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CORPORATE DIVIDEND POLICY IN INDONESIA: A LITERATURE REVIEW

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ABSTRACT
This study reviews the literature on corporate dividend policy in Indonesia from 2019 to 2024, utilizing a systematic literature review approach. Fifteen published articles from the Proquest database were analyzed. The findings highlight that profitability, company size, and free cash flow are the most influential factors in determining dividend policy. Companies with substantial profits, significant size, and high free cash flow typically distribute dividends, serving as positive indicators to investors.
Keywords: Company Size, Corporate Finance, Dividend Policy, Free Cash Flow, Indonesian Capital Market, Profitability.

INTRODUCTION

The development of the capital market is a special attraction in making investments in Indonesia. The more developed the capital market, the more important role it has in raising public funds in investing. The general public as capital owners invests in shares in certain companies with the hope of getting a return in the future. One of the rewards provided by the company is the distribution of dividends to shareholders. Dividend distribution policy or strategy will have a positive impact on the company. Dividend policy is an important aspect of corporate finance strategy. In Indonesia, dividend payments are often used as a strategy to attract and retain investors (Setiawan & Phua, 2013). Companies that pay a large amount of dividends will certainly increase stock prices and generate high capital gains. Dividends are the distribution of profits to shareholders in the form of assets or shares of the issuing company. Dividend policy provides a decision whether the profit owned by the company will be given or divided to shareholders or retained as operating capital used to finance future investments. Dividends provide information about the company's profitability. When a company pays dividends to shareholders, investor confidence in the company's prospects increases in the future. However, when dividend payments decline, investors believe that this is a sign that the company is experiencing difficult times. According to Oktari et al. (2023) who conducted research on companies listed in the Kompas 100 index between 2011 and 2019 were examined using Moderated Regression Analysis (MRA) confirmed that dividend policy is a signal of increasing value in the company, so dividend policy needs further attention from the company. Dividend policy is a pure moderator of sustainable and responsible companies (Akhmadi & Januarsi, 2021). Another study conducted by Darmawan & Ayupuspita (2019) state that dividend policy has a significant difference between companies that have high growth and companies that have low growth. The increase, decrease and determination of dividends is influenced by company decisions not only looking at the profit the company has. Dividend distribution is also influenced by the consideration of company managers who see how the company's financial information and make other considerations in delivering company information to shareholders or investors (Darmawan & Ayupuspita, 2019). Determining the ideal payout ratio is crucial for a company. This decision is not easy because companies have to consider two main factors. On the one hand, companies want to leverage internal resources to support additional funding and reinvestment in the business. On the other hand, companies must also fulfill their obligations to pay dividends to shareholders as a reward for their investment and to meet their expectations. After investing their capital, every investor has the goal of getting dividends or capital gains from the company. So, companies are required to be able to fulfill this obligation to shareholders. Thus, the main aspect of dividend policy is determining the appropriate allocation between distributing dividends to shareholders or retaining the earnings for reinvestment. Through a literature review approach, this study aims to provide comprehensive information regarding various aspects of dividend policy that have been discussed in previous studies by identifying key factors that influence dividend policy and assess the effects of dividend policy on a company.

METHOD

Although there are many systematic methods and approaches to conduct research (e.g., Wenchuan Huang et al., 2024; Mengran Li et al., 2024; Rabeeu et al., 2021, 2022, 2023; Abdul Basit Abdul Rahim et al., 2024), this research uses the Systematic Literature Review Method. Through a meta-synthesis technique with an aggregation approach that seeks to provide answers to research issue by combining a variety of pertinent research findings to present comprehensive and balanced facts (Siswanto, 2010). The main data source of this research is Proquest because it is considered a reliable source. The research was conducted using keywords like "Dividend Policy", "Corporate", and "Indonesia". The total results were 673 articles. This research is determined by several criteria (Snyder, 2019). The criteria set by author are academic articles between 2019-2024, with the English-language articles and location of these articles is in Indonesia. A total of 26 articles were selected after going through the predetermined criteria. Following previous research (Aliamutu & Mkhiza, 2024), 11 articles were removed because they were not relevant to the topic. Articles relevant to the research topic were 15 articles. The selected articles are shown in table below:

Table 1. The Selected Articles

No.	Author(s)	Title of the Article	Journal and Year of Publication
1	Oktari, V, and W Dianawati	Dividend Policy, CEO Narcissism, and Its Influence on Companies in Indonesia: A Behavioral Theory of the Firm Approach	Cogent Economics and Finance (2023)

2	Harlina Liong, Mahfudnurnajamuddin, Muhammad S, and Mapparenta	The Influence of Growth Potential, Capital Stucture, and Profitability on Dividend Policy and Firm Value in Manufacturing Companies Listed on The Indonesia Stock Exchange	Revista de Gestao Social E Ambiental (2023)
3	Akhmad S U, Rika A, Dina A M, and Mahirun	Dividend Policy As a Supply of Company Financial Flows in the Perspective of Information Asymmetry and Ownership Structure	Acta Logistica (2022)
4	E S Utami and T A Gumanti	Analysis of Cash Dividend Policy in Indonesia Stock Exchange	Investment Management and Financial Innovations (2019)
5	H N Rochmah, and Ardianto	Catering Dividend: Dividend Premium and Free Cash Flow on Dividend Policy	Cogent Business and Management (2020)
6	Akhmadi, and Y Januarsi	Profitability and Firm Value: Does Dividend Policy Matter for Indonesian Sustainable and Responsible Investment (SRI)-KEHATI Listed Firms?	Economies (2021)
7	Riri and Rediyono	Factors Affecting Dividend Policy: Study on Food and Beverage Manufacturing Sector Companies Listed on the Indonesia Stock Exchange	International Journal of Economics and Financial (2022)
8	LNarindro, and H Basri	Assessing Determinants of Dividend Policy of the Government-Owned Companies in Indonesia	International Journal of Law and Management (2019)
9	NS Budiarso, and W Pontoh	The Role of Dividend Yield as Agency Conflict Determinant: Case of Indonesia	Investment Management and Financial Innovations (2020)
10	NS Budiarso, Bambang S., T. Sutrisno, and W Pontoh	Dividend Catering, Life-Cycle, and Policy: Evidence from Indonesia	Cogent Economics and Finance (2019)
11	N S Budiarso	Dividend Policy on Controlling and non Controlling Shareholders : case in Indonesia	Investment Management and Financial Innovations (2019)

12	M Siladjadja, Y Anwar, and I Djan	The Relationship between Dividend Policy and Earnings Quality: The Role of Accounting Information in Indonesia's Capital Market	Economies (2022)
13	M Siladjadja, and Y Anwar	The Impact of Innate Accruals Quality on The Future Market Value Moderated by Dividend Policy	Asian Journal of Accounting Research (2020)
14	E I Fauziah, Agung N P, and Doddy S	The Effect of Board Gender Diversity on Dividend Payments: Evidence from Indonesia	Australasian Accounting, Business and Finance Journal (2022)
15	G Christopher, and Dony A Chalid	Institutional Investors and Firms' Cash Dividend Payments: Evidence from Non-Financial Firms in Indonesia.	Jurnal Pengurusan (2019)

RESULTS

Factors that Influence Dividend Policy

In the research of Liong et al. (2023) found that the factors that influence dividend policy are growth potential, capital structure, and profitability. Utami & Gumanti (2019) found that current ratio impacts dividend policy in the group of companies that are constant and omission, debt ratio impacts dividend policy only in the group of companies that are change, profit and asset growth partially impact dividend policy across all company groups, and company size impacts dividend policy in the constant, change, and initiation groups. According to Ulum et al. (2022) managers are motivated to reduces dividend to reverse funds for company capital and production activities when there is a symmetry of information between them and the shareholders. Institutional ownership further backs managers' strategies, prompting them to prioritize reinvesting company profits into capital rather than dispersing them as dividends to shareholders. Rochmah & Ardianto (2020) found that catering dividend as proxied by dividend premium and free cash flow partially has impact to dividend policy. Riri & Rediyono (2022) found that Growth rate, profitability, solvency, and company size partially have an effect on dividend policy. Narindro & Basri (2019) found that profitability has a positive, considerable impact on dividend policy, but asset growth has no discernible impact, then financial leverage and institutional ownership have a partially negative and significant impact on dividend policy. Budiarso & Pontoh (2020) found that systematic risk has no appreciable impact on dividend policy, instead profitability has major impact, agency issue present among companies with greater dividend yields than those with lower yields. This suggests that shareholders are inclined to exercise control over insiders when overinvestment occurs. Budiarso et al. (2019) stated that established Indonesian companies tend to distribute larger dividends due to their increased of free cash, larger size, higher profitability, and limited growth prospects. In term of stock and total returns, idiosyncratic and systematic risks have no significant impact on dividend policy, regardless of whether the firms are high or low dividend payers. Furthermore, the findings suggest that fully grown indonesian companies pay larger dividends and exhibit lower risk in the capital market. Budiarso (2019) stated that dividend payment do not distribute to either noncontrolling or controlling shareholders if the composition of their shares are almost equal, dividend payment to controlling shareholders decrease when they hold the majority ownership, dividend payment to non controlling shareholders decreases when the firm's retained earnings at their lowest, and dividend policy behavior in relation to controlling and noncontrolling shareholders can be explained by the life cycle and free cash flow theory, depending on their circumstances. An increase in the number of women directors correlates negatively with dividend payments, indicating a tendency to retain cash amidst market uncertainties common in developing economies. Conversely, a higher presence of women commissioners correlates positively with dividend payments, suggesting an increase in dividend distributions. Independent women directors tend to pay higher dividends, as they mitigate opportunistic behaviors that could disadvantage shareholders. However, the impact of women independent commissioners on dividend payments is negligible due to prevalent family control in Indonesian corporations, hindering their ability to act independently and effectively supervise management. Conversely, women president directors and commissioners positively impact dividend payments, as their leadership roles necessitate prioritizing shareholder welfare, with dividend distribution being one avenue to achieve this goal (Fauziah et al., 2022). Institutional investors play a significant role in shaping cash dividend policy distribution. Notably, foreign institutional investors possess greater influence and stronger incentives compared to local institutional investor, particularly in reforming governance practices through cash dividend policies. Other factors influencing cash dividend policies are while market-to-book value of equity, firm size, and return on assets have positive association with cash dividend, leverage and free cash flow show a negative correlation. The researcher posits that dividend stickiness is the reason why free cash flow has a detrimental impact on dividend policy, suggesting that prior dividend commitments enable firms to maintain their dividend levels regardless of current free cash flow conditions (Christoper & Chalid, 2019).

Dividend Policy Affects Company Value

Liong et al. (2023) and Oktari et al. (2023) discovered that dividend policy significantly affects firm value. Capital structure and company growth potential through dividend policy has a substantial impact on value of company (Liong et al, 2023). As a pure moderator, dividend policy strengthening the positive correlation between profitability and firm value (Akhmadi & Januarsi, 2021). Dividend policy is essential in maintaining high accounting standard compliance, companies that regularly pay high dividends tend to have higher earnings quality, paying consistent, high dividends acts as a sign to potential investors that the business is being well managed (Siladjadja et al., 2022). The outcomes of this examination suggest that dividend policies play a role in minimizing the reliance on accruals to enhance investors' opinions about the company's prospects for the future, particularly regarding the informativeness of income and the disclosure of accurate fundamental conditions. These findings indicate a high inherent quality of accruals, leading to a preference for low accruals, particularly in earnings reporting (Siladjadja & Anwar, 2020).

DISCUSSION

The results indicate that policy of dividend in indonesian companies are impacted by various factors, with profitability, company size, and free cash flow are the most significant contributors. Profits are an indicator of a company's ability to manage itself. Additionally, each company's profits will be taken into account when determining its dividend policy. As profits rise, so does the proportion of profits or dividends that are distributed to shareholders (Budiarso et al., 2019; Christoper & Chalid, 2019; Utami & Gumanti, 2019; Narindro & Basri, 2019; Budiarso & Pontoh, 2020; Riri & Rediyono, 2022; Liong et al., 2023). Businesses with high earnings quality will consistently pay dividends to shareholders (Siladjadja et al., 2022). This indicates that businesses with high profits have a tendency to pay dividends to shareholders. Established Indonesian Companies tend to distribute larger dividends due to their larger size (Budiarso et al., 2019). According to Pradika & Rediyono (2019) and Utami & Gumanti (2019), there is a noteworthy and affirmative correlation between a company's size and its dividend policy. By distributing dividends, big businesses want to keep their standing with investors (Christoper & Chalid, 2019). It can be concluded that larger businesses are typically able to pay dividends on a constant basis because they have easier access to financial resources and financial stability. Free cash flow has a significant and positive impact on dividend policy (Rochmah & Ardianto, 2020; Budiarso, 2019; Budiarso et al, 2019). Companies that have high free cash flow tend to increase dividend payments. Free cash flow is the amount of cash available after considering all the necessary operational costs. Thus, it can be concluded that free cash flow has an important role in determining dividend policy, the greater the free cash flow a company has, the more likely it is to distribute dividends to shareholders, because there are more funds available for distribution. Liong et al. (2023) and Oktari et al. (2023) discovered that firm value is greatly impacted by dividend policy. Firm value is significantly influenced by capital structure and company growth potential through dividend policy (Liong et al, 2023). Furthermore, as a moderator, dividend policy strengthening the positive correlation between profitability and firm value (Akhmadi & Januarsi, 2021). Additionally, companies that regularly pay high dividends tend to be associated with a higher firm value (Siladjadja et al., 2022). This implies that investors and the market view dividend payments as a positive signal and value-enhancing factor for the company.

Theoretical Contribution and Managerial Implications

This study contributes to the theoretical understanding of dividend policy by highlighting the critical factors influencing dividend decisions in the Indonesian context. It reinforces the signaling theory, which posits that dividend payments signal a company's financial health and future prospects to investors. For managers, this study offers practical insights beneficial for companies and potential investors. This study underscores the importance of maintaining high profitability, optimizing company size, and managing free cash flow to support consistent dividend payments. These practices not only fulfill investor expectations but also enhance company valuation and market perception. Managers should focus on strategic financial management to ensure the availability of free cash flow and maintain profitability to meet shareholder expectations.

Limitations of the Study

This study is limited by its reliance on articles from a single database (Proquest) and the specific timeframe (2019-2024). Future research should consider incorporating additional databases and extending the review period to provide a more comprehensive analysis. Additionally, further research could explore the impact of other potential factors influencing dividend policy, such as market conditions and regulatory changes.

CONCLUSION

This study concluded that dividend policy significantly impacts company value, serving as a positive signal to investors. The policy is influenced by profitability, company size, and free cash flow. Companies aiming to attract and retain investors should focus on enhancing these factors to ensure consistent and substantial dividend payments. By doing so, companies can improve investor confidence and increase their market valuation.

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