EMPIRICAL INVESTIGATION OF DIVIDEND PAYMENT PROBABILITY: EVIDENCE FROM INDONESIA

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Abstract

Objectives The primary aim of this research is to empirically determine the significant factors that affect dividend payment in Indonesia. Moreover, it is intended to distinguish the characteristics of dividend payers and non payers among Indonesian firms. Additionally, it provides comparison with previous studies from developed and developing / emerging capital markets.

Method The research sample used is the pooled 368 firm year observations of Kompas 100 firms from year 2007 – 2009. Data collection is done by extracting relevant informations from company’s financial statements and annual reports. Eight hypothesis is developed in this research. The data is analyzed using logistic regression method to extrapolate and investigate the probability of dividend payment.

Results The result shows that size, profitability, and contributed capital significantly increase dividend payment probability. As one of non financial determinants, family ownership significantly decreases dividend probability. It suggests that Indonesian family owned firms are less likely to pay dividends compared to non family owned firms. Meanwhile, growth, leverage, investment opportunities, and industry effect is evidenced to be insignificant towards dividend payment.

Conclusion This research concludes that larger, more profitable Indonesian firms with high contributed capital are more likely to pay dividends compared to smaller, non profitable firms with low or negative contributed capital. Furthermore, it is evidenced that Indonesian family owned firms tend to employ dividend policy that is in favor of the firms rather than the shareholders. The bottom line, this research provides Indonesian evidence regarding dividends that support pecking order hypothesis and dividend life cycle theory, while it does not conform to maturity hypothesis.

Key words cash dividends, determinants, size, growth, profitability, contributed capital, leverage, family ownership, investment opportunities, industry effect, Kompas 100, IDX