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Profitability, Company Size, and Gross Domestic Product on Dividend Policy (Empirical Study of Service Companies on the Indonesia Stock Exchange)

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ABSTRACT : The purpose of this study was to determine the effect of profitability, company size, and gross domestic product on dividend policy in service companies on the Indonesia Stock Exchange. The sampling technique used is the census technique, with the number of samples in this study amounted to 51 service companies listed on the Indonesia Stock Exchange and distributes dividends consecutively in 2015-2019. Multiple Linear Regression analysis was used. Based on the analysis, profitability has a positive and significant effect on dividend policy in service companies on the Indonesia Stock Exchange. Company size has a negative and significant effect on dividend policy in service companies on the Indonesia Stock Exchange. This shows that the larger the size of the company, the company will tend to have a smaller Dividend Payout Ratio. Gross Domestic Product (GDP) has a positive and significant effect on dividend policy in service companies on the Indonesia Stock Exchange.

Keywords: *dividend policy, profitability, firm size, gross domestic product*

I. INTRODUCTION

The main objective of financial management is to maximize company value. Managers and employees in public companies work on behalf of shareholders who own the business, and therefore they have an obligation to pursue policies that increase shareholder value. To maximize firm value, financial management makes investment decisions, funding decisions, and dividend policies. One source of funding that is widely used is funding through the capital market. A large amount of funding through the capital market will help companies that need funds and drive the Indonesian economy. Investors invest their funds intending to make a profit. Profits obtained by investors can be through returns from dividends or through capital gains. The relationship between investors and companies should be mutually beneficial to maintain investor confidence(Attiah, 2019).

Dividend policy is an integral part of corporate financing decisions. A company's dividend policy will affect how investors invest their funds and will affect the company's funding. Dividend policy is reflected in the amount of the company's Dividend Payout Ratio (DPR), which is the ratio of dividends distributed to total company profits. Dividend policy does not only concern the interests of the company but also the interests of investors who invest their funds in the company (Kusuma & Semuel, 2019). Agency theory explains that the relationship arises because of a contract between shareholders (principals) who delegate responsibility for corporate management to management (agents). Dividend policy is decided at the General Meeting of Shareholders (GMS) which is a crucial decision and often creates conflicts of interest between managers and investors.

When the company's dividend payout ratio is high, the share price will also be high, this is because there is a perception that shows that the company has good prospects in the future. This is following the signaling hypothesis which explains that investors use dividend decisions and fluctuations as signals that are read from companies regarding future conditions and prospects. On the other hand, when the company allocates dividends to be distributed, the company will have fewer funds that can be used for investment, which will hinder the company's growth. A low growth rate will result in a decline in the company's share price. This implies that an optimal dividend policy must maintain a balance between current dividends and future growth that maximizes the share price. To achieve an optimal dividend policy, it is important to know the factors that influence dividend policy. This is why research on dividend policy is important. The company will have a reference to determine the optimal dividend policy by taking into account various factors(Puspitaningtyas et al., 2019).

Service sectors such as software, business processing, finance, or tourism can now act as a major sector in development and the role of manufacturing is declining in developing countries. This also happened in

Indonesia, in the report on Indonesia's economic growth for the fourth quarter of 2019 compiled by the Central Statistics Agency released the rate of economic growth, one of which was according to business fields. Business fields classified as the service sector grew very well, including real estate business fields grew 5.74 percent, financial services and insurance grew by 6.60 percent, transportation and warehousing grew 6.40 percent, information and communication grew 9.401 percent, corporate services grew 10.25 percent, and other services grew 10.55 percent. This growth is far above Indonesia's economic growth in 2019 of 5.02 percent. It can be said that Indonesia's economic growth in 2019 will be supported by many companies engaged in the service sector. Obviously, we can see in the development of technology that makes the role of telecommunication services very important, then high community mobility brings growth in the transportation sector until now new popular services such as ride-hailing have started to emerge. will conduct an IPO on the Indonesia Stock Exchange. As in other public companies, companies engaged in the service sector are also faced with making decisions about dividend policies. Policy in service companies is a matter that will affect because it has a lot to do with the national economy. A better understanding of influencing factors can help decision-makers to determine effective dividend payment policies (Ahmad & Muqaddas, 2016)

Dividend policy is influenced by both internal and external factors. Many factors influence dividend policy, both from factors such as investment opportunities, company ownership, output, macroeconomics, and others(Dewi & Sedana, 2018). This study examines the output of the company's business processes, namely the profits generated by the company which illustrates the company's ability to generate profits, which is explained by the profitability variable. Another thing is that the company's ability to manage the company's profits and assets to dominate the market is reflected in the firm size variable. The profits generated by the company are the result of the company's business processes(Febrianti & Zulvia, 2020). Company profits are managed in different ways by the companies that make up the total assets. Dividend policy is also influenced by how macroeconomic conditions are, and Gross Domestic Product (GDP) is an indicator that can explain macroeconomic conditions. Microeconomic variables are under economic control and macroeconomic variables are outside economic control (F. Khan et al., 2018)

The signaling theory states that companies with good financial prospects can convey this information to uninformed investors by distributing dividends. Profits are needed if a company wants to distribute dividends to its investors so that companies that can distribute dividends are considered profitable companies. For companies to be able to provide good financial prospects for market players, companies with a greater amount of profit tend to pay more dividends (Hadianto & Sahabuddin, 2016). The company's profitability can be directly observed by investors, as well as information and signals received by investors about the company's prospectsTrang (2016), Khan et al. (2017), Gunawan & Tobing (2018), Cristea & Cristea (2017), Gangil & Nathani (2018), Mnune & Purbawangsa (2019)states that profitability has a positive and significant effect on dividend policy. In contrast, Yensu & Adusei (2016), Anam et al. (2016)stated that company profitability has a negative effect on dividend policy.

Larger companies have better access to capital markets and find it easier to raise funds at a lower cost, enabling them to earn higher dividend payments (Lestari & Tanuatmodjo, H., 2016). Dibia (2018), Gohar & Alam (2018)show that firm size has a positive effect on dividend policy. Meanwhile, Dewi (2016), Ali et al. (2018)show that company size has a negative effect on company dividend policy. In contrast to Khan & Muhammad Umair Naeem (2016)company size has no effect on the company's dividend policy.

Apart from internal factors, dividend policy can also be influenced by conditions outside the company. The company's dividend policy will certainly see how the macroeconomic conditions are. One of the important indicators in macroeconomics is the level of Gross Domestic Product (GDP). The growth rate of the economy's gross domestic product is a measure of the growth opportunities available to firms in the economy. When the GDP growth rate increases and the economy is doing well, companies can send positive signals to investors through cash distribution, and also use excess cash flow for new investments. Shetty & Rao (2020) stated that GDP has a negative effect on dividend policy. While Lin et al. (2018), Liu et al. (2018)state that GDP has a positive and significant effect on dividend policy.

The hypothesis in this study are
H1: Profitability has a positive and significant effect on dividend policy.
H2: Firm size has a positive and significant effect on dividend policy.
H3: Gross Domestic Product has a positive and significant effect on dividend policy.

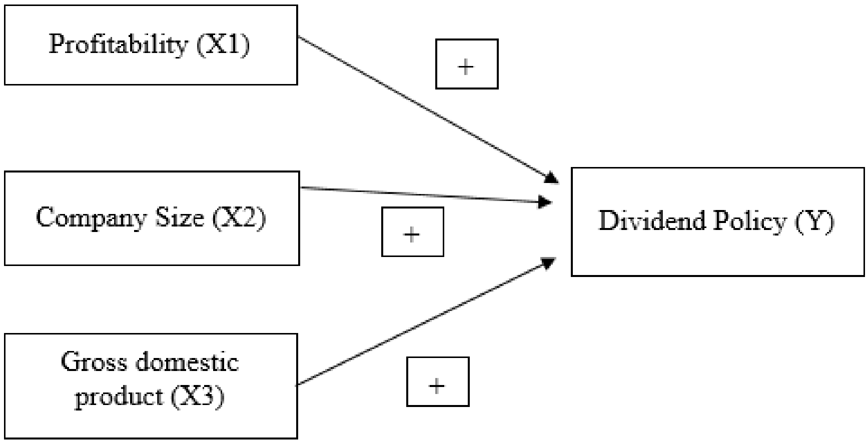

Fig. 1 Conceptual framework

II. RESEARCH METHODS

"This research is an associative research type. The sample in this study was taken using a census technique, which examines all elements of the population. The population in this study amounted to 51 companies. This study examines the entire population, namely all service companies listed on the IDX and distributing dividends for 5 consecutive years in 2015-2019, totaling 51 companies. The method used in this research is the non-participant observation method."

III. RESULTS AND DISCUSSION

Table 1. Results of Multiple Linear Regression Analysis

Model		***Unstandardized Coefficients***		***Standardized Coefficients***	**t**	**Sig.**
		B	*Std. Error*	Beta		
1	(*Constant*)	-.593	37.103		-.016	.987
	ROA	.984	.232	.257	4.235	.000
	SIZE	-1.187	.367	-.196	-3.232	.001
	GDP	13.943	7.023	.116	1.985	.048
DPR = -0,593 + 0,984 ROA – 1,187 *SIZE* + 13,943 GDP						
Adjusted R Square : 0.137						
F : 14.390						
Sig : .000						

Adjusted R Square value of 0.137. This means that 13.7 percent of the variation in dividend policy as the dependent variable can be influenced by variations in the independent variable. Meanwhile, the remaining 86.3 percent is influenced by other factors not included in the model. F test value of 14.390 and the Sig. F is equal to 0.0000. Sig value. F, which is 0.000, is smaller than the significance value of 5 percent or 0.05, so that the regression model of this study is declared feasible and can be used to test the effect of the independent variable on the dependent variable.

Profitability on Dividend Policy

The test results in this study indicate that the coefficient of the profitability variable (ROA) is 0.984 which explains that the profitability variable has a positive effect and a significance value of 0.00 or below 0.05 indicates that the profitability variable has a significant effect on dividend policy. These results indicate that the **first hypothesis in this study is accepted**. The higher the level of profitability generated by the company, the higher the percentage of dividends distributed. To provide market participants with good financial prospects, companies with a larger amount of profit tend to pay more dividends. Dividend payments are used to provide good signals to investors about the condition of the company. Profits are needed if the company wants to distribute dividends to its investors so that companies that can pay dividends are considered profitable companies. The profits generated by the company indicate that the company is running its operating processes well. The greater the level of profit will make investors feel safe investing in the company. A company with a high level of profitability will have the ability to pay dividends, which is what the company uses to be able to provide good financial signals and prospects to investors.

Company Size on Dividend Policy

The test results in this study indicate that the coefficient value of the company size variable (SIZE) is -1.187 which explains that the company size variable has a negative or opposite effect and a significance value of 0.01 or below 0.05 indicates that the variable company size has a significant effect on policy. dividend. These results indicate the **second hypothesis in this study is rejected**. The larger the company size, the lower the dividend percentage distributed, or companies with a larger size tend to pay less dividend percentage and smaller companies tend to pay more dividend percentage. This is due to the cost of taxes that must be paid by investors, companies that pay their income as dividends can cause higher tax liabilities for investors than companies that hold income. Companies that have a large company size will impose a bigger tax burden on investors when the company distributes dividends with the same ratio as smaller companies.

Large companies apart from knowing good investment opportunities, also have a large amount of profit because of the large value of their assets. A large asset value will encourage to have a large level of net income, to maintain a good level of the company's ROA (Return on Assets). This causes the dividend obtained by large company investors will be greater if it follows the same ratio as the dividend payout ratio for companies that have a smaller size. The higher nominal dividend received by investors will be accompanied by tax costs that must be paid by investors. Investors will encourage companies to invest in net profit for company growth, rather than paying hefty taxes on the dividends they receive. Therefore, investors in large companies prefer to pay dividends that are not the same as the ratio in smaller companies, resulting in a smaller dividend payout ratio.

Gross Domestic Product on Dividend Policy

The test results in this study indicate that the coefficient value of the gross domestic product (GDP) variable is 13.943 which explains that the profitability variable has a positive effect and a significance value of 0.048 or below 0.05 indicates that the gross domestic product variable has a significant effect on dividend policy. This shows that the **third hypothesis in this study is accepted**. The higher the rate of increase in gross domestic product from the area where the company operates, the higher the percentage of dividends distributed, and vice versa. When GDP growth rates increase and the economy is doing well, companies can send positive signals to investors through cash distribution, and may also use excess cash flow for new investments. Macroeconomic conditions that in this study use the growth of gross domestic product (GDP) have an influence on the company's dividend policy. When conditions for GDP growth are high, this indicates that the entire economy is growing well, thus giving investors hope to get more dividends. Companies that pay out less dividends when GDP growth is high will be in the spotlight and create stigma and negative signals about the company's internal conditions. Conversely, when conditions for GDP growth are lower, it becomes normal when companies pay dividends in smaller amounts.

IV. CONCLUSION

Conclusion

"Profitability has a positive and significant effect on dividend policy in service companies on the Indonesia Stock Exchange. This shows that the higher the company's ability to earn profits, the greater the dividends will be distributed to shareholders. Company size has a negative and significant effect on dividend policy in service companies on the Indonesia Stock Exchange. This shows that investors in companies with a larger size choose to allocate profits for company investment rather than getting in the form of dividends. This is because when investors receive dividends in large amounts, investors have to pay tax costs that burden the dividends. Gross Domestic Product has a positive and significant effect on dividend policy in service companies on the Indonesia Stock Exchange. This shows that when the conditions for GDP growth are high, this indicates that the overall economy is growing well, so investors want to get more dividends.."

Suggestions

Investors should pay attention to several variables as a basis for investment decisions. Investors can look at the level of profitability, company size, and dividend policy as several variables and factors that can be used. Investors who want to get high returns in the form of dividends should look for companies with high levels of profitability and company sizes that are not too large. Investors can use the results of the analysis in this study as an additional reference in determining decisions so that investors can invest their shares in the right and appropriate place.

Further Research

Further researchers can improve and develop this research by adding samples and adding other variables to the research model. This is because in this study, it has an Adjusted R Square value of 0.137 which indicates that there are still 86.3 percent of other factors outside the factors that have been determined in this study that affect dividend policy. Further researchers are advised to re-examine the effect of company size on dividend policy, because there are contradictions from the research that has been done. Researchers can expand the object of research, especially on macroeconomic factors that are still not widely studied. Research on macroeconomic factors in further research can examine the effect of inflation, interest rates, and others.

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