RETURN ON EQUITY AS THE LEADING INDICATOR OF DIVIDEND PAYOUT RATIO OF JAKARTA ISLAMIC INDEX STOCKS LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract: Investee will manage funds from investors as finest as they can in order to meet investors' expectations while investing their funds to gain maximum return in the form of dividends and/or capital gains, whilst the investee are considering about company's sustainability as the consequences of dividend policy. This study aims to determine company's internal factors that influencing dividend policy represented by Dividend Payout Ratio on sharia stocks of Jakarta Islamic Index (JII) listed on the Indonesia Stock Exchange. Purposive sampling method is used by selecting samples based on certain criteria, later followed by applying quantitative methods analysis using panel data regression. The result shows that profitability represented by Return on Equity (ROE) is the leading indicator that could lead investor's consideration when investing in JII stocks since it has a significant influence on dividend policy. On the other hand, ROE might be a major consideration for the company to determine their dividend policy shared to the investor.

Keywords: DPR; ROE; Jakarta Islamic Index

JEL classification: G35, G11, G12

INTRODUCTION

Dividend policy is a critical and imperative decision because it involves the shareholders interest's and has a significant impact to company's sustainability. Sartono (2010) states that dividend policy is a decision whether the profits obtained by the company will be distributed to shareholders as dividend or will be held in the form of retained earnings for future investment.

Brigham and Gapenski (2006) state that investor's main purpose when investing their fund is to gain income or return either as dividend yield or as capital gain. On the other side, the company who will share the dividend will be faced with various consideration: the urge to retain some profit for a more promising re-investment, the company funding, company liquidity, shareholder's characteristic, specific target related to dividend payment ratio, and other factors related to dividend policy.

Based on the definition mentioned above, it can be concluded that dividend policy is influenced by two conflicting interests; the shareholders interest with their dividend and the company interest to do re-investment by retaining the profit. Therefore, dividends paid will depend on each company's considerations.

In general, the shareholders wish to have a relatively stable dividend share to minimize the uncertainty of expected investment result and to increase the shareholder's trust toward the company so that the stock value will rise.

The company dividend policy can be reflected by the Dividend Payout Ratio (DPR), which is the profit percentage shared in the form of cash dividend. It means that the size of the DPR, either big or small, will affect the shareholder's decision and to the contrary it will also affect the company financial condition. Improper decisions will potentially envisage company facing funding difficulties in the future.

According to Brigham and Gapenski (2006), the optimum dividend policy is the dividend policy which creating balance between the current dividend and its growth in the future so the company stock price can be maximized.

Lintner (1956) argue that the company ability to gain profit is the main indicator of the company ability to pay dividend. So, the profitability is the most determining factor toward dividend. But some other research mention that the companies tend to choose new investment instead of paying high dividend if their condition are great, well-developed and have high profitability.

The rapid growth of Islamic Finance become the first-rate consideration of choosing Jakarta Islamic Index stocks as the object research in which this research aimed to improve investor's understanding related to dividend policy of sharia stocks member of Jakarta Islamic Index.

LITERATURE REVIEW

According to Jensen et al. (1992) dividends are distributions that can be in the form of cash, other assets, letters, or other evidence that states the company's obligations to shareholders as a proportion of the number of shares owned by the shareholders.

The companies need to set the dividend on a certain level or ratio, so that they can manage their sustainability even if they face financial problems. Besides, the higher dividend shared to shareholders will reduce their opportunity to gain internal resources which later will be used for the company investment activity. In the long run, it will decrease the company value.

The company's dividend policy is reflected by its Dividend Payout Ratio (DPR). The ratio shows the company profit percentage paid to the shareholders in the form of cash dividend (Van Home, 2007). Dividend Payout Ratio is used to measure the net profit shared to the shareholders as dividend for a certain period (usually in one year) which shows how much is the profit portion given to the investor and the profit portion to fund the company operational continuity. DPR plays important role that influence investor's strategy plant when investing their fund, in which the investor with short term investment strategy tend to choose a company with high DPR, while the investor choosing to have capital gains or have long term profit orientation will be more interested to make investment in the company with lower DPR.

Some theories related to dividend policies are: (1) The Dividend Irrelevance Theories from Modigliani and Miller (MM) which state that dividend payout ratio does not influence the company's stock price or capital costs, where the dividend payout ratio is irrelevant because the firm's value is determined by the ability of the firm to generate revenue from its assets; (2) The Bird in the Hand Theory, according to Gordon and Lintner (1956) the level of profit

required will increase if the dividend distribution is reduced because investors are more confident by receiving dividends than capital gains that generated from retained earnings.

Gordon and Lintner assume that investors perceive that one bird in the hand is more valuable than a thousand birds in the air. Based on the fact that dividends are more predictable than capital gains because management of the firm can control the dividends, but they can't control the stock prices; (3) The Signaling Hypothesis Theory, Modigliani and Miller (1961) state investors consider that dividend changes as a signal of management profit projection. The significant increase of dividend is usually a signal for investors that company's management project a good income for dividends in the future. Otherwise the decrease of the dividend is believed by investors as a signal that the company deal with difficult period for dividends in the future. Holder et al. (1998) support the argument that large companies can easily get fund raising which support greater dividend payments compared to smaller companies; (4) The Agency Theory, Jensen and Meckling (1976) state that agency theory explains the relationship between agents (company management) and principal (shareholders).

This theory explains that management interests frequently contradict with shareholder interests, where shareholders expect the maximum and immediate return on their investment which one of it is reflected with the increase of dividends portions from each share, while management of the company wants their interest to be accommodated by providing adequate compensation, sufficient bonuses/incentives based on their performance; (5) The Expectation Theory, the dividend policy related to the information effect owning special relation called expected (expectation). The expectation is based on some company internal factors, such as past dividend decision, current and expected income, investment strategy, funding decision and external factors such as economic condition in general, the industry's strength and weakness, and the probability in government policy change; (6) The Clientele Effect Theory, this theory explain that the different shareholders group (clientele) will have different preference toward company dividend policy.

The shareholders who need immediate income will likely to choose a company with higher DPR. As the opposite, the shareholders group who don't need immediate income would rather choose a company that retain some of the net profit. If there is a different taxation policy for individual (e.g. lower tax for elderly), the shareholders with higher tax would prefer capital gain because they can postpone the tax payment. To the contrary, the shareholders group charged with relatively lower tax tend to choose high dividend; (7) The Agency Theory, Jensen and Meckling (1976) summarize that the agency theory explaining about the relation between the agent (company management) and the principal (shareholders). This theory elaborates that the management interest and the shareholders interest are usually conflicting. This happens because the manager tends to prioritize his personal interest while the shareholders will not like because it will increase the company expense and decrease the profit received by the shareholders. The shareholders expect the maximum return as soon as possible for their investments, reflected by the increasing of the dividend portion from each share, in contrast the company management are eager to have their interest accommodated by given compensation/bonus/incentive as high as possible for their work. The shareholders asses that the management achievement based on the ability to increase the profit to be allocated in the dividend share. While the company management fulfill the shareholders demand to gain high compensation.

Research by Khan and Ahmad (2017), Aqel (2016), Bushra and Mirza (2015) found that profitability positively influencing the company dividend policy, and according to Trang (2012), this result has the same research result done in USA, England Argentina, Tunis and Poland, where the companies with profit tend to pay the dividend to their shareholders so the

companies with high ROE will give higher dividend to the shareholders. In contrast, based on the research done by Jóźwiak (2015), Ponziani (2015), Maskiyah and Wahjudi (2013) the result shown that profitability doesn't affect the company dividend policy.

According to the research by Suharli (2006), Waswa et al. (2014), Fahim et al. (2015), Labhane and Das (2015), it is found that there is negative relationship between dividend policy with the leverage of company. In reverse, Ponziani (2015), Aqel (2016), and Prasetyo (2017) research shown that financial leverage doesn't influence the dividend policy so the companies with high DER are not always paying the lower dividend to their shareholders.

Forti et al. (2015), Badu (2013), Khan and Ahmad (2017), Labhane and Das (2015), and Waswa et al. (2014) research concluded that there is positive relationship between liquidity and company dividend policy. In reverse, Ponziani (2015) and Suparmun (2015) summarize that liquidity didn't influence the dividend policy.

Maladjian and El Khoury (2014), Labhane and Das (2015), Tahir and Mushtaq (2016), Pangemanan et al. (2015) research shown that the company scale has positive relationship toward dividend policy which in line with the Signaling Theory. Holder et al. (1998) also support the argument that large companies can easily get fund raising which support greater dividend payments compared to smaller companies. In reverse, Ponziani (2015) stated that firm size didn't influence the dividend policy.

Hypotheses Development

Financial ratios used to asses financial condition and achievements of a company which connects financial data to one another. Financial performance analysis using financial ratio taken from the investor's point of view that focus on short-term and long-term profitability, increased profits and dividends and market indicators (Helfert, 1993). With these considerations, the authors examine how the leading financial ratios in relation to profitability, leverage, liquidity and company size influence the dividend policy.

Profitability is the relationship between income and costs that generated from company assets, both current and fixed assets in the production activities (Gitman, 2009). According to Lintner (1956) the company's ability to earn profits is the main indicator of a company's ability to pay dividends, therefore profitability is the most important determinant of dividends. Khan and Ahmad (2017) found that profitability is a key determinant in dividend payments, Aqel (2016) found that profitability is statistically has a positive and significant relationship with dividend payout ratios, Trang (2012) found that profitability is the most important determinant of dividend policy in Vietnam. Based on the statements above, it can be concluded that the higher profitability of the company, the higher dividend that the company will share to shareholders.

H1: Company profitability has a positive effect on dividend policy.

Leverage is related to alternatives for determining a company's funding sources, whether using internal sources (retained earnings) or external sources (debt and equity) or both. With financial leverage, it is expected that companies can increase their income (La Porta et al., 2000). Waswa et al. (2014) found that there is a negative relationship between dividend payout and leverage, Fahim et al. (2015) found that financial leverage has a statistically significant and negative effect on dividend payments, Tahir and Mushtaq (2016) found that financial leverage has a significant negative effect on dividend payments. Based on the statements above, it can be concluded that the higher the company's leverage, the lower dividend that the company will share to shareholders.

H2: Company leverage has a negative effect on dividend policy.

Liquidity is the ability of a company to fulfill its short-term obligations with their current assets. Liquidity is the ability of companies to generate cash in the short term to fulfill their obligations (Wild et al., 2008). Companies with high levels of liquidity tend not to use debt financing. Forti et al. (2015) found that liquidity has a significant and positive effect against dividend policy, Badu (2013) found that there was a significant and positive relationship between liquidity and dividend payments, Waswa et al. (2014) found a positive relationship between dividend payout and liquidity. Based on the statements above, it can be concluded that the higher the level of company liquidity, the higher dividend that the company will share to shareholders.

H3: Company liquidity has a positive effect on dividend policy.

The greater the assets owned by company means the company has more luxury in investing, both in form of current and fixed assets and more luxury in fulfilling product demand in which will ultimately affect the company profitability. The size of the company can be shown in total assets, total sales, and average sales (Riyanto, 2011). Holder et al. (1998) support the argument that large companies can easily get fund raising and ultimately support greater dividend payments compared to smaller companies. Tahir and Mushtaq (2016) found a significant and positive relationship between firm size and dividend payment. Maladjian and El Khoury (2014) found that the dividend payout ratio is positively influenced by firm size. Pangemanan et al. (2015) found that entities that tend to be larger on average will provide higher dividends. Based on the statements above, it can be concluded that the higher the size of the company, the higher the dividend that the company will share to shareholders.

H4: Company size has a positive effect on dividend policy.

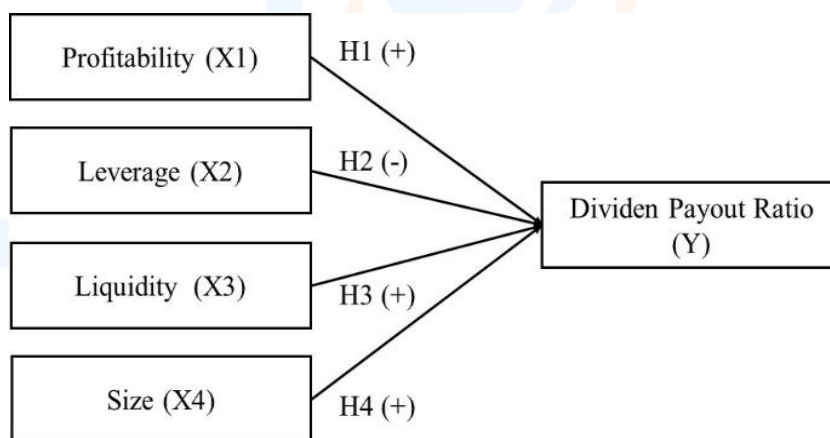Based on hypotheses described above, the research model can be described as follows:

Figure 1. Research Model

RESEARCH METHODS

This research applied descriptive and causal analysis methods with quantitative approach using secondary financial ratio data that is: profitability, leverage, liquidity, and company size of Jakarta Islamic Index stocks taken from Indonesia Stock Exchange during the period of 2012 – 2016. Purposive sampling method is used in this research by selecting samples based on criteria: (1)the company continuously distributing dividends throughout 2012 to 2016 and (2)all required variable can be obtained, that is: ROE, DER, CR, and Total Assets during the period of 2012 – 2016. From 30 population of Jakarta Islamic Index stocks, 15 data meet

the criteria, thus with 5 years period, total observations become 75 data. In this research, Dividend Payout Ratio (DPR) is the dependent variable, while Return on Equity (ROE) which represents profitability, Debt to Equity Ratio (DER) which represents leverage, Current Ratio (CR) which represents liquidity, and natural logarithm of total assets to represent Size are the independent variables. Panel data regression analysis using software EViews were used in this research to examine the hypotheses in which according to Gujarati (2004) in panel data, the same cross section data was observed according to time. Quality data test in order to make sure that the data were valid by using classical assumption that is: autocorrelation test, multicollinearity test and heteroscedasticity test, while R2 test, T test and F test were used to test the model of the research.

Table 1. Definitions of Operational Variable

NO	VARIABLE	OPERATIONAL DEFINITION	PROXY
1	Dividen Payout Ratio (Y) Oladipupo dan Ibadin (2013)	Dividend per Share/ Earnings per Share	$DPR = \dfrac{Dividend\ per\ share}{Earnings\ per\ share} X\ 100\%$
2	Return on Equity (X1) Jóźwiak (2015)	Net Profit/Total Capital	$ROE = \dfrac{Net\ Profit}{Total\ Capital} X\ 100\%$
3	Debt to Equity Ratio (X2) Kasmir (2008)	Total Debt/Total Equity	$DER = \dfrac{Total\ Debt}{Total\ Equity} X\ 100\%$
4	Current Ratio (X3) Jóźwiak (2015)	Current Assets/ Current Liabilities	$CR = \dfrac{Current\ Assets}{Current\ Liabilities} X\ 100\%$
5	Company Size (X4) Tahir dan Mushtaq (2016)	The Natural Logarithm of Total Assets	$SIZE = Ln\ (Total\ Assets)$

FINDINGS AND DISCUSSION

The result of quality data test shown that the data were valid and consistent because based on the tests, the result indicated that there was no multicollinearity proposition among variables (attachment 3), there was also no heteroscedasticity proposition on the independent variables (attachment 4), while the autocorrelation test using the Durbin Watson (DW) test shown that 0.6852 <1.843236 <1.9774 in which dU <DW <(4-dU) so there was no autocorrelation proposition with the data.

Table 2. Descriptive Statistics

	DPR	CR	DER	ROE	Ln (Total Aset)
Mean	0.412641	2.209345	1.100133	0.245865	16.94460
Median	0.431400	1.771900	0.940000	0.148100	16.63431
Maximum	0.999600	6.300000	3.400000	1.358500	19.38330
Minimum	0.040900	0.605600	0.200000	0.045000	15.16033
Std. Dev.	0.234193	1.267640	0.804843	0.287493	1.031714
Skewness	0.596447	1.322445	1.143799	2.960325	0.593542
Kurtosis	3.175667	4.261443	3.425961	10.79143	2.657108
Jarque-Bera	4.543297	26.83339	16.92047	299.2514	4.771077
Probability	0.103142	0.000001	0.000212	0.000000	0.092039
Sum	30.94810	165.7009	82.51000	18.43990	1270.845
Sum Sq. Dev.	4.058614	118.9114	47.93510	6.116253	78.76811
Observations	75	75	75	75	75

Source: EViews 9 Output (processed

From the table above, the average DPR of Jakarta Islamic Index during the research period was 41.26% whilst minimum DPR was 4.09% and maximum DPR was 99.96%.

Random Effects Model Regression

Based on the results of Chow Test (appendix 1) and Hausmann Test (appendix 2), this research should use the Random Effect Model Regression analysis as below.

Table 3. Random Effect Model Regression

Weighted Statistics				
R-squared	0.159167	Mean dependent var		0.134849
Adjusted R-squared	0.111120	S.D. dependent var		0.124308
S.E. of regression	0.117198	Sum squared resid		0.961479
F-statistic	3.312705	Durbin-Watson stat		1.843236
Prob(F-statistic)	0.015221			
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.736733	0.654352	1.125897	0.2641
CR	-0.015055	0.025727	-0.585188	0.5603
DER	-0.050066	0.045142	-1.109071	0.2712
ROE	0.481374	0.146596	3.283686	0.0016
TOT_AS	-0.020898	0.035714	-0.585133	0.5603
Effects Specification				
			S.D.	Rho
Cross-section random			0.151723	0.6259
Idiosyncratic random			0.117311	0.3741

Source: EViews 9 Output (processed)

Table 3 show that coefficient C is 0.7367; ROE is 0.4814; DER is -0.0501; CR is -0.0150; and TOT_AS is -0.0209 with a significance level of 5%. R^2 test indicated with the value of Adjusted-R Squared = 0.1111 this indicates that the independent variables (ROE, DER, CR, and TOT_AS) are capable of explaining about 11.11% variant of DPR of Jakarta Islamic Index stocks, whereas 88.89% variant of DPR might be influenced by another factors, such as share ownership structure, management or the company, government policies, macroeconomic conditions (ie.: foreign exchange rates, economic growth rates, inflation rates, loan interest rates, commodity prices), sets of criteria applied for selecting Jakarta Islamic Index constituents, or the other factors. The F test that determined from the value of Prob (F-statistic) of 0.0152 that less than 0.05 indicates that all the independent variables (ROE, DER, CR, and TOT_AS) concurrently have significant effect on dependent variable (DPR). T test to examine whether the independent variables partially have a significant effect on the dependent variable by assuming that the other variables are constant, with the P-value of CR is 0.5603; DER is 0.2712; ROE is 0.0016; and TOT_AS is 0.5603; thus can be concluded that ROE partially has significant influence on DPR because the amount of P-value is less than 0,05 whilst DER, CR, and TOT_AS partially do not have significant influence on DPR. From Random Effect Model Regression analysis panel data, the regression equation is obtained as follows:
DPR = 0.07367 + 0.4814 * ROE - 0.0500 * DER - 0.0150 * CR - 0.0209 * TOT_AS

Table 4. Variable Results Summary

	Variable	Coefficient	Prob.	Significance Level (á)	Decision Making Base	Explanation
	Konstan	0,736733	0,2641	0,005		
H1	ROE	0,481374	0,0016	0,005	0,0016 < 0,005	Accepted
H2	DER	-0,050066	0,2712	0,005	0,2712 > 0,005	Rejected
H3	CR	-0,015055	0,5603	0,005	0,5603 > 0,005	Rejected
H4	TOT_AS	-0,020898	0,5603	0,005	0,5603 > 0,005	Rejected

Source: EViews 9 Output (processed)

The next examination is to find out the effect of ROE on DPR, with coefficient regression of 0.4814 and P-value of 0.0016, the model results accept the hypothesis that the company profitability has a positive effect on dividend policy. This result support the research conducted by Khan and Ahmad (2017), Aqel (2016), Trang (2012), Bushra and Mirza (2015) that profitability has a positive effect on the company's dividend policy.

The examination to determine the effect of DER on DPR, with coefficient regression of -0.0501 and P-value of 0.2712, the model results does not accept the hypothesis that company leverage has a negative effect on dividend policy, which this might be influenced by the sets of criteria applied for selecting Jakarta Islamic Index constituents particularly the criteria related to interest-based debt compared to total equity which should not exceed 45%. The result does not support the research conducted by Suharli (2006), Waswa et al. (2014), Fahim et al. (2015), and Labhane and Das (2015) which found that there was a negative relationship between dividend payout and leverage in the company's dividend payment policy. The results of this research are not in accordance with Signaling Theory, Ross (1977) states that debt problems are also used by investors as a source of information about company performance. The results showed no significant relationship between DER and dividend policy. But in contrast, this research supports the research conducted by Ponziani (2015), Aqel (2016), Prasetyo (2017) where financial leverage has no influence on dividend policy.

The examination to determine the effect of CR on DPR, with coefficient regression of - 0.0150 and P-value of 0.5603, the model results does not accept the hypothesis that company liquidity has a positive effect on dividend policy, which this might be influenced by the sets of criteria applied for selecting Jakarta Islamic Index constituents particularly the criteria which in average the stocks has a high liquidity level of 220% and consist of good performing shares. The result does not support the research conducted by Forti et al. (2015), Badu (2013), Khan and Ahmad (2017), Labhane and Das (2015), Waswa et al. (2014) which found positive relationship between liquidity and the company's DPR. The results of this research are not in accordance with the Agency Theory, Jensen (1986) explains that dividend payments can reduce agency problems through reducing excess cash flows in the organization. But in contrast, this research supports the research conducted by Ponziani (2015) and Suparmun (2015) which found that liquidity has no effect on dividend payments. This shows that more liquid company does not necessarily has a greater correlation with the tendency of company to distribute money to shareholders.

The examination to determine the effect of company size (Size) on DPR; with coefficient regression of - 0.0209 and P-value of 0.5603, the model result does not accept the hypothesis that company size has a positive effect on dividend policy, which this might be influenced by the sets of criteria applied for selecting Jakarta Islamic Index constituents that consist of good performing stocks. The results of this study do not support the results of research from Maladjian and El Khoury (2014), Labhane and Das (2015), and Tahir and

Mushtaq (2016) which state that firm size has a positive relationship to the ratio of dividend payments. The result does not in accordance with Signaling Theory, Holder et al. (1998) support the argument that large companies can easily get fund raising and ultimately support greater dividend payments compared to smaller companies. To the contrary, this research supports the research conducted by Ponziani (2015) where firm size has no influence on dividend policy.

Discussion

This research helps investors easier to understand about the characteristics of sharia stock dividend policy of the Jakarta Islamic Index constituent listed on the Indonesian Stock Exchange. The results show that the profitability presented by variable ROE is the most influencing factor toward the company dividend policy represented by Dividend Payout Ratio (DPR), in which the data analysis result shows that the higher ROE, the bigger tendency that the stocks will give dividend to their investors. Based on the results, the investor whose aims to gain dividend could analyze the company target investment more easily using ROE as the leading indicator as the consideration for investment decision making. This because basically ROE shows the return given by the company for the invested equity. The bigger ROE of a company, the more wanted and attractive the company will be for the investors.

From the company point of view, profitability represented by variable ROE is the leading factor toward the company dividend policy represented by Dividend Payout Ratio (DPR), in which the data analysis shows that ROE significantly has positive effect toward dividend policy so that the higher ROE, the bigger tendency that the company will give dividend to their investors. It will affect the company to efficiently and effectively use the company equity so the return given can be measured by the selectively-investments done by the company, particularly investments on productive assets that creating income for the company and by the company cost management to increase the company profitability. The higher ROE, the more efficient company equity usage to create income and increase the company value to attract investors. For the company, ROE can be the leading consideration to decide the dividend policy which will be shared to the shareholders to meet their expectation while still considering other factors as the consequences of the dividend policy and consideration to the company sustainability.

The improper dividend policy could cause the company dependence toward the bigger external funding source, especially if the company has unbalanced capital structure. So, the companies need to have a balanced dividend policy which accommodating investor expectation while still heeding the company business development needs for investing, creating the ideal equity structure and keeping a sufficient company liquidity to support company sustainability.

The results show that profitability which represent with Return on Equity (ROE) as the leading indicator that lead investor's consideration when investing their funds on Jakarta Islamic Index stocks listed on the Indonesia Stock Exchange since it has a significant influence on dividend policy. On the other hand, ROE might be also a major consideration for the company to determine their dividend policy. The results are corresponding with Lintner (1956) which stated that a company's ability to earn profits is a leading indicator of a company's ability to pay their dividends, furthermore the results are appropriate with Trang (2012) which found that profitability is the most important determinant of dividend policy in Vietnam. Besides, the results shown that profitability, leverage, liquidity, and company size concurrently have significant effect on Dividend Policy.

CONCLUSION AND SUGGESTION

Conclusion

The results show that profitability which represent with Return on Equity (ROE) is the leading indicator that influences company's dividend policy which presented by the DPR, where the results of the analysis shows that ROE has positive and significant influences to dividend policy, so that it can be define that the higher the ROE, the more tendency of dividends will be provided by these shares. This research ease investors whom aim to earn dividends by analyzing ROE as the leading indicator from the selected target stocks. To strengthen ROE analysis, it suggested to carry out horizontal ROE analysis for periods of time in order to determine the trend of ROE from the target stocks. Investors also encourage in conducting vertical analysis by comparing ROE of the target stocks with its peers (i.e: the same sectors, characteristics, or target market) at the same periods of time. In addition, to make analysis more comprehensive, the authors consider that its necessary for investors to carry out a similar analysis upon other financial ratios to strengthen the analysis that has been done. For companies, ROE might be also the main consideration for company's management to determine the dividend policy that will be shared to shareholders in order to meet investor expectations while maintaining the sustainability of the company.

Based on the previous analysis, it can be concluded that ROE partially has positive and significant effect on DPR whilst Debt to Equity Ratio, Current Ratio, and total assets of the company partially do not have significant influence on DPR. Meanwhile, ROE, Debt to Equity Ratio, Current Ratio, and total assets concurrently have significant influence on dividend policy and capable of explaining of 11.11% variant of DPR of Jakarta Islamic Index stocks, whereas 88.89% variant of DPR might be influenced by another internal and/or external factors.

Research Limitations

This research is only conducted for sharia stocks of Jakarta Islamic Index listed on the Indonesia Stock Exchange, limited data that can be obtained, and variable used in this study are profitability, leverage, liquidity, and firm size, while there are still other factors that can affect the company's dividend policies, such as share ownership structure, management or the company, government policies, macroeconomic conditions (i.e: foreign exchange rates, economic growth rates, inflation rates, loan interest rates, commodity prices), sets of criteria for selecting Jakarta Islamic Index constituents, or the other factors.

Suggestions for Further Research

For academics and the need for further research, this research could become another reference to build up and enrich the similar research. For companies or owners and managers, they can consider the results of this study as a reference to determine the corporate business strategy in balancing dividend policy that can meet investor expectations as well as to maintain sustainability of the company. For investors, particularly investors in sharia stocks, this research could become a good reference in determining investment strategy from the investment objectives set and stocks to be selected.

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