International Journal of Innovation, Creativity and Change. www.ijicc.net
Volume 6, Issue 7, 2019

The Influence of Profitability and Leverage on Dividend Policy in the Banking Sector

Niki Hadian[a], [a]Widyatama University, Indonesia
Email: niki.hadian@widyatama.ac.id

Competition between companies to get investors is an attraction for investors to invest their capital by demanding companies to implement various policies, one of which is dividend policy; the company's dividend policy will attract interest from investors. Dividend policy itself is a decision to distribute profits in the form of dividends, dividend policy is considered as one of the most important financial decisions with implications on stock prices and therefore profitability or on financing investment projects which can result to an increase in the value of the company. Meanwhile, too generous of a dividend policy will reduce retained earnings so the opportunity for the use of internal funds will decrease. The objects in this study were profitability, leverage, and dividend policy in the banking sector companies registered at IDX for the period of 2013-2017. The data analysis method used in this study is quantitative analysis. The author will use panel data in this study, where the data used is Time Series data. The results of the research partially shows that profitability influences the company's dividend policy and leverage influences the dividend policy of companies in the banking sector, listed on the Indonesia Stock Exchange during the 2013-2017 period. The results of the study simultaneously shows that profitability and leverage towards the company's dividend policy in the banking sector listed on the Indonesia Stock Exchange during the period 2013-2017.

Key words: *Profitability, leverage, dividend payout ratio (DER).*

Preliminary
Background

Increasing economic growth in Indonesia has made greater competition in business, one of which is competition in the banking sector in Indonesia ranging from conventional to sharia banks. Meanwhile foreign banks have begun to appear to be entering Indonesia, even though business activities are increasingly complex. By looking at the conditions of economic growth that occur, it can lead to investor interest in buying shares of a company in the market. Based on Martalena and Malinda (2011: 2) The market is a place for many kinds of long-term finance instruments that could be traded (stocks, bonds, mutual funds, derivative instruments and so on). Capital markets are a means of funding for several organizations and other (such as the government), and as a means for investing.

Investment activities make it easier for investors to make decisions and objectives of their investments, investors who invest their funds into stocks certainly have a purpose and motivation, namely to get returns that can be in the form of capital gains and dividends. Capital gain is an advantage obtained by investors when reselling shares owned at a price higher than the purchase price. Whereas dividend is a part of profit distributed by the company to shareholders as remuneration or compensation for having owned and invested in shares (Sutrisno 2012: 100).

Investors generally want a relatively stable dividend distribution because the stability of dividends can increase investor confidence in the company so as to reduce uncertainty for investors in investing their funds into the company (Amyas et al, 2014). The company can determine the percentage of dividend distribution that is distributed to shareholders. The increase in dividends distributed to shareholders is a signal to the market and investors as to the condition or ability of the company to generate income.

In accordance with the financial management function in general, the purpose of dividend distribution is to maximize the prosperity of shareholders. Besides that, the purpose of dividends is also to show the liquidity of a company, to meet the needs of shareholders for real income, as well as a communication tool between managers and shareholders (Tika Ayu, 2015: 19). For investors themselves, most of them want dividends that continue to increase for each period. Meanwhile, too generous of a dividend policy will reduce retained earnings so that the opportunity for the use of internal funds will decrease.

There was a phenomenon of an increase in dividend distribution in 2016 which was reported by online media; PT Bank Mandiri (Persero) Tbk, handed over the biggest payout ratio to shareholders. The General Meeting of Shareholders (RUPS) of the BMRI issuer agreed to distribute a dividend of Rp 6.21 trillion. This total dividend is equivalent to 45% of the company's profit last year which amounted to IDR 13.8 trillion. "The AGM ratified the total payout dividend of 45% of 2016 earnings as dividends, namely Rp. 6.21 trillion," said Deputy Managing Director of Bank Mandiri, Sulaiman A. Arianto at Plaza Mandiri. The dividends distributed were equivalent to Rp 266.27 per shares.

The 2016 dividend portion rose from the previous year, which was 30%, (Rp 6.1 trillion); the highest in Bank Mandiri's history. Even though last year, the bank bearing the gold ribbon logo experienced a decline in net profit of 32.1% compared to the same period in 2015 which penetrated IDR 20.3 trillion.

Third is PT Bank Rakyat Indonesia (Persero) Tbk which had previously announced a 40% profit share net last year as a dividend. The total payment of BBRI coded bank issuers reached Rp 10.37 trillion from last year's total profit of Rp 26.19 trillion. The total dividends provided by BRI is the largest of all state-owned bank dividends. While PT Bank Ina Perdana Tbk (BINA) decides not to distribute a dividend from net income for the year 2016. President Director of Bank Ina, Edy Kuntardjo said, shareholders agreed not to distribute dividends, along with the company's lack of core capital in the group of Business Activity Banks (BUKU) II worth Rp 1.46 trillion. "The core capital of Rp. 1.14 trillion for BUKU II is still minimal, so that all net income is recorded as retained earnings for capital capitalization." Based on the phenomenon, there are some banks that distribute dividends, and some do not distribute dividends and hold financial assets as retained earnings. There were also problems in the banking industry during 2016 according to the Financial Services Authority (OJK), saying the profitability ratio (Return on Assets / ROA) declined slightly because banks needed to inflate the cost of reserves due to increases in the ratio of NPL .

OJK Board of Commissioners Chairman Muliaman Hadad said the ROA indicator in 2016 slightly declined to 2.23 % from 2015 where was from 2.32 %, by the mitigation of risk related to the assets of the banking sector, given that the NPL continued to rise, even reaching 3.1% gross. At the end of December 2016, banking NPLs had improved to 2.93% (gross). But for now, the bank's profitability ratio is projected to still be depressed by the reserve costs. This is because the prediction of bad loans will still be high in the third quarter and fourth quarter so that banks will at least maintain reserves until the end of the fourth quarter of 2016. In addition, the realization of banking profitability ratios (ROA) in the second quarter of 2016; 1.78% to 2.2%.

Competition between companies to get investors is an attraction for investors to invest their capital by demanding companies to implement various policies, one of which is dividend policy, the company's dividend policy will attract interest from investors. Dividend policy itself is a decision to distribute profits in the form of dividends, dividend policy each company has a different level of division, is considered as one of the most important financial decisions with implications on stock prices and therefore profitability or on financing investment projects which can result in an increase in the value of the company.

Based on the bird in hand theory according to Gordon & Linter (1963) in Brigham and Houston (2009: 459), the required level of profits will increase if dividend distribution is carried out because investors are more confident about dividend receipts rather than capital gains. Therefore, the writer in this study uses financial ratios, namely profitability (ROA) and leverage (DER).

According to Brigham & Houston (2009: 95) dividends in return for shareholders can be predicted by profitability as a determining factor. Profitability reflects the end result of all financial policies and operating decisions. Company profitability is reflected in profitability ratios. According to Nur Aminah, Rina Arifati, and Agus Supriyanto (2016), the level of profitability can be analysed using the ratio of (ROA) which is a ratio to analyse management's ability in managing assets to gain profits; it is used by comparing post-tax profit with total assets. While the DER ratio, based on Sutrtisno (2011), is a balance between the debt held by the company and its own capital. The higher the ratio the less total debt.

The research conducted by Mochamad Zakaria (2014) entitled the impact of profitability and leverage on dividend, shows that partially ROA has a positive and significant effect on DPR. While partially on the leverage ratio (DER) has a negative and significant effect on DPR.

A subsequent study conducted by Dania Indi Pujastuty (2016) entitled the impact of profitability, leverage & investment set on dividend for the period 2012-2014, shows that partially profitability measured using ROE has a significant and positive impact on dividend policy while partially leverage is measured by using DER and investment set calculated by using MBVE does not significantly influence the negative direction of dividend policy.

Identification of problems

1. What is the effect of partial profitability on the dividend policy in the banking sector?
2. How does the effect of leverage impact on the dividend policy in banking sector?
3. How does the effect of profitability & leverage simultaneously impact on dividend policy in the banking sector?

Theoretical Basis

Profitability Ratio

ROA

ROA also often referred to as economic rentability is a count of an organization's capability to gain an earn with all resource owned by the organization. In this case the resulting profit is profit before interest and tax or EBIT.

$$\text{Return On Assets (ROA)} = \frac{\text{EBIT}}{\text{Total Assets}} \text{ x } 100\ \%$$

Leverage Ratio

DER

DER is a balance between debt held by a company and its own capital. The higher this ratio means the less capital itself compared to the debt. For companies, the size of the debt should not exceed its own capital so that the fixed burden is not too high. For a conservative approach, the maximum amount of debt is the same as own capital, meaning that debt to equity is a maximum of 100%. To count the DER we can use the following:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Owners Equity}} \text{ x } 100\ \%$$

Dividend Policy

According to Sutrisno (2012: 266), the dividend policy for management is to decide when the profits gained by the organization for one period will be divided equally or divided in part for a dividend and partly divided into retained earnings.

According to Sudana (2011: 24), the DPR is a ratio which measures how much of net income after tax is paid as dividends to shareholders. The greater this ratio means the less part of the profit that is retained to spend on investments made by the organization.
The calculation of the DPR according to Sudana (2011: 24) can be formulated as follows:

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend}}{\text{Earning After Tax}}$$

Conceptual Framework

Dividend policy is essentially a conclusion when the profits gained by the organisation will be distribute to stockholders as a dividend or will be held in retained earnings for future investment (Fatula, 2018). Companies must be able to implement an optimal policy

(Olkiewicz, 2018). The policy taken must be able to fulfil the wishes of both parties where the company can still meet the needs of the future fund, while the investment party gets what it wants, so that investors do not transfer their investment to other companies (Sartono, 2011: 281).

Good corporate financial performance can be used as a guideline for investors as a basis for investment analysis (Sanchez, 2018). Through analysis of profitability ratios, we will be able to show the efficiency and effectiveness of investment management by the company and its ability to generate profits (Taib, Ashraf & Razimi, 2018). The profitability ratio indicated by Return on Assets (ROA) is often used as the basis for evaluating planning, goal setting, and improving the company's financial performance. According to Sutrisno (2011) the ratio of DER is a balance between the debt held by the company and its own capital. The higher this ratio means less total debt (Kamarudin et al., 2019).

According to Brigham and Houston (2010) the greater the leverage of the company, the more it tends to pay lower dividends in order to reduce dependence on funding externally. So, the greater the proportion of debt used for the capital structure of a company, the greater the amount of liabilities that will affect the size of the dividends to be distributed.

According to Brealey et al (2007: 10), at the time a company borrows, the company promises to perform payments and then return the quantity of money borrowed. If profits rise, the debt holder continues to take care of receiving fixed interest payments, so that all profits belong to shareholders because an increase of the debt returns to stockholders in good times and reduces returns in the bad times; the debt is said to be creating financial leverage by the organization.
Based on the above framework, in this study the authors propose the research hypothesis as follows:

H_{01} : Profitability doesn't have a significant impact on Dividend Policy.
H_{A1} : Profitability affects the Dividend Policy.
H_{02} : Leverage does not affect Dividend Policy.
H_{A2} : Leverage affects the Dividend Policy.
H_{03} : Profitability and Leverage simultaneously don't affect the Dividend Policy
H_{A3} : Profitability and Leverage simultaneously influence the Dividend Policy.

Research Methods

The objects in this study are profitability, leverage, and the policy of dividends of the banking sector organizations listed on the IDX for the period of 2013-2017. The dependent variable in this study is dividend policy. Independent variables of this study are profitability and leverage. The subjects of this research were banking sector organizations listed at the IDX in 2013-2017.

The Population in this research are organizations in the banking industries that are listed on the IDX for the period of 2013 to 2017, which amounts to 43 companies. The population in this study was 43 companies.

The analysis of data method used in this research is quantitative analysis. The author will use panel data in this study, where the data used is Time Series data. The data taken comes from the financial statements of companies in 2013, 2014, 2015, 2016 and 2017. To determine the extent of the effects that occur due to the impact of profitability and leverage on the dividend policy.

Research Results and Discussion

Hypothesis test

Partial Test (t-test)

This study basically aims to show the impact of individual independent variables on the dependent variable. Partial test outcomes are:

1. From the outcomes of the t_{test} in the model of regression, the significance value of the profitability var. is 0.0000 <0.05 (the significance level of the research significance). Besides that, it can also be seen from the results of the comparison between t_{count} and t_{table}, where the value of t_{count} is 4.628, while t_{table} is 1.675. From these results it can be seen that t-count> t-table (4.628 > 1.675). Therefore, it is concluded that H_{A1} is accepted, meaning that profitability partially has a significant effect on dividend policy.
2. Based on the outcomes of the t_{test} in the model of regression, the value of significance of the leverage var. is 0.000 < 0.05 (significant level of research significance). In addition, it can be seen that the results of comparison between t_{count} and t_{table} which indicates the value of t_{count} of 5.678, while t_{table} is 1.675. From these results it can be seen that t-count> t table (5.678 > 1.675). Therefore, it can be concluded that H_{A2} is accepted, meaning that partial leverage has a significant impact on dividend policy.

Simultaneous Test (F-test)

Simultaneous tests are used to determine when the independent var. simultaneously affects the dependent var. Based on the outcomes of the F test, we gained a value of significance of the regression model simultaneously of 0.000. The value's smaller than the level of significance of 0.05 (5%), which is 0.0000 < 0.05. Besides that, it can also seen from the results of the comparison between F-count and F-table, where F_{count} is 32.343 and F_{table} is 3,17. From these outcomes it can be seen that $F_{count} > F_{table}$ (32.343 > 3.17). Therefore, it can be deduced that H_{A3} is accepted. This means that together, profitability and leverage have a significant effect on dividend policy.

Determination Coefficient Test

The coef. of determination verify is used to quantify the model's ability to explain the variation of the independent var. on the dependent var. Based on the results of measuring the coefficient of determination, it shows that R^2 is 0.554 , which means the variability of the dependent var. can be explained by the independent var., namely profitability and leverage in this study explains 55.4 % of dividend policy, and the remaining 44.6 % is explained by variables not explored in this research.

Discussion

Profitability on Dividend Policy Effect's

From the outcomes of the research we can show that profitability impacts the policy of dividend distribution. The outcomes of this research are also supported by the previous discussion stating that profitability is describing the ability of companies to make profits through all the capabilities of existing resources (Harahap, 2009: 219). Return on assets is based on the opinion that because assets are funded by shareholders and creditors, this ratio must also be able to provide a measure of asset productivity in return to these investors (Irham Fahmi, 2014: 186).

Dividend policy is a policy that must be taken into account by management; whether the profits obtained by the company for one period will be shared all or partially distributed for dividends and whether some money will be divided into retained earnings for the development of the company (Sutrisno, 2012: 266). Profitability is the ability of an organization to gain profits. The greater the profits obtained, the greater the ability of company to pay dividends (Brigham and Houston, 2011: 156). The level of profitability has long been used as an indicator of a company's ability to pay dividends (Gill et al, 2011). So, the higher the profitability, the more the policy of providing dividends is considered. The outcomes of this research are in line with the results of previous studies conducted by Zakaria (2014), Pujastuty (2014), Kamal (2016), Suryono (2016), and Soesilo (2016). His research results show that profitability affects the policy of dividends.

Impact of Leverage to Policy of Dividend

From the outcomes of the research, it shows that leverage affects the policy of dividends. The outcome of this research is also supported by the previous analysis stating that the greater the leverage of the company, a company tends to pay lower dividends in order to reduce dependence on external funding (Brigham and Houston, 2010). So, the greater the proportion of debt used for the capital structure of a company, the greater the amount of liabilities that will affect the size of the dividends to be distributed. At the time a company borrows resources, the company has to make a payment and then return the quantity of resources borrowed (Brealey et al, 2007: 10).

If profits rise, the debt holder continues to take care of receiving fixed interest payments, so that all profits belong to shareholders because increasing of debt returns to stockholders in good condition and reduces in bad financial conditions, the debt is said to create leverage of finance for the company. This means that if the company has a high level of debt, the company has the main obligation to pay the principal amount and the interest payments take first priority over the interests of shareholders related to dividend distribution. In this way the company's debt will affect the dividend policy taken by the company. So, the higher the leverage, the lower the priority of dividend distribution. The outcomes of this research are similar to the outcomes of previous studies conducted by Zakaria (2014), Pujiastuty (2014), Kamal (2016), and Suryono (2016). Previous research results show that leverage influences dividend policy.

Profitability Effect and Leverage on Policy of Dividend

From the outcomes of the research, profitability and leverage influence the dividend policy. The magnitude of the impact of profitability and leverage in contributing to the influence of dividend policy is 55.4 %. The outcomes of this research are similar to the previous discussions, stating profitability and leverage are indicators that are taken into consideration for company management in determining dividend distribution policies to shareholders. The rate of profitability indicates the company's capability to make an earning. The higher the net profit obtained by the company, the higher the dividend distribution policy that will be distributed to shareholders. In addition, leverage shows the level of debt that the company has. A high level of leverage will certainly affect dividend policy in the company. This is because the company has the main obligation to fulfil or pay the principal debt and interest first, after that it determines the company's policy of dividend distribution. The outcomes of this research are in line with the outcomes of previous studies conducted by Zakaria (2014), Pujastuty (2014), Kamal (2016), and Suryono (2016). The results of this research show that profitability and leverage influence the dividend policy.

Conclusions and Recommendations

Conclusion

From the outcomes of the study and conversation in the previous chapter, the following conclusions are obtained:

1. The results of the research partially shows that profitability affects the company's policy of dividend distribution.
2. The results of the study partially shows that leverage affects the dividend policy of corporate organizations in the banking industry, listen on the IDX during 2013-2017.
3. The results of the study simultaneously shows that profitability and leverage has an impact on a company's dividend policy in the banking industry, listen on the IDX during the period of 2013-2017.

Recommendations

The suggestions that researchers can convey from the outcomes of study are:

1. Improve company performance by increasing profitability in the company through increasing services carried out by the company, as well as minimizing the company's operational costs. In addition, companies also still need to pay attention to a variety of external factors (macro factors including inflation, economic growth, the rupiah exchange rate, and others) that might influence policies at the company.
2. Minimizing the level of leverage by reducing the use of debt as a source of capital in financing the assets or operations of the company. The use of capital sourced from debt is also limited so that the leverage ratio is not too high. This is intended to support the benefits that can be shared in the form of dividends to make it better for a longer period of time so that the increase in dividends can increase interest and consideration in decision, encouraging investors to invest in the company. Besides that, it indicates that the management is optimistic about the future of the company.
3. Increase dividend policy by increasing the company's net profit so that it can be allocated to shareholders in the form of dividends. In addition, there is a policy on dividend distribution which has been agreed upon or approved at the GMS.

BIBLIOGRAPHY

Amyas, et al. 2014. Pengaruh Quick Ratio, EPS, dan ROI terhadap Dividen Kas pada Perusahaan Manufaktur Sektor Food and Beverages yang terdaftar di Bursa Efek Indonesia. Jurnal Akuntansi, Vol 3, No.1

Brealey, Richard A. Dkk. 2007. Dasar-Dasar Manajemen Keuangan Perusahaan, Jilid Kedua, Jakarta, Erlangga.

Brigham, Eugene F. Dan Houston, 2011, Dasar-Dasar Manajemen Keuangan, Jakarta, Salemba Empat.

Dania Indi Pujastuty, 2016, Pengaruh Profitabilitas, Leverage, dan Investment Opportunity Set terhadap Kebijakan Dividen. Universitas Widyatama

Fahmi, Irham. 2012. Analisis Laporan Keuangan. Bandung. Alfabeta.

Fatuła, D. (2018). Selected micro-and macroeconomic conditions of wages, income and labor productivity in Poland and other European Union countries. Contemporary Economics, 12(1), 17-32

Gill, et al.. 2011. Analysis of Firm Size, Sales Growth, and Total Asset Turnover to Return on Equity. Saur : Munchen

Gitman, Lawrence J & Chad J. Zutter. 2012. Principles of Managerial Finance, 13th Edition. Global Edition : Pearson Education, Inc.

Harahap, Sofyan Safri. 2009. Analisis Kritis atas Laporan Keuangan. Jakarta. PT. Raja Grafindo

I Made Sudana. 2011. Manajemen Keuangan Perusahaan. Jakarta : Erlangga

Kamarudin, F., Sufian, F., Nassir, A.M., Anwar N.A.M., Hussain, H.I., (2019) Bank Efficiency in Malaysia a DEA Approach, Journal of Central Banking Theory and Practice, 8 (1), 133–162.

Olkiewicz, M. (2018). Quality improvement through foresight methodology as a direction to increase the effectiveness of an organization. Contemporary Economics, 12(1), 69-80.

Sartono, Agus. 2011. Manajemen Keuangan Teori dan Aplikasi. Edisi Keempat.

Yogyakarta. BPFE

Sutrisno. 2012. Manajemen Keuangan: Teori, Konsep, dan Aplikasi. Edisi Kedelapan, Yogyakarta : Ekonisia.

Syfa Fijriestari Suryono. 2016. Pengaruh Profitabilitas dan Leverage terhadap Kebijakan Dividen (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2010-2014). Universitas Widyatama

Martalena dan Maya, Malinda. 2011. Peengantar Pasar Modal. Edisi Kesatu. Yogyakarta : Andi

Mochamad Zakaria. 2014. Pengaruh Profitabilitas dan Leverage terhadap Kebijakan Dividen (Studi pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2010-2012). Universitas Widyatama

Nur Aminah, Rina Arifati, Agus Supriyanto. Pengaruh Dividen per Share, Return on Equity, NPM, ROI, dan ROA terhadap Harga Saham pada Perusahaan Real Estate dan Property yang Terdaftar di Bursa Efek Indonesia Periode Tahun 2011-2013. Journal of Accounting. Vol.8 No.1 , April 2008 : 30-36

Sánchez, V. M. G. (2018). Self-employment, Knowledge and Economic Growth: An empirical study for Latin American countries. Contemporary Economics, 12(4), 473-483.

Taib, C.A., Ashraf, M.S., Razimi, M.S.B. (2018), Productivity change in the efficiency of the insurance and takaful industry of Pakistan. Academy of Accounting and Financial Studies Journal, 22(1), 1-11.

Tika Ayu Puspita Wati. 2015. Pengaruh Return On Asset, Debt to Equity ratio, Collateral Asset dan Pertumbuhan Aset Terhadap Kebijakan Dividen (Studi pada perusahaan Manufaktur Ynag Terdaftar di BEI periode 2011-2013). Skripsi S1. Universitas Negeri Yogyakarta