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INITIATION: DIVIDEND POLICY FOR LQ45 INDEX COMPANIES IN INDONESIA STOCK EXCHANGE DURING PANDEMIC SITUATION

BY

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Abstract

Companies that are members of the LQ45 index have good liquidity, so they have resilience against economic downturns. This study aims to identify the factors that influence the behavior of dividend policy in LQ45 companies amid uncertain conditions. The sampling technique uses purposive sampling with the criteria of companies that pay dividends in a certain period so that 11 sample companies are obtained. The analysis is quantitative using panel data regression. The results showed that the debt ratio, firm size, and exchange rate had a significant impact, while cash flow and profitability ratios had no significant effect on the dividend payout ratio. During the Covid pandemic, many companies have changed their business strategy by digitizing so that they prefer to allocate profits for business development and strive for efficiency and capital restructuring in order to survive in the pandemic era. This has caused several companies to reduce their dividend portion, because they prioritize capital structure and investment in information technology.

Keywords: *dividend policy, payout ratio, LQ45, pandemic*

INTRODUCTION

Dividend growth is more difficult to predict than returns from the sale of shares because it involves the performance results of a company. The lack of ability to predict dividend growth has led to speculation that a company with good liquidity and large assets is one way to predict it. Dividend policy factors in companies are usually influenced by financial factors and government policies (Booth & Zhou, 2017; Hussain & Akbar, 2022). In business practices, new problems arise related to environmental, social, and global conditions. For the last two years, the global economy has been in an uncertain condition due to the Covid-19 pandemic, causing many companies to change their business strategy and capital restructuring. It is this change in the capital that will affect dividends indirectly as a result of changes in the company's cash flow (Kighir et al., 2015). This is reflected in the growth conditions of the JCI or the composite stock price index in 2020 at 4,194.94 basis points, which is the lowest in the last five years. JCI is used as a benchmark for the economy because it relates to existing investments in Indonesia.

Every company generally wants a high Firm Value, because a high company value indicates high shareholder prosperity. Firm value describes the company's performance which can influence investors' point of view of the company (Arifianto & Chabachib, 2016; Erfiana & Ardiansari, 2016). As is known, there are two characteristics of stock investors, namely technicals and fundamentalists. Dividends are very close to the fundamentalist type of investor because they invest based on the condition of the financial performance of a company. Investors tend to invest in large companies in their portfolios because they are considered to have high returns. However, the dividend payout ratio is not only influenced by internal factors but also by external factors of the company. According to Dewasiri et al. (2019) identified that profitability, free cash flow, revenue, governance, and industry influence are the determining factors for a company to pay dividends regularly. Meanwhile, according to Fajaria & Isnalita (2018) company liquidity is the most consistent predictor of dividend payout besides company size, because the characteristics of each country will differ from one another. Liquidity affects the effectiveness of a company in converting cash flow into profit. Based on some of the studies above, the researcher wants to examine several other factors that influence dividend policy in companies in Indonesia, especially in companies that are members of the LQ45 index and its by taking into account several macroeconomic factors.

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RESEARCH METHODS

This study uses a quantitative and descriptive approach to answer the objectives. The quantitative research method is a positivistic-based approach that's measured using statistical data, while the descriptive describes the conditions at the time of research was conducted. The quantitative method uses panel data regression analysis with the type of data in the form of secondary data obtained from the financial statements of the selected companies in this study which have been processed. Observations were selected from 2016 to 2021 because there was a balance between the company's conditions before and after the economic recovery amid the Covid-19 pandemic. The selection of companies uses a purposive sampling technique based on the criteria for companies listed on the LQ45 index for the 2016-2021 period and paying dividends in that period. This study excludes several technology stocks that have just joined the LQ45 index, adjusting the new policy of the Indonesian Stock Exchange so that they are not included in the sampling used and are dominated by banking and manufacturing companies. The company's financial report fiscal year ends in December. Data processing techniques in this study using the panel data method. Panel data is a combination of cross-section and time series data, where the data is combined to make the number of observations larger (Iqbal, 2015). There are several tests in selecting the model, namely using the Hausman test, Chow test, and Lagrange Multiplier (LM) test by comparing the three general approaches applied to panel data, namely the common effect model, fix effect model, and random effect model. After obtaining a suitable model, the validity and reliability of the data were tested using the multicollinearity test, heteroscedasticity test, normality test, and autocorrelation test. So that the data used is considered capable of describing conditions and can be tested for truth.

The following is the model used in this study.

$$Payout_{it} = \alpha_i + \beta_1 roe_{it} + \beta_2 der_{it} + \beta_3 fcf_{it} + \beta_4 size_{it} + \beta_5 kurs_{it}$$

$\beta_1 > 0;\ \beta_2 < 0;\ \beta_3 > 0;\ \beta_4 > 0;\ \beta_5 > 0$

RESULT AND DISCUSSION

Data processing in this study uses the panel data method which combines cross-section and time series data, where the data is combined so that the number of observations becomes larger. There are several tests in selecting the model, namely using the Hausman test, Chow test, and Lagrange Multiplier (LM) test by comparing the three general approaches applied to panel data, namely the common effect model, fix effect model, and random effect model (Hsiao, 2022). The test results show that the Chow test shows FEM, then the Hausman test shows REM, and the LM test shows REM, so the random effect model is the best model in this study. However, in testing the Hausman test, the statement that the Hausman statistic is set to zero appears which indicates that there are biased results, so it is more advisable to use the fixed effect model (FEM) (Gujarati, 2022; Hill et al., 2018). This result is caused by the correlation between the independent variables which causes a bias in the data so that the program processes the Hausman test and the fixed effect model can provide more consistent results

Figure 1. Results of Chow Test, Hausman Test, and Lagrange Multiplier Test.

Redundant Fixed Effects Tests Equation: Untitled Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	18.444739	(18,90)	0.0000
Cross-section Chi-square	176.153736	18	0.0000
Correlated Random Effects - Hausman Test Equation: Untitled Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000

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* Cross-section test variance is invalid. Hausman statistic set to zero.			
Lagrange Multiplier Tests for Random Effects			
Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives			
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	128.3581	1.224626	129.5827
	(0.0000)	(0.2685)	(0.0000)
Honda	11.32952	-1.106628	7.228678
	(0.0000)	--	(0.0000)

Source: Eviews 10 results

Figure 2. The results of panel data processing use the FEM model.

Dependent Variable: DPR				
Method: Panel EGLS (Cross-section weights)				
Date: 01/26/23 Time: 12:20				
Periods included: 6				
Cross-sections included: 19				
Total panel (balanced) observations: 114				
Linear estimation after one-step weighting matrix				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.06978	1.78370	-2.28165	0.02490
ROE	-0.03859	0.13731	-0.28103	0.77930
DER	-0.01749	0.00539	-3.24392	0.00170
FCF	-0.11871	0.11086	-1.07075	0.28710
SIZE	-0.08711	0.02594	-3.35881	0.00110
RATE	0.78562	0.22361	3.51331	0.00070
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.957551	Mean dependent var	0.901746	
Adjusted R-squared	0.946703	S.D. dependent var	0.541701	
S.E. of regression	0.103249	Sum squared resid	0.959426	
F-statistic	88.269590	Durbin-Watson stat	1.610788	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.855707	Mean dependent var	0.549772	
Sum squared resid	1.432511	Durbin-Watson stat	1.945822	

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Source: Eviews 10 results

Based on the table above, it shows that the results of the FEM model have an R-Squared of 95.75% while the rest is influenced by other variables outside the model with a prob value (F-statistic) of 0.00000 or smaller than the specified standard error (5%). These results indicate that each independent variable has a simultaneous effect on the dependent variable so that it represents the gain from this study.

Test Result

1. *Multicollinearity Test*: Multicollinearity testing aims to determine the correlation between independent variables so that no independent variable has a linear or perfect relationship. One way to find out if a multiple regression model has an indication of multicollinearity is by looking at the value of the correlation coefficient between each independent variable which cannot be more than 0.8 (Gujarati, 2021).
2. *Heteroscedasticity Test:* Heteroscedasticity testing aims to determine the efficiency and accuracy of a multiple regression model, so as to prevent disruption of a model during testing. In the results of the heteroscedasticity test by weighting the sum square residual value, it can be concluded that the model in this study did not have a heteroscedasticity problem. This is shown by the value of sum square reid weighted < sum square reid unweighted (0.959426 < 1.432511).
3. *Normality Test:* The data normality test aims to see the distribution and distribution of data on each variable in the multiple regression model. To find out the normality of the data in the multiple regression model, observations were made by comparing the standard error value (α) with the probability value (p-value) of Jarque-Bera. In this study, the standard error value is assumed to be 5%. In observing the probability value (p-value) shows a value of 0.179466 or greater than 0.05 (standard error = 5%). Means that this model shows normally distributed data.
4. *Autocorrelation Test:* The autocorrelation test aims to see the effect of the current data on previous data by going through the data observation process. The autocorrelation testing method was carried out using the Durbin-Watson (DW) test. Based on the observations, the DW value is 1.945822 for N = 114 and k = 5 with a standard error of 5%, so the dL, dU, and 4-dL values are obtained as follows: 1.62268, 1.76768, 2.37732. If the DW value is calculated between dU and 4-dL, the result is 1.76768 < 1.96569 < 2.37732 so that it meets the criteria for the next stage because no autocorrelation was found in the model.
5. Partial testing (**t-test**) is used to test the effect of the independent variable on the dependent variable by assuming all other variable values are considered constant. At a significance level of 95%, based on the results of data processing, it was found that the variables DER, SIZE, RATE had a significant effect on the dependent variable, while the other independent variables had no significant effect.
6. Simultaneous testing (**f-test**) aims to influence the independent and dependent variables simultaneously. At a significance level of 95%, based on the results of data processing, the probability value of the F-statistic is 0.00000 or less than the specified standard error value (5%), it can be concluded that each variable in the model has an effect simultaneously.

Dividends are the distribution of results on profits that have been obtained by the company's performance results in a certain period. In the distribution process, the company will provide the right portion of the profits earned. The Dividend Payout Ratio (DPR) is the percentage of profit that is distributed in the form of dividends to shareholders for the profit earned by the company. Dividends are a benchmark for long-term investors to find out how well a company is performing because the determination of dividend distribution is a decision that will affect the company's future performance (Labhane & Das, 2015; Nuhu, 2014). Profits that are not distributed as dividends are usually used as internal company financing, investment, expansion, or even an indication that the company's performance is not good (losses) so that the dividend policy will make investors think that the company's performance is considered good.

The results of this study show that debt to equity, firm size and interest rates are variables that have a significant effect. The coefficient value of the debt-to-equity ratio is -0.01749 indicating a negative effect on the dividend payout ratio. This means that for every increase in the debt-to-equity ratio by one unit, it will reduce the debt ratio by 0.017. The company's policy of debt will cause changes in the capital structure so that the company will prioritize paying debts before paying dividends to shareholders (Arsyad et al., 2021; Astuti & Yadnya, 2019; Husna & Satria, 2019). As for company size, it has a coefficient value of -0.08711 which indicates a negative effect on the dividend payout ratio. These results show a difference with the initial hypothesis where firm size has a positive influence. We see that the negative effect is caused by several factors that companies have not yet entered the mature stage so that they will allocate profits more on investment. This policy is related to the firm life cycle, in addition to the influence of the company's profit value which will increase taxes so that it prefers dividends in small amounts but with more frequency (Dewi, 2016; Medyawati & Dayanti, 2017). Next, the interest rate is in accordance with the initial hypothesis so that it gives a positive result with a coefficient value 0.78562. Rupiah exchange rate against the dollar have an impact on companies that carry out a lot of export and import activities. As it is known that the companies included in the LQ45 index are multinational companies with a global market orientation (Purnamasari,

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2017). Therefore, the strengthening of the dollar as a result of The Fed's policies and the weakening of the global economy greatly affect company profits (Kusuma et al., 2018).

Dividend policy becomes information for long-term investors, especially in making investment decisions. Companies on the LQ45 index are a benchmark for investors because they are a group of issuers that have good liquidity and company performance, making it attractive for investors to invest in stocks on this index. In the conditions of the Covid-19 pandemic, company management at LQ45 index companies needs to pay attention to several factors so that investors' stigma towards the pandemic period will improve. The results of this study indicate that companies that have large assets are able to continue to survive in difficult times and can be said to be a sustainable business. As it is known that a large number of assets shows the strength of asset utilization and differentiation of the company's business (Ali, 2022). In addition, many companies carried out capital restructuring when the economy stopped during the pandemic. Changes in the exchange rate of the Rupiah against the Dollar greatly affect companies that carry out business activities both export and import, so that when global economic conditions are falling there are restrictions on these activities and companies need to change business strategies and efficiency to continue to survive (Devereux & Engel, 2002). Investors need to pay attention to company assets so that investment can start from companies with large assets because it is proven that large companies are able to minimize global risks, and for long-term investors, they will provide certainty of returns or dividends. In addition, companies with large assets provide benefits and good liquidity as well as the ability to generate profits and protect against risk of loss. In macroeconomic conditions, investors need to pay attention to changes in the exchange rate of the Rupiah against the Dollar because it has a major impact on company performance. Every change in the exchange rate will affect the size of the dividend payout ratio that will be obtained by shareholders (Stereńczak & Kubiak, 2022).

CONCLUSION AND RECOMMENDATION

Companies that are members of the LQ45 index are a reference index for investors because they are considered liquid and provide promising returns. The LQ45 index provides a large portion of the movement of the Jakarta Composite Index in Indonesia. Even though the JCI movement had fallen, it managed to rebound in 2021. The government is very intense in providing programs that support economic recovery after the Covid pandemic. The high level of debt ratio will give an indication that the company will prioritize capital restructuring and investment in the hope that it will increase the cumulative dividend in the future. Companies with large assets can convince investors to invest confidently because of the company's resilience in facing a weakening global economy, but most companies are currently still in the growth stage so companies will prefer to develop their business through digitalization. The rupiah exchange rate, which weakened during the pandemic, had a significant impact on company profits. The priority for using profits in LQ45 companies is more focused on business adaptation in the pandemic era, which causes small dividends to be obtained.

This study certainly provide a bit of an overview for both companies and investors. For companies, it gives a signal that every policy will be responded to by investors, while for investors they will pay more attention to fundamental factors to continue investing in companies with large assets so they can survive the Covid pandemic conditions. It is hoped that future research will include a number of very interesting technology companies to discuss when economic conditions are experiencing difficulties.

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