Eurasia: Economics & Business, 9(51), September 2021
DOI https://doi.org/10.18551/econeurasia.2021-09

UDC 332

THE EFFECT OF LIQUIDITY, PROFITABILITY, LEVERAGE, INVESTMENT OPPORTUNITIES, AND INDEPENDENT BOARDS ON DIVIDEND POLICY: A STUDY ON IDX80 NON-FINANCIAL COMPANIES IN 2019-2020

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ABSTRACT
Dividend policy shows a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings for investment financing in the future. Dividend policy is one of the most important decisions in relation to maximize firm value. The purpose of this study was to obtain empirical evidence regarding the effect of liquidity, profitability, leverage, investment opportunities, and independent board on dividend policy.This research was conducted on IDX80 non-financial companies listed on the Indonesia Stock Exchange for the 2019-2020 period as many as 26 companies with 52 observational data. The sample was determined using nonprobability sampling method with purposive sampling technique. The data collection method used is non-participant observation method. The analysis technique used is multiple regression analysis. The results show that liquidity, leverage, and independent board have a negative and significant effect on dividend policy. Profitability and investment opportunities have no significant effect on dividend policy.The implication that can be given from this finding is that this study can provide information to management to pay attention on the level of liquidity, leverage, and the percentage of independent boards in the company that can affect dividend payments to be lower. Management is expected to pay attention to variables that do not affect dividend policy such as profitability and investment opportunities. This condition may indicate that there are other factors that may limit the relationship between profitability and investment opportunities to dividend policy, so it needs to be investigated and observed further

KEY WORDS
Dividend policy, liquidity, profitability, investment opportunity.

Along with the development of technology, the business world is also developing and more go public companies are appearing in developing countries, especially Indonesia. The number of companies going public causes investor interested to invest even greater. Investors have the main goal of investing their funds into the company to seek income in the form of capital gains and dividends. Investors who want income in the long term generally choose capital gains, while to obtain income in a shorter period of time, investors want a stable dividend distribution compared to capital gains. Investors generally want a relatively stable dividend distribution because dividend stability can increase investor confidence in the company, thereby reducing investor uncertainty in investing their funds in the company.Income in the form of dividends has a smaller risk compared to capital gains because shareholders can receive the income in a short period of time (Brigham and Houston, 2018: 584). Therefore, it is important for management to regulate the company's dividend policy that can meet shareholder expectations.

Dividend policy is a type of financial decision that affects the amount of income a company distributes to shareholders and what amount is retained and reinvested. Dividend policy refers to the payment policy made by the company in determining the size and pattern of cash distribution to shareholders from time to time. Dividend policy affect shareholder wealth and the company's ability to maintain profits (Wahjudi, 2019). The company's dividend policy can be seen from the size of the dividend payout ratio, namely the amount of dividends per share compared to earnings per share (Nurmalasari and Baskara, 2019). The

DOI https://doi.org/10.18551/econeurasia.2021-09

purpose of the dividend policy for the company is to maximize shareholder wealth by distributing profits. The stable dividend policy can maximize the company's share price (Brigham et al, 2018: 582).

Some companies that are listed in large capitalization stocks such as IDX80 on the Indonesia Stock Exchange tend to distribute large dividends to shareholders. IDX80 is an index that measures the performance of 80 shares of companies that have high liquidity and large market capitalization and are supported by good company fundamentals. IDX80 was first published by the Indonesia Stock Exchange on February 1, 2019. Several companies included in the IDX80 index are PT H.M SampoernaTbk (HMSP), PT Indocement Tunggal PrakasaTbk (INTP), PT Bukit AsamTbk (PTBA), and PT Telekomunikasi Indonesia (Persero) Tbk (TLKM). These companies distribute dividends exceeding 100% of the current year's profit.

PT H.M SampoernaTbk earned a profit in 2019 of IDR 13.72 trillion and in 2020 the profit decreased to IDR 8.58 trillion. Dividends distributed by the company amounted to Rp. 13.63 trillion in 2019 and Rp. 13.93 trillion in 2020. The dividend distribution ratio of PT H.M. SampoernaTbk is 99.35% and 162.39% of the company's net profit in 2019 and 2020. PT Indocement Tunggal PrakasaTbk earned a profit in 2019 of Rp. 1.80 trillion and in 2020 profit increased to Rp. 1.81 trillion. Dividends distributed by the company amounted to Rp 2 trillion in 2019 and Rp 2.67 trillion in 2020. The dividend distribution ratio of PT Indocement Tunggal PrakasaTbk was 110.32% and 147.75% of the company's net profit in 2019 and 2020. PT Bukit AsamTbk earned a net profit of IDR 4.04 trillion for 2019 performance and decreased profit to IDR 2.41 trillion for 2020 performance. In 2019 and 2020 the company distributed dividends of IDR 3.84 trillion and IDR 3.66 trillion to shareholders or 95.08% and 152.04% of profits in 2019 and 2020. PT Telekomunikasi Indonesia (Persero) Tbk earned a profit in 2019 of Rp 27.59 trillion and in 2020 profit increased to Rp 29, 56 trillion. Dividends distributed by the company amounted to Rp 25.85 trillion in 2019 and Rp 23.04 trillion in 2020. The dividend distribution ratio of PT Telekomunikasi Indonesia (Persero) Tbk was 93.68% and 77.94% of the company's net profit in 2019 and 2020. There are companies in the IDX80 index that experienced an increase and decrease in profits in 2020, but the dividends distributed in 2020 did not change much when compared to dividends in 2019. This phenomenon led to the need for testing the factors that can affect the company's dividend policy. This study will identify several variables that affect dividend policy, namely liquidity, profitability, leverage, investment opportunities, and independent board.

Liquidity is an indicator of the company's ability to pay all short-term obligations using available current assets (Brigham and Daves, 2018: 308). The higher the liquidity, the company has cash that can be distributed as dividends to shareholders. Based on research by Sharma and Bakshi (2019) which examined 125 real estate companies listed on the Bombay Stock Exchange, it shows that liquidity has a positive and significant effect on dividend policy. Similar results were also found by Jabbouri (2016) who examined companies listed on eleven stock markets from ten MENA countries (Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates) in 2004 to 2013.

Profitability is a company's fundamental performance indicator to review the efficiency and effectiveness of the company's operations in obtaining profits (Brigham and Daves, 2018: 308). The higher the profit earned by the company, the greater the tendency to pay dividends to shareholders. Based on Basri's research (2019) on 15 state-owned companies listed on the Indonesia Stock Exchange, it shows that profitability has a positive and significant effect on dividend policy. Thakur and Kannadhasan (2018) research on 262 manufacturing companies included in the NSE 500 Index in India as well as Budagaga's (2020) research on all commercial banks listed on the stock market from 11 MENA countries (Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and UAE) during 2000–2015 also show that profitability has a positive and significant effect on dividend policy.

Leverage is an indicator to see the extent to which a company's assets are financed by debt compared to its own capital (Brigham and Daves, 2018: 308). The higher the leverage,

DOI https://doi.org/10.18551/econeurasia.2021-09

the less dividend payments to shareholders because the company still has debts to creditors. Based on research by Yusof and Ismail (2016) on 147 public companies in Malaysia, it shows that leverage has a negative and significant effect on dividend policy. Similar results were also found in Benjamin and Mahdy's research (2017) on companies that were included in Fortune 500 companies in 1986 and showed that leverage had a negative and significant effect on dividend policy.

Investment opportunities show the information that investors see about the company's past performance and the company's future prospects (Brigham and Daves, 2018: 308). Based on the pecking order theory, companies that have good investment opportunities will use internal finance to fund investment needs and subsequently these companies pay lower dividends (Brigham et al, 2018: 564). Dewasiri et al (2019)'s research on non-bank companies listed on the Colombo Stock Exchange (CSE) shows that investment opportunities have a negative and significant effect on dividend policy. Similar results were also found by Jabbouri (2016) who examined companies listed on eleven stock markets from ten MENA countries (Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates) in 2004 to 2013 which also shows that investment opportunities have a negative and significant effect on dividend policy.

Independent board is a board member who is not affiliated with management, other board members, controlling shareholders, and is free from business or other relationships that may affect the ability to act independently in the interests of the company. Based on the substitution model in agency theory, managers pay more dividends to minority shareholders if the company's corporate governance practices are weak. Managers choose to maintain a good reputation in the market by paying dividends if the firm has large agency conflict, has many inside directors, and few independent boards. The substitution model is more prominent when the company's agency problem is quite high in developing countries, so companies with better governance will reduce dividend payments (Sanan, 2019). Based on the results of research by Mehdi et al (2017) on 362 non-financial companies listed on the stock exchange for the period 2003-2011 and research by Sanan (2019) on 118 Indian companies, it shows that independent boards have a negative and signicant effect on dividend policy. Based on the background, the following hypothesis is formulated:

H1: Liquidity has a positive and significant effect on dividend policy;
H2: Profitability has a positive and significant effect on dividend policy;
H3: Leverage has a negative and significant effect on dividend policy;
H4: Investment opportunity has a negative and significant effect on dividend policy;
H5: Independent board has a negative and significant effect on dividend policy.

METHODS OF RESEARCH

This research uses quantitative data. In this study, non-probability sampling was used to collect samples with purposive sampling method, namely the sampling technique with certain considerations. The study was conducted on IDX80 non-financial companies because these companies distribute dividends in large amounts and have different leverage characteristics compared to financial companies. The study was conducted in 2019-2020 based on data from IDX80 companies which were first issued by the Indonesia Stock Exchange in 2019. This research was conducted on IDX80 non-financial companies listed on the Indonesia Stock Exchange for the 2019-2020 period as many as 26 companies with 52 observational data. The analysis technique used is multiple regression analysis.

RESULTS AND DISCUSSION

The results of the square coefficient determination (R^2) can be seen in Table 1. The coefficient of determination or R^2 = 0.637 indicates that 63.7% of the variation in dividend policy is influenced by liquidity, profitability, leverage, investment opportunities, and independent boards, the rest is influenced by other factors not included in the model.

DOI https://doi.org/10.18551/econeurasia.2021-09

Table 1 – Result of Square Coefficient Determination

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.637[a]	.405	.341	.42629

Source: Data Processed Results, 2021.

Table 2 – Result of F Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.700	5	1.140	6.274	.000[b]
	Residual	8.359	46	.182		
	Total	14.060	51			

Source: Data Processed Results, 2021.

The results of the F test calculation show a number of 6.274 with a significance of 0.000. The significance is below 5%. It can be concluded that the variables of liquidity, profitability, leverage, investment opportunities, and independent boards simultaneously affect the dividend policy.

Table 3 – Result of Multiple Regression

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.882	.279		6.754	.000
	Liquidity (X1)	-.190	.054	-.525	-3.554	.001
	Profitability (X2)	.197	1.153	.030	.171	.865
	Leverage (X3)	-.573	.144	-.598	-3.973	.000
	Investment Oppurtunity (X4)	.001	.001	.198	1.060	.294
	Independennt Boards (X5)	-2.032	.889	-.264	-2.286	.027

Source: Data Processed Results, 2021.

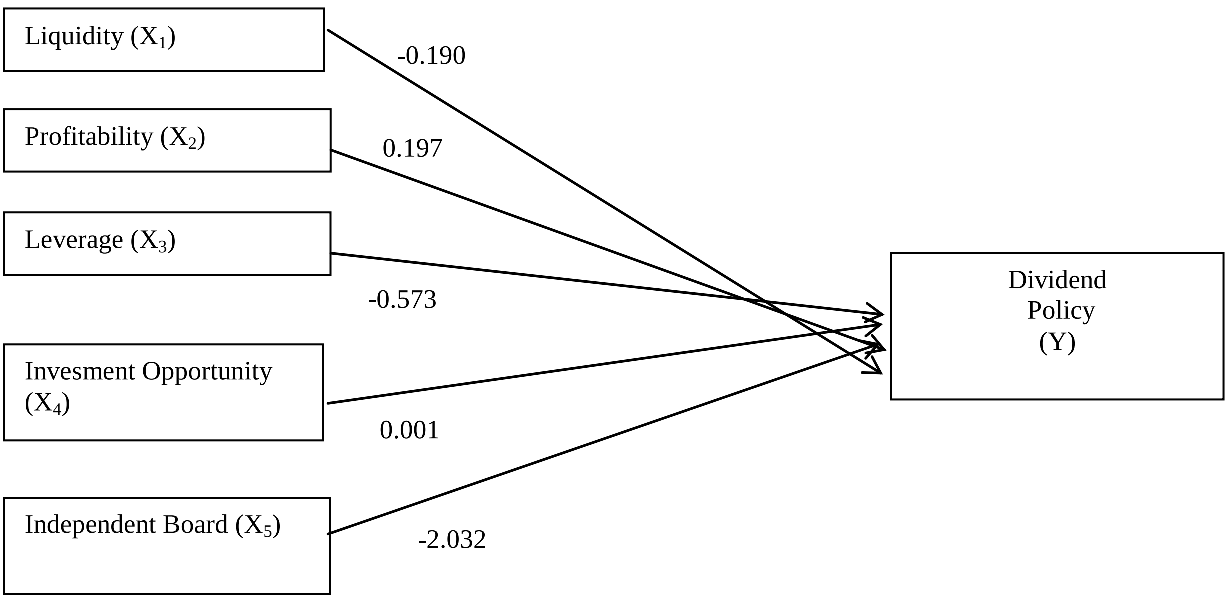

Figure 1 – Structural Model

Multiple regression equation can be seen as follows:

$$Y = 1,882 - 0,190X_1 + 0,197X_2 – 0,573\ X_3 + 0,001X_4 - 2,032X_5 + e$$

The effect of liquidity on dividend policy. Based on the results of multiple regression analysis, the coefficient value of the liquidity variable is -0.190 and the significance value is 0.001 or less than 0.05, but the regression coefficient is negative, thus hypothesis 1 is rejected. The results of this study prove that liquidity has a negative and significant effect on dividend policy. Based on the bird in hand theory, the higher the level of liquidity, the company has cash current assets that can be used to pay dividends. On the other hand, the lower the liquidity, the lower the company's ability to pay dividends. However, based on research results, the company's average cash amount is only one third of the total current assets. This shows that the company's high liquidity does not guarantee the availability of high cash in the company that can be used to pay dividends to shareholders. This condition also shows the company's ineffectiveness in managing current assets, which can be seen in the large proportion of inventories and the presence of large receivables that have a risk of being uncollected, so that it can have an impact on dividend payments to investors, which are smaller. This study shows that the relationship between liquidity and dividend policy is better proxied by the cash ratio, which is a ratio that compares the amount of cash owned by the company compared to its current liabilities. The results of liquidity research have a negative and significant effect on dividend policy, according to the results of Tahu et al (2017) and Wahjudi (2019) which state that liquidity has a negative and significant effect on dividend policy. The results of this study are not in accordance with the results of research by Jabouri (2016), Suarnawa and Abudanti (2016), Dewi and Sedana, and Sharma and Bakshi (2019) which state that liquidity has a positive and significant effect on dividend policy and the results of research by Dewasiri et al (2019) and Budagaga (2020) which states that liquidity has no significant effect on dividend policy.

The effect of profitability on dividend policy. Based on the results of multiple regression analysis, the coefficient value of the profitability variable is 0.197 and the significance value is 0.865 or greater than 0.05, thus hypothesis 2 is rejected. The results of this study prove that the profitability has no significant effect on dividend policy. Based on the bird in hand theory, the higher the profitability of a company, the higher the company's profit that can be distributed as dividends. Conversely, the lower the profitability of a company, the lower the profit that can be distributed as dividends. However, based on the results of the study, it shows that profitability has no effect on dividend policy. The higher the profitability is not always followed by an increase in dividend payments by the company. Based on the results of the study, some companies seem to maintain the percentage of dividend payments to remain stable regardless of the increase or decrease in profits earned. This condition is due to the fact that shareholders perceive fluctuating dividend distributions reflect the unstable condition of the company, thereby reducing shareholder confidence in the company. The results of research on profitability have no significant effect on dividend policy, in accordance with the results of research by Wedhana and Wiksuana (2015), Wahjudi (2019), Sharma and Bakshi (2019), and Barros et al (2020) which state that profitability has no significant effect on dividend policy. The results of this study are not in accordance with the research of Jabbouri (2016), Suarnawa and Abudanti (2016), Tahu et al (2017), Thakur and Kannadhasan (2018), Dewi and Sedana (2018), Sari and Wiksuana (2018), Perwira and Wiksuana (2018), Dewasiri et al (2019), Basri (2019), Putri and Purbawangsa (2019), Mnune and Purbawangsa (2019), and Budagaga (2020), which state that profitability has a positive and significant effect on dividend policy and the results of research by Benjamin and Mahdy (2017) which states that profitability has a negative and significant effect on dividend policy.

The effect of leverage on dividend policy. Based on the results of multiple regression analysis, the coefficient value of the leverage variable is -0.573 and the significance value is 0.000 or less than 0.05, thus hypothesis 3 is accepted. The results of this study prove that the leverage has a negative and significant effect on dividend policy. Based on the pecking order theory, the higher the leverage of a company, the lower the company's ability to pay dividends because the company has an obligation to pay debts first. The results of the study prove that the leverage ratio has a negative and significant effect on dividend policy. Companies with high debt levels tend to focus more on paying off their principal debt and interest expenses arising from the debt. This causes companies to hold dividends in the company compared to distributing them to investors to pay off their debt obligations first. The results of the study of leverage have a negative and significant effect on dividend policy in accordance with the results of research by Wedhana and Wiksuana (2015), Yusof and Ismail (2016), Jabbouri (2016), Benjamin and Mahdy (2017), Sari and Wiksuana (20180, Wahjudi (2019), Sharma and Bakshi (2019), and Basri (2019) which state that leverage has a negative and significant effect on dividend policy. The results of this study are not in accordance with the research by Tahu et al. (2017) which states that leverage has a positive and significant effect on dividend policy and the results of research by Thakur and Kannadhasan (2018), Dewasiri et al (2019), Teng et al (2020), and Anggara and Dwirandra (2020) that leverage has no significant effect on dividend policy.

The effect of investment opportunity on dividend policy. Based on the results of multiple regression analysis, the coefficient value of the investment opportunity variable is 0.001 and the significance value is 0.294 or greater than 0.05, thus hypothesis 4 is rejected. The results of this study prove that investment opportunities have no significant effect on dividend policy. Based on the pecking order theory, the higher the investment opportunity of a company, the lower the dividend payment made by the company because the company uses internal funds to finance its investment. Conversely, the lower the investment opportunity of a company, the higher the dividend payment made by the company. However, based on the results of the study, it proves that investment opportunities have no effect on dividend policy. The higher or lower the company's investment opportunities does not affect the high or low dividends given by the company. There are several companies that have a stock market value that is much larger than other companies but pay dividends to shareholders at the same percentage. In addition, companies that have investment opportunities may not necessarily invest in that year. If the company wants to invest, the company can finance the investment by obtaining debt from outside the company without having to affect the distribution of dividends to shareholders. Managers view investment decisions and dividend decisions as separate things so that when the company has investment opportunities, it does not mean that the company will withhold the decision to pay dividends to shareholders. The results of the research on investment opportunities have no significant effect on dividend policy, in accordance with the results of research by Benjamin and Mahdy (2017), Sari and Wiksuana (2018), Sharma and Bakshi (2019), and Budagaga (2020) which state that investment opportunities have no significant effect on dividend policy. The results of the study are not in accordance with research by Thakur and Kannadhasan (2018) which states that investment opportunities have a positive and significant effect on dividend policy and research results by Jabbouri (2016) and Dewasiri et al (2019) which state that investment opportunities have a negative and significant effect on dividend policy.

The effect of independent board on dividend policy. Based on the results of multiple regression analysis, the coefficient value of the independent board variable is -2.032 and the significance value is 0.027 or less than 0.05, thus hypothesis 5 is accepted. The results of this study prove that the independent board has a negative and significant effect on dividend policy. Based on the substitution model in agency theory, the higher the percentage of the number of independent boards, the lower the amount of dividends distributed. Conversely, the lower the percentage of the number of independent boards, the higher the amount of dividends distributed. Based on the research results prove that the independent board has a negative effect on dividend policy. The higher the percentage of the number of independent boards in the company, the dividend payments made by the company will decrease. This is because the agency costs incurred by the company to pay an independent board reduce the company's ability to pay dividends to shareholders. The results of this study support the substitution model on agency theory which shows a negative relationship between board independence and dividend policy. The results of research by independent boards have a negative and significant effect on dividend policy, according to the results of research by Mehdi et al (2017), Cahyadi et al (2018), and Sanan (2019) which states that independent boards have a negative effect on dividend policy. These results are not in accordance with research by Pahi and Yadav (2019) and Rajput and Jhunjhunwala (2019) which stated that independent boards have a positive and significant effect on dividend policy and research

DOI https://doi.org/10.18551/econeurasia.2021-09

results by Aulia et al (2015), Mohamed et al (2017), Cholifah and Nuzula (2018), Tahir et al (2019), and Hendra and Anam (2020) which state that an independent board has no significant effect on dividend policy.

Limitations. The study only examines the effect of the variables of liquidity, profitability, leverage, investment opportunities, and independent board on dividend policy. There are other variables that can be tested for their effect on dividend policy but are not included in the study, such as company size and share ownership structure. The study uses certain ratios as proxies for research variables such as the current ratio, return on equity ratio, debt to equity ratio, market to book ratio, as well as the percentage of the number of independent boards compared to the total number of boards. The use of other ratios as proxy variables can give different research results, such as the use of cash ratios to proxy the effect of liquidity variables on dividend policy. The research was only conducted on non-financial companies indexed by IDX80 so that the research results cannot be generalized to all companies listed on the Indonesia Stock Exchange. The research was only conducted in 2019-2020 so that the research results cannot be generalized to all observation periods.

CONCLUSION AND SUGGESTIONS

Based on the results of the research analysis, the conclusion of this study is that liquidity, leverage, and independent board have a negative and significant effect on dividend policy and profitability and investment opportunities have no significant effect on dividend policy. The implication from this study provides that management would know that liquidity has a negative and significant effect on dividend policy. Management can pay more attention to the level of liquidity because liquidity that is too high does not always indicate the effectiveness of the company in managing the amount of receivables and inventories which can affect the availability of the company's internal cash to be able to pay dividends. Second, management would know that profitability has no significant effect on dividend policy. This condition occurs because management strives to maintain a stable dividend payout ratio in order to maintain shareholder confidence regarding the distribution of company profits to shareholders. Third, management would know that leverage has a negative and significant effect on dividend policy. Management can pay attention to the high amount of corporate debt because the company will focus on paying off the principal debt and interest expense arising from the debt rather than paying dividends to shareholders. Forth, management would know that investment opportunities have no significant effect on dividend policy. This is because companies that have investment opportunities do not necessarily invest in that year. If the company wants to invest, the company can finance the investment by obtaining debt from outside the company without having to affect the distribution of dividends to shareholders. And last, management would know that the independent board has a negative and significant effect on dividend policy. The higher percentage of independent board members causes higher agency costs incurred by the company to pay the independent board thereby reducing the company's ability to pay dividends to shareholders. The sugestion that can be given from this finding is that this study can provide information to management to pay attention to the level of liquidity, leverage, and the percentage of the number of independent boards in the company that can affect dividend payments to be lower and to inform management that profitability and investment opportunity do not have a significant effect on dividend policy. Management is expected to pay attention to variables that do not affect dividend policy such as profitability and investment opportunities. This condition may indicate that there are other factors that may limit the relationship between profitability and investment opportunities to dividend policy, so it needs to be investigated and observed further. Future research is expected to be able to use other proxies to examine variables that affect dividend policy, such as using the cash ratio to proxy liquidity, examine other independent variables that can affect dividend policy, such as company size and share ownership structure, adding observation periods, and researching the company sector. others listed on the Indonesia Stock Exchange.

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