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Testing Theory of Dividend Policy: Evidence in the Real Estate Sector in Indonesia

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Abstract*—The aim of this research is to test the irrelevant theory and relevant theories of the dividend policy. This research is conducted on real estate sector from period 2012-2015 to get 168 observation data. Variable of research include independent variable that is financial performance of company which proxy by Profitability, Dependent variable that is Dividend Policy which proxy by Dividend Payout Ratio, and Moderation variable that is firm size proxy by total assets. Test results obtained when the profit increase is not followed by an increase in dividend payment, so it can be concluded company hold the principle that company value is not determined by how the company disributes its earnings as dividends. So that in this study found in Indonesia especially real estate sector companies used dividend irrelevant theory.

***Keywords*—Dividend Policy; Firm Size; Financial Performance**

I. Introduction

Many studied have reviewed the dividend policy and still are subject to debate. The theory related to the dividend policy of Irrelevance Theory proposed by Miller & Modigliani [1] stated dividend policy is not relevant to the question because it has no influence on the value of the company. Different theories of Gordon & Lintner [2] in his theory known as Bird in the Hand Theory, which stated that dividend policy is relevant to firm value. Investors will prefer dividend payouts to be received today rather than capital gains to be received in the future.

Companies that have a high level of profitability will usually share dividends, meaning that profitability has a positive effect on dividend policy. Firms will only increase dividends if earnings increase [2]. Previous research which stated that profitability have a positive effect on dividend policy [3] [4] [5] [6] [7] [8] [9] [10] [11] [12]. On the contrary, different results of his research found that Profitability negatively affects dividend policies proposed by Khoury & Maladjian [13], Kaźm-ierska-Jóźwiak [14]. Unlike the findings of both previous research groups Ameer & Abbas [15], Badu [16], Komrattanapanya & Suntraruk [17] found Profitability has no effect on dividend policy.

II. LITERATURE REVIEW

Company size is one of the factors that influence dividend policy. Firm size has a positive effect on dividends [4] [20] [7] [9] [10] [15] [19]. In contrast to the findings above Mirza & Afza (2010) in his study found that the size of the company negatively affects the dividend policy. Firm size study as a moderating variable has been done [13]. The result of firm size can moderate the effect of profitability on dividend policy. This study intends to test whether firm size can strengthen the effect of profitability on dividend policy. While firm size has no effect on dividend policy [3] [21].

Corporate liquidity is a factor considered in dividend policy. For a company the greater the company's cash position the greater the company's ability to pay dividends. Liquidity has a positive effect on the Dividend Policy [10] [12] [18]. While some research states that Liquidity negatively affects dividend policy [13] [14]. Different from the previous discovery, some of the research found that liquidity has no effect on dividend policy [8] [19] [14] [23].

Researchers analyze the factors that are suspected to affect the dividend policy to be paid to shareholders, including profitability, firm size and liquidity. The purpose of this research is to examine the theory of dividend policy on real estate companies in Indonesia whether the company uses relevant or irrelevant dividend policy theory. To find out the dividend policy theory used by the company in this paper will discuss the effect of profitability on dividend policy which moderated by the size of the company and liquidity as a control variable.

III. METHODS

Research method using the verificative method. The type of data used in secondary data research. Source of data used data of annual financial year of the company year 2012-2015. Technique data collection is study documentation. Population in research company Real estate listed on Indonesia Stock Exchange Year 2012-2015. The data obtained are 75 observation data. Data analysis technique using panel data regression model, after doing the Chow test and Hausmann test in a model fit model that is Common Effect Model. Furthermore, to predict the value of the influence of independent variables, moderate variables, control variables, to the dependent variable is the panel data regression analysis.

IV. RESULTS AND DISCUSSION

Before performing the test and analysis of panel data regression model, the selection of panel data regression estimation technique is appropriate for the research data. There are three techniques of panel data regression estimation : common effect, fixed effect, and random effect. Hausman test shows that the common effect model is more precise, therefore table 1 presents the result of common effect model estimation.

TABLE 1. ESTIMATED RESULTS OF PANEL DATA ANALYSIS (COMMON EFFECTS MODEL).

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**rob.**
C	98.32343	12.46865	7.885653	0000
ROE?	-9.426358	0.904925	-10.41673	0000
SIZE?	-5.563042	0.793805	-7.008069	0000
ROE?*SIZE?	0.622191	0.058663	10.60625	0000
CR?	0.001323	0.002838	0.466293	6425
	Weighted Statistics			
R-squared	0.558989	Mean dependent var		5.3026
Adjusted R-squared	0.533788	S.D. dependent var		5.7814
S.E. of regression	134.2716	Akaike info criterion		386191
Sum squared resid	1262021.	Schwarz criterion		540690
Log-likelihood	-309.4822	Hannan-Quinn criter.		447881
F-statistic	22.18155	Durbin-Watson stat		246682
Prob(F-statistic)	0.000000			

From table 1 we get the equation of moderation regression model as follows:

$$DPR = 98.32343 - 9.426358\ ROE - 5.563042SIZE + 0.622191ROE*SIZE + 0.001323CR + e \quad (1)$$

Test results obtained value 98.32343 coefficient shows that the relationship between independent variables and the dependent variable is positive 98.32343 means that if all independent variables do not change, then the dividend policy is worth 98.32343. The equation model has an Adjusted R-squared value of 0.533788, it means that the independent variable profitability (ROE), liquidity, firm size, and profitability are moderated by the size of the firm able to explain the change of dependent variable (DPR) of 53.38% while the rest of 46.62% by another factor.

Profitability has a regression coefficient of - 9.426358 means that any increase in profitability of one percent, it will be followed by a decrease in dividend payout of 9.426358 times. The P-value of probability 0.0000 is smaller than the specified significance value (0.0000 <0.05) meaning profitability has a negative and significant influence on the dividend policy. This means that the real estate company in Indonesia, although its profit is not accompanied by an increase in dividend payments, instead of a decrease in dividend payments, because the company has a policy of using profit as a source of working capital. If the company has a higher profit then the company will use the profit for the operation of the company or for investment so that it will reduce the dividend distribution.

The results support the research of Christopher Khoury & Maladjian [23] [22] stated profitability negatively affect dividend policy. It does not support Kania [12], Kowalewski et al. [24], Al-Malkawi [25], Juma'h & Pacheco [26], Al-kuwari [9], Ahmed & Javid [27], Al-Kuwari [28], Mirza & Afza [11], Ramli [29], Mehrani et al.[30], Marfo-Yiadom & Agyei (2011) [14], Setiawan & Kee Phua [3], Mehta [8], Musiega et al. [13], Fakhra et al. [10], Hauser [5], Ozzo et al., Baker & Jabbouri [6], Yusof & Ismail [4] which stated profitability has a positive effect on dividend policy.

Company size has a regression coefficient of - 5.563042 means any increase in company size by one percent, it will be followed by a decrease in the dividend payout of 5.563042 times. The value of P-value of the firm size of 0.0000 is smaller than the specified significance value (0.0000<0.05) means that firm size has a negative effect on the dividend policy. The results of this study support Mirza & Afza [11] in his study found that the size of the company negatively affects the dividend policy. The results of this study are not in line with several research research [4] [20] [8] [9] [15] [19] [14] that stated the company size has a positive effect on dividend policy.

The size of the company moderates the effect of profitability on dividend policy has regression coefficient value of 0.622191 means every increase of company size by one percent, it will be followed by profitability increase of 0.622191 times and will affect the increase of dividend payout 0.622191 times. The P-value of firm size moderates the effect of profitability on the dividend policy of 0.0000 is smaller than the specified value of significance (0.0000 <0.05) means that firm size moderates the effect of profitability on the dividend policy.

Liquidity has a regression coefficient of 0.001323 means an increase in liquidity of one percent, it will be followed by an increase in a dividend payment of 0.001323 times. The value of P-value of corporate liquidity of 0.6425 is greater than the specified significance value (0.6425> 0.05) means that the liquidity of the firm has a positive effect on the dividend policy but it is not significant, meaning no effect. The results of this study do not support the research of Kania [12], Kowalewski et al. [24], Anil & Kapoor (2008), Juma'h & Pacheco [26], Ahmed & Javid [27], Ramli (2010) [29], Mehrani et al. (2011) [30], Al-Shabibi & Ramesh (2011) and Hashemi & Zadeh (2012). Fakhra et al (2013), Badu (2013) Liquidity has a positive effect on the Dividend Policy. The higher the liquidity, the higher the company's ability to meet its short-term liabilities, which includes paying dividends. The high current ratio shows investor confidence in the company's ability to pay the promised dividend [10] [18]. Liquidity has no effect on dividend policy [8] [15] [20] [14] [22].

The analysis shows that the high liquidity of the company real estate in Indonesia does not affect the size of the dividend payout. For that company having good liquidity does not mean high dividend payout.

V. CONCLUSION

Profitability has a negative effect on dividend policy. Company size has a negative effect on dividend policy. Company size can moderate the effect of profitability on dividend policy. Liquidity has no effect on dividend policy. The result of the study found that in Indonesia especially real estate sector companies used dividend irrelevant theory due to the results of the testing and discussion, profitability can have a negative effect meaning that when the profit increase is not followed by an increase in dividend payments. So it can be concluded that real estate companies in Indonesia hold the principle that company value is not determined by how the company distributes its earnings as dividends.

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