (CEM), because the BPtest value is  $0.2659 > 0.05$ .

**F Test**

Based on Figure 2, it can be seen that the F test value is  $0.045931 < 0.05$ . This shows that the current ratio, debt to asset ratio, return on assets, firm size, and asset growth can explain the effect on the variable, namely the cash dividend decision (Y).

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-241.5386	267.1156	-0.904248	0.3719
CR	0.051819	0.095210	0.544261	0.5896
DAR	3.001979	1.150091	2.610210	0.0131
ROA	-7.860404	5.532020	-1.420892	0.1640
FZ	11.09239	8.647722	1.282695	0.2078
AG	-5.083686	1.790040	-2.839984	0.0074
R-squared	0.260327	Mean dependent var	53.87452	
Adjusted R-squared	0.157594	S.D. dependent var	151.1178	
S.E. of regression	138.7000	Akaike info criterion	12.83407	
Sum squared resid	692556.4	Schwarz criterion	13.08231	
Log likelihood	-263.5154	Hannan-Quinn criter.	12.92506	
F-statistic	2.534026	Durbin-Watson stat	1.648877	
Prob(F-statistic)	0.045931			

Figure 2. F Test Results

**Hypothesis Test (t-Test)**

Based on Figure 3, it can be seen that the variable current ratio has a probability value of  $0.5896 > 0.05$ . This shows that the varying current ratio (X1) has no significant effect on Dividend Payout Ratio (Y). The debt-to-asset ratio is  $0.0131 < 0.05$  in probability. This shows that the variable asset debt ratio (X2) has a significant effect on the decision on the cash dividend (Y). The return on assets variable has a probability value of  $0.1640 > 0.05$ . This shows that the variable return on assets (X3) does not significantly affect Dividend Payout Ratio (Y). The firm size variable has a probability value of  $0.2078 > 0.05$ . This shows that the variable firm size (X4) has no significant effect on the cash dividend decision (Y). Asset growth has a probability value of  $0.0074 < 0.05$ . This shows that the variable asset growth (X5) significantly affects the cash dividend decision (Y).

Dependent Variable: DPR  
Method: Panel Least Squares  
Date: 01/27/20 Time: 22:34  
Sample: 2016 2018  
Periods included: 3  
Cross-sections included: 14  
Total panel (balanced) observations: 42

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Figure 3. Hypothesis Test Results

## Discussion

Based on analysis of regression output, it is noted that in the sub sectoral enterprise, real estate and buildings construction enterprises listed on the Indonesian Stock exchange in 2016-2018, the current ratio has no substantial impact on the Dividend Payout Ratio. The liquidity situation of the cash or company is an important aspect that should be taken into account before deciding on dividends payable to shareholders. However, firms that expand legibly (still seeking profit) may not have a strong liquidity position since most of the money of their firms are incorporated into fixed assets and operational capital so that they are able to pay a minimum of dividends. On the one hand, cash dividends can be distributed only with cash. If the liquidity is held up in assets that are not liquid, then dividends cannot be distributed. The decision of the shareholders at the General Meeting of Shareholders also affects the policy on dividend distribution. This contrasts with Al-Ajmi & Abo Hussain (2011) research, which found that the current ratio has a positive and significant effect on the Dividend Payout Ratio (DPR).

The debt ratio affects Dividend Payout Ratio in a substantial way. This indicates that the higher the debt ratio of the corporation, the higher the profit required to pay down debt while lowering dividends given. This means that this research is the same as (Manneh & Naser, 2015), which states that the debt ratio significantly affects the dividend payout ratio in Dividend Payout Ratio.

The return on assets has no significant impact on the decision on cash dividends. This shows the company has good prospects for profit. Dividend payments will not be increased and vice versa. And high-profit firms do not tend to keep their profits for future investment. Unlike research carried out by (Abor & Bokpin, 2010), companies with high profits pay more dividends than companies with low profits.

Firm size has no significant effect on Dividend Payout Ratio. It shows that the company's size (firm size) does not affect the dividends distributed; it will also be more extensive, and vice versa.

It contrasts with research conducted by (Abor & Bokpin, 2010) which states that firm size affects Dividend Payout Ratio. The bigger the company size, the bigger the dividend payout ratio and the smaller the company size, the smaller the dividend payout ratio.

Asset growth has an important impact on calculate cash dividends. It shows that the rate of growth of assets determines the dividend rate. In this circumstance, corporations tend to maintain the highest growth rates of their earnings. This research supports the research conducted by (Abor & Bokpin, 2010) the inverse link between asset growth and dividend policy

has been reported. This results in the lesser the quantity of dividends paid the faster the asset growth.

## F. Conclusions And Recommendations

From the results of the discussion and analysis regarding the effect of the current ratio, debt to asset ratio, return on assets, firm size and asset growth in the sub-sector companies of Indonesian Stock Exchange 2016-2018 property, real estate and building industries, it can be concluded that variable current ratio, return on assets, and firm size does not have a significant effect on Dividend Payout Ratio. Only the debt to asset ratio and asset growth variables significantly affects the cash dividend decision.

This study has several limitations: This study only examines one property object, the sample taken is only companies that distribute cash dividends for three consecutive years and limited variables.

So further research is suggested to add and use other independent variables in estimating the dividend payout ratio, using more periods, different types of periods, and using more samples and additional criteria.

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