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Determinants of banking health in ASEAN on dividend policy

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ABSTRACT

This study was conducted to determine the effect of capital adequacy ratio (CAR), product asset quality (KAP), return on assets (ROA), net profit margin (NPM), financing to deposit ratio (FDR), and their impact on dividend payout ratio (DPR). This study contributes to the understanding of financial performance and dividend policies in the banking sector by examining the relationships between key financial metrics. The results show that the CAR has a positive and significant effect on dividend policies for banking companies in ASEAN. The quality of product assets has an important effect on the dividend policy of property, real estate, and building construction companies listed on the Indonesia Stock Exchange. The FDR is a negative and insignificant factor that affects dividend policies. The findings can inform banking institutions in formulating strategies to optimize their financial performance while maintaining an attractive dividend policy. This study provides valuable insights for stakeholders, including investors, management, and policymakers, on how financial health and operational efficiency can affect shareholder returns.

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INTRODUCTION

Dividend policy is a stipulation on how the profits obtained by the company should be distributed, both related to its value and distribution patterns. The ratio used to calculate dividends in this study is the dividend payout ratio (DPR), which is by comparing cash dividends per share with earnings per share (Arifin et al., 2024). This decision reflects the company's commitment and a company that is healthy and has good finances is able to determine the proportion of profits received by the company which will be paid to investors according to the number of shares owned (Aprilianti et al., 2023).

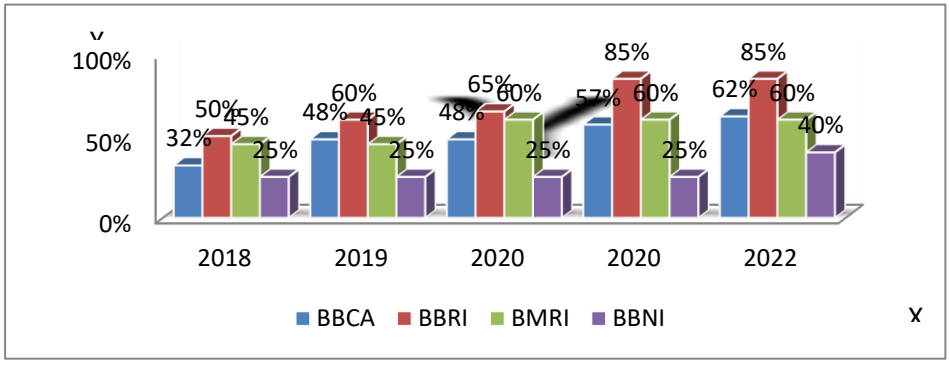

Figure 1. Distribution of Dividends of 5 Major Banks in Indonesia in 2018-2022
Source: CNBC Indonesia Research, 2023

Based on Figure 1 above, it is known that BBRI is the issuer with the highest dividend payout ratio compared to other bank issuers, followed by BBCA which is stable every year. The continuous improvement indicates that the company's business is running well and has reached maturity. Meanwhile, for other banks in ASEAN countries, dividend distribution decreased slightly due to the impact of the Covid-19 pandemic, making many banks still use their profits to increase their operational financing budgets.

Dividend policy is a decision whether the profits obtained by the company at the end of the year will be distributed to shareholders in dividends or withheld to increase capital to finance future investments (Lesmono, 2021). Dividend policy is a determination of the amount of profit earned by the company that will be paid in the form of dividends to investors and how much profit is retained for the company's internal spending. Capital Adequacy Ratio (CAR) is a ratio that shows the extent to which the equity of shareholders can cover risky assets. Productive asset quality (KAP) is an asset quality ratio to find out how banks will manage asset funds by analyzing asset health and anticipating customer default risks. Profitability in this study is measured by return on assets (ROA). Return on assets indicates the rate of return of the business on the amount of assets used by the company (Rahayu, 2020). A company's high ROA value describes the high profit earned by the company.

Net Profit Margin is a ratio that measures how much of the percentage of net profit earned from each sale. If the company's financial performance in generating net profit on sales increases, this will have an impact on increasing the income that will be received by shareholders. This shows that the management ability to drive the company is quite successful. Financing to Deposit Ratio (FDR) is a ratio that shows the ability of a bank to provide funds to its debtors with capital owned by the bank or funds that can be collected from the public. This ratio is used to measure the level of bank liquidity which shows the bank's ability to meet credit demand by using the total assets owned by the bank.

The Southeast Asian region has become an attractive region as an investment destination, since the economic crisis in 1997-1998 foreign direct investment into Southeast Asia has increased almost fourfold, Southeast Asia has again shown rapid development in attracting foreign investor confidence. In fact, four countries in Southeast Asia, namely Vietnam, Indonesia, Thailand, and Malaysia, are among the 20 countries that became the four largest recipients of foreign investment during 2010 to 2012 (Kurniasih & Tanjungpura, 2020).

The United Nations Conference on Trade and Development (UNCTAD) conducted a survey on the upward trend of FDI flows in the ASEAN region and concluded that countries in Southeast Asia have made policy changes that attract foreign investors to invest their capital. For example, Indonesia has implemented a 15-year income tax relief policy for foreign companies investing in certain areas. Malaysia provides ease of licensing to foreign companies if they channel 100% of their capital in the financial services and venture capital sectors (Aslam & Rudatin, 2022).

This study was conducted to determine the effect of capital adequacy ratio (CAR), product asset quality (KAP), return on assets (ROA), net profit margin (NPM), financing to deposit ratio (FDR) on dividend payout ratio (DPR). The research contributes to the understanding of financial performance and dividend policies in the banking sector by examining the relationships between key financial metrics—capital adequacy ratio (CAR), product asset quality (KAP), return on assets (ROA), net profit margin (NPM), and financing to deposit ratio (FDR)—and their impact on the dividend payout ratio (DPR). By identifying how these factors influence dividend decisions, the study provides valuable insights for stakeholders, including investors, management, and policymakers, on how financial health and operational efficiency can affect shareholder returns. Furthermore, the findings can inform banking institutions in formulating strategies to optimize their financial performance while maintaining an attractive dividend policy.

METHOD

The research used the quantitative method with all banking companies registered and operating in ASEAN as its population. The selection of samples in this study was carried out by purposive sampling, where the banks that were the focus of the study were selected based on certain criteria. The selection of these criteria was carried out considering the dependent variable of this study, namely the dividend policy projected on the dividend payout ratio, for this reason the banks selected as a sample are banks that routinely provide dividends in 2014-2023, and banks that have the largest profits in ASEAN countries as many as 10 companies.

RESULTS AND DISCUSSION

1) The first hypothesis (H1) of the effect of the capital adequacy ratio (CAR) on the dividend payout ratio (DPR) results in a significance value of 0.0000 < 0.05 with a t-statistic value of 5.490115. This shows that the capital adequacy ratio (CAR) has a positive and significant effect on the dividend payout ratio (DPR), so the first hypothesis (H1) is accepted.

2) The second hypothesis (H2) of the effect of product asset quality (KAP) on the dividend payout ratio (DPR) results in a significance value of 0.0000 < 0.05 with a t-statistic value of 5.182541. This shows that the quality of product assets (KAP) has a positive and significant effect on the dividend payout ratio (DPR), so the second hypothesis (H2) is accepted.
3) The third hypothesis (H3) of the effect of return on assets (ROA) on the dividend payout ratio (DPR) resulted in a significance value of 0.1072 > 0.05 with a t-statistic value of 1.626302. This shows that return on assets (ROA) has a positive and insignificant effect on the dividend payout ratio (DPR), so the third hypothesis (H1) is rejected.
4) The fourth hypothesis (H4) of the effect of net profit margin (NPM) on the dividend payout ratio (DPR) produces a significance value of 0.3242 > 0.05 with a t-statistic value of 0.990969. This shows that the net profit margin (NPM) has a positive and insignificant effect on the dividend payout ratio (DPR), so the fourth hypothesis (H4) is rejected.
5) The fifth hypothesis (H5) of the effect of financing to deposit ratio (FDR) on dividend payout ratio (DPR) produces a significance value of 0.2266 > 0.05 with a t-statistic value of -1.217245. This shows that the financing to deposit ratio (FDR) has a negative and insignificant effect on the dividend payout ratio (DPR), so the fifth hypothesis (H5) is rejected.

The Effect of Capital Adequacy Ratio (CAR) on Dividend Payout Ratio (DPR) in Banking Companies in ASEAN

The results of the test in this study show that the capital adequacy ratio (CAR) has a positive and significant effect on the dividend payout ratio (DPR). This is evidenced by a significance value of 0.0000 < 0.05 with a t-statistic value of 5.490115. This shows that the capital adequacy ratio (CAR) has a positive and significant effect on the dividend payout ratio (DPR). The results of this study are in line with the results of research from Purba (2020) showing that CAR has a significant effect on the dividend payout ratio of banking sector companies on the Indonesia Stock Exchange in the period 2012-2016. The relationship between CAR and dividend payout ratio is positive, meaning that the addition of CAR will increase the dividend payout ratio. This result shows that CAR is able to increase the DPR and a large equity ratio, then bank financing from shareholders' capital funds will reduce the cost of capital if financed with debt, and the CAR value is an indication of the health of a bank, then a healthy bank can significantly increase profits which in turn will increase DPR.

The results of the study from Nadilla (2021) show different results, the results of this study show that the capital adequacy ratio (CAR) has a negative and significant effect on the dividend policy of banking companies on the Indonesia Stock Exchange. CAR is a ratio used to show the company's ability to provide and the company for the purposes of its business development and the possibility of accommodating the risk of losses resulting from banking operations. If the CAR is higher, the profit that the company will get will also be higher, because a bank that has a high or healthy CAR means that the bank has enough capital to carry out business activities.

The Effect of Product Asset Quality (KAP) on Dividend Payout Ratio (DPR) in Banking Companies in ASEAN

The results of the test in this study show that the quality of product assets (KAP) has a positive and significant effect on the dividend payout ratio (DPR). This is evidenced by a significance value of 0.0000 < 0.05 with a t-statistic value of 5.182541. This shows that product asset quality (KAP) has a positive and significant effect on the dividend payout ratio (DPR). The results of this study are in line with the results of a study by Takmaz et al. (2020) showing that KAP has a positive effect on dividend distribution. Anik et al. (2021) stated that the quality of productive assets (KAP) has a significant effect on the dividend policy of property, real estate, and building construction companies listed on the Indonesia Stock Exchange.

Asset quality ratio to find out how banks will manage asset funds by analyzing asset health and anticipating customer default risks. If the company is able to manage assets well, then the profits generated will increase and have an impact on increasing the number of dividends that will be distributed to investors. However, if this increase in profit is likely to be used more for bank development or held by the bank for the bank's purposes. This affects the amount of dividends paid to shareholders which is likely to decrease or decrease (Anik et al., 2021).

The Effect of Return on Assets (ROA) on Dividend Payout Ratio (DPR) in Banking Companies in ASEAN

The results of the test in this study show that return on assets (ROA) has a positive and insignificant effect on the dividend payout ratio (DPR). This is evidenced by a significance value of 0.1072 > 0.05 with a t-statistic value of 1.626302. This shows that return on assets (ROA) has a positive and insignificant effect on the dividend payout ratio (DPR). The results of this study are in line with the results of research from Septiani

et al. (2020) showing that return on assets (ROA) has a positive and insignificant effect on the dividend payout ratio. This result explains that the company uses its profits more to invest in the form of fixed assets, so the dividends distributed are decreasing.

The results of this study are different from the results of research conducted by T. Purwanti (2020) which shows that return on assets has a positive and significant effect on the dividend policy of banking companies on the Indonesia Stock Exchange. This can be interpreted that the greater the return on assets (ROA), the better the performance of the banking company, because the company's return on investment will be greater. An increase in ROA will also increase dividend income. The company's ability to earn profits is one of the main factors in the company's ability to pay dividends.

The Effect of Net Profit Margin (NPM) on Dividend Payout Ratio (DPR) in Banking Companies in ASEAN

The test results in this study show that the net profit margin (NPM) has a positive and insignificant effect on the dividend payout ratio (DPR). This is evidenced by a significance value of 0.3242 > 0.05 with a t-statistical value of 0.990969. This shows that the net profit margin (NPM) has a positive and insignificant effect on the dividend payout ratio (DPR). Partially, only net profit margin, free cash flow and firm size affect the dividend policy in mining sector companies listed on the IDX for the 2016-2020 period while the current ratio and debt to equity ratio have no effect on the dividend policy for mining sector companies listed on the IDX for the 2016-2020 period (Puspitaningtyas, 2019).

Research conducted by Mulya (2020), net profit margin has a significant effect on the dividend payout ratio of companies in various industry sub-sectors listed on the Indonesia Stock Exchange. Ivan et al (2023). The effect of liquidity, solvency, and profitability ratios on dividend policies in companies listed on the IDX. Hia (2023) showed different results, namely net profit margin has a significant negative influence on dividend policy in Consumer Goods Sector Companies Listed on the IDX.

Net Profit Margin is a ratio that measures how much of the percentage of net profit earned from each sale. If the company's financial performance in generating net profit on sales increases, this will have an impact on increasing revenue (Mulya, 2020). Net profit margin has a negative effect on the distribution of dividends to shareholders. In general, the greater the profit generated, the greater the dividends distributed to shareholders because it will provide an indication of the company's good prospects so that it can invite new investors to invest in the company. Even though the company gets a profit, it does not necessarily mean that dividends can increase or be distributed to shareholders (Arhinful et al., 2024; Sholichah et al., 2021; Umam & Halimah, 2021).

The Effect of Financial to Deposit Ratio (FDR) on Dividend Payout Ratio (DPR) in Banking Companies in ASEAN

The results of the test in this study show that the financing to deposit ratio (FDR) has a negative and insignificant effect on the dividend payout ratio (DPR). This is evidenced by a significance value of 0.2266 > 0.05 with a t-statistic value of -1.217245. This shows that the financing to deposit ratio (FDR) has a negative and insignificant effect on the dividend payout ratio (DPR).

The results of this study are in line with the results of research from Meilani, et al (2022) stating that FDR has a positive effect on dividend distribution in Sharia Banks Registered with the OJK for the 2018-2020 period. Net profit margin, DER, FDR, and firm size significantly have an influence on the dividend policy of manufacturing companies listed on the IDX for the 2013-2017 period (Hamilah & Situmorang, 2021). FDR has a positive effect on dividend distribution (P. Purwanti & Widiastuti, 2024).

Financing to Deposit Ratio (FDR) is a ratio that shows the ability of a bank to provide funds to its debtors with capital owned by the bank or funds that can be collected from the public. This ratio is used to measure the level of bank liquidity which shows the bank's ability to meet credit demand by using the bank's total assets (Kareem & Kareem, 2021; Matey, 2021; Sahyouni et al., 2021).

CONCLUSION

The study finds that the capital adequacy ratio (CAR) and product asset quality (KAP) positively and significantly influence dividend policies in ASEAN banking companies, while return on assets (ROA) and net profit margin (NPM) have positive but insignificant effects, and the financing to deposit ratio (FDR) negatively and insignificantly impacts dividend policies. Future research should investigate the reasons behind the insignificance of ROA and NPM, potentially exploring market conditions, regulatory frameworks, or management practices. Comparative analyses across different regions or sectors could reveal global variations in these relationships. Additionally, examining the effects of external economic factors like interest rates and inflation on dividend policies would be beneficial, along with qualitative studies, such as interviews with banking executives, to gain deeper insights into the strategic considerations influencing dividend decisions.

Expanding the research to include other financial ratios or performance indicators could further enhance the analysis.

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