THE DETERMINANT FACTORS OF DIVIDENDS PAYMENT:
EVIDENCE FROM LQ-45 COMPANIES IN IDX

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Abstract

Objectives This paper studies several determinant factors that influence dividend payments: company’s size, leverage, profitability, earnings stability, and growth. It will analyze the significance of each determinant towards dividend payment and whether their relationship is in form of negative or positive relationship.

Method The sample companies used are 32 companies that listed in both Indonesia Stock Exchange (IDX) and LQ-45, except the one that engaged in finance industry and bank. There are in total of 126 firm-year observations covering the period between 2004 and 2007. The study develops five hypotheses and uses descriptive statistics analysis, classical assumptions such as multicollinearity and heteroscedasticity, correlation analysis, and multiple regressions analysis to examine the relationships.

Results The results suggest that some of the determinants do effect the dividend payments. The determinants such as size, profitability, and stability increase the likelihood to pay dividend. To the lesser extent, growth is negatively associated to dividend payment. Leverage is insignificant towards dividend.

Conclusion In conclusion, several determinant factors that influence dividend payments in developed capital market did not actually incur the same effect in Indonesia Capital Market which is semi-developed market. Taken together, the results support pecking order hypothesis and maturity hypothesis.

Key Words Dividend payment, Company’s size, Leverage, Profitability, Stability, Growth, Indonesia Stock Exchange