

# Profitability and Solvability Analysis in an Effort to Improve Dividend Distribution

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This research aims to analyse profitability and solvability in an effort to observe how dividend distribution may be increased. Quantitative data was used in this research. This study used a secondary data source; the data was collected from the Indonesian Stock Exchange (ISE) in the form of annual financial reports from transportation companies shown to be distributing a dividend in the 2010-2016 period. The study used 32 transportation companies listed on the ISE for the sample. The independent variable (X) of this research was that the profitability variable consisted of ROA (Return on Assets) and the solvability comprised DAR (Debt to Assets Ratio), while the dependent (Y) variable was Dividend Payout Ratio (DPR). Profitability has an influence on dividend distribution. Profitability measured by an asset is the basic element representing an investor's benchmark for a company in managing profit. Solvability has an influence on dividend distribution since solvability, or debt to asset ratio, is an ideal indicator for a transportation company. The amount of company assets financed by debt will affect the company's debt payment and dividend distribution. The amount of dividend is also influenced by solvability. According to the previous research results, the influence of ROA on stock distribution results in a different finding, so this research can still be utilised to test the influence of ROA on dividend distribution. The originality of this paper is that it shows the comprehensive profitability, solvency, and dividend payouts in Indonesia.

**Key words:** *Profitability, Solvability Analysis, Dividend Distribution.*

## Introduction

Dividend policy has an influence on both shareholders and the companies paying the dividend. A large number of investors appreciate dividend distribution since it decreases the uncertainty of investment and builds investors' trust in the company. With respect to past performance,

Wang (2008) stated that the success of the momentum prediction strategy was seen in the forecasting. Predictability is stated as being stronger for a longer estimation. The stock return predictability is statistically and economically good.

Regression analysis is a method used to determine the relationship between the predictor variables and the response variables (Fernandes, 2014). Fernandes et al (2015) stated that the line estimator of Nonparametric Regression can be used to estimate functions which represent the association of two variables and are observed at several values of the multi-predictors variable. Gordon (1959) and Lintner (1956), through their bird-in-the-hand theory, have argued that shareholders were happier to get cash dividends than capital gains. "The *bird-in-the-hand theory* explained that shareholders prefer dividend distribution (cash) than capital gain" (Gordon, 1959 and Lintner, 1956).

During dividend distribution, there is a conflict of interest involving the investor (principle) and management (agent). That conflict has been explained by Jensen and Meckling (1976) by way of agency theory. Agency theory means that management and shareholders have different interests. Shareholders want dividend distribution (cash) since they are expecting to benefit from their investments, while management wants to hold the profits to pay debt or investment since the dividend distribution (cash) for management is an outflow of the cash projected to temper the company's cash (Jensen and Meckling, 1976). Strategic orientation has a significant and positive effect on the innovation level, or the more prospective the strategic orientation of management of an Indonesian airline branch is, for example, the higher the innovation level (Fernandes, 2017). Welding technology is the moderating variable in the relationship between quality of human resources and workforce competitiveness (Fernandes, 2019). The idea of innovation is quickly realised and products that enter the market faster have a greater chance of improving competitiveness through profit and productivity (Hutahayan, 2019). At best, the final effect will be mere compliance to the change, rather than enthusiastic commitment (Limba, 2019).

Transportation is a sector in which dividend distribution is small; yet, it is continuously growing and developing. In 2007-2011, land transportation demands continuously grew by 12.3% (Visioneer, 2013). In 2014, the transportation sector was categorised into five sectors with the biggest investment in 2014 rising by 11.46% (Budget Analysis Bureau, 2015). The transportation sector development, should be a sector distributing stable dividends, when in fact only a small part of the transportation sector distributes its dividend. This is demonstrated in Table 1:

**Table 1:** Transportation Company Growth and Total Transportation Company Which Distributed Dividend During The 2010-2016 Period

Year	Total Listing Company	Company Distributing Dividend
2010	14	4
2011	16	2
2012	21	2
2013	24	5
2014	29	8
2015	32	9
2016	32	5

**Source:** idx.com and ksei.com

Table 1 shows that there is only a small sector of the transportation industry which is distributing its dividend. In 2010-2012, transportation companies distributing dividends decreased, while it increased between 2013-2015. However, in 2016 the dividend distribution decreased again. This research limits a study of the factors influencing dividend distribution, that is, the return on assets as a measurement tool of profitability and debt to asset ratio as a measurement tool of solvability. The dividend distribution of this research is measured by the Dividend Payout Ratio (DPR). “Dividend Payout Ratio is an illustration representing the percentage of profit distributed in cash to investor” (Van Home and Wachowicz, 2005:270). Dividend Payout Ratio (DPR) is formulated by dividend per share as divided by profit per share.

Profitability is a benchmark used to assess how far the company is able to manage profits. Sartono (2010) explained that profitability represents to what extent the company earns profits in its relationship to sales, assets, or equity. The more profitable a company, the higher the company’s skill at earning profits and the dividend distribution will increase. Profitability is essential for an investor who will expect to see earned profits or dividend. Profitability is measured using Return on Assets (ROA) and the higher the ROA, the better the productivity of the assets are at earning a net profit. The company's net profit will be an affinity for the investor since the rate of return or dividend from the stock purchase is increasing.

Return on Assets shows the total assets used by a company (Kasmir, 2012). ROA is a proper benchmark that measure a company's profitability as it indicates management efficacy in the use of assets in terms of earning income. The higher the ROA, the higher the dividend accepted by shareholders. An et al. (2014) have explained that the higher the ROA, the higher the profit earned by the company. High profits provide a chance for investors to achieve high dividend distribution.

Transportation companies have high ROA but not all of them distribute a dividend to the shareholders. The ROA listed on Panorama Transportasi Tbk in 2012 was up by 3.3%, but the company did not distribute dividends to shareholders (idx.com). Research from Kurniawan et al. (2016) concluded that Return On Assets did not influence dividend distribution.

This research uses Debt to Asset Ratio (DAR) to measure solvability level. A company is considered solvable if it has proper assets and wealth to pay all debts. DAR shows the total debt to all assets. High DAR value causes the total company's obligation to be high along with the interest payments. This causes companies to pay smaller dividends. Noviyati et al. (2015) have stated that the Debt to Asset ratio influences the dividend payout ratio. Sunaryo (2014) proposed that DAR did not influence the dividend payout ratio. Transportation companies with low DAR do not always distribute dividends. For example, the DAR of Panorama Transportasi Tbk was listed at 0.8% in 2012, but they did not distribute a dividend to shareholders.

According to the research results, the influence of ROA on stock distribution results in a different finding, so this research can still be utilised to test the influence of ROA on dividend distribution. According to the background above, this research aims to analyse profitability and solvability in an effort to increase dividend distribution.

Several previous studies were used as references in this research, such as the Profitability studies by Afrifa, G.A. and Padachi, K. (2016); Alharbi, A.T. (2017); Bergendahl, G. (1995); Burgess, C. and Bryant, K. (2001); Chaudhry, M., et al. (1995); Hart, A. and Smith, M. (1998); Keramidou, I., et al. (2013); Menicucci, E. and Paolucci, G. (2016); Smith, M. and Dikolli, S. (1995); Yazdanfar, D. and Öhman, P (2015); Solvency by Abduh, M. and Isma, S.N.Z. (2017); Bonsón, E., et al. (2010); Coppola, M. and D'Amato, V. (2012); Coppola, M., et al. (2011); HEATON, J.B. (2002); Ma, A.K.C. and Cheung, J.Y.K. (2013); Martin, M. (2013); Schmeiser, H. and Luca, D. (2017); Schmeiser, H., et al. (2012); Wagner, J. (2014); Dividend payout by Abor, J. and Fiador, V. (2013); Al-Kayed, L.T. (2017); Al-Najjar, B. and Hussainey, K. (2009); Ameer, R. (2008); Amidu, M. and Abor, J. (2006); Benjamin, S.J. and Zain, M.M. (2015); Benjamin, S.J., et al, (2016); Deslandes, M., et al. (2015); Michiels, A., et al, (2017); and Yarram, S.R. (2015). The originality of this paper illustrates the comprehensive profitability, solvency, and dividend payouts in Indonesia.

## Literature Review

***The Bird-In-The-Hand Theory.*** Gordon (1959) and Lintner (1956) have proposed that dividend policy theory has encouraged investors to prefer dividends, especially dividend cash, above capital gains. Investors prefer cash on hand rather than having to make speculation on future capital gains. "Shareholders choose to avoid risk and prefer to accept dividend payment (cash dividend) than capital gain" (Gordon, 1959 and Lintner, 1956). Shareholders consider

dividend payments to be sounder than capital gains. Dividend payments are currently ending investors' uncertainty. Profits in the form of a cash dividends offer more certainty, but capital gains profits carry a risk (Gordon, 1959). Investors prefer to earn income in the form of dividend distribution as opposed to waiting for future speculative capital gains.

**Signaling Theory.** Signaling theory refers to the belief of management that if paying a higher dividend, the market stock price will increase (Easterbrook, 1984). On the other hand, investors connect dividend payments to investment policy changes planned by companies that offer good prospects in the future. With respect to dividend as a signal for an investor, investors will believe in the signal if management sends a clear and accurate message that can be believed. The dividend increase is a signal for investors that management has good income in view in the future. This dividend increase by the investor is seen as a signal that a company's prospects will be good.

**Agency Theory.** Agency Theory refers to a conflict of interest between manager and shareholder (Jensen and Meckling, 1976). Investors hope for bigger dividend payments and beneficial investment results while the manager commonly postpones dividend distribution for reasons of paying off debt before making further investments. Less debt will affect the load interest payment or investments which can provide a return in the form of income for a company. This conflict of interest will cause agency cost. Agency cost can be minimised by monitoring systematics that can balance interest. Cash dividend policy becomes one of the monitoring systematics of management for an investor.

**Profitability.** Profitability represents a company's ability to achieve profit targets (Suharli and Oktorina, 2005). Profitability refers to what extent the company earns profit in relation to sales, assets or equity (Sartono, 2010). Maury (2018) stated that long-term performance is influenced by the previous or upcoming event. Stability of profitability is obtained when profitability increases and market share continues.

A study conducted by Sandy et al. (2015) implied that ROA has a significant influence on cash dividend policy, while four other ratios i.e. Profit Margin (PM), Return On Equity (ROE), Current Ratio (CR) and Quick Ratio (QR) have no significant influence on cash dividend policy. Research conducted by Kurniawan et al. (2016) showed that the variables of Cash Position, Debt-Equity Ratio, Return on Asset, and Current ratio have no influence on the Dividend Payout Ratio. Firm Size, Price Earnings Ratio, and Total Asset Turn Over relate to Dividend Payout Ratio.

Ano et al. (2014) have explained that Current Ratio, ROA, and ROE have a significant influence on the Dividend Payout Ratio of the bank subsector on the Indonesian Stock Exchange. Samrotun's research (2015) found that Return on Asset, Current Ratio, and Debt to

Equity Ratio have an influence on Dividend policy, while the variables of cash ratio growth and firm size have no influence on dividend policy. Lanawati et al. (2015) have explained that cash ratio, debt to equity ratio, firm size and growth have no influence on the dividend payout ratio. Return on Asset has an influence on the dividend payout ratio. Several ratios can be applied to measure profitability. Among others are net profit margin, return on assets and return on equity. The profitability measurement tool used is the return on assets.

### ***Return on Assets (ROA)***

Return on Assets is a numeric illustration indicating the total asset result used by the company (Sartono, 2010). This ratio can be calculated as follows:

$$ROA = \frac{\text{Net profit after tax}}{\text{Total Asset}} \times 100$$

Source: Van Horne and Machowicz, JR (2005)

### ***Solvability***

Solvability is an illustration of how far the company is financed by debt. Solvability represents a company's intention to pay off debts using all the assets owned. Chiriac (2015) stated that solvability indicators are needed more than liquidity indicators in terms of establishing a company's long-term reaction to the business. Financial data analysis (balance sheet) correlates to the strategy information of investment or fixed assets.

If the company has higher operating leverage it will affect a dividend that tends to slow (Rozeff, 1982). Research by Swatyastu et al. (2014) showed that Cash Ratio, Firm Size, and Return on Assets had no influence on the Dividend Payout Ratio. Growth, Debt to Total Asset and Debt to Equity have no negative influence on the Dividend Payout Ratio. Sunaryo's (2014) research indicated that Return on Asset and net Income after Tax have a significant influence on the Dividend Payout Ratio. While Current Ratio, Debt to Equity Ratio, Debt to Total Asset Ratio have no significant influence on Dividend Payout Ratio.

Noviyati et al. (2015) have stated that Size, Debt to Asset ratio, and previous dividends have an influence on the Dividend Payout Ratio while the ROA and cash ratio have no influence on the Dividend Payout Ratio. Satmoko et al. (2009) found that Cash Ratio, Current Ratio, and the Debt to Asset Ratio have no influence on cash dividends while ROA and earning per share have a significant influence on the cash dividend.

The Solvability measurement tool used was Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER). The solvability of this research uses Debt to Asset Ratio (DAR) as the measurement tool.

### ***Debt to Asset Ratio (DAR)***

The Debt to Asset Ratio is a measurement tool used to calculate the comparison between total debt and total asset. This refers to what extent a company is financed by debt or to what extent the company's debt can influence the company's asset management. The Debt to Asset ratio formula is as follows:

$$\text{DAR} = \frac{\text{Total Obligation}}{\text{Total Asset}} \times 100$$

**Source:** Van Horne and Machowicz, JR (2005)

The Debt to Asset ratio and the Debt to Equity ratio have almost the same function (Van Horne and Machowicz, 2005). This measurement tool emphasises the percentage of a company's asset that is supported by debt. The higher the debt to asset ratio, the higher the financial risk.

### ***Dividend***

A dividend represents a company's profit which is distributed to the investor based on the shares owned. That distribution affects the decrease of the available company's cash, but the main purpose of the business is profit distribution. Distributing profit for an investor is comparable to the total shares owned (Suharli, 2006). Investors are more interested in cash dividends. The dividend is a profit payment to the investor in the form of stock or cash (Ross, 1977). Pech et al. (2015) explained that the most preferred financial ratio estimation has one year's stock return estimation in the future, but they did not find prediction strength evidence on the two year's stock return.

### ***Dividend Policy***

Dividend policy is a decision on the profit that will be distributed to the investor in the form of a dividend or will be held to add investment payment capital in the future (Sartono, 2010:281). Zhu et al. (2017) concluded that dividend distribution has a predictive strength. Predictability depends on the dividend growth. Strong dividend growth prediction points towards better equity prediction.

The Dividend Payout Ratio determines which portion of profits can be kept within the company as a financing source. However, profit detention will affect the least amount of cash which is available for dividend distribution. Conversely, if a company chooses to distribute a dividend so that it affects retained earning slowdown and decreases internal financing source, the company is encouraged to always consider the dividend which will be distributed to the investor. The company answers investors' uncertainty by way of a dividend. Investors appreciate cash dividends more than having to speculate upon future profits (capital gain). Cash dividends can be calculated using the Dividend Payout Ratio.

### Methodology

The data for this research was categorised into quantitative data. This study used a secondary data source which was collected from the Indonesian Stock Exchange (ISE) in the form of the annual financial report of transportation companies distributing a dividend during the 2010-2016 period. This research used 32 transportation companies listing on the ISE for the sample. The independent variable (X) of this research was the profitability variable which consisted of ROA (Return on Assets) and solvability which was comprised of the DAR (Debt to Assets Ratio), while the independent (Y) variable used was the Dividend Payout Ratio (DPR).

**Profitability (X1)** Profitability is a measurement used to assess to what extent a company earns profit in a particular period. The measurement tool used was Return On Assets (ROA). Return On Assets is an effective measurement tool designed to gauge a company's profit. The ROA's formulation is as follow:

$$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Asset}} \times 100$$

**Source:** Van Horne and Machowicz, JR (2005)

**Solvability (X2).** Solvability is an illustration of how far a company is financed by debt. The measurement tool used was Debt to Asset Ratio. Debt to Asset Ratio is a measurement tool indicating the amount of a company's asset that is financed by debt. The formula used to calculate debt to asset ratio is as follows:

$$DAR = \frac{\text{Total Obligation}}{\text{Total Asset}} \times 100$$

**Source:** Van Horne and Machowicz, JR (2005)

Dividend Distribution (Y). Dividend distribution is a decision made by a company concerning an investor's profit based on the number of shares they have. The measurement tool used was the Dividend Payout Ratio (DPR). The Dividend Payout Ratio is the amount of cash dividend distributed by comparing the amount of dividend per share and the amount of profit per share. The formula used to calculate DPR is as follows:

$$DPR = \frac{\text{Dividend per share}}{\text{Earning per share}} \times 100$$

**Source:** Van Horne and Machowicz, JR (2005)

## Results

**Description of Research Object.** The research object was transportation companies listing on the ISE during the 2009-2015 period. There were 16 samples collected from the population and criterion determined. The following was the sample used:

**Table 2:** List of Company's Sample

No	Company's Name
1	Adi Sarana Armada
2	Blue Bird
3	Cardig Aero Service
4	Express Transindo Utama
5	Indistrails
6	Logindo Samudramakmur
7	Mitrabahtera Segara Sejati
8	Panorama Transportasi
9	Pelayaran Nely Dwi Putri
10	Pelayaran Tempuran Emas
11	Rig Tenders
12	Samudera Indonesia
13	Sidomulyo Selaras
14	Trada Maritime
15	Trans Power Marine
16	Berlian Laju Tanker

**Source:** IDX.com

## Analysis

**Descriptive Statistics.** Descriptive statistics aim to explain the data by considering standard deviation, skewness, range, minimum, sum, maximum and average value (GhZali, 2011). The measurement tools used were Return on Asset, Debt to Asset Ratio and Dividend Payout Ratio. The following is the result:

**Table 3:** Analysis Result of Descriptive Statistics

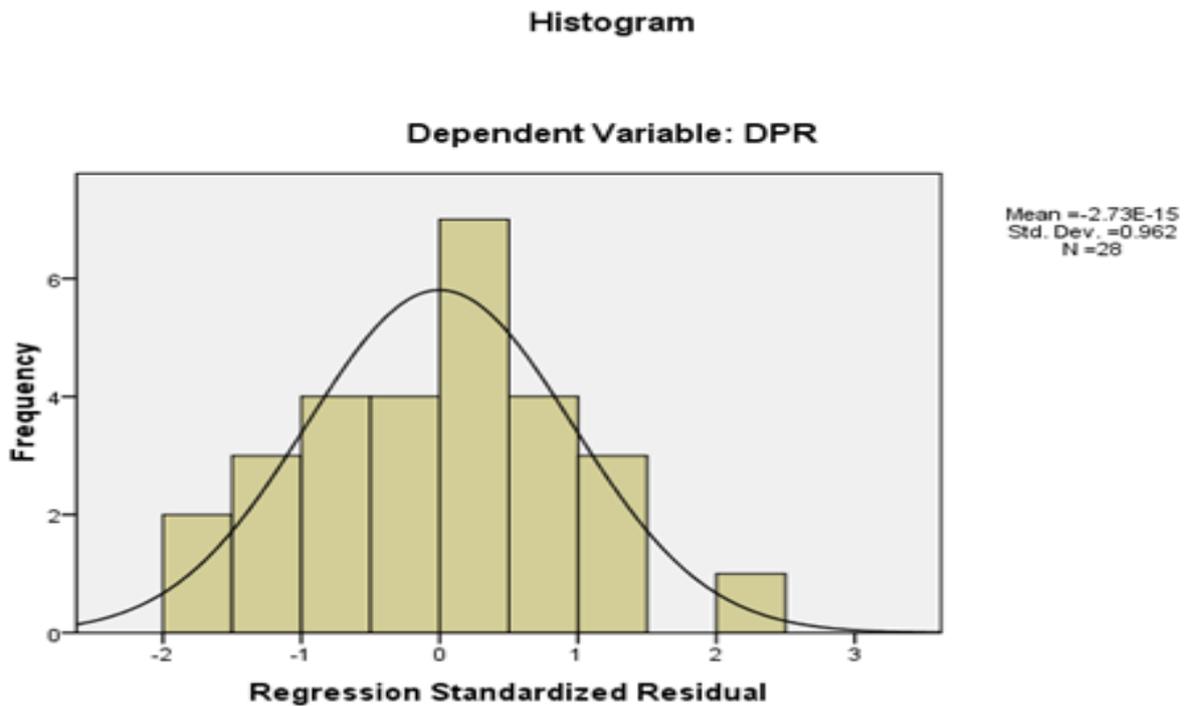
	N	Minimum	Maximum	Mean	Deviation
ROA	36	-11.44	27.28	5.7827	8.23850
DAR	36	.13	2.24	.5050	.33816
DPR	36	-157.32	4202.56	139.4400	698.85885
Valid N (listwise)	36				

Table 3 indicates the data used before outliers are 36 samples; later, outlier data is eliminated since that data indicates extreme data.

**Classical Assumption Test: Normality Test.** Normality tests aim to test regression models to establish whether there is a normal residual or not (Ghozalu, 2011). The Kolmogorov-Smirnov test offered one way to test normality, which was through considering the significance variable that was obtained. The normality assumption was considered fulfilled if the significant value from Kolmogorov-Smirnov was bigger than 0.05.

According to the scatter plot result above, the data following diagonal line shows that the criteria was fulfilled.

**Figure 1.** Normality Histogram



According to the graphic, the results form a normal convex curve with standard deviation by 0.962. This result leads to the conclusion that the regression model is distributed normally.

**Table 4:** Kolmogrov-smirnov test

		Unstandardised Residual
N		28
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Deviation	.07429928
Most Extreme Differences	Absolute	.109
	Positive	.092
	Negative	-.109
Kolmogorov-Smirnov Z		.579
Asymp. Sig. (2-tailed)		.891
a. Test distribution is Normal.		
b. Calculated from data.		

Table 4 above shows that the significance of kolmogrov-smirnov test by 0.891 is much higher than the significant value by 0.05 which means that the data is normally distributed.

Multicollinearity Test. The Multicollinearity test aims to determine whether an independent variable has a relationship with the regression model or not (Ghozali, 2011). There was no relationship between independent variables found which indicates ideal regression. Multicollinearity can be detected through the following criteria: (1) having tolerance number  $< 0.10$ , (2) having VIF value  $> 10$ .

**Table 5:** Multicollinearity Test

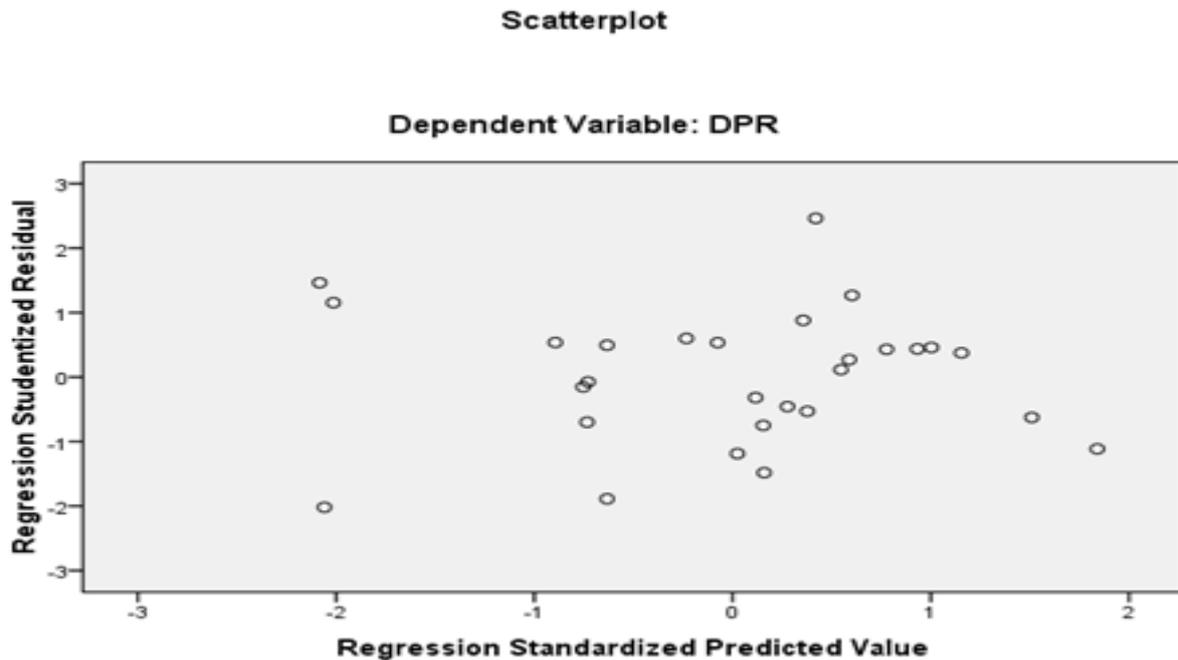
Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.074	.348		8.839	.000		
	ROA	-.538	.109	-.657	-4.949	.000	.998	1.002
	DAR	-1.028	.351	-.389	-2.928	.007	.998	1.002

a. Dependent Variable: DPR

The result indicates that the VIF and tolerance number is  $> 0.10$  and  $< 10$ , respectively. This means that the variable does not have multicollinearity element in the regression model.

Heteroscedasticity Test. The heteroscedasticity test aims to determine variant inequality from the residual of one observation to another in the regression model. Homoscedasticity, or not experiencing heteroscedasticity, was a good model of the regression model (Ghozali, 2011:139).

**Figure 2.** Heteroscedasticity Scatter Plot



According to Figure 3, point distribution is not patterned in axis Y and is also not seen in the patterned points. It can be concluded that this research does not present a heteroscedasticity problem.

**Autocorrelation Test.** The Autocorrelation test aimed to test whether there was a relationship between the period of  $t$  or during  $t-1$  in the multiple regression. Whether autocorrelation occurs can be tested using the Durbin Watson (DW test). Testing is categorised autocorrelation under the conditions of  $dU < dW < 4-dU$  (Ghozali, 2011).

**Table 5:** Autocorrelation Test

Model	R	R Square	Adjusted R Square	The error of the Estimate	Durbin-Watson
1	.749 <sup>a</sup>	.561	.525	.07721	2.347

a. Predictors: (Constant), DAR, ROA

b. Dependent Variable: DPR

The result of the table above is DW value by 2,347.  $dU$  value is by 1,560 and  $dL$  by 1,255. Since the value of  $dU < dW$ ,  $4-dU$  it can be concluded that there is no autocorrelation.

With reference to the coefficient determination, multiple regression functioned to predict the dependent variable value using independent variables whose value has been known (Silalahi,

2012). According to SPSS, there was a partial influence of ROA and DAR on DPR. Gozali (2011) explained that the use of the coefficient of determination was as the measurement of the size of independent variable percentage clarifying dependent variable variation in which the value was between 0 and 1 i.e.  $0 < R^2 < 1$ . If the value of the coefficient of determination was higher or approaching 1 it can be said that independent variables on the regression have given results from almost all the of the information needed to predict its dependent variable variation. Table 5 indicates that the value of the coefficient of determination ( $R^2$ ) is 0.525 or 52.5%. This explains that 52.5% of DPR is influenced by ROA and DAR, while the remaining 47.5% is explained by other variables.

**Simultaneous Hypothesis Test (F test).** An F test was used to determine all independent variables jointly to establish whether they had an influence on the dependent variable. If the F test results showed a significant level by  $< 0.05$  it can be said that the independent variable has a simultaneous influence on the dependent variable. The results shown in Table 6 illustrate a significance value of  $F < 0.05$ . It can be concluded that ROA and DAR jointly influence dividend distribution.

**Table 6:** Simultaneous Significance test (F Test)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.190	2	.095	15.942	.000 <sup>a</sup>
	Residual	.149	25	.006		
	Total	.339	27			

a. Predictors: (Constant), DAR, ROA

b. Dependent Variable: DPR

**Partial Hypothesis Test (t-test).** A t-test (*test significance individual parameter*) was used to determine one by one whether an independent variable has an influence or not on the dependent variable (individual). If the result of each t-test per independent variable has a significance level by  $< 0.05$  then that independent variable has a partial influence on the dependent variable.

**Table 7:** Partial Significance test (t test)

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.074	.348		8.839	.000
	ROA	-.538	.109	-.657	-4.949	.000
	DAR	-1.028	.351	-.389	-2.928	.007

a. Dependent Variable: DPR

Multiple regression equations of table 4.8 are as follow:

$$\text{DPR} = 3.074 - 0.657 \text{ ROA} - 0.389 \text{ DAR}$$

Table 7 explains (1) the existence of the influence of Return on Assets on the Dividend Payout Ratio at a transportation company listing on the Indonesian Stock Exchange during 2009-2015 with significant value by  $0.000 \leq \alpha = 0,05$ . It can be said that the second hypothesis was accepted. The conclusion is that Return on Assets have an influence on the Dividend Payout Ratio. (2) The existence of the influence of Debt to Asset Ratio on Dividend Payout Ratio at a transportation company listing on the Indonesian Stock Exchange during 2009-2015 with significant value by  $0.007 \leq \alpha = 0,05$ . Finally, it can be concluded that the second hypothesis is accepted. This means that the Debt to Asset Ratio has an influence on the Dividend Payout Ratio.

## Discussion

***The Influence of Profitability on Dividend Distribution.*** Regression results for Return on Asset shows that Return on Asset has an influence on Dividend Payout Ratio. This answers the statement of the problem that profitability has an influence on dividend distribution.

The result reveals that profitability has an influence on the transportation company's dividend distribution since the profitability represents the benchmark for the investor on how a company manages profit. Therefore, the company is encouraged to maximise profit earned on assets owned.

In 2009, Panorama Transportasi Tbk had good assets which could be maximised, so that it was able increase income through assets (ROA) by 3.13% and increase dividend distribution (DPR) by 19.28%.

The result indicates that dividend distribution should not be signed high or profitability increases (ROA). The negative sign in the t-test result by -4.949 illustrates that profitability decreases. Even though a company's profitability decreases, dividend distribution is still conducted because the company assesses that the cash dividend has more affinity for investors or the candidate than capital gain. This is in line with bird-in-the-hand theory (Gordon, 1959 and Lintner, 1963) which shows that investors prefer dividend distribution.

Dividend distribution can be symbolised with a company's positive signals towards investors, even though profitability decreases. Dividend distribution can be concluded as being beneficial for the investor. A similar thing is explained by Signal theory which states that dividend

increase acts as a signal for an investor for a better dividend income in the future (Eastbrook, 1984).

Dividend distribution can introduce a conflict of interest between management and shareholders referred to as Agency Theory (Jensen and Meckling, 1976). Agency theory explains that the management is contracted by shareholders for their welfare. This relates to the company's condition distributing dividends even though the profitability decreases since dividend distribution can stabilise stock price. A stable stock price can be a predictor for an investor that the company will still benefit them.

This research supports previous research conducted by Sandy (2013), Ano et al. (2014), Samrotun (2015) and Lanwati et al. (2015) who concluded that profitability (Return on Assets) has an influence on dividend distribution (Dividend Payout Ratio).

***The Influence of Solvability on Dividend Distribution.*** Regression results for the Debt to Asset ratio shows that it has an influence on Dividend Payout Ratio. This answers the problem statement that solvability has an influence on dividend distribution.

Solvability influences dividend distribution since solvability (debt to asset ratio) is an ideal indicator for the transportation company because how much the company assets are financed by debt will affect the debt financing of a company and the dividend distribution. Thus, the amount of dividend distribution is also influenced by solvability.

The value of the -2.928 result proves that the low solvability will increase dividend distribution. Thus, it can be concluded that the transportation company uses the least amount of debt to finance the asset. As a result, the amount of funds allocated for interest chart payments is little and most of its funds are positioned in favour of the shareholder (dividend distribution).

This is in line with agency theory (Jensen and Meckling, 1976) which explains that there is a conflict of interest between management and shareholders. However, the company still distributes dividends even when offering small amounts since management is contracted by a shareholder for the shareholder's welfare.

Low (less) debt payment will increase dividend distribution since most of the profit earned by a company is allocated to the shareholder (dividend distribution). This is in accordance with bird-in-the-hand theory (Gordon, 1959 and Lintner, 1963) which explains that shareholders prefer dividend distributions more than capital gains.



This research supports the previous research conducted by Noviyati et al. (2015) which shows that solvability (Debt to Asset Ratio) has an influence on dividend distribution (Dividend Payout Ratio).

### **Conclusion**

Profitability has an influence on dividend distribution. Profitability measured by assets represents an investor's benchmark for a company in managing profit. Solvability has an influence on dividend distribution. Since solvability or Debt to Asset Ratio is an ideal indicator for a transportation company how much of the company's assets are financed by debt will affect the company's debt payment and dividend distribution. Therefore, the amount of dividend is also influenced by solvability.

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