

FINANCIAL CHARACTERISTICS ON DIVIDEND PAYOUT: EVIDENCE FROM STATE-OWNED ENTERPRISES IN INDONESIA

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Abstract

The objective of this study is to give empirical evidence regarding firm's financial characteristic on dividend payout ratio of State-owned Enterprises (SOEs) in Indonesia during 2004-2015. This study concludes that SOE's size, profitability, and liquidity affect positively dividend payout ratio. Meanwhile, SOEs' growth have negative impact. Because public-listed SOEs have dispersed ownership that makes the agency cost greater, the characteristics that affect dividend payout ratio of SOEs non-listed and public-listed may be different. This study found that profitability have stronger effect on dividend payout ratio when SOE is a public company.

Keywords: SOE, financial characteristic, public-listed, dividend payout ratio

1. Introduction

Indonesian Government has two sources of revenue: Tax Revenue and Non-Tax Revenue. One source of Non-Tax revenues as stated in the Indonesia's State Budget (APBN) is share of profit from State-Owned Enterprise as explained in UU Nomor 20 Tahun 1997 or better known as dividends from SOEs.

The decision to distribute dividends in a company is a choice between the decision to distribute profits to shareholders, using the profits as retained earnings, or both. Some financial theory that became the basis of the company's decision to pay dividends include agency theory and signalling theory. Based on agency theory, the company distribute dividends to reduce the agency cost between managers and shareholders because managers have more reliable financial information than shareholders regarding the financial performance of the firm. Signaling theory states that dividend distribution may be an information signal the firm provides to shareholders related to the company's growth prospects.

Research in Indonesia by Baker and Powell (2012) found that there are three factors that related to dividend policy in Indonesia: stability of earnings, current earnings, and expected earnings in the future. These studies describe that larger, better liquidity, lower leverage, and more profitable companies tend to pay higher dividend while growing firm tends to pay lower dividend.

Another researches in Indonesia that discusses distribution of dividend done by SOE was made by Difah (2012) and Ernanto (2015). Difah (2012) studied 10 SOEs listed on the Indonesian Stock Exchange (IDX) for the year 2004-2009 and concluded that size and growth of affect positively on the dividend payout ratio, while SOE's profitability has

no significant effect on dividend payout ratio (DPR). Ernanto (2015) analyzed listed and nonlisted SOEs from 2009 to 2013. This research expands Ernanto (2015) by using sample with long time frame, which is 2004 to 2015. By using longer time frame sample, result of this study is expected to be more reliable.

The objective of this study is to give evidence about factors that determine the dividend payment done by SOEs, either listed or not. Samples used in this research are various companies in different industry classification. Hence, the analysis can be more comprehensive and can be generalized. By using OLS regression analysis, this study finds that SOE size, profitability, and liquidity rate affect dividend payout ratio positively, meanwhile SOE's growth gives negative effect and leverage have insignificant effect on dividend payout ratio.

This paper is divided by four sections. Section 2 presents the literature review and hypothesis development. Description of variables and samples in Section 3 then analysis the results in Section 4. The conclusion is available in Section 5.

2. Literature Review

2.1. Dividend Policy Theory

Dividend policy can be explained by two theories: agency theory and signalling theory.

Based on the agency theory, the agent (manager) is an insider party of the company so they have more information about the company. But, investors or shareholders, who are outsider party of the company, have limited access to company's financial information. This caused the emergence of agency cost. Agency cost can be reduced from distribution of dividends (Easterbrook, 1984). Dividend payments makes the manager obtain sufficient funds from the capital markets which is one way for the owner to supervise the manager performance. Therefore, dividend payments prevent managers to perform unfavorable action to the company and the shareholders.

Size of the company identifies the agency theory. Larger the size, greater the potential conflict due to increasing difficulty to supervise the manager's performance. Moon, Lee, and Dattilo (2014) larger companies pay dividends consistently because they have better access to capital markets and have sufficient funds

Agency theory can also be identified from the firm growth. Amidu and Abor (2006) states that the rate of dividend is decided after the investment and corporate funding needs fulfilled. Hence, decision to pay dividend can not be detached from the company's investment decisions. Dividend payment is one of the efforts to control the performance of managers to reduce inefficiencies in investments that managers decide.

Another variable that may reflect agency theory on dividend payout is leverage. The company's efforts to reduce costs between managers and shareholders through payments can create new conflicts between the company and its creditors. Creditors have the right to get interest on the funds they lend to the company first rather than shareholders. Dividend payments cause reduced availability of company cash, which worries creditors about paying off their funds.

Signalling theory states that the level of dividend payments and increasing amount of the dividend are a signal to the investors. (Baker, Powell, and Veit, 2002) explains that managers have a tendency to give the signal through dividend payment when the managers believe that the company's stock market value is lower than its intrinsic value. Because of

the asymmetric information between the company and the market, dividend payments can be considered as a way to reduce the information asymmetry. Therefore, the announcement of dividend payments can assist investors or shareholders in understanding the financial condition.

Company growth, leverage, profitability, and liquidity can identify signalling theory. Rozeff (1982) argued that the investment decisions have connection with the dividend policy. Growing companies tend to pay lower dividends. In contrary, more profitable company tend to pay a higher dividend (Al Najjar and Hussainey, 2009). Thus, a low dividend payout could give both positive information to investors that the company is experiencing growth and negative information about decreasing company's profit.

Liquidity and leverage reflect the financial position of the company. The shareholders can see the dividend payments as the company that has sufficient cash levels and the company which is able to manage its leverage well. Deshmukh, Goel, and Howe (2013), found that company's dividend payout is lowered by the high level of leverage. Furthermore, companies increase their dividend payout when they have adequate cash (Lie, 2005)

2.2. Hypothesis Development

Variables tested in this study include firm size, firm growth, profitability, leverage, and liquidity as variables that describe characteristics of the company.

Larger firms easier to enter the capital market and such has easier funding sources. The reason larger companies paying higher dividends higher than small size companies is because the availability of cash. There is a positive effect of size on level of dividend (Gaver and Gaver (1993), Fama and French (2001), Chay and Suh (2008), Eije and Megginson (2008), Thanatawee (2013), and Moon, Lee, and Dattilo (2014).

H₁: Size have positive impact on dividend payout ratio.

Profitability identifies firm's performance. Profitability expressed as profit from the company relative to the resources they have. Based on signalling theory, profitable company tends to pay higher dividends as a signal to investors that the company has performed well. Amidu and Abor (2006), Al Najjar and Hussainey (2009), Kim and Gu (2009), and Baker and Powell (2012) reported that dividend levels affected positively by profitability.

H₂: Profitability have positive impact on dividend payout ratio.

Growing companies need more funds to maintain and increase their growth, thus they maintain their profit. Lower dividend payments can be a positive information for investors that the company is experiencing growth, according to signalling theory. Amidu and Abor (2006), Abreu and Gulamhussen (2013), and Deshmukh, Goel, and Howe (2013) concluded the existence of a negative effect of firm growth on level of dividends. So, the third hypothesis is SOE growth negatively effect SOE dividend level.

H₃: Growth have negative impact on dividend payout ratio.

Creditors have a higher position than shareholders in terms of claim of company's asset, so the company is prioritizing debt and interest payments rather than dividend payments to shareholders. Based on agency theory, interest payment means reducing the

availability of cash that can be used by companies distribute dividend. by Lie (2005), Thanatawee (2013), and Deshmukh, Goel, and Howe (2013) concludes that leverage gives negative effect on dividend levels. Thus, the fourth hypothesis is the SOE leverage level has negative effect on the SOE dividend level.

H₄: Leverage have negative impact on dividend payout ratio.

In order to distribute the dividend, companies must have sufficient funds. Low dividend payments can be a signal that the company is experiencing tight financial position. Based on signalling theory, low dividend can indicate that company's liquidity position is under pressure. Research done by Lie (2005) found that there is existence of a positive relationship between the cash availability and the dividend level. Amidu and Abor (2006) also found that cash flow positively affect the level of dividends. So, the fifth hypothesis is SOE liquidity positively affect the SOE dividend level.

H₅: Liquidity have negative impact on dividend payout ratio.

Public-listed SOE may pay dividend larger than non-listed SOE. According to agency theory, public-listed SOE have dispersed ownership and larger asset thus increase agency cost. Agency cost can be reduced by dividend payment. Thus, the sixth hypothesis is

H₆: Public-companies SOE pay larger dividend payout ratio than non-listed SOE.

Public-listed SOE have different characteristics compared to non-listed SOE. Shares and bonds of listed SOE are traded on the exchange so the demand of transparency and accountability to the public are also higher. Size of public-listed SOEs are larger than non-listed SOEs. Furthermore, ownership of listed SOE are more dispersed than non-listed SOE so that the payment of dividends can be used as an instrument to reduce the agency cost. Thus, the seventh hypothesis is

H₇: Public-listed strengthens interaction between size and dividend payout ratio.

Generally, listed SOE is a leading company that operate at efficient level due to larger size. Listed-companies also have better reputation thus can accomplish greater projects than the non-listed. According to agency theory, public-listed company have dispersed ownership that can avoid any unprofitable transaction. Hence, the eighth hypothesis is

H₈: Public-listed strengthens interaction between profitability and dividend payout ratio.

Commonly, companies pay dividend when they are experiencing high profit. But, some public shareholders may prefer to rise the company's plowback ratio instead of dividend payout ratio. This is caused by the shareholders may benefit not only from dividend, but also from increasing share price, thus they may enjoy higher profit from increasing share price. So, the ninth hypothesis is

H₉: Public-listed strengthens interaction between growth and dividend payout ratio.

In practice, public-listed companies not only issue shares but also bonds. Non-listed companies only have debt from loans, public-listed have both loans and bonds which caused agency cost to be even greater. Larger debt means larger interest expense and may

affect company's debt covenants that restrict the company to distribute dividend. So, the tenth hypothesis is

H₁₀: Public-listed strengthens interaction between leverage and dividend payout ratio.

Public-listed companies also have better access to capital market thus can obtain fund easier than non-listed SOEs. Furthermore, public-listed SOE also gives signal to the public that they have sufficient enough fund to settle their short-term liabilities. Therefore, the eleventh hypothesis is

H₁₁: Public-listed strengthens interaction between liquidity and dividend payout ratio.

3. Research Method

Analysis in this study starts with descriptive analysis first and then hypothesis testing using panel data regression. The first model to perform testing on first hypothesis to fifth hypothesis can be written as follows:

Model 1

$$DPR_{it} = a + \beta_1 SIZE_{it} + \beta_2 PROF_{it} + \beta_3 GROW_{it} + \beta_4 LEV_{it} + \beta_5 LIQ_{it} + \beta_6 TBK_{it} + e_{it}$$

For the sixth hypothesis, to examine the factors that influence dividend payout from listed SOE is different from non-listed SOE, this study tests the interaction with the second model as follows:

Model 2

$$DPR_{it} = a + \beta_1 SIZE_{it} + \beta_2 PROF_{it} + \beta_3 GROW_{it} + \beta_4 LEV_{it} + \beta_5 LIQ_{it} + \beta_6 TBK_{it} + \beta_7 SIZE * TBK_{it} + \beta_8 PROF * TBK_{it} + \beta_9 GROW * TBK_{it} + \beta_{10} LEV * TBK_{it} + \beta_{11} LIQ * TBK_{it} + e_{it}$$

Sample data used in this study are 52 SOEs from 2004 to 2015 from all sectors, except financial sector SOEs. This research uses data published Indonesia Stock Exchange (IDX) for listed SOEs, Central Government's Financial Statement, and SOE Performance Report published by Ministry of State-owned Enterprises.

4. Result and Analysis

4.1. Descriptive Statistics

Based on Table 1, there's negative dividend payout ratio caused by the company still distribute dividend although it suffered loss. Average of LEV is 0.832 indicating interest risk imposed by the SOE that may affect dividend payout ratio. By looking at average LIQ, SOE in Indonesia is liquid enough to pay its current liabilities.

Table 1. Descriptive Statistics 2004-2015

	DPR	SIZE	PROF	GROW	LEV	LIQ	TBK
Skewness	1.091	0.126	-0.020	1.193	1.128	1.734	1.347
Average	0.207	14.564	0.093	0.153	0.832	2.066	0.221
Max	0.959	20.258	0.383	1.213	20.833	10.144	1.000
Min	-0.533	9.954	-0.449	-0.553	-21.374	0.084	0.000
Median	0.180	14.531	0.078	0.130	0.519	1.593	0.000
Stdev	0.238	1.869	0.086	0.246	1.929	1.385	0.415
Obs	617	617	617	617	617	617	617

DPR: dividend/net income, **SIZE:** ln(total assets), **PROF:** (EBT/ Total Asset), **GROW:** (Sales Revenue Y_1 – Sales Revenue Y_0 / Sales Revenue Y_0) **LEV** (debt-to-equity ratio), **LIQ:** current asset s/current liability, **TBK:** dummy '1' if a public-listed SOE.

source: by author

4.2. Regression Result and Analysis

4.2.1. Firm Characteristics and Dividend Payout Ratio

Table 2 shows that SOE's size positively affect the dividend payout ratio (DPR). This supports previous studies conducted by Gaver and Gaver (1993), Fama and French (2001), Amidu and Abor (2006), Al Najjar and Hussainey (2009), Kim and Gu (2009), Thanatawee (2013), and Moon, Lee, and Dattilo (2014), and Jabbouri (2015). This study supports agency theory that greater the size of the SOE, higher agency cost bore by the agent. Also, bigger company have more funds available. Furthermore, bigger companies can operate more efficient rather than smaller companies. Indonesian Ministry of Finance through Central Government's Financial Statement report dividend received from 'biggest companies' separately. In conclusion, size does matter to dividend payout ratio

High profitability means that the company is experiencing good performance. By having a good performance, according to signalling theory, the company gives signal to the external party that they are having so through distributing dividends. Consistent with Amidu and Abor (2006), Al Najjar and Hussainey (2009), Kim and Gu (2009), Baker and Powell (2012) and Jabbouri (2015), SOE's profitability positively affect SOE's dividend payout ratio.

Company which is experiencing high performance does not always pay dividend. Some companies prefer to retain the profitability to use the profit generated as their capital rather than distributing their profit to the shareholders. It is proven by GROW that have negative effect the dividend payout. This finding is consistent with Abreu and Gulamhussen (2013), and Deshmukh, Goel, and Howe (2013).

Liquidity also have positive effect on dividend payout. According to signalling theory, higher liquidity gives signal that the company have sufficient fund to distribute dividend. This research is consistent with Jabbouri (2015).

Nevertheless, leverage does not affect negatively significant as expected. It can be interpreted that although the SOE was high-levered, it did not affect dividend payout ratio. The result is inconsistent with previous research done by Kaźmierska-Jóźwiaka (2014) that found leverage have negative impact on dividend payout ratio.

Public-companies dummy variable also have insignificant result. This can be caused by there are several firm characteristics that may inversely related or does not have any impact on the dividend payout ratio. Further discussion is done to uncover what

characteristics that is difference between public-listed SOE and non-listed SOE. The results is shown given in Table 3.

Table 2. OLS Regression Result

Variable	Coefficient	P > t	Expected Sign	Conclusion
SIZE	.038626***	0.000	(+)	H ₁ Accepted (+)
PROF	.2828926**	0.018	(+)	H ₂ Accepted (+)
GROW	-.0595197**	0.042	(-)	H ₃ Accepted (-)
LEV	-.0003988	0.889	(-)	H ₄ rejected
LIQ	.0167107***	0.007	(+)	H ₅ Accepted (+)
TBK	.0205232	0.268	-	H ₆ rejected
C	-.4106985	0.000		
N		614		
Prob > F		0.0000		
R ²		16.99%		

DPR: dividend/net income, **SIZE:** ln(total assets), **PROF:** (EBT/ Total Asset), **GROW:** ((Sales Revenue Y₁ – Sales Revenue Y₀)/Sales Revenue Y₀), **LEV:** (debt-to-equity ratio), **LIQ:** current assets / current liability, **TBK:** dummy variable '1' if the company is a public-listed SOE.

***) significant at 1%, **)significant at 5% *) significant at 10%.

source: by author

4.2.2. Public-listed characteristic as Moderating Variable

Further analysis was conducted to determine the factors that influence the dividend level differences between listed and non listed SOE. The results are presented in Table 3.

Table 3. Regression Result
Public-listed Characteristic Dummy as Moderating Variable

Moderating Variable	Coefficient	P > t	Conclusion
(...)	(...)	(...)	(...)
SIZE*TBK	-.0160297	0.195	H ₇ rejected
PROF*TBK	.9699373***	0.001	H ₈ accepted
GROW*TBK	-.0058059	0.742	H ₉ rejected
LEV*TBK	.0190449**	0.021	H ₁₀ rejected
LIQ*TBK	.0024421	0.894	H ₁₁ rejected
N		614	
Prob > F		0.0000	
R ²		19.26%	

This table shows the test result of factors that influence the differences in DPR between listed and non listed. **DPR*TBK:** (dividend / net income)*TBK, **SIZE*TBK:** ln(total assets)*TBK, **PROF*TBK:** (EBT/ Total Asset)*TBK, **GROW*TBK:** (Sales Revenue Y₁ – Sales Revenue Y₀ / Sales Revenue Y₀)*TBK, **LEV*TBK:** (debt-to-equity ratio)*TBK, **LIQ:** (current assets/current liability)*TBK.

***) significant at 1%, **)significant at 5% *) significant at 10%.

source: by author

Based on the results shown in Table 3, the factors that different between listed and non-listed SOE in distributing dividends are Profitability and Leverage. Interaction between profitability and dividend payout is strengthened by the dummy variable of listed companies.

Higher profitability of public-listed companies affect payout stronger. It can be explained that according to signalling theory, the company signals the shareholders that they have high performance so they pay dividend more to build good reputation.

Nevertheless, public-listed company variable (TBK) weakens the interaction between leverage and dividend payout ratio and turns the direction become positive effect on dividend payout instead of the non-listed SOE, where leverage has no significant effect. It can be explained that all public-listed SOE samples data used in this study only issuing shares, also issuing bonds to the market. So, public-listed SOEs have both dividend payout ratio and leverage bigger than non-listed SOE. Meanwhile, non-listed SOE have lower leverage and dividend payout than the listed ones. Table 4 shows the characteristic of the sample listed and non-listed.

**Table 4. Descriptive Statistics
Characteristics of Listed and Non-listed SOE**

	DPR		SIZE		PROF		GROW		LEV		LIQ	
	Non-Listed	Listed										
Avg	0.188	0.273	14.150	16.000	0.092	0.095	0.150	0.164	0.756	1.096	2.165	1.721
Max	0.959	0.959	15.712	20.258	0.378	0.366	1.213	1.213	8.307	6.629	9.456	5.499
Min	-0.341	-0.533	9.954	13.159	-0.449	-0.079	-0.546	-0.344	-4.415	0.000	0.486	0.327
Stdev	0.215	0.198	1.440	1.450	0.112	0.084	0.253	0.260	1.628	1.400	1.353	0.910

source: by author

5. Conclusion

This paper found that size, profitability, and liquidity affect positively Indonesian SOE's dividend payout ratio based on signalling and agency theory. While, leverage affect negatively insignificant on dividend payout ratio. Public-listed dummy variable also have insignificant impact on dividend payout ratio.

To analyze why public-listed variable does not have significant impact on dividend payout ratio. this paper also concluded that there are different factors that affect the level of SOE's dividend payout ratio in listed SOEs and non-listed SOE using moderating variable. First, public-listed variable affect profitability on dividend payout ratio stronger than non-listed companies. It strengthen the interaction between profitability and dividend payout ratio. Second, public-listed variable also weaken SOE's leverage affect dividend payout ratio. Furthermore, public-listed variable turns the direction of leverage become positive. It can be explained that this happen due to all of our public-listed SOE sample have high level of leverage and also have high dividend payout ratio.

Although this paper long period of research (2004 to 2015), this paper uses only 52 state-owned enterprises as the sample and excluding financial sector. For further research, this paper recommends to use larger sample and include financial sector (like banks, insurance, fund management, etc) as the sample.

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