Assessing The Influence of Asset Turnover on Dividend Policy in Property Sector: The Case of Indonesia

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Abstract. This study aims at examining the effect of liquidity, leverage, asset management and company performance on dividend policy. The object of this study is the property sector of public company listed in IDX. Purposive sampling was adopted to select research sample with the observation period from 2015-2018. The data that has been obtained was analyzed using multiple regression. The results showed that liquidity had no effect on dividend policy. Leverage has a negative and significant effect on dividend policy. Asset turnover has a positive and significant effect on dividend policy, while profitability has a positive and significant effect on dividend policy.

Keywords: Dividend Policy, Leverage, Asset Turnover, Profitability.

1. Introduction

Three important financial decisions that companies must take are investment decisions, financing decisions and dividend policy decision [1], [2]. Research on dividend policy has long been a concern of researchers to date. This topic is interesting because the dividend policy has significant consequences for both the company and shareholders. Dividend policy is the distribution of the company's profit delivered to shareholders [3], [4]. Inappropriate dividend policy will create an unfavorable impression on the market.

For example, because of considerations to meet capital needs, the company retains all net profits as a source of internal financing. Even though this internal financing source is good for the company, holding all net profits and consequently not distributing dividends to shareholders can mean that the company is regarded as unable to pay dividends. Therefore, in making dividend policy, companies are required to not only consider the interests of the short-term company but also the interests of shareholders.

Although the study of dividend policy was conducted extensively both in developed and developing countries [5]–[10]. In the context of Indonesia, study of dividend policy were conducted by some researchers [11]–[14]. However, only a few research regarding this topic was conducted in South Asia region. This study fill the lack of study in this region. This study differs from previous study because this study focuses on the sample of property sector which is considered has high growth in the study period. This is because Indonesia government has special policy which focuses on the development of infrastructure in the period of 2014-2019.

The purpose of this paper is to examine the factors that are suspected to influence the company's dividend policy. Property sector of public companies are the objects of this research. This study uses panel data during the observation period from 2015 to 2018 where this sector was regarded has high growth because Indonesian government attempt to boost infrastructure development. Factors thought to have an influence on dividend policy are

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current ratio, leverage, debt to equity ratio, total asset turnover and return on equity. The selection of these variables is based on previous empirical literature which shows the influence of these variables on dividend policy in both developed and developing countries.

This paper is organized as follows. After describing an overview of the importance of this study in the introduction section, it is continued by reviewing the literature relevant to this research in section 2. Section 3 examines the methods used in this study. Next, section 4 presents the results of the analysis and discussion. Finally, section 5 is a conclusion.

2. Literature Review

Although research on dividend policy has been carried out extensively in recent decades, no results have been universally accepted [15]. This makes research on dividend policy interesting to do. The current research on dividend policy was carried out by Baron et al.,[6] using data from non-financial public companies listed on Euronext stock exchanges from 2000 to 2017.

2.1 The Influence of Current Ratio on Dividend Policy

The management of current assets is very crucial for the company because it will have consequences for company performance. According to Van Horne and Wachowicz [16], the management of current assets requires more serious attention compared to fixed assets because the amount of current assets changes every day in line with company operations. Instead, the amount of fixed assets is relatively unchanged in a relatively long period of time. Therefore, companies must focuse on managing current assets rather than fixed assets. Efficient management of current assets will result in high profits for the company. This high profit can further increase the company's ability to pay high dividends to shareholders. Conversely, inefficient management of current assets will increase costs and result in lower net profits generated by the company which in turn will reduce the company's ability to pay dividends for shareholders.

Empirical evidence about the effect of liquidity on the dividend payout ratio shows mixed results. For example, research conducted by Wahjudi [14] found that liquidity has a negative effect on dividend payout ratios. Likewise, research conducted by Barros et al., [6] using OLS regression shows that there is a negative influence between the current ratio on the dividend payout ratio. However, when logit and probit regression are used the results show that the current ratio does not significantly influence on the dividend payout ratio. Because empirical evidence shows conflicting results, this study proposes the following hypothesis:
H1*: Current ratio has an effect on dividend payout ratio.*

2.2 The Influence of Leverage on Dividend Policy

Leverage shows the proportion of a company's debt to equity. This measure is indicated by the value of debt to equity ratio (DER). High leverage will burden companies to incur high costs in the form of periodic interest payments. The company must also hold and collect a lot of cash to pay the loan principal at the end of the maturity and therefore will reduce the company's ability to pay dividends. Thus the higher the leverage the lower the company's ability to pay dividends.

There are a lot of empirical evidence that shows the negative influence between leverage and the company's ability to pay dividends. For example research conducted by Al-Twaijry [17], found that leverage negatively affects the dividend payout ratio (DPR). The same result was shown by Papadopoulos and Charalambidis [18] who found a negative influence between leverage and the DPR. In Indonesia, using manufacturing companies as objects of research, Wahjudi [14] found that leverage negatively affected the DPR. The argument is that there is a negative relationship between leverage and dividend policy because companies with high debt burdens prefer to cut dividends either voluntarily or because of pressure from creditors to hold the cash needed to fulfill their obligations to creditors [19]. Based on the theoretical explanation and empirical evidence above, this study proposes the following hypotheses:
H2*: leverage has a negative effect on dividen policy*

2.3 The Effect of Asset Turnover on Dividend Policy

Asset turnover shows how often assets turn within a company during an operation period. Asset turnover is the change of assets from assets that enter the production process into semi-finished goods, finished goods and sold until they return to cash. Intuitively in one turnover of assets will produce profits for the company. The faster the asset turnover, the greater the profits generated [1], [2].

The positive influence between asset turnover on dividend policy is shown by Wu et al., [20] who found that asset turnover has a positive effect on dividend payout ratio. Similarly, study conducted in Malaysia by Benjamin et al., [21] found that assets turnover has positive and significant effect on dividend policy. Therefore, this study proposes the hypotheses below:
H3*: Turnover assets have a positive effect on dividend policy*

2.4 The Effect of Profitability on Dividend Policy

Profitability shows the company's performance. Companies that have better performance will have more ability to pay dividends to shareholders. This profitability can be used by investors to make investment decisions in a company. High profitability provides an attraction for potential investors to invest. Next, profitability is an important factor that can influence the dividend policy [22].

Many studies have examined the effect of profitability on dividend policy. Jabbouri [4] found that profitability had a positive and significant effect on dividend policy. Likewise, research conducted byBarros et al., [6] also shows that profitability has a positive effect on dividend policy. So the greater the profitability of a company the greater the payment of dividends to shareholders.
H4*: profitability has a positive effect on dividend policy.*

3. Method

This study uses a quantitative approach that tries to test the effect of several independent variables on the dependent variable. The population in this study are public property companies listed on the Indonesia Stock Exchange (IDX). The sampling technique of the study uses purposive sampling with the following criteria: companies are included in the property sector, companies that pay cash dividends in a row during the observation period are from 2015-2018. The sampling process is shown in table 1 below:

Table 4.1 Criteria of Purposive Sampling

Criteria	Amount
Companies listed on the IDX real estate property and building construction sector 2015-2018.	83
Companies that do not pay cash dividends during the 2015-2018 period.	(67)
Companies that did not experience an increase in the number of assets during the period 2015-2018.	(7)
Total sample	9

The dependent variable of this study is the dividend policy measured by the dividend payout ratio (DPR). DPR is a ratio between dividend per share and earning per share. Therefore the variable of DPR is measured as follow:

$$Dividend\ payout\ ratio = \frac{Dividend\ Per\ Share}{Earning\ Per\ Share}$$

The liquidity ratio shows the ratio between current assets and current debt. The greater the ratio, the greater the company's ability to meet obligations that must be met immediately without disrupting the company's operations. Companies must pay attention to this ratio, because a ratio that is too small indicates a short-term risk. The liquidity ratio is measured using the following formula:

$$Current\ ratio = \frac{current\ asset}{current\ liability}$$

Leverage shows how much debt burden borne by the company relative to its own capital. The greater the leverage the greater the fixed burden in the form of interest payments that must be made periodically. In this study, leverage is measured by dividing total debt by total equity as follows:

$$Debt\ to\ equity\ ratio = \frac{Total\ debt}{Total\ Equity}$$

Asset turnover shows how many times an asset rotates in one year. Once assets turnover in one period, the profit produced. Thus, the faster the asset turnover the more likely the company to generate profits. Asset turnover is measured by asset turnover as follows:

$$Total\ Asset\ Turnover = \frac{Total\ Sales}{Total\ Aset}$$

Profitability shows the ability of a company to generate profits with the assets that work in it. Profitability is measured by dividing the amount of net profit after tax by total equity (ROE). The greater this ratio the better the company's performance in generating profits which means more efficient management of company assets. Profitability is measured by the following formula:

$$Return\ on\ Equity = \frac{Earning\ after\ tax}{Total\ Equity}$$

To test the hypothesis as proposed above, multiple regression is used with the following regression models:

$$DPR = \beta_1 CR + \beta_2 DER + \beta_3 TATO + \beta_4 Profit + e_i$$

Where:
DPR = *dividend payout ratio*
DER = *debt to equity ratio*
CR = *current ratio*
TATO = *total asset turnover*
Profit = *prifitability*

4. Result And Discussion

After the data is inputted, the first step undertaken in this study is carry out a descriptive analysis that gives an overview of some of the characteristics of the variables studied. The results of descriptive statistical processing are displayed as the table below:

Table 2. Descriptive Statistic

Variable	N	Minimum (%)	Maximum (%)	Mean (%)	Std. Deviation
CR	36	97.48	307.75	162.3919	50.83701
DER	36	49.12	330.61	141.2306	86.41514
TATO	36	15.51	90.54	36.8481	20.36910
ROE	36	6.37	23.48	13.9053	5.12047
DPR	36	4.27	71.26	24.2881	17.22037

The number of samples in this study were 9 companies that met the criteria of purposive sampling during the 4-year observation period so that the number of observational data was 36 (9 x 4) as shown in table 2. On average, company had a current ratio of 162.39%, with a minimum value 97.48% and a maximum value of 307.75%. This ratio is relatively large and safe for companies to fulfill their short-term obligations.

On average, the leverage of property companies is 141.23% with a minimum value of 49.12% and a maximum value of 330.61%. The high standard deviation value of the DER ratio shows that there is a very high disparity between one company and another in terms of sources of corporate financing. There are companies that are quite conservative in terms of financing with low debt level, while the rest companies aggressively use external sources of capital.

The company's assets turnover is 36.85 on average with a minimum value of 15.51 and a maximum value of 90.54. Furthermore, the performance of public sector property companies is relatively the same, which is shown by the small standard deviation of 5.12. This standard deviation value is the smallest compared to the standard deviation of other variables. On average property companies make a profit of 13.9%, which is not so good performance. The minimum profitability value is 6.37% and the maximum value is 23.48%.

On the average property companies have a pretty good ability to pay dividends to stock traders. This can be seen from the size of the dividend payout ratio, which is 24.29% on average. The lowest dividend payment is 4.27% and the highest is 71.6% of the net profit generated by property companies. The regression is shown in table 3.

From table 3, it can be seen that the current ratio (CR) variable has a regression coefficient of -0.062 and the significance value is well above 5%. This means that the CR variable does not have a significant effect on the dividend policy. Thus hypothesis 1 which says that liquidity has a positive effect on dividend policy cannot be accepted. The results of this study contradict to the theories which hold that liquidity has a positive effect on dividend policy. Although not significant, the results of this study are in line with research conducted by Barros et., al [6] with OLS regression which found that liquidity has a negative effect on dividend policy. The negative effect of liquidity on dividend policy indicating that the company is too careful so that it has liquidity that is too high than what is needed. The high liquidity on the one hand will make the company safe from short-term financial risks. But on the other hand the high liquidity will increase costs.

Table 3. Output of Multiple Regression

Independen Variable	Regression Coefficients	t-stat	Sig.
(Constant)	7,709		
CR	-0,062	-1,679	0,103
DER	-0,045	-1,753	0,090*
TATO	0,643	5,542	0,000***
ROE	0,676	1,720	0,095*
F-stat			21,456
Sig.			0.000***
R Square			0,735
Adjusted R Square			0,700

For example a company that holds cash too high will incur a cost of holding money [2]. Similarly, if the company keep too much inventory will increase the cost of storage which in turn will further reduce the company's profit which ultimately reduces the company's ability to pay dividends.

The debt to equity ratio variable has a negative marginal effect on the dividend payout ratio at the 10% significance level. This is indicated by the coefficient value which is negative at -0.045 and the significance value of 0.09. Thus hypothesis 2 which says that leverage negatively affects dividend policy is accepted at a significance level of 10%. The results of this study are in line with research conducted by Wu et al.,[20] who found that leverage has a positive and significant effect on the DPR. This result is also in line with research conducted in Indonesia by Wahjudi, (2019) which shows that leverage has a negative effect on the DPR. The existence of this negative relationship indicates that companies that have a high debt burden will tend to hold more cash to pay interest and principal loans [19], [23].

The asset turnover (TATO) variable has a positive and significant impact on the DPR. This is indicated by a regression coefficient of 0.643 and a significance value of 0.000. Thus hypothesis 4 which states that asset turnover has a positive effect on dividend policy is accepted. The results of this study are supported by research conducted by Wu et al., [20] which shows that asset turnover has a positive and significant effect on dividend payments.

Efficient asset management will increase the company to generate profits which in turn will increase the company's ability to pay dividends to shareholders.

The last variable tested in this study is profitability. The profitability variable has a regression coefficient of 0.676 and a significance value of 0.095. This means that the profitability variable has a positive and significant influence on the dividend payout ratio at the 10% significance level. The results of this study are in line with research conducted by Barros et al., (2020) which shows that profitability has a positive and significant effect on dividend policy. Likewise, research conducted by Basri [24] shows the same result, namely that profitability has a positive and significant effect on dividend policy.

5. Conclusion

This paper attempt to examine the effect of variables of liquidity, leverage, asset turnover and profitability on dividend policy of public property companies. The results show that liquidity does not significantly influence dividend policy. Meanwhile, both leverage and profitability have a marginal influence on dividend policy. Leverage has negative effect on dividend policy while profitability has positive effect on dividend policy. The variable that have a very strong influence on dividend policy is asset turnover with positive and significant effect on dividend policy.

This paper has practical implications, namely that overly conservative liquidity policies will result in increased costs both in the form of cost of holding cash and inventory saving costs, which in turn will erode corporate profits. The decline in profits of this company will ultimately reduce the company's ability to pay dividends to shareholders. In general, efficient asset management will reduce costs and subsequently will increase company profits and in turn will increase the company's ability to distribute these profits to shareholders in the form of cash dividends.

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