

## Banking Corporation Dividend Policy – Evidence from ASEAN-6 Countries

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### ABSTRACT

**Purpose :** The study aims to investigate the effect of Return on Assets (ROA), Asset Turnover (Ast-Tvr), Leverage, Change in Earnings (ChE), and Size on dividend policy as measured by Dividend Increase (DIC) on banking companies in Asean-6 Countries.

**Method :** We employed eight-year observation period from 2012 to 2019, thus the purposive method obtained 134 companies as samples. This study used regression analysis by Logistic Regression as the method and collected the secondary data from the annual financial statements of banking companies of ASEAN-6 countries which comprises of Indonesia, the Philippines, Singapore, Malaysia, Thailand, and Vietnam.

**Findings :** The results show that ROA, Ast-Tvr, Leverage, ChE, and Size have no significant effect on dividend policy.

**Novelty :** To the best of our knowledge, there is no literature examining dividend policy in ASEAN-6 countries. Hence, we tried to fill the gap in terms of dividend policies in ASEAN-6 Countries. Further, this study contributes further research to provide evidence of what policies are set by banking corporations in ASEAN countries. This research also displays a better understanding for stakeholders and investors in interpreting the dividend related information prior taking the investment decision.

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### INTRODUCTION

Dividend policy is one of the substantial policies deliberated by a company. This statement is supported by Imamah, et al. (2019) which states that the dividend policy is one of the most important business decisions because it affects the internal funding decisions of a company. High dividends allow companies to raise funds externally, therefore companies that are financially constrained can reduce their dividend payments (Chae, et al. 2009). In addition, it is also found that the company maintains its income mainly determined by investment opportunities and financial constraints, thus the external environment plays an important role in the dividend policy (David & Valeriy, 2010). Companies that eliminate dividends will lead to poor performance, where long-term performance shows a favorable situation if dividend initiation is carried out (Akhigbe and Madura, 1996).

To this extent, there have been many studies conducted regarding the determination of corporate dividend policies where most of the study focuses on developed countries, European countries, and China. According to Shamsabadi, et al. (2016), the dividend policy in Australia states that a company cannot distribute dividends if their assets are not less than the liabilities. In addition, research on the G-12 countries has been carried out by Ali (2022), where the majority of the members of the G-12 are developed countries. This study examines changes in company dividends during the COVID-19 pandemic which later found that the pandemic affected the rate of dividend reduction and write-off, although most companies were able to maintain or increase dividends during the pandemic. In addition, Beladi, et al. (2022) also found that the dual-class stock structure negatively affects the propensity to pay dividends.

Meanwhile, in Association of Southeast Asian Nations (ASEAN) markets, financial systems and institutions are not well established, information disclosure is less regulated, and investors are less protected (Imamah, et al. 2019). Thus, in this study, we will focus on ASEAN countries, or rather we choose ASEAN-6 countries with the highest competitiveness. Based on data taken from the World Economic Forum (2019) which discusses the Global Competitiveness Index 2017-2019, the ASEAN-6 countries are consist of Singapore, Malaysia, Thailand, Indone-

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sia, the Philippines, and Vietnam.

Previous studies have found the two-sided impact of a crisis on performance of a company, for example low profits and poor stock prices (Baker & Wurgler, 2016; Hardy, 2021). In this case, dividend policy can be used by managers as a signal to reduce information asymmetry by conveying positive information about the job prospects in the long term (Baker & Wurgler, 2016). Based on the theoretical perspective, information asymmetry and signal theory suggest that a market views dividends as a signal that conveys new information about the future profitability because dividend increases indicate high long-term growth (Miller & Rock, 1985).

In this study, we chose banking corporation of ASEAN countries. The reason is because banking companies have different characteristics from other financial sector companies as seen in terms of their accounting records, functions, and regulations (Aldy, et al, 2018). We argue that each country has a different dividend policy, where some companies choose to cut or eliminate dividends to avoid negative signals about long-term growth prospects, some choose to increase dividends to respond to a crisis that occurs in a country. Thus, this study aims to examine how dividend policy is determined by a company. Furthermore, this study contributes to further study to provide evidence of what policies are set by a company in ASEAN countries.

Dividend policy in each country is different. For example, in Malaysia, the government gives companies the freedom to determine dividend payments based on actual financial performance (Zainudin & Khaw, 2021). Meanwhile in Indonesia, dividend policy is influenced by Islamic or Sharia (Imamah, et al. 2019). While the research conducted in Thailand by Fairchild, et al. (2013) stated that the determination of dividend policy is influenced by the strength of the investors. Moreover, a study conducted in Vietnam by Tran (2021) stated that the dividend policy is determined to limit dividend payments and use company cash to serve the interests of the company itself. As for the Singapore and the Philippines has no evidence found about the relationship of financial ratios and dividend policies.

According to Ashraf, et. al. (2016), banks pay lower dividends where they are less likely to pay dividends whose countries enforce stricter risk-based capital regulations for the banking industry during the pre-crisis period. According to Zheng and Ashraf (2014), banks that do high uncertainty avoidance, high long-term orientation, and have low masculinity pays dividends in lower amounts and even tend not to pay dividends. Further, according to Athari, et al. (2016) who examined Islamic banks said that Islamic banks use dividend policy as a substitute mechanism to reduce agency problems which are relatively more significant and the risk of takeovers by insiders is higher.

In previous studies that discussed the effect of Return on Assets on dividend policy, it was said that companies that have high profitability values will make companies set dividend policies by making low dividend payments. This is supported by research conducted by Jensen, et al (1992). Nuringsih (2005) states that if a company has low profitability, the company continues to pay dividends, which aims to meet the demands of shareholders and also maintain the reputation in the eyes of investors. Pattiruhu & Paais (2020) assume that a company increases the total assets, hence the financial statements seem stable, further a company will distribute dividends to investors. Ali (2022) found that a company which increase dividends will have better prospects for profitability and income. Jensen, et al. (1992) also found that companies hold dividends if the company has high profitability. Higher ROA results in low dividend payments and the increasing of retained earnings. In addition, Fama (2001) states that companies that have high profitability are more likely to pay dividends. ROA has a negative and significant effect on dividend policy. This is supported by Pattiruhu & Paais (2020), Nuringsih (2005), Jensen, et al. (1992), Fama (2001), and Ali (2022). Therefore, the hypothesis is thus suggested:

### **H<sub>1</sub> : Return on Assets has a negative and significant effect on dividend policy**

Asset turnover is used to measure the ability of a company to generate income from the assets owned by the company. The level of asset turnover will reflect the utilization of company assets Fairfield & Yohn (2001). High asset turnover will cause the company to pay high dividends as well. This is supported by research conducted by Purnami & Artini (2016). According to Ali (2022) companies that have increased dividends during the pandemic are companies that show asset turnover. According to Wu (2020) says that companies with high asset generating capabilities and good asset management tend to issue high cash dividends. Asset turnover has a positive and significant effect on dividend policy. This is supported by Ali (2022), Purnami & Hartini (2016), and Deitiana (2013). Therefore, the following hypothesis is thus suggested:

### **H<sub>2</sub> : Asset turnover has a positive and significant effect on dividend policy**

Leverage is a ratio used to measure the extent to which a company's assets are financed by debt. According to Ali (2022), companies that have high leverage are more likely to stop dividends, which means companies that have low leverage tend to increase dividends rather than maintain or cut dividends. Tran (2021) also reveals that companies with low leverage tend to pay dividends. Then Pattiruhu & Paais (2020) says that the leverage variable that uses the Debt to Equity ratio (DER) has a relationship with dividend policy, in this case it means that leverage has an effect on dividend policy. In addition, Sterenczak and Kubiak (2022) say that leverage has a negative effect on dividend policy because the risk of default in companies that have high leverage will be vulnerable to high debt agency costs. Leverage has a negative significant effect on dividend policy. This is supported by Tran, Pattiruhu and

Paais (2020), Ali (2022), and Sterenczak and Kubiak (2022). Therefore, the following hypothesis is thus suggested:

**H<sub>3</sub> : Leverage has a negative and significant effect on dividend policy**

Change in Earnings will show the difference between the income earned by the company before the current year and also after the current year. Ali (2022) shows that change in earnings affects dividend policy. In this study it is said that companies with better earnings changes will increase dividends rather than maintain or cut dividends. The results of the study show that change in earnings has a significant and negative effect on dividend policy. Berdasarkan Sinabutar & Nugroho (2015), Changes in Earnings memiliki hubungan yang negatif karena perusahaan lebih memilih untuk menginvestasikan kembali pendapatan mereka untuk memperluas bisnis daripada membagikan dividen kepada investor. Dengan demikian, Changes in Earnings memiliki hubungan negatif dan signifikan terhadap dividend policy. This is supported by Sinabutar & Nugroho (2015) and Ali (2022). Therefore, the following hypothesis is thus suggested:

**H<sub>4</sub> : Change in Earnings has a negative and significant effect on dividend policy**

Firm size is a measure of the size of a company that can be seen from the company's total assets. According to Nuringsih (2005), dividend payments are made to maintain reputation among actual and potential investors so that companies can easily enter the capital market. Firm size influences the company's dividend policy where the size of the company will determine the achievement of profitability and stability as well as easier access to the capital market (Weston & Copeland, 1992). While Pattiruhu & Paais (2020) said company size has no effect on dividend policy which indicates that the company is holding back profits for investors. A large company does not guarantee that the dividends given to investors are also large. In contrast to companies with small company where companies dare to give dividends to investors even though it is relatively difficult. However, this condition has an impact on investor interest in the future, especially for investors who like dividends. Size has a positive and significant effect on dividend policy, this is supported by research conducted by Weston & Copeland (1992) and Nuringsih (2005). Therefore, the following hypothesis is thus suggested:

**H<sub>5</sub> : Size has a positive and significant effect on dividend policy**

**RESEARCH METHODS**

The data in this study used secondary data collected from the annual financial statements of listed and non-listed banking companies in ASEAN-6 countries which comprises of Indonesia, Philippines, Singapore, Malaysia, Thailand, and Vietnam in the period 2012 to 2019. This study employed logistic regression analysis, where dividend policy is measured by Dividend Increases (DIC). The data was ran using the STATA. Thus, the existence of a balanced panel can be carried out using samples which the data is incomplete. This incomplete data means that it is one of the criteria for sampling using a purposive sampling technique (see table 1), the criterion is that the data cannot be incomplete for the four consecutive years, hence the data that met the requirement can be included as a sample.

In addition, this study includes country effect as a dummy variable to see the differences between the 6 ASEAN countries as the object observed. The equations proposed in this study are shown by equation 1.

$$Y = a + b_1ROA + b_2LEV + b_3SIZE + b_4CHE + b_5AST-TVR + b_6i-COUNTRY + e \dots\dots\dots 1$$

- Y = Dependent Variable (DIC)
- ROA = Return on Asset
- LEV = Leverage
- SIZE = Size
- ChE = Change in Earnings
- AST-TVR = Asset turnover
- A = Constant
- b<sub>1</sub>-b<sub>6</sub> = Coefficient
- i-COUNTRY = Country Effect
- e = error

The dependent variable in this study is Dividend Omissions, Dividen Decreases, Dividend Increases, dan

**Table 1.** Sample Selection

Criteria	Total Companies	Indonesia	Philippines	Singapore	Malaysia	Thailand	Vietnam
Banking companies	252	93	43	9	16	15	76
Incomplete data for 4 consecutive year	(118)	(37)	(31)	(5)	(0)	(0)	(45)
Total samples	134	56	12	4	16	15	31

**Table 2.** Operational Definition of Research Variables

Variable	Definition	Description	Calculation
DIC	Dividend Increases (DIC) are changes seen from the increase in dividend payments from the previous year to the current year	A dummy variable that equals 1 for dividend increases, and 0 otherwise	–
ROA	Return on Assets (ROA) is a ratio that measures the level of profitability of a company	The ratio of net income to total assets	Net Income / Total Assets x 100
Ast-Tvr	Asset turnover is a ratio that shows the company's efforts to utilize its assets to produce an efficient sale	The ratio of sales to total assets	Revenue / Total Assets x 100
Lev	Leverage is a ratio to measure a company's ability to meet its obligations	The ratio of total-long term debt to total assets	Total Longterm Debt / Total Assets x 100
ChE	Change in Earnings is the change in income earned by a company in the previous year and compared to the current year	Change in net income in year t, standarlized by book equity in year	Net Income Year <sub>t</sub> – Net Income Year <sub>t-1</sub>
Size	Firm Size is the size of a company as measured by the company's total assets	Logarithm of total assets	Total Assets
i-COUNTRY	Country Effects	A dummy variable that equals 1 for each country, and 0 otherwise	–

Dividend No-Changes. While the independent variables are consist of Return on Assets, Asset turnover, Leverage, Change in Earnings, and Size

## RESULTS AND DISCUSSIONS

The descriptive statistical to depict the data distribution of independent variables in this study are presented in table 3. Based on table 3, ROA has a total of 145 observations with a mean of 1.179, a standard deviation of 0.47, a minimum value of -0.212, and a maximum value of 3.248. The leverage variable has a total of 141 observations, with a mean of 5,987, a standard deviation of 13,043, a minimum value of 0, and a maximum value of 90,964. The company size variable has a total of 145 observations, with a mean of 17,076, a standard deviation of 1,386, a minimum value of 13,075 and a maximum value of 19,715. The Changes in Earnings variable has a total of 105 observations, with a mean of 10,612, a standard deviation of 1,541, a minimum value of 5,948, and a maximum value of 14,272. The asset turnover variable has a total of 145 observations, with a mean of 3,504, a standard deviation of 1,215, a minimum value of 0,908, and a maximum value of 8,381.

Table 4 displays the total observations of dummy variable is 1,056, which consist of 145 samples of dividend increases and 911 samples of non-dividend increase (e.g., dividend omissions, dividend no changes, dividend decreases). It indicates that most of the samples do not experience dividend increases, noted that only 13,73 percent of total samples having dividend increases.

The result of the multicollinearity test is presented in table 5. Based on Ghozali (2016), multicollinearity test is conducted to examine the correlation between independent variables in regression model. To figure it out, we can check it from the value of each independent variable. If the value is higher than 0.8, it implies that the variable is engaged in multicollinearity issue. Thus, the variable should be excluded from the model. Based on table 4, it can be seen that all variables have values below 0.8, therefore it can be concluded that the data does not indicate multicollinearity so that this data is worthy of further analysis.

**Table 3. Statistic Descriptive Test Result of Independent Variable**

Variable	Obs	Mean	Std. Dev.	Min	Max
Roa	145	1.179	0.47	-0.212	3.248
Lev	141	5.987	13.043	0	90.964
Size	145	17.076	1.386	13.075	19.715
Cheq	105	10.612	1.541	5.948	14.272
Ast-Tvr	145	3.504	1.215	0.908	8.381

Source: Processed Data (2022)

**Table 4.** Statistic Descriptive of Dependent Variable

	Dividend Increases		
	Freq.	Percent	Cum.
0	911	86.27	86.27
1	145	13.73	100.00
Total	1,056	100,00	

**Table 5.** Multicollinearity Test Results

Variables	(1)	(2)	(3)	(4)	(5)
Roa	1.000				
Lev	-0.083	1.000			
Size	-0.045	-0.075	1.000		
Che	0.056	-0.026	0.739	1.000	
Ast-Tvr	0.381	-0.017	-0.434	-0.141	1.000

In the logistic regression test carried out according to table 6, the level of significance can be seen if the probability value is less than 0.1, it means that the independent variable has a significant effect on the dependent variable. Vice versa, if the probability value is greater than 0.1, it means that the independent variable has no significant effect on the dependent variable. Therefore, based on table 6, it can be seen that the ROA, asset turnover, leverage, ChE, dan size variables have no significant effect on DIC thus hypotheses 1 to 5 are rejected. Furthermore, table 6 shows that the data is processed based on variables and countries. For DIC, it can be seen that the number of observations is 581. ROA has a coefficient value of 0.1, leverage has a coefficient value of 0.0, size has a coefficient value of 0.2, ChE has a coefficient value of 0.1, and asset turnover has a coefficient value of -0.0. According to coefficient value of each country on DIC model, Malaysia has a coefficient value of 4.7, Philippines has a coefficient value of 2.5, Singapore has a coefficient value of 3.3, Thailand has a coefficient value of 3.5 with, and Vietnam has a coefficient value of 1.3.

### The Effect of Return on Asset on Dividend Policy

ROA on DIC in this study shows a positive relationship, which means that if the company has a high ROA, the dividend payments given by the company will increase. It also proves that the signal theory which states that dividend policy is used as a signal given by a company to be conveyed to investors is worked. The increase in dividends is used as a signal to investors that management predicts a good income in the future.

The first hypothesis which shows that ROA has a significant effect on Dividend Policy is rejected. The results of this study are not in line with research conducted by Madyoningrum (2019), Dewi (2008), Nuringsih (2005), and Jensen, et al. (1992) which states that ROA has a significant effect on dividend policy. However, this study is in line with the research conducted by Sejati, et al. (2020) and Tjhoa (2020) which state that ROA has no significant effect on dividend policy. Because ROA does not affect the distribution of dividends, it can be assumed if a company has

**Table 6.** Logistics Regression Test Results

Dic	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
Roa	0.116	0.31	0.37	0.708	-0.491 0.723	
Lev	0.017	0.013	1.23	0.22	-0.01 0.043	
Size	0.2	0.153	1.30	0.193	-0.101 0.501	
Cheq	0.085	0.119	0.71	0.476	-0.148 0.318	
Ast_Tvr	-0.008	0.116	-0.07	0.942	-0.237 0.22	
country : base ID	0	.	.	.	.	.
MY	4.661	0.71	6.57	0	3.269 6.052	***
PH	2.454	0.688	3.57	0	1.106 3.802	***
SG	3.314	0.774	4.28	0	1.798 4.831	***
TH	3.54	0.621	5.70	0	2.323 4.757	***
VN	1.273	0.739	1.72	0.085	-0.176 2.721	*
Constant	-8.402	2.405	-3.49	0	-13.116 -3.689	***
Mean dependent var		0.176	SD dependent var		0.381	
Pseudo r-squared		0.367	Number of obs		581	
Chi-square		114.811	Prob > chi2		0.000	
Akaike crit. (AIC)		363.857	Bayesian crit. (BIC)		411.870	

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

a large profit, this company does not need to change the proportion of dividends for shareholders. Thus, a company will give a signal to outsiders, especially to investors, to show that a company does not depend on the amount of ROA.

### **The Effect of Asset Turnover on Dividend Policy**

Asset turnover on DIC shows a negative relationship, which implies that if a company has a high asset turnover, the dividend payments given by a company will decrease, and the contrary. A company gives a signal to external parties about the high or low dividend paid by a company caused by the high or low turnover of the assets. Thus, external parties know the threat that will be received when the asset turnover is high or low.

The second hypothesis which shows that asset turnover has a significant effect on Dividend Policy is rejected. The results of this study are not in line with research conducted by Deitiana (2013) and Ali (2022) which state that asset turnover has a significant effect on dividend policy. However, this study is in line with research conducted by Destriana (2016) which states that asset turnover has no significant effect on dividend policy. Based on these results, a company gives a signal to external parties, especially investors, not to worry about the low dividends paid because asset turnover does not affect the dividends paid.

### **The Effect of Leverage on Dividend Policy**

The effect of leverage on DIC shows a positive relationship, which implies that if a company has high leverage, the dividend payout given by the company will increase. An increase in dividends is a positive signal about the growth of a company in the future, because an increase in dividends is interpreted as a profit to be obtained in the future as a result of investment decisions. So that this can be used as a signal to investors to find out the dividend policy of the company that is set.

The third hypothesis which states that leverage has a significant effect on dividend policy is rejected. The results of this study are not in line with research conducted by Madyoningrum (2019), Jabbouri (2016), Kazmierska and Jozwiak (2015), Mancinelli and Oskan (2006), and Ali (2022) which state that leverage has a significant effect on dividend policy. However, this study is in line with study conducted by El-Helaly & Al-Dah (2022) and Adnan, et al. (2014) which states that leverage has no significant effect on dividend policy. Because leverage does not affect the distribution of dividends, a company will give a signal to external parties, especially to investors, to show that the company does not depend on the amount of leverage obtained by the company.

### **The Effect of Change in Earnings on Dividend Policy**

The effect of ChE on in this study shows a positive relationship, which means that if a company has a high change in income, the dividend payment given by the company will increase. An increase in dividends is a positive signal about the growth of a company in the future, because an increase in dividends is interpreted as a profit to be obtained in the future as a result of investment decisions. So that it can be used as a signal to investors to find out the dividend policy of a company that is set.

The fourth hypothesis which shows that leverage has a significant effect on dividend policy is rejected. The results of this study are not in line with research conducted by Kurniawan and Jin (2017) and Ali (2022) which state that leverage has a significant effect on dividend policy. However, this study is in line with research conducted by Lusiana & Wibowo (2017) and Hantono, et al. (2019) which states that leverage has no significant effect on dividend policy. Because ChE does not affect the distribution of dividends, a company will give a signal to external parties, especially to investors, to show that a company does not depend on the magnitude of changes in the income earned by the company.

### **The Effect of Size on Dividend Policy**

The effect of size on DIC shows a positive relationship, which means that if the size of the company is large, the dividend payout given by the company will be high. Dividend policy is a sign regarding the prospects of a company in the future. This signaling theory is able to provide positive signs for investors and potential investors which provide information about the ability of a company to pay dividends.

Variable size of DIC gives the result that the fifth hypothesis is rejected. The results of this study are in line with research conducted by Pattiruhu and Paais (2020), Ali (2022), and Nuringsih (2005) which stated that size had no significant effect on dividend policy. This study is not in line with research conducted by Fama and French (2000), Jensen and Meckling (1976), and Ferris, et al. (2006) which states that size has a significant effect on dividend policy.

### **The Effect of 6-ASEAN Countries on Dividend Policy**

Based on table 6, it can be seen that Malaysia, Philippines, Singapore, Thailand, and Vietnam have an effect on DIC where Vietnam has the weakest influence. Countries that have a significant influence as the abovementioned indicate that financial ratio indicators can be used as a tool to determine the dividend policy. It can be related

to the dividend policy of each country, such as Malaysia which uses financial performance, Indonesia uses sharia law, Thailand uses the power of corporate investors, and Vietnam uses corporate cash to determine dividend policy (Zainudin & Khaw, 20021; Imamah, et al. 2019; Fairchild, et al. 2013; Tran, 2021). In addition to these policies, countries can employ variables such as ROA, asset turnover, leverage, earnings changes, and company size to determine a dividend policy. Likewise for Singapore and the Philippines, where as far as we concern, there has been no existing study examining dividend policy in these countries. As we know that Singapore has the highest transaction in stock exchange, which can be used as a benchmark of ASEAN countries.

## CONCLUSIONS

The results of the study concluded that ROA, Ast-TVR, Leverage, ChE, and Size have no significant effect on the dividend policies. Furthermore, the ASEAN-6 countries, namely Malaysia, Philippines, Singapore, Thailand, and Vietnam have an effect on DIC while Vietnam having the weakest effect on dividend policy.

The implication of this research is proposed to banking companies, particularly banking corporations in ASEAN-6 Countries related to the influence of financial ratios in in terms of ROA, Ast-tvr, Leverage, ChE, and Size on dividend policy. Furthermore, the study contributes banking corporations in order to determine the right policy of dividend distribution in countries with similar strategic policies and economic climates. Therefore, we suggest further study to expand the object of research to the scope of third world countries that face similar economic issues, such as income inequality, development inequality, and limited infrastructure. In addition, we also suggest further research to examine the role of intervening and moderating variables (e.g., debt policy, managerial ownership, institutional ownership) that affect dividend policy with DIC, considering that the number of references using this measurement is limited.

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