Operating Cash Flow, Profitability, Liquidity, Leverage and Dividend Policy

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Operating Cash Flow, Profitability, Liquidity, Leverage and Dividend Policy

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This study aims to gain empirical evidence on the effects of operating cash flow, profitability, liquidity, and leverage towards dividend policy. The samples employed in this study were 183 companies listed on the Indonesia Stock Exchange and classified in the LQ45 index. The research hypotheses were tested with multiple linear regression analysis. The results show that the operating cash flow positively affects the dividend policy while leverage negatively affects the dividend policy. In addition, both profitability and liquidity do not affect dividend policy.

Key words: *Dividend policy, leverage, liquidity, operating cash flow, profitability.*

Introduction

Companies certainly require funds to finance all aspects related to their operational and investment activities which are conducted in an effort to expand the business. A company's fund source may be issued from an internal source, in the form of retained earnings, or from an external source including issuing shares to the public. Investors invest their fund by purchasing a company's shares through the stock exchange, expecting to obtain return on the investment in the form of dividends or revenue sharing by the company. This is obtained from the deduction of the sale price and the purchase price. The expectation of companies to take advantage from retained earnings allocated for operating activities and investment is, in fact, contrary to the investors' expectation to gain dividends as their return on investment. Hence, a policy is required to overcome these goal differences through dividend policy.

According to Sawir (2004), dividend policy is the policy involving decisions on whether profit will be shared as a dividend or retained to be re-invested within the company. The dividend policy taken by a company must consider some affecting factors such as operating cash flow, profitability, liquidity, and leverage. Operating cash flow refers to the cash availability owned by a company from its normal operating activities. The cash availability allows the company

to conduct dividend distribution to shareholders. According to Christi & Wijayanti (2013), operating cash flow positively affects dividend policy. Nevertheless, in a research conducted by Azfash *et al.* (2014), operating cash flow does not affect a company's dividend policy.

Profitability refers to a company's ability to gain profit in a certain period (Gibson, 2013). High profitability level allows a company to distribute dividend to its shareholders by applying the profit earned. Based on the research results of Suharli (2006), profitability positive affects dividend policy.

Liquidity refers to a company's ability to meet its short-term obligations in a timely manner (Subramanyan & Wild, 2010). High liquidity level indicates that a company holds the ability to pay its short-term obligations, including dividend payment. According to Gupta & Banga (2010), liquidity positively affects the amount of dividend distributed by a company. However, this opinion differs as Pasaribu *et al.* (2014) states that liquidity does not affect a company's dividend policy.

According to IAI (2012), leverage refers to the cash reserved by a company for a long term period which is made available to meet all its commitments at maturity. High leverage level indicates a company's high debt ratio. This statement shows that the higher the leverage is, the less likely a company is to distribute its dividend as a fund to be utilised to settle its liability. According to Gupta & Banga (2010), leverage negatively effects dividend policy. However, this opinion differs from the research result conducted by Alzomaia & Al-Khadhiri (2013) which states that leverage does not effects dividend policy.

This research aims to reconcile the inconsistency of the previous related studies' findings on the effects of operating cash flow, profitability, liquidity, and leverage towards dividend policy applied in a company. The samples applied in this research were companies listed on the LQ45 index of the Indonesian Stock Exchange in the period of 2009-2013. In this research, the operating cash flow was indicated to have positive effects on dividend policy while leverage negatively affected it. Furthermore, profitability and liquidity were indicated to have no effects on a company's dividend policy.

The latter part of this article will present a literature review and a hypotheses of how operating cash flow, profitability, liquidity, and leverage affects dividend policy applied in a company. The next section discusses the research methodology and results as well as discussion on the topic. The final section provides conclusion and study boundaries.

Literature Review

Signalling Theory

Dividend is often utilised by investors as a signal on a company's cash flow condition in recent times and the future (Asnawi & Wijaya, 2005). A company's dividend distribution signifies its condition for the investors. Increased dividend division indicates positive signals for investors in regards to the company's condition. Conversely, when the dividend distribution decreases, a negative signal may be perceived by investors, indicating that the company will face tough times in the upcoming future (Sawir, 2004). Nevertheless, according to Watson & Head (2010), an increase in the dividend distribution may signify a negative signal as there is a possibility that the company's fund may not be utilised as an opportunity investment for the sake of its growth. Therefore, a company may be rated in a poor condition, while in fact the decrease in the dividend distribution is actually a positive signal for investors indicating that its fund is allocated to invest more on projects rather than to be distributed as dividend. This phenomenon undoubtedly indicates a company's sound condition.

Agency Theory

Agency theory, also known as contracting theory, states that every individual acts for their own interests where its entity constitutes the meeting point of various types of contractual relationships between owner, management staff, creditors, and the government. Agency theory focuses on the costs spent to monitor or organise the relationships between various parties. Management staff always strive to maximise their own well-being by minimising incurred agency costs. Therefore, the policies taken by the management staff often deviate from the shareholders' desire. Company's stakeholders expect the company to conduct policies which are capable of maximising their interest fulfillment such as dividend distribution on the investment they have made (Bastian, 2006).

In addition, Manurung (2007) states that agency theory outlines the relationship between ownership separation and company controlling. The occurring conflicts between owners and agents can be divided into three categories, i.e.: between shareholders and agents, between bond holders and agents, and between producers and consumers. The agency costs refer to the sum of expenditures issued to monitor (1) the owners, (2) expenditure for agent binding, and (2) cost associated to company controlling.

Operating Cash Flow and Dividend Policy

According to IAI (2012) in SFAS No.2 a cash flow statement declaring that the company's cash flow arises from operating activities, is an indicator that determines whether a company

has generated cash availability. The cash availability will later be applied by the company to make loan repayments, maintain operating entities, pay dividends, and conduct investments without using the company's external source fund. The operating activities constitute a major profit source for the company. Profit reflects the company's success in executing its business plans, strategies, operating activity combination, its success, or even failure (Subramanyan & Wild, 2010). The effects of operating cash flow on dividend policy have also been investigated by Christi & Wijayanti (2013) who state that operating cash flow positively affects the dividend policy. The statement corresponds with signalling theory which states that the amount of dividend distributed by a company will indicate a good signal for investors. Based on the presentation above, the research hypothesis can be formulated as follows:

H1: Operating cash flow positively affects the dividend policy

Profitability and Dividend Policy

According to Irton (2010), profitability refers to a company's ability to generate revenue exceeding the incurred costs. The definition of profitability is also pointed out by Gibson (2013) stating that profitability is a company's ability to generate revenue. In signalling theory, dividend distribution may become a signal to the investors on a company's condition. Profitability is often used by directors as one of the considerations to pay dividend as the higher profitability a company has, the greater is the cash flow. Thus, the company will be more likely to pay the dividend (Pasaribu *et al.,* 2014).

Meanwhile, according to Fair *et al.* (2011), profitability did not affect the dividend policy. Similar opinion was also expressed by Mardaleni (2014), after conducting statistical test with a result showing that the variables of return on equity, current ratio, and debt to equity ratio indicated no effects on dividend policy. The research on the effects of profitability on dividend policy was also conducted by Suharli (2006) stating that profitability caused positive effects on dividend policy. Based on the presentation above, the research hypothesis can be formulated as follows:

H2: Profitability positively effects dividend policy

Liquidity and Dividend Policy

Liquidity refers to a company's ability to meet its short-term liabilities to creditors. This aspect is focused more rather than the profit acquired (Prastowo 2011; Subramanyan & Wild, 2010). The basic framework of financial statement preparation and presentation state that liquidity is a short-term cash that a company has in the upcoming period after calculating all existing commitments (IAI, 2012).

Sitanggang and Agustina (2011) stated that liquidity, activity ratio, and the size of company did not affect dividend policy. In fact, the ratio of the previous year's growth and dividend was the factor positively affecting dividend policy. However, according to Gupta & Banga (2010), liquidity refers to a company's ability to timely repay its short-term liabilities. ON the other hand, dividend payment is a company's short-term liability, meaning that the higher is a company's liquidity level, the higher is its ability to pay dividend. This is in accordance with signalling theory in regards to company liquidity. Accordingly, Gupta & Banga (2010) stated in their research that liquidity had a positive effect on dividend policy. Based on the presentation above, the research hypothesis can be formulated as follows:

H3: Liquidity positively affects dividend policy

Leverage and Dividend Policy

According to IAI (2012) in the Statement of Financial Accounting Standards (SFAS) in regard to the basic framework of the preparation and presentation of financial statements, the solvency or leverage refers to a company's cash availability for a long term period to meet all its commitments at maturity. The relationship between leverage and debt policy, as proxied by debt to equity ratio, is supported by the agency theory stating that a company with a high leverage level would also constitute high transaction costs which is associated to creditors (Alzomaia and Al-Khadhiri, 2013). The higher the leverage or company's ability to pay its debt, the lower the company's ability to distribute dividend due to funds being applied to repay debts. Gupta & Banga (2010) stated that leverage negatively affected dividend policy. Based on the presentation above, the research hypothesis can be formulated as follows:

H4: Leverage negative affects dividend policy

Research Methodology

Research Approach and Data

This research applied the quantitative approach with quantitative data in forms of numbers and ratios as the research variables taken from companies' annual financial reports. The type of data applied was secondary data in the form of LQ45 company list on the Indonesian Stock Exchange (BEI) during the period of 2009-2013 as well as the companies' financial statements. The data in this research was taken from the official website of the Indonesian Stock Exchange (BEI) www.idx.co.id.

Research Population and Samples

The population in this research consists of all companies listed on the LQ45 index of the Indonesian Stock Exchange (BEI) in the period of 2009-2013. The samples taken were all members of the population. Thus, for each period in this study, there were 45 companies taken as samples. Nevertheless, of the 45 companies, there were some companies that did not distribute their dividend and therefore they could not be used as samples. As a result, the number of samples applied in this research were 30 companies from the period of 2009, 36 companies from the period of 2010, 40 companies from the period of 2010, 37 companies from the period of 2011, and last, 40 companies from the period of 2009.

Variable Identification

The variables applied in this research were four independent variables and a dependent variable. The independent variables (X) included the operating cash flow (X1), profitability (X2), liquidity (X3), and leverage (X4). On the other hand, the dependent variable (Y) applied was the dividend policy reflected in the companies' dividend payment decision. The companies' dividend policy in the research was proxied by the dividend payout ratio.

Variable Operational Definitions

The variable operational definitions were applied to explain how the observed variables were utilised in the research. The defining process was conducted to provide limitations to avoid misinterpretations. The followings are the definitions of the operational variables applied in this study:

1. Operating Cash Flow

Operating cash flow (OCF) is the net cash flow derived from the company's operational activities. It constitutes an indicator to determine whether the company has generated cash availability. Operating cash flow is obtained from:

Operating cash flow = operating cash flow in - operating cash flow out

2. Profitability

Profitability (PROF) is the ratio which measures a company's ability to generate revenue in a given period. Profitability is proxied by ROE (return on equity) which compares net profit and total equity. This ratio is measured by the following formula:

ROE = net profit/total equity

3. Liquidity

Liquidity (LIQ) is the ratio which measures the company's ability to meet its short term obligations. Liquidity is proxied by the current ratio which compares a company's current assets with its current liabilities. This ratio is measured by the following formula:

Current ratio = current assets / current liabilities

4. Leverage

Leverage (LEV) is the ratio which measures the amount of external funding or debt applied by the company to finance its operations. Leverage is proxied by debt to equity ratio which compares total debt with total equity. This ratio is measured by the following formula:

Debt to equity ratio = total debt/total equity

5. Dividend Policy

Dividend policy (DP) is the policy taken when a company decides to whether or not to distribute its profit as dividend. It is proxied by the dividend payout ratio, indicating the dividend amount's percentage distributed by the company. The dividend payout ratio is measured with the following formula:

Dividend payout ratio = dividend per sheet of share /profit per sheet of share

Analysis Technique and Hypothesis Testing

The analysis technique is the method applied to process the previously collected data to obtain research analysis results. The analysis techniques applied in this research include descriptive analysis, normality test, and multiple linear regression analysis. The descriptive analysis explained the research variables and was conducted to determine the maximum, minimum, and average values as well as the standard deviation of the research variables. The normality test was conducted to test whether the data applied as the research variables had normal distribution. Last, the multiple linear regression analysis was conducted to determine the effect of the variables X towards the variable Y.

Hypothesis Testing

This research performed hypothesis testing by calculating the adjusted determination coefficient (Adjusted R2), f test, and t test. The coefficient determination showed a value between 0 and 1. The greater the value of the determination coefficient of a free variable was, the more dominant independent variable variances were towards the dependent variables. F test was applied to test whether the independent variable was the predictor for the dependent variables. In addition, the t-test was conducted to show how far the explanatory variables partially affect the dependent variables. In this study, the f test and t test were set at the significance level of 5%.

Results and Discussion

LQ45 Index General Overview

The LQ45 index is an index on the Indonesian Stock Exchange which consists of 45 companies with high levels of stock exchange liquidity and market capitalisation. The companies classified in the LQ45 must meet some criteria such as; being included in the top 60 large companies with the highest market capitalisation over the past 12 months; being included in the top 60 companies with highest market capitalisation on regular market over the past 12 months; being listed on the Indonesian Stock Exchange for at least 3 months; and performing sound financial condition and growth prospects with high transaction value and frequency. The Indonesian Stock Exchange updates the LQ45 list every 6 months, i.e.: the periods from February to July and from August to January.

Descriptive Analysis

Table 1: Statistics Descriptive

Variables	N	Minimum	Maximum	Mean	Std. deviation
OCF	183	-0.1289	1.0130	0.1294	0.1358
PROF	183	0.0225	1.2581	0.2247	0.1718
LIQ	183	0.1339	10.6423	2.0716	1.7241
LEV	183	0.1536	11.1723	2.0743	2.7749
DP	183	0.0510	0.8518	0.3945	0.1639

Here, the descriptive analysis results of all study variables were described, including the minimum, maximum, average, and standard deviation values. The minimum values indicated the smallest values of each variable while the maximum values indicated the highest values of each variable. Meanwhile, the mean values indicated the average values of each variable. The standard deviation values indicated the levels of data variance from each study variable.
Based on the statistics descriptive results in Table 1, the lowest value of operating cash flow in the period of 2009-2013 was12.89% while the highest value reached 101.30% with an average value of 12.94%. The lowest profitability value was 2.25% while the highest reached 125.81% with the average value of 22.47%. The lowest liquidity value reached 13.39% while the highest reached 1,064.23% with an average value of 207.16%. The leverage value plummeted to 15.36% at its lowest, while the highest soared to 1,117.23% with an average value of 207.43%. The dividend policy sank to its lowest value of 5.10% while the highest reached 86.18% and with an average value of 39.45%.

Operating Cash Flow

The descriptive statistics for operating cash flow in the period of 2009-2013 showing the minimum, maximum, mean, and standard deviation values can be seen in Table 2.

Table 2: Descriptive Statistics of Operating Cash Flow

Year	N	Minimum	Maximum	mean	Std. deviation
2009	30	-0.1289	1.0130	0.1600	0.2099
2010	36	-0.0569	0.4159	0.1243	0.1183
2011	40	-0.0975	0.5211	0.1371	0.1318
2012	37	-0.0437	0.4332	0.1271	0.1056
2013	40	-0.1055	0.4676	0.1058	0.1081

Based on the results of the descriptive statistics presented in Table 2, it is evident that the operating cash flow during the study period was inclined to fluctuate annually. The average operating cash flow of the companies ranged from 10% to 16%. The higher the operating cash flow of a company, the more the cash availability owned by the company.

Profitability

Descriptive statistics on profitability in the period of 2009-2013 showing the minimum, maximum, mean, and standard deviation values can be seen on Table 3.

Table 3: Descriptive Statistics of Profitability

Year	N	Minimum	Maximum	Mean	Std. deviation
2009	30	0.0271	0.8221	0.2319	0.1649
2010	36	0.0330	0.8372	0.2098	0.1414
2011	40	0.0496	1.1313	0.2438	0.1765
2012	37	0.0392	1.2194	0.2370	0.1882
2013	40	0.0225	1.2581	0.2024	0.1854

Based on the results of descriptive statistics on profitability on Table 3, it can be seen that profitability during the period of 2009-2013 was inclined to fluctuate. The average level of profitability ranged 20% to 24%, describing companies' ability to generate profits in each respective period. The higher level of a company's profitability, the greater the company's ability to generate profits.

Liquidity

The descriptive statistics of liquidity in the period of 2009-2013 showing the minimum, maximum, mean, and standard deviation values can be seen in Table 4.

Table 4: Descriptive Statistics of Liquidity

Year	N	Minimum	Maximum	Mean	Std. deviation
2009	30	0.1396	7.2358	2.0020	1.8185
2010	36	0.1339	5.7905	2.0756	1.5330
2011	40	0.2310	10.6423	2.2663	2.1932
2012	37	0.2156	6.0276	2.1911	1.6512
2013	40	0.1596	6.1481	1.8151	1.3613

The results on descriptive statistics on liquidity showed that it was generally inclined to fluctuate. The liquidity of the companies during the period of 2009-2013 ranged from 180% to 226%. The high liquidity level indicated that companies were relatively liquid and capable of paying their off short-term liabilities timely.

Leverage

The descriptive statistics of leverage in the period of 2009-2013 showing the minimum, maximum, mean, and standard deviation values can be seen in Table 5.

Table 5: Descriptive Statistics on Leverage

Year	N	Minimum	Maximum	mean	Std. deviation
2009	30	0.1839	10.8821	2.4052	3.3136
2010	36	0.1717	10.0240	2.1512	2.9693
2011	40	0.1536	11.1723	2.1983	2.9015
2012	37	0.1718	9.0644	1.7826	2.4400
2013	40	0.1580	10.3501	1.9030	2.3927

Based on the results of the descriptive statistics in Table 5, the leverage over the period of 2009-2013 tended to decrease. This indicated that the level of debt utilisation as a source of companies' financing had decreased and therefore they used more of their own capital rather than using debt as a funding source.

Dividend Policy

The descriptive statistics of dividend policy in the period of 2009-2013 showing the minimum, maximum, mean, and standard deviation values can be seen in Table 6.

Table 6: Descriptive Statistics Dividend policy

Year	N	Minimum	Maximum	Mean	Std. deviation
2009	30	0.0564	0.7494	0.4075	0.1720
2010	36	0.0651	0.7748	0.3883	0.1672
2011	40	0.0510	0.7007	0.3900	0.1626
2012	37	0.1499	0.8518	0.3963	0.1446
2013	40	0.0975	0.8159	0.3931	0.1798

The dividend policy descriptive statistics results showed that, in average, dividend policy rate during the period of 2009-2013 ranged from 38% to 40%. This indicates that, in general, companies used 38% to 40% of the revenue they earned for dividend distribution for the stakeholders in the form of dividend. Therefore, there was still about 60% of the revenue acquired by the companies to be used as an internal funding source in the form of retained earnings.

Analysis Model and Hypothesis Testing

This research employed the Kolmogorov-Smirnov normality test to determine the level of normality of the used data. Based on Kolmogorov-Smirnov normality test, the value of 0.578 at the significance level of 0.892 was attained. Having the significance level above 0.05, the residual variables were normally distributed so that the regression model was deemed to meet the normality assumption.

Multiple Linear Regression Analysis

The hypothesis testing was conducted by using multiple linear regression to determine the effect of operating cash flow, profitability, liquidity, and leverage on dividend policy. The results of multiple regression analysis by using SPSS 22 for Windows are presented in Table 7 as follows.

Table 7: Multiple Linear Regression Test

		Unstandardized		Standardized
Model		**Coefficients**		**Coefficients**
		B	**Std. Error**	**Beta**
1	(Constant)	0.344	0.028	
	OCF	0.520	0.106	0.431
	PROF	0.072	0.076	0.076
	LIQ	-0.006	0.007	-0.06
	LEV	-0.010	0.005	-0.176

Based on Table 7 it can be seen that the constant value reached 0.344 while the coefficient value of operating cash flow (OCF) variable reached 0.520, profitability reached 0.072, liquidity amounted -0.006, and last the leverage variable amounted to -0.010. The coefficient variables of operating cash flow and profitability were marked positive, indicating that the two variables positively affected the companies' dividend policy. On the contrary, the coefficient variables of liquidity and leverage that were marked negative, indicated that the two variables negatively affected the companies' dividend policy. The mathematical equation of the condition can be written as follows:

$DP = 0.344 + 0.520\ OCF + 0.072\ PROF - 0.006\ LIQ - 0.010\ LEV + e$

Adjusted R^2 Coefficient

The statistical results of adjusted *R2* can be seen in Table 8 as follows.

Table 8: Adjusted R Squared

Model	R	R Square	Adjusted R Square	Std. error of the Estimate
1	0548[a]	0.3	0.285	0.13861

a. Predictors: (Constant), LEV, PROF, LIQ, OCF
b. Dependent Variable: DP

The results in Table 8 showed the adjusted R2 value of 0.285, meaning that the independent variables which consisted of operating cash flow, profitability, liquidity, and leverage were capable of explaining the variance of the dependent variables by 28.5% while the majority of 71.5% was explicable by other factors not comprised in this research model.

F Test

The F test results can be seen in Table 9 as follows.

Table 9: ANOVA

	Model	Sum of squares	DF	mean Square	F	Sig.
1	Regression	1.469	4	0.367	19. 110	0.000a
	Residual	3.42	178	0.019		
	Total	4.888	182			

a. Predictors: (Constant), OCF, LEV, PROF, LIQ,
b. Dependent Variable: DP

The F test indicated the value of 19.110 with the significance level of 0.000which was below 0.05. This indicated that operating cash flow, profitability, liquidity, and leverage were the predictors for the dividend policy at the significance level of 5%.

T Test

The T test results can be seen in Table 10 as follows.

Table 10: T Test

Model		t	Sig.
1	(Constant)	12.368	0
	OCF	4.922	0
	PROF	0.955	0.341
	LIQ	-0.796	0.427
	LEV	-2.24	0.026

Dependent Variable: Dividend policy

The operating cash flow variable reached 4.922 with the significance level of 0.000 while profitability variable sat at 0.955 with significance level of 0.341. Next, liquidity amounted to -0.796 with the level of significance of 0.427 while leverage amounted to -2.240 with the significance level of 0.026. It can be concluded that operating cash flow positively affected dividend policy while leverage negatively dividend policy. On the other hand, profitability and liquidity did not affect dividend policy on the significance level of 5%.

Discussion

Based on the results above, the regression coefficients for the variables showed that the operating cash flow amounted to 0.520 with significance level of 0.000. The coefficients marked positive was in accordance with the prediction on hypothesis 1. The significance level was below 0.05, indicating that the operating cash flow variable affected the dividend policy and thus hypothesis 1 is validated. The results of this study support the research conducted by

Christi and Wijayanti (2013) which states that operating cash flow positively affects dividend policy. The results are also in accordance with the signalling theory put forward by Asnawi and Wijaya (2005) which states that the dividend distribution is often applied by investors as a signal on a company's cash flow condition for the current time and the future.

The profitability variable of regression coefficient amounted to 0.072 with the significance level of 0.341. The regression coefficient was marked positive as predicted by hypothesis 2 with significance level of above 0.05, indicating that, statistically, profitability variable did not affect dividend policy. Therefore, hypothesis 2 is not validated as there was no empirical evidence to support it. The results of this study support the research results conducted by Adil *et.al.* (2011) and Mardaleni (2014) which state that profitability do not affect dividend policy. On the other hand, the results contradict the signalling theory which states that changes in the amount of dividend distributed by a company may send a signal to the investors in regards to the companies' profit condition.

The regression coefficient for the variables of liquidity amounted to -0.006 with the significance level of 0.427. The regression coefficient was marked negative, meaning that it did not support hypothesis 3 which stated that liquidity had a positive affect towards dividend policy. The significance level of the variable was above 0.05, indicating that the liquidity did not affect dividend policy. Therefore hypothesis 3 is not validated because there was no empirical evidence to support. The results of this study support the research conducted by Sitanggang and Agustina (2011) which states that liquidity do not affect dividend policy. These results do not support the signalling theory which states that changes in the amount of dividend distributed by a company provides a signal on a company's profit condition to the investors.

The regression coefficient for the variable leverage amounted to -0.010 with the significance level of 0.026. The regression coefficient was marked negative as predicted in hypothesis 4 which stated that leverage had a negative effect towards dividend policy. The significance level was below 0.05, indicating that leverage affected dividend policy. Therefore, hypothesis 4 is validated. The results of this study supports the research conducted by Gupta & Banga (2010) stating that leverage negatively affects dividend policy. The effect of leverage towards dividend policy is supported by the agency theory which states that a company with a high degree of leverage would have high transaction costs associated to creditors (Alzomaia and Al-Khadhiri, 2013).

Conclusion

This research describes the effect of operating cash flow, profitability, liquidity, and leverage towards a company's dividend policy. The research results indicate that operating

cash flow positively affects dividend policy while leverage negatively effects dividend policy. On the other hand, profitability and liquidity do not affect a company's dividend policy.

This research has several boundaries including the samples applied being limited to companies included in the LQ45 list. In addition, the study period is limited to the period of 2009-2013. Therefore, the following studies are recommended to expand the period up to the most recent one. In addition, the adjusted R square coefficient in this research only reached 28.5%, indicating that there are variables other than the research models applied in this study which affect the dividend policy. Thus, it is suggested that further researches increase the number of used variables.

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APPENDIX

List of Companies							
No		Company Names	OCF	PROF	LIQ	LEV	DP
2009							
1	AALI	Astra Agro Lestari Tbk.	0.262157	0.266712	1.825846	0.183861	0.649566
2	ADRO	Adaro Energy Tbk.	0.167545	0.250346	1.280942	1.424395	0.212454
3	ANTM	Aneka Tambang (Persero) Tbk.	0.100142	0.074158	7.107592	0.214522	0.399937
4	ASII	Astra International Tbk.	0.127448	0.251667	1.373019	1.002807	0.451613
5	BBCA	Bank Central Asia Tbk.	-0.06608	0.244366	0.153777	9.137323	0.394265
6	BBNI	Bank Negara Indonesia Tbk.	0.005905	0.129756	0.258095	10.8821	0.349693
7	BBRI	Bank Rakyat Indonesia (Persero) Tbk.	0.004029	0.268122	0.267749	10.62793	0.216702
8	BDMN	Bank Danamon Indonesia Tbk.	-0.01115	0.09696	0.139627	5.232018	0.488141
9	BMRI	Bank Mandiri (Persero) Tbk.	0.031322	0.203808	0.246902	10.23443	0.056362
10	BUMI	Bumi Resources Tbk.	0.033199	0.129471	0.969924	3.952671	0.291675
11	ELSA	Elnusa Tbk.	0.068494	0.244142	1.534575	1.195686	0.378462
12	ELTY	Bakrieland Development Tbk.	-0.12888	0.028488	1.565906	1.248057	0.150602
13	GGRM	Gudang Garam Tbk.	0.119908	0.18882	2.459973	0.48348	0.361915
14	INCO	International Nickel Indonesia Tbk.	1.013018	0.10777	7.235758	0.288808	0.553474
15	INDF	Indofood Sukses Makmur Tbk.	0.057314	0.204408	1.163135	2.450573	0.394068
16	INDY	Indika Energy	0.011141	0.136099	3.527031	1.188868	0.501295

		Tbk.					
17	INTP	Indocement	0.239858	0.25716	3.001908	0.240838	0.30156
		Tunggal Prakasa					
		Tbk.					
18	ISAT	Indosat Tbk.	0.073603	0.083432	0.546209	2.046655	0.5
19	ITMG	Indo	0.334315	0.426104	1.97787	0.522022	0.696454
		Tambangraya					
		Megah Tbk.					
20	JSMR	Jasa Marga Tbk.	0.066452	0.138193	1.156415	1.173379	0.600068
21	KLBF	Kalbe Farma Tbk.	0.21035	0.215524	2.986964	0.392422	0.257732
22	MEDC	Medco Energi	0.037538	0.027135	1.419231	1.852274	0.430769
		International Tbk.					
23	PGAS	Perusahaan Gas	0.242512	0.536908	2.483437	1.35463	0.58855
		Negara (Persero)					
		Tbk.					
24	PTBA	Tambang	0.338712	0.478435	4.912269	0.402138	0.450507
		Batubara Bukit					
		Asam Tbk.					
25	SGRO	Sampoerna Agro	0.081374	0.159588	2.612118	0.269015	0.298013
		Tbk.					
26	SMGR	Semen Gresik	0.327882	0.3262	3.581513	0.258217	0.544965
		(Persero) Tbk.					
27	TLKM	Telekomunikasi	0.304589	0.290644	0.605823	1.22177	0.499991
		Indonesia Tbk.					
28	UNSP	Bakrie Sumatra	0.099478	0.094681	1.010186	0.899325	0.056946
		Plantations Tbk.					
29	UNTR	United Tractors	0.209017	0.27576	1.651726	0.755126	0.401046
		Tbk.					
30	UNVR	Unilever	0.438305	0.822105	1.003489	1.019876	0.749373
		Indonesia Tbk.					
2010							
1	AALI	Astra Agro	0.33516	0.279654	1.931698	0.185053	0.648083
		Lestari Tbk.					
2	ADRO	Adaro Energy	0.063782	0.118823	1.760634	1.182701	0.439855
		Tbk.					
3	ANTM	Aneka Tambang	0.162831	0.175718	3.817676	0.282867	0.400011
		(Persero) Tbk.					

4	ASII	Astra	0.025758	0.29134	1.261798	1.09852	0.450831
		International					
		Tbk.					
5	ASRI	Alam Sutera	0.173685	0.131542	0.980007	1.07393	0.247847
		Realty Tbk.					
6	BBCA	Bank Central	0.008359	0.248602	0.345749	8.498076	0.323276
		Asia Tbk.					
7	BBNI	Bank Negara	-0.05694	0.123845	0.295295	6.504633	0.248045
		Indonesia Tbk.					
8	BBRI	Bank Rakyat	0.115061	0.312828	0.347627	10.02403	0.121216
		Indonesia					
		(Persero) Tbk.					
9	BBTN	Bank Tabungan	0.013514	0.142066	0.133947	9.606885	0.297048
		Negara (Persero)					
		Tbk.					
10	BDMN	Bank Danamon	-0.02506	0.156287	0.215428	5.398303	0.349557
		Indonesia Tbk.					
11	BMRI	Bank Mandiri	0.093622	0.221899	0.225043	9.814082	0.319177
		(Persero) Tbk.					
12	BMTR	Global	0.034972	0.078419	1.856803	0.64283	0.238095
		Mediacom Tbk.					
13	BSDE	Bumi Serpong	0.064958	0.064316	2.000288	0.697861	0.266193
		Damai Tbk.					
14	BUMI	Bumi Resources	0.035419	0.192356	1.560565	4.055554	0.28699
		Tbk.					
15	ELSA	Elnusa Tbk.	0.009251	0.032987	1.604342	0.892179	0.295556
16	GGRM	Gudang Garam	0.093443	0.195606	2.700834	0.444465	0.408353
		Tbk.					
17	INCO	International	0.292591	0.26036	4.501635	0.303835	0.331818
		Nickel Indonesia					
		Tbk.					
18	INDF	Indofood Sukses	0.146162	0.175926	2.03649	1.335928	0.395833
		Makmur Tbk.					
19	INDY	Indika Energy	-0.04656	0.142088	3.652666	1.103811	0.175676
		Tbk.					
20	INTP	Indocement	0.219996	0.246604	5.55374	0.171712	0.300211
		Tunggal Prakasa					
		Tbk.					
21	ISAT	Indosat Tbk.	0.12948	0.036255	0.515521	1.93728	0.5

22	ITMG	Indo	0.219776	0.28314	1.8344	0.511331	0.742718
		Tambangraya					
		Megah Tbk.					
23	JSMR	Jasa Marga Tbk.	0.080902	0.154197	1.650396	1.368559	0.600034
24	KLBF	Kalbe Farma	0.178302	0.239371	4.393648	0.234539	0.510949
		Tbk.					
25	LPKR	Lippo Karawaci	-0.04271	0.068139	4.203086	1.034509	0.237954
		Tbk.					
26	LSIP	PP London	0.247639	0.226901	2.392654	0.221191	0.403974
		Sumatra					
		Indonesia Tbk.					
27	MEDC	Medco Energi	0.038596	0.105666	2.042379	1.861496	0.265234
		International Tbk.					
28	PGAS	Perusahaan Gas	0.297474	0.449892	3.433956	1.224818	0.600934
		Negara (Persero)					
		Tbk.					
29	PTBA	Tambang	0.285438	0.315529	5.79053	0.358339	0.59992
		Batubara Bukit					
		Asam Tbk.					
30	SMCB	Holcim	0.101725	0.121423	1.661888	0.529306	0.212963
		Indonesia Tbk.					
31	SMGR	Semen Gresik	0.215856	0.302606	2.917001	0.285118	0.499608
		(Persero) Tbk.					
32	TINS	Timah (Persero)	0.133268	0.225551	3.236667	0.399269	0.500904
		Tbk.					
33	TLKM	Telekomunikasi	0.27826	0.259733	0.914899	0.975797	0.549988
		Indonesia Tbk.					
34	UNSP	Bakrie Sumatra	0.051616	0.096849	0.534987	1.196743	0.065127
		Plantations Tbk.					
35	UNTR	United Tractors	0.08161	0.240013	1.565925	0.838822	0.369416
		Tbk.					
36	UNVR	Unilever	0.415938	0.837236	0.851279	1.150044	0.774775
		Indonesia Tbk.					
2011							
1	AALI	Astra Agro	0.30991	0.296525	1.309672	0.21105	0.651353
		Lestari Tbk.					
2	ADRO	Adaro Energy	0.125883	0.226066	1.665199	1.317135	0.4706
		Tbk.					

3	ANTM	Aneka Tambang	0.103147	0.178972	10.64233	0.411175	0.449467
		(Persero) Tbk.					
4	ASII	Astra	0.060773	0.277921	1.363999	1.024328	0.450717
		International Tbk.					
5	BBCA	Bank Central	-0.09748	0.257399	0.331115	8.070116	0.255631
		Asia Tbk.					
6	BBNI	Bank Negara	0.051442	0.153482	0.327854	6.902597	0.200256
		Indonesia Tbk.					
7	BBRI	Bank Rakyat	0.033997	0.302848	0.336634	8.431878	0.194432
		Indonesia					
		(Persero) Tbk.					
8	BBTN	Bank Tabungan	0.053851	0.152788	0.230976	11.17233	0.199291
		Negara (Persero)					
		Tbk.					
9	BDMN	Bank Danamon	-0.06174	0.133495	0.274725	4.493562	0.275701
		Indonesia Tbk.					
10	BJBR	Bank	0.042178	0.178704	0.477408	8.741246	0.615377
		Pembangunan					
		Daerah Jawa					
		Barat dan Banten					
		Tbk.					
11	BMRI	Bank Mandiri	0.037037	0.202634	0.315641	7.204278	0.198307
		(Persero) Tbk.					
12	BRAU	Berau Coal	0.163719	0.306917	1.316217	2.92998	0.210389
		Energy Tbk.					
13	BUMI	Bumi Resources	0.018527	0.182847	1.102465	5.26326	0.423217
		Tbk.					
14	CPIN	Charoen	0.204953	0.381696	3.332321	0.429558	0.276389
		Pokphand					
		Indonesia Tbk.					
15	EXCL	XL Axiata Tbk.	0.270543	0.20669	0.388079	1.276474	0.391205
16	GGRM	Gudang Garam	-0.00231	0.201952	2.244794	0.592148	0.393082
		Tbk.					
17	GJTL	Gajah Tunggal	0.026338	0.154289	1.749284	1.607673	0.05102
		Tbk.					
18	HRUM	Harum Energy	0.326095	0.500139	2.67756	0.305924	0.700706
		Tbk.					
19	ICBP	Indofood CBP	0.14284	0.192942	2.871071	0.421399	0.498525

		Sukses Makmur					
		Tbk.					
20	INCO	International	0.132467	0.188655	4.364896	0.368644	0.252955
		Nickel Indonesia					
		Tbk.					
21	INDF	Indofood Sukses	0.092729	0.15475	1.909528	0.695209	0.5
		Makmur Tbk.					
22	INDY	Indika Energy	0.006147	0.155279	1.636998	1.361952	0.28169
		Tbk.					
23	INTP	Indocement	0.213963	0.228901	6.985368	0.153641	0.299867
		Tunggal Prakasa					
		Tbk.					
24	ISAT	Indosat Tbk.	0.140306	0.049559	0.550481	1.772767	0.5
25	ITMG	Indo	0.3748	0.505296	2.365905	0.460463	0.268343
		Tambangraya					
		Megah Tbk.					
26	JSMR	Jasa Marga Tbk.	0.08332	0.142726	1.060538	1.102981	0.399029
27	KLBF	Kalbe Farma	0.178075	0.233728	3.652744	0.269895	0.601266
		Tbk.					
28	KRAS	Krakatau Steel	0.011419	0.098778	1.435505	1.07741	0.461538
		(Persero) Tbk.					
29	LPKR	Lippo Karawaci	0.020512	0.086523	6.037201	0.940603	0.246831
		Tbk.					
30	LSIP	PP London	0.255651	0.291384	4.832545	0.163104	0.401606
		Sumatra					
		Indonesia Tbk.					
31	MEDC	Medco Energi	0.054678	0.104308	1.605201	2.024968	0.265054
		International Tbk.					
32	PGAS	Perusahaan Gas	0.268409	0.356026	5.499216	0.802558	0.549469
		Negara (Persero)					
		Tbk.					
33	PTBA	Tambang	0.312907	0.378208	4.632479	0.40932	0.600403
		Batubara Bukit					
		Asam Tbk.					
34	SMCB	Holcim	0.190515	0.141294	1.464648	0.454779	0.395683
		Indonesia Tbk.					
35	SMGR	Semen Gresik	0.224588	0.270629	2.646515	0.345294	0.499834
		(Persero) Tbk.					

36	TINS	Timah (Persero)	0.009793	0.1951	3.257	0.43	0.500506
		Tbk.					
37	TLKM	Telekomunikasi	0.296476	0.253686	0.958042	0.689936	0.66298
		Indonesia Tbk.					
38	UNSP	Bakrie Sumatra	0.060382	0.082307	0.397681	1.064827	0.082299
		Plantations Tbk.					
39	UNTR	United Tractors	0.224812	0.214497	1.716374	0.688487	0.383223
		Tbk.					
40	UNVR	Unilever	0.521056	1.131316	0.686718	1.847729	0.542125
		Indonesia Tbk.					
2012							
1	AALI	Astra Agro	0.210109	0.269104	0.684625	0.326137	0.447546
		Lestari Tbk.					
2	ADRO	Adaro Energy	0.064659	0.12798	1.57233	1.234436	0.303701
		Tbk.					
3	AKRA	AKR Corporindo	0.06739	0.147	1.44186	1.80006	0.385551
		Tbk.					
4	ANTM	Aneka Tambang	0.045189	0.233248	2.514249	0.535852	0.149876
		(Persero) Tbk.					
5	ASII	Astra	0.049003	0.253212	1.399073	1.029461	0.45
		International Tbk.					
6	ASRI	Alam Sutera	0.185519	0.257	1.234829	1.313336	0.238601
		Realty Tbk.					
7	BBCA	Bank Central	0.062563	0.225798	0.305931	7.516045	0.238542
		Asia Tbk.					
8	BBNI	Bank Negara	0.020847	0.161937	0.261157	6.657697	0.299868
		Indonesia Tbk.					
9	BBRI	Bank Rakyat	-0.04371	0.288022	0.29934	7.49756	0.289153
		Indonesia					
		(Persero) Tbk.					
10	BDMN	Bank Danamon	-0.0204	0.143288	0.215595	4.421975	0.300022
		Indonesia Tbk.					
11	BHIT	Bhakti Investama	0.029273	0.107218	3.018135	0.479062	0.233318
		Tbk.					
12	BJBR	Bank	0.092227	0.177621	0.45393	9.064368	0.552846
		Pembangunan					
		Daerah Jawa					

		Barat dan Banten					
		Tbk.					
13	BMRI	Bank Mandiri	0.013843	0.20963	0.286789	6.777556	0.299988
		(Persero) Tbk.					
14	BSDE	Bumi Serpong	0.013289	0.14042	2.902041	0.591074	0.204082
		Damai Tbk.					
15	BWPT	BW Plantations	0.027865	0.157356	0.651276	1.948649	0.185099
		Tbk.					
16	CPIN	Charoen	0.136807	0.327877	3.31275	0.510265	0.280488
		Pokphand					
		Indonesia Tbk.					
17	EXCL	XL Axiata Tbk.	0.253427	0.179873	0.418648	1.306807	0.416667
18	GGRM	Gudang Garam	0.095245	0.152926	2.170217	0.560166	0.383509
		Tbk.					
19	HRUM	Harum Energy	0.208113	0.377171	3.131756	0.256626	0.51756
		Tbk.					
20	ICBP	Indofood CBP	0.171325	0.190407	2.76253	0.481086	0.497326
		Sukses Makmur					
		Tbk.					
21	INCO	Vale Indonesia	0.03393	0.039208	3.409833	0.355312	0.36
		Tbk.					
22	INDF	Indofood Sukses	0.124859	0.139985	2.003202	0.737538	0.498652
		Makmur Tbk.					
23	INDY	Indika Energy	0.009267	0.085104	1.309083	1.290639	0.276288
		Tbk.					
24	INTP	Indocement	0.249386	0.245299	6.027629	0.171815	0.347987
		Tunggal Prakasa					
		Tbk.					
25	ITMG	Indo	0.277871	0.431001	2.21712	0.487628	0.851793
		Tambangraya					
		Megah Tbk.					
26	JSMR	Jasa Marga Tbk.	0.077947	0.156911	0.681559	1.529025	0.399474
27	KLBF	Kalbe Farma	0.14614	0.240801	3.405397	0.277593	0.513514
		Tbk.					
28	LPKR	Lippo Karawaci	0.051823	0.11533	5.598818	1.168184	0.254948
		Tbk.					
29	LSIP	PP London	0.187156	0.177642	3.273028	0.20257	0.402439
		Sumatra					
		Indonesia Tbk.					

30	MNCN	Media Nusantara	0.130181	0.241603	5.412465	0.228004	0.462185
		Citra Tbk.					
31	PGAS	Perusahaan Gas	0.298457	0.388678	4.196342	0.659664	0.524224
		Negara (Persero)					
		Tbk.					
32	PTBA	Tambang	0.173832	0.342077	4.923744	0.496617	0.571117
		Batubara Bukit					
		Asam Tbk.					
33	SMGR	Semen Gresik	0.210386	0.271218	1.705896	0.463215	0.450428
		(Persero) Tbk.					
34	TINS	Timah (Persero)	0.238399	0.094684	4.094227	0.338468	0.498488
		Tbk.					
35	TLKM	Telekomunikasi	0.250887	0.27415	1.160368	0.66277	0.651683
		Indonesia Tbk.					
36	UNTR	United Tractors	0.125375	0.178119	1.946481	0.557268	0.400258
		Tbk.					
37	UNVR	Unilever	0.433179	1.21943	0.668263	2.02013	0.526814
		Indonesia Tbk.					
2013							
1	AALI	Astra Agro	0.210953	0.185344	0.450007	0.457284	0.590071
		Lestari Tbk.					
2	ADRO	Adaro Energy	0.107183	0.071757	1.771896	1.1076	0.32494
		Tbk.					
3	AKRA	AKR Corporindo	-0.01613	0.114788	1.17139	1.728455	0.388408
		Tbk.					
4	ASII	Astra	0.099302	0.209977	1.241963	1.015237	0.45
		International Tbk.					
5	ASRI	Alam Sutera	0.161979	0.166844	0.752993	1.706051	0.15688
		Realty Tbk.					
6	BBCA	Bank Central	-0.00844	0.22287	1	6.736226	0.207254
		Asia Tbk.					
7	BBNI	Bank Negara	-0.01295	0.18996	0.211199	7.108775	0.299815
		Indonesia Tbk.					
8	BBRI	Bank Rakyat	0.007025	0.269192	0.234042	6.89365	0.297416
		Indonesia					
		(Persero) Tbk.					
9	BBTN	Bank Tabungan	-0.02513	0.135173	0.159557	10.35005	0.29973
		Negara (Persero)					

		Tbk.					
10	BDMN	Bank Danamon	0.019177	0.13182	0.223444	4.838984	0.299991
		Indonesia Tbk.					
11	BMRI	Bank Mandiri	0.017369	0.212071	0.253139	6.720706	0.300003
		(Persero) Tbk.					
12	BMTR	Global	0.074009	0.077109	2.648409	0.577879	0.555556
		Mediacom Tbk.					
13	BSDE	Bumi Serpong	0.024317	0.216592	2.667122	0.682569	0.097517
		Damai Tbk.					
14	CPIN	Charoen	0.131106	0.254117	3.792315	0.579977	0.298701
		Pokphand					
		Indonesia Tbk.					
15	EXCL	XL Axiata Tbk.	0.177938	0.067504	0.736865	1.632499	0.53719
16	GGRM	Gudang Garam	0.048709	0.149031	1.722079	0.725924	0.355556
		Tbk.					
17	HRUM	Harum Energy	0.24064	0.125527	3.453001	0.216838	0.568475
		Tbk.					
18	ICBP	Indofood CBP	0.093735	0.168482	2.410628	0.603189	0.497382
		Sukses Makmur					
		Tbk.					
19	IMAS	Indomobil	-0.10551	0.093266	1.085598	2.350669	0.098676
		Sukses					
		Internasional					
		Tbk.					
20	INCO	Vale Indonesia	0.116562	0.022547	3.30074	0.330668	0.630047
_	_	Tbk.	_	_	_	_	_
21	INDF	Indofood Sukses	0.088725	0.089037	1.667299	1.03509	0.498246
		Makmur Tbk.					
22	INTP	Indocement	0.203676	0.218137	6.148066	0.15796	0.661269
		Tunggal Prakasa					
		Tbk.					
23	ITMG	Indo	0.114422	0.239127	1.99194	0.444346	0.8159
		Tambangraya					
		Megah Tbk.					
24	JSMR	Jasa Marga Tbk.	0.073532	0.113907	0.76147	1.610325	0.40001
25	KLBF	Kalbe Farma Tbk.	0.081941	0.231819	2.839259	0.33119	0.414634
26	LPKR	Lippo Karawaci	-0.06642	0.112325	4.959788	1.207738	0.260289
		Tbk.					

27	LSIP	PP London	0.156938	0.116212	2.485152	0.205759	0.40708
		Sumatra					
		Indonesia Tbk.					
28	MAPI	Mitra Adiperkasa	0.013775	0.135012	1.117376	2.216093	0.101523
		Tbk.					
29	MLPL	Multipolar Tbk.	0.048001	0.183345	1.535415	1.25632	0.143243
30	MNCN	Media Nusantara	0.149762	0.233722	4.240191	0.241711	0.496977
		Citra Tbk.					
31	PGAS	Perusahaan Gas	0.189971	0.327763	2.010081	0.599858	0.431537
		Negara (Persero)					
		Tbk.					
32	PTBA	Tambang	0.17567	0.245549	2.865948	0.546322	0.34865
		Batubara Bukit					
		Asam Tbk.					
33	PWON	Pakuwon Jati Tbk.	0.226178	0.277037	1.301926	1.266478	0.191327
34	SMCB	Holcim	0.15188	0.10855	0.639185	0.697832	0.725806
		Indonesia Tbk.					
35	SMGR	Semen Gresik	0.196381	0.245565	1.882372	0.41226	0.450188
		(Persero) Tbk.					
36	SSIA	Surya Semesta	0.075958	0.285865	2.005966	1.22624	0.203514
		internusa Tbk.					
37	TLKM	Telekomunikasi	0.285844	0.262063	1.163097	0.652601	0.694614
		Indonesia Tbk.					
38	UNTR	United Tractors	0.213028	0.134612	1.910224	0.609089	0.397377
		Tbk.					
39	UNVR	Unilever	0.467605	1.258059	0.696357	2.137303	0.529244
		Indonesia Tbk.					
40	WIKA	Wijaya Karya	0.021367	0.193486	1.095338	2.903044	0.299365
		(Persero) Tbk.					

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