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Corporate Dividend Behavior: Exploring the Drivers of Payout Decisions

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Abstract. **This study examines the determinants of dividend behavior among companies listed on the Indonesian Stock Exchange's Kompas 100 index from 2018 to 2022. Utilizing purposive sampling, the research analyzes 46 companies to determine the impact of financial indicators such as return on equity, debt-to-equity ratio, cash ratio, firm size on dividend payout ratios and dividend payout patterns. Multilinear regression analysis reveals that return on equity and firm size positively influence dividend payout ratios, while debt-to-equity ratio and cash ratio show no significant effect. Furthermore, multinomial regression analysis, using logistic and probit models, reveals different factors that influence different dividend payment patterns among companies in Indonesia. A higher cash ratio significantly lowers the probability of a company being in the non-dividend paying category compared to regular dividend payers. When comparing irregular dividend payers with regular payers, a higher return on equity will decrease the likelihood of distributing dividends, while a higher debt-to-equity ratio and larger firm size will increase the likelihood of paying dividends.**

Keywords: Dividend Payout Ratio, Dividend Payout Patterns, Financial Indicators

I. INTRODUCTION

The current global economy shows significant instability, especially in developing countries in the Asia-Pacific. In Indonesia, despite facing varying stability challenges, the economy continues to show strong resilience amid global uncertainty, which has had a significant impact. Many of them face difficulties in maintaining their position in this category. In addition, the existence of new companies also increases competition in the market, adding complexity in this unstable economic condition. Companies are competing to get capital to develop their business. It is important for them to use the capital effectively and return it with a rate of return that can convince the fund provider. By issuing shares, the company obtains the necessary funds. However, in return, the company has an obligation to pay dividends to shareholders.

Dividend policy remains one of the pivotal concerns in corporate finance, serving as a critical link between a firm's financial stability and its strategic business goals. As businesses increasingly engage with sustainable strategies for long-term value creation, discerning the drivers behind dividend payout decisions becomes crucial [1] and [2]. Dividend behavior is based on the decisions and policies taken by management, which include dividend payments and dividend payment patterns. Companies that can afford to pay dividends are considered profitable by the public and investors. Dividend payments are reflected in the Dividend Payout Ratio, which is the percentage of profit distributed to shareholders in the form of cash dividends. When a company's financial performance is good, it can usually set a Dividend Payout Ratio that is in line with shareholders expectations, but also considers the company's interests to remain healthy and sustainable in its growth. The dividend payment pattern refers to the policy or strategy used by the company to determine the manner and timing of profit distribution to shareholders and the appropriate dividend payment not only affects investors' perception of the company's profits, but also reflects the company's commitment to providing added value to shareholders while maintaining long-term financial health. Maintaining a dividend policy that is consistent with the company's long-term objective of giving shareholders increased value and pronounced in the context of emerging economies in the Asia-Pacific region, where market dynamics present distinct opportunities and challenges.

This study zeros in on corporate dividend behavior in Indonesia, specifically within the Kompas 100 Indeks, a rapidly developing market with unique economic characteristics. It specifically investigates the influence of financial indicators such as Return on Equity, Debt-to-Equity Ratio, Cash Ratio, and Firm Size on dividend payout ratios and dividend payout patterns. Prior research has identified these various financial indicators as potential drivers of dividend behavior [3], [4], [5], [6], and [7]. The Kompas 100 Index is a stock index consisting of 100 stocks of public companies with high liquidity, large market capitalization, and good fundamentals and performance. The implementation of the Dividend Payout Ratio can help companies in gaining and maintaining investor confidence and strengthening their position in the index. Therefore the Dividend Payout Ratio here has an important role in a company's financial strategy to achieve their goals, including to stay in the prestigious Kompass 100 index.

Profitability ia a crucial factor in determining a firm's dividend payment decisions. Companies with higher profitability, as measured by return on equity (ROE), tend to have a greater ability to pay dividends to their shareholders. According to [8] Return on Equity (ROE) is a financial performance metric that measures a company's ability to generate profits from its shareholders' equity. It indicates how effectively management is using a company's assets to create profits. The higher this ratio, the stronger the corporate owner's position becomes [9]. Companies with high profitability are able to distribute a larger share of their profits through dividends. Previous research by [10] and [11] suggests that profitability and dividend policy are positively correlated.

Leverage as measured by Debt to Equity Ratio (DER) is sought by comparing all debt, including current debt, with all equity. This ratio also regarded as a key factor influencing dividend policy, as a heavily leveraged corporation will choose to repay the principal debt rather than pay dividends. Interest expenses are directly proportional to the level of financial debt. Firms also choose to fund investment prospects through external financing in order to maximize tax benefits rather than issuing hazardous equity shares for the project. For a company, the bigger the ratio, the better. On the other hand, with a low ratio, the higher the level of funding provided by the owner and the greater the security limit for the borrower [12]. Prior research conducted by [6], [13] and [14] revealed a negative association between leverage and dividend payments .

The cash ratio is a liquidity measure that assesses a company's ability to pay off its short-term liabilities with its most liquid assets, specifically cash and cash equivalents. A high cash ratio indicates that a company has ample cash reserves relative to its short-term liabilities. A high cash ratio directly indicates that the company has sufficient cash on hand. This availability of cash makes it easier for the company to pay dividends without needing to liquidate other assets or borrow funds. A recent study by [2], [15] and [16] discovered a positive relationship between cash ratio and dividend policy.

Firm size refers to the size or scale of a company. Firm size is important in market analysis, company valuation, and investment decision-making. Larger firms are more likely to pay dividends and to pay higher dividends compared to smaller firms. This is because large companies have advantages in economies of scale, access to capital markets, and bargaining power in business transactions. The benefit from these position can lead to higher profitability. Higher profitability provides a larger pool of earnings from which dividends can be paid. The study of [5], [14] and [17] provide evidences that larger firms are better positioned to pay regular and higher dividends.

Establishing clear associations between these financial measures and dividend behaviors enables a nuanced understanding of resource allocation in an era where prudent financial management is not just expected but demanded for sustainable growth. The aim of this paper is twofold: to enrich the global discourse on dividend behavior with empirical evidence from the Indonesian context and to light the way for investors, corporations, and policymakers considering dividend-related decisions in similar economic environments.

Research Problem

Amidst a myriad of factors influencing corporate dividend decisions, return on equity, debt to equity ratio, cash ratio, and size have been recognized as significant in existing literature. Nevertheless, the interplay of these variables and their degree of influence on dividend policies in Indonesia's unique market context remain underexamined. This research, by scrutinizing financial data from 47 firms listed in the Kompas 100 index, endeavors to fill this gap. In line with the broad objectives, this study seeks to validate the following hypotheses:

H1: Companies demonstrating a better financial performance are hypothesized to exhibit a consistent commitment to paying out dividends.
H2: An inverse relationship is expected between a firm's debt equity ratio and the regularity of its dividend payments.
H3: A robust cash ratio is anticipated to correlate positively with the likelihood of a firm disbursing dividends on a regular basis.
H4: The larger an enterprise, the more probable it is to maintain a regular dividend payout schedule.

By investigating the extent to which these variables shape corporate dividend policies in Indonesia, this study intends to offer a coherent picture of dividend behavior, contributing to the nuances of fiscal strategies within sustainability discourse of business and management in the Asia-Pacific region.

II. RESEARCH METHODS

2.1. Research Design

The primary objective of this research is to examine the determinants influencing the dividend behavior of firms listed on the Indonesian Stock Exchange specifically within the Kompas 100 Index. This research conducts an empirical analysis of the dividend payout ratio and dividend payout patterns of these firms over a period from 2018 to 2022.

2.2. Data Analysis

Quantitative analysis will be performed using the statistical software Stata, which facilitates robust econometric modeling and is adept at handling panel data, which is the structure of the dataset in this study.

2.3. Sample Selection

This study employs a purposive sampling technique to identify and analyse data from 46 firms listed on the Kompas 100 index at the Indonesian Stock Exchange (IDX). The Kompas 100 Index is selected due to its representation of the top-performing and most liquid companies in Indonesia, providing a relevant and comprehensive dataset for analyzing the impact of dividend policy on firm performance. The selection criteria include firms that have a complete set of financial data available for the period under investigation and have been listed as Kompas 100 index companies during the study period. The sample size is determined by the availability of comprehensive and consistent financial information required for the analysis.

2.4. Data Collection

The type of data used in this study is secondary data. Secondary data is a source of research data obtained by researchers indirectly through intermediary media (obtained or recorded by other parties). Secondary data is generally in the form of evidence, records or historical reports that have been compiled in archives (documentary data) published and unpublished obtained from research objects (companies). The secondary data needed in this study is the annual reports from Kompas 100 companies listed on the IDX in the period 2018 to 2022 . Data pertaining to dividend payouts, and firm-specific characteristics are extracted from verified financial databases on the Indonesia Stock Exchange website.

2.5. Variables Measurement

a. Dependent Variables
The dependent variable is the variable whose value is to be predicted, explained, or its impact measured based on variations in the independent variable. This variable is the main focus of the analysis because it depends on the independent variable to obtain its value or outcome. The measurement of the dependent variables is explained as follows:
1) Dividend Payout Ratio (DPR) measures the proportion of earnings paid out as dividends [18].
2) Dividend Payout Pattern (DPP) is classified into three categories: 1 for no dividend payout, 2 for irregular dividend payout, and 3 for regular dividends payout [4].

b. Independent Variables
The Independent variablesis a the variable that is considered to be the cause or variable used to explain the variation in the dependent variable. Independent variables are treated as factors or conditions that are estimated to have an influence or influence on dependent variables. The

independent variables, chosen for their potential influence on dividend payout decisions according to financial theory and prior empirical evidence, are as follows:

1) Return on Equity (ROE): Net income divided by shareholders' equity, measuring the profitability relative to equity [19].
2) Debt to Equity Ratio (DER): Total liabilities divided by shareholders' equity, indicating the leverage [20].
3) Cash Ratio (CR): Cash and cash equivalents divided by current liabilities, assessing liquidity [21].
4) Size: The natural logarithm of the company's total assets, capturing the scale of the firm [22].

2.6. Regression Model

For hypothesis testing, the study will implement multiple regression model to evaluate the impact of the independent variables on the dividend payout ratio. To analyze the dividend payout pattern, ordered multinomial logistic regression and multinomial probit regression models will be employed considering the ordinal nature of the dependent variable. This statistical technique is appropriate for modeling the probability of a firm falling into one of the ordered categories based on the predictor variables. The model is specified as follows:

$$Model\ 1:\ DPR_{it} = \beta_0 + \beta_1 ROE_{it} + \beta_2 DER_{it} + \beta_3 CR_{it} + \beta_4 SIZE_{it} + \varepsilon it$$

$$Model\ 2:\ log \frac{P(DPP_i = i)}{P(DPP_i = k)} = \beta_{0k} + \beta_{1k} ROE_i + \beta_{2k} DER_i + \beta_{3k} CR_i + \beta_{4k} SIZE_i + \varepsilon it$$

2.7. Descriptive Statistics

Descriptive statistical analysis is used to provide a description of the research variables statistically. The descriptive statistics used in this study are mean values, maximum, minimum, and standard deviation.

2.8. Multilinear Regression

Multilinear Regression Analysis is used to understand the relationship between one dependent variable (the variable to be predicted) and several independent variables (variables used to make predictions). This technique involves a mathematical model that attempts to explain how independent variables together affect dependent variables. In regression analysis, it is important to test the statistical significance of the regression coefficient (β\betaβ). This was done to find out whether each independent variable made a significant contribution to the regression model.

2.9. Multinomial Regression

Multinomial Regression Analysis is used to understand the relationship between dependent variables that have more than two categories or levels (multinomial response variables) and one or more independent variables [23]. This technique is often used in contexts where dependent variables are categorical and have more than two non-sequential categories. This research uses two types of multinomial regression, namely multinomial logistic regression and multinomial probit regression.

Multinomial logistic regression is intended to test the relationship between a set of independent variables and a categorical dependent variable with more than two categories. Multinomial probit regression is a type of regression for modeling categorical outcomes, but it uses a probit link function based on the cumulative distribution function of the normal distribution.

III. RESULT AND DISCUSSION

3.1. Frequecy Distribution Analysis

Table 1. Frequency Distribution

DDP	Observations	Percent	Cumulative
Non Dividend Payout	5	2.17	2.17
Irregular Dividend Payout	50	21.74	23.91
Regular Dividend Payout	175	76.09	100.00

Source: Authors (2024)

Table 1 shows the distribution of observations across different Dividend Payout Patterns (DDP). It includes the number of observations for each pattern, their percentage of the total, and the cumulative percentage. The majority of the companies (76.09%) follow a regular dividend payout pattern. A smaller portion (21.74%) of companies pay dividends irregularly. Only a few companies (2.17%) do not pay dividends at all. The cumulative percentage helps to understand the progressive accumulation of these categories, showing that by the time we account for regular dividend payouts, we've covered 100% of the companies.

3.2. Descriptive Statistics Analysis

Table 2. Descriptive Statistics

Variables	DPR	ROE	DER	CR	Size
Mean	0.4127	0.1423	1.3096	0.8226	28.5320
SD	0.7768	0.2963	1.4428	0.7684	5.6421
Min	-3.0209	-1.5026	0.0828	0.016	13.9627
Max	6.1994	2.3842	9.874	4.2516	33.6552

Source: Authors (2024)

Table 2 presents the descriptive statistics for five variables namely Dividend Payout Ratio (DPR), Return on Equity (ROE), Debt to Equity Ratio (DER), Current Ratio (CR), and Firm Size (Size). DPR has a mean of 0.4127, with a wide range between -3.0209 and 6.1994, indicating significant variability in dividend payouts. ROE averages at 0.1423, showing variability between -1.5026 and 2.3842, suggesting diverse profitability levels among firms. DER shows an average of 1.3096 with a high variability (SD of 1.4428) and a wide range from 0.0828 to 9.874, reflecting different leverage levels. CR has a mean of 0.8226, with a range from 0.016 to 4.2516, indicating differences in liquidity across firms. Firm Size averages at 28.5320, with a range from 13.9627 to 33.6552, showing variability in firm.

Table 3. Descriptive Statistics for categorical variable

Variables		Dividend Payout Pattern			
		Non Dividend Payout	Irregular Dividend Payout	Regular Payout	Total
ROE	Mean	-0.0031	0.1002	0.1585	0.1423
	SD	0.1000	0.4675	0.2289	0.2963
	Min	-0.1797	-1.5026	-0.1516	-1.5026
	Max	0.0641	2.3842	1.4509	2.3842
DER	Mean	2.3938	2.1979	1.0248	1.3096
	SD	0.1937	2.2140	1.0080	1.4427
	Min	2.1409	0.1262	0.0828	0.0828
	Max	2.6216	9.874	6.9123	9.874
	Mean	0.1246	0.4709	0.9430	0.8826

Variables		Dividend Payout Pattern			
		Non Dividend Payout	**Irregular Dividend Payout**	**Regular Payout**	**Total**
CR	SD	0.0549	0.5113	0.7995	0.7684
	Min	0.0666	0.0252	0.016	0.016
	Max	0.1967	2.8267	4.2516	4.2516
	Mean	31.8640	31.1403	27.6916	28.5320
Size	SD	0.1581	0.9341	6.2181	5.6421
	Min	31.6848	29.2065	13.9627	13.9627
	Max	31.1001	31.4545	33.6552	33.6552

Source: Authors (2024)

Table 3 provides the summary statistics for several financial variables across three categories of dividend payout patterns namely non-dividend payout, irregular dividend payout, and regular payout. Regular Dividend Payout companies tend to have higher ROE and CR but lower DER compared to the other groups. Non-Dividend Payout companies are generally larger and more leveraged, while Irregular Dividend Payout companies exhibit the most variability in their financial metrics.

3.3. Correlation Spearman Analysis

Table 4. Correlation matrix

	DPR	ROE	DER	CR	Size
DPR	1.0000				
ROE	0.3553*	1.0000			
DER	-0.1672**	-0.2489*	1.0000		
CR	-0.0407	0.0526	-0.5868*	1.0000	
Size	0.2283*	-0.0070	0.1459**	-0.3725*	1.0000

Note: The symbols *, **, and *** indicate the significance levels at 1, 5, and 10%.
Source: Authors (2024)

Table 4 provides insight into the linear relationships between different financial variables, helping to understand how changes in one variable might be associated with changes in another. DPR shows a positive correlation with ROE and Size. ROE has a negative correlation with DER. DER has a negative correlation with CR and a positive correlation with Size. CR has a negative correlation with Size.

3.3. Multilinear Regression Analysis

Table 5. Regression results with Variables Dividend Payout Ratio

Variables	**Coefficient**	**Std. Error**	**t-value**	**Prob.**
Intercept	-0.4785	0.3006	-1.5900	0.113
ROE	0.831***	0.1604	5.1800	0.000
DER	-0.3736	0.0356	-1.0500	0.296
CR	-0.0381	0.0717	-0.5300	0.596
Size	0.0299***	0.0091	3.3000	0.001
R^2	0.1593	0.1593	0.1593	0.1593
Adjusted R^2	0.1444	0.1444	0.1444	0.1444
P-value of F	0.0000	0.0000	0.0000	0.0000
Number of Obs	230	230	230	230

Note: The symbols *, **, and *** indicate the significance levels at 1, 5, and 10%.
Source: Authors (2024)

Table 5 presents the coefficients, standard errors, t-values, and p-values for each predictor variable, as well as the overall model fit statistics. ROE and Size are significant predictors of the Dividend Payout Ratio, with ROE having a strong positive impact and Size having a smaller but significant positive

impact. DER and CR are not significant predictors in this model. The model explains a modest amount of variance in the Dividend Payout Ratio (R^2 = 15.93%), but it is statistically significant overall (P-value of F = 0.0000). These results appear to support the findings of previous empirical studies by [5] and [24]. On the contrary the debt-to-equity ratio and cash ratio were not significant predictors of the dividend payout ratio, suggesting these factors may not influence the decisions of Indonesian firms in this context when it comes to paying dividends. This result is consistent with [2] and [25].

3.3. Multinomial Regression Analysis

Table 6. Regression Results for Dividend Payout Patterns

Variables	Pooled Multinomial Logit		Pooled Multinomial Probit	
	1	2	1	2
	Non Dividend Payout	Dividend Payout irregularly	Non Dividend Payout	Dividend Payout irregularly
Intercept	-38.1943	-9.1543***	-29.3876	-7.4398
	(0.146)	(0.001)	(0.114)	(0.001)
ROE	-2.6347	-1.2999**	-2.1913	-1.0320*
	(0.270)	(0.043)	(0.237)	(0.053)
DER	0.2548	0.6049***	0.2083	0.4743***
	(0.486)	(0.000)	(0.413)	(0.000)
CR	-12.5610**	-0.3997	-8.5307**	-0.3309
	(0.030)	(0.305)	(0.041)	(0.239)
Size	1.2002	0.0857***	0.9191	0.2018***
	(0.148)	(0.004)	(0.118)	(0.005)
No. of Obs	230		230	
Log Likelihood	-108.7568		-108.3511	
Pseudo R2	0.2409		-	
p-value	0.000		0.000	

Note: The symbols *, **, and *** indicate the significance levels at 1, 5, and 10%.
Source: Authors (2024)

Table 6 employ multinomial logistic and probit regression model examining the impact of several variables on the likelihood of companies falling into one of three dividend payout categories: non-dividend payout companies, dividend payout irregularly companies, and dividend payout regularly companies. The base category for comparison is Dividend payout regularly.

The results from a multinomial logistic regression model show that firms with lower ROE and higher DER are more likely to pay dividends irregularly rather than regularly. This result is in line with [26]. Firms with higher current ratios are significantly less likely to avoid paying dividends. Firm size plays a significant role in determining irregular dividend payouts, with larger firms tending to pay dividends irregularly. This findings are supported by [27]. The value of pseudo R^2 is 0.2409, indicating that approximately 24.09% of the variance in dividend payout patterns is explained by the model. P-value is 0.000, indicating that the model as a whole is statistically significant.

The multinomial probit regression model indicates that financial metrics like DER and Size are significant factors for companies with irregular dividend payouts compared to those with regular payouts. The findings are consistent with the study of [28], [29], [30], [31]. CR significantly decreases the likelihood of being a non-dividend payout company compared to a regular payout company. The findings of this result are consistent with [32]. P-value is 0.000 indicating the overall model is statistically significant, explaining a portion of the variance in dividend payout patterns among the companies. These findings contribute to the existing literature on corporate dividend behavior by providing empirical evidence on the role of key financial and firm-specific factors in shaping payout decisions. These insights have implications for corporate finance decision-making and can inform the development of more comprehensive models of dividend behavior that account for the complex interplay of financial and firm-specific characteristics.

IV. CONCLUSIONS

The study concluded that profitability, as measured by return on equity, and firm size are pivotal factors positively influencing the dividend payout ratio. Larger and more profitable firms are inclined to reward their shareholders with higher dividends. Conversely, the study found that the debt-to-equity ratio and cash ratio do not significantly impact dividend distribution decisions, suggesting that levels of leverage and liquidity may not be primary concerns for these Indonesian companies when declaring dividends. The research has shed light on the pivotal role of profitability, debt-to-equity ratio, cash ratio, and firm size in influencing both the dividend payout ratio and the broader patterns of dividend payouts, offering a nuanced understanding of the intricate interplay between these variables. and providing valuable insights into the complex factors that shape payout decisions in the context of the Asia-Pacific region.

Implications

For practitioners, this study offers a nuanced understanding of what financial indicators are considered when firms decide on dividend payouts, which is crucial for investment decisions. Management can use these findings to align their dividend policy with corporate profitability and market expectations. For policymakers, the indication that certain financial ratios, like DER and CR, do not significantly influence dividend payments might suggest a need for more nuanced guidelines regarding dividend declarations. The study provides a basis for theoretical advancements in the field of dividend policy by highlighting the relevance of ROE and firm size in this context. It implies that traditional finance theories which postulate a blend of factors including profitability, firm size, and leverage as influential on dividend decisions might need to be reconsidered in the Indonesian context, perhaps indicating a deviation from or refinement of these theories.

Significance

The significance of this research lies in its specific focus on the Indonesian market, contributing to a deeper regional understanding of corporate financial behavior, which has been typically underrepresented in financial literature. It underscores the necessity for region-specific studies to uncover dividend payment patterns and determinants, especially in emerging markets. Furthermore, by differentiating between different patterns of dividend payout, the study adds to the conceptual richness of dividend policy literature, suggesting that a one-size-fits-all approach may not be applicable. Finally, this study paves the way for future research on dividend policy in emerging markets by proposing that further research could explore the cultural, governance, and regulatory factors that shape dividend payout behavior in different contexts. This could include longitudinal studies examining changes in dividend behavior over time or comparative studies between various emerging markets to understand the interplay between local market conditions and corporate dividend policies.

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