The Effect of Net Income, Operating Cash Flow, and Size Company on Dividend Policy in Finance Company

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Abstract

The purpose of this research is to test and analyze the influence net income, operating cash flow; company size on dividend policy in finance companies has been conducted at PT. Pro Car International Finance. The independent variables in this research are net income, operating cash flow and company size, while the dependent variable in this research is the dividend policy as measured using Dividend Payout Ratio (DPR). This research using primary data and secondary data. Primary data uses data directly collected from companies in the form of financial statements at Pro Car International Finance from 2008-2017, while secondary data is data that has been arranged in the form of written documents obtained from companies, previous literature and from the internet. The technique of analysis data used is multiple linear regression analysis, hypothesis testing and classic assumption tests using tools that is SPSS version 22. The results of research obtained show that partially net income and operating cash flow has effect on dividend policy, while company size does not has effect on dividend policy. The variable ability of net income, operating cash flow and firm size in explaining dividend policy is 72.6%.

Keywords: Dividend policy • Net income• Operating cash flow • Company size

Introduction

In the current era of globalization company will be stand and develop to market needed, so there is competition between producers. The actions of this company in order to maintain market position amid intense competition by maintaining and developing strategies through the quality of services. The company will be approve and hope for growth to maintain survival, also provide welfare for shareholders so the company must have a strategic plan regarding the financial aspects stated that a business strategy helps to improve competitive status and determines the performance of business in industry. Business need to be in continuous change and development process in order to make progress [1-3].

Non-bank financial institutions that stand and can compete to provide the best service and are in demand by the public are leasing. Funding institutions are better known as finance or leasing which is one of the non-bank financial institutions in Indonesia that has activities to finance community needs. Financial Services Authority Regulation No POJK.05/2014 concerning Business Operations of Financing Companies. Applicable regulations at the level of Ministerial Decrees and Government Regulations No. 9/2009 concerning Financing Institutions and Minister of Finance Regulation no.84/2206 concerning Financing Companies is a business entity whose activities carry out the procurement of goods or services based on the needs of consumers with payment in installments (OJK, 2017).

PSAK No. 23 of 2017 defines dividends as the distribution of profits to shareholders according to the proportion of share ownership based on certain types of capital. When the announcement of the distribution of company

dividends is done it indicates that the profits obtained show a significant increase, at this stage all investors who invest funds are required to receive dividends according to the amount of capital ownership in the company. Dividends distributed by the company itself can be in the form of cash dividends, debt dividends, liquidation dividends and dividends in the form of shares. The problem that is often faced by companies in a business is when the company will make decisions in dividend distribution. In determining the amount of dividends distributed to shareholders it is referred to as dividend policy. Dividend policy determines how much company profits are shared with shareholders and the profits held by the company for further growth. The optimal of dividend policy in the company is a policy that creates a balance between dividends at present and future growth by maximizing stock prices, and can involve the decision to divide profits or be used as retained earnings to be reinvested in the company states that dividend policy is very important in meeting the expectations of zshareholders; if there is a decline it is considered a symptom of a decline in the level of profit. In a policy company of dividend payment is a decision whether the profits obtained by the company at the end of the year will be distributed to shareholders as reflected in the Dividend Payout Ratio. Dividend payout ratio is a percentage of income to will pay to shareholders in cash [4-8].

In determining dividend policy, a factor that can be a concern of management is the amount of profit generated by the company. In general, the company will increase dividend payments if the profits obtained increase. Profit is an indicator of performance appraisal for companies because according to Endryawan J [7] states that the main goal of an investor in investing is to get a large profit from the investment if the company generates profits, but if the company experiences a loss, the profit cannot be obtained. Net income measures the company's ability to generate profits and see the company's success in managing its business [9].

Besides profit, financial information that is attractive to investors is a cash flow statement. States that cash flow statements as part of financial statements are intended to report cash flow income and disbursement during the period that originate from operating, investing and financing activities. One of the factors in the cash flow statement is cash flows from operating activities. Operating activities are derived from the main activities of corporate earnings which can increase the comparability of financial reporting on the operating performance of various companies so that they can be used as a source of information by investors other than profits and operating cash flow is related to dividend policy because it is one of the better indicators in describing the company's operational activities [10-12].

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Another factor influencing dividend policy on a company is company size. Company size is one factor for company's financial strength stated that the size of the company can be seen from the total assets of the company at the end of the year because the total value of assets is presented historically and is considered more stable so that it can reflect the size of the company. The results of achievement by the company in increasing public confidence in the company after going through several processes and the amount of assets owned by a company where the larger the size of the company, the greater the company's tendency to use funds from external sources [13-16].

Based on the description above, the problem formulation can that the researcher designed was whether net income, operating cash flow and company size partially influenced dividend policy at PT. Pro Car International Finance for the period 2008-2017. The purpose of this research is to test and analyze the influence net income, operating cash flow; company size on dividend policy in finance companies has been conducted at PT. Pro Car International Finance for the period 2008-2017.

Literature Review

Dividend signaling theory

Deeptee RP and Roshan B [15] stated that the dividend signal theory is a signal effect that is shared will have a signaling effect on shareholders. The top management of a company has more information about the company's strategy and can also forecast company earnings in the future. Therefore, generally people who work in companies have more information such as investors and other markets. According to Ilhamsyah FL [16] the dividend signaling theory is a signal for shareholders regarding the company's current performance and future corporate prospects [17,18].

Agency theory

According to Brahmadev P and NM Leepsa [17] stated that there is information on asymmetry between investors and management. This causes investors as outside parties cannot see management behavior in making investment decisions so that they will investigate the behavior of managers through the other side. Agency problem is one of the age-old problems that persisted since the evolution of the joint stock companies. It cannot be ignored since every organization possibly suffered from this problem in different forms. With the change in the time, the agency problem has taken different shapes and the literature has evidence about it [19].

Dividend policy

Dividend policy is an inseparable part of the company's funding policy. The policy is directed at the choice of whether profits will be distributed to shareholders or used as additional capital to finance investment in the future. In dividend policy has two kinds such as managed and residual dividend policy. A managed dividend policy is one in which management attempts to achieve a specific pattern of dividend payments i.e. it pays the same dividend until the management feels that it can maintain a different (increased) level of dividend. The residual dividend policy is a means of calculating dividends that are based on the amount of equity that remains after capital expenditures associated with the investment have been met states that the dividend policy is a policy of the company's management in determining the profit available to shareholders in the form of dividends or earnings to be retained in financing future investment. One of the most indicators from dividend policy is Dividend Payout Ratio (DPR) that respectively the ratio between net dividends paid to shareholders and net earnings [20-22].

Net income

In general, in economics profit is the net result obtained from business operating activities so that it can be used as an indicator of company profitability. States that net income is the profit obtained by the company from operational activities which is an indicator of the company in assessing the results of overall operational performance. Net income is calculated based on the difference between income or sales and all costs, after deducting interest and taxes. Net income as a company's profit is the main factor that

is considered by the directors. If the net profit obtained by the company is large, the company's management is quite free in determining the amount of dividends to be distributed to shareholders because it reflects a condition related to the company's performance [23].

Operating cash flow

According to Prastowo that cash flow statement is a life blood for every company and fundamental for the existence of the company in paying all obligations. According to the Statement of Financial Accounting Standards No. 2 (2015: 2.5) the cash flow statement is a statement of cash inflows and outflows or cash equivalents. In this research only using operating cash flow operating activities are cash flows that are important in evaluating the ability of entities to manage and generate cash flow to spend the company's operations, pay off obligations in a timely manner, pay dividends, and make new investments or expansion. Operating activities are the main income earning activities of companies and other activities that are not investment activities and financing activities where the cash effects of this transaction will be used to determine net income [24].

Company size

Determination of company size can be classified large or small companies according to various ways including total assets, log size, sales and stock market value. Large companies will generally disclose broader information because large companies have many investors. Company size affects dividends that will be distributed to investors. Company size can be measured by natural logarithms (Ln) of total assets. Total assets in Ln because generally the total assets in the company are worth billions or trillions of rupiah, while other variables are in percentage units, then the total assets must be in Ln to be interpreted [25-27].

Hypotheses

The effect of net income on dividend policy

Net income has an effect on dividend policy if the large profits the company's ability to pay dividends will be great. Companies that have a good level of accumulation of net income, from a subsequent period, usually have the potential to share a portion of the net income with the company owner in the form of dividends. The study that analyzed the effect of net income on dividend policy including stated that net income has an influence on dividend policy. Based on the above framework, the hypothesis proposed is.

H_1: Net income has positive effect on dividend policy.

The effect of operating cash flow on dividend policy

Cash position is an important factor that must be considered before making a decision to determine the amount of dividends to be paid to shareholders. Therefore, dividends are cash outflows, so the stronger the company's cash position or liquidity, the greater the company's ability to pay dividends. This cash flow statement can be used as a source or the best measure of a company's ability to obtain funds to continue its business. Research that analyzes the influence of operating cash flows on dividend policies includes which states that operating cash flows influence dividend policies because they are related to company liquidity which makes consideration so that the dividend for the company is cash out, then the greater the cash position and overall liquidity will be the greater the company's ability to distribute dividends to shareholders. Based on conceptual framework above, then the hypothesis proposed is.

H_2: Operating Cash Flow Has Positive Effect on Dividend Policy

The effect of company size on dividend policy

The size of the company is a symbol of the company related to the opportunities and the ability to enter the capital market and other types of external financing which demonstrates the ability to borrow. The study that analyzed the effect of company size on dividend policy as stated by and explained how the size of the company affects positively and significantly on dividend policy because it relates to the increase in the number of company

assets, thus supporting the increase the amount of dividends to be distributed. Based on the above theories, the hypothesis proposed is.

H$_3$: Company Size Has Positive Effect on Dividend Policy.

Research Methodology

Design research

According to Arikunto (2014: 90) stated that the research design is a design created as a benchmark of activities that will be implemented for research. The research design used in this study is causality design. This causality design is used to prove the causal relationship or the relationship affecting and influenced by the variables studied, which in this study are net income, operating cash flow and company size that will be analyzed to determine its effect on dividend policy.

Location research

This research was conducted at PT. Pro Car International Finance is located at Menara Sentraya, Sultan Iskandarsyah Raya Street No. 1A South Jakarta 12160.

Object research

According to Riduwan (2015: 50) the object of research is to explain about what, who, where and when the research was conducted which is the object of research. This research is about the analysis of the effect of net income, operating cash flow and company size on dividend policy. This research uses three independent variables, namely net income, operating cash flow and company size, and uses one dependent variable, namely dividend policy on non-bank finance company (leasing). The object of this study is the financial statements made by the company PT. Pro Car International Finance from 2008 to 2017.

Method of collects data

According to Arikunto (2014: 136) states that the research method is a research method is a method used by researchers in collecting research data. The data collection methods used in this research is observation, documentation, and literature review.

Result and Discussion

Overview description PT. Pro Car International Finance

In the beginning, the finance or leasing company focused its business on the financing sector to support various types of industrial, trade and agricultural development projects. Financing through lease is intended to procure capital goods in the form of production facilities and equipment. Consumer financing is a type of financing transaction for the purchase of consumer goods to individuals on a regular payment system, where the main customers are people who have credibility. In this research using one of financing company is PT. Pro Car International Finance. PT. Pro Car International Finance is a company engaged in the financing of commercial vehicles, public transportation and used vehicles. The journey of PT. Pro Car International Finance began on March 8, 1994, which originally stood as PT. Pro Card International based on decision letter 90/CN/PDT.P/1994/PN.JKT.PST. At the beginning the company was built located in the Setiabudi area, South Jakarta. On February 19, 2002, it changed its name to PT. Pro Car International Finance is in line with the change in new shareholders. At present the head office of PT. Pro Car International Finance is located at Menara Sentraya Lt. 15 Unit B1 Jln. Iskandarsyah Raya No. 1A Kel. Melawai, Kec. Kebayoran Baru South Jakarta.

Vision and mission PT. Pro Car International Finance

Vision:

Can be one of the best finance companies that serve consumers.

Mission:

- Always give priority to the satisfaction of customers and partners.
- Optimizing company performance.
- Building trust in consumers and the banking world.

Statistic descriptive analysis

The research using variable is dividend policy, net income, operating cash flow and company size. Dividend policy has a minimum value of 0.1089, a maximum value of 0.7126 and an average of 0.389. The standard deviation of the dividend policy is 0.1728. From these values it can be seen that the average value is greater than the standard deviation of 0.389> 0.1728. Net income has a minimum value of 22, 9007, has a maximum value of 24,741. The average owned by the variable net income is 24.02. Net income has a standard deviation of 0.652. Operating cash flows have a minimum value of 22.23 and a maximum value of 27.04. Cash flow from operating activities has an average of 25.94 with a standard deviation of 1.4807. The size of the company has a minimum value of 26,991 and has a maximum value of 28,31. The average size of the company is 27.87. Standard deviations indicate the size of the variance of the data against the mean. The standard deviation for the firm size variable is 0.452.

Multiple linear regression analysis

In this research, multiple linear regression analysis using SPSS software for Windows 22 series to test whether there is an influence between net income, operating cash flow and company size on dividend policy at PT. Pro Car International Finance for the period 2008-2017.

Based on Table 1 processing data of SPSS shows the coefficient values in the multiple linear regression equation the value of the equation used is the value in the unstandardized column. The equation of multiple linear regressions obtained is.

$$DPR = a + b_1NI + b_2CFO + b_3SC + e$$

$$DPR = -4.773 + 0.239\ NI + 0.203\ CFO - 0.024\ SC + e$$

a = -4.773, means that if the free variable net income, cash flow operating and size company have a value equal to zero (0), then the dependent variable dividend policy will decrease by -4.773.

b_1= 0.239, which means that if other variables have a fixed value and the value of net income has increased by 1%, then the dividend policy will increase by 0.239. A positive sign on the value of the regression coefficient indicates same relationship between dividend policy and net income, which means that if net income increases, the dividend policy will increase.

b_2= 0.230, means that if the operating cash flow variable increases by 1%, the dividend policy will increase by 0.203. A positive value in the operating cash flow regression coefficient indicates a positive direct relationship between operating cash flow and dividend policy, whereas if operating cash flow increases the dividend policy increases.

b_3= 0.024, this shows that each increase in dividend policy by 1%, the dividend policy will decrease by 0.24 assuming the other variables are constant.

Result of Goodness of Fit Model (F Test)

F statistical test aims to show whether all independent variables intended in the model have a simultaneous effect on the dependent variable. The purpose of this F test is to test the feasibility of goodness of fit model (Table 2).

Table 1. Result of multiple regressions linier analysis.

Variables	Regression Coefficient	Sig
Constanta	-4.773	0.101
Net income	0.239	0.003
Cash flow operating	0.203	0.048
Size company	-0.024	0.768

Source: Data is Processed with SPSS 22. 2019

Based on Table 2 F test that has been conducted with a significance level of 5% with $df_1 = 3$ and $df_2 = 6$, so that the F Table is 4.76. Based on the SPSS output in Table 2, the result of F tests show that the calculated Fvalue of 8.937 with significance results of 0.012. This means that F count 8.937 > F Table 4.76 and the significance value of 0.012 < 0.05. It can be concluded that Net Income (X_1), Cash Flow Operating (X_2), Size Company (X_3) has effect on Dividend Policy (Y) so that H_0 is rejected and H_a is accepted.

Result of significance individual parameters test (t Test)

Individual parameters test (t test statistic) aims to determine the relationship of each independent variable to dependent variable (Table 3).

From Table 3, the following results can be concluded:

- The effect of net income on dividend policy. The net income variable produces t count of 4.892 with regression coefficient of 0.239 and significance of 0.003. Seen from the significance value of 0.003 < 0.05 and t count (4.892) > t Table (2.36362). This explains that partially net income has a positive and significant effect on dividend policy, so that $(H_0 1)$ is rejected.

- The effect of operating cash flow on dividend policy. It can be seen from the cash flow operating variable produces a t count of 2.428 with a regression coefficient of 0.203. Cash flow operating has a significance value of 0.048 < 0.05 with a value of t count (2.428) > t table (2.36362), it can be concluded that partially the cash flow operating affects the dividend policy. So the $H_0 2$ hypothesis which states that there is no effect of cash flow operating on dividend policy is rejected.

- The effect of company size on dividend policy. It can be seen from the size company variable produces a t count of -0.309 with a regression coefficient of -0.024. Size company has a significance value of 0.768 > 0.05 with a value of t count (-0.309) < t Table (2.36362), it can be concluded that partially the size of the company has no influence on dividend policy. So the Ha3 hypothesis which states that there is an effect of Size Company on dividend policy is rejected and $H_0 3$ is accepted (Table 4).

Result of determination coefficient test

The coefficient of determination: Test aims to measure the extent of the model's ability to explain variations in the dependent variable. Based on Table 4 the results of the determination coefficient test show that the value of Adjusted R Square is 0.726 These results explain that the magnitude of 72.6%

Table 2. The result of goodness of fit model (F Test).

	Model	Sum of Squares	Df	Mean Square	F	Sig.
	Regression	0.220	3	0.073	8.937	0.012[b]
1	Residual	0.049	6	0.008		
	Total	0.269	9			

Source: Data is Processed with SPSS 22. 2019

Table 3. Result of partial test (t Test).

	Model	t	Sig.
	(Constant)	-1.934	0.101
	Net income	4.892	0.003
1	Cash flow operating	2.428	0.048
	Size company	-0.309	0.768

Source: Data is Processed with SPSS 22. 2019

Table 4. Result of coefficient determination test.

Model	R	R^2	Adjusted R^2	Standard Error Estimation
1	0.904[a]	0.817	0.726	0.0905410

Source: Data is Processed with SPSS 22. 2019

of dividend policy is influenced by the contribution of independent variables namely net income (X_1), operating cash flow (X_2), and company size (X_3), while the remaining 27.4% of dividend policy is influenced by other variables not examined in this research model.

The results of classic assumption tests

- **Normality test:** The normality test aims to test whether the regression model of confounding or residual variables has a normal distribution. Based on the results of the normality test that the SPSS output value of Kolmogorov-Smirnov is 0.188 with an Asymp Sig (2-tailed) significance value of 0.2 which is greater than the value of $\alpha = 0.05$. This shows that the data regression model is normally distributed, so H_0 is accepted.

- **Multicollinearity test:** Multicollinearity test aims to test whether the regression model there is a correlation between independent variables. The effect of multicollinearity is to cause variable height in the sample. Based on result of multicollinearity test, it can be explained that the variables of the study are net income, operating cash flow and size of the company showing tolerance values above >0.10 and VIF values less than <10. Then it can be concluded that there is no multicollinearity among independent variables in the regression model.

- **Heterocedasticity test:** Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. Based on using the Glejser test of the three independent variables, namely net income, operating cash flow, the size company has a significance value above 0.05. So it can be concluded that the regression model does not occur heteroscedasticity.

- **Autocorrelation test:** Autocorrelation test aims to determine whether there is a correlation between observational data or not. Based on the results of the autocorrelation test and using the Running Test. Asymp results. Sig. obtained is 0.737. This shows that the regression model in this study does not contain symptoms of autocorrelation.

Discussion

In this research, the independent variable testing is net income, cash flow operating and company size tested on the dependent variable is dividend policy. Basically the dividend policy is a decision that is very important for the company, because this policy has to do with determining how much net income will be distributed as dividends and how much profit will be reinvested into the company in the form of retained earnings. With Significance Individual Parameters Test (t Test), it can be concluded that the variable net income (NI) and operating cash flow (CFO) has a significant effect on dividend policy (DPR) while the company size variable (SC) has no significant effect on dividend policy (DPR). A positive regression coefficient on the net profit value of 0.239 indicates a positive relationship with partially net income on dividend policy at PT. Pro Car International Finance. In this case the net profit obtained by PT. Pro Car International Finance can be made as an indicator of the company's ability to distribute dividends every year. After analysis of the years 2008-2011 PT. Pro Car International Finance continues to grow in total net profit earned. With the increase in net profit generated by the company it will be able to increase the company's ability to pay dividends to shareholders. Dividend distribution is done to maximize prosperity for the company's shareholders. This is also to make a good reputation as a company business to investors who will invest their capital in PT. Pro Car International Finance so that it can be a positive signal. This finding is in line with research conducted by which states that the net income variable has a significant positive effect on dividend policy. This means that the higher the company generates income so thus the higher the ratio of dividend distribution. Dividend policy is a policy relating to the distribution of dividends to shareholders. Operating cash flow variables in this research showed a positive and significant effect on dividend policy with a regression coefficient of 0.203. This shows that an increase in operating cash flow variables will result in an increase in dividend policy that will be

distributed to shareholders. In this case the operating cash flow activities is a way to measure the company in managing cash, if the company is able to manage cash well it will have adequate cash availability in paying dividends to shareholders. It can be seen from the year 2008-2011 operating cash flow generated by PT. Pro Car International Finance continues to experience an increase so by holding a General Meeting of Shareholders decides to distribute dividends for shareholders. This result is in line with research conducted by which states that cash flow operating has effect on the company's dividend policy. In general, companies will pay dividends if the source of cash is large enough. If the higher the operating cash flow generated, the higher the dividend policy will result. The regression coefficient of -0.024 shows the value that is inversely proportional to the dividend policy. In the years 2008-2017 there was an increase every year of the total size of the company at PT. Pro Car International Finance. Because of the greater size of a company, the operational costs borne will be even greater. This indicates that the size of a company will not necessarily affect the dividend policy that will be distributed to shareholders. This research is in line with research conducted by which states that company size (SC) has no effect on dividend policy (DPR). The size of the company explains the state of a company. One indicator that can be used in looking at company size is total assets owned. The relationship between company size and dividend policy is based on the theory of transactional costs.

Conclusion

Based on the results of hypothesis testing about the effect of Net Income, Cash Flow Operating and Firm Size on dividend policy at PT. Pro Car International Finance for the period 2008-2017 and using SPSS 22.0 software states that the results of the research described in the previous chapter, it can be concluded i.e. in partially net income, operating cash flow has effect on dividend policy but size company has no effect on dividend policy. In this case, PT. Pro Car Finance has a smooth in net income and operating cash flow every year, so the company distributes dividends to shareholders by the management of the company in the General Meeting of Shareholders, so that they have thought about the survival and growth of the company. Suggestion for the next research take objects in other industrial sectors not only nonbank company, expected that in subsequent research can add to either the independent or dependent variables used, and to develop operating cash flow but also includes investment cash and funding.

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