

“Assessment of financial performance and the effect on dividend policy of the banking companies listed on the Indonesia Stock Exchange”

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Zarah Puspitaningtyas (Indonesia)

ASSESSMENT OF FINANCIAL PERFORMANCE AND THE EFFECT ON DIVIDEND POLICY OF THE BANKING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Abstract

This study aims to determine the assessment of financial performance and the effect on dividend policy of banking companies listed on the Indonesia Stock Exchange in the period of 2014–2017. The assessment of the company's financial performance is important. Results of the assessment will be consideration of financial performance for investors, one of them to predict the dividend policy. The prediction results will influence investors in making investment decisions. This study employs a quantitative approach. The assessment of financial performance is measured using variables of leverage, profitability and profit growth. They were analyzed using the multiple linear regression method. At the 0.05 significance level, the results of this study showed that the leverage has a negative and significant effect on dividend policy. Meanwhile, profitability and profit growth have no effect on dividend policy. In order to explain the influence between variables, the research is based on the theories underlying the dividend policy, namely the theory of residual dividends and smoothing theory. The results of this study support the residual dividend theory, that one of the dividend policies is determined by the company by considering the target capital structure and then distributing dividends with only the remaining profit.

Keywords leverage, profitability, profit growth, dividend policy

JEL Classification G11, G17

INTRODUCTION

The purpose of corporate financial management is to maximize the value of a company or provide added value to the assets of the company owner (investor). To achieve these objectives, the decision making by the company's financial manager must be in accordance with its scope, among others: obtaining working capital funding (related to funding decisions), allocating funds obtained (related to investment decisions), managing assets owned by the company (relating to asset management decisions).

Funding decisions are decisions that are related to determining the source of funds to be used in its operating activities. The company will make decisions using sources of funds from within the company or will take funds from outside the company. This decision is referred to as dividend policy. If the company makes a decision to use sources of funds from within the company, the possibility is that the company will use retained earnings. The use of retained earnings indicates that the company does not or will only share a small portion of dividends to investors (Kodrat & Herdinata, 2009; Al-

Ajmi & Hussain, 2011; Asif et al., 2011; Hussainey et al., 2011; Mehrani et al., 2011; Raei et al., 2012; Wardani, 2012; Puspitaningtyas, 2012a; Puspitaningtyas & Kurniawan, 2012b; Ardestani et al., 2013; Bulla, 2013; Emamalizadeh et al., 2013; Asadi, 2016; Elmi & Muturi, 2016; Hosain, 2016; Mahdzan et al., 2016; Yensu & Adusei, 2016).

Dividends are the rate of return or results expected to be received by investors from their investment activities. Investment activities will expose investors to various kinds of risks and uncertainties. To reduce the risks and uncertainties that will occur, investors need information that is relevant both on a macro (such as economic and political climate in a country) and micro (such as company financial information) basis. The information presented in the company's financial statements periodically becomes the basis for evaluating performance and making investment decisions for investors. In other words, the evaluation of company performance is reflected in the financial statements (Raei et al., 2012; Puspitaningtyas, 2012b; Bulla, 2013; Aisyah & Kusumaningtias, 2014; Lashgari & Ahmadi, 2014; Widjaja, 2014; Kajola et al., 2015; Raheel & Shah, 2015; Pasaribu et al., 2016; Chelimo & Kiprof, 2017; Machfiro et al., 2017; Hariyati & Tjahyadi, 2018).

On the one hand, investors expect to get returns from their investment activities. Investment is an activity of placing funds in one or more assets in the hope of obtaining returns or increasing asset values in the future. Share ownership is an investment activity. For share ownership of a company, investors expect to get a rate of return in the form of capital gains or dividend yield (Puspitaningtyas, 2012b; 2015; Puspitaningtyas & Kurniawan, 2012a). On the other hand, the task of the company manager is to maintain the stability, sustainability or survival of the company. The company expects continuous growth. One of these growths is realized by reinvesting profits obtained in a period. Therefore, policy making in the form of dividend distribution is a crucial financial decision.

The description indicates that there are two parties that have conflicting interests. Investors have an interest in obtaining dividends as the expected return from their investment activities, while the management of the company interested in maintaining its survival, one of the ways is to re-manage the profits earned (retained earnings). To avoid the loss of each party, a proper decision or dividend policy is needed.

For investors, the stability factor of dividend distribution will be more attractive than just a high dividend payout ratio. The stability of the dividend distribution in question is to continue to pay attention to the company's growth rate, which is indicated by the growth rate coefficient in a positive direction. A stable dividend distribution policy is an indicator that the company's prospects are in a stable condition as well. The hope, the company's risk is also relatively lower compared to companies that implement an unstable dividend distribution policy.

The dividend payout ratio for banking companies listed on the Indonesia Stock Exchange in the 2014–2017 period fluctuated and the average dividend payout ratio growth decreased during this period. In 2015, the rate of dividend growth increased on average from 34.73% in 2014 to 38.46% in 2015. In 2016, it decreased to 28.36% to the end of 2017 (www.idx.co.id). Therefore, it is important for investors to be able to predict company policies (especially those related to dividend distribution) so that investors can make business decisions appropriately.

The amount of dividends distributed by companies is influenced by the policies of each company and carried out taking various factors into account. The greater the dividend that will be distributed to shareholders (investors), the more the remaining funds that can be used to develop the business (business) in an effort to reinvest. This is because profit as a source of internal funds that can be used for corporate spending will be distributed as dividends to investors. As a result, the lower retained earnings will reduce the opportunity for companies to reinvest their retained earnings.

Based on the description, it can be concluded that it is important to periodically evaluate the company's financial performance. The results of the financial performance assessment will be a consideration for investors to predict the dividend policy that will be taken by the company's management. The results of these predictions will affect investors in making investment decisions; for company management, the assessment of financial performance is important as a consideration for making decisions relating to dividend policy (such as whether to take a policy to distribute dividends, and how much the proportion of dividends to be distributed); while for accountants, it is important as the presentation of financial information so that it can provide benefits to the users.

The indicator used to predict dividend policy is the result of an assessment of financial performance. Financial performance assessment indicators in this study include leverage, profitability and profit growth ratios. The indicator of dividend policy is measured using the dividend payout ratio. The dividend payout ratio becomes a policy indicator to determine what proportion of dividends will be distributed to investors. There are several previous studies that analyzed the effect of financial performance appraisal on dividend policy, such as the study by Sulistiyowati et al. (2010), Asif et al. (2011), Puspitaningtyas (2012a), Puspitaningtyas and Kurniawan (2012a), Mustofia et al. (2014), Forti et al. (2015), Sari and Sudjarni (2015), and Sari et al. (2016). However, the results show inconsistency, so it is deemed necessary to conduct further testing to know the causes of inconsistency in the results of the study.

Apart from being financed by own capital, the company's operations are mostly financed by debt capital or loans from other parties (creditors). Leverage describes how much the company's funding needs are financed by debt (Syamsuddin, 2007; Sutrisno, 2009; Weston & Copeland, 2010; Puspitaningtyas, 2012a; 2015; Puspitaningtyas & Kurniawan, 2012a; Ngadiman & Puspitasari, 2014). This study uses the total debt to assets ratio to measure leverage. With the higher level of leverage, the predicted dividend distribution will tend to be low. This is due to the maturity of the debt, there will be funds used to repay the debt, so that it will reduce the profits that will be obtained by the company. This is predicted to reduce the dividend payout ratio.

Profitability shows the company's ability to earn profits or profits from the amount of funds invested in the overall assets (Syamsuddin, 2007; Weston & Copeland, 2010; Puspitaningtyas & Kurniawan, 2012a; Puspitaningtyas, 2015; Ulfa et al., 2016). The level of profitability is predicted to have an influence on dividend policy. The higher the profitability level, the higher the dividend payout ratio predicted. If the company has a high level of profitability, then the profits obtained by the company are also high, so it is expected that the profits available to be distributed to investors will also be higher. This study uses the return on assets indicator to measure profitability.

One of the ways to achieve profit growth is through good investment decision making. The higher profit growth of a company indicates that the company prefers to reinvest the profits earned (retained earnings) rather than distributing dividends to investors. Conversely, if the company's profit growth tends to be low and investment opportunities are less profitable, then the company is more likely to take a policy to distribute dividends. So, the higher the level of profit growth of a company, the higher the funding needed to finance the growth (investment opportunity), which will cause the lower dividend distribution to investors. This study uses the net income growth indicator to measure corporate earnings growth.

Based on this description, this study aims to determine the assessment of financial performance using variables of leverage, profitability, and profit growth and the effect on dividend policy of banking companies listed on the Indonesia Stock Exchange in the period of 2014–2017. The bank acts as a third party fund collector, as well as a source of funding. The communities (investors) entrust their funds to be invested in the banking sector. Therefore, investors have an interest in knowing and analyzing infor-

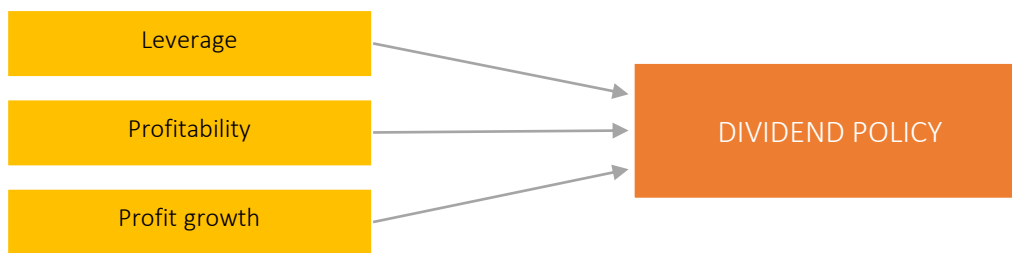


Figure 1. The conceptual framework

mation about banking performance. For this reason, a more in-depth study of banking performance is needed, banking performance is not only about the amount of profit generated but also the efficiency and effectiveness of managing the bank's financial resources. The analysis of this study is conducted to answer the problem formulation as follows:

1. Does leverage affect dividend policy?
2. Does profitability affect dividend policy? and
3. Does profit growth affect dividend policy?

Figure 1 presents the conceptual framework.

1. LITERATURE REVIEW

1.1. Assessment of bank financial performance

The bank's financial performance describes the financial condition of the bank in a period. Bank performance assessment is carried out through analysis of its financial statements. It is important for banks to maintain the stability of their financial performance. Some indicators of good bank financial performance, including ability to achieve a high level of profitability, able to pay dividends and make profit growth tend to increase. Financial ratio analysis is an analysis technique that is often used, because this technique is seen to be able to quickly and accurately determine the bank's financial performance. Based on financial ratio analysis, information will be obtained to predict bank prospects in the future. The trust of the community (investors) towards the bank will be realized if the bank is able to perform well and to improve its performance optimally and sustainably (Ramadaniar et al., 2013; Nuhiu et al., 2017; Suryaputra et al., 2017; Mudawamah et al., 2018; Yuksel et al., 2018). This study intends to assess financial performance using variables of leverage, profitability and profit growth. Furthermore, the results of the financial

performance assessment are analyzed to determine the effect on dividend policy.

1.2. Dividend policy

Dividends are part of the company's profits distributed to investors based on the proportion of their share ownership. Dividend policy is related to making decisions to share profits or hold them to be reinvested in the company. In addition, it also deals with decisions about how to determine the amount of profit to be distributed to investors, the stability of dividend payments, the distribution of dividend shares, and the repurchase of company shares. Dividend policies include the flow of funds, financial structure, liquidity and investor behavior. Thus, dividend policy is one of the important decisions in relation to efforts to maximize company value (Harjito & Martono, 2007; Kodrat & Herdinata, 2009; Horne & Wachowicz, 2010; Wiagustini, 2010; Al-Ajmi & Hussain, 2011; Asif et al., 2011; Hussainey et al., 2011; Mehrani et al., 2011; Riyanto, 2011; Sartono, 2011; Raei et al., 2012; Ardestani et al., 2013; Abbasi & Ebrahimzadeh, 2013; Bulla, 2013; Emamalizadeh et al., 2013; Dzidic, 2014; Mustofia et al., 2014; Forti et al., 2015; Sha, 2015; Asadi, 2016; Elmi & Muturi, 2016; Yensu & Adusei, 2016; Chelimo & Kiproop, 2017; Machfiro et al., 2017).

The management of the company has two alternative treatments of the profits obtained, namely: share a portion of profits to investors in the form of dividends or hold a portion of the profit to be reinvested in the company. Dividend growth is influenced by earnings per share growth (earnings per share) (Sjahrial, 2012; Atmaja, 2008; Brigham & Houston, 2010; Sha, 2015). Retained earnings are one of the most important sources of funds to finance a company's growth, but dividends are cash flows that must be set aside for shareholders (investors). How much part of the profit that will be distributed as dividends is expressed in the size of the dividend payout ratio as the ratio of dividend payments. The greater the retained earnings, the smaller the amount of profit that will be distributed as dividends. The allocation of profit determination as retained earnings and dividend payments is the main aspect in dividend policy. Based on the description, it was concluded that dividend policy is a profit sharing policy followed by a decision to hold or distribute profits to investors.

There are two trends in dividend policy by company management, namely:

1. Policies that tend to distribute dividends with a relatively stable amount or increase regularly. This policy is influenced by the following assumptions:
 - a) investors see dividend increases as a good sign that the company has good future prospects; and
 - b) investors tend to prefer dividends that are stable or do not fluctuate.
2. Policies that tend to distribute dividends with fluctuating amounts. This policy is determined using the residual dividend model, among others by:
 - a) considering the company's investment opportunities;
 - b) considering the company's capital structure targets to determine the amount of own capital needed for investment;
 - c) utilizing retained earnings to meet the needs of own capital maximum; and

- d) pay dividends only if there is profit remaining (Atmaja, 2008; Wiagustini, 2010).

Atmaja (2008) and Wiagustini (2010) state that there are several reasons companies prefer to use retained earnings rather than issuing new shares to meet their own capital needs, including:

1. Issuing shares resulting in share issuance costs; and
2. Based on Signaling Hypothesis Theory, publishing new shares become an indicator for investors that the company is in a state of financial difficulties, causing a decline in stock prices.

Dividends distributed to investors can be made in cash, giving shares or goods. Fahmi (2015) states that there are several realizations of the form of dividend distribution, including:

1. Cash dividends distributed over a period of time and derived from funds obtained legally. The amount of dividends distributed is based on the profits obtained by the company.
2. Goods dividend (property dividend) distributed to investors in the form of goods as a distribution of company profits.
3. Liquidation dividend (liquidating dividend) distributed to investors as the distribution of corporate wealth to investors (shareholders) when the company is liquidated.

Investors have an interest in being able to predict dividend policy. There are several financial performance assessment variables that are predicted to influence dividend policy, including: leverage, profitability and profit growth. This study measures dividend policy using the dividend payout ratio indicator, namely the ratio of cash dividends and net income.

1.3. Factors affecting dividend policy

According to Sutrisno (2009), the factors that influence the company in deciding dividend policy include:

1. Position of solvency of the company. If the company is insolvent, the tendency of the

- company is not to distribute profits. This is because the profits obtained are mostly used to improve the position of the capital structure.
2. Position of liquidity. Retained earnings (seen on the right side of the balance sheet) are usually invested in the form of assets needed to run a business. Retained earnings in previous years have been invested in other assets, in other words the profit is not saved in cash. So even if a company has a record of profits, the company may not be able to pay cash dividends because of its liquidity position. Indeed, companies that are developing even with very good finances, usually have very urgent funding needs. In these circumstances the company can decide not to pay dividends.
 3. The need to pay off debt. If the company has debt to finance its expansion, it usually faces two choices. The company can pay the debt at maturity and replace it with other types of securities, or it can decide to pay off the debt. If the decision is to pay the debt, then the company tends to hold back profits.
 4. Plan for expansion. A growing company is characterized by the rapid growth, and this can be seen from the expansion made by this company. The more rapid the growth of the company, the more rapid the expansion carried out. Consequently, the greater the need for funds to finance the expansion. Funding needs in the context of expansion can be met both from debt, increasing own capital from the owner, and one of them can also be obtained from internal resources in the form of increasing retained earnings. Thus, the more rapid the expansion made by the company, the smaller the dividend payout ratio.
 5. Investment opportunities. Investment opportunities are also factors influencing the amount of dividends to be divided. The more open the investment opportunities, the smaller the dividends paid, because the funds are used to obtain investment opportunities. However, if the investment opportunity is not good, more funds will be used to pay dividends.
 6. Income stability. For companies with stable income, the dividends to be paid to shareholders are greater than those with unstable income. Companies with stable income do not need to provide a lot of cash just in case, while companies with unstable income must provide sufficient cash in case.
 7. Supervision of the company. Sometimes the owner does not want to lose control of the company. If companies look for sources of funds from their own capital, the possibility of entering new investors will certainly reduce the old owner's power in controlling the company. Therefore, companies tend not to divide their dividends so that the controls remain in their hands.
- #### 1.4. Dividend payment procedure
- It is also important to know about the procedure for paying dividends (Brigham & Houston, 2011), namely:
1. Date of declaration. Date when dividends are officially announced by the board of directors. For example, the directors held a meeting on September 25 and decided to pay a fixed dividend. On that day an announcement is issued about the time the dividend payment will be made.
 2. Recording date of shareholders (holder of record date). A date that indicates when the transfer book is closed to determine which investor will receive the next payment. For example, on September 25, the date of registration of the shareholders (holder of record date), the company closes the book on the transfer of shares and makes a list of shareholders per date. If the XYZ company is notified of the sale and transfer of several shares before September 25, the new shareholders will receive dividends. If the notification is received on or after September 25, the old shareholders will receive a dividend.
 3. Date of separation of dividends (ex dividend date). The date when the simultaneous stock brokerage company decides to remove the right to choose dividends four working

days before the date of listing. In order to avoid disputes, the agency has established an agreement stating that the right to obtain dividends will remain attached to the shares up to four days before the date of listing of shareholders. On the fourth day before the date of listing, dividend rights are no longer attached to shares. The date when the dividend is separated from the stock is called the date separation of dividends (ex dividend date).

4. Payment date. The date the company sends dividend checks to each investor. For example, on January 2, the date of payment, the company will carry out check shipments to shareholders who are registered as shareholders.

1.5. Theories underlying dividend policy

1.5.1. Residual dividend of theory

The profit obtained by the company in a period is actually for the welfare of the shareholders. But usually, partially to shareholders as dividends and some are held. To hold back profits earned by companies usually because there is a profitable investment opportunity. If the investment opportunity is equal to or greater than the level of the suggested profit, then it should indeed not be shared. Profit is shared with shareholders if it turns out that the profits obtained from the reinvestment are smaller than the hinted profits. Thus, the residual dividend of theory is the remaining profit that is not reinvested (Sutrisno, 2009).

Residual dividend theory (Atmaja, 2003) states that companies determine dividends that are also determined by:

- a) considering possible investment opportunities;
- b) considering the target capital structure of the company;
- c) utilizing retained earnings to meet their own capital needs as much as possible; and
- d) pay dividends with only the remaining profit.

1.5.2. Smoothing theory

This theory states that the amount of dividends depends on current company profits and previous year's dividends. If the company does not consistently consider the future performance prospects, the company will be faced with the risk of inability to maintain the previous dividend payout because of the decline in the company's performance/profitability in the future (Lintner, 1956, cited in Zulkifli, 2008).

Decreasing dividends or unsustainable dividends will result in negative information content which is considered to damage the reputation of managers in the eyes of investors. This can encourage managers to show better financial performance through profit engineering. Income smoothing is one of the earnings management techniques that is carried out by reducing earnings variability in several periods so that earning reports show low fluctuations or in other words show a stable corporate profit. With a stable profit, the possibility of dividends distributed by the company will also be stable, because the dividends distributed are part of the profits generated by the company (Sugeng, 2008; Manurung, 2009).

1.6. Relationship among variables

1.6.1. Leverage and dividend policy

Leverage shows how much the company's operations are financed by debt. Leverage is related to the use of funds that contain fixed expenses in the hope of increasing revenue (Syamsuddin, 2007; Sutrisno, 2009; Weston & Copeland, 2010; Sulistiyowati et al., 2010; Puspitaningtyas & Kurniawan, 2012a; Puspitaningtyas, 2012a; 2015; Ngadiman & Puspitasari, 2014; Sari & Sudjarni, 2015; Yasa & Dewi, 2016). High leverage reflects the company bearing a high debt (liability). This is predicted to affect the level of profits available to investors. That is, the higher the level of leverage, the lower the ability of companies to distribute dividends to investors (Al-Ajmi & Hussain, 2011; Puspitaningtyas, 2012a). This study uses the total debts to total assets ratio to measure leverage, namely the ratio between liabilities (debt) owned by the company and all assets owned.

Based on residual dividend theory (Atmaja, 2008; Wiagustini, 2010) as mentioned earlier, point 2 indicates that company management tends to consider the level of leverage before distributing dividends. So, if the company has a debt burden, it is obliged to pay off the debt. If the company implements a policy that repayment of debt will be paid using retained earnings, the company must separate a large portion of its income to pay off the debt. That means only a small portion of income can be distributed as dividends. Based on the description, it can be concluded that the higher leverage of a company describes the symptoms that are not good for the company and the possibility of dividend distribution tends to be low.

Study by Asif et al. (2011), Forti et al. (2015), Sari and Sudjarni (2015), Sari et al. (2016), and Nurcahiqi and Suryarini (2018) prove that the debt equity ratio as an indicator of measuring leverage influences dividend policy. Whereas, the studies by Sulistyowati et al. (2010), Puspitaningtyas (2012a), and Puspitaningtyas and Kurniawan (2012a) prove that leverage does not affect dividend payout ratio. Based on this description, this study formulates the following hypothesis.

H1: Leverage affects dividend policy.

1.6.2. Profitability and dividend policy

The level of profitability shows the ability of a company to profit from the amount of funds invested in the overall assets. Profitable conditions are important for a company to be able to maintain its business. Without the level of profit it will be very difficult for companies to get capital from investors (Syamsuddin, 2007; Sutrisno, 2009; Weston & Copeland, 2010; Sulistyowati et al., 2010; Puspitaningtyas & Kurniawan, 2012a; Puspitaningtyas, 2015; Sari & Sudjarni, 2015; Elmi & Muturi, 2016; Nuhiu et al., 2017; Yuksel et al., 2018). This study uses the return on assets ratio to measure profitability, which is a measure that shows the company's ability to generate profits or profits in the overall assets of the company.

Smoothing Theory states that the amount of dividends distributed depends on the profits obtained by the company in a period and the dividends of

the previous period (Zulkifli, 2008; Ardestani et al., 2013). One way to measure a company's ability to obtain profits is to analyze the level of profitability. Profitability is the company's ability to earn profits, so that it has an influence on dividend policy. If the company has a high level of profitability, the profits available to be distributed to investors will also be higher. The higher the profit available to investors, the higher the dividends distributed to investors or the allocation for retained earnings. Based on the description, it can be concluded that the higher the profitability of a company, the better the company in generating profits, and the greater the profit gained, which means that the need for allocation of dividend distribution will be even greater.

Study by Mustofia et al. (2014) and Forti et al. (2015) proves that profitability as measured by indicators of return on assets has an effect on dividend policy. Sari et al. (2016) prove that return on equity as an indicator of measuring profitability influences dividend policy. Sulistyowati et al. (2010), Puspitaningtyas and Kurniawan (2012a), and Sari and Sudjarni (2015) prove that profitability as measured by return on investment or return on assets does not affect dividend payout ratio. Based on this description, this study formulates the following hypothesis.

H2: Profitability affects dividend policy.

1.6.3. Profit growth and dividend policy

The growth rate reflects the ability of a company to maintain its economic position in the growth of the industrial economy. The company's growth is expected to provide a positive signal of investment opportunities. Investors view growth as a prospect for companies that have high growth potential which is predicted to be able to provide high returns in the future. The company's growth rate is predicted to influence dividend policy (Kodrat & Herdinata, 2009; Weston & Copeland, 2010; Puspitaningtyas, 2015). One indicator of growth rates is growth in profits. The rate of profit growth is predicted as one of the factors that influence dividend policy.

Growth rates reflect high investment opportunities. However, companies with high growth rates tend to have lower funding decisions. In addition,

policies related to dividend distribution also tend to be lower (Kodrat & Herdinata, 2009). The higher the growth rate of a company, the greater the funds needed to finance this growth. The greater need for funds will encourage companies to make decisions to hold their profits rather than share them as dividends to investors. That is, the higher the growth rate of a company, the lower the company's policy to distribute dividends to investors. This is because, available funds will tend to be used to be reinvested in the company. Conversely, companies with low growth rates tend to make funding decisions by attracting outside funds to fund their investment activities. Thus, companies will tend to share most of their profits to be paid in the form of dividends to investors.

Atmaja (2008) and Wiagustini (2010) state that based on the Residual Dividend Theory mentioned earlier, in point (a) where the company considers possible investment opportunities so that if the investment opportunity is good enough, the company tends to hold its profits to be able to invest so that it can increase its growth.

Forti et al. (2015) prove that the growth of companies measured using profit growth affects dividend policy. Sari and Sudjarni (2015) and Sari et al. (2016) prove that the company's growth is measured using an indicator of the increase in assets (growth in assets) influencing dividend policy. Meanwhile, Sulistiyowati et al. (2010) prove that company growth measured using growth in assets does not affect dividend policy. Based on this description, this study formulates the following hypothesis.

H3: Profit growth affects dividend policy.

2. METHODOLOGY

2.1. Population and sampling method

The study population consists of all banking companies listed on the Indonesia Stock Exchange in the period of 2014–2017, namely as many as 34 companies. Sampling is done by purposive sampling method, meaning that the sample is chosen based on certain criteria. The sampling criteria in this study are as follows:

- 1) banking companies listed on the Indonesia Stock Exchange and publishing summary of financial statements on the Indonesian Capital Market Directory for the 2014–2017 period; and
- 2) companies that distribute dividends for four consecutive years, namely in the period of 2014–2017.

Based on the sampling criteria, the number of samples in this study were 10 companies. A total of 10 company samples multiplied by a four-year study period (2014–2017) will be the total number of observations (frequency of observations), which is as many as 40 observations. Furthermore, 40 data were analyzed using multiple linear regression method. Table 1 presents results of sampling based on the criteria set out in this study.

Table 1. Sampling results

| No. | Description | Total |
|-----|--|-------|
| 1 | Go public banking companies listed on the Indonesia Stock Exchange and publishing financial statements for the period of 2014–2017 | 34 |
| 2 | Companies that do not publish financial statements for the 2014–2017 period | 5 |
| 3 | Companies that have not made consecutive dividend payments during the study period | 19 |
| | Total | 10 |

2.2. Data collection

The data used for analysis is secondary data, namely summary of the financial statements of banking companies listed on the Stock Exchange during the period of 2014–2017.

2.3. Data analysis techniques

The collected data is then analyzed using multiple linear regression analysis for hypothesis testing, consisting of: test coefficient of determination (R^2), feasibility test model (F test), and t test. However, the classic assumption test was first carried out, consisting of: data normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

3. RESULTS

3.1. Classical assumption test results

The classical assumption test is carried out before testing the hypothesis. The classical assumption test is conducted in this study, namely: data normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The classical assumption test results are as follows.

3.1.1. Data normality test

Data normality test was carried out using the Kolmogorov-Smirnov test, provided that the significance value was more than 0.05 or 5% (sign. > 0.05). The results of the data normality test show that leverage, profitability, profit growth, and dividend payout ratio have a significance value of more than 0.05, respectively at 0.071, 0.565, 0.179 and 0.061. That is, the data available for analysis is normally distributed, so that it can be used to test hypotheses. The results of the data normality test are presented in Table 2.

Table 2. Data normality test results

Source: Analysis results.

| Description | Leverage | Profitability | Profit growth | Dividend payout ratio |
|--------------|----------|---------------|---------------|-----------------------|
| N | 40 | 40 | 40 | 40 |
| Significance | 0.071 | 0.565 | 0.179 | 0.061 |

3.1.2. Multicollinearity test

Multicollinearity test is done to detect the presence or absence of correlation between independent variables. Multicollinearity test is done by looking at the value of the variance inflation factor (VIF) and tolerance value. The results of the multicollinearity test show that VIF value < 10.00 and tolerance value > 0.1 (as presented in Table 3). That is, that the three independent variables (i.e. leverage, profitability and profit growth) do not have multicollinearity. Thus, the three independent variables in this study can be used to predict the dividend payout ratio as an indicator of measuring dividend policy during the observation period.

Table 3. Multicollinearity test results

Source: Analysis results.

| Variable | VIF value | Tolerance value | Description |
|---------------|-----------|-----------------|-------------------------------|
| Leverage | 1.079 | 0.930 | There is no multicollinearity |
| Profitability | 1.046 | 0.969 | There is no multicollinearity |
| Profit growth | 1.038 | 0.971 | There is no multicollinearity |

3.1.3. Heteroscedasticity test

Heteroscedasticity test is conducted to find out whether the independent variable explains the residual variable more than explaining the dependent variable. Heteroscedasticity tests are carried out using scatterplot charts. If the points formed spread randomly, which is spread both up and

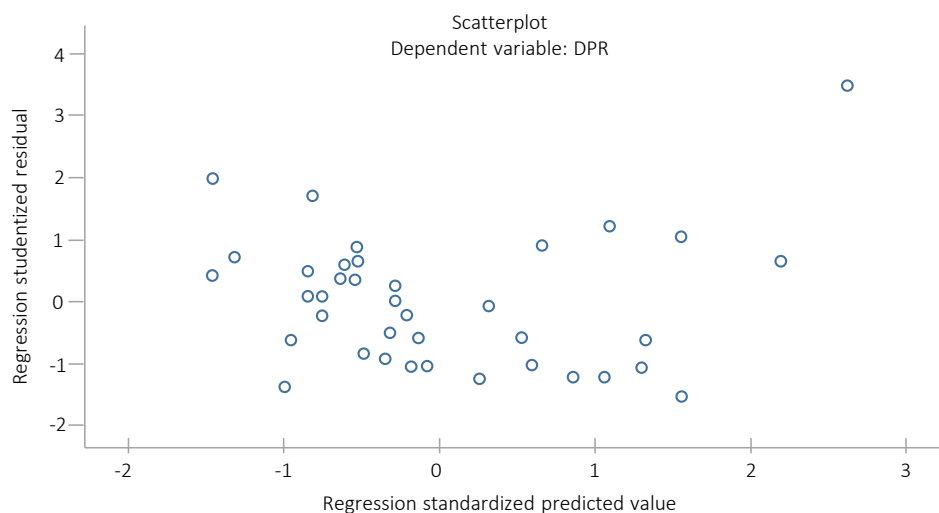


Figure 2. Heteroscedasticity test results

down the number 0 on the Y axis, it can be concluded that heteroscedasticity does not occur. The results of heteroscedasticity test show that the points in the scatterplot graph are scattered randomly (as presented in Figure 2). That is, the three independent variables in this study do not have an influence on the residual variables, thus fulfilling the assumption of heteroscedasticity.

3.1.4. Autocorrelation test

The autocorrelation test was conducted to determine the presence or absence of a correlation between the time of observation or observation, which is between period t and period $t - 1$, using the Durbin-Watson test (DW-test). It is concluded that there is no autocorrelation, if the $DW > DU$ and $(4-DW) > DU$ values or can be denoted as follows: $(4-DW) > DU < DW$. The autocorrelation test results obtained a DW value of 1.791. In the DW table for $k = 4$ and $n = 40$ is at the value of $DU = 1.721$ and the value of $4 - DW = 2.209$. These results indicate that there is no autocorrelation between the observation periods ($1.791 > 1.721$ and $2.209 > 1.721$). The results of the autocorrelation test are presented in Table 4.

Table 4. Autocorrelation test results

Source: Analysis results.

| Model | Durbin-Watson test |
|-------|--------------------|
| 1 | 1.791 |

3.1.5. Multiple linear regression analysis

The results of multiple linear regression analysis are presented in Table 5.

Table 5. Results of multiple linear regression analysis

Source: Analysis results.

| Variable | Coefficient | Significance | Description |
|---------------|-------------|--------------|-----------------|
| Constant | 165.36 | - | - |
| Leverage | -1.509 | 0.016 | Significant |
| Profitability | 0.538 | 0.897 | Not significant |
| Profit growth | 0.061 | 0.791 | Not significant |

Note: R Square (R^2) = 0.259; Significance value $F = 0.048$.

Based on these tables, multiple linear regression equations can be arranged as follows:

$$Y = 165.36 - 1.509 x_1 + 0.538 x_2 + 0.061 x_3, \quad (1)$$

where Y – dividend payout ratio; x_1 – leverage; x_2 – profitability; x_3 – profit growth.

The multiple linear regression equation is meaningful, that:

- the constant of 165.36 shows that if the three independent variables are constant ($x_1 = 0, x_2 = 0,$ and $x_3 = 0$), there will be an increase in the dividend payout ratio of 165.36%;
- b_1 of -1.509 indicates that whenever there is an increase in leverage of 1% there will be a decrease in the dividend payout ratio of 1.509% assuming other variables are constant;
- b_2 of 0.538 indicates that any 1% increase in profitability will increase the dividend payout ratio of 0.538% assuming other variables are constant; and
- b_3 of 0.061 indicates that every increase in profit growth by 1% will result in an increase in the dividend payout ratio of 0.061% assuming other variables are constant.

3.1.6. The coefficient of determination (R^2)

The coefficient of determination (R^2) is 0.259 or 25.9%, meaning that the ability of the independent variable in explaining the variation of the dependent variable is 25.9, while the remaining 74.1% is explained by other variables outside the regression model in this study.

3.1.7. F test

The results of the F test show that a significance value of 0.048 is obtained. Because the significance value is smaller than 0.05 ($0.038 < 0.05$), it can be concluded that multiple linear regression models with three independent variables (i.e. leverage, profitability, and profit growth) simultaneously have a significant effect on dividend payout ratio as the dependent variable. That is, the regression model along with three variables is feasible and can be used to predict dividend payout ratio as the dependent variable.

3.1.8. T test

The results of the t test show the partial effect of the independent variable on the dependent variable as follows.

1. The significance value obtained for the variable leverage is 0.016. Because the significance value is smaller than 0.05 ($0.016 < 0.05$), it can be concluded that the leverage variable has a significant effect on the dividend payout ratio variable as an indicator of the dividend policy variable.
2. The significance value obtained for the variable profitability is 0.897. Because the significance value is greater than 0.05 ($0.897 > 0.05$), it can be concluded that the profitability variable does not affect the dividend payout ratio variable as an indicator of the dividend policy variable.
3. The significance value obtained for the profit growth variable is 0.791. Because the significance value is greater than 0.05 ($0.791 > 0.05$), it can be concluded that the profit growth variable does not affect the dividend payout ratio variable as an indicator of the dividend policy variable.

4. DISCUSSION

4.1. Effect of leverage on dividend policy

Based on the results of the study, it is known that the significance value of leverage measured by the total debt to assets ratio is smaller than 0.05 (sign < 5%) and the coefficient is negatively directed. These results indicate that leverage has a negative and significant effect on dividend policy as measured by the dividend payout ratio. That is, the higher the level of leverage of a company, the lower the dividend policy relating to the distribution or payment of dividends to investors. These results prove that the hypothesis which states leverage affects the dividend policy can be accepted (*H1* is accepted).

The results of this study support the residual dividend theory (Atmaja, 2008; Wiagustini, 2010) that one of the dividend policies is determined by the company by considering the target capital structure and then distributing dividends with only the remaining profit. The results of this study are consist-

ent with the results of a study conducted by Asif et al. (2011), Forti et al. (2015), Sari and Sudjarni (2015), Sari et al. (2016), and Nurchaqiqi and Suryarini (2018) which proves that leverage has a significant effect on dividend policy. However, the results of this study are not consistent with the results of the study by Sulistiyowati et al. (2010), Puspitaningtyas (2012a), and Puspitaningtyas and Kurniawan (2012a) who prove that leverage does not affect dividend payout ratio as an indicator of dividend policy.

Based on the results of this study, it can be concluded that leverage is one of the considerations for predicting or determining policies relating to the distribution or payment of dividends. If the company is in a condition of bearing a high debt, the company is obliged to fulfill the obligations of the debt along with the interest expense. When a company takes a policy that the fulfillment of obligations on debt will be taken from retained earnings, the company must separate a large portion of its income to pay off the debt. That is, only a small portion of the income that will become profits or company profits will be available that can be distributed as dividends to investors.

4.2. Effect of profitability on dividend policy

Based on the results of the study, it is known that the significance value of profitability as measured by return on assets is greater than 0.05 (sign. > 5%). That is, profitability does not affect dividend policy as measured by the dividend payout ratio. These results prove that the hypothesis stating that profitability affects the dividend policy is not acceptable (*H2* is rejected).

The absence of such influence is because companies tend to choose to hold profits rather than share it in the form of dividends. The retained earnings are intended to be reinvested in the company. In addition, the company also tends to hold its profits in the interests of business expansion. These results indicate that profitability is not a determining factor in dividend policy (distribution or payment).

The results of this study are not in accordance with smoothing theory (Zulkifli, 2008) which explains that profits obtained by the company in a period become an important consideration for the company in determining the amount of dividends to be dis-

tributed to investors. The results of this study are not consistent with the results of the study by Mustofia et al. (2014), Forti et al. (2015), and Sari et al. (2016) which prove that profitability affects dividend policy. However, the results of this study are consistent with the results of a study by Sulistiyowati et al. (2010), Sari and Sudjarni (2015), and Puspitaningtyas and Kurniawan (2012a) which prove that profitability does not affect dividend policy.

4.3. Effect of profit growth on dividend policy

Based on the results of the study, it is known that the significance value of earnings growth as measured by net income growth is greater than 0.05 (sign. > 5%). That is, earnings growth does not affect dividend policy as measured by the dividend payout ratio. This indicates that dividend policy making does not consider the position of corporate profit growth. These results prove that the hypothesis which states the effect of earnings growth on dividend policy is unacceptable (*H3* is rejected).

Profit growth as an indicator of the growth variable does not affect dividend policy. This is due to the existence of company policies, as follows:

- 1) company needs to meet the maximum cash balance, so that the company is in a liquid

condition. If this policy has been fulfilled, the company tends to share its profits in the form of dividends, so that there is no idle cash;

- 2) the need for companies to finance debt. If the company has a debt burden that is too high, the company tends to hold its profits to finance the debt. This is done to maintain the survival of the company;
- 3) company needs to finance opportunities for expansion. However, if the opportunity for expansion is deemed unprofitable for the company, the company tends to take other policies on its retained earnings. The policy can be in the form of distributing dividends in a larger proportion so as to maintain the stability of the company's stock price.

The results of this study are not in accordance with the Residual Dividend Theory which states that decision making or dividend policy is done by considering investment opportunities and distributing dividends with residual profits (Atmaja, 2008; Wiagustini, 2010). The results of this study are not consistent with the research conducted by Forti et al. (2015) which proves that company growth measured using profit growth affects dividend policy.

CONCLUSION

The assessment of bank financial performance in this study is measured using variables of leverage, profitability and profit growth. Furthermore, the effects on dividend policy are analyzed. It can be concluded that leverage has a negative and significant effect on dividend policy. These results indicate that the higher the level of leverage of a company, the lower the company's policy in terms of dividend distribution. Thus, investors who want to buy banking stock prices listed on the Indonesia Stock Exchange with consideration of dividends as the main factor should pay attention to the level of company leverage. Because, the results of the study prove that the level of leverage partially has a significant influence on the issuer's dividend policy. Meanwhile, profitability and profit growth do not affect dividend policy. These results indicate that the company's decision making or dividend policy related to dividend distribution to investors does not consider the position of profitability and the company's profit growth. In other words, profitability and profit growth are not a determining factor in dividend policy making. Therefore, this results support the residual dividend theory that one of the dividend policies is determined by the company by considering the target capital structure and then distributing dividends with only the remaining profit.

CONFLICT OF INTEREST

The study has no conflict of interest and is not funded through any source.

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