Dividend Policy Determinants in Construction and Building Companies: Indonesia Stock Exchange

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Abstract. The purpose of this study is to determine the dividend policy in the construction and building industry companies listed on the Indonesia Stock Exchange in the 2014-2017 period. This study uses secondary data in the form of financial statements in 2014-2017 accessed at www.idx.co.id. The sampling method uses a purposive sampling method and the numbers of samples selected are 8 construction and building companies listed on the Stock Exchange. The data were analysed with panel data. The results showed that the Cash Ratio (CR) had a negative and not significant effect on the dividend payout ratio. Financial leverage (debt to equity ratio) had a negative and not significant effect on the dividend payout ratio. The proportion of retained earnings has a negative and significant effect on the dividend payout ratio.

Keywords: Dividend Payout Ratio · Cash Ratio · Debt to Equity Ratio · Proportion of Retained Earnings

1 Introduction

Indonesia is one of the developing countries in the world. This can be proven by the ongoing developments in various sectors, one of which is the economic sector which is still slow compared to other developed countries. At the beginning of 2018, the World Bank focused its attention on Indonesia's positive achievements in the global economic environment. The Indonesian economy is projected to improve to 5.01% in the second quarter and 5.06% in the third quarter of 2018. This achievement can attract the enthusiasm of entrepreneurs to choose to manage companies in Indonesia [1].

The government policy that targets dividends paid by SOEs rises 9.22% from IDR 40 trillion in 2017 to IDR 43.69 trillion in 2018. This is based on the trend of the previous three years that there is a tendency to increase the payout ratio of SOE issuers such as issuers BUMN Karya, which previously only paid 20% as dividends from its 2015 net income, deposited 30% of its profits as dividends from its 2016 net income. The issuers that increased their company payout ratios were WIKA, PTPP, WSKT, and ADHI [2].

In the building construction subsector, some companies do not pay dividends regularly every year to shareholders. Among them is the company PT Nusa Konstruksi Engineering Tbk which does not provide dividends due to losses received by the

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company with a range of Rp 3.86 trillion in 2016 and continues to experience financial difficulties. Another case with PT Waskita Karya Tbk, which continues to increase the amount of dividends each year, amounting to Rp 5.13 trillion in 2017 [3].

In terms of dividend distribution, many factors can be considered in determining dividend payments in a company, including cash ratio, debt to equity ratio, market to book value, institutional ownership and return on assets [4] [5]. Cash ratio is one measure of liquidity ratio which is the company's ability to meet current liability through several amounts of cash (and cash equivalents, such as current accounts or other deposits in banks that can be withdrawn at any time) owned by the company [6]. The cash ratio has a positive and significant effect on dividend policy. This means that any increase in the value of the cash ratio will also increase the value of the dividend policy which is proxied by the dividend payout ratio. But in reality a high level of cash ratio is not necessarily a high dividend distribution, sometimes companies use available cash to pay large short-term debt or finance other companies' operations.

Finance leverage is the financing of a portion of a company's assets with marketable securities that have a fixed (limited) interest rate by expecting an extraordinary increase in earnings for shareholders [7]. A company is said to use financial leverage if it uses a portion of its assets with interest payment securities, such as debt to banks, issuing bonds or preferred shares. In construction companies, especially those working on government projects, payments are usually made at the end of the fiscal year, this results in disruption of the company's cash flow and the company must seek initial capital to work on projects using loans. The financial leverage ratio can be measured by the debt to equity ratio (DER) which has a negative effect on dividend policy. The greater the company's debt burden, the amount of profit distributed as cash dividends will decrease [8].

The proportion of retained earnings is the portion available to ordinary shareholders held by the company to be reinvested to pursue the company's growth. Retained earnings are part of the company's net income which is retained by the company and not paid as dividends to shareholders. This money is usually reinvested into the company, so that it becomes the main source of funds for the company's continued growth, or is used to pay off the company's debts [9]. The proportion of retained earnings harms dividend policy. If the portion of the company's retained earnings goes up, the value of the dividend payout ratio will decrease [10].

2 Literature Review

2.1 Cash Ratio

Cash ratio is the ratio of a company's ability to meet its short-term obligations through some amounts of cash, cash equivalents, and short-term investments. This ratio shows the most liquid current assets and can be used to meet short-term liabilities [11]. Cash Ratio is a tool used to measure how much cash is available to pay debts. The cash ratio is the ratio of current debt to cash or cash equivalents. cash dividends are cash outflows, therefore companies paying dividends to shareholders must have sufficient cash available so as not to reduce the level of company liquidity. The availability of cash can be shown from the availability of cash funds or cash equivalents such as checking or savings accounts in banks (which can be withdrawn at any time). It can be said that this ratio shows the real ability of the company to pay its short-term debts [12]

2.2 Financial Leverage

Financial Leverage is the use of a source of funds that has a fixed burden by assuming that it will provide additional benefits greater than the fixed cost so that it will increase the profits available to shareholders [13]. Financial Leverage also means financing a portion of the company's assets with marketable securities that have a fixed (limited) interest rate by expecting an extraordinary increase in earnings for shareholders. Viewed from the above understanding of financial leverage owned by the company because of the use of capital/funds that have a fixed burden in corporate financing [14].

financial leverage ratio is a ratio to measure how far the company's assets are financed by debt, by knowing the financial leverage ratio can be assessed about the company's position against all obligations to other parties, the company's ability to meet obligations that are fixed and know the balance between the value of fixed assets with capital [15]

2.3 Retained Earning

Retained earnings arise from dividends not paid to the owner in this case shareholders. The purpose of not dividing the dividend is to reinvest to expand the product and to take precautions if there is a risk of loss. Companies that are in the early stages have more opportunities to invest than to generate cash. The best interest of the company at this stage is to form large retained earnings to achieve rapid company growth. Retained earnings are a source of internal costs used to finance company needs [16].

2.4 Devidend Policy

Dividend decision refers to an optimal dividend policy, which is a policy that can create a balance between current dividends and future growth so that it is following the concept of the goal of maximizing company value. Dividend policy is a decision to determine how much of the company's revenue will be distributed to shareholders and which will be reinvested or retained in the company [17]. The greater the retained earnings the less the amount of profit allocated for dividend payments. The allocation of determining profits as retained earnings and dividend payments are the main aspects of dividend policy. Dividend decision refers to an optimal dividend policy, which is a policy that can create a balance between current dividends and future growth so that it is under the concept of the goal to maximizing company value.

3 Method

The population in this study were 16 types of Building Construction companies that listed on the IDX. Then the sampling technique is by purposive sampling with Building

Construction companies criteria with a minimum initial public offering (IPO) scheduled for 2013 and which has a complete published financial report at the beginning of the observation period until the end of the observation period and companies that distribute dividends in succession participate during the observation period. The number of samples selected was 8 companies. The type of data used is panel data Analysis of the data in this study using panel data regression with the equation is:

Y_{it} $= \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e_{it}$
Y_{it} = Devidend Policy i and period t
α = Constant
β_1-β_4 = Coefficients Regression
X_1it = Cash Ratio i period t
X_{2it} = DER i period t
X_{3it} = Retained Earning i period t
e_{it} =*Error term*at bank i period t

4 Result

4.1 Model Selection Technique

To have the best model between CEM, FEM, and REM in the study, two tests were conducted, namely the Chow test and the Housman test. The Chow Test is used to choose between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). Then test Hausman to choose between Fixed Effect Model (FEM) and Random Effect Model (REM). The Chow test results can be seen in Table 1 below.

Table 1. Chow Test.

Effects Test	Statistic	d.f.	Prob
Cross-section	4.066901	(7,21)	0.0058
Chi-square	27.417915	7	0.0003

The Chow test above shows a probability value below 0.005 then the chosen model is FEM. Then proceed with the Hausman test as shown in Table 2 below.

Table 2. Hausman Test.

Test Summary	Chi-Sq Statistic	Chi-Sqdf	Prob
Cross-section random	1.854062	3	0.6032

Hausman test results obtained probability values above 0.05, the selected model is REM.

4.2 Data Panel Regression Estimation

In this study the chosen model is REM, the results of panel data regression with REM can be seen in Table 3 below:

Table 3. REM data panel regression estimation.

Variable	Coefficients	T_{test}	Prob
CR	-0.232281	-1.050228	0.3026
DER	-0.264661	-0.897181	0.3773
PLD	-0.087348	-2.287265	0.0299
C	5.749064	2.913116	0.0070

Table 3 REM above the cash ratio (CR) and leverage (DER) variables are not significant at the 5% level, while the variable proportion of retained earnings is significant at the 5% level.

5 Discussion

Dividend policy concerns decisions about the number of dividend payments and the amount of retained earnings for the benefit of the company. Retained earnings are one source of capital that comes from the company's internal. In this study, the cash ratio does not significantly influence the dividend policy which is proxied by a dividend payout ratio on Building Construction companies on the Indonesia Stock Exchange. This happens because the greater the cash or cash equivalent in a company, the dividend payout ratio will be lower. Thus the cash ratio does not significantly influence the dividend payout ratio [18] [191 [20].

Financial leverage (DER) also has no significant effect on dividend policy on Building Construction companies on the Indonesia Stock Exchange, this shows that the higher the DER, the lower the dividend payout ratio. [21] [22]. The proportion of retained earnings has a negative and significant effect on the dividend payout ratio. This condition occurs because the greater the retained earnings by the company, the smaller the number of dividends distributed because the amount of profit is reduced due to retained earnings and is used for other purposes such as expanding. The greater proportion of retained earnings will reduce the dividend payout ratio [23] [24].

6 Conclusion

The cash ratio does not have a significant effect on dividend policy which is proxied by a dividend payout ratio in Building Construction companies on the Indonesia Stock Exchange. This shows that the rise and fall of the cash ratio do not affect the dividend payout ratio. Financial leverage which is proxied by a debt to equity ratio also does not have a significant effect on dividend payout ratios at Building Construction Companies on the Indonesia Stock Exchange. Then the proportion of retained earnings has a negative and significant effect on dividend payout ratios at Building Construction companies on the Indonesia Stock Exchange. This shows that the greater the proportion of retained earnings, the lower the dividend payout ratio.

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