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The Effect of Profitability, Liquidity, Leverage, and BI 7-Day Repo Rate on Dividend Payout Ratio in Telecommunication Companies Listed on the Indonesian Sharia Stock Index (ISSI)

Shauqi Aditya Khalis
State Islamic University of North Sumatra, Indonesia
shauqiadit@gmail.com

Muhammad Ikhsan Harahap
State Islamic University of North Sumatra, Indonesia
m.ihsan.harahap@uinsu.ac.id

Atika
State Islamic University of North Sumatra, Indonesia
atika@uinsu.ac.id

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Abstract: The purpose of this study is to analyze the effect of profitability, liquidity, leverage, and BI 7-days repo rate on dividend distribution in Indonesia. The object of this research is 4 telecommunication companies listed on the Indonesian Sharia Stock Index for 2021-2023. The method used is balanced panel data with a common effect model. The results of this study found that debt to equity (leverage) has a significant effect on the dividend payout ratio. Meanwhile, profitability, liquidity, and BI 7-days repo rate do not affect the dividend payout ratio. This research highlights the importance of leverage in dividend policy for telecommunication companies. Reducing leverage can boost dividend payouts and benefit shareholders. Investors can use lower leverage as an indicator of higher potential dividends. Future studies should expand the sample, explore other sectors, extend the period, and consider additional factors like return on assets, quick ratio, and tax rate.

Keywords:*Economic Profitability, Liquidity, Leverage, BI 7 Days Repo Rate, Dividend Payout Ratio*

Abstrak: Tujuan dari penelitian ini adalah untuk menganalisis pengaruh profitabilitas, likuiditas, leverage, dan BI 7-days repo rate terhadap pembagian dividen di Indonesia. Objek penelitian ini adalah 4 perusahaan telekomunikasi yang terdaftar di Indeks Saham Syariah Indonesia untuk periode 2021-2023. Metode yang digunakan adalah data panel seimbang dengan model efek umum. Hasil penelitian ini menunjukkan bahwa *debt to equity* (leverage) berpengaruh signifikan terhadap *dividend payout ratio*. Sementara itu, profitabilitas, likuiditas, dan BI 7-days repo rate tidak berpengaruh terhadap *dividend payout ratio*. Penelitian ini menyoroti pentingnya leverage dalam kebijakan dividen untuk perusahaan telekomunikasi. Mengurangi leverage dapat meningkatkan pembayaran dividen dan menguntungkan pemegang saham. Investor dapat menggunakan leverage yang lebih rendah sebagai indikator potensi dividen yang lebih tinggi. Penelitian selanjutnya disarankan untuk memperluas sampel, mengeksplorasi sektor lain, memperpanjang periode, serta mempertimbangkan faktor tambahan seperti *return on assets*, *quick ratio*, dan tingkat pajak.

Kata Kunci: *Profitabilitas, Likuiditas, Leverage, BI 7 Days Repo Rate, Dividend Payout Ratio*.

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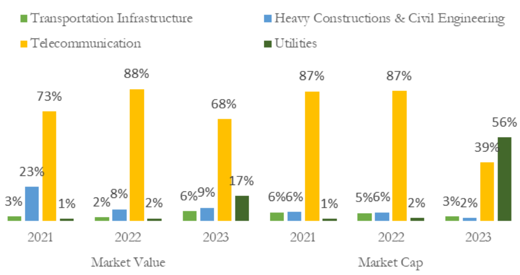
Introduction

The infrastructure sector in Indonesia plays a pivotal role in driving economic growth and enhancing quality of life by providing the foundation for connectivity and efficient distribution. Key components of this infrastructure, such as transportation, construction, utilities, and information technology, contribute significantly to economic activities, reduce regional disparities, and enhance national competitiveness. The long-term growth potential of companies within this sector is reflected in their market capitalization and overall market value.

Figure 1. Market Value & Market Cap Infrastructure Sector



Source: idx.go.id (Data processed, 2024)

From 2021 to 2023, the telecommunications sub-sector consistently dominated the market value within the infrastructure sector, indicating substantial growth amid globalization and technological advancements. In Indonesia, home to over 270 million people across thousands of islands, equitable access to the internet remains a critical challenge, especially in remote areas. The introduction of Starlink's low-orbit satellite technology offers a potential solution to bridge the digital divide, though concerns regarding its impact on the sustainability of domestic telecommunications companies persist. Ensuring the competitiveness of local firms necessitates government regulations and investment in capital markets to foster the development of digital infrastructure and technology.

Investment is defined as the allocation of funds aimed at increasing asset value and generating significant returns over a specified period. Investors anticipate financial returns through capital gains or dividends. In this context, dividend policy becomes particularly important as it directly influences a company's value and shareholder satisfaction. High dividend payouts are often viewed as a positive indicator of strong financial performance, while lower payouts may signal potential financial difficulties or less promising growth prospects.[1] Conversely, company managers frequently prefer to retain earnings for reinvestment in profitable projects, highlighting a potential conflict of interest between management and shareholders.[2]

This study investigates the key factors influencing dividend policy, particularly the Dividend Payout Ratio (DPR), which reflects a company's financial health and dividend strategy. The focus is on profitability, liquidity, leverage, and the BI 7-Day Repo Rate. Profitability, measured by Return on Equity (ROE), is associated with a company's capacity to generate sufficient profits to distribute dividends. Research by (Salsabilla and Isbanah, 2020) indicates a significant positive effect of profitability on DPR,[3]

[1] Junaedi Jauwanto Halim, 'Faktor-Faktor Yang Mempengaruhi Kebijakan Dividen Perusahaan Yang Terdaftar Di Bursa Efek Indonesia Pada Sektor Industri Barang Konsumsi Periode 2008-2011', Calyptra: Jurnal Ilmiah Mahasiswa Universitas Surabaya, 2.2 (2013).

[2] Atika Jauhari Hatta, 'Faktor-Faktor Yang Mempengaruhi Kebijakan Dividen: Investigasi Pengaruh Teori Stakeholder', *Jurnal Akuntansi Dan Auditing Indonesia*, 6.2 (2002).

[3] Nadya Fernanda Salsabilla and Yuyun Isbanah, 'Pengaruh Profitabilitas Dan Risiko Bisnis Terhadap Dividend Payout Ratio Melalui Likuiditas Sebagai Variabel Moderasi', *Jurnal Ilmu Manajemen*, 8.4 (2020), doi:10.26740/jim.v8n4.p1301-1311.

although (Heliani et al., 2021) found no such correlation.[4]

Liquidity, measured by the Current Ratio (CR), reflects a company's ability to meet short-term obligations. While Angela and Budiman found no significant effect of liquidity on DPR,[5] similar conclusions were reached in studies by Wahyuni[6] and Gultom and Lubis.[7] Leverage, represented by the Debt-to-Equity Ratio (DER), can limit a company's ability to distribute dividends due to debt obligations. Research findings are mixed; for example, Affandi, Sunarko, and Yunanto reported a positive but insignificant effect,[8] while Misrofingah and Ginting identified a negative and significant impact.[9]

The BI 7-Day Repo Rate, as an indicator of monetary policy, may influence the cost of capital and the availability of funds, potentially affecting DPR. Studies by Le Nguyen Dieu[10] and Ofori-Sasu, Abor, and Osei,[11] support the notion that interest rates impact dividend policy.

In Islamic finance, investment is viewed as a mechanism to promote societal welfare. Wealth must be utilized productively to benefit the wider community rather than solely for the interests of specific individuals or groups (Al Hasyr, verse 7). All economic activities, including investments, must comply with Sharia principles, ensuring that profits are derived from halal sources and that the ultimate objective is to seek Allah's blessings rather than merely material gains.

The Indonesian Sharia Stock Index (ISSI) acts as a benchmark for Sharia-compliant companies, ensuring adherence to Islamic law in their operations and financial practices. This study aims to examine the effect of profitability, liquidity, leverage, and the BI 7-Day Repo Rate on DPR in telecommunication companies listed on the ISSI for the period 2021-2023. The findings of this research are expected to contribute to the theoretical and practical understanding of dividend policy in Sharia-compliant firms, benefiting academics, managers, and investors alike

Literature Review

Signalling Theory

Signaling theory explains that dividend policy serves as a signal to investors and helps reduce information asymmetry. According to Modigliani and Miller, an increase in dividends is considered a positive

[4] Heliani Heliani and others, 'Liquidity, Profitability and Asset Growth towards the Dividend Payout Ratio', *AFRE (Accounting and Financial Review)*, 4.2 (2021), doi:10.26905/afr.v4i2.6324.

[5] Angela Angela and Johny Budiman, 'Pengaruh Return On Investment, Current Ratio, Debt To Equity Ratio, Earning Per Share Dan Firm Size Terhadap Dividend Payout Ratio Pada Bank Asing Yang Terdaftar Di Bursa Efek Indonesia Periode 2017-2021', Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA), 6.3 (2022), doi:10.31955/mea.v6i3.2720.

[6] Endah Sri Wahyuni, 'Pengaruh Leverage, Likuiditas, Profitabilitas Dan Pertumbuhan Perusahaan Terhadap Kebijakan Dividen', Jurnal Ekonomika Dan Manajemen, 10.1 (2021), doi:10.36080/jem.v10i1.1770.

[7] Elida Gultom and Kartika Sari Lubis, 'Analisis Pengaruh Current Ratio, Return on Equity Dan Debt to Equity Ratio Terhadap Return Saham Pada Perusahaan Sub Sektor Telekomunikasi Yang Terdaftar Di Bursa Efek Indonesia Periode 2015-2019', *ARBITRASE: Journal of Economics and Accounting*, 2.1 (2021), doi:10.47065/arbitrase.v2i1.243.

[8] Fakhrun Affandi, Bambang Sunarko, And Ary Yunanto, 'The Impact of Cash Ratio, Debt To Equity Ratio, Receivables Turnover, Net Profit Margin, Return On Equity, and Institutional Ownership To Dividend Payout Ratio', Journal Of Research In Management, 1.4 (2019), doi:10.32424/jorim.v1i4.53.

[9] Misrofingah Misrofingah and Nurlelasari Ginting, 'Analisa Pengaruh Return on Equity (ROE) Current Ratio (CR), Debt to Equity Ratio (DER), Terhadap Dividend Payout Ratio (DPR)', *Jesya (Jurnal Ekonomi & Ekonomi Syariah)*, 5.1 (2022), doi:10.36778/jesya.v5i1.588.

[10] Anh Le Nguyen Dieu, 'The External Factors Affecting the Dividend Policy: The Case of Listed Companies on the Hanoi Stock Exchange', *International Journal of Innovation, Creativity and Change*, 13.6 (2020).

[11] Daniel Ofori-Sasu, Joshua Yindenaba Abor, and Achampong Kofi Osei, 'Dividend Policy and Shareholders' Value: Evidence from Listed Companies in Ghana', *African Development Review*, 29.2 (2017), doi:10.1111/1467-8268.12257.

sign for investors, indicating that company management anticipates better financial prospects in the future. Therefore, dividend distribution can increase investor confidence in investing.[12]

Residual Dividend Theory

Residual dividend theory states that dividends should be paid out of the remaining capital after the company has funded profitable investments. Profits are used first for profitable investments, and only the remaining profits are distributed as dividends. As a result, the amount of dividends may vary each year depending on the company's profits and investment needs.

Agency Theory

Agency *theory*, the theory proposed by Michael C. Jensen and William H. Meckling (1976) explains that dividend distribution can reduce agency costs arising from differences in interests between company owners and managers. Owners tend to want profits to be distributed as dividends, while managers prefer to hold profits to reinvest in the company.

Profitability (Return On Equity)

Profitability refers to the capacity of a company to generate profits through its operations. Based on financial theory, companies with higher levels of profitability tend to have greater access to internal sources of funds for dividend distribution to shareholders. Thus, it is expected that more profitable companies will have a higher dividend payout ratio (DPR).
H1: Profitability has an influence on Dividend Payout Ratio

$$\frac{Net\ Income}{Total\ Equity} \times 100\%$$

Liquidity (Current Ratio)

Liquidity refers to a company's ability to convert its assets into cash to meet its short-term obligations. Companies with a high level of liquidity can more easily fulfill their dividend obligations without having to rely on external financing. As such, it is expected that companies with higher liquidity levels will tend to show a larger dividend payout ratio (DPR).
H2: Liquidity has an influence on Dividend Payout Ratio.

$$\frac{Total\ Current\ Assets}{Total\ Current\ Liabilities} \times 100\%$$

Leverage (Debt to Equity Ratio)

Leverage refers to the proportion of borrowed capital used by companies to fund their assets and operations. Companies with high leverage tend to avoid paying high dividends as they prefer to use internal cash flow to reduce their debt. Therefore, there is an expectation that companies with low leverage tend to have higher DPR.
H3: Leverage has an influence on Dividend Payout Ratio

$$\frac{Total\ Liabilities}{Total\ equity\ attributable\ to\ equity\ owners\ of\ parent\ entity} \times 100\%$$

BI 7 Days Repo Rate

The BI 7 Days Repo Rate is the benchmark interest rate set by Bank Indonesia. Higher benchmark interest rates tend to increase borrowing costs and reduce cash flow available for dividends. Conversely, lower interest rates may increase the cash flow available for dividend payments. Therefore, there is an expectation that a lower BI 7 Days Repo Rate will be positively related to DPR. Lower interest rates allow a company to borrow at a cheaper cost, or invest more of

[12] Halim.

its internal cash flow for dividend payments, which may increase DPR.

H4: BI 7 Days Repo Rate has an influence on Dividend Payout Ratio

Dividend Payout Ratio

Dividend Payout Ratio is a ratio that measures the percentage of profit or cash flow from the company that is paid to shareholders as dividends. It is an important measure because it reflects how much the company distributes profits to its shareholders. A well-done dividend payout policy can strengthen investor confidence and reflect the financial health of the company. Stable and consistent dividends may indicate a company has sufficient and stable cash flow to meet dividend obligations, providing a positive signal to the market about the company's performance and stability.

$$\frac{Dividend\ per\ Share\ (DPS)}{Earning\ per\ Share\ (EPS)} \times 100\%$$

Methods

This study employs a quantitative approach, utilizing secondary data from annual financial reports of telecommunications companies listed on the Indonesian Sharia Stock Index (ISSI) for the period 2020-2023. Additional secondary data comes from sources like journals, institutions, and websites. The research uses panel data, combining time series and cross-sectional data, to analyze the profitability, liquidity, leverage, and dividend payout ratios of the companies, along with the BI 7-Day Repo Rate over the same period.

Table 1. Data & Source

Data	Source of Data	Indicator
Dividend Payout Ratio	Annual Report	DPR
Profitability	Annual Report	ROA
Liquidity	Annual Report	CR
Leverage	Annual Report	DER
BI 7 Days Repo Rate	Bank Indonesia (BI)	BI7DRR

Table 1.2 Sample of Telecommunication Company

No	Company
1	PT Telkom Indonesia (Persero) Tbk (TLKM)
2	PT XL Axiata Tbk (EXCL)
3	PT Indosat Tbk (ISAT)
4	PT Dayamitra Telekomunikasi Tbk (MTEL)

This study uses 4 samples of large telecommunication sector companies listed on ISSI which were selected using a purposive sampling method. The selection criteria include companies that consistently publish financial reports and pay dividends during the 2021-2023 period. This is because large companies tend to pay larger dividends than small companies, which generally have less tendency to earn.[13]

This study uses panel data regression analysis with STATA 17 to examine the relationship between Profitability, Liquidity, Leverage, and the BI 7-Day Repo Rate (independent variables) and the Dividend Payout Ratio (dependent variable) for telecommunications companies listed on the Indonesian Sharia Stock Index (ISSI) from 2021-2023.

[13] Eugene F. Fama and Kenneth R. French, 'Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?', *Journal of Financial Economics*, 60.1 (2001), doi:10.1016/S0304-405X(01)00038-1.

Regression Equation Model

$$DPR = \beta_0 + \beta_1 ROA_{c.t} + \beta_2 CR_{c.t} + \beta_3 DER_{c.t} + \beta_4 BI7DRR_{c.t} + \epsilon_{c.t}$$

Where c shows the *cross-section* unit, namely the independent variable and the company sample (c = 1,2,3,4), t shows the *time-series* unit (t = 2021-2023), β_0 shows the constant value, $\beta_1 \beta_2 \beta_3 \beta_4$ shows the coefficient value of the independent variable that contributes to the dependent variable and shows the error component. ϵ shows the error component.

A regression model is considered good if it meets several classic assumption tests, namely normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. In addition, it is necessary to test the hypothesis through the t-test, f-test, and the coefficient of determination test

Results and Discussion

1) Model Selection Test

a. Chow Test

Table 3. Chow Test Result

```
F test that all u_i=0: F(3, 4) = 1.03                Prob > F = 0.4674
```

Prob value 0.4674 > 0.05, then the **CEM** model is selected.

b. Lagrange Multiplier Test

Table 4. Lagrange Multiplier Result

```
Estimated results:
                 |       Var     SD = sqrt(Var)
        ---------+-----------------------------
               y |   455.093       21.33291
               e |   100.707       10.03529
               u |         0              0

Test: Var(u) = 0
                     chibar2(01) =     0.00
                  Prob > chibar2 =   1.0000
```

Prob value 1.0000 > 0.05, then the chosen model is the **CEM** model.

Based on the results of the Chow Test, and LM Test, the best model in this study is **CEM**.

2) Classical Assumption Test

The study uses the CEM model, requiring classical assumption tests, including multicollinearity and heteroscedasticity, as outlined by.[14]

a. Multicollinearity Test

Table 5. Multicollinearity Test Result

	x1	x2	x3	x4
x1	1.0000			
x2	-0.1905	1.0000		
x3	0.7594	-0.3854	1.0000	
x4	-0.3863	-0.4265	-0.2735	1.0000

The correlation coefficients between all variables (X1, X2, X3, X4) are below 0.85, indicating no multicollinearity and passing the multicollinearity test.[15]

b. Heteroscedasticity Test

Table 6. Heteroscedasticity Test Result

```
H0: Constant variance

      chi2(1)  =    3.80
  Prob > chi2  =  0.0511
```

From the prob value of 0.0506> 0.05, therefore there are no symptoms of heteroscedasticity or pass the heteroscedasticity test.

Panel Data Regression Equation

DPR = 65.44041 + 0.3655812*ROE + 0.5654168*CR – 15.45836*DER + 3.680719*BI7DRR

[14] Runggu Besmandala Napitupulu and others, 'Penelitian Bisnis : Teknik Dan Analisa Data Dengan SPSS - STATA - EVIEWS', *Madenatera*, 1 (2021).

[15] Napitupulu and others.

The explanation is as follows:

1. The constant value is positive at 65.44041, meaning that if the ROE (X1), CR (X2), DER (X3), and BI7DRR (X4) variables are constant, the DPR (Y) variable is 65.44041%.
2. The ROE (X1) beta coefficient is 0.3656, indicating that a rise in ROE will increase the Dividend Payout Ratio (DPR) by 0.3656%, assuming other variables remain constant.
3. The Current Ratio (X2) beta coefficient is 0.5654, meaning an increase in CR will raise DPR by 0.5654%, holding other variables constant.
4. The Debt to Equity Ratio (X3) beta coefficient is -15.4584, showing that a higher DER reduces DPR by 15.4584%, assuming other variables are unchanged.
5. The BI 7-Day Repo Rate (X4) beta coefficient is 3.6807, indicating that an increase in this rate will raise DPR by 3.6807%, assuming other factors remain constant.

3) Hypothesis Test

a. T Test

Table 7. T Test Result

y	Coefficient	Std. err.	t	P>|t|
x1	.3655812	.2548083	1.43	0.194
x2	.5654168	5.03821	0.11	0.914
x3	-15.45836	3.473027	-4.45	0.003
x4	3.680719	3.607564	1.02	0.342
_cons	65.44041	23.90698	2.74	0.029

The partial effects of the independent variables on the Dividend Payout Ratio (DPR) are as follows::

a) The Return On Equity (X1): t-value of 1.43 < 1.8946 and p-value of 0.194 > 0.05 indicate no significant effect on DPR.

b) Current Ratio (X2): t-value of 0.11 < 1.8946 and p-value of 0.914 > 0.05 indicate no significant effect on DPR.

c) Debt to Equity Ratio (X3): t-value of 4.45 > 1.8946 and p-value of 0.003 < 0.05 indicate a significant effect on DPR.

d) BI 7-Day Repo Rate (X4): t-value of 1.02 < 1.8946 and p-value of 0.342 > 0.05 indicate no significant effect on DPR.

b. F Test

Table 8. F Test Result

Number of obs	=	12
F(4, 7)	=	10.50
Prob > F	=	0.0044
R-squared	=	0.8571
Adj R-squared	=	0.7755

The calculated F value of 10.50 > F table is 4.12 and the sig value is 0.0044 < 0.05, then Ha is accepted, meaning that the variables of Profitability, Liquidity, *Leverage* and *BI 7 Days Repo Rate* together affect the *Dividend Payout Ratio of* Telecommunication Companies listed on the Indonesian Sharia Stock Index.

c. Determination Coefficient Test

Table 9. Coefficient of Determination

Number of obs	=	12
F(4, 7)	=	10.50
Prob > F	=	0.0044
R-squared	=	0.8571
Adj R-squared	=	0.7755

The adjusted R-squared value of 0.7755 indicates that 77.55% of the variation in the Dividend Payout Ratio (DPR) for telecommunication companies listed on the Indonesian Sharia Stock Index is explained by the independent variables (ROE, CR, DER, and BI7DRR), while the remaining 22.45% is influenced by other factors not included in the model.

Effect of Profitability on *Dividend Payout Ratio*

The t-test result of 1.43 < 1.8946 shows that profitability, measured by Return on Equity (ROE), does not significantly affect the dividend payout ratio of telecommunications companies listed on the Indonesian Sharia Stock Index for 2021-2023. This aligns with Heliani et al but contradicts the signaling theory,[16] which suggests investors see dividend changes as positive signals about management. When the industry experiences profit growth, managers tend to anticipate an increase in future spending in line with the development of the industry. In this context, an increase in profitability will be more beneficial to the development of the industry than dividend payments to investors. Therefore, profitable companies will not necessarily pay dividends, especially if they have future investment plans.

This study shows that the level of corporate profits does not always directly impact the amount of dividends distributed. High profit companies may prioritize debt repayment instead of paying higher dividends, as noted by Nasution, Siregar, and Kamilah, the higher the profit, the higher the asset value so that it can fulfill the obligation to pay the total debt[17]. Conversely, companies with low profits can still pay dividends.[18]

In the context of Islamic finance, the management of profitability must adhere to Shariah principles, ensuring that profits are derived from halal sources.[19] Islamic companies are encouraged to prioritize investments that align with ethical standards and contribute to societal welfare.[20] Therefore, while profitability is crucial, the decision to distribute dividends must also consider the ethical implications of the sources of profit and the potential impact on community welfare.[21] This alignment with Shariah principles may influence how companies approach dividend distribution, even in the face of high profitability.[22]

Effect of Liquidity on *Dividend Payout Ratio*

The t-test result of 0.11 < 1.8946 indicates that liquidity, measured by the current ratio, has no significant effect on the dividend payout ratio of telecommunications companies listed on the Indonesian Sharia Stock Index for 2021-2023. This aligns with Wahyuni[23] and Gultom,[24] who found that liquidity does not influence dividend distribution decisions. Liquidity primarily reflects a company's ability to meet short-term obligations and fund operations.

However, this study reveals that the level of liquidity of the company does not directly affect the amount of dividends distributed. While companies with high liquidity have the

[16] Heliani and others.

[17] Nina Andriany Nasution, Saparuddin Siregar, and Kamilah Kamilah, 'The Effect Of Intellectual Capital, Profit Sharing Ratio And Financing To Deposit Ratio On The Financial Performance Of Sharia Banks', *Amwaluna: Jurnal Ekonomi Dan Keuangan Syariah*, 7.1 (2023), doi:10.29313/amwaluna.v7i1.12882.

[18] Susana Damayanti and Fatchan Achyani, 'Analisis Pengaruh Investasi, Likuiditas, Profitabilitas, Pertumbuhan Perusahaan Dan Ukuran Perusahaan Terhadap Kebijakan Deviden Payout Ratio (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di BEJ)', *Riset Akuntansi Dan Keuangan Indonesia*, 5.1 (2017), doi:10.23917/reaksi.v5i1.3702.

[19] Maria Bhatti, 'Managing Shariah Non-Compliance Risk via Islamic Dispute Resolution', *Journal of Risk and Financial Management*, 2019, doi:10.3390/jrfm13010002.

[20] Saadiah Mohamad and Nur Amirah Borhan, 'Islamic Finance and Social Sustainability: Parameters for Developing a Model for Social Impact Measurement', *Malaysian Journal of Sustainable Environment*, 2017, doi:10.24191/myse.v3i2.5596.

[21] Rihab Grassa, 'Shariah Supervisory Systems in Islamic Finance Institutions Across the OIC Member Countries', *Journal of Financial Regulation and Compliance*, 2015, doi:10.1108/jfrc-02-2014-0011.

[22] 'Competency of Shariah Auditors in Islamic Banking Institutions: Challenges and Pragmatic Solution', *International Journal of Islamic Economics and Governance*, 2022, doi:10.58932/muld0015.

[23] Wahyuni.

[24] Gultom and Lubis.

ability to pay out dividends, this is not always the case. Companies often use liquidity for investment purposes, such as purchasing assets or funding operations, rather than distributing it as dividends. Residual dividend theory asserts that companies will only pay dividends if their profits are not used for investment.[25] This is done for the development of the company.

In the context of Islamic finance, liquidity management must align with Shariah principles. Shariah-compliant companies not only need to ensure they can meet their short-term obligations but also should maintain cash reserves for Zakat and other social responsibilities.[26] This means that the management of liquidity in Shariah-compliant firms includes an ethical dimension, emphasizing the importance of using available funds in a way that benefits both the company and the community.[27] Therefore, even if a company has high liquidity, its decision on dividend distribution may still reflect its commitment to ethical business practices, ensuring that funds are allocated in accordance with Shariah principles.[28]

Effect of Leverage on *Dividend Payout Ratio*

The t-test result of 4.45 > 1.8946 provides significant evidence that leverage, measured by the debt-equity ratio (DER), affects the Dividend Payout Ratio (DPR). This finding reveals a negative relationship, indicating that higher leverage results in a lower dividend payout ratio, consistent with Puspitasari and Darsono.[29]

The implication is that the lower the DER (Debt to Equity Ratio), the more likely the company is to allocate higher dividends, which gives a positive signal about the company's dividend policy. The use of debt as a source of funding forces companies to prioritize debt and interest payments, which reduces the availability of funds for dividend distribution to shareholders. Therefore, the higher the DER (Debt to Equity Ratio), the smaller the dividends that will be distributed.[30]

In the context of Islamic finance, the concept of leverage is closely tied to the prohibition of riba (interest),[31] which is strictly forbidden. Companies listed on the Indonesian Sharia Stock Index (ISSI) must seek alternative financing methods that comply with Shariah principles, such as profit-and-loss sharing models (Mudarabah or Musharakah) or interest-free loans (Qard Hasan).[32] The reliance on conventional interest-bearing debt can place these companies in a difficult position regarding their dividend policies, as they must balance the need for funding with the requirement to avoid riba.

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25 Haroon Hussain and others, 'Life Cycle Theory of Dividends: A Review of Literature', *International Journal of Business and Tehnopreneurship*, 8.1 (2018).

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29 Novia Ayu Puspitasari and Darsono, 'Faktor-Faktor Yang Berpengaruh Terhadap Kebijakan Dividen', *Program*, 3.2 (2014).

30 Puspitasari and Darsono.

31 Mahmoud Khalid Almsafir and Ayman Abdalmajeed Alsmadi, 'Murabahah Versus Interest Rate, the Equilibrium Relationship with Macroeconomic Variables in Jordanian Economy: An ARDL Approach', *Procedia - Social and Behavioral Sciences*, 129 (2014), pp. 349–57, doi:10.1016/j.sbspro.2014.03.687.

32 Muhamad Nafik Hadi Ryandono, Kumara Adji Kusuma, and Ari Prasetyo, 'The Foundation of a Fair Mudarabah Profit Sharing Ratio: A Case Study of Islamic Banks in Indonesia', *Journal of Asian Finance, Economics and Business*, 8.4 (2021), pp. 0329 – 0337, doi:10.13106/jafeb.2021.vol8.no4.0329.

This study highlights the necessity for ISSI companies to manage their leverage in a way that aligns with Islamic law. By doing so, they not only comply with Shariah principles but also potentially improve their financial health, allowing for more sustainable dividend distribution in the long term. The commitment to avoiding riba may lead to more prudent financial practices, which could ultimately enhance shareholder value while adhering to ethical standards.

The Effect of *BI 7 Days Repo Rate* on *Dividend Payout Ratio*

The t-test result of 1.02 < 1.8946 shows that the BI 7 Days Repo Rate has no significant effect on the Dividend Payout Ratio (DPR) for telecommunication companies in the ISSI from 2021-2023. This contradicts financial theories like the Cost of Capital theory, which suggests lower interest rates should lead to higher dividends. This is based on the assumption that a lower cost of capital can increase net profits and, ultimately, allow companies to distribute more earnings to shareholders as dividends. However, consistent with Romus[33] and Chandra.[34]

The findings of this study indicate that in the context of the Indonesian capital market, interest rates (BI 7 Days Repo Rate) do not directly influence firms' decision to pay out larger dividends. Corporate financial managers may have a more complex strategy in determining their dividend policy, which involves considerations beyond just a low cost of capital.

Shariah-compliant firms often utilize alternative funding sources, such as Sukuk (Islamic bonds), which do not involve interest payments.[35] Consequently, the impact of the BI 7 Days Repo Rate may be less pronounced for these firms compared to conventional companies. Moreover, dividend decisions in Islamic companies are frequently guided by a commitment to community welfare and social responsibility, making ethical considerations a critical factor in their financial strategies.[36] This may result in a preference for reinvesting profits in socially beneficial projects rather than distributing dividends, especially in periods of economic uncertainty.

Conclusion

This study shows that leverage has a negative and significant effect on the dividend payout ratio of telecommunication subsector companies listed on the Indonesian Sharia Stock Index (ISSI) during 2021-2023, while profitability, liquidity, and the BI 7 Days Repo Rate have no significant effect on the dividend payout ratio. The findings highlight the critical role of managing leverage within the context of Shariah compliance, emphasizing that Islamic companies must navigate their financial strategies while adhering to Islamic principles.

Although this research provides valuable insights, there are some limitations. Firstly,

[33] Masteven Romus and others, 'Selected Firms Environmental Variables: Macroeconomic Variables, Performance and Dividend Policy Analysis', in *IOP Conference Series: Earth and Environmental Science*, 2020, CDLXIX, doi:10.1088/1755-1315/469/1/012047.

[34] Ade Chandra, Yulia Efni, and Emrinaldi, 'Analisis Pengaruh Fundamental Dan Makro Ekonomi Terhadap Kebijakan Dividen Dengan Return On Asset Sebagai Variabel Intervening Pada Perusahaan Manfaktur Yang Terdaftar Di Bursa Efek Indonesia Tahun 2012-2015', Jurnal Tepak Manajemen Bisnis, 10.2 (2018).

[35] A.-N. Ali Farah, A Avdukic, and F Khaleel, *When It Comes to Risk, Is Sukuk Better Than Conventional Bonds? A Comparative Study of NASDAQ Securities, Wealth Management and Investment in Islamic Settings: Opportunities and Challenges* (Springer Nature, 2022), doi:10.1007/978-981-19-3686-9_17.

[36] Nourhen Sallemi and Ghazi Zouari, 'Shariah Board and Takaful Performance: Mediating Role of Corporate Social Responsibility', *International Review of Economics*, 71.2 (2024), pp. 175 – 204, doi:10.1007/s12232-023-00439-2.

the sample only includes four telecommunication companies listed on the ISSI during 2021-2023. Second, this study only considers companies that pay dividends every year within that period. Third, the independent variables studied are limited to internal factors such as Return on Equity, Current Ratio, Debt to Equity Ratio, and monetary factors, namely the BI 7 Days Repo Rate. For future research, it is recommended to use a broader sample or explore other sectors, extend the research period, and incorporate additional variables such as Return on Assets, Quick Ratio, Cash Ratio, and Tax Rate. Additionally, examining the effects of Shariah compliance on financial decision-making and dividend policies could provide deeper insights.

This research has important implications for telecommunication issuers in formulating dividend policy. Dividend policy must consider influencing factors, especially leverage (Debt to Equity Ratio). Companies can increase the dividend payout ratio by reducing leverage, which in turn will enhance shareholder welfare. For investors, this study provides empirical evidence on the factors that influence the dividend payout ratio, including Return on Equity, Current Ratio, Debt to Equity Ratio, and the BI 7 Days Repo Rate. Lower leverage can serve as an indicator for investors to select companies with the potential for larger dividend payouts.

Furthermore, for Shariah-compliant companies, it is crucial to integrate ethical considerations and Sharia principles into their dividend policies. By doing so, companies not only enhance their financial performance but also fulfill their obligations to the community and stakeholders in accordance with Islamic teachings. This alignment can foster greater trust and support from investors who prioritize ethical investments.

Credit Authorship Contribution

Shauqi Aditya Khalis: Conceptualization, Methodology, Investigation, Writing - Original Draft, and Supervision. Muhammad Ikhsan Harahap: Methodology, Data Collection, and Writing - Review & Editing. Atika: Formal Analysis, Resources, and Writing - Review & Editing..

Declaration of Competing Interest

The authors declare no competing interests related to this study. No financial or personal conflicts of interest are present.

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