

# Financial Behavior Impact to Determine Dividend Policy at Indonesian Companies

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**Abstract—** This research aims to find evidence on the impact of financial behaviour in determining dividend policy. The method used in this research was the Qualitative Research Method using Explorative Survey. The Qualitative research method used Nvivo software version 10.0. The units of research are all companies listed at the Indonesian Stock Exchange who pays a dividend from 2010 to 2017. The results were in the form of findings that in setting company policies especially in determining dividend policy which is not only influenced by the company's fundamental factors in the form of financial performance alone. Dividend policy is also influenced by the financial behavior of the company management, especially the attitude of the Chief Executive Officer (CEO) in the setting of the policies. The research finding shows that determinants of dividend policy consist of firm growth, profitability, and institutional ownership, while sales growth has no impact on the dividend.

**Keywords—** Behavior Finance, Dividend's Policy, Indonesian Company

## I. INTRODUCTION

Dividend policy is one of the important decisions for the company, because the policy is related to the company's decision in determining the amount of net income to be distributed as dividends and how much profit will be reinvested into the company in the form of retained earnings. In addition, dividend policy becomes an important part of the company's long-term funding strategy in responding to environmental dynamics [1]. The dividend policy in a company becomes the center of attention for investors. The policy will make an investor take the decision to buy, maintain or decide not to buy or sell shares that investors have. If the dividends distributed to shareholders have been maximized, then the step that investors should take is to maintain the company's shares. Naser stated that if the distribution of dividends to investors is deemed insufficient or not optimal, what investors should do is to sell company shares in the hope that they will still benefit from capital gains on the capital market [2]. This can cause a decline in the company's stock price which can also have an impact on the decline in the value of the company. Kartika stated that slowing industrial growth in 2013 continued in 2014 industry growth marked by the number of companies that did not distribute dividends to shareholders. The decision of most companies not to

distribute dividends to shareholders due to the declining profitability of the company in 2013-2014. Of the 483 companies listed on the Indonesia Stock Exchange in 2014, only 112 companies distributed dividends, meaning that only 23% of the companies distributed dividends [3].

The main issue of this research is the matter of determinants of dividend policy. It is important to test that there is a theory of the influence of financial behavior and financial performance on dividend policy. Pandey stated that theoretically, financial performance has a significant influence on dividend policy [4]. One measure of financial performance is the company's ability to generate profits from its business activities. Good profitability will be responded positively by investors. This positive response will be demonstrated by the increasing demand for company shares. If the demand for shares rises while those who already have shared are reluctant to sell because the company's performance is good then the share price will increase. Rising stock prices will increase the value of the company because the value of the company one of the measurements is multiplying the number of shares outstanding with the stock market price [5].

Other research has tested whether changes in company dividend policies are valuable information signals that are unknown to investors. According to Asquith and Mullins, announcements of dividend information are a favorable signal, because they need cash and not just accounting reports. Asquith states that dividend announcements can convey information for the public to know about the future of a company's cash flow generated by existing assets, investment opportunities[6]. According to Rozeff, companies that increase their dividends can reduce agency costs. [7] [8]

Aharony and Swary stated that valuable information is marked through announcements of dividend adjustments [9]. Asquith and Mullins found that the initiation of dividends contained information that was beneficial to investors. [5]. A study by Kajola and Desu analyzed the financial performance of dividend policy [10]. Researchers found that companies that started dividend distribution experienced growth opportunities that were higher in revenue that year and the next two years compared to companies that did not distribute dividends to the same industry. They also found that changes in earnings after the initiation of dividends were related to the immediate stock price reaction at the time the dividend change was

announced. This shows that the market feels a positive signal to companies, which in turn experiences a profitable profit change. The company's dividend policy is inseparable from the general economic situation because when economic growth increases it provides opportunities for companies to develop their business so that it impacts overall industry growth. This study aims to analyze more deeply how the behavior of managers in taking dividend policy to the welfare of shareholders and increase the value of the company.

## II. METHODS

The qualitative method or explorative aims to state an object relatively in-depth, or in other words, explorative research is research conducted to look for causes or things that influence the occurrence of something and be used when in a study not known with certainty and specific about the object of research. According to Arikunto, exploratory research is research that aims to explore broadly about the causes or things that influence the occurrence of something.

According to John Creswell, explorative research is the type of research conducted for problems that are not yet clear, the results of exploratory research rely on secondary research such as reviewing available literature and or qualitative approach data such as informal discussions with consumers, employees, managers, and other respondents. A more formal approach is through in-depth interviews through case studies or Focus Group Discussions (FGD) to businessmen and managers [11].

## III. RESULTS AND DISCUSSION

### *Firm Growth*

All respondents stated that when the company experienced growth, the management, especially managers who are optimistic and have high confidence will continue to expand so that the company continues to experience growth. But sometimes there are behaviors of managers of several companies that prioritize personal interests without thinking about the interests of shareholders so the company does not pay dividends. Some managers are more concerned with increasing their own well-being by raising managers' salaries or benefits than distributing it to shareholders.

Chan stated that most growing companies often negotiate shareholders to agree to postpone dividend payments because the funds will be used to finance expansion so that in the coming periods shareholders will enjoy huge returns. This respondent's statement is not in accordance with the theory of signaling that companies that have improved performance should provide dividends as information or positive signals about the company's condition for the public [12].

The behavior of managers who are overconfident can lead to the opposite condition. The policy of delaying dividends for expansion often results in a decline in growth and profit. This is consistent with Ali and Anis's research

on dividend policy influenced by Behavior finance which states that managers in making decisions often have irrational behavior [13]. When a manager decides to distribute dividends or not to distribute depends on the manager's perception of seeing the company's future. The nature of optimism and overconfident resulted in managers reluctant to distribute dividends to shareholders even though often the nature of over-confidence causes managers to make mistakes in decision making.

Data analysis techniques used in this study include interview transcripts, data reduction, analysis, data interpretation, and triangulation to be able to draw conclusions [14]. According to Miles and Huberman, qualitative data analysis consists of three activities that occur simultaneously, namely data reduction, data presentation, and drawing conclusions/verification. Miles and Huberman revealed that what emerged in qualitative research was a series of words and not a series of numbers. Data can be in the form of documents, recordings, arranged in a transcript. The following are the data analysis techniques used in the study: data reduction, triangulation method, and conclusion [15].

The results of in-depth interviews support the results of quantitative research where when the company is experiencing growth, the management will reduce the amount.

### *Profitability*

The main purpose of the company in managing its finances is to obtain high profits and prosper the owner of the company or shareholders, therefore according to respondents it is appropriate when the company has a large profit, the company has the obligation to pay dividends to shareholders. The results of the Focus Group Discussion with the respondents agreed that when companies gain increased profitability, the company should pay dividends to shareholders. However, there was 1 respondent who said he disagreed because managers usually had the desire to develop the business by continuing to expand. It is within this framework of expansion that a company can delay dividend payments.

The opinion of most respondents supports the theory of signaling Miller and Rock, which suggests that the provision of dividends to shareholders is a signal or information to the public that the condition of the company is experiencing growth. This opinion is consistent with the results of quantitative analysis which states that profitability has a positive effect on increasing the amount of dividends paid to shareholders [16].

On the other hand, this opinion was rejected by one of the respondents who stated that when profitability increases, managers who dare to take risks and are optimistic about their business prospects will actually delay dividend payments and prioritize expansion. This opinion is in accordance with agency theory Jensen and Meckling which states that there are priority interests for companies over shareholders [17].

### Sales Growth

When sales turnover in each period has increased this is a positive indicator that the company's financial performance is in good condition, therefore when sales growth increases, the company provides dividends as a reward for the funds invested by the company. This statement is consistent with the theory of signaling and supports the results of quantitative research which states that sales growth has a positive but not significant effect on dividend policy. According to respondents stated that sales growth has a small effect on dividend policy because sales do not necessarily reflect the amount of net profit or earnings after tax that companies receive on the basis of dividend distribution.

### Institutional Ownership

Respondent's statement from the results of in-depth interviews that companies in Indonesia are mostly owned by institutional ownership, which mostly consists of companies are still family. Therefore, because actually ownership is still internal and finally public ownership is a minority group that does not have a say in the GMS. The majority of votes from institutional ownership, which incidentally is still an internal party resulted in the company adopting a policy of delaying dividend payments for expansion purposes to obtain far greater profits. Finally, public shareholders do not get stock returns from dividends.

This respondent's opinion supports the agency theory or agency conflict, which states that managers are more likely to prioritize their interests than the interests of the company; for example, if retained earnings are high, tend to be used for project activities that gives the benefit for managers. According to Jensen and Meckling, the difference in interests between the manager and the owner causes the owner to monitor the behavior of this manager, resulting in agency costs in the form of monitoring costs. Because public ownership is a minority compared to institutional ownership, the public does not have full authority to exercise oversight and control in dividend policy. This qualitative analysis does not support the results of quantitative analysis which states that the greater the percentage of institutional ownership the company will increase the amount of dividend payments.

### IV. CONCLUSION

Qualitative research results obtained findings that in setting company policies, especially in determining dividend policy is not only influenced by the company's fundamental factors in the form of financial performance. Dividend policy is also influenced by the financial behavior of the company management, especially the attitude of the manager in setting policies. Weak laws and regulations are often used as a basis for not providing welfare to companies in the form of dividends. The management only prioritizes the interests of the company by using internal funds as additional capital for expansion. Behavior of managers who are concerned with personal interests also gives the effect of dividends not paid to shareholders.

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