The Influence of Profitability, Liquidity, Managerial Ownership, and Company Growth on Dividend Policy

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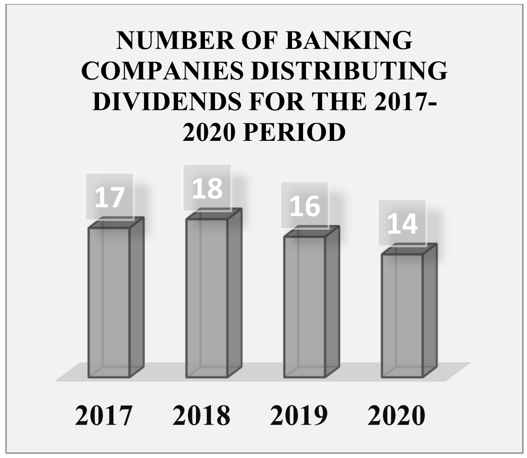
Abstract

Banks are one of the financial institutions that play a vital part in the Indonesian economy because banking is involved in all national economic activities such as consumption, investment, and export-import transactions. This study is conducted to examine the effect of Profitability, Liquidity, Managerial Ownership, and Company Growth on Dividend Policy in Banking Companies Listed on the Indonesia Stock Exchange 2017-2020 period. This study employed a quantitative approach with panel data regression method. The results showed that simultaneously Profitability, Liquidity, Managerial Ownership, and Company Growth have a significant effect on Dividend Policy. Partially, Profitability has a negative and significant effect on Dividend Policy, while Liquidity, Managerial Ownership, and Company Growth have no significant effect on Dividend Policy.

Keywords
Profitability, Liquidity, Managerial Ownership, Company Growth, Dividend Policy.

1. Introduction
In Indonesia, banks are among the financial institutions that play a significant role in the economy. According to Law Number 10 of 1998, a bank is a business company that gathers funds from the public in the form of savings and distributes them to the public in the form of credit and/or other forms to better the people's standard of living. Banking in Indonesia serves as a collector and distributor of public funds with the goal of assisting in the implementation of national development to promote the equitable distribution of development and its outcomes. One of the pillars of economic growth and national stability to improve people's living standards in terms of the financial sector is banking. Banking is integral to all national economic activity, including consumption, investment, and export-import. The contribution of consumption and investment accounts for 80% of the economy. Based on data from the Central Statistics Agency (BPS), the contribution of the financial and insurance sectors to GDP in the second quarter of 2020 only reached 4.44%. In helping to drive the national economy, PT Bank Central Asia (BCA) has increased lending due to the increasing need for credit in the infrastructure, pharmaceutical, retail, distribution, and plantation sectors.

Dividend policy can be observed by looking at the Dividend Payout Ratio. Dividend Payout Ratio is the percentage of the amount of dividends distributed to shareholders (Nazar, 2021). The size of the dividends paid can affect investors in making decisions to invest. The following is a diagram of the number of banking companies that distributed dividends in the 2017-2020 period: (Figure 1)



Source: Company Annual Report (data processed by the author, 2022)

Figure 1. Number of Banking Companies Distributing Dividends for the 2017 – 2020 Period

There are 42 banking companies listed on the Indonesia Stock Exchange in 2017-2020. Based on the annual reports of banking companies, as illustrated in Figure 1.1, the authors process data on the number of companies that pay dividends to shareholders. In 2017, there were 17 banking companies that distributed dividends to shareholders; in 2018, the number of companies that distributed dividends climbed to 18; in 2019, the number of companies that distributed dividends reduced to 16; and in 2020, it decreased again to 14 companies. In 2020, the number of banking companies that distributed dividends was the least among the previous years, due to the Covid-19 pandemic, banking companies that did not distribute dividends to shareholders chose to be deposited in retained earnings because in the previous financial year they suffered losses or losses. The profit is utilized to enhance the company's business and to fund its operational activities. This occurred to PT Bank IBK Indonesia Tbk., PT Bank Jago Tbk., Bank Harda Internasional Tbk., Bank JTrust Indonesia Tbk., and Bank Banten Tbk. who suffered losses in the 2017-2020 period so that in that year dividends were not distributed and were kept in retained earnings.

In contrast, the company's dividend policy has outstanding value. Companies that can deliver dividends to shareholders are deemed to have strong performance since it is expected that they can generate profits and pay attention to investors. However, some investors consider dividend distribution as a negative signal because investors think that company managers are not able to see profitable investment opportunities, this assumption can cause the value of the company to decline due to reduced investor interest in investing in the company. Therefore, management often has difficulty in making decisions regarding dividends (Singla & Samanta, 2019).

This study focuses on four variables, namely profitability, liquidity, managerial ownership, and company growth. The reason why the researchers choose the profitability variable is because profitability is a description of a company's ability to earn profits. Companies that have large profits will definitely avoid the problem of financial difficulties (Brigham & Ehrhardt, 2008). The researchers utilize the liquidity variable because the dividend policy can be inferred from a company's capacity to fulfill its short-term obligations on time and without difficulty (Brigham & Ehrhardt, 2008). The researchers also use managerial ownership variables because they can describe the large or small proportion of managerial ownership that can affect dividend policy (Nazar, 2021). In addition, company growth can describe the size of asset growth that will affect dividend policy (Sharma & Bakshi, 2019).

1.1 Objectives

This research is aimed to determine the effect of Profitability, Liquidity, Managerial Ownership, and Company Growth on Dividend Policy in Banking Companies listed on the Indonesia Stock Exchange (IDX) in 2017-2020.

2. Literature Review

2.1 Dividend Policy

According to Angelia & Toni (2020), dividend policy is a decision to distribute a company's profits to shareholders as dividends or to keep them in the form of retained earnings for future investment financing. Retained earnings will be used again to develop the company's business. The dividends will be distributed in the form of money or will be held as a form of the company's capital turnover by giving back shares. In this study, the authors use the Dividend Payout Ratio (DPR) in calculating the dividend policy. According to (Nazar, 2021), states that the dividend payout ratio (DPR) is the percentage of net income that will be paid in the form of dividends to shareholders. This ratio will give an overview of the amount of profit that can be allotted to dividends from each share.

2.2 Profitability
According to (Brigham & Ehrhardt, 2008) profitability is a ratio to assess the company's ability to generate the expected profit or profit and measure the effectiveness of a company's management which is reflected in sales activities or from investment income. In this study, profitability used the ratio of Return On Assets (ROA) or return on assets. According to Roy (2015), Return On Assets (ROA) is a comparison between net income after tax and assets to measure the level of taking total investment. The higher the ROA, the higher the profits to be obtained by the company. If a company can make significant profits, investor interest will rise, which will have an effect on stock prices rising. Thus, it can be concluded that profitability has a positive influence on dividend distribution. This is supported by the research conducted by Basri (2019) and Ullah et al. (2019) which states that profitability has a positive and significant effect on dividend policy.

2.3 Liquidity
Liquidity is a ratio that measures a company's ability to pay short-term obligations or debts that will mature, both to external and internal parties (Brigham & Ehrhardt, 2008). The value of liquidity in a company shows the company's ability to fulfill the obligations of the company's internal and external parties. Companies that have a high level of liquidity will indirectly illustrate that the company has a good ability to meet its short-term obligations (Khan et al., 2016). In this research, liquidity uses current ratio or current ratio. According to Wahjudi (2020) the current ratio shows the ability of a company to meet current liabilities with its current assets. When the company is able to meet its short term, the company is also able to pay dividends to its shareholders. Thus, it can be concluded that liquidity has a positive effect on dividend distribution because the higher the level of liquidity, the higher the dividend to be distributed. This is supported by research conducted by Amar et al. (2018) and Ullah et al. (2019) which states that liquidity has a positive and significant effect on dividend policy.

2.4 Managerial Ownership
Managerial ownership is the ownership of shares by the company's management. According to Jensen & Meckling (1976), the bigger the degree of management ownership in the organization, the better the ability of managers and shareholders to align their interests. In this study, the number of managerial ownerships was measured by the magnitude of the percentage of shares owned by the company's management. If the management has shares in a company, then the management can determine the company's policy in accordance with the desired ones that can benefit the management. The management also has more information from investors that can be utilized as an indicator that the company is functioning effectively. In conclusion, managerial ownership has a positive influence on dividend policy because the greater the proportion of managerial ownership of a company, the greater the dividends that will be distributed to shareholders. This is supported by a research conducted by Nazar (2021) which asserts that managerial ownership has a positive effect on dividend policy.

2.5 Company Growth
Company growth is the capacity of a company to improve or sustain its position through time. The overall assets of the company show the company's growth. Asset growth refers to the expansion of a company's assets, which affects its profitability. Some organizations believe that the percentage change in total assets is a better predictor of company growth (Wahjudi, 2020). In this study, the company's growth is measured by comparing the total assets of the year concerned (year t) minus the total assets of the previous year (year t-1) then divided by the total assets of the previous year (year t-1). If the company experiences rapid growth, the funds obtained can be invested in such a way that it reduces dividend distributions to shareholders or has a negative impact on dividend policy. Thus, it can be concluded that the company's growth has a negative effect on dividend policy. This is in line with the research conducted by Sharma & Bakshi (2019) which states that company growth has a significant negative effect on dividend policy.

3. Methods
This study applied a quantitative approach. The population in this study included banking companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020. Data were gathered from financial reports and company annual reports accessed on the Indonesia Stock Exchange (IDX) website. The data used in this study was secondary data. In

this study, purposive sampling method, a sample methodology with specific considerations, was implemented, namely: (1) banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period, (2) banking companies that do not consistently distribute dividends in the 2017-2020 period and (3) banking companies consistently do not distribute dividends for the 2017-2020 period. Based on the predetermined sample criteria, the number of samples involved in this study were 12 banking companies listed on the Indonesia Stock Exchange with a study period of four years, the total observations obtained were 48.

Based on the research objectives mentioned in the prior section, to accomplish the analysis, regression analysis of panel data analysis was performed. The panel data regression model of this study is the fixed-effect model (FEM). Based on panel data analysis using the E views program, the following hypotheses are proposed:

H1: Profitability, liquidity, managerial ownership, and company growth simultaneously have a significant effect on dividend policy.
H2: Profitability partially has a significant positive effect on dividend policy.
H3: Liquidity partially has a significant positive effect on dividend policy.
H4: Managerial Ownership partially has a significant positive effect on dividend policy.
H5: Company growth partially has a significant negative effect on dividend policy.

3.1 Variable Measurement

In this section, each measurement for each variable is presented in Table 1.

Table 1. Research Variable

Variable	Information	Measurement
Dividend Policy	Dividend policy is a company management policy that determines whether profits available to shareholders are paid out as dividends or retained to support future investments (Wahjudi, 2020).	Dividend per Share by Earning per Share
Profitability	Profitability is a description of a company's ability to obtain the expected profit (Brigham & Ehrhardt, 2008).	Earning After Tax by Total Assets
Liquidity	The liquidity ratio is the ability of the company to meet its short-term liabilities through a certain amount of cash owned by the company (Wahjudi, 2020).	Current Assets by Current Liabilities
Managerial Ownership	The managerial ownership variable denotes the level of management share ownership that actively participates in decision making, such as directors and commissioners (Florackis et al., 2015).	Total managerial ownership by number of outstanding shares
Company Growth	Company growth depicts a company's success in developing its business through asset expansion (Nugraha et al., 2021).	This year's total assets minus the previous year's total assets divided by the previous year's total assets

4. Results and Discussion

4.1 Numerical Results

Descriptive statistics are used to examine data by summarizing or describing the acquired data as it is, without drawing inferences that apply to the general public or making generalizations (Vanderstoep & Johnston, 2009). Table 2 provides descriptive statistics for the variables utilized in regression calculations.

Panel data regression model testing was performed to evaluate whether the common effects model (CEM), random effects model (REM), or fixed effects model (FEM) employed in this study. (Table 3)

Table 2. Descriptive Statistical Analysis

Variabel	**Observations**	**Minimum**	**Maximum**	**Mean**	**Std. Deviasi**
Dividend Policy	48	0,1000	0,6343	0,3705	0,1504
Profitability	48	0,0671	3,1082	1,6272	0,7363
Liquidity	48	1,0334	1,2650	1,1531	0,0466
Managerial Ownership	48	0,0000	0,0019	0,0003	0,0005
Company Growth	48	-0,0476	0,2465	0,0965	0,0718

Table 3. Chow Test on a Panel Data Regression Model

Effects Test	Statistic	d.f.	Prob.
Cross-section F	23.945697	(11,32)	0.0000
Cross-section Chi-square	106.684968	11	0.0000

The probability value (Prob.) of the F cross section is 0.0000. This value is below the significance value of 0.05, meaning that H0 is rejected, and Ha is accepted. Based on these data, it can be inferred that the fixed effects model is better used than the common effects model. After the fixed effects model was selected, the Hausman test was carried out.

Table 4. Hausman Test on a Panel Data Regression Model

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob
Cross-section random	9.886604	4	0.0424

The probability value (Prob.) of random cross-section is 0.0424. This value is below 0.05, meaning that H0 is rejected, and Ha is accepted. Based on these data, it can be concluded that the model used is fixed effects. (Table 4)

Table 5. Fixed Effects Model Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.206616	0.528879	0.390667	0.6986
X1	-0.046910	0.020339	-2.306362	0.0277
X2	0.179436	0.470402	0.381454	0.7054
X3	39.22158	60.36121	0.649781	0.5205
X4	0.220343	0.158701	1.388416	0.1746
R-Squared	0.914218			
Adjusted R-squared	0.874007			
F-statistic	22.73577			
Prob (F-statistic)	0.000000			

Based on the results of testing the adjusted R-squared value in Table 5, which is equal to 0.874007 or 87.4%. This explains that the independent variables, namely profitability, liquidity, managerial ownership, and company growth can explain the dependent variable, namely dividend policy of 87.4007 or 87.4%. While the remaining 12.5993 or 12.6% are other factors outside the independent variables of the research studied.

The panel data regression equation in this study is as follows:

$$\text{Dividend Policy} = 0.206616 - 0.046910X_1 + 0.179436X_2 + 39.22158X_3 + 0.220343X_4 + e$$

4.2 Validation

The Effect of Profitability, Liquidity, Managerial Ownership, and Company Growth on Dividend Policy

Based on table 5, the results of the Prob (F-statistic) of 0.0000 <0.05 then H01 is rejected and Ha1 is accepted, then the variables of profitability, liquidity, managerial ownership, and company growth simultaneously have a significant effect on dividend policy in banking company for the period 2017-2020.

The Effect of Profitability on Dividend Policy

Based on the study's findings, the profitability variable has a probability value of 0.0277, which is less than the 0.05 significance level, implying that profitability has a marginally significant positive effect on dividend policy in banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period. Profitability has a regression coefficient of -0.0469. This shows that profitability has a negative coefficient towards dividend policy.

It is observed that from 48 samples, there are 23 samples of profitability that are above average and 22 samples of dividend policy that are above average. Meanwhile, there are 25 samples of profitability which are below the average and 26 samples for dividend policy variables. These results indicate that banking companies in 2017-2020 still have low profitability values and more companies have below average profitability. Based on the data that has been tested that profitability has a significant effect on dividend policy with a negative coefficient value, it means that if the profitability value increases, the company's dividend policy will decrease. Because the company will decide the net profit earned by the company will be allocated to retained earnings for company funding purposes such as expansion so that it has an impact on dividend distribution by the company. The results of this study are in line with the results of research conducted by Jozwiak (2015) which states that profitability has a negative and significant effect on dividend policy.

The Effect of Liquidity on Dividend Policy

Based on the study's findings, the liquidity variable has a probability value of 0.7054, which is greater than the 0.05 significance level, implying that liquidity partially has no significant effect on dividend policy in banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

It is known that from 48 samples, there are 22 samples of liquidity that are above the average and 22 samples of dividend policy that are above the average. Meanwhile, there are 26 samples of liquidity which are below the average and 26 samples for dividend policy variables. These results indicate that banking companies in 2017-2020 still have low liquidity values and more companies have below average liquidity.

Based on data that has been tested that liquidity has no significant effect on dividend policy, it means that large liquidity in the company reflects that the company has many sources of assets that can be converted into cash from company profits. The cash component in current assets can be a source of income for the company. This type of income is not dispersed as dividends and is frequently utilized to cover company operating expenses. Alternatively, profit is more maximized to maintain the company's sustainability, so enormous amounts of cash are not usually used to pay dividends. The results of this study are in line with the results of research conducted by Pattiruhu & Paais (2020) which states that liquidity has no significant effect on dividend policy. The results of the analysis show that the high and low liquidity of the company does not affect the size of the dividend payment. Therefore, companies that have good liquidity do not mean better dividend payments.

The Effect of Managerial Ownership on Dividend Policy

Based on the results of the study, the managerial ownership variable has a probability value of 0.5205 which is greater than the 0.05 significance level, so it can be concluded that liquidity partially has no significant effect on dividend policy in banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

It is known that from 48 samples, there are 14 samples of managerial ownership that are above the average and 22 samples of dividend policy that are above the average. Meanwhile, there are 34 samples of managerial ownership which are below the average and 26 samples for dividend policy variables. These results indicate that banking companies in 2017-2020 still have a low value of managerial ownership and more companies have managerial ownership below the average.

Based on the data that has been tested, managerial ownership has no significant effect on dividend policy, meaning that managers who own shares in the companies they lead tend to have dual roles, namely as managers and investors.

Both roles bring their respective advantages to managers. The role as an investor by getting dividends as well as a role as a manager with agency costs from the owner of the company which will increase the income for the manager. So that any policy taken by the company will not affect the manager's attitude towards the Dividend Policy. The results of this study are in line with the results of research conducted by Roy (2015) which states that managerial ownership has no significant effect on dividend policy.

The Effect of Company Growth on Dividend Policy

Based on the results of the study, the company's growth variable has a probability value of 0.1746 which is greater than the 0.05 significance level so it can be concluded that the company's growth partially has no significant effect on dividend policy in banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

It is found that from 48 samples, there are 22 samples of company growth that are above the average and 22 samples of dividend policies that are above the average. Meanwhile, there are 26 samples of company growth that are below the average and 26 samples for dividend policy variables. These results reveal that banking companies in 2017-2020 still have low company growth values and more companies have below average company growth.

Based on the data that has been tested, the company's growth does not have a significant effect on dividend policy, it means that growth does not affect the amount of dividend payout ratio, both companies that are growing rapidly or not growing. The results of this study infer that dividends are paid without considering the company's growth. In other words, this dividend policy does not depend on the company's growth but depends on the profits earned by the company. The results of this study are in line with the results of research conducted Basri (2019) which states that company growth has no significant effect on dividend policy.

6. Conclusion

The purpose of this research is to evaluate and analyze the effects of Profitability, Liquidity, Managerial Ownership, and Company Growth on Dividend Policy. The object of research used was banking companies listed on the Indonesia Stock Exchange for the period 2017-2020. The results found in this study are that profitability, liquidity, managerial ownership, and company growth simultaneously affect dividend policy, while partially profitability has a negative and significant effect, liquidity, managerial ownership, and company growth have no significant effect on dividend policy. This study is aimed to serve as a knowledge resource. The authors propose that future researchers substitute the variables analyzed above with other variables that affect dividend policy, as well as replace or add to the research sample. Companies should pay more attention to company profitability, liquidity, managerial ownership, and company growth in creating added value to increase company value. For investors, the results of this study can be used as information and an illustration of what factors can affect dividend policy. So that investors can consider it in making decisions to invest.

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