

# **CHAPTER V**

## **CONCLUSION AND RECOMMENDATION**

### **5.1. Conclusion**

Several conclusions can be drawn from this research:

- Dividend payout ratio has shown to affect the subsequent earnings growth positively. Investment managers may choose to compose their portfolio using high dividend payout ratio firms because the higher payout ratio, the higher expected earnings growth. Firms with high DPR have high expected earnings growth. The result of this research also confirms the previous research by Arnott and Asness (2003) regarding subsequent earnings growth.
- Of five variables tested, only two variables (CASH and RETE) that has statistical significance in determining dividend payout ratio in Indonesian firms. Higher Retained Earnings to Shareholder's Equity ratio indicates a high DPR. If the claim by DeAngelo et al regarding high RETE translate to mature firm holds true, it also confirms the lifecycle theory proposed by Mueller: firms in growth state holds back more earnings while mature firms pays more dividend. We also confirmed that Cash Balance affect the DPR positively. Higher Cash Balance translates to higher DPR, thus confirming Parua & Gupta's (2009) claim. This provides some insights to

the dividend policy in Indonesia: dividend payers tend to have large portion of cash in their asset composition.

## 5.2. Recommendation

- This research suggests that investment managers should regard dividend payout ratio as signaling of earning growth. By comparing to the earnings growth of non-payer firms, investors would have an insight on whether dividend payer or non-payer has the most earnings growth.
- As R-square of both model suggests, There's a room for improvement on how DPR and SEG are predicted. Other variables may be introduced to explain the DPR and SEG.
- Using longer-term data instead of only one year subsequent earnings growth to 5 or 10 years as Arnott and Asness suggested will provide longer-term growth research on earnings growth. Currently such data is not available to the public (dividend data is only recorded in IDX Book of Statistics from 2002 to date).
- The use of logit regression to predict the probability of dividend payment in Indonesian market using several variables proposed by DeAngelo et al.
- The use of lagging/leading indicators as the predictors of DPR and SEG.