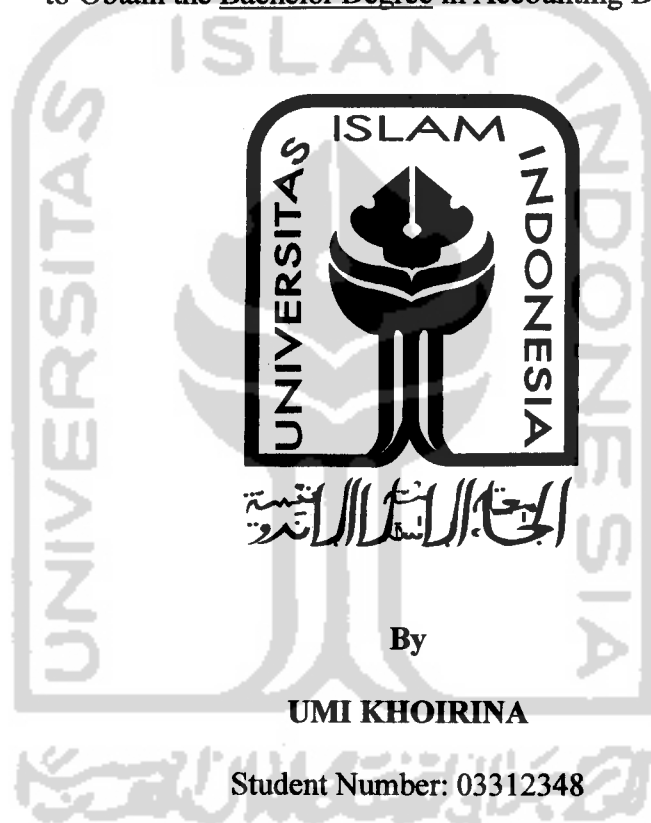


THE INFLUENCE OF LEVERAGE RATIO, ROA, EPS, INSIDER OWNERSHIP, AND ROE ON DIVIDEND PAYOUT RATIO FOR MANUFACTURING FIRMS LISTED IN JSX FOR THE PERIOD OF 2002-2004

A THESIS

Presented as a Partial Fulfillment of the Requirements
to Obtain the Bachelor Degree in Accounting Department



By

UMI KHOIRINA

Student Number: 03312348

**DEPARTMENT OF ACCOUNTING
INTERNATIONAL PROGRAM
FACULTY OF ECONOMICS
ISLAMIC UNIVERSITY OF INDONESIA
YOGYAKARTA
2007**

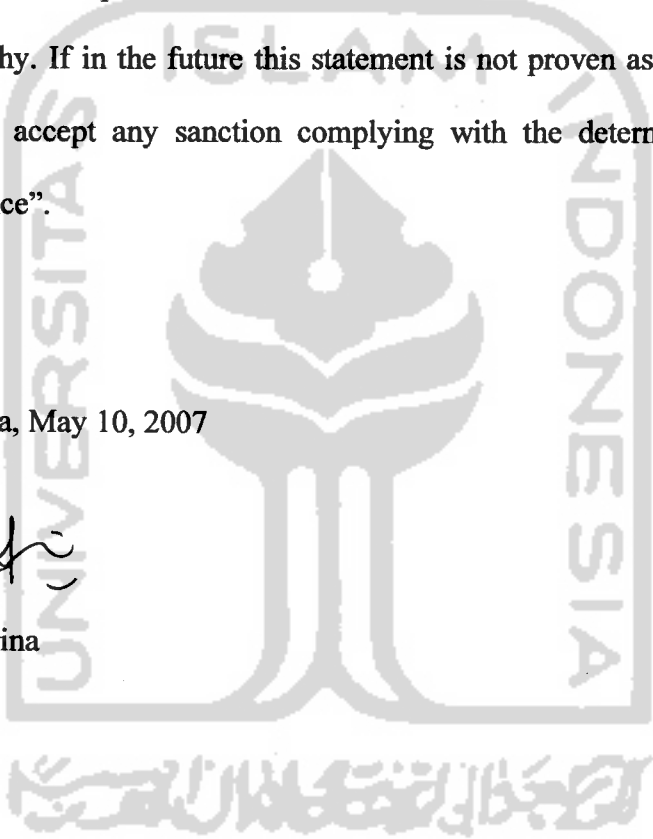
STATEMENT OF FREE PLAGIARISM

“Herein I declare the originality of this thesis; there is no other work which has over which presented to obtain any university degree, and in my concern there is neither one else’s opinion nor published written work, except acknowledged quotations relevant to the topic of this thesis which have been stated or listed on this thesis bibliography. If in the future this statement is not proven as it supposed to be, I am willing to accept any sanction complying with the determined regulation for its consequence”.

Yogyakarta, May 10, 2007



Umi Khoirina



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By

UMI KHOIRINA

Student Number: 03312348

Approved by

Content Advisor,



Syamsul Hadi, Drs. H., MS, Ak

May 10, 2007

Language Advisor,



Nihlah Ilhami, S.Pd

May 10, 2007

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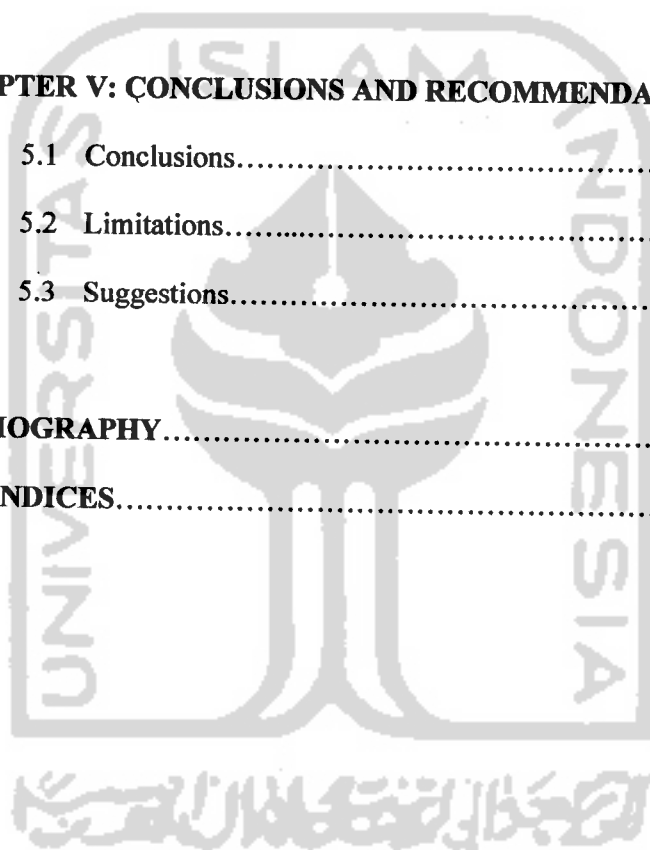
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ABSTRACT

Umi Khoirina. **The Influence of Leverage Ratio, ROA, EPS, Insider Ownership, and ROE toward the Dividend Payout Ratio for Manufacturing Firms Listed in JSX for the Period of 2002-2004.** Accounting Department. International Program. Faculty of Economics. Universitas Islam Indonesia. Yogyakarta. 2007.

The dividend policy has important role in a company. The dividend decided by the general shareholder's meeting which is consist of directors, managers, and shareholders. There are several factors which are influence the dividend policy and it will meet the decision of the dividend. This study aims to know the influence of Leverage Ratio, ROA, EPS, Insider Ownership, and ROE toward the Dividend Payout Ratio of go public manufacturing company listed in Jakarta Stock Exchange.

The hypothesis of this study is that Leverage Ratio, ROA, EPS, Insider Ownership, and ROE will significantly affect the company's dividend payout ratio. Analysis tool used in the study to know the effect of Leverage Ratio, ROA, EPS, Insider Ownership, and ROE to the dividend payout ratio is that by using the multiple regression analysis.

The result of the research shows that simultaneously, the factors significantly influence the dividend payout ratio. And partially, the Leverage Ratio has negative significant influence, ROA and EPS have positive and significant influence, while the Insider Ownership and ROE have negative but not significant influence to the dividend payout ratio.

ABSTRAKSI

Umi Khoirina. **The Influence of Leverage Ratio, ROA, EPS, Insider Ownership, and ROE toward the Dividend Payout Ratio for Manufacturing Firms Listed in JSX for the Period of 2002-2004.** Jurusan Akuntansi. Program Internasional. Fakultas Ekonomi. Universitas Islam Indonesia. Yogyakarta. 2007.

Kebijakan deviden memiliki peranan penting dalam sebuah perusahaan. Deviden diputuskan dalam Rapat Umum Pemegang Saham (RUPS) yang terdiri dari direktur, manajer, dan pemegang saham. Ada beberapa factor yang dapat mempengaruhi deviden yang akhirnya akan menemui keputusan kebijakan deviden. Penelitian ini bertujuan untuk mengetahui pengaruh Leverage Ratio, ROA, EPS, Kepemilikan insider, dan ROE terhadap kebijakan rasio pembayaran deviden pada perusahaan manufaktur yang go public di Bursa Efek Jakarta.

Hipotesis pada penelitian ini adalah bahwa Leverage Ratio, ROA, EPS, Kepemilikan Insider, dan ROE masing masing akan mempengaruhi Dividend Payout Ratio secara signifikan. Penelitian ini menggunakan multiple linear regression untuk mengetahui pengaruh setiap variable independent terhadap variable dependen.

Hasil penelitian ini menunjukkan bahwa secara keseluruhan, variable independent mempengaruhi variable dependen. Pada setiap variabelnya, hasil regresi menunjukkan bahwa Leverage Ratio berpengaruh negatif dan signifikan terhadap DPR, ROA dan EPS berpengaruh positif dan signifikan terhadap DPR, sedangkan Insider Ownership dan ROE berpengaruh negative dan tidak signifikan terhadap DPR.

CHAPTER I

INTRODUCTION

1.1. Background of the Study

Dividend policy is a decision to determine the level of earnings shares to be allocated to stockholder and to be retained in company (Weston and Coopeland, 1996).

The policy of dividend payment has an important role for the investors as well as for the companies that pay the dividend. Generally, the investors have purposes to increase the wealth and they hope the return in dividend form or as capital gain. On the other side, manager as an agent should manage the company so that the company gets the profit from which this will be paid as dividend at the end. Dividend policy becomes a problem because manager tends to take decision to reinvest the profit for the purpose of increasing the growth of the company. This interest is not in line with the shareholders or investors interest. The higher the dividend means the lower the retained earning, which will cause the pursuing of the companies growth in the revenue and share price.

As previous research which was quoted by Omet (2004), the dividend decision was probably the most controversial of the three issues of long-term financial decision making. "The Dividend Puzzle" (Black, 1976) is one of the pioneering papers on dividend policy. Miller and Modigliani (1961) laid the theoretical foundation of dividend policy research. In a frictionless world, when the

investment policy of a company is constant, its dividend payout policy has no impact on shareholders' wealth. In the other words, higher dividend payout ratios lead to lower retained earnings and capital gains, and vice versa, leaving shareholders' wealth unaffected. Contrary to the theory however, Lintner (1956) showed that U.S companies follow an adaptive process in their dividend policies. More specifically, companies do not tend to decrease dividends, and even if there is a decrease in net income, they tend to payout similar dividends to those distributed previously. Moreover, companies tend to increase dividends when they believe that there is a permanent increase in their net income.

Some parties believe that general shareholder's meetings as decision making of dividend payment should determine the factors influencing the dividend policy. According to Alli (1993) in Suherly (2004), the factors influencing the dividend policy are:

1. Regulation factor which restricts the amount of dividend paid of company (legal restriction).
2. Cash position of the company, related to the liquidity (liquidity position).
3. Absence or lack of other source of financing for the company growth to finance the internal activities.
4. Unstable condition of the company, which will cause the difficulties of future earning predictability, so that management is afraid to set the higher dividend.
5. Ownership control as a factor to set the dividend payment.
6. Inflation.

There are so many researches about the dividend policy, for example like Sri Sudarsi (2002) analyzes the factors influence the dividend payout ratio for banking industries listed in Jakarta Stock Exchange. The result shows that simultaneously the cash position, profitability (ROA), and growth potential have no significant relationship on the dividend payout ratio.

Taswan (2003) analyzes the influence of insider ownership, debt policy, and dividend on the value of company and the factors influence the value of company. By using 95 samples of company from Jakarta Stock Exchange, the result found that: 1) Insider ownership has positive significant influence toward the firm's value; 2) Profitability has negative significant influence toward the debt; 3) Growth rate, firm size, and risk have no significant influence toward the debt policy.

Endang and Minaya (2003) analyzes the influence of insider ownership, dispersion ownership, collateralizable assets, free cash flow, and growth rate of company on the dividend policy, using 12 samples of manufacturing company listed in Jakarta Stock Exchange for the period of 2000-2002. The result found that: 1) There is negative significant influence between insider ownership and growth rate on the dividend policy; 2) Dispersion of ownership, free cash flow, have positive and no significant influence toward the dividend policy. 3) Collateralizable assets show negative relationship and no significant influence on the dividend policy; 4) Simultaneous tests shows that the dependent variables in this research have significant influence on the dividend policy (dividend payout ratio). Insider

ownership, dispersion of ownership, collateralizable assets, free cash flow, and growth rate altogether has significant relationship to the dividend policy.

The inconsistency of the result of previous research regarding on the factors influencing dividend policy, pursue the researcher to replicate the research done by Endang and Minaya (2003). The difference with Endang and Minaya (2003), this research is using the different variables instead of dependent variable that is DPR, and one independent variable that is insider ownership. The researcher tries to analyze other factors influencing the dividend policy.

Based on the explanation above, the researcher takes the title of **“The influence of leverage ratio, ROA, EPS, insider ownership and ROE on dividend payout ratio for manufacturing firms listed in Jakarta Stock Exchange for the period of 2002-2004”**.

It is important to choose only for manufacturing companies to avoid the appearance of bias caused by industrial factors. On the other hand, manufacturing companies are the major companies listed in JSX and have strong support to this research. The researcher chooses the period of 2002-2004, because the major complete data from variables as a whole used are in those periods.

1.2 Problem Identification

The dividend policy is the most important things in manufacture company because it will involve two parties which are shareholders and the management of company. If there is a high dividend, means there is low retained earning and vice

versa. To keep the balance of that different interest, the general shareholder's meeting should make the optimal policy of the dividend itself. To make the optimal policy, it is better to see what factors will influence the dividend policy.

1.3. Problem Formulation

The problem formulations of this research are:

1. Does Leverage Ratio have significant effect on the dividend payout ratio?
2. Does Return on Assets have significant effect on the dividend payout ratio?
3. Does Insider Ownership have significant effect on the dividend payout ratio?
4. Does Return on Equity have significant effect on the dividend payout ratio?
5. Does Earning per Share have significant effect on the dividend payout ratio?

1.4. Research Objectives

This research objective is to provide the significant proof that leverage ratio, return on assets, earning per share, insider ownership, and return on equity have significant influence on the dividend payout ratio for manufacturing company listed in Jakarta Stock Exchange for the period of 2002-2004.

1.5. Research Contribution

This research is about the factors influencing the dividend policy for manufacturing company listed in Jakarta Stock Exchange for the year 2002-2004. It can give several contributions. First, for the researcher, this research can change the

writer's perspective toward the role of dividend policy in a company; therefore, the writer can finally realize that some factors can influence the dividend policy of a company.

Second, for the new investors, company's management, scholars, and other parties who are new in this field, this research can contribute an important consideration whenever they want to set their dividend policy for a firm, especially in considering the factors influencing those dividend policies. Then, for a financial manager, this study will help them to have some considerations in making optimum fund for paying dividend and reinvesting.

Finally, this research can give more information to the government which needs some consideration in making economics policies especially about investment policy and financing decision for Indonesian companies. This research can also help the government in making some rules in order to control the economic equilibrium in the country carefully.

1.6. Systematical Writing

This thesis is arranged in following order: Chapter I consist of background of the study, problem identification, problem formulation, research objective, research contribution, and systematical writing. Chapter II deals with theoretical background, literature review, and the development of the hypothesis. Chapter III describes the methodology, the source of the data, and the measurement of dependent and

independent variable, and also the model formulation. Chapter IV presents the research analysis and implications. And, chapter V presents the limitation of the research and the suggestions for the next research.



CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Dividend Policy ✓

Dividend is a part of profit that is distributed to the shareholders. Some stockholders think that dividend represents one of several motivators to invest their fund in capital market. They think that dividend is a payment of the use of their fund. Most shareholders decide to have short term benefit from the investment which is in form of dividend. The management thinks that dividend as a type of capital outflow that may hurt the companies' future. The bigger the dividend, the less the probability of management reinvest the profit. The management thinks reinvestment is needed for increase the profit and this will increase the dividend itself at the end. To overcome the contradict interest; there is dividend policy that should be decided.

General shareholders' meeting is a place to decide the dividend policy. This meeting should combine the two contradict parties' interest, which is shareholder interest to the dividend, and the company interest or management to reinvest the earnings. The result of dividend policy comes from negotiation or trade off from those parties. The member of general shareholders' meeting consists of director, shareholders, and management. The amount of dividend distributed is based on the general shareholders' meeting (RUPS) and the value of dividend can be vary from zero or not giving the dividend at all up to the amount of current net profit or previous year.

The clientele dividend theory is based on the view that investors are attracted to a particular company in part because of its dividend policy. For example, young investors who just starting out their investment may want their portfolios to grow in value from capital gains which has lower tax rather than from dividends which has higher tax. In contrast, elderly investors may want to live off the income in their portfolios provide. They would tend to seek out companies that pay high dividends rather than reinvesting for growth. Therefore, according to the clientele dividend theory, each company has its own clientele of investors who hold the stock in part because of its dividend policy.

We see that the dividend policy is the most controversial among long term financial decision. Because of that, the general shareholder's meeting should think seriously in determining the dividend policy, whether a dividend should be paid now or be reinvested for the future benefit of the common stockholders as retained earning.

The general shareholder's meeting should make the dividend policy that will fulfill the two parties' interests, that is why there are several factors which have influenced to the dividend policy. Actually, there are three alternatives to measure dividend policy: (1) dividend paid or declared per share, (2) dividend payout ratio (dividend per share divided by after-tax earnings per share), and (3) dividend yield (dividend per share divided by price per share). In this research, the researcher tries to analyze the proxy of dividend payout ratio.

2.2. Dividend Payout Ratio

Dividend payout ratio is a ratio of dividend as a part of profit that should be distributed to the stockholders. The payout ratio provides an idea of how well earnings support the dividend payments. The dividend payout ratio measures the percentage of a company's net income that is returned to shareholders in the form of dividends. More mature companies will typically have a higher payout ratio. The payout ratio is used in the number of different setting. Dividend payout ratios provide valuable insight into a company's dividend policy and can also reveal whether those payments appear "safe" or are in jeopardy of possibly being reduced. It is used in valuation as a way of estimating dividends in the future period, since most analysts estimate growth in earnings rather than dividends. Second, the retention ratio the proportion of the earning reinvested in the firm ($\text{retention ratio} = 1 - \text{payout ratio}$) is useful in estimating the future growth in earnings, firms with high retention ratios (low payout ratio) generally have higher growth rates in earnings than do firm with lower retention ratios (higher payout ratio). Third, the dividend payout ratio tends to follow the life cycle of the firm, starting at zero when the firm is in high growth and gradually increasing as the firm matures and its growth prospect decreases. The payout ratios greater than 100% represent firm that paid out more than their earning as dividends.

2.3. Factors Influencing Dividend Payout Ratio

In setting a firms' dividend policy, they should consider some factors that may influence a firms' decision about its dividend. Actually, there are six factors which are; legal restrictions, liquidity position, lack of other sources of financing, earning predictability, ownership control, and inflation. In this research, the researcher focuses on three factors that is lack of other sources of financing, earning predictability, and ownership control with some proxies of each factor.

2.3.1. Lack of Other Sources of Financing

In dividend policy, a firm may retain profits for investment purposes or pay dividend and issues new debt or equity securities to finance investments. The large company has two alternatives in financing their activities, which is from internal fund and external fund. There are three financing decision that can be used by the company, which are: internal fund, external fund, and equity issuance. Most company will choose the internal fund as the first choice of financing decision. Then they will use external fund which is called by debt for next choice if they are lacking on the internal fund. And the equity issuance is the last choice of financing decision if two alternatives is not enough to finance the company. Internal equity obtain from retained earning from the source of investment is better than debt because it contains risk. In fact, debt is better than the issuance of new share, even though both of them contain risk, but the risk of debt is less than the risk of the issuance of equity.

There is ratio to calculate the firms financing that is financial leverage ratios provide an indication of the long-term solvency of the firm and have two different policies which are leverage ratio and debt-to-equity-ratio. The leverage ratio is ratio of total debt to the total assets, means that the debt from external party will finance and run the assets of company, while the debt-to-equity ratio is ratio of total debt to the total shareholders equity which means that the companies use their own equity to finance and to pay the debt of company. Leverage is used as the source of financing that has it fixed cost with the greater expectation. It will give beneficial such as profit as the additional for the future bigger than its fixed cost that will increased the shareholders' profit.

Leverage ratio is used to calculate the financial leverage of company to get an idea of the company's methods of financing or to measure its ability to meet financial obligations. Company with high fixed costs, after reaching the breakeven point, see a greater increase in operating revenue when output is increased compared to companies with high variable costs. The reason for this is that the costs have already been incurred, so every sale after the breakeven transfers to the operating income. The degree of operating leverage is the ratio used to calculate this mix and its effects on operating income.

Pecking order theory explains the preferences sequences in financing decision. Profitable companies generally borrow less. It happens because they only need less external financing. Less profitable companies tend to have more debt because internally generated fund is not sufficient. Debt is preferred to equity because

equity issuance can be interpreted as bad news by investor and can make the stock price going down. This interpretation is happened because of information asymmetric between insiders and outsiders (Hunan, 1998). The proposal of pecking order theory is begun with introducing of Professor Gordon's research. There are a few important points of his findings (Brigham et, al, 1999 p.429). They are:

1. Firms prefer to finance with internally generated funds that is with retained earnings and depreciation cash flow.
2. Firms set target dividends payout ratios based on expected future investment opportunities and expected future cash flows. The target payout ratio is set at a level that causes retained earnings plus depreciation to cover capital expenditures under normal conditions.
3. Dividends are "sticky" in the short run, firms are reluctant to raise dividends unless they are confident that the higher dividend can be maintained, and they are especially reluctant to cut the dividend. Indeed, they generally do not reduce the dividend unless things are so bad that they simply have to.
4. if a firm has more internal cash flow than is needed to cover its capital expenditures, then it will invest in marketable securities, use the funds to retire debt, increase dividends, repurchase stocks, or acquire other firm. On the other hand, if it has insufficient internal cash flow to finance nonpostponable new projects it will first draw down its marketable securities portfolio, then go to external capital markets. If it has to go to the external markets, it will first issue debt, then convertible bonds, and then common

stock only as a last resort. Thus, Donaldson observed that there is pecking order of financing, not a balanced approach as would result if the trade-off model accurately described real world behavior.

Another theory related to debt financing is trade-off model. According to this theory, a firm's optimal debt ratio is viewed as determined by a trade off of the costs and benefits of borrowing, holding the firm's assets and investment plans constant. These costs become especially relevant in a situation of financial distress and have often been subsumed under "costs of financial distress", as against these costs the major benefit of debt financing is the tax- shield of interest expense. The tax- based theory hypothesizes that the firms choose their debt- equity ratio is by trading off the benefits from tax reduction on interest payment against the costs of financial distress due to accumulating more debt. Brigham et.al., (1999) state that there are three implications of trade-off models, which is:

1. Firms with more business risk ought to use less debt than lower risk, because the greater the business risk, the greater profitability of financial distress at any level of debt. Hence, the greater the expected costs of distress offset the tax advantages of borrowing.
2. Firms that have tangible, readily marketable assets such as real estate can use more debt than firms whose value is derived primarily from intangible assets such as patents and goodwill. The cost of financial distress depends, not only on the probability of incurring distress but also on what happens if distress

occurs. Specialized assets and intangible assets are more likely to lose value if financial distress occurs than are standardized tangible assets.

3. Firms that are currently paying taxes at the highest rate, and that are likely to do so in the future, should use more debt than firms with lower tax rates.

Based on the theory above, the researcher takes the proxy of leverage ratio to see the impact of leverage ratio itself toward the dividend payout ratio. Leverage ratio is counted by dividing the total debt with the total assets. This ratio shows how much debt is used to finance the asset dealing with the operational activity running by the company. Whether high or low leverage ratio reflects that the company depends on external parties (creditor) and it makes the company pay higher for the interest that should be paid by the company. It means that the profit earned by the company should be allocated for paying the debt plus the interests instead of being allocated to the dividend and also for retained earning.

Then the researcher can make the hypothesis of leverage ratio and its impact to dividend payout ratio:

Ha: Leverage ratio has negative significant influence on dividend payout ratio

2.3.2. Earning Predictability

A company's dividend payout ratio depends on some extent on the predictability of the firm's profits over time. If earning fluctuates significantly, management cannot rely on internally generated funds to meet future needs. When profits are realized, the firm may retain larger amounts to ensure that money is

available when needed. Conversely, firms with stable earning trend will typically payout a larger portion of its earnings in dividends. This company has less concern about the availability of profits to meet future capital requirements.

Profitability ratios are measures of performance showing how much the firm is earning compared to its sales, assets or equity. According to signaling theory, dividend should reflect the manager's superior inside information about the firm's future earnings conditions. One of the key implications of these signaling models is that dividend changes should be followed by changes in earnings and profitability in the same direction. The higher the profitability of a company, the more ability to do the dividend payment. The investor will think that the company has good prospects when they see the high profitability which will increase the market value of share and they are interesting to invest the capital to the company. Most of investor considers that profitability is as the important factor toward dividend. The ability of the company to obtain earning or profit is as the main indicator that the company is able to pay dividend. There are some proxies to measure the profitability and the impact to the dividend payout ratio.

In this research, the researchers take three proxies of profitability to see the impact of each to the dividend payout ratio:

2.3.2.1. Return on Assets

Return on assets is ratio between the earning after taxes and the total assets. Return on assets gives an idea as to how efficient management is at

using its assets to generate earnings. The ROA is also related to the decision of manager to retain the earning for financing the company or to pay it as dividend to shareholders. ROA tells what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will highly depend on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or the ROA of a similar company. The assets of the company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better, because the company is earning more money on less investment. For example, if one company has a net income of \$1 million and total assets of \$5 million, its ROA is 20%; however, if another company earns the same amount but has total assets of \$10 million, it has an ROA of 10%. Based on this example, the first company is better at converting its investment into profit. When we really think about it, management's most important job is to make wise choices in allocating its resources. Anybody can make a profit by throwing a ton of money at a problem, but very few managers excel at making large profits with little investment.

The result of previous research done by Sri Sudarsi (2002) shows that in banking industries companies listed in Jakarta Stock Exchange, ROA has positive but not significant influence toward the dividend payout ratio, since she believes that the higher the return on assets the better the company to distribute the dividends to the shareholders.

Based on those theories and previous research, the researcher can make the hypothesis:

Ha: Return on Assets has positive significant influence on dividend payout ratio.

2.3.2.2. Earning per Share

Earning per share is a net earning earned by the company in running their operational activities. The proper profit that will be allocated for shareholders as dividend is taken from the earning after taxes and interests. The new investors also see Earning per Share as their consideration and their expectation that the company will distribute for them because earning per share is already deducted with its all obligations.

Syamsudin (1985) stated generally the shareholder will be interested in higher earning per share because it shows the amount rupiah per share that will be obtain by them. Earning itself is as the reference for the investors who want to invest in the company because it was the parameter for the success

level for the company. Dividend is apart of the profit obtained by the company, so that it will be distributed if the company earns profit. Sulisty (2000) states that earning per share is the company ability to achieve net profit when they are running the ational activity. Dividend will be distributed after company already pays their obligation such as tax. It is obvious the higher earning per share will lead higher in dividend payout ratio also. This result also bring benefit for the investor especially investor who expects high profit from the company because they see Earning per Share as the dividend amount that they will receive.

Based on those theories and previous research, the researcher can make the hypothesis:

Ha: Earning per Share has positive significant influence on dividend payout ratio

2.3.2.3. Return on Equity

Return on equity is the bottom line measure for the shareholders, measuring the profits earned for each dollar invested in the firms' stock. This ratio shows the profit attributable to the amount invested by the owners of the business. The stockholders' equity includes share capital, share premium, distributable and non-distributable reserves. Syamsuddin (1985) stated that return on equity is a measurement of the income provided for the owners

whether common shareholders or preference shareholders for the capital invested in the company.

The previous research done by Sutojo & Irianto (1995) which is cited by Surasni (1998), shows that they have done a research to the companies which have positive significant influence of ROE on dividend payout ratio.

Based on those theories and previous research, the researcher can make the hypothesis:

Ha: Return on Equity has positive significant influence on dividend payout ratio

2.3.3. Ownership Control

The aim of company management is to maximize the welfare of the company's owner. The separation of decision making and risk bearing is seen as the responsibility given to insider (Jansen & Meckling, 1976). On the other hand, insider has right to receive compensation and salary if they have already done their duty including their decision making in running the business that expected to give the best for the investor. Sometimes the insider usually does not only work to maximize the welfare of the company's owner but they also care of their own goodness which is take care of their own welfare.

One theory related is agency theory. Agency theory is the branch of financial economics that looks at conflict of interest between people with different interests in the same assets. This most importantly means the conflicts between: shareholders and managers of companies; and shareholders and bondholders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents. Puput Tri Komalasari (1999) stated that agency relationship arises when one party (principal) paid another party (agent) to do some services and delegate the authority of decision taking to the agent. In companies' context, shareholder is the principal and manager is agent. Shareholder paid the agent and hope the agent will do based on their interest. One key element from the agency theory is that there is a preferred differentiation or interest between the principal and agent. The primary agency relationships in business are those (1) between stockholders and necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship. Another theory related to the insider ownership is asymmetric information. Based on Keown (2000); interest conflict happen between the management and shareholders. Those interest conflict arise because there is exceeds in cash. Exceeds in cash flow tend to be reinvested over the optimum value and consumed for the other activities besides the main activities of company. That conflict might happen because of the different between

shareholders whose like the high risk investment and hope the high return, whereas the management tend to do low risk investment to safe their positions.

According to Brigham et al (1999) there are three suggestions about corporate financial policy based on this theory, which are:

1. in a real world where asymmetric information exist, corporations should issue new share only in the unlikely event that they have extraordinary profitable investment that cannot be postponed, signaled to investors, or financed by debt, or in situations where management thinks the share are overvalued.
2. Selling pressure drives down a company's share price when it announces plans to issue new shares.
3. The pecking order that Donaldson observed is rational when asymmetric information exists.

Scott (1997) divided asymmetric information as (1) adverse selection and (2) moral hazard. Adverse selection is related to the unavailability of disclosure that should be published by the management of the company. Actually internal structure organizations of the company such as managers have more information about the condition and the prospect of the company to the future compared to the investors. However the management is reluctant to convey this information to the investors, which actually can be done by used disclosure. Contrary, moral hazard emphasize on motivation and effort of management related to increase their needs. Stockholders and debt holders actually don't deeply know about what kinds of activities actually done by managers. This condition make managers easily do some activities that break

the rule or contract that has been agreed, related to the effort to increase their wealth. Managers of a firm's usually have better information than outside investors. When this situation is occurs then there asymmetry information.

The previous researches about insider have different result to each other. The research done by Nupikso (2000) found that insider has negative and significant influence because insider ownership is one of the important variables to determine for the dividend policy which also as a management, so the insider tends not to push the company to pay high dividend. Endang and Minaya (2003) also have similar result with Nupikso (2000) that the insider ownership has negative influence toward the dividend payout ratio. While Taswan (2003) has different result, the research proves that insider has positive and significant influence toward dividend payout ratio.

Based on theory, shareholder and management somehow have contradicted interest on the profit earned by the company. Most shareholder want to have high dividend while the management tend to retained the earning to be reinvested. When the shareholders also become management which is called as insider, then it will reduce that conflict. The insiders have balance information and can take the decision better, then insider will not push the company to pay high dividend. The insiders tend to do the reinvestment if they believe the future of company will be better than before. It means that the insider will take the decision of reinvestment and will be paid lower dividend. The insider can have wise decision, since it will also bring benefit for them in the end.

Based on the above explanation, we can see there is relationship between dividend and insider ownership. The researcher can make the hypothesis:

Ha: Insider ownership has negative significant influence on dividend payout ratio



CHAPTER III

RESEARCH METHOD

3.1. Research Object

Population is a group of comprehensive elements that are usually in the form of people, object, transaction or event where we are interested to learn or to become the research object (Kuncoro, 2000). The research is to analyze the factors influencing the dividend policy of manufacturing company listed in Jakarta Stock Exchange. The researcher selects the time period 2002- 2004.

The research directly goes to the companies who have complete data for the variable used in this research, that is leverage ratio, return on assets, earning per share, insider ownership, and return on equity. The number of firms as the research object is 24 manufacturing firms. The final number is coming from 150 companies that are listed in JSX from 2002-2004. Therefore, there are several criteria that should be fulfilled by the company as the requirement according to the research then found the final numbers, as follows:

1. Firms that will be included as the sample are those that have been listed in Jakarta Stock Exchange (JSX) year 2002 as public manufacturing and keep continuously listed until 2004.
2. Only listed companies within manufacturing industry in Indonesia which fully pay the dividend within 2002-2004. It is important to choose only for manufacturing companies to avoid the appearance of bias caused by industrial

factors. On the other hand, manufacturing companies are the major of companies listed in JSX and have strong support to this research.

3. The researcher selects companies to satisfy the definitional and data requirement for the research.
4. The data obtained, and then processed by making several calculations by using Microsoft Excel computer software to measure the notation as a basis in making research variables needed in this research.

3.2. Sources of Data

Data used in this research is secondary data. Secondary data is data which have been processed furthermore and presented either by other party (Cooper, 1997).

Data used in this research are in the form of data of financial statement company, like balance sheet, profit or loss statement (income statement), cash flow statement, changes in owners' equity and also data of insider ownership obtained from Indonesian Capital Market Directory (ICMD) period of 2002-2004.

There are five dividend policy determinants that will be used in this research. They are leverage ratio, return on assets, insider ownership, return on equity, and earning per share obtained from the sources that are already explained above.

3.3. Definitions and Variable Measurement of Research

The researcher defines the dependent and independent variables that will be used in the regression analysis. The dependent variables are dividend policies of the companies, and the independent variables are leverage ratio, return on assets, insider ownership, return on equity, and earning per share. There is dummy variable to control the variance of the data. The detailed description of dependent and independent variables are described below.

3.3.1. Dependent Variable

The dependent variable in this research is dividend policy. Dividend policy is a manager decision about the percentage of profit which will be allocated to pay the dividend or as retained earnings to reinvest in the company. Actually, there are three alternatives to measure dividend policy: (1) dividend paid or declared per share, (2) dividend payout ratio (dividend per share divided by after-tax earnings per share), and (3) dividend yield (dividend per share divided by price per share). The payout ratio provides an idea of how well earnings support the dividend payments. More mature companies will typically have a higher payout ratio. In this research, the researcher follows Endang and Minaya (2003) who use the dividend payout ratio as a proxy of dividend policy. The dividend policy can be measured by dividing the dividend per share with earning per share.

$$DPR = \frac{\text{DividendPerShare}}{\text{EarningPerShare}}$$

Dividend per share is the amount of dividend allocated to the shareholder per 1 share invested, while the earning per share is the portion of a company's profit allocated to each outstanding share of common stock. The data of dividend per share can be found in financial statement especially in changes in owners' equity, and earning per share can be found in income statement.

3.3.2. Independent Variables

In this research, the researcher tries to analyze five independent variables whether or not those five independent variables influence the dependent variable that is DPR. Those five independent variables are explained below:

3.3.2.1. Leverage Ratio (X_1)

Leverage ratio is any ratio used to calculate the financial leverage of a company to get an idea of the company's methods of financing or to measure its ability to meet financial obligations. The financial leverage ratio indicates the extent to which the business relies on debt financing.

Financial leverage ratios provide an indication of the long-term solvency of the firm and have two different policies that are leverage ratio and debt-to-equity-ratio. Unlike liquidity ratios that concern with short-term assets and liabilities, financial leverage ratios measure the extent to which the firm is using long term debt.

Leverage policy serves as a bonding mechanism for managers to convey their good intentions to outside shareholders. Debt validates that managers are willing to risk of losing control of the firm if they fail to pay firm debt. Meginson (1997) mention as a bonding mechanism, leverage policy will decrease agency cost of equity but increase the agency cost of debt. The leverage ratio can be measured by dividing the total debt with shareholders' equity.

$$\text{LeverageRatio} = \frac{\text{TotalDebt}}{\text{TotalAsset}}$$

Total debt is total of short term and long term debt which include the payable, obligation, and so on. While the total assets is total of current and long term assets which include the cash, receivable, inventory, land, building, and so on. The total debt and total assets can be found in balance sheet, since we know that the equation is assets equals with the total debt and equity.

3.3.2.2. Return on Assets ROA (X_2)

Return on assets is an indicator of how profitable a company is relative to its total assets. Return on assets gives an idea as to how efficient management is at using its assets to generate earnings. The assets of company are comprised of both debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA figure gives investors an idea of how effectively the company is converting the money it has to invest into net income. It can be measured by dividing companies' annual earnings by its total assets. A low return on assets ratio indicates

that the earnings are low for the amount of assets. The return on assets ratio measures how efficiently profits are being generated from the assets employed. A low return on assets ratio compared to industry averages indicates inefficient use of business assets.

$$ROA = \frac{\text{Annual Earnings}}{\text{Total Assets}}$$

In this case, annual earning is earning after interest and taxes are paid and the data can be found in the income statement. While the total assets is total of current and long term assets which include the cash, receivable, inventory, land, building, and so on.

3.3.2.3. Earning Per Share (X₃)

Earning per share is a net earning earned by the company in running their operational activities. Dividend will be paid if the company gets profit. The proper profit toward the shareholders is the earning after taxes and interests. Because of that, dividend is taken from the net earning of company, and of course the profit will influence the amount of dividend.

$$EPS = \frac{\text{Net Profit}}{\text{Total Common Stock Outstanding}}$$

Net profit or net earnings comes from the profit margin deducted by interests and taxes, and the data can be found in the income statement, while the common stock outstanding is stock currently held by investors, including restricted shares owned by the company's officers and insiders as well as those held by the public.

Shares that have been repurchased by the company are not considered outstanding stock. They are also known as "issued shares" or "issued and outstanding". This number is shown on companies' balance sheets under the heading "Capital Stock" and is more important than the authorized shares or float.

3.3.2.4. Insider Ownership (X₄)

Insider Ownership is the owner at the same time as company organizer consisted of the director and commissioner. The bigger the amount of insider ownership, the less the conflict happens between the shareholder and the management. It because they will do further action carefully in responsible for the consequences that might arise from the decision they made. Insider Ownership can be seen from share percentage had by board of directors and commissioner which is compared to total company share.

$$INSOWN = \frac{\text{TotalSharesOwnedByDirectorsAndCommissioners}}{\text{TotalCompany'sShares}}$$

There is announcement on how much the shares of a company and how many percentages of those shares owned by directors and commissioners. The data can be found in share announcement on financial statement.

3.3.2.5. Return on Equity (X₅)

Return on equity is a measurement of the income provided for the owners whether common shareholders or preference shareholders for the capital invested in the company (Syamsuddin, 1985). Generally, the higher return or income earned the better of ownership position. The previous research proves that the higher return on equity the bigger amount of dividend paid. Return on equity can be measured by dividing the net profit after taxes by shareholders equity multiplied by 100 % (Syamsuddin, 1985).

$$ROE = \frac{\text{Net Profit After Taxes}}{\text{Shareholders Equity}} \times 100\%$$

Net profit after taxes is equal with the net profit as a whole. It comes from deducting the revenues with the expenses to get the gross profit margin, and then it will be reduced by the interest and taxes. The data can be found in income statement. While the shareholders equity is the amount of equity of shareholders that can be found in changes in owners' equity of financial statement and it also stated as a part of notes to financial statement.

3.4. Model Formulation

This research is using the multiple linear regression models with Microsoft Excel as the computer software. This model is used to see the significance relationship of independent variable toward the dependent variables or to analyze the relationship of leverage ratio, return on assets, insider ownership, return on equity,

and earning per share toward the dividend payout ratio. Then, the multiple linear regressions that can be used to test the hypothesis of the relationship between some variables to dividend payout ratio can be stated as follows:

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + e \dots\dots\dots (3.1)$$

Where:

Y : dividend payout ratio

X₁ : leverage ratio

X₂ : return on assets

X₃ : earning per share

X₄ : insider ownership

X₅ : return on equity

3.5. Hypothesis Testing

After the data has been regressed, the next step is to analyze the result by using the f-test, t-test, and adjusted R². F-test is used to measure the independent variable simultaneously has significant influence on dependent variable. T-test is used to know whether partially the independent variable has significant influence on dependent variable. The researcher uses the 1 tail test to analyze the influence of independent variables on dependent variable. It means that the researcher try to analyze both the direction and also the significances of the independent variable to dependent variable. The researcher set the significances standard of 5%, which is

means if the probability $F < \alpha$, it means H_0 is rejected and if the probability $F > \alpha$, it means the H_a is accepted. Adjusted R^2 about the amount of percentage for each variable which really explain that independent variable influence the dependent variable.



CHAPTER IV

RESEARCH ANALYSIS AND IMPLICATIONS

4.1. Descriptive Statistics

Descriptive statistics is used to know the character of the sample used in this research. To know the description about this research in detail, it can be seen in table 4.1 below:

Table 4.1
Descriptive Statistics

	<i>Log DPR</i>	<i>Log Leverage</i>	<i>ROA</i>	<i>INSOWN</i>	<i>Log ROE</i>	<i>EPS</i>
Mean	1.0315376	-1.035155483	0.1069746	0.56338	2.7194267	182.194
Median	1.3220124	-0.891598119	0.1016613	1	2.8466521	65
Standard Deviation	0.8693877	0.554201506	0.0664471	0.499497	0.7124285	229.17
Sample Variance	0.755835	0.307139309	0.0044152	0.249497	0.5075543	52519
Minimum	-1.221849	-2.120263536	0.0062236	0	0.6471032	1.085

Table 4.1 shows the result of descriptive statistics for each variable used in this research. The result shows the minimum value of dividend payout ratio (DPR) of -1,2218 with the maximum value of 2,47722, the mean is 1,03154, and standard deviation is 0,86939. The minimum value of LEVERAGE (X_1) is -2,1203 with the

maximum value of -0,2107, the mean is -1,0352, and standard deviation of 0,5542. The minimum value of ROA (X_2) is 0,006224 with the maximum value is 0,379569, the mean is 0,106975, and standard deviation is 0,066447. The minimum value of INSOWN (X_3) is 0 with the maximum is 1, the mean is 0,5634, and standard deviation is 0,4995. The minimum value of ROE (X_4) is 0,6471 with the maximum value of 4,16029, the mean is 2,71943, and standard deviation is 0,71243. The minimum value of EPS (X_5) is 1,085 with the maximum value of 956, the mean is 182,194, and standard deviation is 229,17.

The results of these statistics describe that the data used in this research is homogenous data that can be analyzed to prove the hypotheses stated in previous chapter. The homogenous data can be seen by comparing the mean and standard deviation. If the mean is more than the standard deviation it means the result is homogenous and vice versa. In this research, most of variables have higher mean than the standard deviation. If the data is heterogeneous, then the data cannot be analyzed in this research.

4.2. Hypothesis Testing

These researches use the multiple linear regression analysis as a tool to see the significances of the variables. Previous chapter stated that this research is done to analyze whether the variable mentioned really have significant influence on the dividend payout ratio. Multiple linear regression analysis is a test to see the significances relation between independent variable and the dependent variable or to

analyze the factors influencing the dividend policy. This test is using the Microsoft Excel.

The result of the test from the multiple linear regression analysis to the factors (leverage ratio, return on assets, insider ownership, return on equity, and earning per share) influencing the dividend policy for the manufacturing company listed in Jakarta Stock Exchange period 2002-2004 can be seen from the table 4.2 below:

Table 4.2
Regression result of the factors influencing the Dividend Payout Ratio (DPR)
using Microsoft Excel

SUMMARY OUTPUT

<i>Regression Statistics</i>					
Multiple R		0.4398638			
R Square		0.1934802			
Adjusted R Square	R	0.1314402			
Standard Error		0.8102394			
Observations		71			

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5	10.236736	2.0473472	3.1186366	0.0138647
Residual	65	42.671714	0.6564879		
Total	70	52.90845			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	0.4847523	0.5225283	0.9277054	0.3569925
Log Leverage	-0.4412952	0.1816286	-2.4296576	0.0178849
ROA	3.5626084	1.510833	2.3580425	0.0213906
EPS	0.0010313	0.0004409	2.3391331	0.0224131
INSOWN	-0.0146874	0.2009882	-0.0730758	0.9419702
Log ROE	-0.1731049	0.1410907	-1.2269045	0.224284

From the result of double linear regression test, the equation shows:

$$Y = 0.4847523 - 0.4412952 \text{ LEVERAGE} + 3.5626084 \text{ ROA} + 0.0010313 \text{ EPS} \\ - 0.0146874 \text{ INSOWN} - 0.1731049 \text{ ROE}$$

4.2.1. Model Test

Simultaneously, those five independent variables have significant influence on the dependent variable, since the result of F is $< 0,05\%$ as a standard of significances. The F test shows the significances of the model. Generally, the result of regression model was good. The F value is quite high and the *Significance F* is low, that is 0,0138647 (1,3%) which is below 5%. This can be categorized as moderate significances. The low value of *Significance F* shows that the model built was good because it has small mistakes probability which is around 1%. The significant F shows that those five variables as a whole have significant influence on the dividend payout ratio.

Coefficient determination shows the trust that can be put toward the model built. These models have high correlation degree (the relationship between the dependent variable and the independent variable as a whole) that is 0,4398638 and have coefficient determination (R^2) as much as 0,1934802 or 19,35%. Coefficient correlation (Multiple R) shows the ability of the model built to explain the dependent variable. It means that the 19,35% DPR can be explained by the independent variable consisting of LEVERAGE (X_1), ROA (X_2), INSOWN (X_3), ROE (X_4), and EPS (X_5). Adjusted R^2 in this model shows the value 0,1314402 or 13,14%. This value shows

the ability of the independent variable to influence the dependent variable. Because there are five variables, it means that each independent variable can influence around 2,6% for the dependent variable. This result was good, because the variable have a role of influencing the dependent variable if we compare that there are hundreds independent variable influencing the dividend payout ratio or there are so many factors influencing the dividend payout ratio.

The probability value of intercept is 0,3569925 which means that it is not significant. The higher the value of intercept indicates the goodness of the model. It shows that this model really depends on the independent variable (x), not depends on the intercept (a). While the coefficient value of intercept is 0,4847523, which describes the direction of the curve whether it is negative or positive.

4.2.2. Variable Test

4.2.2.1. Leverage Ratio (X_1)

H_{01} = Leverage Ratio has no negative significant influence on Dividend Payout Ratio

H_{a1} = Leverage Ratio has negative significant influence on Dividend Payout Ratio

Based on the table analysis obtained regression coefficient is -0,4412952 and probability value is 0,0178849. Because the coefficient value is negative and probability is $< 0,05$, so reject H_0 and conversely accepts H_a . It shows that LEVERAGE (X_1) has negative significant influence toward the dividend payout ratio (DPR). It proves that the more debt or leverage the company have, this will reduce the amount of dividend paid because the company should use the profit to pay the

debt itself plus interest instead of paying the dividend to the shareholder. So the profit earned by the company is firstly distributed to pay the debt plus the interest instead of paying the dividend to the shareholders.

Company uses two types of capital that come from internal and external party. A high financial leverage ratio indicates the company tends to pay the debt of the company from the external party. The higher the debt from external party indicates possible difficulty in paying interest and principal while obtaining more. Leverage policy serves as a bonding mechanism for managers to convey their good intentions to outside shareholders.

This result is supported by Bearer, Kettler, & Scholes (1970) which stated that the leverage has negative impact on distribution of dividend. The higher the liabilities, it will lead the dividend payment becoming pending or even not distributed at all because the earning should be allocated to pay its liabilities plus the interest of it.

These results have contradiction with the research done by Yuniningsih (2002) which stated that financial leverage has positive influence but not significant toward the dividend payout ratio. The result was not significant because the different condition between two countries which become the research object. The condition of Indonesia shows that dividend payment in manufacture company is influenced by debt.

The limitation of this variable is the researcher uses the proxy of financial leverage policy which is analyzed the solvency of the firm financing using debt as

external sources for the assets for operational activity, while there is another proxy that is analyzed the solvency of the firm using the shareholder's equity called debt-to-equity ratio.

The next researches have ability to try to analyze the other type of leverage policy instead of the leverage ratio that is debt to equity ratio which is the ability of the company to pay the debt by their own capital. The debt-to-equity-ratio can be formulated as total debt divided by total shareholder's equity.

4.2.2.2. Return on Assets ROA (X_2)

H_{02} = Return on Assets has no positive significant influence on Dividend Payout Ratio

H_{a2} = Return on Assets has positive significant influence on Dividend Payout Ratio

Based on the table analysis obtained regression coefficient is 3,5626084 and probability is 0,0213906. Because the coefficient value is positive and the probability is $< 0,05$, so H_0 was rejected and conversely H_a was accepted. It shows that ROA (X_2) has positive significant influence toward the dividend payout ratio (DPR). Return on assets is an indicator of how profitable a company is related to its total assets. Return on assets gives an idea as to how efficient management is at using its assets to generate earnings. The ROA is also related to the decision of manager to retain the earning for financing the company or to pay it as dividend to shareholders. The higher the ROA, the better the company earns more money on less investment.

The return on assets or profitability is net earning earned by the company after they fulfill their obligations to pay the interest and taxes (earning after taxes). Because of that, dividend paid from the net earning will influence the dividend payout ratio. The company that has big profit will pay the big portion of the profit as dividend.

This result is supported by the research done by Sri Sudarsi (2002). Sri Sudarsi takes ROA as the proxy of profitability. The result shows that the ROA has positive but not significant relationship to the dividend payout ratio since the coefficient value is positive but the probability value is 0,367. The research data used is the banking industries listed in the Jakarta Stock Exchange. The result stated that return on assets has positive influence but not significant toward the dividend payout ratio.

The ROA can be counted by dividing the earning after taxes with the total assets. The limitation of this variable is because the formulation always uses the market value instead of book value of total assets since we know the ROA comes from the earning after taxes divided by the total assets.

The next research might use the book value of total assets to get the other result from this research, whether they have similarities between the market value and book value of total assets.

4.2.2.3. Earning Per Share (X_5)

H_{03} = Earning Per Share has no positive significant influence on Dividend Payout Ratio

H_{a3} = Earning Per Share has positive significant influence on Dividend Payout Ratio

Based on the table analysis obtained regression coefficient is 2,3391331 with the probability of 0,0224131. Because the coefficient value is positive and the probability is $< 0,05$, so this rejects H_0 and conversely accepts H_a . This policy of dividend payment is depending on the amount of profit earned by the company. It means that the higher the earning per share, the more ability of company to pay the dividend to the shareholders, and the less the earning per share the less ability of company to pay the dividend to the shareholders. The earning per share is the net profit of company when the company runs the operational activity. The appropriate profit distributed to the shareholder is the profit after the company fulfilling the obligation of the interests and taxes. Dividend is taken from that net profit, and of course the earning per share really influences the amount of dividend.

This research is consistent with the result of research done by Ramli (1994) which is cited by Hatta (2002), and also research done by Surasni (1998) which have the result that the earning per share has positive significant influence on the dividend policy. This earning per share will influence the amount of dividend paid by the company; the more profit of company, the bigger the amount of dividend paid and vice versa.

The limitation of this result is the difficulties measurement of the earning per share if there is unfixed data from the company regarding the common stock outstanding data.

The next research might choose the data that have clearly stated the common stock outstanding data in order to make it easier to analyze this variable.

4.2.2.4. Insider Ownership (X_3)

H_{04} = Insider Ownership has no negative significant influence on Dividend Payout Ratio

H_{a4} = Insider Ownership has negative significant influence on Dividend Payout Ratio

Based on the table analysis obtained, regression coefficient is -0,0146874 and the probability is 0,9419702. Because the coefficient value is negative and probability is $> 0,05$, so that H_a is rejected and conversely H_0 is accepted. It shows that the insider ownership have negative influence but not significant on the dividend payout ratio.

The role of insider ownership toward the company will have negative effect on the dividend payment. Because the insider also as a manager of a company has good knowledge of the company itself and they will have strong authority to set the dividend policy based on the knowledge of the company they have. That's why the management tends to reduce the dividend payment and will use the fund to develop

the business. The existences of insider will influence the dividend payout ratio. But, it will not have significant influence because the insider itself will have the problem within them, then the ability of set the dividend policy will not work well.

This result is supported by Nupikso (2000) and also research done by Endang and Minaya (2003). They found that insider has negative and significant influence because insider ownership is one of the important variables to determine the dividend policy which also as a management, so that the insider tends not to push the company to pay high dividend. Another previous research is done by Suhartono (2004). The differences is that this research proves there is a negative but not significant of insider ownership to the dividend payout ratio, while Suhartono (2004) stated that there is negative significant influence of insider ownership on the dividend payout ratio.

This results contradicts with the research done by Taswan (2003) that shows that the insider ownership is has positive significant relationship toward the dividend policy. Taswan believes that the more share owned by the insider ownership, then the manager tends to pay dividend more, with the assumption dividend earned by insider ownership will be used to increase their wealth and also company growth.

The limitation of this data is because the researcher uses dummy variable in analyzing the relationship of insider ownership toward the dividend payout ratio. Dummy variable cannot be explained by the direction of the curve since they just based on the criteria. The researcher just wants to have the different analysis with the previous research, and the result is also different from what Suhartono (2004) and Taswan (2003) have done because they use the original data of insider ownership

while this research uses the dummy variable of insider ownership data.

The researcher suggests that the next research should not use the dummy variable but use the continuous variable to have different result such as, using the amount of ownership in percentage. It is better for the company to have higher insider ownership of their share, because the fact that the management which is also as a shareholder has the capability to analyze and decide whether the profit will be allocated to the dividend payment or will be allocated to finance the company as retained earning.

4.2.2.5. Return on Equity (X_4)

H_{05} = Return on Equity has no positive significant influence on Dividend Payout Ratio

H_{a5} = Return on Equity has positive significant influence on Dividend Payout Ratio

Based on the table analysis obtained, regression coefficient is -1,2269045 and the probability are 0,224284. Because the coefficient is negative and probability is > 0,05 so that H_0 is accepted and conversely H_a is rejected. Thus ROE (X_4) has negative and not significant influence on dividend payout ratio. The rise of ROE (X_4) does not always cause the rise of DPR and conversely, the decrease of ROE (X_4) does not always cause increase of DPR.

It is known that the company that has higher profitability rate has the ability to pay the dividend. Where, the return on equity is a return of net profit of company toward the shareholders' equity. The return on equity function is to measure the

income provided for the owners whether common shareholders or preference shareholders for the capital invested in the company. This result is contradiction with the theories and that is why the H_0 can not be rejected. This is because in some cases the shareholders can reject the big amount of dividend. It may caused by the prediction of the shareholders to the growth of company. If they think the future growth will get more gain, then they prefer to choose the reinvestment of gain to get more gain for the future instead of get the big amount of dividend. They can predict the future growth from the market value of equity of a company. The higher market value of equity, the bigger the probability of company to get more profit in the future. Then, the higher the return on equity will not automatically indicate the higher the dividend is distributed.

This research contradicts with the result of research done by Sutojo & Irianto (1995) which is cited by Surasni (1998), where they have research on the companies which has positive significant influence. The result means the higher target of DPR the higher return on equity as well.

The limitation of this variable is the fact that the result is not in line with the theories. The result proof that ROE did not has significant influence on dividend payout ratio. The next researcher is better to analyze other variable than ROE itself.

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1. Conclusions

The purpose of this research is to analyze the influence of leverage ratio, return on assets, earning per share, insider ownership, and return on equity toward the dividend payout ratio for manufacturing company listed in Jakarta Stock Exchange for the period of 2002-2004. The data has been analyzed using the multiple linear regressions and Microsoft Excel as a tool.

The result of the research found:

- 5.1.1. Leverage Ratio has negative significant influence on the dividend payout ratio.
- 5.1.2. ROA has positive significant influence on the dividend payout ratio.
- 5.1.3. Earning per Share has positive significant influence on the dividend payout ratio.
- 5.1.4. Insider Ownership has negative and not significant influence on the dividend payout ratio.
- 5.1.5. Return on Equity has negative and not significant influence on the dividend payout ratio.

5.2. Limitations

- 5.2.1. The limitation of leverage ratio variable is that the researcher uses the proxy of financial leverage policy, while there is another proxy that is analyzed the solvency of the firm using the shareholder's equity called debt-to-equity ratio.
- 5.2.2. The limitation of ROA variable is because the formulation always uses the market value instead of book value of total assets.
- 5.2.3. The limitation of EPS variable is the difficulties measurement of earning per share, if there is unfixed data from the company regarding to the common stock outstanding data.
- 5.2.4. The limitation of the insider ownership variable is because the researcher uses dummy variable in analyzing the relationship of insider ownership toward the dividend payout ratio.
- 5.2.5 The limitation of this variable is the fact that the result is not in line with the theories. The result proof that ROE did not has significant influence on dividend payout ratio.

5.3 Suggestions

- 5.3.1. The next researches have ability to try to analyze the other type of leverage policy instead of the leverage ratio that is debt to equity ratio which is the ability of the company to pay the debt by its own capital. The debt-to-equity-ratio can be formulated as total debt divided by total shareholder's equity.
- 5.3.2. The next research might use the book value of total assets to get the other result from this research, whether they have similarities between the market value and book value of total assets.
- 5.3.3. The next research might choose the data that have clearly stated the common stock outstanding data in order to make it easier to analyze this variable.
- 5.3.4. The researcher suggests that the next research should not use the dummy variable but using the continuous variable to have different result such as, using the amount of ownership in percentage.
- 5.3.5. The next researcher is better to analyze other variable than ROE itself.

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APPENDIX 1

List the research' sample of Indonesian Manufacturing Firms The period 2002-2004

NO	NAME OF COMPANY	CODE
1	PT.Aqua Golden Mississippi Tbk	AQUA
2	PT.Andhi Chandra Automotive Products Tbk	ACAP
3	PT.Asahimas Flat Glass Co.Ltd.Tbk	AMFG
4	PT.Arwana Citamulia Tbk	ARNA
5	PT.Astra Graphia Tbk	ASGR
6	PT.Astra otoparts Tbk	AUTO
7	PT.Dankos-Laboratories Tbk	DNKS
8	PT.Delta Jakarta Tbk	DLTA
9	PT.Ekadharma Tape Industries Tbk	EKAD
10	PT.Fast Food Indonesia Tbk	FAST
11	PT.Goodyear Indonesia Tbk	GDYR
12	PT.Gudang Garam Tbk	GGRM
13	PT.Hanjaya Mandala Sampoerna Tbk	HMSP
14	PT.Indofood Sukses Makmur Tbk	INDF
15	PT.Intanwijaya Internasional Tbk	INCI
16	PT.Kimia Farma (persero) Tbk	KAEF
17	PT.Lautan Luas Tbk	LTLS
18	PT.Lion Mesh Prima Tbk	LMSH
19	PT.Lion Metal Works Tbk	LION
20	PT.Mandom Indonesia Tbk	TCID
21	PT.Merck Tbk	MERK
22	PT.Multi Bintang Indonesia Tbk	MLBI
23	PT.Surya Toto Indonesia Tbk	TOTO
24	PT.Unilever Indonesia Tbk	UNVR

APPENDIX 2**Data of each variable for the year 2002**

NO	CODE	YEAR	DPR	LEVERAGE	ROA	EPS	INSOWN	ROE
1	AQUA	2002	17,12	0,58	0,121215	5,023	0	29,95
2	ACAP	2002	86,6	0,14	0,083815	14	0	9,75
3	AMFG	2002	14,7	0,56	0,13736	476	1	28,48
4	ARNA	2002	0,3	0,54	0,060852	17	1	13,4
5	ASGR	2002	0,2	0,56	0,099239	55	1	22,49
6	AUTO	2002	0,25	0,36	0,140528	1,396	1	24,58
7	DNKS	2002	19,17	0,57	0,140971	311	0	33,55
8	DLTA	2002	14,29	0,2	0,118142	2,8	0	15,2
9	EKAD	2002	53,69	0,17	0,106798	140	0	12,86
10	FAST	2002	18,96	0,44	0,154064	84	0	27,53
11	GDYR	2002	40,46	0,3	0,039493	371	0	5,66
12	GGRM	2002	27,66	0,37	0,13505	1,085	1	21,49
13	HMSP	2002	13,46	0,45	0,170222	371	1	32,13
14	INDF	2002	32,74	0,7	0,052626	86	1	21,91
15	INCI	2002	34,02	0,15	0,030223	29	0	3,58
16	KAEF	2002	300,1	0,35	0,034094	6	1	5,23
17	LTLS	2002	20,25	0,51	0,021557	25	1	4,9
18	LMSH	2002	16,22	0,68	0,042448	154	1	3,11
19	LION	2002	30,66	0,13	0,109696	228	1	12,57
20	TCID	2002	40,27	0,15	0,163224	372	1	19,15
21	MERK	2002	0,06	0,13	0,217185	1,631	0	25,08
22	MLBI	2002	76,72	0	0,179039	4,037	0	30,06
23	TOTO	2002	0,14	0,81	0,124868	1,39	0	64,09
24	UNVR	2002	39	0,34	0,316396	1,282	1	48,43

Data of each variable for the year 2003

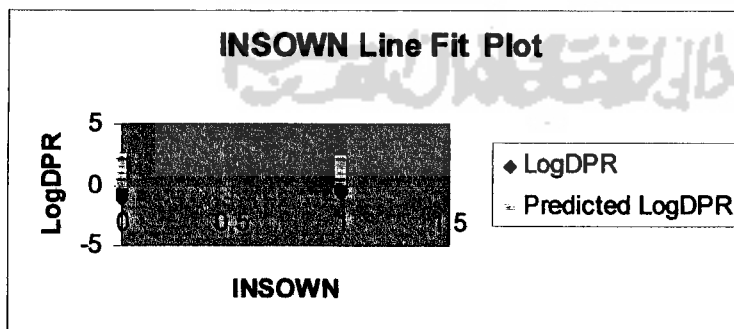
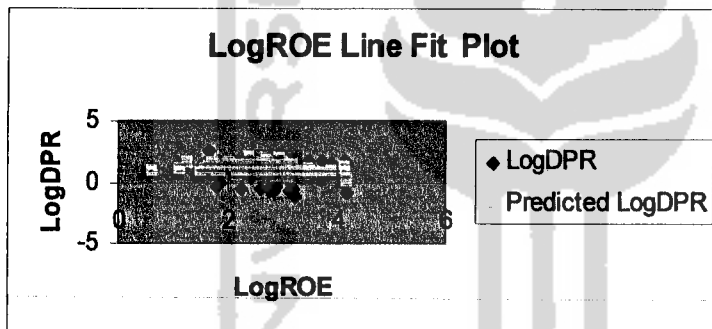
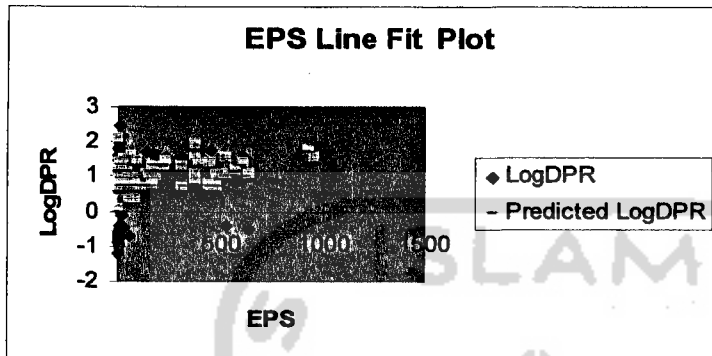
NO	CODE	YEAR	DPR	LEVERAGE	ROA	EPS	INSOWN	ROE
1	AQUA	2003	16,65	0,47	0,120859	4,805	0	23,45
2	ACAP	2003	143,5	0,17	0,094709	17	0	11,35
3	AMFG	2003	21,26	0,42	0,109848	376	1	19,03
4	ARNA	2003	0,35	0,48	0,08305	23	1	16,1
5	ASGR	2003	0,75	0,53	0,030389	16	1	6,44
6	AUTO	2003	0,18	0,32	0,10545	1,582	1	17,28
7	DNKS	2003	7,11	0,52	0,151851	442	0	31,82
8	DLTA	2003	14,88	0,2	0,094427	2,352	0	11,76
9	EKAD	2003	10,3	0,18	0,071385	97	0	8,72
10	FAST	2003	19,86	0,41	0,129308	81	0	21,87
11	GDYR	2003	37,42	0,32	0,038356	401	0	6,15
12	GGRM	2003	31,39	0,37	0,106043	401	1	16,76
13	HMSP	2003	38,38	0,41	0,137956	313	0	24,39
14	INDF	2003	43,81	0,69	0,03942	64	1	14,74
15	INCI	2003	42,13	0,14	0,047347	47	0	5,52
16	KAEF	2003	0,37	0,45	0,033252	8	1	6,03
17	LTLS	2003	20,4	0,63	0,006224	10	1	1,91
18	LMSH	2003	14,9	0,64	0,047156	168	1	4,5
19	LION	2003	38,18	0,16	0,101661	236	1	12,07
20	TCID	2003	41,62	0,12	0,161762	396	1	18,14
21	MERK	2003	62	0,2	0,252486	2,258	0	31,71
22	MLBI	2003	78,05	0	0,186793	4,282	0	33,63
23	TOTO	2003	0,31	0,77	0,057096	640	0	24,51
24	UNVR	2003	47,07	0,38	0,379569	170	1	61,88

Data of each variable for the year 2004

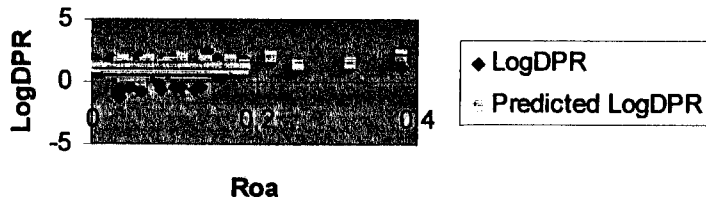
NO	CODE	YEAR	DPR	LEVERAGE	ROA	EPS	INSOWN	ROE
1	AQUA	2004	16,95	0,46	0,136464	6,962	0	25,85
2	ACAP	2004	39,33	0,2	0,141035	25	0	17,7
3	AMFG	2004	20,99	0,34	0,132217	476	1	20,05
4	ARNA	2004	0,36	0,5	0,084917	28	0	17,23
5	ASGR	2004	2,2	0,42	0,065382	28	1	11,28
6	AUTO	2004	0,21	0,36	0,09159	1,821	1	15,95
7	DNKS	2004	4,82	0,45	0,183837	373	0	33,51
8	DLTA	2004	14,48	0,22	0,085027	2,417	0	10,95
9	EKAD	2004	50,01	0,15	0,065228	20	0	8,35
10	FAST	2004	22,4	0,4	0,111146	80	0	18,43
11	GDYR	2004	38,39	0,35	0,056689	610	0	8,73
12	GGRM	2004	53,74	0,41	0,08694	930	1	14,69
13	HMSP	2004	60,51	0,55	0,170254	454	0	40,99
14	INDF	2004	44,96	0,68	0,024878	40	1	8,88
15	INCI	2004	38,26	0,15	0,065744	65	1	7,71
16	KAEF	2004	0,29	0,31	0,066262	14	1	9,55
17	LTLS	2004	25,54	0,63	0,036433	67	1	11,39
18	LMSH	2004	6,97	0,59	0,128789	573	1	8,72
19	LION	2004	22,08	0,18	0,160548	453	1	19,54
20	TCID	2004	37,82	0,8	0,174637	529	1	20,74
21	MERK	2004	54,79	0	0,285527	2,555	0	37,16
22	MLBI	2004	73,25	0	0,154547	4,096	0	32,64
23	TOTO	2004	0,38	0,8	0,036523	522	0	17,82
24	UNVR	2004	41,57	0,37	0,401465	192	1	63,84

APPENDIX 3

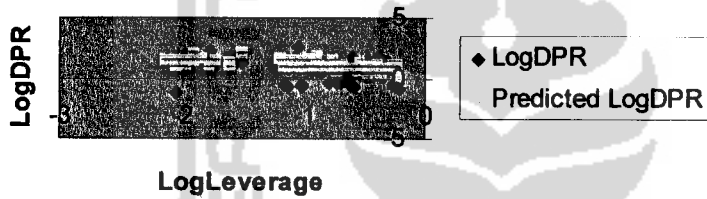
The Residual Value Output of Multiple Regressions



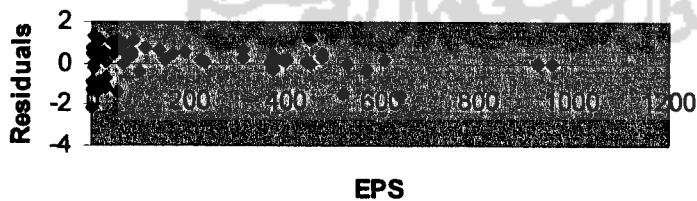
Roa Line Fit Plot

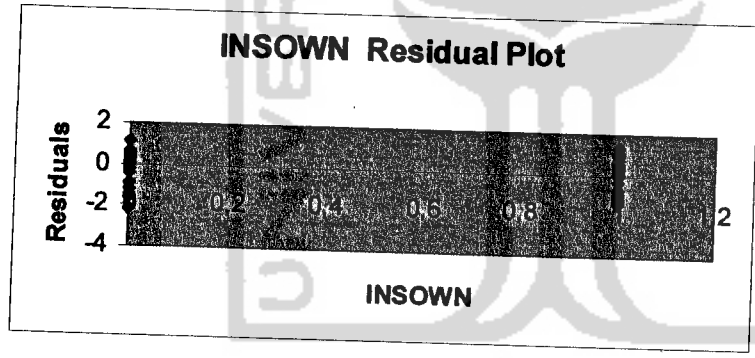
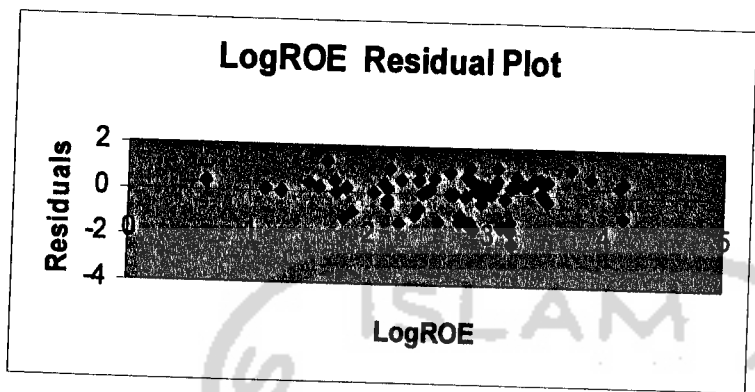


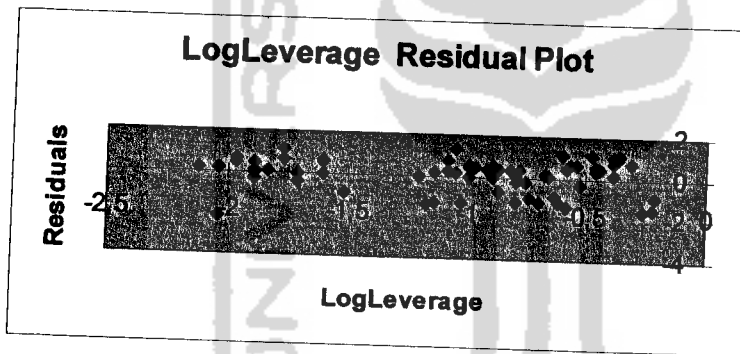
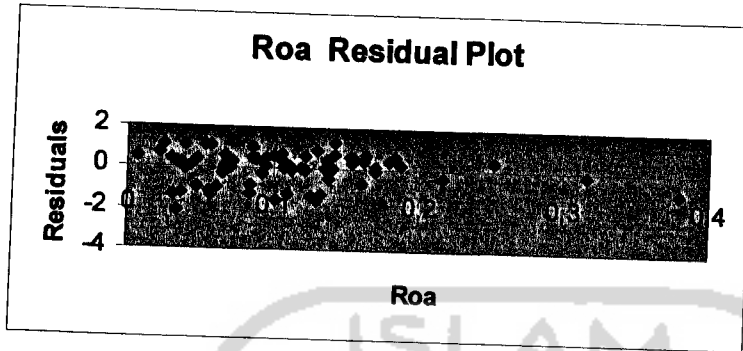
LogLeverage Line Fit Plot



EPS Residual Plot







SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.4398638
R Square	0.1934802
Adjusted R Square	
Standard Error	0.1314402
Observations	0.8102394
	71

ANOVA					
	df	SS	MS	F	Significance F
Regression	5	10.236736	2.0473472	3.1186366	0.0138647
Residual	65	42.671714	0.6564879		
Total	70	52.90845			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.4847523	0.5225283	0.9277054	0.3569925	-0.5588081	1.5283126	-0.5588081	1.5283126
LogLeverage	-0.4412952	0.1816286	-2.4296576	0.0178849	-0.8040323	-0.0785582	-0.8040323	-0.0785582
Roa	3.5626084	1.510833	2.3580425	0.0213906	0.5452684	6.5799484	0.5452684	6.5799484
INSOWN	-0.0146874	0.2009882	-0.0730758	0.9419702	-0.4160883	0.3867135	-0.4160883	0.3867135
LogROE	-0.1731049	0.1410907	-1.2269045	0.224284	-0.4548824	0.1086726	-0.4548824	0.1086726

APPENDIX 4