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The Characteristics of Dividend Payers from Banking Sectors in Indonesia

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Abstract

When banking industries turn their organization into public ownership in market stock exchange, then they seems have liabilities to pay dividends for their shareholders and to increase these shareholder's wealth. But to take decision for dividend policy most of industries must rely it on their financial performance. The objective of this study is to analyze the characteristics of dividend payers specially in banking sector. Conducting binary logistic regression, this study finds, The entities in banking sector with higher dividend average are more profitable than entities with lower dividend average and depend on its profit to pay dividends for their shareholders. Also, these entities tend more mature, larger, and have higher debt ratio relative to entities with lower dividend average.

Keywords: Dividend, debt ratio, profitability, retained earnings to equity ratio, size

1. Introduction

Banking sector is one of the most important sector in term to develop the economic growth in Indonesia. In other part, banking sector is also need additional capital in term for financing their operations and investments, which were made them turn their close organization into public ownership in market stock exchange. By turning their organization into public ownership, then banking sector seems have liabilities to pay dividends for their shareholders and to increase these shareholder's wealth, because according to Asquith and Mullins (1986), dividends are viewed as wealth symbol of shareholders. But, it cannot be denied that, dividends policy sometimes depend on the quality of the entity itself (Bernheim, 1991). Generally, the decision to pay dividends for shareholders reflect the successful financial performance of the entity (Fama and French, 2001), related to basic financial factors, which are, assets, liabilities and equity (Baker and Wurgler, 2004).

2. Literature Review

2.1 Relationship of Debt Ratio and Dividend Policy

Gill, Biger, and Tibrewala (2010) and Rehman and Takumi (2012) were found, debt ratio have positive and significant effect to dividend payment, which can be interpreted that, larger the debt of entities then larger the dividends payment to their shareholders, and this is means, the entities have enough free cash to distribute. Another explanations come from Harford, Mansi, and Maxwell (2008), Berk, Stanton and Zechner (2010), Gupta and Banga (2010), Ramli (2010), Alzahrani and Lasfer (2012), and Ullah, Fida, and Khan (2012) who found, debt ratio have negative and significant effect to dividend payment, which can be interpreted that, larger the debt of entities then the dividends payment to their shareholders starting to decrease, and this is means, the entities does not have enough free cash to distribute. But the other side, Gharaibeh, Zurigat, and Harahsheh (2013) found, debt ratio does not have significant effect to dividend payment, which can be interpreted that, debt ratio is not the factor that most influencing the dividend payment for shareholders.

2.2 Relationship of Profitability and Dividend Policy

Mehta (2012) and Ardestani, Rasid, Basiruddin, and Mehri (2013) found, profitability has significant and negative effect to dividend payment, which can be interpreted that, more profitable entities tend to reduce their dividends payment to their shareholders, and this is means the entities tend to use their internal fund for investment activities so they are pending to pay dividends to their shareholders. The other explanation come from Gill, Biger, and Tibrewala (2010) who found that, profitability could have positive or negative effect to dividend payment depend on type of each industries. Najjar and Hussainey (2009), Chemmanur, He, Hu, and Liu

(2010), Ramli (2010), Imran (2011), Lam, Sami and Zhou (2012), Longinidis and Symeonidis (2013), Rehman and Takumi (2012), Uwuigbe, Jafaru, and Ajayi (2012), Hussain (2013), and Jordan, Liu, and Wu (2014) who found, profitability have positive and significant effect to dividend payment, which can be interpreted that, more profitable entities tend to increase their dividends payment to their shareholders, and this is means, the entities have more free cash and less investment activities. In other side, Gupta and Banga (2010) and Saeed, Riaz, Lodhi, Munir, and Iqbal (2014) found, profitability does not have effect to dividend payment, which can be interpreted, profitability is not the most factor that influencing dividends payment.

2.3 Relationship of Maturity and Dividend Policy

The concept of maturity is begins when DeAngelo, DeAngelo, and Stulz (2006) discuss about the life cycle of entities related to dividends payment. DeAngelo, DeAngelo, and Stulz (2006) explained that, the entities with low retained earnings to equity ratio or retained earnings to total assets tend to be in the capital infusion stage, whereas entities with high retained earnings to equity ratio or retained earnings to total assets tend to be more mature with ample cumulative profits that make them largely self financing, hence good candidates to pay dividends. Confirmed the explanations, DeAngelo, DeAngelo, and Stulz (2006) found, entities with high retained earnings to equity ratio or retained earnings to total assets have positive and significant effect to dividends payment higher than entities with low retained earnings to equity ratio or retained earnings to total assets have negative effect. This finding is supporting by Thanatawee (2011), Arif and Akbar (2013), and Hassania and Dizajib (2013) and who found the same result.

2.4 Relationship of Size and Dividend Policy

Mehta (2012) found, size has significant and positive effect to dividend payment, which can be interpreted that, larger entities tend to pay dividends to their shareholders rather than smaller entities, and this is means, the turnover of its assets have good performance to create profit. This finding is supported by Ramli (2010), Imran (2011), Uwuigbe, Jafaru, and Ajayi (2012), Gharaibeh, Zurigat, and Harahsheh (2013) and Hussain (2013) who found, size has positive and significant effect to dividend payment. While the opposite result proposed by While Ullah, Fida, and Khan (2012) who found, size have negative and significant effect to dividend payment, which can be interpreted that, larger entities are tend to decrease their dividends payment for shareholders, and it means, the turnover of its assets do not have good performance to create profit. Another result by Saeed, Riaz, Lodhi, Munir, and Iqbal (2014) who found, size does not have effect to dividend payment, which can be interpreted that, size is not the most factor influencing dividends payment to shareholders.

3. Hypotheses

H_1 : Debt ratio have significant effect to dividend payment.

H_2 : Profitability have significant effect to dividend payment.

H_3 : Maturity have significant effect to dividend payment.

H_4 : Size have significant effect to dividend payment.

4 Method of Study

4.1 Samples of Data and Method of Analysis

The data of this study is focusing on banking sector listed in Indonesia Stock Exchange for period 2008 till 2013 where 16 entities used as sample data. This study is conduct binary logistic regression for hypotheses testing at 0.05 or 5%, where the equation model of this study constructed as follow :

$$\textbf{Dividend (Dummy)} = \alpha + \beta\textbf{DAR} + \beta\textbf{ROA} + \beta\textbf{RE/TE} + \beta\textbf{Size}$$

4.2 Definition and Measurement of Variables

4.2.1 Dependent Variable

Dependent variable of this study is using dividends payment measured by dummy, where entities with average dividends below median value coding as 0 (zero) and entities with average dividends above median value coding as 1 (one). Table 1 describe the details of dividend average with code of dividend payers for each entities.

4.2.2 Independent Variables

1 Debt ratio. This study is using debt to assets ratio (DAR) as debt ratio, measured by ratio of total debt over total assets and normalized by natural logarithm.

2 Profitability. This study is using return on assets (ROA) as profitability, measured by ratio of net income over total assets and normalized by natural logarithm.

3 Maturity. This study is using retained earnings to total equity ratio (RE/TE) as maturity, measured by ratio retained earnings over total equity.

4 Size. This study is using natural logarithm of total assets as size of entities.

Table 1. Median value of average dividend for period of 2008-2013

Description	Dividend Average	Code of Dividend Payers
AGRO	0.23	0
BAEK	0.00	0
BBCA	126.50	1
BBNI	75.41	1
BBNP	11.73	1
BBRI	170.29	1
BDMN	109.70	1
BKSW	0.00	0
BMRI	131.07	1
BNGA	3.45	0
BNII	0.00	0
BNLI	2.42	0
BTPN	0.00	0
MEGA	31.67	1
NISP	0.00	0
SDRA	10.00	1
	Median = 3.45	

5 Results & Discussions

The result of analysis shows (see Table 2), Omnibus Tests of Model Coefficients shows the model is significant at 0.05 which is means all the variables simultaneously significant to dividends payment. The correlation value by Cox & Snell is 0.212 and Nagelkerke R is 0.282, which is means this model can explain 21.2% or 28.2% of dependent variable with all independent variables. Moreover, result of Hosmer and Lemeshow Test shows Chi Square value 7.776 and insignificant at 0.05, and this is means the model of this study is fit with accuracy of classification to predict is 67.7%.

The result of binary logistic regression shows only profitability (ROA) is significant and have positive effect to dividend payment, which is means the dividend payers of entities with higher dividend average is very depending on their profit to pay dividends for the shareholders, also these entities tend have characteristics with more free cash and less investment activities. This finding is consistent with Najjar and Hussainey (2009), Chemmanur, He, Hu, and Liu (2010), Gill, Biger, and Tibrewala (2010), Ramli (2010), Imran (2011), Lam, Sami and Zhou (2012), Longinidis and Symeonidis (2013), Rehman and Takumi (2012), Uwuigbe, Jafaru, and Ajayi (2012), Hussain (2013), and Jordan, Liu, and Wu (2014) who also found, profitability have positive and significant effect to dividend payment.

Although the maturity is insignificant, but seems this variable by its positive effect shows, all the entities that keep paying dividends are more mature rather than entities with lower dividend average. Considering the positive effect, this finding is still consistent with findings by DeAngelo, DeAngelo, and Stulz (2006), Thanatawee (2011), Arif and Akbar (2013), and Hassania and Dizajib (2013).

Table 2. Result of binary logistic regression

Omnibus Tests of Model Coefficients	Chi-square = 22.817*	
R Square	Cox & Snell = 0.212	Nagelkerke R = 0.282
Hosmer and Lemeshow Test	Chi-square = 7.776	
Accuracy of classification to predict	67.7%	
	Beta	**Exp(B)**
Constant	3.759	42.901
DAR	5.125	168.108
ROA	1.361*	3.899
RE/TE	0.713	2.040
Size	0.131	1.140

*significant at 5% or 0.05

In case of debt, although the finding shows insignificant result, but from positive effect, this finding still can be accepted by Gill, Biger, and Tibrewala (2010) and Rehman and Takumi (2012). Also, this variable have support for explanation about profitability, because if the entities keep pay their dividends then the interest expense from debt is not a matter for their profit and it is means the entities with higher dividend average have enough free cash to distribute.

In case of size, although the result is not significant, but by its positive effect, this finding still consistent with Ramli (2010), Imran (2011), Mehta (2012), Uwuigbe, Jafaru, and Ajayi (2012), Gharaibeh, Zurigat, and Harahsheh (2013) and Hussain (2013). This is means, the entities with above dividend average are larger than the entities with below dividend average. This variable is also supporting the explanation about profit because these entities tend have good turnover of its assets in term to create profit.

6 Conclusions

The entities in banking sector with higher dividend average are more profitable than entities with lower dividend average and depend on its profit to pay dividends for their shareholders. Also, these entities tend more mature, larger, and have higher debt ratio relative to entities with lower dividend average.

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