

THE STUDY OF THE COMPANY'S DIVIDEND POLICY AND THE SHARE PRICE IN INDONESIA

Stephanus Remond Waworuntu* and Natasia Claudy**

Abstract: This research is to investigate the relationship between dividend policy and share price of the Indonesian public listed companies. The dividend policy measured using the dividend payout ratios and dividend yield, while growth, firm's size and debt used as the control variables. The research use Kompas 100 Index with the observation periods from 2010 to 2014. The results showed dividend payout ratios and firm's size each has a significant positive relationship to the share price, whereas debt has a significant negative relationship to the share price. It is also found that dividend yield and growth variables are insignificant contribution to the share price.

Keywords: Dividend Policy, Dividend Payout Ratio, Dividend Yield, Share Price.

INTRODUCTION

Dividend is a distribution of firm's earnings to a shareholder. There are several types of dividend that are regular cash dividends, stock dividends, property dividends, and liquidating dividends (Ross, Weterfield, & Jordan, 2012). The decision on what types of dividend should the firm use to distribute the dividends will vary among firms. Most common type of dividend that the firms used is cash dividend while sometimes firms will likely distribute extra or special dividends.

The dividend policy needs to be considered carefully by the management whether the earnings of the firm will be distributed as a dividend to shareholder or use the earnings to expand the business. Firms that are in the growing stage will pay low dividend or do not pay dividend at all but large firms that already mature will usually pay dividend to their shareholder (Hussainey, Chijoke-Mgbame, & Chijoke-Mgbame, 2010).

There are several reasons why firm distribute dividend to shareholder. First, firms distributed dividend to maximize the shareholder's wealth, as their primary objective on buying stock is to get income from dividend and capital gain. Paying dividends will signal the investors that the firm is in a good financial performance and will likely increase the earnings in the future. This will increase the investor's confidence towards the firm (Jakata & Nyamugure, 2015). Investors will be attracted to the stock when firm pay dividends because it assumes will reduce the stock volatility and dividends will also reduce the agency costs that happened between the management and the shareholders (Ross, Weterfield, & Jordan, 2012). The objective of this study is to investigate the relationship between dividend policy and share price of the company that listed in Indonesia Stock Exchange (IDX). The

* Universitas Bina Nusantara, Jakarta, Indonesia

** Binus International Universitas, Jakarta, Indonesia

main research question is as follows: “Is there any relationship between dividend policy and share price?”

LITERATURE REVIEW AND HYPOTHESIS

Dividend policies determine how much earnings that will be distributed as cash dividends and how much portion that will be used for future investment (Ramadan, 2013). There are several types of dividend policies that the firms use to decide how to distribute the dividends. Regular Dividend Policy distributed in each period with fixed dollar dividend payment. The benefit from this policy is to create confidence from the shareholders, to stabilize the market value of shares, and to provide shareholders with regular dividend income. Constant Payout Ratio Dividend Policy means that a certain percentage of earnings will be paid to the investors in each dividend period. This policy has problem when the earnings of the firm is drop or there are no profit it will likely decrease the dividend or the firm will not distribute the dividend at all. This will affect the stock price of the firm as well. Low Regular and Extra Dividend Policy applied when a firm pays a low regular dividend to the shareholders but when the earnings are higher than normal it will likely distribute additional dividend. Extra dividend usually will be distributed if there is special event. Lastly is No Dividend Policy when a firm pays no dividend if they need more funds to invest in other operations or for the growth of the company.

Several researchers have studied the relationship between dividend policy and share price. Some studies showed a positive relationship between dividend policy and share price while other researchers supported the negative relationship between the two. Hussainey, Chijoke-Mgbame, & Chijoke-Mgbame (2010) examined the relationship between dividend policy and stock price volatility in UK from 1998 to 2007. The independent variables are dividend payout ratio and dividend yield. Other variables to support the analysis are size, growth, earnings volatility, and debt. Their results showed significant negative relationship between payout ratio and the stock price. The dividend yield also have negative relationship towards the stock price. As for the control variables, it was discovered that size had a significant negative relationship with price volatility while in the other hand debt showed significant positive relationship with stock price.

Hashemijoo, Ardekani, & Younesi (2012) studied the relationship between dividend policy and share price volatility that focused on consumer product companies listed in Malaysian stock market. 84 companies from 142 consumer product companies were selected as sample from the period of 2005 to 2010 and examined by applying multiple regression models. The measurement includes dividend payout, dividend yield, size, earning volatility, leverage, debt, and growth. The results show significant negative relationship between dividend payout and dividend yield on share price. Another results showed there is significant negative relationship between share price and size.

Habib, Kiani, & Khan (2012) studied on Pakistan stock market using cross sectional regression analysis stated the findings have significant positive relationship between dividend payout ratio and price volatility in Pakistan but for the control variables that are size and debt are negatively related.

Zakaria, Muhammad, & Zulkifli (2012) studied the impact between dividend policy and share price in Malaysia but using the Malaysian listed companies (2005 to 2009) as the sample and using square regression method. Based on the empirical result there is significant positive relationship between dividend payout ratio and share price but for the dividend yield it is insignificant negative.

Ramadan (2013) investigated the influence of dividend policy in share price volatility for 77 Jordanian industrial firms. Multiple least square regression have been used to analyze the data. The results showed significant negative effect for both dividend payout ratio and dividend yield on the share price volatility.

Al-shawawreh (2014) investigated the relationship between dividend policy and share price in Jordanian Stock Market in 2001 to 2013 using 53 companies listed in main market of Bursa Amman. The method used to analyze the data is using regression model. The studied showed there is significant negative relationship between dividend payout ratio and share price volatility and only a weak positive relationship between dividend yield and share price volatility.

Gunaratne, Samarakoon, & Priyadarshanie (2015) studied the impact of dividend policy on share price in Sri Lanka from 2006 to 2014. Regression model has been used to analyze all the data. Their results stated that dividend payout ratios have positive impact on share price while the dividend yield showed negative impact on share price.

Sharif, Ali, & Jan (2015) investigated the effect of dividend policy on stock prices. They used 45 non-financial companies listed on KSE-100 index. The results showed there are significant positive relationship between dividend payout ratio and share price.

Duke, D., & S.E (2015) studied the impact of dividend policy on share price valuation in Nigerian banks. The data used for this research are market price, dividend yield, and retention ratio. All data were tested using multiple regression method. The results showed the dividend yield have significantly positive effect on share price. As for the retention ratio was found to have significant negative effect on it.

Based on all of the above the authors have developed the following hypothesis as follows:

- H₁ : There is relationship between dividend payout ratios and share price.
- H₂ : There is relationship between dividend yield and share price.
- H₃ : There is relationship between firm's size and share price.

H₄ : There is relationship between growth and share price.

H₅ : There is relationship between debt and share price.

METHODS

Sample Size

The data that will be used in this research is based on secondary data. The annual reports are available in the company's official website and Indonesia Stock Exchange (IDX), and other resources including e-journals and textbooks. The criteria of the samples are the firms listed in Kompas100 from the period of February 2015 to July 2015, the firms have a complete annual report and distribute dividends from 2010 to 2014, and the firm's shares are listed in IDX from 2010 to 2014. Firms that have a stock split within this period were excluded as not to bias the share price. Total sample size for this research is 20 companies with 100 observations.

Regression Model

$$SP_{it} = \alpha + \beta_1 DPR_{it} + \beta_2 DY_{it} + \beta_3 Size_{it} + \beta_4 Growth_{it} + \beta_5 Debt_{it} + \varepsilon_{it}$$

Defined as:

SP: Share Price

DPR: Dividend Payout Ratio

DY: Dividend Yield

Size: Firm's Size

Growth: Firm's Growth

Debt: Firm's Debt

Variables and Measurements

In this part, the authors elaborate the variables used as the measurements for this study (Table 1). This type of research is quantitative analysis, so first the data that will be collected are the Dividend Payout Ratios (DPR) and Dividend Yield (DY). The control variables that will be used are firm's size, growth, and debt. These control variables also help explaining the relationship between independent and dependent variable.

TABLE 1: VARIABLES AND MEASUREMENTS

<i>Variables</i>	<i>Measurements</i>
	<i>Dependent Variables</i>
Share Price	$\text{LN} \left[\sum_{i=1}^n \text{Share Price (yearly)} \right]$

<i>Variables</i>	<i>Measurements</i>
<i>Independent Variables</i>	
Dividend Payout Ratio	$\frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$
Dividend Yield	$\frac{\text{Dividend Per Share}}{\text{Price Per Share}}$
<i>Control Variables</i>	
Firm’s Size	Ln Total Assets
Growth	$\frac{\text{Total Assets}_{\text{end}} - \text{Total Assets}_{\text{Beg}}}{\text{Total Assets}_{\text{Beg}}}$
Debt	$\frac{\text{Total Debt}}{\text{Total Assets}}$

FINDINGS AND DISCUSSION

Descriptive Statistics

The authors conduct a descriptive analysis to give further explanation about the data. Descriptive statistics provides the summaries of the data collection. In descriptive statistics there will be calculation of mean, median, and standard deviation. The following table shows the results of descriptive statistics.

TABLE 2: DESCRIPTIVE STATISTICS

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Share Price	100	5.30	10.91	8.2846	1.45102
DPR	100	0.10	0.85	0.3672	0.16273
DY	100	0.00	0.32	0.0306	0.0369
Growth	100	-20.21	56.36	16.8411	13.0189
Size	100	21.97	27.47	24.0306	1.36114
Debt	100	0.12	0.91	0.4569	0.21881

Table 2 describes the descriptive statistics results that covered all the variables uses for this research. From the table above, it is shown there are 100 total samples analyze for this research. Share price as the dependent variables has a minimum value of 5.30, which are represented by Astra Agro Lestari Tbk. On the other hand, the maximum value of share price is 10.91 represented by Gudang Garam Tbk. The average value (mean) of dependent variable is 8.28 and the standard deviation is 1.45. Dividend payout ratio (DPR) as the independent variable has a minimum

value of 0.10, which is represented by Lippo Karawaci Tbk and Alam Sutera Realty Tbk. On the other hand, the maximum value for dividend payout ratio is 0.85, which is represented by Indo Tambangraya Megah Tbk. The mean for dividend payout ratio is 0.3672 and the standard deviation is 0.16. The result for dividend yield (DY) shows the minimum value is 0.00 and the maximum value is 0.32, which is represented by Bank Central Asia Tbk and Matahari Putra Prima Tbk. The mean for dividend yield (DY) is 0.03 and the standard deviation is 0.03.

First control variable is growth, which in the table above shows the minimum value is -20.21 and the maximum value is 56.36, which is represented by Matahari Putra Prima Tbk and United Tractors Tbk. The mean for growth is 16.84 and the standard deviation is 13.01. Next control variable is firm's size. The result shows that the minimum value of size is 21.97, which is represented by Ramayana Lestari Sentosa Tbk. On the other hand, the maximum value is 27.47, which is represented by Bank Mandiri (Persero) Tbk. The mean for size is 24.03 and the standard deviation is 1.36. The last control variable will be the firm's debt. The table above shows the minimum value of debt is 0.12 and the maximum value is 0.91, which is represented by Indocement Tunggul Prakasa Tbk and Bank Mandiri (Persero) Tbk. The mean for debt is 0.45 and the standard deviation is 0.21.

Correlation Analysis

The use of correlation analysis is to provide better information on how each variable interact with other variables. In this research the variable that will be tested are share price, dividend payout ratio (DPR), Dividend Yield (DY), growth, firm's size, and debt.

TABLE 3: CORRELATION MATRIX

	<i>Share Price</i>	<i>DPR</i>	<i>DY</i>	<i>Growth</i>	<i>Size</i>	<i>Debt</i>
Share Price Pearson Sig. (2-tailed)	1					
Div.Payout Pearson Sig. (2-tailed)	0.352	1				
Div.Yield Pearson Sig. (2-tailed)	-0.024	0.158	1			
Growth Pearson Sig. (2-tailed)	0.066	-0.150	-0.27	1		
Size Pearson Sig. (2-tailed)	0.370	-0.265	-0.167	0.048	1	
Debt Pearson Sig. (2-tailed)	-0.248	-0.351	-0.096	-0.028	0.747	1
	0.342	0.000	0.342	0.779	0.000	

Table 3 shows there are several independent variables that have positive relationship with share price while others have negative relationship towards share price. Dividend payouts ratio, growth, and firm's size have positive correlation value with share price while dividend yield and debt have negative correlation with share price. Next, correlations between independent variables with dividend payout ratios shows only dividend yield that have positive correlation with the value of 0.158. All correlation between each independent variable with dividend yield shows a negative correlation. Size has a positive correlation with growth with the value of 0.048 while debt has a negative correlation with growth with the value of -0.028 . Last, Debt has a positive correlation with size with the value of 0.747.

Regression Result

The data are being processed using the step wise multiple regression analysis. In this analysis, all independent variables will be tested with the dependent variable. The dependent variable for this research is share price. The results will be explained in the following section.

TABLE 4: REGRESSION RESULTS

<i>Variable</i>	<i>Coefficient</i>	<i>T-Statistic</i>	<i>Sig.</i>	<i>VIF</i>
(Constant)	-16.440	-6.882	0.000	
Div.Payout	3.279	5.114	0.000	1.141
Size	1.069	9.941	0.000	2.266
Debt	-4.757	-6.903	0.000	2.403
R Square	0.569			
Adj. R Square	0.555			
F-Statistic	42.184			
Significance F	0.000			

First of all, the result of Adjusted R Square is 0.555. This can be interpreted as the independent variables can explain 55% of variations in dependent variable. This result also explains that the rest 45% will be influence by other factors besides the independent variables. F- test is conducted to know the validity of the model. F-test is considered valid if the p -values of F-Statistic is lower than $\alpha = 0.05$. Based on table 4.3 above, the model is valid as the p -values of F-Statistic is 0.000, which is lower than 0.05. Next, multicollinearity is a condition when each of independent variables is strongly correlated with each other. Based on the table 4 it shows that there is no multicollinearity problem since all the correlation value are lower than 10. The t-test is conducted to see whether each of independent variable significantly affects the dependent variable. T-test is done by looking at the results of each

independent variable if the results is lower than $\alpha = 0.05$, it means the independent variable is significantly affecting the dependent variable.

Dividend payout ratio as the independent variable has a coefficient of 3.279. This indicates that dividend payout ratio has a positive relationship with share price. Table 4.3 shows that the p-value of dividend payout ratio is 0.000 which is lower than $\alpha = 0.05$. This means dividend payout ratio is statistically significant to influence share price. Thus the hypothesis I (H1) is accepted. Hypothesis I is supported by previous studies by Habib, Kiani, & Khan (2012) in Pakistan. According to his findings, there is significant positive relationship between dividend payout ratio. This is inconsistent with the findings of Hussainey, Chijoke-Mgbame, & Chijoke-Mgbame (2010) that examined the relationship between dividend policy and share price in UK. The findings showed significant negative relationship between dividend policy and share price.

Next variable is size. It shows size has coefficient of 1.069. This indicates that firm's size has a positive relationship with share price. The p-value of size is 0.000 which is lower than $\alpha = 0.05$. This means size has significant influence to share price. Thus, the hypothesis IV (H4) is accepted. This result also in line with Zakaria, Muhammad, & Zulkifli (2012) that said the larger the size of a firm, the greater the firm needs to face the volatility of share price.

The last control variable is debt. The coefficient of debt is -4.757, which indicates debt has a negative relationship with share price. The p-value of debt is 0.000 which is lower than $\alpha = 0.05$. This means debt has significant influence to share price. Thus, the hypothesis V (H5) is accepted. This result is in line with Habib, Kiani, & Khan (2012) that stated debt is negatively influence the share price. It means when debt is increase, the value of share price will decrease.

CONCLUSION

Based on the results of this research, the conclusion regarding the relationship between dividend policy and share price are as follows:

Dividend Payout Ratio affect share price significantly. The regression coefficients of dividend payout ratio has a positive sign which means if there is an increase in dividend payout ratio, the share price will increase.

Size affect share price significantly. The regression coefficients of size has a positive sign which means if there is an increase in firm's size, the share price will increase.

Debt affect share price significantly. The regression coefficients of debt has a negative sign which means if there is an increase in debt, the share price will decrease.

The rest variables which are dividend yield and growth shows insignificant relationship with share price.

References

- Al-shawawreh, F. K. (2014). The Impact of Dividend Policy on Share Price Volatility: Empirical Evidence from Jordanian Stock Market. *European Journal of Business and Management* , 6 (38).
- Duke, S. B., D., N. I., & S.E, N. (2015). Impact of Dividend Policy on Share Price Valuation in Nigerian Banks. *Archives of Business Research* , 3 (1).
- Gunaratne, D., Samarakoon, S., & Priyadarshanie, W. (2015, December 8). Impact of Dividend Policy on Stock Price Volatility and Market Value of the Firm: Evidence from Sri Lankan Manufacturing Companies. *International Conference on Business Management* .
- Habib, Y., Kiani, Z. I., & Khan, M. A. (2012). Dividend Policy and Share Price Volatility: Evidence from Pakistan. *Global Journal of Management and Business Research* , 12 (5).
- Hashemijoo, M., Ardekani, A. M., & Younesi, N. (2012). The Impact of Dividend Policy on Share Price Volatility in the Malaysian Stock Market. *Journal of Business Studies Quarterly* , 4 (1), 111-129.
- Hussainey, K., Chijoke-Mgbame, A. M., & Chijoke-Mgbame, O. (2010). Dividend Policy and Share Price Volatility: UK Evidence. *Journal of Risk Finance* , 4.
- Jakata, O., & Nyamugure , P. (2015). The Effects of Dividend Policy in Share Price: Empirical Evidence from the Zimbabwe Stock Exchange. *International Journal of Science and Research (IJSR)* , 4 (10).
- Ramadan, I. Z. (2013). Dividend Policy and Price Volatility. Empirical Evidence from Jordan . *International Journal of Academic Research in Accounting, Finance and Management Sciences* , 3 (2), 15-22.
- Ross, S. A., Weterfield, R. W., & Jordan, B. D. (2012). *Fundamentals of Corporate Finance (10th ed.,)*. New York: McGraw-Hill.
- Sharif, I., Ali, A., & Jan, F. A. (2015). Effect of Dividend Policy on Stock Prices. *Journal of Management* , 55-85.
- Zakaria, Z., Muhammad, J., & Zulkifli, A. H. (2012). The Impact of Dividend Policy on the Share Price Volatility: Malaysian Construction and Material Companies. *International Journal of Economics and Management Sciences*, 2 (5), 01-08.

