

Cost Structure and Payout Policy in Indonesia 2011-2015

Elizabeth Lesmana Pualam

Faculty of Economics and Business
Universitas Indonesia
Jakarta, Indonesia
lizbeth.lie@gmail.com

Sigit Sulistiyo Wibowo

Faculty of Economics and Business
Universitas Indonesia
Jakarta, Indonesia
sigit.sw@ui.ac.id

Abstract—This study aims to examine the impact of cost structure on payout policy within Indonesian non-financial firms. Previously, there has not been much prior research regarding cost structure and payout policy in emerging markets, especially Indonesia. Most Indonesian firms still prefer to distribute dividends over repurchases. Cost structure can be defined as the portion of the firms' fixed and variable costs. By using logistic panel regression method, the results show that Indonesian non-financial firms' cost structure plays a significant role in payout policy, specifically dividend payout. When the cost structure decrease, firms become more flexible in changing their profits as the sales change. The higher values of cost structure mean the more inflexible the firms become, these firms tend to have a high proportion of fixed costs in their operating costs. This study reaches the understanding that firms with a high-cost structure usually compensate less in dividends and repurchases. Indonesian non-financial firms, which distributes payout, have a lower cost structure, higher retained earnings, higher cash, and more variable operating income. Based on the conducted study, it is more rational for Indonesian non-financial firms to administer payout on dividend compared to repurchasing. Although the trend of repurchasing shares has recently escalated in emerging countries, especially Indonesia, the majority of Indonesian non-financial firms still have the tendency to spend money on dividend instead of repurchases due to unclear repurchases regulation and several limitations.

Index Terms—Payout policy, cost structure, operating leverage, dividend, emerging markets.

I. INTRODUCTION

In pursuance of maximizing shareholder value, firms are obliged to execute exceptional strategic decisions; cost structure decision is one of the imperative topics in corporate finance. Beside cost structure, payout distribution is undoubtedly an essential financial policy decision for top management and shareholders [1]. According to prior studies, cost structure decisions are determined by an extended number of factors [4], [5], [6], [7]. In general, the cost structure is interpreted as the firm's proportion of fixed and variable costs. High fixed cost firms generate additional cash for payout when their sales performance rise, while lower sales produce less cash. Thus, firms with lower fixed costs are able to provide more consistent payout despite having unpredicted sales [5]. Kulchania [5] mentioned that cost structure means the sensitivity of changes in operating expense. While Brealey et al. [6], who indicated the proportion of fixed and variable costs in the firms as a de-

gree of operating leverage, implied that high fixed costs firms are most likely to have high operating leverage. Operating leverage is measured by dividing the profit changes with the sales changes. The definition of cost structure by Kulchania [5], which is similar with the degree of operating leverage by Brealey et al. [6], becomes the underlying foundation of this research to use the term 'cost structure' to define 'operating leverage'. Thus, the term 'cost structure' throughout this paper reflects the degree of operating leverage of every non-financial firms in Indonesia and can be concluded that high-cost structure is the same as high operating leverage. When the cost structure increases, the firms become more inflexible in changing their operating costs following the sales change, and conversely.

This study adopts a cost structure model from Chen et al. [7], Brealey et al. [6], Kulchania [5], and Kahl et al. [4]. Kulchania [5] has made a prior research in cost structure and payout policy in the U.S regions, while Chen et al. [7] has made prior research in operating leverage. Furthermore, an extensive amount of studies has discussed dividend policies [1], [8], [5], [9], most of which are heavily focused on developed markets. Only a few empirical studies have addressed the dividend policy in emerging capital markets, especially Indonesia. Indonesia, which is the fourth most populous country in the world and one of the most intriguing emerging markets, has complex capital market regulation and different institutional environment from other countries.

Hence, this research can contribute to the prominent literature by focusing on Indonesia, as one of the emerging markets. Specifically, this study focuses on whether the cost structure has influences in distributing payout (whether to pay), the payout volume (how much to pay), and the payment method (dividend payment or repurchase shares). The problem statements for the research are "How does cost structure influence the payout policy within Indonesian non-financial firms?" and "How does cost structure influence the decision in giving dividend instead of repurchasing shares within Indonesian non-financial firms?". Furthermore, this paper investigates firstly whether the Indonesian non-financial firms' cost structure will have a positive influence on the likeliness of the firms in spending money for payout. Secondly, it examines the willingness of Indonesian non-financial firms to buy back

share over dividend payment.

II. LITERATURE REVIEW

A. Payout Policies: Dividend and Repurchases

Brav et al. [1] implied that executives believe that the payout policy decision such as dividends and repurchases are imperative for every institution. Dividend payment has been the primary choice to distribute cash to shareholders, in fact, stock repurchase has lately shown an increasing popularity [10]. Moreover, Brav et al. [1] found that the stability of expected earning still affects dividend policy itself, however, Miller and Modigliani [9] showed that corporate value has no relation toward payout policy in perfect and frictionless capital markets. Most executives in the U.S. now consider share repurchases due to its flexibility compared to dividends, and it can be used in the purpose of increasing the earnings per share (EPS).

Dividend policy is a management decision on whether the profit will be distributed to shareholders or will be held for reinvestment within the firms. Profit distributions in the form of dividend will reduce the amount of money to be reinvested, and the total internal funding sources. If the firms determine to hold the earnings, it will strengthen or enlarge the source of internal funds. On the contrary, most investors perceive the increase on dividend payment as a favorable sign from a promising prospect of the firms, and conversely. Thus, several firms tend to increase the dividends in a stable amount. Moreover, dividend payment creates a mechanism in reducing agency cost within the firm [11]. The optimal dividend policy is one that creates a balance between current dividends and future growth to maximize the company's stock price. The dividend payout ratio as an indication of the percentage of total revenue earned by the company and then distributed to the shareholders in cash. Dividend policy is essential to determine the earning proportion to be shared with shareholders.

Companies' stock repurchase plan is good news for investors and it is a sign of a financially healthy company, which often results in an increase in the company's stock price. Throughout this last decade, firms have more tendency to repurchase instead of distribute a dividend to return cash to shareholders, which made repurchases as the predominant payout choice in the United States [12].

B. Cost Structure and Payout Policy

Generally, cost structure (DOL) can be defined as the proportion of fixed costs and variable costs in the firms. The variable costs always fluctuate as the unit of productions change, while fixed costs remain unchanged when there is no additional asset purchased. According to Kulchania [5], high fixed cost firms generate additional cash for payout when their sales performance rise, while lower sales produce less cash. Therefore, firms with lower fixed costs are able to provide more consistent payout despite an unpredicted change in sales. The author constructs cost structure or operating leverage measure by following prior research by Brealey et al. [6] and Chen et al. [7], and adopted the cost structure term from

Kulchania [5]. The operating leverage measure is directly connected with cost structure by calculating the change in profits and the change in sales. Therefore, cost structure or degree of operating leverage (DOL) is the percentage change in profits divided by percentage changes in sales,

$$\begin{aligned}
 DOL &= \frac{\text{percentage changes in profit}}{\text{percentage changes in sales}} \\
 &= 1 + \frac{\text{fixed costs}}{\text{profits}} \\
 &= 1 + \frac{\text{operating leverage}}{\text{profitability}}
 \end{aligned} \tag{1}$$

Brealey et al. [6] used the term high operating leverage to define firms with high fixed costs. Hence, it can be concluded that high-cost structure is the same as high operating leverage. When the cost structure increases, the firms tend to become more inflexible in changing their operating costs as the sales change. The lower values of cost structure mean the more flexible the firms become, these firms tend to have a low proportion of fixed costs in their operating costs.

Besides cost structure, there are other variables that might have effects on payout policy, such as retained earnings (*RETE*), stock return (*RETURN*), cash (*CASHTA*), market to book (*MTB*), capital expenditure (*CAPEXTA*), operating income (*OPINC*), and non-operating income (*NOPPI*). Graham and Dodd (2008) found that earnings are the imperative indicator to estimates earning per share (*EPS*). While Chen et al. [13] explained that stocks' return can be measured by calculating the present value of expected dividends; thus factors that influence the expected cash flows or dividends should have an effect on stock returns. Agency cost is another factor that determines the deviation from the optimal level of cash holdings, which will lead to the decision of giving out payout [8]. Market to book ratio is usually known as the growth opportunity and Ikenberry et al. [14] explained that undervaluation was one of the important reasons that motivate stock buybacks, hence the growth opportunity can affect the payout decision. Moreover, Bates et al. [3] argue that the company will tend to reduce share buybacks when the company plans to spend funds on capital expenditures. Lastly, Kulchania [5] found that operating income and future cash flow are riskier for firms with lower current cost structure, while he also discovered that firms with high fixed costs have more future volatile cash flow and operating income.

III. RESEARCH METHODOLOGY

Quantitative method is used to process the secondary data with Stata Software. The analysis utilizes a logistic panel data regression model in examining the linkage between cost structure and payout policy, as well as with dividends and repurchases. Afterward, the result of cost structure is regressed with dividend payment, repurchase, and the total payout. The data obtained for this research are data from Indonesian non-financial firms, which has been listed publicly in the Indonesia Stock Exchange since January 2011. The data obtained was

TABLE I: Independent Variable Lists

No.	Variables	Formula	Definition	
1	Cost Structure	Operating leverage	The elasticity between profit of the firms' and its total sales	DOL
2	Retained earnings	$\frac{\text{Retained earnings}}{\text{Total assets}}$	Residual earnings from operations, not distributed to shareholders scaled by equity	RETE
3	Return	-	The 52 weeks' total return incorporates the price change and any relevant dividends for the last 52 weeks.	RETURN
4	Cash	$\frac{\text{Cash and equivalent}}{\text{Total assets}}$	Represents short-term, highly liquid investments that are both readily convertible to known amounts of cash and so close to their maturity that they present insignificant risk of changes in interest rates.	CASHTA
5	Market to book (growth opportunity)	$\frac{\text{Total assets} - \text{Total equity} + \text{Market cap.}}{\text{Total assets}}$	Book value of assets minus the book value of equity plus the market value of equity that is divided by the book value of total assets.	MTB
6	Capital expenditure	$\frac{\text{Capital expenditures}}{\text{Total assets}}$	Capital Expenditures encompass all expenditures for factories and equipment for the defined fiscal period that have a useful life of more than one year.	CAPEXTA
7	Operating income	$\frac{\text{Operating income}}{\text{Total Assets}}$	Represents the sum of: Total Revenue and Total Operating Expense; calculate in 3 years average.	OPINC
8	Non-operating income	$\frac{\text{Non-operating income}}{\text{Total Assets}}$	Represents the sum of: Interest Income (Expense), Net Non-Operating Income (Expense), Investment Income (Expense); calculate in 3 years average.	NOPI

Sources: Thomson Reuters, processed.

TABLE II: Dependent Variable Lists

No.	Variables	Formula	Definition	
1	Dividends	$\frac{\text{Dividend}}{\text{Operating income}}$	Represents total dividends declared and paid to common and preferred shareholders for a period.	DIV
2	Repurchases	$\frac{\text{Repurchases}}{\text{Operating income}}$	Represents cash outflow on the repurchase of common and preferred stock (increase in treasury stock) or the reduction of capital.	REP
3	Total Payout	$\frac{\text{Dividend} + \text{Repurchases}}{\text{Operating income}}$	The total payout; total dividend payment add repurchases	PAYOUT

Sources: Thomson Reuters.

generated from Thomson Reuters, Bloomberg, and annual reports from www.idx.com. Several scope limitations in this study are for instance; (i) The data used are in a 5 year-period, from the year 2011 to 2015, (ii) The samples are non-financial Indonesian public firms and excluded firms with negative retained earnings for 3 consecutive years, (iii) There are no differences between cash dividend and stock dividend in terms of contributions.

A. Operational Variables

This research model is constructed by eight control variables and one dependent variable. To see the causal relationship between cost structure (DOL) and payout policy, we control for retained earnings (RETE), return (RETURN), cash (CASHTA), market to book (MTB), capital expenditure (CAPEXTA), operating income (OPINC), and non-operating income (NOPI), see Table 1.

Meanwhile the dependent variable is 'Payout Policy', in particular, are dividend and repurchases. Hence, the dividend and repurchases also become the dependent variables, see Table 2.

The three variables in Table 2 above are three separate dependent variables, which will be examined individually for panel data regression. Meanwhile, the three other dependent dummy variables will be tested through logistic panel data

regression. The figure I is the actual research framework for the relationship between cost structure and payout policy.

B. Hypotheses

The cost structure is a variable which indicates the fixed and variable costs of one firm; the higher the cost structure means the firms the proportion of the fixed costs is much bigger than variable costs [5]. Firms are becoming less flexible due to the higher amount of costs allocated for fixed costs, the authors believe this will affect the amount of money to be distributed to the investor as firms' payout. The constructed cost structure equation is following the prior research by Chen et al. [7], which followed the theory from Brealey et al. [6]. Thus, when the cost structure increases, the firms become more inflexible in changing their operating costs as the sales change. The lower values of cost structure mean the flexible the firms become, these firms tend to have a low proportion of fixed costs in their operating costs. Therefore, the hypothesis can be constructed as:

$H_1 = \text{There is a negative relation between cost structure and payout policy in Indonesian non-financial firms.}$

In addition, the payout policy of firms is usually executed through dividend payment or the repurchasing their own shares. Each of these actions, which depend on the firms' payout policy, has their own effect on the stock prices, market

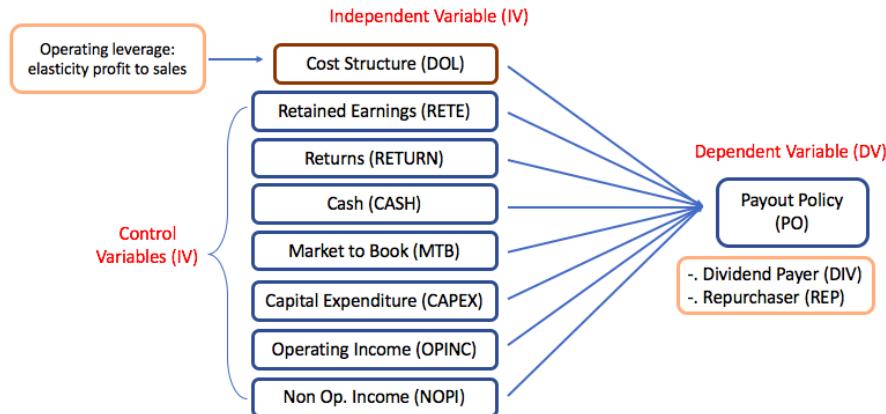


FIGURE I: Research Framework

reactions, amount of the outstanding shares, etc. Within these two options of companies who usually give payout, there is a distinct flexibility of share repurchases over dividend payments as a payout mechanism offer. The firms' usually choose share repurchases due to the flexibility advantages, which will give positive outcome for the firms itself [1]. Distributing dividend itself has positive and negative effects on the firms, for instance, cutting the amount of given dividend has a negative impact on stock prices and market response. The investor might think that the decreased amount that they received on dividend payment is because of the declining performance of the firms. On the contrary, giving out more dividend will increase the market confidence toward the firms. However, it will decrease the number of earnings that can be used for reinvestment or boosting company growth. Therefore, the hypothesis can be constructed as the following:

$H_2 = \text{Among Indonesian non-financial firms that spend money on the payout, firms are more likely to spend money on dividends rather than repurchases.}$

C. Empirical Specifications

After measuring the cost structure, the authors will do the panel data regression of cost structure and other supported variables on the payout, dividend, and repurchase. The regression panel data model is constructed by dividend (DIV), repurchase (REP), and payout (PAYOUT). Afterward, the logistic panel data method is applied whereas three dependent variables can be defined as follows; (i) If firms distributed dividend payout, then $a = 1$, otherwise $a = 0$, (ii) If firms spent money on repurchasing shares, then $a = 1$, otherwise $a = 0$, (iii) If firms spent money on firms' payout, then $a = 1$, otherwise $a = 0$. After using logistic panel data regression to analyze, the authors purposely did a post-estimation to achieve final results.

IV. RESULT

The data sample used for research are non-financial firms which are listed in the Indonesia Stock Exchange since 2011.

Currently there are 394 non-financial firms in Indonesia that have been traded publicly since 2011, however, only 175 firms are eligible as our sample. The firms with the most sample in this research are from consumer cyclical (26.85%). After that, it is followed by consumer non-cyclical (22.29%), basic materials (18.29%), industrials (16.00%), energy (8.00%), healthcare (4.00%), telecommunication services (2.86%), technology (1.14%), and utilities (0.57%). The results also show that the energy sector gave the highest dividend payment with 5.8%, while consumer cyclical gave the lowest dividend payment (1.9%) in 2015. The average dividend yield for all sectors is 2.91% and the average repurchase is 1.84%; these mean that Indonesian firms tend to spend more money on dividend payment compared to repurchase activities.

From the 12,320 number of observations from 2011 to 2015, it can be seen that Indonesian firms in average spend 18.0% and 1.6% of their operating income as dividend and repurchases, consequently. The value of standard deviation of DIV, REP, and PAYOUT (0.339, 0.283, 0.746) are much bigger than its own mean (0.180, 0.016, 0.196), which represents that the data obtained are widely spread or not distributed normally. This has conformity with the logistic model, therefore the logistic model is used in this research because the assumption of a normal distribution of data is not fulfilled by the three dependent variables.

Dummy variables are used for all the dependent variable to be regressed on the logistic (logit) regression model to capture non-linearity in the probabilistic model. Several Indonesian firms did not distribute dividend payments, spend money on repurchasing shares, or spend money for payout in the period of 2011-2015. Besides, only 61.7% of non-financial firms in Indonesia distributed dividend payment to the shareholder. Meanwhile 3.9% of non-financial firms in Indonesia chose to buy back their shares. In total, there are 62.5% of non-financial firms which spend money for payout. Among all the firms that give payout, most of the firms still prefer to distribute dividend instead of repurchasing shares. Although the trend of repurchasing share is increasing in most developed

TABLE III: Summary Descriptive per Payout Type

Variable	Dividend payment only				Repurchase shares only				All payout						
	Mean	Min.	Max.	Std. Dev.	N	Mean	Min.	Max.	Std. Dev.	N	Mean	Min.	Max.	Std. Dev.	N
DIV	0.297	0.000	5.374	0.384	541	0.186	0.000	0.860	0.182	34	0.293	0.000	5.374	0.383	548
DIVTA	0.045	0.000	0.657	0.076	541	0.021	0.000	0.127	0.027	34	0.045	0.000	0.657	0.076	548
REP	0.006	0.000	0.794	0.054	541	0.432	0.000	7.746	1.389	34	0.027	0.000	7.746	0.357	548
REPTA	0.001	0.000	0.146	0.007	541	0.016	0.000	0.146	0.028	34	0.001	0.000	0.146	0.008	548
PREP	0.036	-4.566	14.783	0.748	541	0.772	-4.566	14.783	2.963	34	0.048	-4.566	14.783	0.751	548
PAYOUT	0.304	0.000	5.374	0.387	541	0.618	0.000	7.746	1.361	34	0.320	0.000	7.746	0.512	548
PAYOUTTA	0.045	-0.055	0.657	0.077	541	0.005	-0.055	0.112	0.032	34	0.044	-0.055	0.657	0.077	548
DIVDUMMY	1.000	1.000	1.000	0.000	541	0.794	0.000	1.000	0.410	34	0.987	0.000	1.000	0.112	548
REPDUMMY	0.050	0.000	1.000	0.218	541	1.000	1.000	1.000	0.000	34	0.062	0.000	1.000	0.241	548
PODUMMY	1.000	1.000	1.000	0.000	541	1.000	1.000	1.000	0.000	34	1.000	1.000	1.000	0.000	548
DOL	1.973	1.000	7.095	0.902	524	1.828	1.000	5.248	0.831	35	1.978	1.000	7.095	0.909	531
RETE	0.635	-0.038	2.092	0.257	541	0.656	0.045	2.092	0.337	34	0.634	-0.038	2.092	0.257	548
RETURN	0.209	-0.627	3.383	0.519	537	-0.063	-0.627	1.444	0.398	34	0.206	-0.627	3.383	0.519	544
CASHTA	0.125	0.002	0.535	0.110	534	0.133	0.004	0.465	0.113	34	0.124	0.002	0.535	0.110	541
MTB	1.991	0.162	18.640	2.275	541	1.675	0.497	4.526	0.885	34	1.988	0.162	18.640	2.266	548
CAPEXTA	0.071	0.000	0.377	0.061	541	0.066	0.002	0.136	0.037	34	0.071	0.000	0.377	0.060	548
OPINC	0.419	-0.045	1.936	0.309	541	0.351	-0.005	0.869	0.194	34	0.417	-0.045	1.936	0.309	548
NOPI	0.015	0.000	0.083	0.013	492	0.022	0.004	0.074	0.017	30	0.016	0.000	0.083	0.014	499

Notes: Cost structure (DOL): Sensitivity of growth in operating costs to growth in sales. Retained earnings (RETE): Residual earnings from operations, not distributed to shareholders scaled by equity. Return (RETURN): The 52 weeks' total return incorporates the price change and any relevant dividends. Cash and equivalent (CASHTA): Cash and equivalent scaled by total assets. Market to book (MTB): Book value of assets minus the book value of equity plus the market value of equity that is divided by the book value of total assets. Capital expenditure (CAPEXTA): Capital Expenditures scaled by total assets. Operating income (OPINC): The sum of total revenue and total operating expense. Non-operating income (NOPI): Represents the sum of: interest income (expense), net non-operating income (expense), investment income (expense). sources: author's calculations.

countries, the trend of repurchasing shares in Indonesia seems less attractive for Indonesian non-financial firms. Indonesian firms prefer to spend money on giving the dividend to the shareholders.

A. Logistic Panel Data Regression

The variable cost structure and other control variables are regressed with logistic regression towards payout policy, dividend policy, and shares repurchases with fixed effect. Dependent variables such as dividend payment and total payout are influenced by the all the used independent variables. Dividend payout is positively influenced by variable retain earnings (RETE), total return (RETURN), cash and equivalent (CASHTA), capital expenditure (CAPEXTA), and average operating income (OPINC). RETURN is the most significant variable toward the dependent variables, and RETE, as well as NOPI, are the least significant variables among others. While, only a few variables are significant with repurchase as the dependent dichotomous variable, which are market to book (MTB), size (LNTA), and average operating income (OPINC). Repurchase is not significant with cost structure (DOL) due to a small portion of Indonesian firms that repurchased share.

V. DISCUSSION

The cost structure is defined as the firm's proportion of their fixed costs and variable costs, yet there are several meaning and calculations behind the term cost structure. Assuming the percentage of fixed costs is much larger than variable costs, thus an increment in sales administer additional cash for the firm's payout. Lower sales will have an impact on the high fixed costs' firms to have less cash and equivalent to pay back the shareholders. Additionally, firms with lower fixed costs are able to provide more consistent payout although they have an unpredicted change in sales [5]. The constructed cost structure equation is following the prior research study by Chen et al. [7], which followed the theory from Brealey et al. [6]. Thus, when the cost structure decrease, the firms become more flexible in changing their operating costs as the sales change.

The higher values of cost structure mean the inflexible the firms become, these firms tend to have a high proportion of fixed costs in their operating costs.

After cost structure is regressed with the dividend and payout, it shows a negative influence toward those two dependent variables. Thus, it is congruent with Kulchania's [5] study, whereas he said that the higher the cost structure means the proportion of the fixed costs is much bigger than variable costs. Since the fixed costs' proportion is much bigger than variable costs, the money spent on payout would be limited too.

Next, payout policy is conducted based on dividend payment (dividend yield average is 2.91%) and shares repurchases (repurchase to market capital average is 1.84%), although most of the firms in Indonesia use dividend payment over repurchases. The number of firms that distribute dividend becomes lesser, while more firms choose to spend their free cash flows on repurchasing shares, which is compatible with the research found in the developed market; thus the trend of repurchasing shares is increasing. Only the healthcare and industrial sectors have significant increases in the number of firms that distribute the dividend, meanwhile, the majority of Indonesian firms still prefer to distribute dividend over buyback. This might happen due to an issue of OJK Regulation No. 9/POJK.04/2015 on Guidelines on Repurchase Agreement Transactions for Financial Services Institutions by Indonesian Financial Services Authority (Otoritas Jasa Keuangan or "OJK") that limit share repurchases up to 10% of paid-up capital and seven trading days after the market fluctuates, thus these shares will become treasury stocks [15].

Even though the fact shows that the repurchasing cases are increasing lately, the number of firms that repurchase share is still not much compared to the number of firms that choose to distribute dividend payment. Those might happen due to the unclear regulations and limitation on repurchases, which impact on the firms' tendency to choose dividend over repurchase. Therefore, we do not reject H2 hypothesis, and it can be concluded that although the trend of repurchasing shares is increasing in Indonesia, Indonesian non-financial

TABLE IV: Logistic Panel Data Regression

	DIVIDEND				ALL PAYOUT			
	Coef.	Std. Err.	z	p-value	Coef.	Std. Err.	z	p-value
DOL	-0.71	0.29	-2.44	0.014**	-0.68	0.29	-2.39	0.017**
RETE	2.23	1.32	1.69	0.091*	2.61	1.57	1.66	0.097*
RETURN	1.16	0.32	3.63	0.000***	1.13	0.32	3.56	0.000***
CASHTA	6.83	3	2.28	0.023**	6.83	2.99	2.28	0.023**
MTB	-0.89	0.42	-2.12	0.034**	-0.84	0.42	-2.01	0.044**
CAPEXTA	5.97	2.96	2.01	0.044**	5.66	2.93	1.94	0.053*
OPINC	4.89	2.08	2.35	0.019**	4.34	2.03	2.14	0.032**
NOPI	-32.82	15.73	-2.09	0.037**	-26.39	16.02	-1.65	0.099*

Notes: * significant at the 1%, ** significant at the 5%, *** significant at the 10%.

Source: authors' calculations.

firms tend to spend money on dividend instead of repurchases due to unclear regulation and limitation.

VI. CONCLUSION

Throughout this study, the link between cost structure and payout policy in an emerging country, specifically Indonesia has been explored. From the conducted research, it significantly shows that

cost structure or degree of operating leverage is indeed an imperative influence for payout policy, especially dividend payment in Indonesia. Firms with higher cost structure are more susceptible to decrease profits when the number of sales decreases. Prior research in developed countries shows that firms are more likely to shift from spending money on dividend to repurchasing share. In fact, the Indonesian trend of repurchases is increasing, however, most of the firms still have the tendency to spend money on dividend instead of repurchases due to unclear regulation and limitation. Moreover, the number of Indonesian firms that repurchase share is still not much compared to the number of firms that choose to distribute dividend payment. Most of the non-financial firms in Indonesia still prefer to spend money on dividend payment rather than repurchases share as their own payout policy.

The cost structure has affected the two dependent variables, which are payout policy in general and dividend payment. The more flexible of the firms when facing change in profits and change in sales tend to spend their earning on giving payout, in terms of dividend. The higher return in the firms, then they are more willing to spend money on giving out the dividend to their shareholders. Additionally, the higher return of one company did not necessarily mean that they want to spend money on the repurchase. Meanwhile the higher retain earnings, total return, amount of cash, capital expenditure, and operating income empower the firms to spend more money on the payout, especially dividend payment.

Although the number of firms who choose to repurchase share is increasing, yet the number is not vast enough compared to the number of firms that distribute the dividend. This might happen due to an issue of OJK Regulation No. 9/POJK.04/2015 on Guidelines on Repurchase Agreement Transactions for Financial Services Institutions by Indonesian Financial Services Authority (Otoritas Jasa Keuangan or "OJK") that limit share repurchases up to 10% of paid-up capital and seven trading days after the market fluctuates;

thus these shares will become treasury stocks. Despite the fact that the repurchasing cases are increasing lately, the number of firms that repurchase share is still not much compared to the number of firms that choose to distribute dividend payment. Therefore, it can be concluded that although the trend of repurchases is increasing in Indonesia, Indonesian non-financial firms tend to spend money on dividend instead of repurchases due to unclear regulation and limitation.

REFERENCES

- [1] A. Brav, J. R. Graham, C. R. Harvey, and R. Michaely, "Payout Policy in the 21st Century," *Journal of Financial Economics*, vol. 77, no. 3, pp. 483–527, 2005.
- [2] M. Baker and J. Wurgler, "Appearing and Disappearing Dividends: The Link to Catering Incentives," *Journal of Financial Economics*, vol. 73, no. 2, pp. 271–288, 2003.
- [3] T. W. Bates, K. M. Kahle, and R. M. Stulz, "Why do U.S. Firms Hold so Much More Cash than They Used to?," *The Journal of Finance*, vol. 64, no. 5, pp. 1985–2021, 2009.
- [4] M. Kahl, J. Lunn, and M. Nilsson, *Operating Leverage and Corporate Financial Policies*. AFA 2012 Chicago Meetings Paper, 2014.
- [5] M. Kulchania, "Cost Structure and Payout Policy," *Financial Management*, vol. 45, pp. 981—1009, 2016.
- [6] R. A. Brealey, S. C. Myers, and A. Franklin, *Principles of Corporate Finance*, 12 ed. New York: McGraw-Hill Education, 2016.
- [7] Z. Chen, J. Harford, and A. Kamara, *Operating Leverage, Profitability and Capital Structure*. CICF 2013 Shanghai, China; EFA 2013, Cambridge UK; 24th CFEA (Kenan-Flagler Business School), 2017. Retrieved from - <http://dx.doi.org/10.2139/ssrn.2209070>.
- [8] M. C. Jensen and W. H. Meckling, "Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, vol. 3, no. 4, pp. 305—360, 1976.
- [9] M. H. Miller and F. Modigliani, "Dividend Policy, Growth, and the Valuation of Shares," *The Journal of Business*, vol. 34, no. 4, pp. 411—433, 1961.
- [10] S. A. Ross, et al., *Corporate Finance*. Singapore: McGraw-Hill Education (Asia), 2015.
- [11] M. S. Rozeff, "Growth, Beta, and Agency Costs as Determinants of Dividend Payout Ratios," *Journal of Financial Research*, vol. 5, no. 3, pp. 249–259, 1982.
- [12] D. J. Skinner, "The Evolving Relation between Earnings, Dividends, and Stock Repurchases," *Journal of Financial Economics*, vol. 87, no. 3, pp. 582–609, 2008.
- [13] N. F. Chen, R. Roll, and S. Ross, "Economic Forces and the Stock Market," *The Journal of Business*, vol. 59, no. 3, pp. 383—403, 1986.
- [14] D. Ikenberry, J. Lakonishok, and T. Vermaelen, "Market Underreaction to Open Market Share Repurchases," *Journal of Financial Economics*, vol. 39, no. 2, pp. 181—208, 1995.
- [15] Otoritas Jasa Keuangan. *POJK No. 9/POJK.04/2015 tentang Pedoman Transaksi Repurchase Agreement bagi Lembaga Jasa Keuangan*, 2015. Retrieved from - <http://www.ojk.go.id/id/kanal/pasar-modal/regulasi/peraturan-ojk/Pages/POJK-09-POJK.04-2015.aspx>.