

The Life-Cycle Theory of Dividends: Evidence from Indonesia

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Abstract : The main objective of this study is to examine whether the life-cycle theory of dividends could explain the determinant of an optimal dividend policy in Indonesia. The sample that was used consists of 1,420 non-financial and non-trade, services, investment firms listed in Indonesian Stock Exchange during the period of 2005-2014. According to this finding using logistic regression, firm life-cycle measured by retained earnings as a proportion of total equity (RETE) significantly has a positive effect on the propensity of a firm pays dividend. The higher company's earned surplus portion in its capital structure could reflect firm maturity level which will increase the likelihood of dividend payment in mature firms. This result provides an additional empirical evidence about the existence of life-cycle theory of dividends for dividend payout phenomenon in Indonesia. It can be known that dividends tend to be paid by mature firms while retention is more dominating in growth firms. From the testing results, it can also be known that majority of sample firms are being in the growth phase which proves the fact about infrequent dividend distribution in Indonesia during the ten years observation period.

Keywords : dividend, dividend policy, life-cycle theory of dividends, mix of earned and contributed capital

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