PROFITABILITY OF DIVIDEND PAYERS

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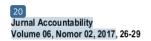
PROFITABILITY OF DIVIDEND PAYERS

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ABSTRACT

Most of the firms are looking for profits as their main objective which make them develops strategies to get the target profit. In circumstances that firms get the target profit, then normally they shall distribute the earnings as dividends to shareholders. The objective of this study is to provide an empirical finding about profitability between firms namely higher dividend payers and lower dividend payers. This study uses data of listed firms in period of 2010 to 2016 which drawn from Indonesia Stock Exchange. This study uses 146 listed firms in period of 2010 to 2016 which gives 1022 as total observe data. In term of hypothesis testing, this study uses mean difference test. This study finds that firms with higher dividends have better profitability rather than the lower which means this study accepts the hypothesis that higher dividend payers have better profitability.
Keywords : dividend payers, profitability, dividend policy

1. INTRODUCTION

The most primary objective of firms is profit. On this circumstance, most of firms develop their unique strategies in term to increase revenue which has an impact on increasing profit. On other side, they also develop their business operational strategies which gives them efficient and effective costs or expenses. Also, to support the efficient and effective of business operation then most of firms empower their assets especially the fixed assets. Commonly, the profitable firms distribute the earnings periodically through dividends to shareholders. Liljeblom, Mollah and Rotter (2013) state that, recently, most of dividend distributions contain important information which signals that firms have better future profits.

Notice the finding of Longinidis and Symeonidis (2013) then this imply that profits is the main factor for distributing dividends for shareholders. Kato et al. (2002) also confirm that dividend normally reflects informations about future, current, and past profits. Miller and Rock (1985) provide an assumption that when stock prices reflect the profits of a business entity and opportunities for future profits then the announcement of dividends means providing information on the prospects of profit for business entities in the future, even though the information provided is not very clear, so it is still a question why business entities choose dividend declarations as communication for their information. The objective of this study is to provide an empirical finding about profitability between firms namely higher dividend payers and lower dividend payers. In term to confirm the hypothesis then this study conducts mean difference test of profitability between those firms.

2. LITERATURE REVIEWS

According to Easterbrook (1984), sometimes dividends are not the right signal to investors, because the signal given can mean good news or bad news because dividends can be a bad predictor for forecasting future earnings, just as stock prices can be a bad predictor for forecasting future dividends, although an increase in dividends can mean an increase in profits from business entities that an impact on increasing stock prices or it can also mean the

start of withdrawal of investment because of the reduced opportunities of business entities to achieve profits that cause a decline in stock market prices.

Nissim and Ziv (2001) explain that the amount of dividend payments will increase if there is a change in future profitability, so that dividend increases can be said to be closely related to changes in future profitability, but this will not be related if dividends are decided to be reduced which is thought to have something to do with accounting conservatism. Daniel et al. (2008) find that a business entity that makes dividend payments tends to increase profits when the profit reflects a decrease in dividends below the level expected by investors, so that in this case, internal parties of the business entity will maintain the profit threshold to maintain the expected level of dividend payments, although this behavior can also lead to a significant reduction in the amount of dividend payments.

Fama and French (2001) find that profitability has a significant positive effect on dividend payments. Fama and French (2002) also explain that the higher the profitability of a business entity, will have an impact on the higher number of dividend payments. Longinidis and Symeonidis (2013) explain that profitability is the most important factor for business entities in paying dividends to their shareholders. Jensen et al. (1992) also confirm that profitability has a significant positive effect on dividend payments. DeAngelo et al. (2006) find that profitability has a significant positive effect on dividend payments. Li and Lie (2006) also find that business entities that experience a decrease in profitability will reduce the amount of dividend payments, whereas if a business entity experiences an increase in profitability, the business entity will increase its dividend payments. Najjar and Hussainey (2009) find that profitability has a significant positive effect on dividend payments. Chemmanur et al. (2010) who found that, a business entity that often makes dividend payments has high profitability. Based on review, the hypothesis for this study is:

Ha : higher dividend payers have better profitability.

3. RESEARCH METHOD
3.1. Data

This study uses data of listed firms in period of 2010 to 2016. This study drawn the financial data of listed firms from Indonesia Stock Exchange.

3.2. Sample

This study uses 146 listed firms in period of 2010 to 2016 as sample which make the total observe data is 1022. As the sample, the firms should follow the criteria as follow: (1) the firms should not delisted firms; (2) the data needed for this study should available for this study and audited by independent auditors.

3.3. Method of analysis

In term of hypothesis testing, this study uses mean difference test on observe data, where the technical steps are as follow: (1) this study determines firms as dividend payers; (2) this study calculates the profitability which measures with return on assets and calculates as profit of current period divided by total assets; (3) this study categorizes the dividend payers into two types which are 1 for higher dividend and 0 for the opposite; and (4) this study applies mean difference test at significance of 0.05.

4. RESULTS AND DISCUSSIONS
4.1. Results

Table 1 presents descriptive statistics of profitability between higher dividend and lower dividend. The result shows that the firms who pay higher dividend have higher return on assets rather than firms who pay lower dividend. On this result, this study suspects that firms with better profitability which make them able to pay higher dividend, otherwise the less profitable firms pay less dividends.

Table 1. Descriptive statistics

	Dividend	N	Mean	Std. Deviation	Std. Error Mean
ROA	High	511	0.1082	0.10294	0.00455
	Low	511	0.0391	0.08130	0.00360

This study conducts difference mean test as the further analysis to confirm the result on descriptive statistics. Table 2 presents the result of difference mean test of profitability for both of firms. The result shows that, the Levene's test is significant at 0.05 which means the equal variances is not assumed. On result, the mean shows difference for 0.0691 (rounded up) and it is significant at 0.05 which means both of the firms have significant difference of profitability. This result also proves that firms with higher dividends have better profitability rather than firms with lower dividends. On this finding, this study accept Ha that higher dividend payers have better profitability.

Table 2. Difference mean test

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference		
ROA	Equal variances assumed	41.809	0.000	11.905	1020	0.000	0.06908	0.00580	0.05769	0.08047
	Equal variances not assumed			11.905	968.041	0.000	0.06908	0.00580	0.05769	0.08047

4.2. Discussions

The finding of this study is consistent with the finding of Nissim and Ziv (2001) where increasing the amount of dividend payments normally reflects the firms profitability. The finding of this study also consistent with the finding of Daniel et al. (2008) and confirm that firms tend to increase dividend while their profits increasing. Consistent with finding of Jensen et al. (1992), Fama and French (2001), Fama and French (2002), DeAngelo et al. (2006), and Najjar and Hussainey (2009), this study also find that more higher the firm profitability then more higher they shall distribute the earnings as dividends to their investors or shareholders.

On finding, this study support the work of Longinidis and Symeonidis (2013) that profitability is the most important factor for firms to decide dividend policy to their shareholders. Supporting the finding of Li and Lie (2006), this study also suggests that firms that experiences for better profitability should increase dividend payments to shareholders. On same case, this study also supports the finding of Chemmanur et al. (2010) that firms that often makes dividend payments normally has high profitability.

5. CONCLUSION

There are many findings about the relationship between dividend and profitability. Most of familiar issue is signalling hypothesis about dividend and firm profitability. The objective of this study is to complement the empirical findings especially arround the issue of signalling hypothesis. This study uses 146 listed firms in period of 2010 to 2016 as sample and finds that firms with higher dividends have higher profitability rather than firms with lower dividends, thus more profitable the firms then they shall distribute more dividends for their investors or shareholders.

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