THE INFLUENCE OF LEVERAGE AND LIQUIDITY ON DIVIDEND POLICY

(Empirical Study on Listed Companies in Indonesia Stock Exchange of LQ45 in 2008-2010)

Lalu Candra Karami
(0810233053)

Abstract

The research is purposed to test the influence of current ratio and debt to equity ratio toward dividend policy which is proxy as dividend payout ratio to companies which are listed in LQ-45 at Indonesia Stock Exchange in the period of 2008-2010. This research applies purposive sampling technique with 15 samples of companies. Multiple regression is a technical analysis method applied. The result of t test partially indicates that leverage influences negatively and significantly towards dependent variable, which is dividend payout ratio. Liquidity gives positive and significant influence towards dividend policy. Actually, there are some classical assumption tests, such as normality test, multicollinearity test, homoscedasticity test, and autocorrelation test.

Keywords : debt to equity ratio, current ratio, dividend payout ratio

---

CHAPTER I
INTRODUCTION

1.1 Background

Investment activity is an activity faced with various risks and uncertainty condition which is mostly difficult to predict by investors (Hidayati, 2006:3). There is much information, not only achieved from the performance of the company, but also other relevant information, such as economic condition and the political situation in a country which are needed by investors to reduce the risks rate and any uncertainty that possibly appears. Information which is achieved from a company is commonly based on the company's performance, reflected from the financial report. Based on the report, investors could understand the company's performance and its capability to raise profits.

Generally, the main purpose of investors when investing their assets is to search for income or the rate of return. Dividend is one of the sources of income (Fauziah, 2010:1). In such circumstances, each company is forced to operate with high efficiency in order to maintain the quality and capability of competing to raise a net income with the best result. Therefore, a company determines dividends policy to look forward the profit gained that will be alocated into two components: dividends and retained earnings.

Dividend policy is a decision method to determine the portion of profits that will be given to stockholders. The decision policy of dividends payment is also related whether the cash flows will be paid to investors or retained to be re-invested. Sartono (2001:281) explains if a company decides to share profits as dividends, the retained earnings will then be decreasing and it will reduce the total of internal financing resource. Otherwise, if a company decides to retains the earnings, the capability of internal financing will grow higher.

Halim (2005:92) states there are some controversial issues related to dividends which should be paid. Some parties argues that dividends should be paid as highly as possible, paid as low as possible, and dividends should be paid after the whole chance of investment which fulfills the requirements that has been funded. These difference opinions are based on three opposite theories related to dividends.

The objects of research are companies which are listed in LQ-45 index at the period of 2008-2010. It is due to the companies listed in LQ-45 have active stock values. Therefore, there is a relationship to current discussion, in which Dividends Payout Ratio as a ratio is used to share dividends to investors. Thus from all background above, this minor thesis will study about

"The Influence of Leverage and Liquidity on Dividend Policy (Empirical Study on Listed Companies in Indonesia Stock Exchange of LQ-45 in 2008-2010)"

1.2 Research Question

Based on the above background, the problem in this research is formulated as follows:

1. Does leverage influence on dividend policy of companies which are listed in LQ-45 at period of 2008-2010?
2. Does liquidity influence on dividend policy of companies which are listed in LQ-45 at period of 2008-2010?

1.3 Research Objectives

The objects of research are mentioned below:

1. To analyze the influence of leverage on dividends policy of companies which are listed in LQ-45 at period of 2008-2010.
2. To analyze the influence of liquidity on dividends policy of companies which are listed in LQ-45 at period of 2008-2010.

1.4 Benefits of Research

Below the author mentions some benefits of research:

1.4.1 Theoritical

In this research, it is explained that agency theory is a fundamental theory for dividends policy and also several applied theories explaining about the influence of leverage and liquidity on dividends policy. It is expected that the result of this research can be beneficial, especially for the development of economic science as a reference.

1.4.2 Practical

1.4.2.1 For the Management of Companies

The result of this research is expected to be useful for management parties which can be used for ideas or fundamental concept to enhance the companies'

performance. Furthermore, the method can attract the investors to invest in such companies, so that it possibly gains the equity to the development of companies. It is also expected that by using the method, it could be one of the consideration to make a decision in order to maximize the value of companies.

1.4.2.2 For Investors

The result of research is expected to present information about factors affecting the dividends policy so that it can be a consideration in making decision of investment and it can be used as one of the devices to choose or decide which companies have the best financial ratio so that it will reduce the risk of getting loss.

CHAPTER II

LITERATURE REVIEW

2.1 Definition of Dividend

Dividend is defined as profit sharing activity to shareholders which is proportional to the amount of shares owned (Baridwan, 2000:434).

2.1.1 The Purpose of Dividend

Hidayati (2006: 25) mentions the purpose of dividend distribution is as follows:

a. To maximize the prosperity of shareholders, because a dividend which is paid will influence the stock price.
b. To demonstrate the company's liquidity. Payment of dividends can make company's performance looks good in investors' perspective and may indicate that the company is capable of dealing with the economic turmoil.
c. Dividends could be used as a communication device between managers and shareholders.

2.1.2 The Forms of Dividend

The dividend which is distributed to shareholders consists of some forms. Kieso (2008: 321) classifies dividends into 4, namely: (1) cash dividends, (2) property dividends, (3) liquidation dividends, and (4) stock dividends.

1. Cash Dividend
2. Property Dividend
3. Liquidation dividend
4. Stock Dividend

2.2 Dividend Policy

Dividend policy is a decision to determine how large a part of the company's revenue to be distributed to shareholders and will be reinvested or retained in the company (Hidayati, 2006:3). From those understanding, dividend policy is based on a range of considerations between the interests of shareholders in general that want the payment of dividends is relatively stable, and also the

corporate interests that want to allocate income for other investments which is more profitable.

According to Ciaran Walsh (2004:152), DPR can be calculated by using such formula:

$$\text{Dividend Payout Ratio} = \frac{\text{dividend per share}}{\text{earning per share}}$$

2.2.1 Theories of Dividend Policy

Here are some of the Dividend Payout Ratio view mentioned by Bringham and Houston (2001:66) and the underlying assumptions:

1. Dividend Irrelevance Theory
2. Bird in Hand Theory
3. Tax Differential Theory

4. Clientele Effect
5. Signalling Hypothesis Theory

2.3 Leverage

Leverage ratio is a ratio used to measure the extent to which a corporate's assets financed by debt (Kasmir, 2008:151). It means how much debt that a corporate has compared with its assets. In wide explanation, it is stated that the ratio of leverage can be used to measure the ability of a company to pay a whole of its equity, both short-term and long-term whether the company is liquidated (Kasmir, 2008:151).

Here are the types of leverage ratios used in this study by Kasmir (2008:134):

1. Debt to Total Asset Ratio (DAR)

   Debt to total assets ratio is the ratio of debt used to measure the difference between the total debts and total assets. In other words, how big the company assets financed by debt or how much debts of the company affect the assets' management. The higher of DAR value, the more difficult for a company to obtain additional loan because it is doubtful the company can not afford to cover its debts with asseets owned.

   Similarly, if the DAR shows a low value, then the smaller company assets financed with debt. Mathematically, debt to total assets ratio can be formulated as follows:

$$\text{Debt to asset ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

2. Debt to Equity Ratio (DER)

   Debt to equity ratio is a ratio used to assess the company's debt with its equity. The calculation applied by comparing with all debts, including current liability with the entire equity. This ratio is useful to know the amount of fund provided by creditors with the owner of the company. In other words, this ratio serves to determine each dollar of

capital itself is used as collateral for debt. Mathematically, debt to equity ratio can be formulated as follows:

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Shareholders Equity}}$$

3. Long Term Debt to Equity Ratio (LDER)

   Long term debt to equity ratio is the ratio between the long-term debt and equity. Purposes of calculating this ratio is to measure how much of each dollar of capital itself as collateral for long-term debt by comparing the long-term debt with equity provided by the company. Mathematically, long-term debt to equity ratio can be formulated as follows:

$$\text{LDER} = \frac{\text{Long term debt}}{\text{Equity}}$$

2.4 Liquidity

Weston in Kasmir (2008:129) mentions liquidity ratio as a ratio that describes the company's ability to pay-off liabilities (debt) of short-term. This means that if the liability of the company meets maturity date, the company is able to fulfill its obligation. James in Kasmir (2008:129) mentions that the liquidity ratio measures the amount of cash or investment that can be converted into cash or the investment can be converted into cash to pay expenses, bills, and all other liability that meets maturity.

Here are the types of liquidity ratios used in this study by Kasmir (2008:134):

1. Current Ratio

   Current Ratio (CR) is the ratio to measure the company's ability to pay-off short term debt obligations are immediately due when billed as a whole. In other words, how much current asset is available to cover or pay-off short-term obligations are immediately due. CR can also be identified as a form to measure the level of security of a company. CR calculation is done by comparing the total current assets by total current liabilities. Current ratio can be mathematically formulated as follows:

$$\text{Current Ratio} = \frac{\text{current assets}}{\text{current liability}}$$

2. Quick Ratio

   Quick ratio or acaid test ratio is ratio which shows the ability of a company to pay-off the liability or current liability (short term liability) by using current assets without calculating the value of inventory. It means that the value of inventory is ignored by reducing with the total of current assets. It is applied because inventory needs longer time to be liquid. Quick Ratio can be formulated as follows:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

3. Cash Ratio

Cash Ratio is a ratio used to measure how big the cash which is available to pay-off debt.

The availability of cash can be shown from the availability cash and cash equivalent, such as saving or current account *(rekening giro)* saved in bank (account whose cash can be withdrawn in anytime). In short, this ratio can show the real performance for a company to pay-off its short term debt. Cash ratio can be formulated as follows:

$$Cash\ Ratio = \frac{Cash\ or\ Cash\ Equivalent}{Current\ Liabilities}$$

2.5 The Development of the Research Hypothesis

H1: Leverage ratio influences on Dividend Payout Ratio.

H2: Liquidity influences on Dividend Payout Ratio.

CHAPTER III
RESEARCH METODOLOGY

3.1 Type of Research

Based on the type of the research, this research is the explanatory research. The author tends to explain the influence between leverage (X1) and liquidity (X2) ratio on (Y) which is dividend payout ratio in LQ45. This research is also included in quantitative research.

In order to be understandable related to the explanation, the systematic framework of research can be described below:

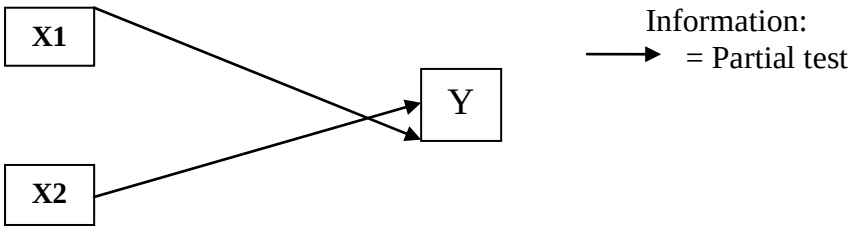


Figure 1. Framework of Research

This research applies the analysis of multiple regression technique where it will be able determine the equation of regression based on constanta value and the coefficient of regression which are resulted. It will also find the correlation between the independent variable and dependent variable, and tests the hypothesis which states there are influence simultaneously and partially between the the independent variables (X) and dependent variable (Y).

3.2 Sample and Population Used

3.2.1 Population

In this research, the population of the research is all of the companies which are included in LQ45 for the period of 2008-2010. The population is 45.

3.2.2 Sample

Sample is a part of the population that is chosen by researcher to be analyzed. In this research, sample is chosen by the purposive sampling method.

1. The companies which are listed in LQ45 simultaneously from December 2008 up to the end of 2010.
2. The companies that share cash dividends three times simultaneously in the period of 2008-2010

3.3 Type of Data

The data that is used in this research is secondary data. The secondary data is the data that is collected, processed, and served by other parties.

3.4 Source of Data

The data that is used in this research is derived from the IDX's website (www.idx.co.id).

3.5 Data Collecting Method

The data collecting method that is used in this research is documentation method.

3.6 Identification and Definition of Operational Variable

The variable that is used in this research covers five main variables. These variables are distinguished into two variables, which are the dependent variable and independent.

a. Dependent Variable

$$\text{Dividend Payout Ratio} = \frac{\text{dividend per share}}{\text{earning per share}}$$

b. Independent Variable

The independent variable that is used in this research is several financial ratios that served below:

1. Leverage

   The Author uses debt to equity ratio which represents leverage with "X1", and the indicator is the total liabilities and stockholder's equity.

$$DER = \frac{Total\ Liabilities}{Shareholders\ Equity}$$

2. Liquidity

   The author applies current ratio which represents liquidity with "X2", and the indicator is the current asset and the short term liabilities.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

3.7 Data Analysis

Data analysis technique is the application to process data logically and theoretically. The statistic tools used is multiple regression with SPSS computer program 16.00 for windows. This software will be applied as classical assumption test device and hypothesis test.

The regression model can be formulated as follows:

$$\mathbf{Y = a + b_1X1 + b_2X2 + e}$$

Information:

Y	= Dividend Payout Ratio
a	= Constants
$b_{1,2}$	= Regression Coefficients
X1	= Leverage
X2	= Liquidity
e	= error

3.8 Classic Assumption Test

a. Normality Test

Table 1 Normality Assumption Test

Statistical Test	Value	Information
Kolmogorov-Smirnov Z	1.074	Spread normally
p-value	0.199	

Table 2. Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		45
Normal Parameters [a,b]	Mean	,0000000
	Std. Deviation	26,49696227
Most Extreme Differences	Absolute	,160
	Positive	,160
	Negative	-,130
Kolmogorov-Smirnov Z		1,074
Asymp. Sig. (2-tailed)		,199

a. Test distribution is Normal.

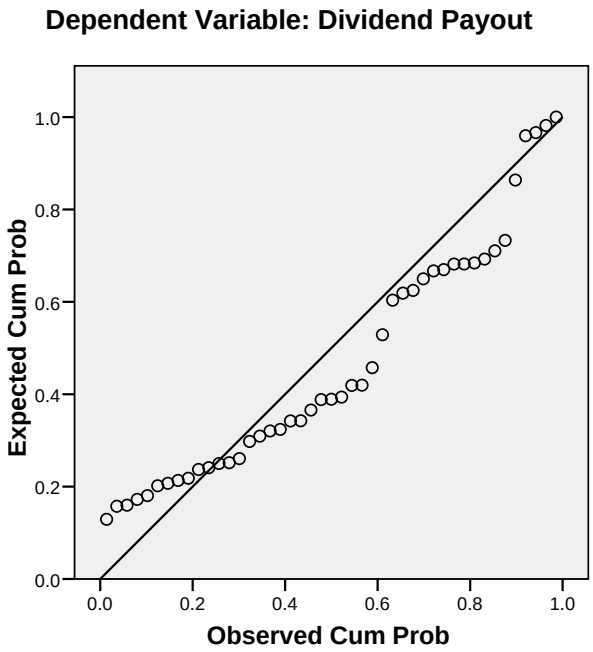
b. Calculated from data.

Source: IBM SPSS 15.0 (data processed, 2012)

According to Kolmogorov-Smirnov Z above, the p-value is 0.199, where the value is more than $\alpha = 0.05$. It shows that the residual has a normal distribution, so that it can be inferred the normality assumption of residual has been fulfilled.

Besides, the normality test can be detected by seeing the spread of data (dots) in diagonal line in P-Plot graphic below:

Figure 2. Result of Normality Test



Source: IBM SPSS 15.0 (data processed, 2012)

In the graphic above, it shows that the data spreads around the diagram and follows the regression model. Therefore, in can be inferred that the data processed is normally distributed.

b. Multicollinearity Test

Table 3. Multicollinearity Assumption Test

Independent Variable	VIF	Information
Variable DER	1.072	Non-multicollinearity
Variable Current Ratio	1.072	Non-multicollinearity

Source : The result of SPSS analysis

Each independent variables shows the value of VIF which are not more than 10, so that there is no multicollinearity exists which fulfilled.

c. Autocorrelation Test

Table 4. Result of Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,543[a]	,294	,261	27,12051	1,766

a. Predictors: (Constant), Current Ratio, DER

b. Dependent Variable: Dividend Payout

Source : IBM SPSS 15.0 (data processed, 2012)

d. Heteroscedasticity Test

The result of the test by using rank Spearman method and the scatterplot can be observed below:

Table 5. Homoscedasticity Assumption Test

Correlations

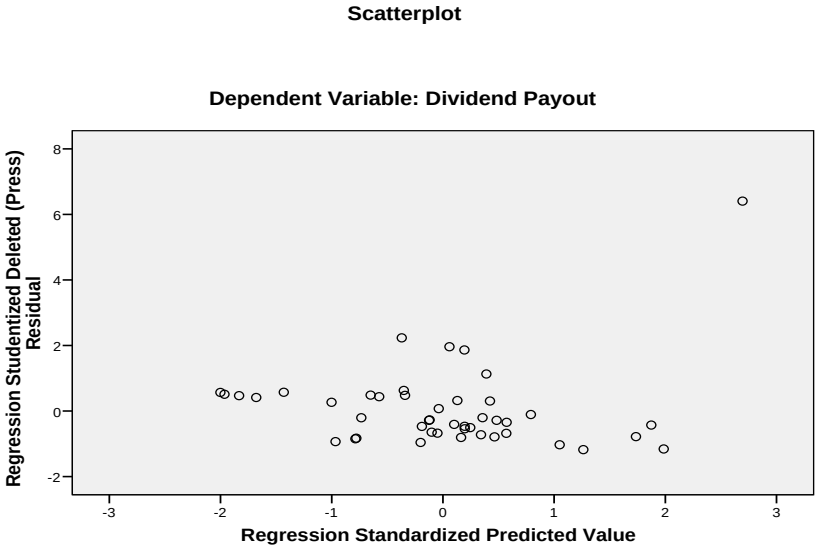
			Unstandardized Predicted Value	abs_res
Spearman's rho	Unstandardized Predicted Value	Correlation Coefficient	1,000	,147
		Sig. (2-tailed)	.	,334
		N	45	45
	abs_res	Correlation Coefficient	,147	1,000
		Sig. (2-tailed)	,334	.
		N	45	45

Statistical Test	**Value**	**Information**
Correlation of Rank Spearman	0.147	Homoscedasticity
p-value	0.334	

Source : The result of SPSS analysis

This assumption test has achieved a correlation coefficient of Rank Spearman with the amount of 0.147 with p-value = 0.334 where p-value exceeds $\alpha = 0.05$. In short, the assumption of homoscedasticity has been fulfilled.

Figure 3. The Test Result of Homoscedasticity



Source : IBM SPSS 15.0 (data processed, 2012)

According to the figure above, the dots spread randomly, which spreads in above and below 0 in Y's axis. Thus, we can conclude that there is no heteroscedasticity in regression model.

e. Analysis of Multiple Linier Regression

Regression analysis is applied for obtaining any variables which influence Dividend Payout Ratio and variables which most dominantly influence Dividends Payout Ratio. When processing data by applying multiple linear regression, there are several steps to find out the relationship between independent and dependent variable. According to the result of data processing, which applies software SPSS 15, a summary is written below:

Table 6. Summary of Regression Analysis Result 1

Summary of Regression Analysis Result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	46,491	8,850		5,253	,000		
	DER	-8,714	3,598	-,325	-2,422	,020	,933	1,072
	Current Ratio	,061	,023	,358	2,672	,011	,933	1,072

a. Dependent Variable: Dividend Payout

Source : IBM SPSS 15.0 (data processed, 2012)

Table 7. Summary of Regression Analysis Result 2

Variable	**Coefficient Std β**	**Coefficient β**	**$T_{calculated}$**	**p-value**	**Information**
Constants		46.491	5.253	0.000	Significant
Variable DER (X1)	-0,325	-8.714	-2.422	0.020	Significant
Variable Current Ratio (X2)	0,358	0.061	2.672	0.011	Significant
α = 0.05					
R^2 = 0.294					
R = 0.543					
F-calculated = 8.763					
F-table (0.05,2,42) = 3.220					
p-value = 0.020					
t-table (0.05,42) = 2.018					

Source : The result of SPSS analysis

According to table 3.8 and 3.9, it is clear that the whole independent variables have a significant value. The interpretation of regression model obtained is based on table above which is:

$$\mathbf{Y = 46.491 - 8.714\ X1 + 0.061\ X2 + \varepsilon}$$

where :

Y : Dividend Payout Ratio

X1 : Variable of DER

X2 : Variable of Current Ratio

ε : Standard Error

1. a = 46.491
2. β_1 = – 8.714
3. β_2 = 0.061

3.9 Hypothesis Test

a. F Test

The hypothesis used in this simultaneous regression coefficient test can be seen in table below:

Table 8. Simultaneous Test of Regression Model

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12890,899	2	6445,450	8,763	,001[a]
	Residual	30891,916	42	735,522		
	Total	43782,815	44			

a. Predictors: (Constant), Current Ratio, DER

b. Dependent Variable: Dividend Payout

Hypothesis	Value	Decision
$H_0 : \beta_i = 0$ (There is no significant influence between X1, X2 on Dividend Payout Ratio) $H_a : \beta_i \neq 0$ (There is significant influence between X1, X2 on Dividend Payout Ratio), $\alpha = 0.05$	F = 8.763 p-value = 0.001 $F_{table} = 3.220$	Reject H_0

Source : The result of SPSS analysis

Based on table above, this hypothesis test applies F Test. In a distributed table F, F_{table} is obtained with degrees of freedom (df) n1 = 2 and n2 = 42 amounted 3.220. If the value of F is as the result of calculation in table 4.8 which is compared with F_{table}, then $F_{calculated}$ which as the result is exceeding F_{table} (8.763> 3.220). Besides, it is obtained in table 4.8 the p-value amounted 0.001. If the p-value is compared with $\alpha = 0.05$, then p-value is less than $\alpha = 0.05$. From those comparison above, it can be decided that H_0 is rejected at the degree $\alpha = 0.05$. It can be inferred that there is a significant influence between X1, X2 on Dividend Payout Ratio.

a. T Test

a. DER Variable (X1)

According to table 3.8 and 3.9, the partial test of regression model of Debt to equity ratio (X2) can be mentioned in table 3.11 below:

Table 3.11 Partial Test of Regression Model of DER (X1)

Hypothesis	Value	Decision
$H_0 : \beta_1 = 0$ (DER Variable (X1) has no significant influence on dividend payout ratio)	t = -2.422	Reject

H_a : $\beta_1 \neq 0$ (DER Variable (X1) has significant influence on dividend payout ratio) $\alpha = 0.05$	*p-value* = 0.020 t_{tabel} = 2.018	H_0

Source : The result of SPSS analysis

DER variable (X1) has a regression coefficient which amounted –8.714. By using SPSS software, it is obtained that the result of T test amounted -2.422 with p-value = 0.020. The value of statistical test is exceeding the t_{table} (|-2.422| > 2.018) and also the p-value is less than $\alpha = 0.05$. It can be determined that H_0 must be rejected. In conclusion, DER variable (X1) influences significantly on Dividend Payout Ratio.

b. Current Ratio Variable (X2)

The partial test of regression model of Current Ratio variable (X2) is depicted in table below:

Table 9 Partial Test of Regression Model of Current Ratio (X2)

Hypothesis	**Value**	**Decision**
H_0 : $\beta_1 = 0$ (Current Ratio Variable (X2) has no significant influence on dividend payout ratio) H_a : $\beta_1 \neq 0$ (Current Ratio Variable (X2) has a significant influence on dividend payout ratio), $\alpha = 0.05$	t = 2.672 p-value = 0.011 t_{table} = 2.018	Reject H_0

Source : The result of SPSS analysis

Current Ratio Variable (X2) has a coefficient regression which amounted 0.061. By using SPSS software, it is obtained that the result of T test amounted 2.672 with p-value = 0.045. The value of statistical test is exceeding the t_{table} (|2.672| > 2.018) and also the p-value is less than $\alpha = 0.05$. It can be determined that H_0 must be rejected. In conclusion, current ratio variable (X2) influences significantly on Dividend Payout Ratio.

c. Coefficient of Determination (R^2)

Table 3.13 Result of Determination Coefficient Value

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,543[a]	,294	,261	27,12051	1,766

a. Predictors: (Constant), Current Ratio, DER

b. Dependent Variable: Dividend Payout

Source : IBM SPSS 15.0 (data processed, 2012)

It means that the regression model obtained can only explain 29.4% of the variable's variety toward Dividend payout Ratio (Y). Whereas, the remains of percentage amounted 70.6% is explained by other variables which are not included in this research.

CHAPTER IV
DISCUSSIONS

In chapter 4, it will explain any circumstances related to data analysis that has been collected, data processing, and the discussion from the result of data. The sequence explanations are classic assumption test, regression analysis data, the variable test which are simultaneously and partially from regression model, and the explanation hypothesis test.

4.1 Research Analysis

After finishing the classical assumption test, here is the result to analyze the influence of debt to equity ratio and current ratio on dividend payout ratio:

4.1.1 The Influence of Debt to Equity Ratio on Dividend Payout Ratio

Leverage ratio reflects the ability of a company to fulfill the whole debt owned, which is shown by the own equity to pay debt. In summary, the ratio of leverage is related to the use of own equity and credit and also to know the ratio of the company's ability to pay-off its debt. The ratio is used to inform the capital structure in a company.

DER variable (X1) has a regression coefficient which amounted –8.714. By using SPSS software, it is obtained that the result of T test amounted -2.422 with p-value = 0.020. The value of statistical test is exceeding the t_{table} (|-2.422| > 2.018) and also the p-value= 0.020 is less than α = 0.05. It can be determined that H_0 must be rejected. In conclusion, DER variable (X1) influences significantly on Dividend Payout Ratio. The regression equation also shows the coefficient of DER is -8.714. It reflects every 1% inclination of DER, then it will reduce DPR=-8.714 in condition whether current ratio is constant.

The result of hypothesis test shows that debt to equity ratio influences negatively on dividend payout ratio. The lower value of DER is, the higher capability of a company to pay-off its debt is. It is because the higher proportion of debt used to capital structure of a company, then the higher amounts of its debt. The inclination of debt will influence the net income which is available for the shareholder included the dividends that will be earned, because the obligation is more focused on sharing dividends. If the expense for debt is higher, then the capability of a company to share dividends will go lower, so that DER has negative influence on dividend payout ratio. If we see from the simultaneous observation, manufacturing companies in average has a lower value of debt to equity ratio, such as GGRM and UNVR companies. It shows that manufacturing

companies prefer applying internal financing (funding from the company's operation in form of retained earnings) to external funding. It is proportional with pecking order theory which states company prefers internal to external funding. It is the effort to increase the credibility of a company and to show its independence to external parties, because debt gives high risks, it means that management must be capable of making a decision when there is an offer to increase the ratio of debt or to keep the shareholders' prosperity. Therefore, management must consider carefully toward this circumstance.

The result of this research support the previous research conducted by Prihantoro (2003), and Puspita (2008) where it is concluded that debt policy (proxy with leverage) gives a negative influence on dividend policy. Appannan and Sim (2011) research factors influencing dividend policy to five companies categorized as food processing industry listed in Kuala Lumpur Stock Exchange. The result shows debt to equity ratio variable and past dividend per share are the strongest variables influencing dividend payout ratio.

4.1.2 The Influence of Current Ratio on Dividend Payout Ratio

Current Ratio (CR) is the ratio to measure the company's ability to pay-off short term debt obligations are immediately due when billed as a whole. In other words, how much current asset is available to cover or pay-off short-term obligations are immediately due. CR can also be identified as a form to measure the level of security of a company. CR calculation is done by comparing the total current assets by total current liabilities.

Current Ratio Variable (X2) has a coefficient regression which amounted 0.061. By using SPSS software, it is obtained that the result of T test amounted 2.672 with p-value = 0.045. The value of statistical test is exceeding the t_{table} ($|2.672| > 2.018$) and also the p-value is less than $\alpha = 0.05$. It can be determined that H_0 must be rejected. Current ratio variable (X2) influences significantly on Dividend Payout Ratio. The regression equation also shows the coefficient of current ratio is 0.061. It reflects every 1% inclination of current ratio, then it will increase DPR=0.061 in condition whether DER is constant.

Current ratio has positive coefficient. It means that if the current ratio increases, so does dividend payout ratio. Variable of current ratio can be an indicator for investors in investing. The positive sign in current ratio shows there is an inclination related to the amount of cash that will increase the payment of dividend. Thus, the more liquid of a company is, the more dividend payment that a company can give.

The result of research shows the availability of current assets indicate the rate of dividend shared. The position of current ratio is an important variable which is considered by the management when deciding a dividend policy. Current ratio is a standardized measurement to measure liquidity, so that current ratio in some circumstances can influence on dividend income. The more liquid of current ratio, the easier for the shareholders to obtain cash. The regression coefficient is

proportional with the previous research done by Priono (2006) where the result of research shows that current ratio influences positively on dividend payout ratio (DPR).

CHAPTER V
CONCLUSIONS AND SUGGESTIONS

5.1. Conclusion

There are some conclusion that can be learned from these research which comprise:

1. Bird in hand theory gives the most contribution in this research. It would like to assure that dividend is kind of investment tha has high rate of certainty in investment rather than capital gain. It is because dividend has been calculated at first and the amount will not change after all.
2. The analysis held shows that leverage variable influences significantly and negatively on dividend policy at the companies which are listed in LQ-45 at the period of 2008-2010. The result describes that the higher rate of leverage, the lower rate of dividend policy which is proxy as Dividend Payout Ratio.
3. The analysis held shows that liquidity variable influences significantly and positively on dividend policy at the companies which are listed in LQ-45 at the period of 2008-2010. The result describes that the higher rate of leverage, the higher rate of dividend policy which is proxy as Dividend Payout Ratio.
4. The value of R^2 is a determination coefficient which mainly measures how far the model of regression in describing the variety of dependent variable (Y) amounted 0.294. It means that the regression model obtained can explain 29.4% of the variable's variety toward Dividend payout Ratio (Y). Whereas, the remains of percentage amounted 70.6% is explained by other variables which are not included in this research.

5.2 Limitation of Research

This research has limitation as mentioned below:

1. The research only uses 3 years periods, which are from 2008-2010. The observation is not maximal because 2008 there was a global crisis which occurred that the effect can be felt until now. Therefore, the number of samples became limited because there are many companies which gave no dividend. Besides, The companies becoming the samples also suffered from global crisis. As a result, the liquidity shows a declination and leverage indicates inclination.
2. This research applies the mechanism of dividend policy's measurement (dividend payout ratio) which is still limited to a financial ratio represented by leverage and liquidity, so that it is not powerful enough to be a reference to measure its influence on DPR. It can be seen in adjusted R Square above that reflect 29.4%.

5.3 Suggestion

Based on the result and the limitation of research, there will be some advice that can be given:

1. **For the Company**

   According to the result, it is obtained that the significance value of leverage is amounted 0.020. It shows that the higher DER is, the lower DPR that a company can give. Therefore, the company should consider the debt ratio and its risks.

2. **For Investors**

   If the investors have a willingness to invest in companies listed in LQ-45, it will better if they always monitor the performance of financial condition every year. Investors may monitor the leverage ratio as a consideration to invest, so that the investment activity can guarantee the profit earned.

3. **For the Upcoming Research**

   It is advice given to the next researcher. It is necessary to hold a further discussion and exploration toward other variables that can influence dividend payout ratio, which are profitability ratio, Net Profit Margin, Growth, Dividend per Share, and Earning per Share.

REFERENCE

Appannan, Santhi and Lee Wei Sim. 2011. "A Study on Leading Determinants of Dividend Policy in Malaysia Listed Companies for Food Industry Under Consumer Product Sector". *2nd International Conference on Business and Economic Research* (2nd ICBER 2011) Proceeding

Baridwan Zaki, 2000, *Intermediate Accounting*, 7th Edition, BPFE, Yogyakarta

Brigham, F Eugene dan Joel F. Houston. 2001. *Dasar-Dasar Manajemen Keuangan* buku 1. Edisi10. Jakarta: Salemba Empat.

Bungin, B. 2006. *Metode Penelitian Kuantitatif*. Jakarta: Kencana Prenada Media Grup.

Chasanah, Amalia Nur. 2008. *Faktor-faktor yang Mempengaruhi Dividend Payout Ratio (DPR) pada Perusahaan yang Listed di Bursa Efek Indonesia*. Minor Thesis.

Ciaran, Walsh, 2004, *Key Management Ratios*, Erlangga, Jakarta

Fauziah, Fenty. 2010. *Analisis Faktor-faktor yang Mempengaruhi Dividend Payout Ratio pada Perusahaan Manufaktur yang Go Public di Bursa Efek Indonesia*. Minor Thesis.

Ghozali, Imam dan Anis Chariri. 2007. *Teori Akuntansi*. Semarang: Badan Penerbit Universitas Diponegoro.

Gitman, L.J, 2003, *Foundation of Managerial Finance*, 9th Edition, Harper Collins College

Gujarati, D. 2003. *Econometric. 4th edition* . Jakarta : Erlangga.

Halim, Abdul. 2005. *Analisis Investasi*. Jakarta: PT Salemba Empat

Hidayati, Nur. 2006. Analisis *Faktor-faktor yang Mempengaruhi Dividen Kas di Bursa Efek Jakarta.* Minor Thesis.

Houston and Brigham. 2011. *Essentials of Financial Management*. Jakarta: Salemba Empat.

Kasmir. 2008. *Analisis Laporan Keuangan*. Jakarta: Rajawali Pers

Arthur, J. Keown, John, D. Martin. J. William Petty, David. F. Scott. JR.. 2005. *Manajemen Keuangan (prinsip-prinsip dan aplikasi)*. Jakarta Barat: PT indeks kelompok Gramedia.

Weygandt. Jerry J and Kieso. Donald E and Kimmel. Paul D. 2008. *Akuntansi Intermediate Jilid 1*. Jakarta: Erlangga

Kumar, Sawendra. 2007. *Analisis Pengaruh Struktur Kepemilikan, Investment Opprtunity Set (IOS), dan Rasio-rasio Keuangan terhadap Dividend Payout Ratio.* Minor Thesis.

Mulato, Sidik. 2008. *Analisis Pengaruh Likuiditas, Profitabilitas, Pertumbuhan Perusahaan, dan Ukuran Perusahaan terhadap Kebijakan Dividen Payout Ratio.* Minor Thesis.

Priatama, Shella Febri. 2010. *Analisis Pengaruh Kepemilikan Manajerial, Kebijakan Hutang, Ukuran Perusahaan, Profitabilitas terhadap Kebijakan Dividen pada Perusahaan Manufaktur yang Listing di Bursa Efek Indonesia*. Minor Thesis.

Prihantoro. 2003. *Estimasi Pengaruh Dividend Payout Ratio pada Perusahaan Publik di Indonesia.* Journal.

Priono, 2006, *Analisis Pengaruh Rasio-rasio Keuangan, Pertumbuhan Aset, dan Ukuran Perusahaan terhadap Dividend per Share*. Minor Thesis.

Pujiastuti, Triani. 2008. Agency Cost terhadap Kebijakan Dividen pada Perusahaan Manufaktur dan Jasa yang Go Public di Indonesia. *Jurnal Keuangan dan Perbankan, Vol. 12, No. 2, Mei 2008, hal 183-19.* Journal.

Puspita, Fira. 2009. *Analisis Pengaruh Struktur Kepemilikan, Investment Opportunity Set (IOS), dan Rasio-rasio Keuangan terhadap Dividend Payout Ratio (DPR).* Minor Thesis.

Sartono, Agus. 2001. *Manajemen Keuangan Teori dan Aplikasi*. Yogyakarta: BPFE.

Singgih, S. 2000. *Statistic Parametric.* Jakarta: Elex Media Komputindo.

Sugeng, B. 2009. Pengaruh Struktur Kepemilikan dan Struktur Modal Terhadap Kebijakan dan Inisiasi Dividen di Indonesia. *Jurnal Ekonomi Bisnis* Tahun 14 Nomor 1 Maret 2009. Fakultas Ekonomi Negeri Malang. Journal.

Sugiyono, 2009, *Metode Penelitian Kuantitatif, Kualitatif dan R&D*, Bandung : Alfabeta.

Suharli, Michell. 2007. Pengaruh *Profitability* dan *Investment Opportunity Set* Terhadap Kebijakan Dividen Tunai dengan Likuiditas Sebagai Variabel Penguat. *Jurnal Akuntansi dan Keuangan, Vol. 9, No. 1, Mei 2007: 9-17.* Journal.