

# Dividend Policy In Indonesia State Owned Enterprises

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**ABSTRACT:** This study is an explanatory study to determine the effect of independent variables on the dependent variable. As the dependent variable is the dividend payout ratio. Meanwhile, the independent variable is the variable that is measured by the growth of the company's capital expenditure ratio proxy, state ownership, firm size, profitability, cash flow, and the ratio of dividends last year as a control variable. The study uses panel data with a sample of 46 state-owned companies in the form of a limited liability company engaged non-financial sector with the financial period 2005-2009. The sample selection was purposive sampling that samples deposited SOE dividends during the study period. Hypothesis testing using a fixed-effect regression analysis models. As for overcoming heteroskedasticity and autocorrelation using the method of generalized least squares (GLS). The results found that the company's growth variables and firm characteristics variables simultaneously significant effect on dividend policy. To model the dividend policy, partial, variable capital expenditures, capital structure, firm size, and cash-flow negative and significant to dividend payout ratio, while profitability and state ownership variables having an positive and significant to dividend payout ratio. The study also found that non-listed state-owned companies have an average dividend payout ratio lower than the listed SOEs.

**Keyword:** capital spending, sales growth, firm characteristics, fixed effects models, generalized least squares, recursive models, dividend policy, SOE

## I. Introduction

Based on data from the Ministry of State Enterprises, in 2010 the total book value (book value) of assets owned by all SOEs approximately 2,500 trillion rupiahs, or about 39% of the total Indonesian GDP in 2010 amounted to 6,422 trillion rupiahs. While the capital expenditure (CAPEX) SOEs reached 184 trillion rupiahs, larger than the central government capital expenditure in the state budget amounted Year Budget 2010, 80 trillion rupiahs. However, investment or capital expenditure (CAPEX) this state is still relatively small compared to the operational expenditure (OPEX). Comparison between expenditures for operational expenditure (OPEX) and capital expenditure outlay for (CAPEX) SOEs from 2005 to 2009, there were expenditures for capital expenditure (CAPEX) for five years of state-owned companies is much smaller than the expenditure to operational expenditure (OPEX). This means that the activities of state-owned companies are still focused on routine operations, which does not encourage growth. This can happen due to several causes, among others, investment opportunities SOEs still little. But as a monopolistic company, the investment opportunities in the state should be much more than a non-SOEs. Other causes include funds to finance investment activities not enough. In addition there is the possibility of SOE managers are reluctant to invest due to the constraints of bureaucracy or intervention in the activities of these investments. SOE dividend ratio of the net profit is also likely to increase.

In 2005 the dividend payout ratio of 30.26% of his, in 2006 increased to 39%, in 2007 slightly decreased to 37%, in 2008 remained 37%, in 2009 dropped to 30%. On the average dividend payout ratio over the entire SOE five years is 34.65%. This ratio is much higher when compared with the average dividend payout ratio (DPAY) non-SOE firms belonging to the LQ-45 at the Indonesia Stock Exchange in the amount of 24.65%. Research on the relationship between the growth of the company as a proxy for the investment policy and dividend policy financing, dividend theory approach and the theory of capital structure. Study on dividend initiated by Miller and Modigliani's research (1961) which concluded that the dividend payment does not affect the value of the company. Assuming the presence of perfect market conditions (perfect capital markets), dam Modigliani Miller (MM) argued that firm value is only determined by the company's ability to generate earnings, not on how to separate the company's earnings and dividends to retained earnings. So the dividend payment now or later is irrelevant because it produces the same value of the company. Opinions MM dividend irrelevance theory known.

## II. Literature Review

The growth of the company is increasing the size of the asset or company. Growing companies, will be reflected in the growth rate of the company's sales or revenue increases. Growing companies will also need a source of financing for investment costs. The financing, could come from internal funds (retained earnings), using debt (debt) or by using external equity. According to the theory of transaction costs (transaction cost theory), the company that is growing, is likely to hold its earnings to finance investment. If the dividend is paid, then the funds will be reduced so take a concerted internal financing from outside (external financing), transaction costs, so the dividend payment made where sufficient internal funds to finance its investment. This research that supports this theory is the study Rozeff (1982), Lloyd et al, (1985), Moh'd, et al (1995), and Holder (1998). According to the agency cost theory of Jensen & Meckling (1976), the separation of ownership and managerial agency will cause problems, because their interests are not always the same between. So the

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ownership structure will affect the company's financial policies, including corporate dividend policy and capital structure. Furthermore, according to Jensen & Meckling, managerial ownership ratio that would lower the greater the agency problems because managers also became the owner of the company, because the interests of the company will be in accordance with the interests of the manager as the owner of the company. In addition to managerial ownership, institutional ownership (institutional ownership) also affects the agency problem. Institutional ownership in a stock typically has a large number of (large-block shareholder) so as to have the effective ability to monitor the behavior of managers in managing the company, Shleifer & Vishny (1986) in Wang et.al (2011). The influence of large-block shareholders in the management of the company even greater if large-block shareholders are government institutions or state. One of the company's decision-making can be controlled is dividend .Shleifer & Vishny (1987) in Wang et.al (2011). Several previous studies have tested the effect of state ownership (state ownership) to the dividend policy. Gugler (2003) examined the relationship between dividend and ownership (ownership structure), with a sample of 214 companies in Australia in the period 1991 to 1999, using the method of ordinary least squares (OLS). Gugler study concluded that the state-owned companies tend to be reluctant to reduce dividends than the family-owned company. Several other studies, among others, Gul (1999), Al-Malkawi (2007), Al-Kuwari (2009), Wang et.al (2011) also reached the same conclusion that the state ownership (state ownership) has a positive effect on dividend policy. The size of the company describes the value of the total assets of a company. Relationship with the size of the company dividend policy can be explained by the theory of agency costs and transaction cost theory. Based on agency cost theory, large companies tend to have more complex agency problems than small companies. In large companies, the asymmetry of information will increase as the spread of ownership (ownership dispersion), thereby reducing the ability of the owner to monitor the activities of the company and decrease the effectiveness of control by managers. With dividend payments, it will create the need for external financing, which will increase the company's monitoring activities by creditors (Eastbrook, 1984). Besides large companies tend to have easier access to external finance due to the transaction costs (transaction costs) are smaller than the size of his company. Transaction costs are largely a fixed cost (fixed cost) so that large companies benefit from economies of scale when raising debt financing. With lower transaction costs and increased potential for agency problems, the size of the companies tend to be positively correlated with dividend payments. The Company may use the net income to finance profitable investment, distributed as dividends to shareholders, or accumulated earnings into retained earnings (retained earning) Source dividend payments from the accumulation of retained earnings (retained earnings) acquired a company. Lintner (1956) pioneered the study of the effect of income on dividend stability of theory of dividend yield. Lintner, among others, suggests that the main factor in dividend payments are income for the year (current earnings) and dividend previous year (past dividends). This conclusion is supported by the research of

Baker et.al (1985) and research Pruitt and Gitman (1991). In general, dividends are paid with cash (cash-dividend), while profits from the company's cash flow is not always followed. So that the dividend is not only dependent on the profits, but also because of the liquidity position of company. That cash availability affect the company's ability to pay dividends. According to Liu & Hu (2005) cash dividend sourced from free-cash flow indicates the maximum cash payable dividend. If the cash dividend is smaller than the free-cash flow that company has increased residual cash. If the cash dividend is greater than the free-cash flow, the company requires financing by issuing new shares to meet the requirements for payment of cash dividend. Several studies support the idea, among others, Mollah et al. (2001) that perform testing in emerging market and find that financial leverage has increased transaction costs. Companies with high leverage ratios will pay lower dividends in order to avoid the cost of transaction. According to transaction cost theory, the level of leverage will be negatively related to the dividend payout ratio. Based on the framework, the research hypothesis can be formulated as follows:

- 1) The company's growth (growth of firm), capital structure (capital structure), state ownership (state ownership), firm size (firm size), profitability (profitability), liquidity (cash-flow), and dividends last year (past dividend) simultaneously significant effect on dividend policy
- 2) Growth companies (growth of firm) partially negative effect on dividend policy
- 3) State ownership (state ownership) positive effect partially on dividend policy
- 4) Firm size (firm-size) partially affect the dividend policy
- 5) Profitability (profitability) partially positive effect on dividend policy
- 6) Liquidity (cash-flow) partially positive effect on dividend policy
- 7) Capital structure (leverage ratio) partially negative effect on dividend policy
- 8) Dividends last year (past dividend) partially positive effect on dividend policy
- 9) Dividend ratio of non-listed SOEs lower than dividend BUMN Listed

### III. Data And Method

This type of research is a descriptive study-verification. Descriptive Research is research to gain an overview of some of the variables of the study which includes the company's growth, the characteristics of the company, dividend policy and capital structure. While verification is a research study to test the hypothesis of the study by using statistical analysis to determine the level of significance of the effect of variable growth and dividend policy company to characteristics. The method used is an explanatory method-survey research that aims to interpret the relationship between variables in a way interpretation first conclusions will be obtained through hypothesis testing. There are two types of variables that will be used in this dissertation research is the dependent variable (endogenous variable) and the independent variables (exogenous variables) including control variables and dummy variables. The data used in this research is primary data in the form of annual financial statements audited SOE-year period 2005-2009

were obtained from the Ministry of State Enterprises in the form of data either hardcopy or softcopy of data. Most secondary data for SOEs listed of Indonesian Capital Market Directory (ICMD). Shape data is a panel data or pooled time-series and cross-section. Selection of the study sample is purposive sample, sample selection based on objectives or criteria as follows:

- 1) BUMN Limited Liability Company (PT).
- 2) The state-owned company is not banking sector companies, financing, and insurance (non-financial firms)
- 3) The state-owned company to deposit dividend during the period 2005 to 2009.

The target population of this dissertation research is BUMN shaped Persero (PT), amounting to 128 companies, including 18 state-owned companies that have gone public (listed SOEs). The unit of analysis is the state-owned company Persero form, which does not move the financial sector (non-financial firms) totaling 106 companies. Furthermore, selected SOEs to pay dividends during the 2005-2009 period and reduced SOE with incomplete data, so the final sample numbered 46 companies. Furthermore, these data are classified, arranged shaped so that the ratio can be used for data processing using reviews 6.1 applications.

## IV. Result And Discussion

### 4.1.1. Effects of Growth Variables Company

From the data processing, it can be seen that the growth of the proxy variable ratio of capital expenditures divided by total assets (capital expenditure to assets ratio) had a regression coefficient of -0.279069, so it can be concluded that there is a negative effect on the company's dividend growth, which means the higher the ratio of capital expenditure, the lower the dividend payout ratio, or vice versa. Regression results influence the growth of the company by proxy capital expenditure to assets ratio is consistent with the research hypothesis predicts that the growth of the company as measured by the proxy of capital expenditure negatively affect dividend policy. This result is consistent with the theory of transaction costs (transaction cost theory). According to transaction cost theory, for companies that are growing tend to hold back profits to finance investment, because if the company pays a dividend, then the internal funding will be reduced, so that the company will seek outside financing sources (external financing). The use of external financing will cause transaction costs. The results of this study illustrate that the theoretical and based on regression analysis of the data of SOE financial statements, the company's growth as measured by the ratio of capital expenditure proxy, has a negative relationship with dividend. The results of this study may have implications related to SOE dividend policy by the Government which has tended to meet the financing needs of the State Budget (Budget).

### 4.1.2. Effects of Variable Capital Structure

From the results of the regression equation shows that the coefficient of the leverage variable is -0.046283, which means that the effect of capital structure on dividend policy

is negative, where the higher the debt to equity ratio, the lower the dividend payout ratio, or vice versa. Regression results are consistent with the research hypothesis predicts that capital structure or financial leverage has a negative effect on dividend policy. This study supports the theory of transaction costs (transaction cost theory) and the theory of agency costs (agency cost theory). According to transaction cost theory, corporate financing from outside (external financing) with both equity and debt (debt), will lead to transaction costs. Financing with debt raises interest payment obligations and flotation costs such as administrative costs, legal fees in order to finance the debt. To maximize shareholder value, the company's reliance on external financing (external financing) that pay low dividends, in order to reduce the external financing so as to reduce transaction costs.

### 4.1.3. Effects of Company Size (Firm Size)

From the results of the regression equation shows that the coefficient of firm size variable is -0.099717, where the influence of the variable size of the company dividend payout ratio (DPAY) is negative, which means that the higher the size of the company, the lower the dividend payout ratio. The results of this regression is different from the research hypothesis predicts a positive effect on the variable SIZE dividends. The results of this study do not support the argument transaction cost theory and agency cost theory. According to the theory of agency costs, large companies tend to have more complex agency problems than small companies that will increase the asymmetry of information, thus reducing the ability of the owner to monitor the company's activities, and decrease the effectiveness of control by managers. Dividend Payment will give rise to the need for external financing (external financing), which will further increase the company's monitoring activities by creditors (Easterbrook, 1984). Meanwhile, according to transaction cost theory argument, large companies tend to have easier access to external finance (debt) because of the relative transaction costs (transaction costs) are smaller than the size of his company. Transaction costs are largely a fixed cost (fixed cost) so that large companies benefit from economies of scale when raising debt financing. With lower transaction costs and increased potential for agency problems, the size of the companies tend to be positively correlated with dividend payments. Holder (1988), Mollah et al. (2002), Travlos et al. (2002).

### 4.1.4. Effect of Variable Profitability

From the results of the regression equation shows that the coefficient of profitability by using proxy variables return on equity (ROE) is 0.364211, which means that the effect of profitability on dividend policy is positive where the higher return on equity, the higher the dividend payout ratio (DPAY). Regression results are consistent with the hypothesis in this dissertation research which predicts that the positive effect on the profitability of the company dividend payout ratio (DPAY). The results of this study support the theory of stability of the dividend argument of Lintner (1956), among others, suggests that the main factor role in the payment of dividends is income for the year (current earnings) and dividend previous year (past dividends).

#### 4.1.5. Effect of Variable Cash Flow

From the results of the regression equation shows that the coefficient of the variable cash flow (CF) with a proxy net cash flow to assets ratio is -0.303404, which means that the effect of cash flow on dividend policy is negative, where the higher the ratio of cash flow, the lower the dividend payout ratio (DPAY) or vice versa. The results of this regression is different from the research hypothesis predicts that cash flow has a positive effect on dividend policy. The results of this study do not support the argument that agency cost theory states that the dividend is a mechanism to reduce free-cash flow of the company so as not to be used for the benefit of managers, so that the ratio of cash flow will be positive effect on dividend policy, where the higher cash flow possessed company, the greater the dividends paid. However, several arguments can be put forward why the cash-flow has a negative influence on the dividend. Cash-flow (CF) in the opposite direction with the graph dividends. At first the average SOE dividends decreased then increased, while the average ratio of cash flow to increase further SOE initially flat. This indicates that although the dividend is a dividend paid cash, but the magnitude of the ratio of SOE dividends are not always followed by the ratio of cash flow of the company. Second, the profits of the SOEs, it does not always reflect the magnitude of the cash flow of the company. This reflects the profits of SOEs tend to be income accrual accounting is not always followed by cash flow.

#### 4.1.6. Effect of State Ownership Variables (State Ownership)

From the results of the regression equation shows that the coefficient of the variable state ownership (SO) is 10.48203, which means that the effect of state ownership on dividend policy is positive, where the higher the proportion of state ownership, the higher the dividend payout ratio (DPAY) or vice versa. Regression results are consistent with the hypothesis in this dissertation research which predicts that state ownership (state ownership) positive effect on dividend payout ratio (DPAY). The regression results support the agency cost theory (Jensen & Meckling, 1976) regarding the influence of ownership structure on dividend policy and institutional ownership in accordance with the argument of Shleifer & Vishny (1986) in Wang et.al (2011) which states that institutional ownership (institutional ownership) affects the agency problem because institutional ownership typically have large amounts of stock (large-block shareholder) so as to have the effective ability to monitor the behavior of managers in managing the company. The influence of large-block shareholders in the management of the company even greater if large-block shareholders are government institutions or state.

#### 4.1.7. Effect of Variable Dividend Past (PDPAY)

From the results of the regression equation shows that the coefficient of the variable dividend payout ratio last year (past dividend) is 0.008227, which means that the influence of the past on the policy dividend payout ratio is positive. But the probability of a value of 0.3912, the effect of the ratio of dividends last year (past dividend) the ratio of current year dividend (the current dividend) is not significant. It can be concluded that the dividend policy of the period did not significantly influence the dividend policy

of the current period. The results of this study do not support the argument dividend stability theory of Lintner (1956) which states that dividends last year is an important variable in determining the dividend policy of the current year. This indicates that the SOE dividend policy, dividend ratio last year was not an important variable for determining the dividend payout ratio for the year. It also illustrates that the SOE dividend policy more considering the conditions at the time the dividend policy was decided, among others, the need for financing the state budget. SOE dividend policy which does not consider the stability of dividends is also influenced by the status of the majority of SOEs are still a private company (non-listed SOEs) so that the dividend policy change will not affect the value or price of shares of the company.

## V. Conclusions

From the regression results are known turns between SOE dividend policy listed and non-listed SOEs differ significantly with dummy variable coefficient is -3.547401, which means that the average dividend payout ratio of non-listed SOEs 3.547401 lower than the dividend payout ratio of listed SOEs. These results portray that the dividend payout ratio of non-listed SOEs is smaller than the dividend payout ratio of listed SOEs. The results are consistent with the hypothesis dissertation study predicts that the dividend payout ratio of non-listed SOEs is smaller than the dividend payout ratio of listed SOEs. Several arguments can be explained to support the results of such research include first, listed SOEs usually have a better performance resulting in higher profits than non-listed SOEs. By having a greater profit, then the ratio of dividends paid will also be greater. Second, more listed SOEs have better access to seek external financing, both debt and equity financing. So if internal funds (retained earnings) are not sufficient to pay dividends because investment, it can seek funding from outside (external financing) with easier and less expensive. Better access to external financing sources is due to several reasons, among others:

- 1) Listed SOEs has become a public company so that the lender or investor to assess the condition of the company to more easily and accurately.
- 2) Listed SOEs more financially sound so it is considered to have a better ability to meet its debt obligations to creditors or lenders can provide greater financing.
- 3) Listed SOEs tend to have larger assets so as to give confidence to investors over the collateral (collateral) against loans. This also leads to easier creditors lend to SOEs.
- 4) Based on these factors, the creditor or lender will likely apply a lower interest rate for SOEs listed compared to non-listed SOEs.

On the average size of SOEs listed company (firm size), the ratio of profit (return on equity), debt ratio (debt to equity ratio) and the ratio of dividends (DPAY) higher compared to the non-listed SOEs. This means that on average, listed SOEs have better performance than non-listed SOEs views of the four measures. The results of this study confirm the results of research and Netizens Megginson (2001) and Sun & Wilson Tong (2002) who found that the performance of SOEs after privatization are much better indicators

measured from the increase in profitability, capital expenditure (capex) and the dividend payout ratio.

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