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**Analysis the Impact of Profitability, Liquidity,  
Leverage and Company Size on Dividend Policy****Besnedi Abrar\***Universitas Trisakti – Jakarta  
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**ABSTRACT**

This study aims to determine the impact of financial ratio and company size on dividend policy. Multiple linear regression is used to identify the relationship between the independent and dependent variable. The sampled data was taken from consumer goods manufacturing companies listed on the Indonesia Stock Exchange for the period 2015-2017. The result of this study indicated that financial ratios variable proxied by profitability and leverage ratios had a significant impact on dividend policy, while the other variables liquidity and company size had an insignificant impact on dividend policy.

Keywords: Dividend, Dividend Policy, Profitability, Leverage, Liquidity, Company Size

JEL Classification: M42

## INTRODUCTIONS

Dividend policy is a decision whether profits gained by the company will be distributed to shareholders as dividends or will be held in the form of retained earnings for future investment financing. If a company chooses to share profits as dividends, it will reduce retained earnings and further reduce the total internal or internal funding sources (Sartono, 2001). If at the time the company makes a profit but only earns a little profit, it does not even get a profit at all. Therefore, the company is not obliged to give or distribute dividends in the form of cash and shares. According to the residual theory of dividends, on, when a company has retained earning it can be used for financing operational activities to business expanding and investing on many kinds of assets (Gitman & Zutter, 2012). This opportunity for investors to analyze every factor related to a company's ability to decision making by company management to pay dividends to the investor.

By analyzing and having knowledge of the factors related to dividends, it will be easier for investors to determine which companies can produce maximum profits and make investments. According to the provisions of the dividend policy, there are contradicting problems that occur between investors and the company where investors expect to get the maximum profit so could they can gain high value of dividend as well as capital gain from the company.

In Indonesia, dividend policies are implemented by several companies. For example, in mining industries, Freeport declared that they would not distribute dividends until 2020 because of declining income. Example in another sector, like consumer goods Gudang Garam inc, distributes dividends of around five trillion with price of 2600 due to stagnant profits growth and rising production costs, another corporation Kalbe Farma reportedly distributes Rp 1.17 trillion in cash dividends that considering from market trend value of dividend about 49 percent from net profit earned on 2017. On retail sectors, Matahari department store inc announced a share dividend of 1,41 trillion IDR, which was equal to 70 percent of net profit earned in 2016. Moreover, Matahari Department Store also earned cash dividend distributed about 484,6 per stock. Telekomunikasi Indonesia inc announced a dividend of 13,55 trillion IDR or 136,74 value per stock, and have a total shared dividend to the shareholder. Total dividends to be paid to shareholders are Rp 117.3675

per share. Meanwhile, the remaining 30 percent or Rp 5.80 trillion in retained earnings (quoted from the tempo).

Agency theory developed by Jensen and Meckling (1976) explained that there is an agency relationship between principals (owners) and agents (managers). This theory explains that the agent must fulfill the wishes of the principal (shareholders), one of which is by giving high-value dividends as feedback from the capital invested by the owners, but the company and management need the benefits to finance the company's operations and expand the business, with the hope to get more profit in the future. So with these differences of interests that raises problems between the principal and the agent, also called conflict of interest. Thus, companies, especially the financial sector, have to think of ways and make decisions on dividend policy so that both can get a profit or (win-win solution).

Research related to dividend policy has been carried out and proved by various studies. Afriani, Safitri & Aprilia (2015) examined the influence of financial ratios on dividend policy, the result of which liquidity, profitability, and leverage jointly influence dividend policy, but this study is not in line with conducted by Adil (2011) which states that liquidity and profitability do not affect the paid dividend ratio. Another study conducted by Rizqia, Aisyah and Sumiati (2013) proves that company size does not affect dividend policy, but this is not in line with the research conducted by Halim (2013) which proves the influence of company size on dividend policy.

The purpose of this study is to prove the significant impact of financial ratios, profitability, liquidity leverage, and firm size on dividend policy. This study analyzes the effect of financial ratios and firm size on dividend policy in various companies in the same sector and can be a reference in assessing how dividend policy is applied to a company and as a source of information and considerations used by investors to make decisions on investment activities.

## **LITERATURE REVIEW**

Agency problem was initially explored by Ross (1973), while Jensen and Meckling first stated detailed theoretical exploration in 1976. This theory is one of the theories that emerged in the development of accounting research, which is a modification of the development of accounting models finance by adding aspects of human behavior in the economic model. According to Jensen and Meckling (1976) define agency relations as a

contract, in which one person or more (principal) asks another party (agent) to carry out a number of jobs on behalf of the principal, which involves delegating some decision-making authority to the agent.

Agency Theory is a theory that studies the relationship between agent and principal. In this case, the management of the company as an agent and shareholders as principal. Jensen and Meckling (1976) suggest that agency theory is a management interest and the interests of shareholders that are often conflicting, which can lead to conflict. This conflict can occur because managers tend to prioritize their interests rather than the interests of shareholders. Conflicts between managers and shareholders can be reduced by the presence of oversight mechanisms for their respective interests. However, the existence of this mechanism will cause agency costs. The existence of dividend distribution will provide additional returns to shareholders in addition to capital gains. Dividends also provide certainty of income to shareholders and reduce the agency cost of equity. According to agency theory, the interests of managers as company managers are sometimes different from those of shareholders (Gueyie, 2001). Managers can take actions that are considered to improve their well-being, in contrast to the goals of companies that hope to maximize market value. This conflict of interest causes the need for a mechanism to be implemented in the company to protect the interests of shareholders.

Dividend policy is a decision on the profits obtained by the company will be distributed to shareholders in the form of dividends or held as retained earnings to finance future investments (Sartono, 2001). The decision of the financial manager about how much cash will be distributed to shareholders in the form of dividends must remember the company's goal of maximizing the value of the company reflected in the market price of the company's shares. In this case, the optimal dividend policy, which is dividend policy, can create a balance between current growth and future growth that maximizes the company's stock price (Brigham & Houston, 2001). Dividends can be shared in various forms. Cash dividends are payment of dividends made in cash (in cash). This division is often used by companies and is in great demand by shareholders. Stock dividends, dividend payments are made in the form of shares. Payment in this form causes the number of shares outstanding to increase because the company provides additional shares to shareholders without being asked for payment and in the number of shares that are comparable to the shares

held. Property dividends, dividend payments are made in the form of assets (goods) other than cash. Assets that are divided can be valuable securities issued by other companies, other supplies, or other assets. The scrip dividend payment is dividends made with payments in the form of debt promises. In this case, the company will pay dividends at a certain amount and time according to what is stated in the letter. Liquidating dividend is the dividend payment represents the repayment of paid-in or planted capital based on the reduction of company capital not based on company profits.

According to Warsono (2003), dividend policy is measured by the Dividend Payout Ratio (DPR). DPR is a ratio of the results of a comparison between dividends and profits available to ordinary shareholders. DPR is widely used in valuations as a way of estimating dividends for the coming period, while most analysts estimate growth using retained earnings better than dividends. The formula for finding a dividend payout ratio is

$$\text{Dividend Payout Ratio} = \frac{\text{dividend per share}}{\text{profit per share}}$$

Profitability analysis is a ratio that evaluates a profit in a company with values related to asset value, sales, or capital investment. Also, it is a ratio used to measure the rate of return on Gitman and Zutter (2012).

According to Kasmir (2012), liquidity ratio describes the company's ability to fulfill short-term obligations. The function of the liquidity ratio is to show or measure the company's ability to meet obligations that are due, both obligations to parties outside the company and within the company. Liquidity ratio or often called the working capital ratio, which is a ratio to measure how liquid a company is. Because dividends are cash outflows, the stronger the liquidity position of the company means, the greater the company's ability to pay dividends. A company that is growing in a rendered manner (a company that is still looking for profit), may not have a strong liquidity position because most of its funds are embedded in fixed assets and working capital so that its ability to pay dividends is very limited. With the inherent liquidity of a company determined by decisions in the field of investment and how to fulfill their needs, the liquidity ratio used in this study is the cash ratios.

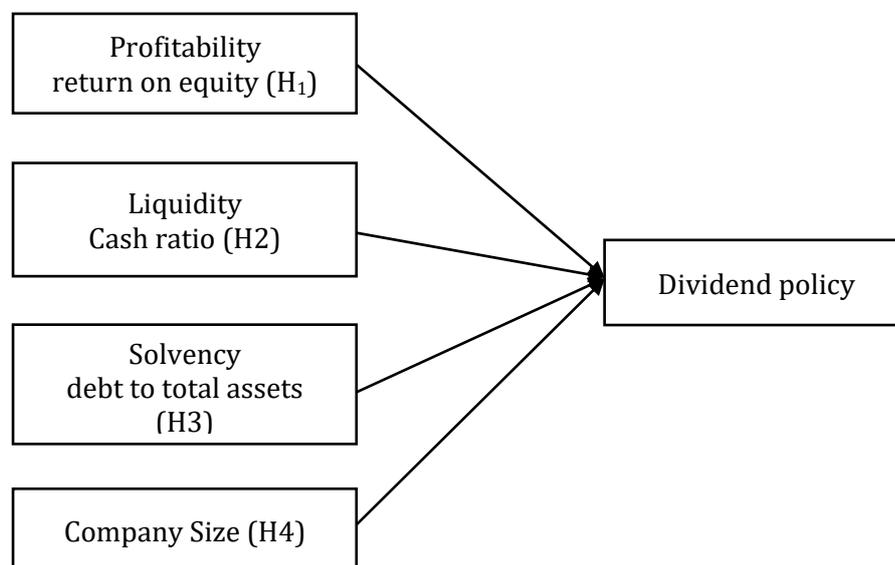
Leverage ratio is a measurement of debt that occurs when a company does the spending. With this analysis, the company can measure its ability to carry out its obligations, especially long-term obligations so that there is the possibility of uncollectible debt. According to Gitman and

Zutter (2012), the amount of debt is measured through measurements to determine the relative value of the account that is significant on the measurement, in this study debt to asset ratio are used.

According to Adnyana and Badjra (2014), company size is a measure of the company's operational activities. The opportunity to pay dividends depends on the size of the company by looking at the size of a company. People can see the decisions made by management. High-level companies, in general, have made large profits and rarely make investments, and have an impact on giving dividends to investors. According to Mehta (2012), high-level companies tend to make more dividend distribution because they are easy to get funds from the capital market turnover and do not always rely on the company's internal finances and vice versa on low-level companies.

### Conceptual framework

In this study, four independent variables influence the dependent variable, profitability proxied by ROE, liquidity by cash ratio, leverage proxied by debt to asset ratio, and firm size. While the dependent variable in this study is dividend policy proxied by dividend payment ratio. The following is an overview of the conceptual framework presented in the form of a diagram.



### Hypothesis Development

Companies that have good performance and generate profits will have the opportunity to use these profits as retained earnings or dividends (Adnyana & Badjra, 2014). To be able to satisfy its shareholders, if the

company earns sufficient profits for investment, it tends to distribute dividends to the shareholders, the greater the profits obtained, the greater the company's ability to pay dividends. Based on the description, the hypothesis proposed in this study are as follows

H1: Profitability has a positive effect on dividend policy.

The position of liquidity in the company becomes a fact that affects dividend policy. Cash dividends, for example, which are cash outflows for the company. Therefore, if the company pays dividends, it means that the cash provided by the company must be in large quantities and will reduce the company's liquid ratio due to cash used according to Sutrisno (2012). Usually, the condition of the company whose liquid ratio is not good will distribute dividends in small amounts, whereas if a company has a high liquid ratio, then the dividends to be distributed are also large. Based on the description, the hypothesis proposed in this study is as follows

H2: Liquidity has a positive effect on dividend policy.

If the leverage ratio is getting bigger, it can be said that the company funds a lot of its assets by using debt. In Residual Theory of Dividend stated in Gitman and Zutter (2012) it is said that dividends paid by companies must be considered as residuals (residuals), namely the remaining value after all possible investments have been taken. It means that the higher the leverage level of a company, the lower the dividend was given. Based on the description, the hypothesis proposed in this study are as follows

H3: Leverage has a negative effect on dividend policy.

Company size is the level of the company's operational activities. Large companies have greater opportunities to pay dividends than smaller companies (Mehta, 2012) and (Adnyana & Badjra, 2014). The larger the company, usually the profits generated also tend to be large, and the possibility to expand or investment is not as big as when the company is small. Through the research of Wijanti and Sedana (2013), it was proven that the size of the company had a positive influence on dividend policy. Based on the description, the hypothesis proposed in this study are as follows

H4: company size has a positive effect on dividend policy

## **METHODS**

This research is a hypothesis testing which explains the phenomenon through examining the relationships between variables (Supomo &

Indriantoro, 2002). This study aims to identify and test the influences on financial and non-financial factors, which include profitability, liquidity, leverage, and company size on the dividend policy. This research is focused on companies in manufacturing industries, consumer goods sectors that are listed on the Indonesia Stock Exchange (IDX) with a period of 3 years (2015-2017).

The dependent variable in this study is the Dividend Payout Ratio (DPR). DPR is widely used in valuations as a way of estimating dividends for the coming period, while most analysts estimate growth by using retained earnings better than dividends (Warsono, 2003). The formula for the Dividend Payout Ratio is as follows:

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend per share}}{\text{profit per share}}$$

Profitability analysis is a ratio that evaluates a profit in a company with values related to asset value, sales, or capital investment. Also, it is a ratio used to measure the rate of return on Gitman and Zutter (2012). In this study, profitability is measured by

$$\text{Return on Equity: } \frac{\text{net profit}}{\text{total Equity}}$$

According to Kasmir (2012) liquidity ratio describes the company's ability to fulfill short-term obligations. The function of the liquidity ratio is to show or measure the company's ability to meet obligations to both external and internal parties that are due. Liquidity ratio or often called the working capital ratio is a ratio to measure how liquid a company is. The liquidity ratio used in this study is

$$\text{Cash Ratio: } \frac{\text{cash}}{\text{current liability}}$$

Leverage ratio is a measurement of debt that occurs when a company does the spending. With this analysis, the company can measure its ability to carry out its obligations, especially long-term obligations. According to Gitman and Zutter (2012) that the amount of debt is measured by measurement to determine the relative value of the account that is significant at the measurement in the trial balance. In this study, leverage is measured by

$$\text{Debt to Asset Ratio: } \frac{\text{total liability}}{\text{Total assets}}$$

According to Adnyana and Badjara (2014), that company size is a level of a company's operational activities. The opportunity to pay

dividends depends on the size of the company. In this study, the size of the company was measured by *Company Size = Ln Total Assets*

In this study, data were analyzed by multiple linear regression. Before analyzing multiple linear regression, it was necessary to do a classic assumption test before. The classic assumption test needs to be done to test the feasibility of using the regression model and the feasibility of the independent variable, if it has been said to be feasible, then the data can be used in the study. The classic assumption test that had been performed was normality test, multicollinearity test, autocorrelation test, heteroscedasticity test, determination coefficient test R<sup>2</sup> (simultaneous test f), multiple linear regression test and the last hypothesis test through partial *ji t*. While the equation of the regression model in this study uses more than one independent variable, this test is formulated with the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Legends:

Y= Dividend Policy

$\alpha$  = Constant

X<sub>1</sub>= Profitability

X<sub>2</sub>= Liquidity

X<sub>3</sub>= Leverage

X<sub>4</sub>= Company Size

E = error

## RESULTS

The sample used in this study was selected by purposive sampling. This study uses a population of manufacturing companies in the consumer goods industry sector in the Indonesia Stock Exchange with the observation period of 2015-2017. The sample in this study amounted to 36 companies. However, there are only 19 companies that have complete information used by researchers. The sample data used is as follows in Table 1.

In table 2, the descriptive statistical analysis, the researcher will describe the results of the calculation of the minimum and maximum values, the average value, and the standard deviation of each variable. The analysis table is presented in the following section

**Table 1. Criteria of sample**

Consumer goods manufacturing companies	36
Manufacturing consumer goods companies listed on IDX (2015-2017) have not complete information and unaudited financial report	(17)
Number of manufacturing consumer goods companies suitable with criteria	19
Sample research (19x3)	57
Outliers	(2)
<b>Total sample</b>	<b>55</b>

**Table 2. Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
DPR	55	14,84	145,76	52,9275	29,65621
PROF	55	,07	1,59	,3787	,38936
LIQ	55	,03	,74	,1447	,15233
LEV	55	,08	3,03	,1067	,10733
SIZE	55	26,54	32,15	29,1569	1,60428
Valid N (listwise)	55				

Dividen Payout Ratio as dependent variable has a minimum value 14,84 and maximum value 145,76, from 55 sample DPR variable has mean value 52,9275 with deviation 29,65621. Profitability as an independent variable has a minimum value of 0,07, and maximum value 1,590, from 55 samples observed profitability shows that the average value of profitability was about 0,3787 with a deviation of 0,3893 or 39 %. Liquidity as the independent variable has a minimum value of 0,03, and maximum value of 0,74, from 55 samples observed, liquidity shows that the average value of 0,1447 with a deviation of 0,15233 or 16 %. Leverage as an independent variable has a minimum value of 0,08, and maximum value of 3,03, from 55 samples observed leverage shows mean value about 0,1447 with deviation 0,10733 or 11 %. Company size as an independent variable has a minimum value of 26,54, and maximum value of 33,15, from 55 samples observed, leverage shows mean value about 0,1447 with deviation 0,10733 or 11 %.

### Classic assumption test

Based on the results of the normality test with Kolmogorov Smirnov, it shows that data in this study were normally distributed. This normality can be seen from Asymp. Sig (2-tailed) of 0.755 Because the results of Sig = 0.755 > 0.05, it concluded that the data is normally distributed. From the

table below the VIF value of the PROF is 1.193, LIQ 1.170, LEV 1,036, and company size have 1,015. VIF values for all independent variables are smaller than 10 (VIF <10). Therefore, the four independent variables of this study did not have multicollinearity. The results of the sig 2-tailed Run Test value of 0.685 means that the value is greater than 0.05 concluded that there is no autocorrelation in the tested variables. From the output above, it can be seen that the significance value of 4 independent variables is more than 0,05. Thus it can be concluded that there is no problem of heteroscedasticity in the regression model. Profitability variable (PROF) shows sig value 0,098. The value is higher than 0,05. Liquidity (LIQ) shows sig value 0,208. The value is higher than 0,05. Leverage (LEV) shows sig value 0,085. The value is higher than 0,05. Also, company size (SIZE) shows sig value 0,069. The value is higher than 0,05.

### Hypotheses Testing

Based on the table above, it is known that the coefficient of determination seen from the value of Adj. R2 is equal to 0,317. That is, the independent variable can explain 31,7% of the variation of the dependent variable Corporate Value. While the remaining 68,3% (100% - 31,7%) is explained by other variables not included in the tested equations.

**Table 7. Coefficient of Determination R2 Result**

Model	R square	Adjusted R Square
PROF, LIQ, LEV, SIZE	,368	,317

a Predictors: (Constant), PROF, LIQ, LEV, SIZE  
 b Dependent Variable: DPR

### F-test

**Table 8. Annova Test**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17463,161	4	4365,790	7,269	,000 <sup>a</sup>
	Residual	30029,355	50	600,587		
	Total	47492,516	54			

a. Predictors: (Constant), SIZE, LIQ, LEV, PROF  
 b. Dependent Variable: DPR  
 c.

From ANOVA table sig value 0.000 <sig value 0.05 it concluded that independent variable, current ratio, net profit margin ratio, total asset turn over, debt to equity ratio affects simultaneously (simultaneous) on changes in earnings.

## T- Partial Test

**Table 9. Multiple Linear Regression Test**

Model	Beta	Hypothesis	Expected sign	Sig 1-tailed	Sig 2-tailed	
CONSTANT	49,996			0,422		
PROF	34,161	H1	+	0,001	0,0005	Accepted
LIQ	-22,093	H2	+	0,355	0,1775	Rejected
LEV	-105,951	H3	-	0,002	0,001	Accepted
SIZE	0,154	H4	+	0,942	0,471	Rejected

*PROF = Profitability, LIQ = liquidity, LEV = leverage, SIZE = company size, E= error*

First hypothesis (H1) profitability (PROF), a positive effect on dividend policy, is supported by data of this study. Beta value on PROF variable has a value of 34.162 that means profitability variable increased by 1 unit, and dividend policy would increase at 34,162 units. Sig value of PROF 0,01 is 0,0005. The value is lower than 0.05, so, the conclusion profitability has a positive effect of current ratio on changes in earnings.

Second Hypothesis (H2) liquidity (LIQ) has a positive effect on dividend policy is unsupported by the data of this study. The beta value in the LIQ variable is -22,093, which means if the LIQ variable rises by 1 unit, then dividend policy will decrease by 22,093 units. The sig value owned by LIQ is  $0,355/2 = 0.1775$ , the value is greater than 0.05; it is not statistically proven have positive influence liquidity on dividend policy.

Third Hypothesis (H3) Leverage (LEV) has a negative effect on dividend policy is supported by the data of this study. The beta value in the LEV variable has -105,951 that means if the LEV variable rises by 1 unit, then dividend policy will decrease by 105,951 units. The sig value by LEV is  $0.02 / 2 = 0.01$ ; the value is smaller than 0.05; it is statistically proven that leverage has a positive effect on dividend policy.

Fourth hypothesis (H4) company size (SIZE) has a positive effect on dividend policy not supported by the data of this study. Beta value of the SIZE variable is 0,154; it means if the company size variable rises by 1 unit, then the dividend policy will increase by 0.26 units. The result has the same directions with the hypothesis, but sig value of SIZE is  $0,942 / 2 = 0.471$  greater than 0.05, so it is statistically not proven there is a positive effect of company size on dividend policy.

## Hypotheses Test Result

**Table 11. Multiple Regression Linear Test Result**

Model	Beta	Sig	Sig/2	Hypothesis
CONSTANT	49,990	0,422		
PROF	34,161	0.01	0,005	H1 accepted
LIQ	-22,093	0.1775	0,023	H2 rejected
LEV	-105,951	0,002	0,001	H3 accepted
SIZE	0,154	0,942	0,471	H4 rejected

## DISCUSSION

The result from the partial test shows profitability proxied by return on equity (ROE) has a beta value of 34.162 and sig two-tailed value of PROF 0,0005. The conclusions are hypothesis tested H<sub>1</sub> profitability has a significant positive impact on dividend policy accepted. The significant result of the test shows the relationship between profitability and dividend policy can be analogized as a company that can book profits so the company can choose to hold profits or share a portion of dividends. If the company distributes a dividend, the company's internal funding will decrease. Then the higher the profitability, higher dividends will be shared (Gitman & Zutter, 2012). The results of this study are in line with the previous study by Latiefasari (2010), Hardiatmo & Daljono (2013) and Afriani et al. (2015). However, these results contradict the research of Sumiadji (2011), who suggested that profitability does not affect dividend policy.

The result from partial t-test shows the beta value of LIQ variable is -22,093 negative effect is not the same with direction on hypothesis tested and sig value owned by LIQ is  $0,355/2 = 0.1775$  greater than 0,05. The conclusions H<sub>2</sub> liquidity has a significant positive impact on dividend policy is rejected. Insignificantly result explains that the high or low ratio of liquidity does not affect to amount of shared dividend for shareholders. The payment of dividend influenced by an economic decision like investing and financing activities like operational cost, payment of liability and obligations, and purchasing an asset, however, good liquidity ratio does not mean the company would payout dividend on high value. Result of this study are in line with Sandy and Asyik (2013), Hadiatmo & Daljono (2013), but this study does not support Nurhayati (2013) previously study.

The result from partial t-test shows the beta value of LEV variable -105,951 that have the same direction with hypothesis tested and sig 2 tailed value of LEV is  $0.02 / 2 0.01$ , the value is smaller than 0.05 that mean hypothesis three H<sub>3</sub> leverage have a significant negative impact on dividend policy accepted. Explanation of significant relation between

leverage and dividend policy is greater leverage shows greater of liability. Also, the lower the ratio will show the higher the company's ability to fulfill obligations. Increased debt will affect the level of net income available to shareholders. It means that the higher the leverage level of a company, the lower the dividend was given. The results of this study are in accordance with what Lucyanda and Lilyana (2012) did. However, this result is inversely proportional to Pujiastuti (2008), suggesting that leverage influences dividend policy.

The result of t partial test shows the beta value of the SIZE variable is 0,154 have the same direction with hypothesis testing, but sig value of SIZE is 0,942 / 2 at 0.471 greater than 0.05, so it is statistically not proven there is a positive effect of company size on dividend policy. The conclusion is that H<sub>4</sub> company size has a positive impact on dividend policy rejected. The insignificant result explains that the faster company's growth, the company needs funds to finance growth. Companies tend to hold back funds for growth compared to shareholders. So the lower the company in distributing dividends. The company's growth has no significant effect on dividend policy. The results of this study are in accordance with the research conducted by Sutoyo (2010). However, contrary to Darminto (2008), which suggests that the growth of the company influences dividend policy.

## **CONCLUSIONS**

Based on the results of the study and hypothesis testing, the conclusions that can be drawn from this study are as follows. Profitability proxied by return on equity variable significant effect on dividend policy. Liquidity proxied by cash ratio insignificant effect on dividend policy. Leverage proxied by debt to asset ratio has a significant effect on dividend policy. Company Size has an insignificant effect on dividend policy

While the suggestions for further research are as follows. First, increase the number of research objects by expanding to other types of industrial sectors. Second, the research should extend the observation period. Third, testing other factors that are estimated to be a factor in going concern audit opinion acceptance both financial and non-financial factors.

By testing other factors besides factors in this study, the parties who have involvement in this matter can know more about the factors that influence dividend policy that can provide more confidence to the parties in making considerations and making a decision. For managerial, this

research is expected to be able to make a motivation to improve managerial performance, so that it can be reflected in the financial statements they compile and as a basis for making decisions regarding the policy decisions

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