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TRUST VALUE OF A DIVIDEND : AN EVIDENCE FROM INDONESIA

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ABSTRACT

Even though there are many issues surrounding dividend policy, dividend remains one of the main goals for investors to achieve. The aim of this study is to find out determinants of dividend policy in Indonesia. Most of the samples in observed period have varieties of dividend policies. Data for this study was collected from 258 business entities in the period between 2009 and 2012. For hypotheses testing, a binary logistic regression and factor analysis were used. The result from binary logistic regression showed that share price, earnings per share and current ratio are significant factors for dividend policy, while debt to equity ratio and corporate tax are insignificant. The insignificance of debt and tax was probably due to current ratio affected by accounting adjustments. Even though debt and tax are insignificant, they could not be ignored. Using factor analysis, it is confirmed that, most companies in this study have a similar objective through dividend policy, which is to maximize their share value in the stock market by considering profitability and liquidity on cash availability and also debt and tax. Dividends as a form of "trust value" offered by companies to their shareholders stimulate the trust of investors or shareholders and resulting the increase of share price.

Keywords ***:*** *dividend policy, share price, corporate tax, current ratio, earnings per share, debt equity ratio.*
JEL Classification : G35, M21, M41

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1. INTRODUCTION

This study starts with two simple but very interesting questions from Black (1996), why do corporations pay dividends? and why do investors pay serious attention to dividend? As far as we know, dividend is a goal for each investor to achieve and is most considered when make investment in stock, on the other hand, dividend policy is still important to company, when earnings or cash available is still the main consideration. As Gordon (1959) stated, the hypothesis where investor buys the dividend when he acquires share of stock seems intuitively plausible because the dividend is literally the payment stream that he expects to receive. Moreover, Gordon (1959) added, among the events which will lead to an increase in a corporation's dividend are : successful trading on its equity, an increase in its return on investment, and selling additional common stock when the rate of profit the corporation can earn is above the rate at which its stock is selling. However, there is no doubt that the most important and predictable cause of growth in a corporation's dividend is retained earnings.

Considering the question and statement of Black (1996) regarding decision of dividend policy in corporate, and the answer is, "we don't know" because "the harder we

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look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together". Dividend policy still becomes an important phenomena and attracted attention of academicians or practitioners to study deeper about corporate finance behavior. In our review, there are many issues around dividend policy, such as profitability, leverage, liquidity, risk and the size of company (Mehta, 2012). On the other hand, Suppakitjarak (2012) argued that by considering free cash flow, dividend payment may avoid conflict of interest between managers and shareholders. Elton and Gruber (1968) explained that, as a method of cash disbursement, stock repurchase or cash dividend is depending on the composition of stockholders which will influence the companies value. Moreover, the announcement of a dividend cut often leads to drop in the company's stock price, but the announcement of a dividend increase often leads to an increase in the company's stock price (Black, 1996). This statement seems relevant to the explanation of Constantinides (1982), where dividends is the better information for stockholders from management than other announcement. Furthermore, according to Bond (1918), there are several influencing factors in declaring stock dividends, which are : (1) to distribute accumulated earnings with no payment of cash, thus holding the earned assets as permanent capital; (2) to provide for distribution of future earnings at a lower rate, thereby reducing risk of investigation, government regulation, and adverse legislation; (3) to pay up back dividends without reducing working capital; (4) to increase the number and reduce the market value of shares, so as to provide for easier and wider distribution; (5) occasionally used for stock market manipulation.

This study aims to reveal the intention of companies underlining their dividend policy by bringing empirical evidence on determinants of dividend policy and to provide reference for future research in the area. It is suspected that there is a specific interest for companies to pay dividend to their shareholders. Based on the phenomena identified from 258 companies in Indonesia, as our samples for the period between 2009 and 2012, it reveals that 73 companies (28.29%) paid dividends and 185 companies (72.00%) irregularly or did not pay dividends at all. These companies were then classified into two groups: those who paid dividend and those who irregularly or did not pay dividend. Both groups were measured by dummy and were determined as dependent variable. The determinant factors of dividend policy between both groups were then analyzed by conducting binary logistic regression and data reduction method to confirm the intention of companies in determining their dividend policy. The independents variables: share price, corporate tax, liquidity (represented by current ratio), profitability (represented by earnings per share), and leverage (represented by debt to equity ratio) are the functions of dividend policy for this study. It is believed that each period of observation has its own phenomenon and its own theories to explain the phenomenon.

2. LITERATURE REVIEWS

Modigliani and Miller (1958) suggested that management should be concerned with dividend policy connected with an optimal investment policy even though the stockholders may have indifferent view. Although the risks on retained earnings is low, management must carefully consider the amount of dividends payment if that amounts are relying on retained earnings. A drastic change in dividends distribution depending on retained earnings could let to the impression of poor management in firm's finance. Furthermore, Miller and Modigliani (1961) explained, under the assumptions of perfect markets, rational behavior, and perfect certainty, the shareholders holding shares with high value but low return can tend to increase their wealth by selling the shares and reinvesting the proceeds to shares offering higher rate of return. As the results, the prices of share with low return will drive down and the prices of share with high return will drive up until the gap of rate of return are eliminated.

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Under the assumptions of Miller and Rock (1985), where the outsiders and insiders have the same information about earnings and opportunities of the company, and also by rational expectations, the announcement of dividends will provide enough information to cover the question about how the company managing their resources, especially the achievement of the firm's current earnings. If investors often respond to this announcement positively, the insiders tend to pay dividends more than the investors' expectation with the purpose to increase their share prices in the market, even though the insiders have to cut their investments. These assumptions were supported by Abrutyn and Turner (1990), where in their survey, dividend policies is mostly explained by signaling effect and agency costs. In addition, Jain (2007) found, individual investors preferred to invest in firms with high dividend yield stocks and often paid their dividends, whereas institutional investors preferred to invest in firms with low dividend yield stocks and hardly or did not pay dividends. Also, superior institutional investors with more information preferred to firms with large share repurchases. These results were contrary the widely held beliefs for tax-based and non-tax-based dividend clienteles, monitoring by institutional investors for firms who paid dividends, and the low (or zero) personal tax rate on equity.

Feldstein and Green (1983) show that in a simple model of market equilibrium, the company use funds to pay dividends for shareholders with intention to maximize the value of share in market. As a whole, it is not because of information asymmetry or conflict of interests between management and shareholders but it is more caused by variety preferences of shareholders within variety of tax brackets in order to reach their target return with attitude of risk aversion under condition of uncertainty. The combination of these circumstances are making the companies have to pay dividends to their shareholders. On the other side, Bhattacharya (1979) assumes that, dividends can be a function as a signal of expected cash flows under conditions where the information about firm's profitability is imperfect for outside investors and cash dividends are taxed at a higher rate than capital gains.

According to Asquith and Mullins (1986), cash outflows, stock repurchases, and dividend increases are positive signals accompanied by increases in stock prices, but a cut in cash dividends will impact to reduction in the stock price. Similar with Jensen (1986) that, managers with substantial free cash flow can increase dividends or repurchase stock and thereby pay out current cash that would otherwise be invested in low return projects or wasted. This leaves managers with control over the use of future free cash flows, but they can promise to pay out future cash flows by announcing a "permanent" increase in the dividend. Such promises are weak because dividends can be reduced in the future. But Lie (2005) was found that, firms increase payouts (such as, increase regular dividends, pay special dividends, or repurchase shares) when they have large cash levels, low debt ratios, low capital expenditures, and poor growth opportunities as measured by the market to book ratio, whereas the characteristics of dividend decreasing firms were roughly the opposite.

Brennan and Thakor (1990) offered a theory about the choice of corporate cash disbursement method that encompasses dividend, open market repurchases, and tender offer repurchases, where dividends are likely to be the choice for the smallest distributions, and that tender offer repurchases will dominate for very large distributions, there may also be an intermediate range of distributions in which open market repurchases are favored. Then it means, corporations will make small payouts through dividends, intermediate payouts through open market repurchases, and large payouts through tender offer repurchases. Another explanations by Bernheim (1991) which were, first, firms should balanced their use of dividends, repurchases, and new equity issues in order to achieve an optimal tax rate. In this case, companies should manipulate the terms (discounts and limits) of dividend reinvestment plans in order to achieve the desired level of investment, although in practice, the terms of these plans were vary widely. Second, low-quality firms were distributed

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nothing. Third, dividends should jump discontinuously from zero to some positive number as quality moves across some threshold. In practice, there appears to be a trough in the distribution of the dividend-to-price ratio near zero. Fourth, share price should rise in response to the announcement of a dividend increase or plans to repurchase shares. Fifth, higher dividend taxes should press dividends.

According to Shiller (1981), in an efficient market model, the movement of share price is related with new information for future dividend. This statement is similar with Bhattacharya (1988) that, the announcement for dividends increase often accompanied by increase in share prices, and this is related with informational content of dividend itself. On the contrary, Copeland (1983) was explained, if the dividend change is considered transitory, then the impact for change of price will be minimal, but if the change of dividend does have mean a fundamental change in the rate of growth of dividend by investors, then even a small change in the dividend can lead to large swings in price. This is because a small change in the dividend can imply large changes in the rate of growth in the dividend.

DeAngelo and DeAngelo (1990) found that, the firms with binding debt covenants reduced their dividends payment. This finding was concomitant with the agency view where debt covenants are significantly affect the dividend policies even for largest publicly held firms. But, DeAngelo and DeAngelo (1990) also found, the consideration of agency view was not the exclusive determinant of the dividend reductions because many firms without binding debt covenants were reduced their dividends payment, where the reductions of dividends payment possibly caused by insufficient cash as the result of dissipation policies by insiders. Similarly, Jensen (1986) was stated, the share price would reduced in large amount as a result of reductions of dividends payment and this is consistent with the agency costs of free cash flow. Also, by issuing debt in exchange for stock is effectively substitute for dividends because with debt, the managers are bonding to pay out future cash flows in a way that cannot be accomplished by simple dividend increases. Similar with Agrawal and Jayaraman (1994), in their study, were found that, dividends can be viewed as a substitute for debt in mitigating the agency cost of free cash flow. Moreover, they found that, in all equity firms, dividend yield and payout ratios are significantly higher than levered firms. Also, they found, that within all equity firms, higher managerial holdings have lower dividend payout ratios.

Jones (2004) explained, it is more difficult to disguise problems where cash is concerned when firms need it to operate. Fast growing companies may have negative cash flows for several years and it is still can be accepted, but mature companies with negative cash flows are often a sign of problems. Ross, Westerfield, and Jaffe (2005) were stated that, according to the free cash flow hypothesis, an increase in dividends should benefit the stockholders by reducing the ability of managers to pursue wasteful activities. Furthermore, since interest and principal also leave the firm, debt reduces free cash flow as well. In fact, interest and principal should have a greater effect than dividends have on the free spending ways of managers, because bankruptcy will occur if the firm is unable to make future debt payments.

Lintner (1956) stated that, dividends represent the primary and active decision variable in most situations. When the investment outlays of the company are balanced with dividends policies, then this is means the investment policies are success to reach profits, sales volume, and internal fund flows. Related to company taxes, Lintner (1956) was explained, tax is effecting dividend policies because taxes will reduce current profit and create profit after taxes as base to determine the volume of dividends. And this is means, the higher tax liability, then smaller the net earnings reported, creates smaller dividends payment. These findings have been supported by Anand (2004), Gwilym, Seaton and Thomas (2004) and Grullon, Michaely, and Swaminathan (2002). As stated by Ferris, Sen, and Yui (2006), where dividend payers tend to be more profitable than non payers, also, dividend payers are

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considerably larger than non payers. In addition, Fama and Babiak (1968) were explained that, dividends for any years are related to profits of companies, but cash flows or consideration about net income plus depreciation should be included.

Rehman and Takumi (2012), in their study, found that, relation of debt to equity ratio, profitability, current ratio and corporate tax was found to be positive with dividend payout ratio while operating cash flow per share and market to book value ratio has a negative relationship with dividend payout ratio. Profitability, debt to equity and market to book value ratios were found to be the significant determinants of dividend payout ratio in Pakistan. Ho (2003) was found the evidence, where in Australia with an imputation tax system which favors dividends over capital gains, had a significantly higher dividend payout than Japan lends support to the influence of environment on dividend policy. Dividend policies in Australia and Japan were affected by different financial factors, where fixed effects regression models indicate that dividend policies were affected positively by size in Australia and liquidity in Japan, and negatively by risk in Japan only, also an industry effect was found to be significant in both countries. In addition, Gupta and Banga (2010) were found that, the leverage, liquidity, profitability, growth and ownership structure were the major factors for dividend decisions in Indian companies, where leverage and liquidity were the most determinants for dividend policies. In practice some non-financial factors such as foreign collaborators' shareholding, attitude and behavior of management, company policies, and others factors might also have a bearing on the dividend decision of a firm. Adesola and Okwong (2009), in their study, were found that, average earnings per share or average earnings is still the most significant determinant of average dividend payment, also current dividend payment and earnings per share are significant in explaining the observed differential share market prices of quoted firms in Nigeria. Also, Adesola and Okwong (2009) were found, growth prospect and firm size were not have impact for dividend behavior in Nigeria as limited to period under their study. Based on reviews thehypotheses of this study are as follow :

H_1 : Share price has significant effect to dividend payment.
H_2 : Corporate tax has significant effect to dividend payment.
H_3 : Current ratio has significant effect to dividend payment.
H_4 : Earnings per share has significant effect to dividend payment.
H_5 : Debt equity ratio has significant effect to dividend payment.

3. RESEARCH METHOD

3.1. Sample

Table 1 presents the sample for this study was collected from the Indonesia Stock Exchange, where financial ratios and closing share price for the period between 2009 and 2012 were taken from 258 companies, make the total data observed is 1,032.

Table 1. Sample

Sectors	Population	Samples	Code 1	Code 0	Observed
Agriculture	21	14	6	8	56
Mining	36	24	7	17	96
Basic Industry And Chemicals	64	55	12	43	220
Miscellaneous Industry	41	36	9	27	144
Consumer Goods Industry	37	28	12	16	112
Infrastructure, Utilities & Transportation	49	24	4	20	96
Trade, Services & Investment	113	77	23	54	308
	361	**258**	**73**	**185**	**1,032**

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3.2. Method of analysis

Two method of analysis: binary logistic regression and data reduction method were used in this study. The binary logistic regression is used for hypotheses testing and the data reduction method is used to confirm which independent variables as the most determinant for dividend policy. The equation model of this study is constructed as follow :

$$\textbf{Dividend (Dummy)} = \alpha + \beta LnSP + \beta Tax + \beta LnCR + \beta LnEPS + \beta DER$$

The dependent variable is dividend payment measured by dummy, in which, code 1 for the companies that paid dividend for four years, and code 0 for companies which irregularly or did not pay dividend in four years. The measurement for each independent variables is described as follows :

1. *Share price*. The suggestions from Gordon (1959), Miller and Modigliani (1961), Feldstein and Green (1983), and Bernheim (1991), that there is relationship between share price and dividend policy is taken for granted. Based on this, share prices was considered as one of independent variables in this study. The measure of share prices for each company is the closing price of share at the end of the year announced by the Indonesia Stock Exchange.
2. *Corporate tax*. Our considerations is based on Lintner's model that, if companies have much liabilities of tax or tax expense, then net income would probably decrease, which, in turn, can bring impact to the amount of dividend payment.
3. *Liquidity*. Based on Adelegan (2003) finding where, payout policy is dependent on cash availability, an organization's decision to reduce, increase or to maintain dividend partly reflects its liquidity position. Therefore operating cash flow should reflect firm liquidity that significantly influence the dividend. Also, the suggestions of Fama and Babiak (1968), about consideration for cash flow, where depreciation should be added into net income. Based on liquidity measurement by Graham (2000), we are using current ratio (total current assets divided by total current liabilities), to represent free cash in companies. Because, based on point of view from financial statements especially in cash flow reports section of operating activities, cash available is free cash after payment of operating expenses, added by depreciation, payment of short term debts (included adjustment of part of long term debt due to the end of year) before investment and dividend. So, we concluded that, if current assets (included cash) could covered the current liabilities (included part of long term liabilities as adjustment), then companies should have free cash for investment and dividend.
4. *Profitability*. Fama and Babiak (1968), Fama and French (2002), and also Longinidis and Symeonidis (2013), notifed that there is a strong relationship between profit and dividend because profitable firms pay out more of their earnings as dividends. From this point, the working of Aharony and Swary (1980) as well as of Kane, Lee, and Marcus (1984), about the information of firm's future prospects related to announcement of dividend and earnings was reviewed By these facts, earnings per share were determined as indicator for profitability measured by net income divided by shares outstanding.
5. *Leverage*. An important point coming from DeAngelo and DeAngelo (1990), where, debt covenants have an important influence on dividend policy, but on the other hand, debt covenants are clearly not the exclusive determinant of dividend reductions. In addition, Fama and French (2002), noticed that the target payout and leverage are both related to profitability, and profitability effects obscure any relation between the target payout and leverage. Debt to equity ratio (measured by total debt divided by total equity), was used because from this ratio, investors could get insolvency information to protect their investments in share. If companies do not have sufficient cash for debt (both of principal and interest) payment, meaning that the companies are in financial distress problem. By reviewing the working of Fama and French (2002) and Berk, Stanton, and Zechner

(2010), it can be concluded that financial distress caused by all current assets and earnings that mostly absorbed to debt payment, and this leads companies not to pay dividends.

4. RESULTS AND DISCUSSIONS

4.1. Results

Table 2 presents the result of Hosmer and Lemeshow Test where chi-square has significance at 0.055 which means that the model for this study is overall fit with data.

Table 2. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	15.229	8	0.055

Also, Table 3 shows that Cox and Snell or Nagelkerke value for this model can explain 24.80% or 35.60% for dependent variable.

Table 3. Model summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	936.057[(a)]	0.248	0.356

[a] Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Furthermore, Table 4 shows that the model has accuracy of classification to predict is 77.5%.

Table 4. Classification table[(a)]

Observed			Predicted		
			Dividend (Dummy)		Percentage Correct
			0.00	1.00	
Step 1	Dividend (Dummy)	0.00	675	65	91.2
		1.00	167	125	42.8
	Overall Percentage				77.5

[a] The cut value is 0.500

Simultaneously, Table 5 shows that all indicators such as, share price, corporate tax, current ratio, earnings per share and debt equity ratio are significant to dependent variable as shown in Omnibus Tests.

Table 5. Omnibus Tests of model coefficients

		Chi-square	df	Sig.
Step 1	Step	293.497	5	0.000
	Block	293.497	5	0.000
	Model	293.497	5	0.000

Table 6 presents the results of logistic regression test which show that, share price, current ratio, and earnings per share are significant to dependent variables (H1, H3, and H4 are accepted), whereas corporate tax and debt to equity ratio are insignificant (H2 and H5 are rejected).

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Table 6. Variables in the equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[(a)]	Share Price	0.334	0.072	21.639	1	0.000	1.397
	Tax	-0.012	0.029	0.178	1	0.673	0.988
	Current Ratio	0.287	0.078	13.419	1	0.000	1.333
	EPS	0.492	0.072	47.145	1	0.000	1.636
	DER	-0.021	0.018	1.440	1	0.230	0.979
	Constant	-5.470	0.397	190.062	1	0.000	0.004

a Variable(s) entered on step 1: SP, Tax, CR, EPS, DER.

The equation of this study is as follows :

Dividend (Dummy) = -5.470 + 0.334SP – 0.012Tax + 0.287CR+ 0.492EPS – 0.021DER

4.2. Discussions

The equation shows, both companies that paid dividend and companies that did not or seldom paid dividend, will pay dividends when considering these factors, this is indicated by minus constant value. Seemingly that they have a similar objective, which is, to maximize share value through dividend payment, although the companies who paid dividend in full four years have value of share price 1.397 times higher compared to companies that did not or seldom paid dividend. This result is supported by John and Williams (1985), and also by Feldstein and Green (1983), and the probable reason is paying dividends means to avoid investor's attention for company's current earnings and create an image as a signal that, companies made an optimal investment and well management as proposed by Modigliani and Miller (1958), Ross, Westerfield, and Jaffe (2005), Bernheim (1991), Miller and Rock (1985), Abrutyn and Turner (1990) and also, Asquith and Mullins (1986). It is suggested that, perhaps, dividends is a form of "trust value" from companies to their shareholders.

Furthermore, the relationships of current ratio (CR) and earnings per share (EPS) with dividend payment have been supported. Considering that dividends are related to profits and cash flows are considerable factor (Fama and Babiak, 1968), and outside investors have an imperfect information for firms profitability and dividends function as a signal of expected cash flows (Bhattacharya, 1979), also, managers with substantial free cash flow can increase dividends or repurchase stock and thereby pay out current cash that would otherwise be invested in low return projects or wasted (Jensen, 1986), and corporations will make small payouts through dividends, intermediate payouts through open market repurchases, and large payouts through tender offer repurchases (Brennan and Thakor, 1990). This result can be interpreted that, when both types of companies (paid or not/seldom) announced the earnings per share (EPS), meaning that these companies had enough cash to pay dividend although the amount of dividends payment would not the same as the amount of earnings per share (EPS). The most important point is that these companies should fulfill the expectation of investors, even dividend payment is pending or not in the current year, because it will be spending in another expenditures. The implication of results shows that either current ratio or earnings per share of companies that paid dividend are higher, compared to companies who did not or seldom paid dividend. The current ratio for companies who paid dividend are 1.333 times higher and the earnings per share for companies who paid dividend are 1.636 times higher.

The result for debt, for example, shows that debt to equity ratio (DER) is not significant to dividend payment. The reason that, as accounting views, part of long term debt (principal and interests) had been adjusted into short term (current) liabilities and interest payment as recorded in income statement. Based on this, current ratio seems informed a coverage for long term payment by these companies, make long term debt could be ignored

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as long as current ratio is more than enough. But if long term debt is considerable factor, as a whole of debt, the implications of result shows that, increasing in debt to equity ratio will decrease dividend payment, where companies who paid dividend are lower 0.979 times compared to companies that did not or seldom paid dividend. Following Pontoh and Ilat (2013) and Ilat and Pontoh (2014), increasing in debt rate will decrease the earnings performance. It seemingly makes sense, because dividends are taken from the earnings, and when the earnings decrease by the cost of debt interests, the dividends decrease. Outside part of this study, we suspected dividend payout is a factor related to the work of Baker and Wurgler (2002), who found that, low leverage firms were those that raised funds when their market valuations were high, while high leverage firms were those that raised funds when their market valuations were low. Furthermore, this study is inconsistent with Fama and Babiak (1968), and also, Agrawal and Jayaraman (1994) to their supporting for Jensen's hypothesis, that, dividend policy related with agency problem from the point of view of debt.

For instance of tax, the findings of this study show that, corporate tax (Tax) is not significant to dividend payment. The implications of this result is increasing in corporate tax will decrease dividend payment, where companies that paid dividend are lower 0.988 times compared to companies that did not or seldom paid dividend. Although this variable is not significant, but this implications supported for Lintner (1956), where, the higher the tax liability, the smaller the net earnings reported and the smaller the dividend. Explanations about tax had a similar point of view with debt, which current ratio was affected by accounting's adjustments. Result of this study supported by Jain (2007). The results of logistic regression shows that share price, earnings per share and current ratio are the main consideration in deciding of dividend policy for companies but cannot explain what is the main intention for these companies to pay dividends. To confirm these variables as determinant for dividend policy, this study conducting data reduction method.

Table 7. Data reduction method

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.502	
Bartlett's Test of Sphericity		0.000 (Significant)	
Anti-image Correlation	Share Price	0.501	
	Tax	0.425	
	Current Ratio	0.634	
	EPS	0.501	
	DER	0.568	
Component Matrix		**1**	**2**
	Share Price	**0.909**	-0.139
	Tax	0.146	**0.630**
	Current Ratio	0.213	**0.460**
	EPS	**0.906**	-0.137
	DER	-0.099	**-0.615**
Rotated Component Matrix		**1**	**2**
	Share Price	**0.918**	0.052
	Tax	0.013	**0.646**
	Current Ratio	0.113	**0.494**
	EPS	**0.915**	0.053
	DER	0.030	**-0.622**
Percentage of variance		34.47%	20.50%
Cumulative percentage		54.97%	

Table 7 shows that Kaiser - Meyer - Olkin Measure of Sampling Adequacy is 0.502 or above 0.5. Also, the Bartlett's Test of Sphericity shows a significant result, so these variables in anti image correlation are valid, although the variable of corporate tax is showing a lower

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correlation. Moreover, the test shows that, the component matrix is forming two factors, which are, Factor 1 for share price and earnings per share, Factor 2 for current ratio, debt to equity ratio, and tax. Factor 1 is the main consideration, while Factor 2 is the constraint factors. Although debt to equity ratio and corporate tax have higher correlation by component matrix, since they are insignificant as determinant of dividend policy, due to possibly covered by current ratio, these factors could be ignored. By loading factor or correlation, the rank within the Factor 1 is share price as the main variable followed by earnings per share. The last factor is current ratio by considering debt to equity ratio and corporate tax (although both of variables are insignificant). The findings of this study are, the main consideration for companies to pay dividends are share price, earnings per share and current ratio. However, the main intention is to maximize share value through dividend payment.

5. CONCLUSION

It is concluded that, most of companies in Indonesia, limited to sample and observed period, have the same consideration in paying dividends to their shareholders, which is to increase their share value at capital market by carefully considering their profitability and concern on their liquidity for available cash, and also debt and tax. It was suspected that increasing in share prices are stimulated by trust of investors or shareholders, as they receive the dividends as a form of “trust value” offered by companies. Since the result of current ratio is affected by accounting’s adjustments for debt and tax, then this is a possible reason of why debt and tax are giving insignificant effect, although they cannot be ignored at all. This findings may also give little contribution to answer the questions by Black (1996) about dividend puzzle. Whatever the reasons companies pay or not pay dividends, it always be ending with one reason, which is, to increase their share value.

There are at least three contributions of this study, which are, first, an empirical evidence from Indonesia as a developing country, where dividend policy in our sample mostly determined by share price, profitability (proxies by earnings per share) and liquidity (proxies by current ratio). Second, the model and method of analysis confirms that maximizing share price is the primary intention for these companies. Third, the model, method of analysis, and empirical evidence in this study, could be a reference for the future research in finance literature, specially, cases in developing countries.

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