CHAPTER I

INTRODUCTION

1.1 Background

Investment activity is an activity faced with various risks and uncertainty condition which is mostly difficult to predict by investors (Hidayati, 2006:3). There is much information, not only achieved from the performance of the company, but also other relevant information, such as economic condition and the political situation in a country which are needed by investors to reduce the risks rate and any uncertainty that possibly appears. Information which is achieved from a company is commonly based on the company's performance, reflected from the financial report. Based on the report, investors could understand the company's performance and its capability to raise profits.

Generally, the main purpose of investors when investing their assets is to search for income or the rate of return. Dividend is one of the sources of income (Fauziah, 2010:1). In such circumstances, each company is forced to operate with high efficiency in order to maintain the quality and capability of competing to raise a net income with the best result. Therefore, a company determines dividends policy to look forward the profit gained that will be alocated into two components: dividends and retained earnings.

Whereas, capital gain is the amount by which an asset's selling price exceeds its initial purchase price. A realized capital gain is an investment that has been sold at a profit. An unrealized capital gain is an investment that hasn't been

sold yet but would result in a profit if sold. Capital gain is often used to mean realized capital gain. For most investments sold at a profit, including mutual funds, bonds, options, collectibles, homes, and businesses, the IRS is owed money called capital gains tax.

Dividend and capital gain distributions may be paid to shareholders of certain Hartford Mutual Funds at various times during the year. Distributions are paid to shareholders owning shares on the record date of the distribution.

Mutual fund dividends come from interest, dividends or short-term capital gains from securities within the fund portfolio. These dividend payments are distributed to its shareholders, and are taxed as ordinary income. Dividends may be either actually paid to the shareholder or reinvested in the fund. The reinvestment results in the purchase of more shares of the fund.

When securities held by the fund for more than one year are sold, realized gains and losses must be reported in the form of capital gains. Such capital gain distributions are taxed as long-term capital gains, regardless of how long the taxpayer owned his or her shares.

Basically, dividend policy is a decision method to determine the portion of profits that will be given to stockholders. The decision policy of dividends payment is also related whether the cash flows will be paid to investors or retained to be re-invested. Sartono (2001:281) explains if a company decides to share profits as dividends, the retained earnings will then be decreasing and it will reduce the total of internal financing resource. Otherwise, if a company decides to retains the earnings, the capability of internal financing will grow higher.

Dividends policy is very necessary to fulfill the stockholders' expectation related to dividends, and from another side it does not obstruct the growth of company (Mulato, 2008:3). The growth of the company indeed needs a big amounts of funding. Funding is done by using both internal and external fund. The decision related to the exact source of funding is whether to use from internal (retained earnings) or external (liability and equity) or both, which have to consider the advantages and the costs incurred.

The explanation about dividend refers to the framework of agency theory (Chasanah, 2008:20). It is because the policy of dividend payment involves many parties, such as stockholders, managers, creditors, and other parties that have their own intention related to information issued by the company. According to this theory, it is known that dividend affect both internal and external intention. For external parties, dividend has a capability to increase the prosperity by earning return in term of dividend income from the source of fund invested. Whereas, management as the internal party is more oriented to the enhancement of company's value to be re-invested as retained earning.

Liability is a mechanism which can be used for decreasing or controlling the agency conflict (Priatama, 2010:4). The use of liability will be allocated when the company has limited retained earnings to expand its business. Liability utilization will also increase risks. Therefore, a manager will be more careful because liability risk is higher than public investors. In short, a company that uses liability in investment and it could not afford to pay off the liability, then the liquidity position of the company will threaten the management's position.

The proportion for the use of liability can be calculated by using financial leverage ratio. In further understanding, it is stated that financial leverage ratio is applied for measuring the capability of a company to pay the whole of its liability, both for short term and long term whether the company collapses (Kashmir, 2008:151).

When a company decides to invest, if the investment project is successful, then the whole profits will go to stakeholder because the return achieved remains fixed. Otherwise, if the project fails, then the creditor will get impact from the failure. The way to pass by creditors to protect themselves is to establish a liability agreement which is typically restrictive debt covenant, including restricting dividends payment to stockholders.

Because there will be a possibility done by creditors to restrict dividends, then it is expected there will be a negative impact between creditors and stockholders related to dividends. Besides, there will be a tendency that long term liabilities will give a negative impact to the amounts of dividends paid. By having such high leverage, the higher dividends payout policy will increase the fixed expense of a company. Then, such companies will possibly maintain the lower policy of dividends payout in order to avoid dividends' deduction or even incapability of paying dividends in the future.

The liquidity of a company will give a huge impact to the investment of a company and the policy to supply the fund. (Sartono, 2001:293). The decision of investment will determine the rate of expansion and the needs of companies'

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funds, whereas the expenditure decision will decide the source of funds to support the investment.

Liquidity influences the dividends policy because it is able to fulfill the short term liability, such as pay off the payable and dividend. Companies which achieve profits will afford to pay dividends. It shows that the liquidity position directly influences the capability of companies in paying dividends.

Halim (2005:92) states there are some controversial issues related to dividends which should be paid. Some parties argues that dividends should be paid as highly as possible, paid as low as possible, and dividends should be paid after the whole chance of investment which fulfills the requirements that has been funded. These difference opinions are based on three opposite theories related to dividends.

First theory is Dividend Irrelevance theory which is explained by Modigliani and Miller (1961). It is stated that dividend policy does not influence neither the value of company nor its stock price. Modigliani and Miller argued the value of a company is only determined when it has a capability to raise profit (erning power) and its business risk. Otherwise, the way of a company to divide the income into both dividend and retained earning does not give any influence on a company's value. Gordon and Lintner (1956) in their theory, The Bird in Hand theory, stated that the high rate of uncertainty will make the investors tend to receive high amount of dividends instead of the capital gain. This concept has relatively low in financing the resource due to some profits are absorbed to prosper the stockholders. As a result, the liability ratio will grow higher.

Otherwise, Tax Preference theory which is presented by Litzenberger and Ramaswamy (1979) states that investors choose lower dividends because the tax of dividends is higher than tax of capital gain. Based on this theory, investors tend to choose lower dividends to reduce tax expense. Companies which implement this concept has advantages in internal financing resources, so that it could postpone using debt or new stock emission.

There is some research related to factors which influence dividends policy. According to Puspita (2009), there are six free variables discussed: Cash Ratio (CR), Growth, Firm Size, Return on Asset (ROA), Debt to Total Asset Ratio (DAR), Debt to Equity Ratio (DER) to Dividends Payout Ratio (DPR) in manufacturing companies. The result shows that both DAR and DER are insignificant. Prihantoro (2003) examines that there are factors influencing Dividends Payout Ratio: cash balance, growth rate, size of a company, liability and equity ratio, profitability, the ownership of 148 companies in Jakarta Stock Exchange period of 1991-1996 show that only cash balance and liability and equity ratio (written in balance sheet classification) have a significant impact to Dividends payout ratio, while earning has less significant result.

Kumar (2007) conducted the influence of ownership structure, investment opportunity set (IOS), and financial ratios (ROI and DER) to dividends payout ratio (DPR) with the result shown that DER and managerial ownership have significantly negative impact to DPR. Whereas, ROA, IOS, and institutional ownership have no significant influence to DPR. There is research done by Chasanah (2008) related to factors affecting dividends payout ratio. The research

uses independent variables, such as Debt to Total Asset Ratio (DAR), cash ratio, and size. Those give insignificantly positive influence, while ROA variable and institutional ownership has a significantly positive impact.

Priono (2006) also conducted research related to factors influencing Dividends Payout Ratio. There are independent variables used, such as Current Ratio (CR), Cash Ratio (CSR), Debt to Total Assets Ratio (DAR), Return on Equity (ROE), and Earnings per Share (EPS) of assets growth. The results shows there is only CSR variable that has no significant influence to DPR.

The result of research which is inconsistent to factors influencing dividends payout ratio as explained as follows, gives motivation for the researchers to present empirical evidence and strengthens empirical result related to factors influencing dividends policy. The research implements dividends policy as dependent and two independent variables, such as liquidity and leverage, each of which will be measured by using Current Ratio (CR), Quick Ratio (QR), and Cash Ratio (CSR) as liquidity ratio, and variables of Debt to Equity Ratio (DER), Debt to Total Assets Ratio (DAR), and long-term Debt to Equity Ratio (LDER) as Leverage Ratio.

The objects of research are companies which are listed in LQ-45 index at the period of 2008-2010. It is due to the companies listed in LQ-45 have active stock values. Therefore, there is a relationship to current discussion, in which Dividends Payout Ratio as a ratio is used to share dividends to investors. Thus from all background above, this minor thesis will study about

"The Influence of Leverage and Liquidity on Dividend Policy (Empirical Study on Listed Companies in Indonesia Stock Exchange of LQ-45 in 2008-2010)"

1.2   Research Question

Based on the above background, the problem in this research is formulated as follows:

1. Does leverage influence on dividend policy of companies which are listed in LQ-45 at period of 2008-2010?

2. Does liquidity influence on dividend policy of companies which are listed in LQ-45 at period of 2008-2010?

1.3   Research Objectives

The objects of research are mentioned below:

1. To analyze the influence of leverage related to dividends policy of companies which are listed in LQ-45 at period of 2008-2010.

2. To analyze the influence of liquidity related to dividends policy of companies which are listed in LQ-45 at period of 2008-2010.

1.4   Benefits of Research

Below the author mentions some benefits of research:

1.4.1   Theoritical

In this research, it is explained that agency theory is a fundamental theory for dividends policy and also several applied theories explaining about the influence of leverage and liquidity on dividends policy. It is expected that the

result of this research can be beneficial, especially for the development of economic science as a reference.

1.4.2 Practical

1.4.2.1 For the Management of Companies

The result of this research is expected to be useful for management parties which can be used for ideas or fundamental concept to enhance the companies' performance. Furthermore, the method can attract the investors to invest in such companies, so that it possibly gains the equity to the development of companies. It is also expected that by using the method, it could be one of the consideration to make a decision in order to maximize the value of companies.

1.4.2.2 For Investors

The result of research is expected to present information about factors affecting the dividends policy so that it can be a consideration in making decision of investment and it can be used as one of the devices to choose or decide which companies have the best financial ratio so that it will reduce the risk of getting loss.

1.5   Systematic Discussion

The outline of the discussion in this paper is as follows :

CHAPTER I - INTRODUCTION.

This chapter will discuss the background research, problem formulation, research objectives, the benefits of research, and system discussion.

CHAPTER II - LITERATURE REVIEW.

This chapter will explain the theory foundation that will support the research of methods that became the basis for the analysis of existing problems and solving them. The foundation of this theory is obtained from the literature study on matters related to this minor thesis research.

CHAPTER 3 - RESEARCH METHOD.

This chapter contains a description of the research method.

CHAPTER 4 - DISCUSSION AND RESULT.

This chapter discusses the methods of analysis conducted during the study, the results of the research which is based on the literature theory, and discussion based on the research methodology that will be used in this study.

CHAPTER 5 - CONCLUSION AND SUGGESTIONS.

This chapter is the closing chapter of the writing of this research. Which will explain the conclusion that the formulation are from analysis and discussion

of previous chapter, and the conclusions will produce advices that can be used for further research. In this chapter also contain the limitation of research which becomes the border of this research.

CHAPTER II

LITERATURE REVIEW

2.1 Definition of Dividend

Dividend is defined as profit sharing activity to shareholders which is proportional to the amount of shares owned (Baridwan, 2000:434). For shareholders or dividends investors, cash dividend is the return on investment in the form of their ownership of shares issued by a company. For management, cash dividend is cash flow output which reduces the company's cash. Whereas, for creditors, cash dividend is a signal regarding the adequacy of cash to pay interests or even pay off the loan principal (Suharli, 2007: 9).

2.1.1 The Purpose of Dividend

Hidayati (2006: 25) mentions the purpose of dividend distribution is as follows:

a. To maximize the prosperity of shareholders, because a dividend which is paid will influence the stock price.

b. To demonstrate the company's liquidity. Payment of dividends can make company's performance looks good in investors' perspective and may indicate that the company is capable of dealing with the economic turmoil.

c. Dividends could be used as a communication device between managers and shareholders.

Companies sometimes pay dividends as a distribution of profits to owners of the company, who are its shareholders. Paying dividends is a way to give profits

to owners when excess profit is not needed for reinvestment and company growth. By paying dividends, companies motivate shareholders to buy and hold stock, which supports share prices. Companies usually pay dividend to shareholders because it does not intend to invest in company growth and it believes shareholders can reinvest dividends for greater growth than the company could gain through its use. Low-growth companies, or those that have more stabilized earnings and growth patterns, are more likely to pay dividends. Some shareholders actually reinvest dividends in the purchase of new shares of the company's stock, which increases the demand for shares. This can cumulatively boost the share price over time.

Otherwise, companies that choose not to pay dividends prefer to use profits for reinvestment in company growth. This is a common approach taken by high-growth companies that tell shareholders their shares benefit more from company growth than they would benefit from the receipt of dividends. Some companies that are not in a high-growth stage simply refuse to pay dividends as common policy.

2.1.2 The Forms of Dividend

The dividend which is distributed to shareholders consists of some forms. Kieso (2008: 321) classifies dividends into 4, namely: (1) cash dividends, (2) property dividends, (3) liquidation dividends, and (4) stock dividends.

1. Cash Dividend

   Companies generally share dividends in form of cash by concerning the amount of cash which is owned and it shares proportionally to shareholders.

2. Property Dividend

Dividend can be in form of other assets of the company, except cash. Properties can be in the form of dividends securities to other companies owned by real estate, merchandise, or any other assets which is non cash and determined by the board of directors.

3. Liquidation dividend

A dividend which is partly an earnings and another is the return of capital. The company sharing dividends makes confirmation to shareholders related to the amount of profit sharing which is partly a capital return.

4. Stock Dividend

It is a proportional distribution for adding either common stock or preferred stock to shareholders. Stock divideds do not change assets, liability, or the total equity of shareholders

Based on explanation above, this research focuses on cash dividends. The reason of using cash dividends is because paying dividends in form of cash is more desirable to reduce investors' uncertainty when holding investment activity.

The determination of the payment proportion targeted to shareholders as well as the option to increase, decrease, or maintain the level of dividends is one of the policy of a company which are very desirable and complicated (Keown, et al. 2010: 199). It is due to when obtaining profits, the company will face a condition to choose whether the company re-invests the earnings or pay it to shareholders in form of dividends. A company has to make an optimum policy. Finally, the policy must fulfill both parties' expectation where a company can

both afford the needs of fund and fulfill investors' expectation. Thus, there must be a policy or rules related to profit sharing achieved from a company to be alocated as dividends or re-invested.

2.2 Dividend Policy

Dividend policy is a decision to determine how large a part of the company's revenue to be distributed to shareholders and will be reinvested or retained in the company (Hidayati, 2006:3). From those understanding, dividend policy is based on a range of considerations between the interests of shareholders in general that want the payment of dividends is relatively stable, and also the corporate interests that want to allocate income for other investments which is more profitable.

There is ratio related to dividends policy to pay how much dividends should be paid. It is reflected in Dividend Payout Ratio (DPR). Dividends payout ratio is an indication of percentage related to the amount of revenues earned and distributed to the ower or shareholders in form of cash. Gitman (2003) states that Dividend Payout Ratio (DPR) is determined by a company to pay dividends to shareholders annually, the determination of DPR is based on the earnings after tax. According to Ciaran Walsh (2004:152), DPR can be calculated by using such formula:

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

Once a company makes a profit, management must decide on what to do with those profits. They could continue to retain the profits within the company, or they could pay out the profits to the owners of the firm in the form of dividends.

Once the company decides on whether to pay dividends they may establish a somewhat permanent dividend policy, which may in turn impact on investors and perceptions of the company in the financial markets. What they decide depends on the situation of the company now and in the future. It also depends on the preferences of investors and potential investors.

2.2.1 Theories of Dividend Policy

Previous studies related to Dividend Payout Ratio produce some of the theories currently used as a reference and literature for further studies. The opinions and theories are used as a guideline and reference in accordance with the policies or conditions of respective companies and countries. Here are some of the Dividend Payout Ratio view mentioned by Bringham and Houston (2001:66) and the underlying assumptions:

1. Dividend Irrelevance Theory

The main supporters of this theory is Merton Miller and Franco Modiligani (1961). Dividend irrelevant theory theory states that dividends policy does not influence the stock price. According to MM, the value of a company is only determined by its basic capability to raise profit and its business risk. Other words, the value of the company depends on the income gained by its assets instead and retained earnings.

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2. Bird in Hand Theory

Gordon and Lintner (1956) argues that rate of profit expected will increase as a result of the declining of paying dividends. However, dividend is easier to forecast rather than capital gain. Thus, management can control dividend instead of the stock price. Investors tend to be more safe to acquire the income in form of dividend rather than waiting for capital gain.

The Gordon-Lintner's argumentation is named The Bird in Hand Fallacy by Modigliani-Miller. Gordon-Lintner argues that the rate of certainty of capital gain expected is riskier compared to dividend yield. In other words, Gordon-Lintner assume that investors keep one bird in hand is more precious than a thousand birds in the air.

3. Tax Differential Theory

It is a theory proposed by Litzenberger and Ramaswamy (1979). This perspective concludes that dividend actually inflicts a financial loss for investors. Tax for dividend is paid when the dividend is received, while tax for capital gain can be postponed until the stock has been sold. Therefore, investors prefer capital gains.

4. Clientele Effect

This theory states that different shareholders will have different preference towards the dividend policy of a company. A group of shareholders who need high return currently expect high rate of Dividend Payout Ratio. Otherwise, A group of shareholders who are less needy with money will be grateful if the company retains the earnings.

If there is a difference related to individual tax, the shareholders who have to pay high rate of tax prefer to receive capital gains because it can postpone the tax payment. Moreover, this type of shareholders are grateful if the company distribute a small rate of dividends. On the other hand, a group of shareholders who have to pay small rate of tax tend to have a high rate of dividend payout ratio.

5. Signalling Hypothesis Theory

According to the theory, there is empirical evidence that if there is an improvement of dividends, so does the stock price. Otherwise, if there is a decreasing of dividends, the stock price also goes down. It can be assumed as an evidence that investors tend to receive dividends compared with capital gains. It is also a theory that suggests company announcements of an increase in dividend payouts act as an indicator of the firm possessing strong future prospects. The rationale behind dividend signaling models stems from game theory. A manager who has good investment opportunities is more likely to signal than one who doesn't because it is in his or her best interest to do so. Over the years the concept that dividend signaling can predict positive future performance has been a hotly contested subject. Many studies have been done to see if the market reaction to a signal is significant enough to support this theory. For the most part, the tests have shown that dividend signaling does occur when companies either increase or decrease the amount of dividends they will be paying out.

2.3 Leverage

Leverage ratio is a ratio used to measure the extent to which a corporate's assets financed by debt (Kasmir, 2008:151). It means how much debt that a corporate has compared with its assets. In wide explanation, it is stated that the ratio of leverage can be used to measure the ability of a company to pay a whole of its equity, both short-term and long-term whether the company is liquidated (Kasmir, 2008:151).

In short, the leverage ratio is related to the self-using of equity, liability, and to know the ratio of the company's ability to pay-off its liability. In other words, this ratio is applied to know the capital structure inside the company.

Capital structure is a mixed-long-term-source of fund used by a corporate (Keown, 2010:148). The determination of capital structure is a policy adopted by management party in term of acquiring source of fund, so that it can be used for operational activity purposes of company.

There are several theories that explain the capital structure. Here are some theories put forward by experts, among others:

1. Modigliani-Miller Model (1959) - without Tax

    MM states that the greater use of debt, the greater rate of risk, so does the cost of capital.

    MM assumptions– without tax:

    a. The company's business risk is measured by EBIT (Earning Before Interest and Tax Deviation Standard).

    b. Investors have the same expectations about its future EBIT.

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c. Stocks and bonds are traded in a perfect capital market

d. The entire cash flow is a perpetuity (the same amount each period up to the time is infinite. In other words, growth is zero or EBIT is always the same.

e. There are no both corporate taxes and personal taxes.

2. Modigliani-Miller (1962) Model with Tax

The assumption states there is a change to the corporate income tax. Because of this tax, MM conclude that the use of debt (leverage) will increase the value of the company as debt interest costs are costs that reduce the tax (a tax - deductible expense).

3. Miller Model

Miller (1977) presents a theory of capital structure which also includes personal income tax. Income taxes intended in this model are the income taxes from stocks and bonds. The main weakness in Miller and Modigliani Miller model is ignoring the factor called financial distress and agency cost.

4. Tradeoff Model

This model continues the theory expressed by MM (1958) - with taxes, by complementing with the factors of financial distress and agency cost. This model concludes that the use of debt will increase the value of the company, it has limited period. After the limit, the use of debt will actually decrease the value of the firm because of increases of benefits from the use of debt is not proportional with the increases of the cost of financial distress and agency problem.

This model is called model of "tradeoff" because the optimal capital structure can be found by balancing the advantages of using debt (tax shield benefits of leverage) with financial distress cost and agency problem.

5. Pecking Order Theory

Myers and Majluf (1984) formulate the theory of capital structure called the pecking order theory. The theory is based on the asymmetric information, a term indicating that the management has more information (about the prospects, risks, and the value of the company) rather than public investors. Then, management makes financial decisions and builds various of plans. This condition can be seen by the reaction of stock prices at the time management announces something (such as the increases of dividend payment).

This asymmetric information affects the choice of the use of internal resources (i.e. funds and operating results of the company) or external fund, and the issuance of new debt or equity. This theory is called the pecking order because the theory explains why the company will determine the hierarchy of the most preferred source of funding. In accordance with this theory, the investment will be firstly financed with internal funds (retained earnings), and then followed by the issuance of new debt, and ultimately by the issuance of new equity.

Here are the types of leverage ratios used in this study by Kasmir (2008:134):

1. Debt to Total Asset Ratio (DAR)

    Debt to total assets ratio is the ratio of debt used to measure the difference between the total debts and total assets. In other words, how big the company assets financed by debt or how much debts of the company affect the assets' management. The higher of DAR value, the more difficult for a company to obtain additional loan because it is doubtful the company can not afford to cover its debts with asseets owned.

    Similarly, if the DAR shows a low value, then the smaller company assets financed with debt. Mathematically, debt to total assets ratio can be formulated as follows:

$$\text{Debt to asset ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

2. Debt to Equity Ratio (DER)

    Debt to equity ratio is a ratio used to assess the company's debt with its equity. The calculation applied by comparing with all debts, including current liability with the entire equity. This ratio is useful to know the amount of fund provided by creditors with the owner of the company. In other words, this ratio serves to determine each dollar of capital itself is used as collateral for debt. Mathematically, debt to equity ratio can be formulated as follows:

$$\text{DER} = \frac{\text{Total Liabilities}}{\text{Shareholders Equity}}$$

3. Long Term Debt to Equity Ratio (LDER)

Long term debt to equity ratio is the ratio between the long-term debt and equity. Purposes of calculating this ratio is to measure how much of each dollar of capital itself as collateral for long-term debt by comparing the long-term debt with equity provided by the company. Mathematically, long-term debt to equity ratio can be formulated as follows:

$$LDER = \frac{Long\ term\ debt}{Equity}$$

2.4 Liquidity

Weston in Kasmir (2008:129) mentions liquidity ratio as a ratio that describes the company's ability to pay-off liabilities (debt) of short-term. This means that if the liability of the company meets maturity date, the company is able to fulfill its obligation. James in Kasmir (2008:129) mentions that the liquidity ratio measures the amount of cash or investment that can be converted into cash or the investment can be converted into cash to pay expenses, bills, and all other liability that meets maturity.

Liquidity ratio, or is often called a working capital ratio is a ratio used to measure how liquid a company. The measurement is done by comparing the components in the balance sheet, the total of current assets with total current liabilities (Kasmir, 2008:130).

In practice, there are lots of benefits of the analysis of the liquidity ratio for the company, the owners, management, and those who have relationships with

companies such as creditors and distributors. Liquidity ratio provides many benefits to various parties involved to the company.

In general, the main objective was to assess the financial ratios of the company's ability to meet its obligations. In addition, the ratio could be known from other things that are more specific which are also still associated with the company's ability to meet its obligations depending on the type of liquidity ratios are used.

Here are the types of liquidity ratios used in this study by Kasmir (2008:134):

1. Current Ratio

    Current Ratio (CR) is the ratio to measure the company's ability to pay-off short term debt obligations are immediately due when billed as a whole. In other words, how much current asset is available to cover or pay-off short-term obligations are immediately due. CR can also be identified as a form to measure the level of security of a company. CR calculation is done by comparing the total current assets by total current liabilities. Current ratio can be mathematically formulated as follows:

$$\text{Current Ratio} = \frac{current\ assets}{current\ liability}$$

2. Quick Ratio

    Quick ratio or acaid test ratio is ratio which shows the ability of a company to pay-off the liability or current liability (short term liability) by using current assets without calculating the value of inventory. It means that the value of inventory is ignored by reducing

with the total of current assets. It is applied because inventory needs longer time to be liquid. Quick Ratio can be formulated as follows:

$$Quick\ Ratio = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

3. Cash Ratio

Cash Ratio is a ratio used to measure how big the cash which is available to pay-off debt.

The availability of cash can be shown from the availability cash and cash equivalent, such as saving or current account *(rekening giro)* saved in bank (account whose cash can be withdrawn in anytime). In short, this ratio can show the real performance for a company to pay-off its short term debt. Cash ratio can be formulated as follows:

$$Cash\ Ratio = \frac{Cash\ or\ Cash\ Equivalent}{Current\ Liabilities}$$

2.5 Previous Research

This research is aimed to continue the previous research that has been done by Prihantoro (2003), Hidayati (2006), Priono (2006), Kumar (2007), Chasanah (2008), Puspita (2009), and Appanan and Sim (2011).

1. Prihantoro (2003) conducted research which aims to analyze factors influencing Dividend Payout Ratio to 148 public companies which are listed in Jakarta Stock Exchange in the period of 1991-1996 by using the variable of cash position, the potential growth, the size of company, the ratio of liability and equity, profitability, the ownership, and Dividend Payout Ratio. The research successfully shows that the position of cash and liability and equity

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ratio gives a significant influence on Dividend Payout Ratio, but the profitability contributes a less significant influence.

2. Hidayati (2006) conducted research which is about variable of Return on Investment (ROI), cash ratio, current ratio, debt to total assets ratio, earning per share, firm size, and cash dividends towards Dividend Payout Ratio for companies listed in Jakarta Stock Exchange in the period of 2001-2004 with 21 samples of companies.

The research shows ROI, cash ratio, and EPS gives positively significant influences on DPR. In contrast, the firm size and current ratio which are not appropriate with the hypothesis show negatively significant influence on DPR.

3. Priono (2006) conducted research by testing the financial ratios, firm size, and the growth of assets towards dividend per share. The research shows that ROI, current ratio, debt to total asset ratio, EPS, and the growth of assets partially influence the dividend per share. While variable of cash ratio and firm size explained do not influence the dividend per share.

4. The research is applied by Kumar (2007) to a PMA *(Penanaman Modal Asing)* and PMDN *(Penanaman Modal Dalam Negeri)* firms listed in Jakarta Stock Exchange in the period of 2003-2005 is to test the influence of ownership structure, Investment Opportunity Set (IOS), and financial ratios on Dividend Payout Ratio shows that the managerial ownership, IOS, and DER give negative influences on DPR. ROA variable positively influences the DPR, but the institutional ownership does not show any influence on Dividend Payout Ratio.

5. Chasanah (2008) conducted research by testing the influence of debt to total assets ratio, cash ratio, firm size, ROA, institutional ownership, and growth on Dividends Payout Ratio to companies listed in Indonesia Stock Exchange. The research indicates both cash ratio and firm size gives positively unsignificant influence on DPR. Whereas, for the variable of debt to total assets ratio has a positive influence but not significant on DPR to campanies which parts of their shares are owned by management, and has a negative influence and insignificant on DPR to companies whose shares are not owned by management.

6. Puspita (2009) conducted research which is about factors influencing Dividend Payout Ratio to companies listed in Indonesia Stock Exchange. According to the research, a conclusion is achieved that cash ratio, firm size, and ROA have positively significant influence on DPR. Debt to equity ratio and growth has negative a influence on DPR. The variable of debt to total assets ratio refuses the hypothesis by resulting positive influence which is insignificant.

7. Appannan and Sim (2011) research factors influencing dividend policy to five companies categorized as food processing industry listed in Kuala Lupur Stock Exchange. The result shows debt to equity ratio variable and past dividend per share are the strongest variables influencing dividend payout ratio. Otherwise the other variables do not influence significantly on DPR.

Table 2.1   Summary of Previous Research

No	Researcher	Variable	Result
1.	Prihantoro (2003)	Cash position, the potency of growth, firm size, debt and equity ratio, profitability, and ownership	Shows that the cash position and debt ratio and equity give a significant influence on dividend payout ratio,

No.	Researcher	Variable	Result
			but the profitability has less a significant influence.
2.	Hidayati (2006)	ROI, cash ratio, current ratio, debt to total assets ratio, earning per share, firm size, and cash dividend	Shows that ROI, cash ratio, and EPS give a positively significant influence on DPR. Whereas, firm size and current ratio are not suitable with the hypothesis of research and indicate negatively significant influence on DPR.
3.	Priono (2006)	ROI, current ratio, debt to total asset ratio, EPS, the growth of assets, cash ratio, and firm size	Shows that ROI, current ratio, debt to total assets ratio, EPS, and the growth of assets partially influence on dividend per share. While the variable of cash ratio and firm size are explained that they have unsignificant influence on dividend per share.
4.	Kumar (2007)	Ownership structure, IOS, ROI, and debt to equity ratio	The managerial ownership, IOS and DER give negative influence on DPR. The variable of ROA gives positive influence, but the institutional ownership has no influence on dividend payout ratio
5.	Chasanah (2008)	Debt to total asset ratio, cash ratio, firm size, ROA, institutional ownership, and growth	Shows that cash ratio and firm size give positively unsignificant influence, and the growth give negatively unsignificant influence on DPR. Whereas, the variable of debt to total assets ratio has positive influence and unsignificant toward DPR to companies which shares are partially owned by mamagement, and has negative influence and

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			unsignificant on DPR to companies which shares are not owned by management.
6.	Puspita (2008)	Cash ratio, firm size, ROA, debt to equity ratio, growth, and debt to total asset ratio	According to the research, it is concluded that cash ratio, firm size, and ROA have positively significant influence on DPR. Both Debt to equity ratio and growth have negative influence on DPR. The variable of debt to total assets ratio refuses the hypothesis by resulting the influence which is positively unsignificant.
7.	Appanan and Sim (2011)	Profit after tax, cash flow, DER, pas dividend per share, sales growth, size of the firm, and outstanding shares of the firm	DER and past dividend per share influence significantly on DPR, otherwise the other variables do not influence significantly on DPR.

The various results of previous research still meet inconsistency by showing its gap, so that it is necessary to build research. The gap among each previous research comes one of the consideration of the researcher to take the same theme. The research is different from the previous researches which are only focusing on leverage and liquidity. Author would like to build a research and report how far the influence on dividend payout ratio whether it is seen only from both short term and long term debt condition. Besides, the object of the research is the companies listed in LQ-45. They are categorized in LQ-45 because they have active shares. The explanation related to dividend also has a relationship with the outstanding shares. It is expected by doing research to companies listed in LQ-45, it will achieve a significant result.

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2.6 The Development of the Research Hypothesis

2.6.1   Leverage and Dividend Payout Ratio

Leverage ratio reflects the ability of a company to fulfill the whole debt owned, which is shown by the own equity to pay debt. In summary, the ratio of leverage is related to the use of own equity and credit and also to know the ratio of the company's ability to pay-off its debt. The ratio is used to inform the capital structure in a company.

There several research, such as Sugeng (2009) states that the relevance of capital structure in agency problems not only because of the less good relationship between the manager and the shareholders, but also the relationship between the shareholders and the creditor, although the second possibility seldom occurs in term of the attention given by the expert and the researchers in the field of financial management. It is known that creditors has a claim on the partial flow of earning of a company (in terms of interest payment and the main debt), also to the assets of a company which claimed as collapse. However, shareholders have a control through management to the important decisions made which influence the the profitability and the company's risk.

For instance, the shareholders through management can make the company decide to execute a new investment project which has a higher risk ratio than expected by the creditor with a higher expected advantages also. This ratio improvement will cause the required rate of return for debt higher. In time, it will make the value of promissory note issued will decrease. Whether the investment comes to a success, the whole profit will go to the shareholders, because the return

achieved by the creditor is constant. Otherwise, if the project meets a failure, then the creditor will take part of it. Therefore, the creditor makes a restrictive debt covenant which is included the restriction toward the dividend payment for shareholders (Sugeng, 2009:5).

Because the creditor through promissory note tends to restrict dividend, so it is expected that there is a negative linkage in agency problem occurring between the creditor and the shareholder related to dividend. Besides, there is a tendency that a long-term debt achieved by the company will influence negatively toward the amount of dividend paid. The reason states for the companies with a high rate of leverage, so that the policy of dividend payout which is high will enlarge the fixed expenses of the company. Based on the idea, those companies will maintain low dividend payout ratio in order to avoid the reduction of dividend ar possibly not to pay dividend in the future.

According to Chasanah (2008), she explained that the bigger rate of debt ratio, the bigger rate of dependency of the company toward external party and also the bigger rate of expense that should be paid by the company. It will influence on the profitability of the company, because several of it will be used to pay loan interest. The bigger interest, the lesser profitability (earing after tax). So that, the right of shareholders to receive dividend will meet a problem. The similar explanation is argued by Pujiastuti (2008). Based on the theoretical argument can be formulated the first hypothesis as follow:

H1: Leverage ratio influences on Dividend Payout Ratio.

2.6.2 Liquidity and Dividend Payout Ratio

Liquidity is an ability of a company to fulfill its short term debt to the due date. In relationship with dividend, the liquidity of a company is a main consideration to decide paying dividend (Sartono, 2001:293). For company, dividend is a cash outflow, so the stronger position of liquidity, the stronger ability of the company to pay dividend.

Liquidity influences the dividend policy because liquidity is a company's ability to fulfill its short-term debt, such as both paying-off debt and dividend. It shows that the liquidity position directly influences the company's ability to pay dividend. At the time a company has a high value of liquidity, it is assessed that the company affords to pay-off short term debt which meets maturity date.

Besides it is calculated by considering the amount of cash available in the company, liquidity also considers the amount of current assets owned to pay short-term debt which comes to a maturity date.
The ratio of liquidity will be high whether the company has a high current assets. It will guarantee that there is an adequate fund to pay dividend. As a result, the investors are ensured towards the capability of company in paying dividend.

There are several researchers, such as Appannan (2011) states the influence of liquidity on Dividend Payout Ratio by doing proxy the liquidity with current ratio and cash ratio, and also Priono (2006), and Puspita (2008) who does proxy the liquidity with cash ratio. Based on the theoretical argument, it can be formulated the second hypothesis as follow:

H2: Liquidity influences on Dividend Payout Ratio.

CHAPTER III

RESEARCH METODOLOGY

3.1 Type of Research

Based on the type of the research, this research is the explanatory research. According to Burhan Bungin (2006:38) explanatory research is the research which explains about the correlation, difference and influence between one variable and another. The characteristic of explanatory research is replication and development, which means that the author repeats from the similar prodecessor researcher but difference for the sample, variable, and period. In this research, the author tends to explain the influence between leverage (X1) and liquidity (X2) ratio on (Y) which is dividend payout ratio in LQ45. This research is also included in quantitative research. It is because the research needs the nominal data that has to be analyzed by the author and used for the statistical analyze for this research.

In order to be understandable related to the explanation, the systematic framework of research can be described below:
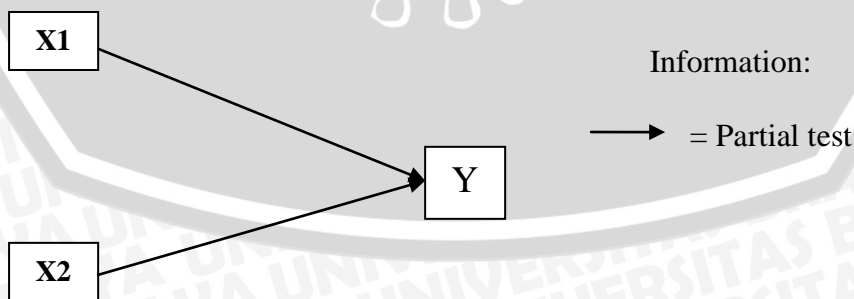

Figure 3.1 Framework of Research

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This research applies the analysis of multiple regression technique where it will be able determine the equation of regression based on constanta value and the coefficient of regression which are resulted. It will also find the correlation between the independent variable and dependent variable, and tests the hypothesis which states there are influence simultaneously and partially between the the independent variables (X) and dependent variable (Y).

3.2 Sample and Population Used

3.2.1 Population

According to Sugiyono (2009:90) he stated that population explain as generalization field which consists on object or subject that has a certain characteristic and quality that's judged by the researcher to analyze and conclude. In this research, the population of the research is all of the companies which are included in LQ45 for the period of 2008-2010. The population is 45.

3.2.2 Sample

Sample is a part of the population that is chosen by researcher to be analyzed. In this research, sample is chosen by the purposive sampling method. It is a method to choose the sample based on subjective considerations of the research and matched by the objective of the research. The criteria of the sample that is used in this research are:

1. The companies which are listed in LQ45 simultaneously from December 2008 up to the end of 2010.

2. The companies that share cash dividends three times simultaneously in the period of 2008-2010

Processing for the research sample:

Table 3.1

Sampling Method

No.	Criteria	Companies Amount
1.	The amount of population of companies at LQ45 in 2008-2010.	45
2.	The number of companies go in and out at LQ45 in 2008-2010.	(16)
3.	The number of companies stay at LQ45 in 2008-2010.	29
4.	The number of companies cannot payoff the dividends three times simultaneously in the period of 2008-2010.	(14)
5.	Companies becoming samples in the research	15

According to table 3.1, there are about 45 companies listed in LQ-45 in the period of 2008-2010 as the population. There are only 15 of them becoming samples. In short, there will be 45 data analysis as it is required from 3 years observation.

Table 3.2

List of companies which become samples in this research

No.	IDX Code	Company's Name
1.	AALI	PT. Astra Agro Lestari Tbk
2.	AKRA	PT. AKR Corporindo Tbk
3.	ANTM	PT. Aneka Tambang Tbk
4.	ASII	PT. Astra Internasional Tbk

5.	BUMI	Bumi Resources Tbk
6.	ELSA	PT. Elnusa Tbk
7.	GGRM	PT. Gudang Garam Tbk
8.	INDF	PT. Indofood Sukses Makmur Tbk
9.	INDY	PT. Indika Energy Tbk
10.	LSIP	PP. London Sumatra Indonesia Tbk
11.	JSMR	PT. Jasa marga Tbk
12.	PGAS	PT. Perusahaan Gas Negara Tbk
13.	TLKM	PT. Telekomunikasi Indonesia Tbk
14.	UNTR	PT. United Tractors Tbk
15.	UNVR	PT. Unilever Indonesia Tbk

Source: ICMD

3.3 Types of Data

The data that is used in this research is secondary data. The secondary data is the data that is collected, processed, and served by other parties. The form of the secondary data is the annual that has been issued by the company that contained of balance sheet, income statement, cash flow statement, owner's equity statement, and the financial statement.

3.4 Source of Data

The data that is used in this research is derived from the IDX's website (www.idx.co.id). Beside the data that will be served in this research also provides by the data that the Author's get from the Pojok Bursa Efek Indonesia Faculty of Economics University of Brawijaya in the form of Indonesian Capital Market Directory (ICMD).

3.5 Data Collecting Method

The data collecting method that is used in this research is documentation method. Documentation method is a data collecting technique by recording, and copying the secondary data, in which all of the data that has been collected comes from many resources, and then will be chosen related to the Author's need.

3.6 Identification and Definition of Operational Variable

The variable that is used in this research covers five main variables. These variables are distinguished into two variables, which are the dependent variable and independent.

a. Dependent Variable

Dependent variable is a variable whose number is influenced by the independent variable. The dependent variable in this research is the dividend policy of go public company issued their financial statement from year 2008-2010 that will be represent as the "Y" symbol. Dividend policy uses DPR as a proxy. Systematically, dividend payout ratio can be formulated as follows:

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

b. Independent Variable

Independent variable is a variable having an effect or assumed that could give an influence to the other variable. This variable is independent, which means that it's influenced by other variables.

The independent variable that is used in this research is several financial ratios that served belows:

1. Leverage

   Leverage ratio reflects the ability of a company to fulfill the whole debt owned, which is shown by the own equity to pay debt. In summary, the ratio of leverage is related to the use of own equity and credit and also to know the ratio of the company's ability to pay-off its debt. The ratio is used to inform the capital structure in a company. The Author uses debt to equity ratio which represents leverage with "X1", and the indicator is the total liabilities and stockholder's equity.

   $$DER = \frac{Total\ Liabilities}{Shareholders\ Equity}$$

2. Liquidity

   Liquidity is an ability of a company to fulfill its short term debt to the due date. In relationship with dividend, the liquidity of a company is a main consideration to decide paying dividend (Sartono, 2001:293). For company, dividend is a cash outflow, so the stronger position of liquidity, the stronger ability of the company to pay dividend. The author applies current ratio which represents liquidity with "X2", and the indicator is the current asset and the short term liabilities.

   $$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

3.7 Data Analysis

Data analysis technique is the application to process data logically and theoretically. The statistic tools used is multiple regression with SPSS computer

program 16.00 for windows. This software will be applied as classical assumption test device and hypothesis test.

In this research, the data analysis will be processed by applying multiple regression method in order to know the influence of independent variables which are both leverage and liquidity toward dependent variable which is a dividend policy. The analysis of multiple regression is chosen because the technique will determine the equation of line regression based on constants value and regression coefficient resulted and find the correlation between the independent variables (X) and dependent variable (Y).

The regression model can be formulated as follows:

$$Y = a + b_1 X1 + b_2 X2 + e$$

Information:

Y   = Dividend Payout Ratio

a   = Constants

$b_{1,2}$ = Regression Coefficients

X1   = Leverage

X2   = Liquidity

e   = error

When testing the hypothesis by using multiple linier regression, it is necessary to do classic assumption tests: normality, multicollinearity, autocorrelation, and heteroscedasticity test.

3.8 Classic Assumption Test

The purpose of classic assumption test is to know, test, and assure the worthiness the regression model used in this research, where the data will be used normally, free from autocorrelation multicollinearity, and heteroscedasticity.

a. Normality Test

According to Ghozali (2006:110), the purpose of normality test is to test whether disturbing variable or residual has a normal distribution in regression model. Normality can be detected by seeing the data separation in the graphic (dot) in diagonal axis in P-Plot graphic. Below is the further explanation:

1) If the data spreads nearly and follow the diagonal line, then the regression model fulfills the normality assumption.

2) If the data spreads far from diagonal line and does not follow the line, then the regression model does not fulfill the normality assumption.

Besides, the normality of residual data can be tested by using Kolmogorov-Smirnov test. If the rate of significance $< 0,05$, then the residual data can not be normally distributed.

The regression model can be acknowledged as fulfilling the normality assumption whether the error or residual occurred by regression model which distributes normally. To test this assumption, Kolmogorov-Smirnov can be used as a method like it is seen in the table 3.3 and table 3.4 below:

Table 3.3 Normality Assumption Test

Statistical Test	Value	Information
Kolmogorov-Smirnov Z	1.074	Spread normally
p-value	0.199	

Source : The result of SPSS analysis

We may also see table 3.4 below:

Table 3.4 Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		45
Normal Parameters [a,b]	Mean	,0000000
	Std. Deviation	26,49696227
Most Extreme Differences	Absolute	,160
	Positive	,160
	Negative	-,130
Kolmogorov-Smirnov Z		1,074
Asymp. Sig. (2-tailed)		,199

a. Test distribution is Normal.

b. Calculated from data.

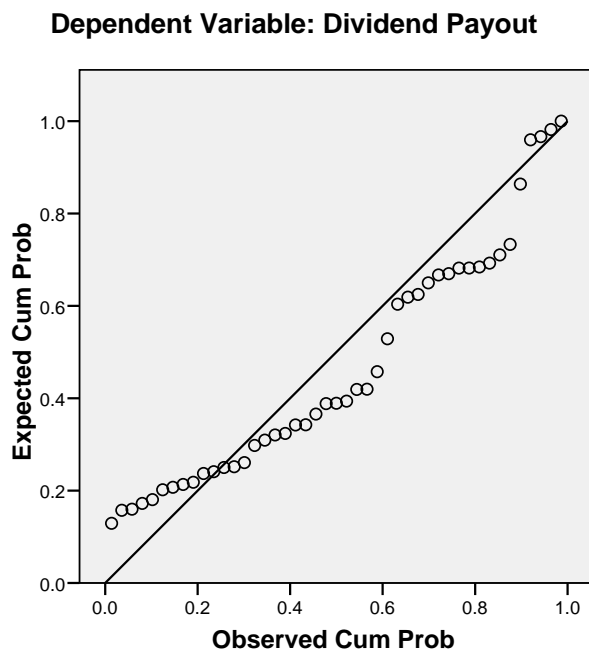Source: IBM SPSS 15.0 (data processed, 2012)

According to Kolmogorov-Smirnov Z above, the p-value is 0.199, where the value is more than $\alpha = 0.05$. It shows that the residual has a normal distribution, so that it can be inferred the normality assumption of residual has been fulfilled.

Besides, the normality test can be detected by seeing the spread of data (dots) in diagonal line in P-Plot graphic below:

Figure 3.2 Result of Normality Test

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Dividend Payout

Source: IBM SPSS 15.0 (data processed, 2012)

In the graphic above, it shows that the data spreads around the diagram and follows the regression model. Therefore, in can be inferred that the data processed is normally distributed.

b. Multicollinearity Test

According to Ghozali (2006:91), multicollinearity test is purposed to test whether there are correlations among independent variables found in the regression model. A good model regression should not have any correlation among independent variables. To detect whether there is multicollinearity or not, it can be observed from (1) tolerance value and its opposite (2) Variance Inflation Factor (VIF). Those two measurements show each independent variable explained by another independent variable. Tolerance measures the variance of variable

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chosen which is not explained by another independent variable. Therefore, the low rate of tolerance is equal to high rate of VIF due to VIF=1/Tolerance. The value of cut-off which is generally applied to show multicollinearity in which the tolerance is $\leq 0{,}10$ or equal to VIF > 10. A good model regression does not have a problem with multicollinearity or have any relationship among independent variables.

To detect whether there is an existence or not of the multicollinearity, it can be observed from Variance Inflation Factor (VIF). If the VIF > 10, then there is an existence of multicollinearity. On the other hand, if the condition is vice versa, in which the VIF < 10, then there is no multicollinearity exists, as it occurs in table 3.5 below:

Table 3.5 Multicollinearity Assumption Test

Independent Variable	VIF	Information
Variable DER	1.072	Non-multicollinearity
Variable Current Ratio	1.072	Non-multicollinearity

Source : The result of SPSS analysis

Based on table 3.5, each independent variables shows the value of VIF which are not more than 10, so that there is no multicollinearity exists which fulfilled.

c. **Autocorrelation Test**

Autocorrelation test is proposed to test the assumption that the research data must be free, it can't be influenced or influencing the previous or the future data. Autocorrelation is a correlation coefficient. However, instead of correlation

between two different variables, the correlation is between two values of the same variable at times.

According to Gujarati (1991), the autocorrelation test is proposed to identify the existence of correlation between observation data that will be sorted by time series and cross section. In time series data, the possibility of appearance of these symptoms is quite big, in other hand for the cross section data, the possibility is lower.

When the autocorrelation symptoms appear, the statistical t test and statistical F test are no longer effective. Thus, when the test is continued, the result will be doubtful. We can use Durbin-Watson (DW) statistical test to identify the autocorrelation.

In this research, the result from DW will be compared by the critical value dL and dU that we get from the DW's table,

d < dL	: Autocorrelation exist
d > 4 − dL	: Autocorrelation exist
dU < d < 4 − dU	: Autocorrelation do not exist
dL < d < dU	: The testing is doubtfull
4 − dU < d < 4 − dL	: The testing is doubtfull

Moreover, Santoso (2000) explained that the decision making could use another type of the Durbin-Watson(DW) test:

DW < -2	: Positive autocorrelation
-2 < DW < 2	: No autocorrelation
DW < 2	: Negative autocorrelation

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The assumption test of non-autocorrelation is applied by using Durbin Watson statistical test. It is obtained that $d_w = 1.766$. Based on durbin Watson, table for n=45 and k=2, value of d_l=1.4298, d_u=1.6176 and 4-d_u=2.3824.

Then, because the value of $d_u<d_w<4-d_u$ or 1.6176<1.766<2.3824, so that it can be concluded that there is no autocorrelation existing.

Table 3.6 Result of Autocorrelation Test

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,543^a	,294	,261	27,12051	1,766

a. Predictors: (Constant), Current Ratio, DER
b. Dependent Variable: Dividend Payout

Source : IBM SPSS 15.0 (data processed, 2012)

d. Heteroscedasticity Test

Based on Ghozali (2006:105), heteroscedasticity test is aimed to test whether in regression model, there is inequality of variance from one residual observation to another observation. A good model regression will occur no heteroscedasticity. Below is the fundamental analysis:

1) If there is certain pattern which occurred, such as dots form regular pattern (wavy, widening then narrowing), then it indicates heteroscedasticy occurring.

2) If there is no clear pattern with dots spreading aboves and belows the zero number at ordinat (Y line), then there is no heteroscedasticity occurring.

Heteroscedasticity test is aimed to test if there is a difference of variance among the residual variable in a regression model. If the residual of variance

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between research is same, it is called homoscedasticity, on the other hand if it is different, it is called as heteroscedasticity. A good regression model is not the heteroscedasticity's model, but the homoscedasticity's one (Singgih, 2001;208).

This assumption can be checked by applying the correlation test of rank Spearman, which tests the correlation between the predictive value and absolute error. The result of the test by using rank Spearman method and the scatterplot can be observed in table 3.7 and figure 3.2 below:

Table 3.7 Homoscedasticity Assumption Test

Correlations			Unstandardized Predicted Value	abs_res
Spearman's rho	Unstandardized Predicted Value	Correlation Coefficient	1,000	,147
		Sig. (2-tailed)	.	,334
		N	45	45
	abs_res	Correlation Coefficient	,147	1,000
		Sig. (2-tailed)	,334	.
		N	45	45

Statistical Test	Value	Information
Correlation of Rank Spearman	0.147	Homoscedasticity
p-value	0.334	

Source : The result of SPSS analysis

According to table 3.7, this assumption test has achieved a correlation coefficient of Rank Spearman with the amount of 0.147 with p-value = 0.334 where p-value exceeds $\alpha = 0.05$. In short, the assumption of homoscedasticity has been fulfilled.

Figure 3.3 The Test Result of Homoscedasticity

Scatterplot
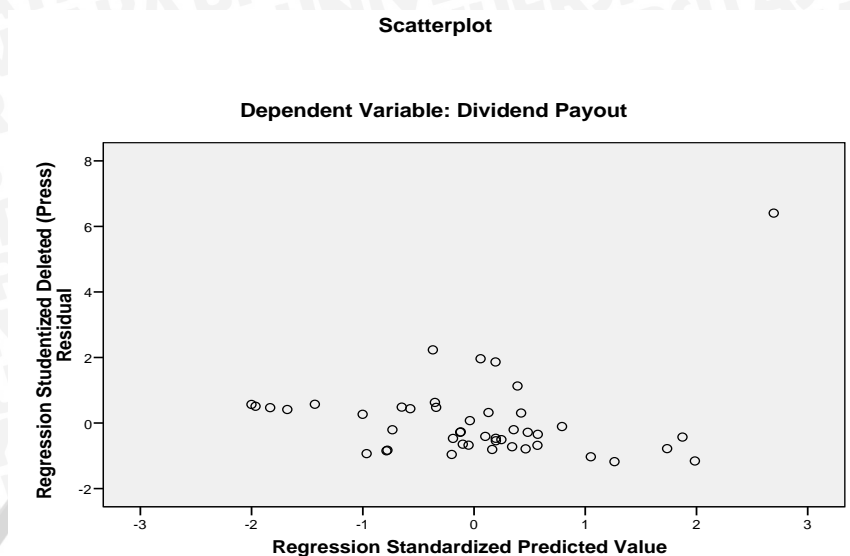
Source : IBM SPSS 15.0 (data processed, 2012)

According to the figure above, the dots spread randomly, which spreads in above and below 0 in Y's axis. Thus, we can conclude that there is no heteroscedasticity in regression model.

e. Analysis of Multiple Linier Regression

Regression analysis is applied for obtaining any variables which influence Dividend Payout Ratio and variables which most dominantly influence Dividends Payout Ratio. When processing data by applying multiple linear regression, there are several steps to find out the relationship between independent and dependent variable. According to the result of data processing, which applies software SPSS 15, a summary is written in the table 3.8 and table 3.9 below:

Table 3.8 Summary of Regression Analysis Result 1

Summary of Regression Analysis Result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	46,491	8,850		5,253	,000		
	DER	-8,714	3,598	-,325	-2,422	,020	,933	1,072
	Current Ratio	,061	,023	,358	2,672	,011	,933	1,072

a. Dependent Variable: Dividend Payout

Source : IBM SPSS 15.0 (data processed, 2012)

Table 3.9 Summary of Regression Analysis Result 2

Variable	Coefficient Std β	Coefficient β	$T_{calculated}$	p-value	Information
Constants		46.491	5.253	0.000	Significant
Variable DER (X1)	-0,325	-8.714	-2.422	0.020	Significant
Variable Current Ratio (X2)	0,358	0.061	2.672	0.011	Significant
α = 0.05					
R^2 = 0.294					
R = 0.543					
F-calculated = 8.763					
F-table (0.05,2,42) = 3.220					
p-value = 0.020					
t-table (0.05,42) = 2.018					

Source : The result of SPSS analysis

According to table 3.8 and 3.9, it is clear that the whole independent variables have a significant value. The interpretation of regression model obtained is based on table above which is:

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$$Y = 46.491 - 8.714 \, X1 + 0.061 \, X2 + \varepsilon$$

where :

Y   : Dividend Payout Ratio

X1   : Variable of DER

X2   : Variable of Current Ratio

ε : Standard Error

1.   a = 46.491

From the equation, it is obtained that the value of the constant is 46.491, which also the value of DPR (Y). If both leverage and liquidity are equal to zero, then dividend payout ratio is equal to 46.491.

2. $\beta_1 = -8.714$

The value of regression coefficient is -8.714. It means that every inclination of 1 DER variable and another variable which is zero, then it will decline the dividend payout ratio which amounted 8.714. This coefficient regression shows a negative sign which means the relationship between DER and dividend payout ratio is inversely related. The higher rate of DER, the lower security rate of a company to pay-off its long term term debt, and the lower rate of dividend payout ratio.

3. $\beta_2 = 0.061$

The value of regression coefficient is 0.061. It means that every inclination of 1 current ratio variable and another variable which is zero, then it will also incline

the dividend payout ratio which amounted 0.061. This coefficient regression shows a positive sign which means the relationship between current ratio and dividend payout ratio is proportionally related. The higher rate of current ratio, the higher security rate of a company to pay-off its short term debt, and the higher rate of dividend payout ratio.

3.9 Hypothesis Test

The hypothesis test is purposed to know whether the variables of both leverage and liquidity give any influence on dividend policy in companies listed in LQ-45. To test the hypothesis proposed by author, then it will be conducted with a simultaneously significant influence test (F test), individual parameter test (T Test), and coefficient determination test. The statistic test is explained below:

a. F Test

This test is useful to make sure that the independent variable assembly influence or not on dependent variable.

In this test, the author judge for errors rate of 5% (level of confidence 95%). The result of the test will be compared with the errors rate with the assumption:

- H_1 will be accepted if the independent variable of F less than the number of F errors. The formula is:

$$F_{\text{significance}} > 0,05$$

- H_0 will be accepted if the independent variable of F is less than the number of F errors. The formula is:

$$F_{\text{significance}} < 0,05$$

The simultaneous test is executed to show whether the whole variables used in regression model influence significantly on dividend payout ratio. The whole variables are tested in the same time by applying F test or ANOVA. The hypothesis used in this simultaneous regression coefficient test can be seen in table 3.10 below:

Table 3.10 Simultaneous Test of Regression Model

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12890,899	2	6445,450	8,763	,001[a]
	Residual	30891,916	42	735,522		
	Total	43782,815	44			

a. Predictors: (Constant), Current Ratio, DER

b. Dependent Variable: Dividend Payout

Hypothesis	Value	Decision
$H_0 : \beta_i = 0$ (There is no significant influence between X1, X2 on Dividend Payout Ratio) $H_a : \beta_i \neq 0$ (There is significant influence between X1, X2 on Dividend Payout Ratio), $\alpha = 0.05$	F = 8.763 p-value = 0.001 F_{table} = 3.220	Reject H_0

Source : The result of SPSS analysis

Based on table 3.10, this hypothesis test applies F Test. In a distributed table F, F_{table} is obtained with degrees of freedom (df) n1 = 2 and n2 = 42 amounted 3.220. If the value of F is as the result of calculation in table 4.8 which is compared with F_{table}, then $F_{calculated}$ which as the result is exceeding F_{table} (8.763> 3.220). Besides, it is obtained in table 4.8 the p-value amounted 0.001. If the p-value is compared with $\alpha = 0.05$, then p-value is less than $\alpha = 0.05$. From those comparison above, it can be decided that H_0 is rejected at the degree $\alpha = 0.05$. It can be inferred that there is a significant influence between X1, X2 on

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Dividend Payout Ratio.

a. T Test

Partial test is used to know whether each independent variable influences partially on dependent variable. Hypothesis zero (H_0) will be accepted or refused is based on explanation below:

i.   If $t_{calculated} < t_{table}$, then H_0 is accepted, it menas that individually the leverage and liquidity variables does not influence on Dividend Payout Ratio (DPR).

ii.   If $t_{calculated} > t_{table}$, then H_0 is refused, it means that individually the variables of leverage and liquidity influence on Dividend Payout Ratio (DPR).

If using probability method= 0,05 (2-tailed), which means the rate of trustiness is 95%, then the conclusion is below:

- The value of Sig. $< \alpha$, then H_0 is refused and H_1 is accepted

- The value of Sig. $> \alpha$, then H_0 accepted and H_1 is refused

The partial test of regression model is used to know whether each independent variables as the former of regression model individually has a significant influence on dividend payout ratio or not. To test the relationship, T test is applied by comparing the value of $t_{calculated}$ with t_{table}.

The independent variable can be stated as influencing significantly if $t_{calculated} > t_{table}$ or p-value is $< \alpha = 0.05$. The partial test of regression model is as follow:

a.   DER Variable (X1)

According to table 3.8 and 3.9, the partial test of regression model of Debt to equity ratio (X2) can be mentioned in table 3.11 below:

Table 3.11 Partial Test of Regression Model of DER (X1)

Hypothesis	Value	Decision
$H_0 : \beta_1 = 0$ (DER Variable (X1) has no significant influence on dividend payout ratio) $H_a : \beta_1 \neq 0$ (DER Variable (X1) has significant influence on dividend payout ratio) $\alpha = 0.05$	t = -2.422 *p-value* = 0.020 t_{tabel} = 2.018	Reject H_0

Source : The result of SPSS analysis

DER variable (X1) has a regression coefficient which amounted –8.714. By using SPSS software, it is obtained that the result of T test amounted -2.422 with p-value = 0.020. The value of statistical test is exceeding the t_{table} (|-2.422| > 2.018) and also the p-value is less than $\alpha = 0.05$. It can be determined that H_0 must be rejected. In conclusion, DER variable (X1) influences significantly on Dividend Payout Ratio.

b.   Current Ratio Variable (X2)

According to table 3.8 and 3.9, The partial test of regression model of Current Ratio variable (X2) is depicted in table 3.12 below:

Table 3.12 Partial Test of Regression Model of Current Ratio (X2)

Hypothesis	Value	Decision
$H_0 : \beta_1 = 0$ (Current Ratio Variable (X2) has no significant influence on dividend payout ratio) $H_a : \beta_1 \neq 0$ (Current Ratio Variable (X2) has a significant influence on dividend payout ratio), $\alpha = 0.05$	t = 2.672 p-value = 0.011 t_{table} = 2.018	Reject H_0

Source : The result of SPSS analysis

Current Ratio Variable (X2) has a coefficient regression which amounted 0.061. By using SPSS software, it is obtained that the result of T test amounted

2.672 with p-value = 0.045. The value of statistical test is exceeding the t_{table} ($|2.672| > 2.018$) and also the p-value is less than $\alpha = 0.05$. It can be determined that H_0 must be rejected. In conclusion, current ratio variable (X2) influences significantly on Dividend Payout Ratio.

c. Coefficient of Determination (R^2)

In regression test which uses more than two independent variables, adjusted square is applied. In multiple regression, the use of determination coefficient which has been adjusted (adjusted R square) is better in seeing how good the model is than just determination coefficient (R^2). Adjusted determination coefficient is the result of adjusting determination coefficient toward the rate of freedom from predicted equation. It will protect from bias inclination or mistakes due to the inclination of the number of independent variables the number of samples.

The value of R is a correlation which describes the closeness between independent variables (X) and dependent variable (Y) which amounted 0.543. While the value of R^2 is a determination coefficient which mainly measures how far the model of regression in describing the variety of dependent variable (Y) amounted 0.294 that can be seen in table 3.13 below:

Table 3.13 Result of Determination Coefficient Value

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,543[a]	,294	,261	27,12051	1,766

a. Predictors: (Constant), Current Ratio, DER

b. Dependent Variable: Dividend Payout

Source : IBM SPSS 15.0 (data processed, 2012)

It means that the regression model obtained can only explain 29.4% of the variable's variety toward Dividend payout Ratio (Y). Whereas, the remains of percentage amounted 70.6% is explained by other variables which are not included in this research.

CHAPTER IV

DISCUSSIONS

In chapter 4, it will explain any circumstances related to data analysis that has been collected, data processing, and the discussion from the result of data. The sequence explanations are classic assumption test, regression analysis data, the variable test which are simultaneously and partially from regression model, and the explanation hypothesis test.

4.1 Research Analysis

After finishing the classical assumption test, here is the result to analyze the influence of debt to equity ratio and current ratio on dividend payout ratio:

4.1.1 The Influence of Debt to Equity Ratio on Dividend Payout Ratio

Leverage ratio reflects the ability of a company to fulfill the whole debt owned, which is shown by the own equity to pay debt. In summary, the ratio of leverage is related to the use of own equity and credit and also to know the ratio of the company's ability to pay-off its debt. The ratio is used to inform the capital structure in a company.

DER variable (X1) has a regression coefficient which amounted -8.714. By using SPSS software, it is obtained that the result of T test amounted -2.422 with p-value $= 0.020$. The value of statistical test is exceeding the t_{table} ($|-2.422| >$ 2.018) and also the p-value$= 0.020$ is less than $\alpha = 0.05$. It can be determined that H_0 must be rejected. In conclusion, DER variable (X1) influences significantly on

Dividend Payout Ratio. The regression equation also shows the coefficient of DER is -8.714. It reflects every 1% inclination of DER, then it will reduce DPR=-8.714 in condition whether current ratio is constant.

The result of hypothesis test shows that debt to equity ratio influences negatively on dividend payout ratio. The lower value of DER is, the higher capability of a company to pay-off its debt is. It is because the higher proportion of debt used to capital structure of a company, then the higher amounts of its debt. The inclination of debt will influence the net income which is available for the shareholder included the dividends that will be earned, because the obligation is more focused on sharing dividends. If the expense for debt is higher, then the capability of a company to share dividends will go lower, so that DER has negative influence on dividend payout ratio. If we see from the simultaneous observation, manufacturing companies in average has a lower value of debt to equity ratio, such as GGRM and UNVR companies. It shows that manufacturing companies prefer applying internal financing (funding from the company's operation in form of retained earnings) to external funding. It is proportional with pecking order theory which states company prefers internal to external funding. It is the effort to increase the credibility of a company and to show its independence to external parties, because debt gives high risks, it means that management must be capable of making a decision when there is an offer to increase the ratio of debt or to keep the shareholders' prosperity. Therefore, management must consider carefully toward this circumstance.

The result of this research support the previous research conducted by Prihantoro (2003), and Puspita (2008) where it is concluded that debt policy (proxy with leverage) gives a negative influence on dividend policy. Appannan and Sim (2011) research factors influencing dividend policy to five companies categorized as food processing industry listed in Kuala Lumpur Stock Exchange. The result shows debt to equity ratio variable and past dividend per share are the strongest variables influencing dividend payout ratio.

4.4.2 The Influence of Current Ratio on Dividend Payout Ratio

Current Ratio (CR) is the ratio to measure the company's ability to pay-off short term debt obligations are immediately due when billed as a whole. In other words, how much current asset is available to cover or pay-off short-term obligations are immediately due. CR can also be identified as a form to measure the level of security of a company. CR calculation is done by comparing the total current assets by total current liabilities.

Current Ratio Variable (X2) has a coefficient regression which amounted 0.061. By using SPSS software, it is obtained that the result of T test amounted 2.672 with p-value = 0.045. The value of statistical test is exceeding the t_{table} ($|2.672| > 2.018$) and also the p-value is less than $\alpha = 0.05$. It can be determined that H_0 must be rejected. Current ratio variable (X2) influences significantly on Dividend Payout Ratio. The regression equation also shows the coefficient of current ratio is 0.061. It reflects every 1% inclination of current ratio, then it will increase DPR=0.061 in condition whether DER is constant.

Current ratio has positive coefficient. It means that if the current ratio increases, so does dividend payout ratio. Variable of current ratio can be an indicator for investors in investing. The positive sign in current ratio shows there is an inclination related to the amount of cash that will increase the payment of dividend. Thus, the more liquid of a company is, the more dividend payment that a company can give.

The result of research shows the availability of current assets indicate the rate of dividend shared. The position of current ratio is an important variable which is considered by the management when deciding a dividend policy. Current ratio is a standardized measurement to measure liquidity, so that current ratio in some circumstances can influence on dividend income. The more liquid of current ratio, the easier for the shareholders to obtain cash. The regression coefficient is proportional with the previous research done by Priono (2006) where the result of research shows that current ratio influences positively on dividend payout ratio (DPR).

CHAPTER V

CONCLUSIONS AND SUGGESTIONS

5.1. Conclusion

According to discussion that analyzes the influence of leverage and liquidity on dividend policy, that are represented by current ratio (CR), debt to equity ratio (DER) as independent variables and dividend policy at LQ45 in period of 2008-2010 as dependent variable with 15 companies representing the LQ45 company in period of 2008-2010 as samples of this research, there are some conclusion that can be learned from these research which comprise:

1. Bird in hand theory gives the most contribution in this research. It would like to assure that dividend is kind of investment tha has high rate of certainty in investment rather than capital gain. It is because dividend has been calculated at first and the amount will not change after all.

2. The analysis held shows that leverage variable influences significantly and negatively on dividend policy at the companies which are listed in LQ-45 at the period of 2008-2010. The result describes that the higher rate of leverage, the lower rate of dividend policy which is proxy as Dividend Payout Ratio.

3. The analysis held shows that liquidity variable influences significantly and positively on dividend policy at the companies which are listed in LQ-45 at the period of 2008-2010. The result describes that the higher rate of

leverage, the higher rate of dividend policy which is proxy as Dividend Payout Ratio.

4. The value of R^2 is a determination coefficient which mainly measures how far the model of regression in describing the variety of dependent variable (Y) amounted 0.294. It means that the regression model obtained can explain 29.4% of the variable's variety toward Dividend payout Ratio (Y). Whereas, the remains of percentage amounted 70.6% is explained by other variables which are not included in this research.

5.2 Limitation of Research

This research has limitation as mentioned below:

1. The research only uses 3 years periods, which are from 2008-2010. The observation is not maximal because 2008 there was a global crisis which occurred that the effect can be felt until now. Therefore, the number of samples became limited because there are many companies which gave no dividend. Besides, The companies becoming the samples also suffered from global crisis. As a result, the liquidity shows a declination and leverage indicates inclination.

2. This research applies the mechanism of dividend policy's measurement (dividend payout ratio) which is still limited to a financial ratio represented by leverage and liquidity, so that it is not powerful enough to be a reference to measure its influence on DPR. It can be seen in adjusted R Square above that reflect 29.4%.

5.3 Suggestion

Based on the result and the limitation of research, there will be some advice that can be given:

1. **For the Company**

   According to the result, it is obtained that the significance value of leverage is amounted 0.020. It shows that the higher DER is, the lower DPR that a company can give. Therefore, the company should consider the debt ratio and its risks.

2. **For Investors**

   If the investors have a willingness to invest in companies listed in LQ-45, it will better if they always monitor the performance of financial condition every year. Investors may monitor the leverage ratio as a consideration to invest, so that the investment activity can guarantee the profit earned.

3. **For the Upcoming Research**

   It is advice given to the next researcher. It is necessary to hold a further discussion and exploration toward other variables that can influence dividend payout ratio, which are profitability ratio, Net Profit Margin, Growth, Dividend per Share, and Earning per Share.

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Appendix 1

Dividend Payout Ratio (%)

No.	IDX Code	Payout Ratio 08	Payout Ratio 09	Payout Ratio 10	Payout Ratio
1	AALI	30,23	85,82	64,81	60,2867
2	AKRA	31,25	28,56	203,73	87,8467
3	ANTM	40,07	40,06	40,07	40,0667
4	ASII	38,32	33,47	13,24	28,3433
5	BUMI	13,89	29,9	31,07	24,9533
6	ELSA	20,3	70,44	30,38	40,3733
7	GGRM	35,81	36,19	40,84	37,6133
8	INDF	39,9	39,34	39,55	39,5967
9	INDY	40,32	50	49,87	46,73
10	LSIP	30,6	40,31	8,06	26,3233
11	JSMR	49,96	60,22	60,22	56,8
12	PGAS	151,24	60,01	60	90,4167
13	TLKM	56,37	51,25	56,37	54,6633
14	UNTR	40,01	28,76	50,68	39,8167
15	UNVR	99,84	100,01	100,02	99,9567

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Appendix 2

Liquidity Reflected by Current Ratio (%)

No.	IDX Code	Current Ratio '08	Current Ratio '09	Current Ratio '10
1	AALI	194,42	182,58	193,17
2	AKRA	99,67	95,87	804,79
3	ANTM	153,39	248,36	381,77
4	ASII	132,17	136,88	126,18
5	BUMI	117,21	96,99	156,06
6	ELSA	139,38	601,65	160,43
7	GGRM	221,74	246	270,08
8	INDF	89,77	116,09	203,65
9	INDY	497,35	352,7	365,25
10	LSIP	170,06	140,54	93,27
11	JSMR	315,77	115,64	165,04
12	PGAS	217,65	727,31	343,4
13	TLKM	801,65	60,58	91,49
14	UNTR	163,62	165,64	156,59
15	UNVR	100,39	104,17	85,13

Leverage Reflected by DER (%)

No.	IDX Code	DER08	DER09	DER10
1	AALI	1,23	0,18	0,19
2	AKRA	1,81	4,2	0,01
3	ANTM	0,26	1,21	0,28
4	ASII	0,21	1	2,1
5	BUMI	2,02	3,95	4,06
6	ELSA	1,04	0,2	0,89
7	GGRM	0,55	0,48	0,44
8	INDF	3,11	2,45	1,34
9	INDY	0,67	1,19	1,1
10	LSIP	0,54	0,27	2,22
11	JSMR	1,18	1,17	0,57
12	PGAS	2,47	1,35	0,52
13	TLKM	1,38	1,22	0,98
14	UNTR	1,05	4,76	0,84
15	UNVR	1,1	0,02	0,15

Appendix 3

Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	Current Ratio, DER [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Dividend Payout

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,543[a]	,294	,261	27,12051	1,766

a. Predictors: (Constant), Current Ratio, DER

b. Dependent Variable: Dividend Payout

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12890,899	2	6445,450	8,763	,001[a]
	Residual	30891,916	42	735,522		
	Total	43782,815	44			

a. Predictors: (Constant), Current Ratio, DER

b. Dependent Variable: Dividend Payout

Coefficients[a]

| Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	46,491	8,850		5,253	,000		
	DER	-8,714	3,598	-,325	-2,422	,020	,933	1,072
	Current Ratio	,061	,023	,358	2,672	,011	,933	1,072

a. Dependent Variable: Dividend Payout

Charts

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Dividend Payout
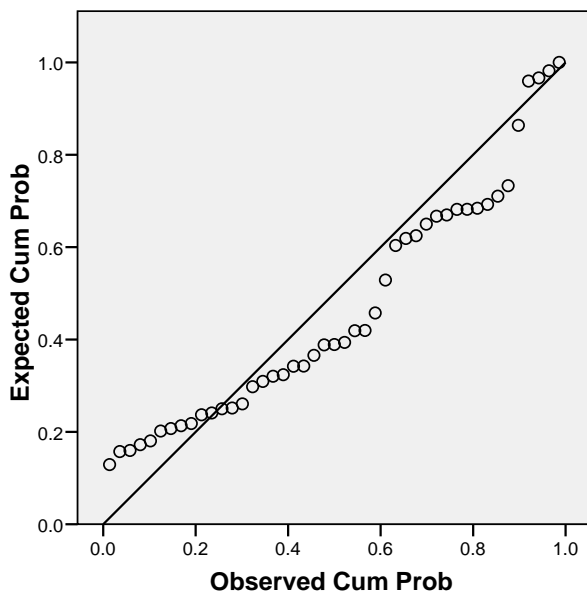
Scatterplot

Dependent Variable: Dividend Payout
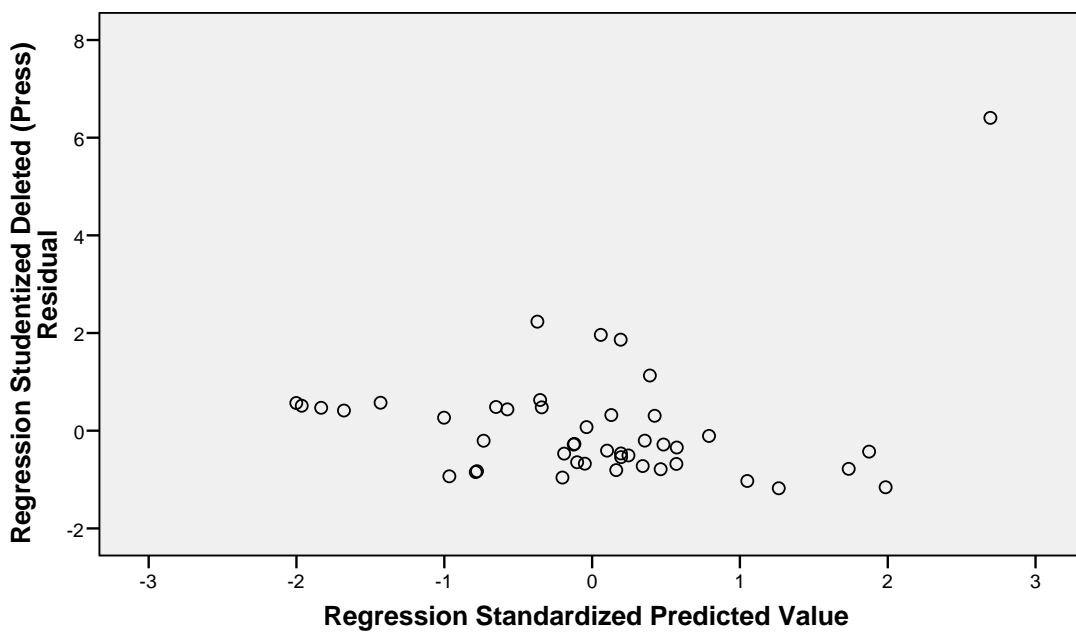
NPar Tests

One-Sample Kolmogorov-Smirnov Test

		Unstandardiz ed Residual
N		45
Normal Parameters [a,b]	Mean	,0000000
	Std. Deviation	26,49696227
Most Extreme Differences	Absolute	,160
	Positive	,160
	Negative	-,130
Kolmogorov-Smirnov Z		1,074
Asymp. Sig. (2-tailed)		,199

a. Test distribution is Normal.

b. Calculated from data.

Nonparametric Correlations

Correlations

			Unstandardiz ed Predicted Value	abs_res
Spearman's rho	Unstandardized Predicted Value	Correlation Coefficient	1,000	,147
		Sig. (2-tailed)	.	,334
		N	45	45
	abs_res	Correlation Coefficient	,147	1,000
		Sig. (2-tailed)	,334	.
		N	45	45