INVESTMENT OPPORTUNITIES, FUNDING, AND DIVIDEND POLICY: EVIDENCE FROM BIG CAP COMPANIES IN ASEAN EMERGING MARKET COUNTRIES

(Undergraduate Thesis)

By

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ABSTRACT

INVESTMENT OPPORTUNITIES, FUNDING, AND DIVIDEND POLICY: EVIDENCE FROM BIG CAP COMPANIES IN ASEAN EMERGING MARKET COUNTRIES

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The aims of this research were to investigate the negative effect of investment opportunities and debt on dividend payout policy of big cap companies in ASEAN emerging market countries. The period of data is from 2014-2018. Population of this research was the big cap company included in MSCI Emerging Market Countries. Stratified random sampling was used to determine the sample. The total sample was 42 companies. The analytical tool used was multiple linear regression analysis. The result of this research shows that investment opportunities has a significant positive effect on dividend payout policy of big cap companies in ASEAN emerging market countries It prove that investment opportunity of big cap companies in ASEAN emerging market countries is a determinant for the company to make a dividend payout policy, and also not all the company that maximize the investment opportunity set will distribute lower dividend. The result also shows that debt has a significant negative effect on dividend payout policy of big cap companies in ASEAN emerging market countries. It prove that big cap companies in ASEAN emerging market countries with high debt tend to distribute lower dividend, because the company need to hold some cash to accommodate all the risk and additional expenses as a consequence for having such a high debt.

Key words: Investment Opportunity, Funding, Debt, Dividend Policy, DPR, DER, MVE/BVE, ROA

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Researcher

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Undergraduate Thesis

As One of Requirements to Achieve
BACHELOR OF ECONOMICS

In

Management Department
Faculty of Economics and Business University of Lampung

FACULTY OF ECONOMICS AND BUSINESS
THE UNIVERSITY OF LAMPUNG
BANDAR LAMPUNG
2019

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BIOGRAPHY

The researcher was born in Bandar Jaya, on September 13th, 1997, as the first child of three siblings of Mr. Samuel Wahyuratmoko, S.ST., M.T., and Mrs. Dwi Rohani, A.Md.Keb. and sister of Niko Albertvito and Yoel Kristriadi.

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In 2015, the researcher completed Senior High School (SMA) in SMA Fransiskus Bandar Lampung. In 2015, the researcher was accepted in Faculty of Economic and Business, University of Lampung, majoring in Financial Management and took international class.

MOTTO

“Therefore do not worry about tomorrow, for tomorrow will worry about itself. Each day has enough trouble of its own”

– Matthew 6: 34

“Even you’re on the right track, you’ll get run over if you just sit there”

- Will Rogers

“The universe doesn’t give what you ask for with your thoughts – it gives you what you demand with your actions”

- **Dr. Steve Maraboli**

DEDICATIONS

Praise and gratitude toward My Lord, I'm so grateful for His blessing, thus this undergraduate thesis can be completed.

This undergraduate thesis is dedicated to the most important people in my life:

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The researcher realized that the writing of this undergraduate thesis is still far from perfect. Hopefully, this undergraduate thesis would give a positive contribution for those who are interested to conduct the future research.

Bandar Lampung, August 5th 2019
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I. INTRODUCTION

A. Background

An investment is an asset or item acquired with the goal of generating income or appreciation. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit. The term "investment" can refer to any mechanism used for generating future income. In the financial sense, this includes the purchase of bonds, stocks or real estate property. Additionally, a constructed building or other facility used to produce goods can be seen as an investment. The production of goods required to produce other goods may also be seen as investing.

In capital market, shares can be defined as a statement or ownership of a person or entity in a company or limited liability company. By owning shares, an investor will get benefit from capital gains, bonus shares and dividends. Dividends are defined as payments to shareholders by the company for the profits earned. Dividend policy is the determination of the amount of dividend payments by the company and the retained earnings for the benefit of the company. The profit that is shared with the shareholders is the profit after the company fulfills its fixed obligations, namely interest and taxes. Therefore dividend policy is an inseparable part of the company's funding decision (Martono, 2013). The company's dividend policy is reflected in its dividend payout ratio, namely the presentation of profits distributed in the form of cash dividends, meaning that the size of the dividend payout ratio affects the investment decisions of shareholders and on the other hand affects the financial condition of the company (Yulia, 2017).

Dividend is one of the investment attractiveness for investors in the primary market and secondary market (Marpaung et al.,2009). After making profit, the company must decide what to do with the money it generates. The company can make the decision namely; expanding or sharing the profits with the shareholders as dividends, in which these two decisions are the opposite objective. Therefore, dividend policy becomes important because the company must make decisions related to investment activities appropriately for the maximization of profit and value of the company. The dividend payout is largely influenced by the behavior of investors who prefer high dividends resulting in lower retained earnings. Investors assume that the current received dividend becomes more valuable compared to the later acquired capital gains. On the other hand, the management need to holds cash in order to pay off debts or increase investment. Therefore, management needs to create an optimal dividend policy to maximize corporate value (Andaswari et al, 2017).

Although comprehensive hypothetical and experiential studies to explain the dividend policy were made by many researchers but still it is a puzzle in the area of finance (Black, 1976 in Hussain et al., 2013). Every firm wants to maximize its market value, for that the management have to look the investment, financing and earning distribution decisions (the dividend policy). So the awareness about the dividend determinants has the strong impact on the value of the firm (Hussain et al., 2013).

In fact, there is trade-off between decision to share the dividend and the decision of investment and also corporate financing. If the firm decided to share a high amount of dividend, it means the firm has less money to do an investment. The firm want to please the investor by giving them the dividend. In the other hand, firm need to do the investment, because it is very important. By doing an investment, it give the firm a possibility to earn profit in the future. It becomes very important, because the money that firm can get it is not just from their profit, but also from the investment activities. The firm can't just think about the welfare of their investors, the firm must consider about the sustainability of the firm itself, in term of doing an investment activities. Firm must consider two parties in term of making a decision, whether they have to share the big amount of dividend or prioritize the money for investment activities. The success of investment indirectly can affect the investors. It also worth the investor a benefit because the firm become more success.

Based on this explanation, even though the firm need to give the investors a dividend because it can attract the investors, still there is a possibility that investor agree for the firm to do an investment, it's depend on the perspective of the investor itself. Existing literature suggests a relationship between investment opportunities and dividend policy. Smith and Watts (1992) in Abor (2010) argue that firms with high investment opportunity set are likely to pursue a low dividend payout policy, since dividends and investment represent competing potential uses of a firm's cash resources. This issue becomes very interesting, supported by the existing literature. Even there are so many studies about this, still there is no a clear picture about dividend. Attention of empirical research has been at ascertaining the relationship between investment opportunities, corporate financing and dividend payout (Pruitt and Gitman, 1991; Aivazian and Booth, 2003 in Abor, 2010). There are a number of factors affecting the dividend policy including leverage, firm size, investment opportunities cash flow, profitability, sales growth, risk and agency cost (Rozeff, 1982; Lloyd et al., 1985; Collins et al., 1996; Ahmad, 2009 in Hussain, 2013). The size of firm is a strong predictor of the dividend policy in many earlier researchers like Afza and Hammad (2010 in Hussain, 2013) that verify the size as determinant of the dividend with the dividend payout. The findings of the earlier studies suggesting that investment, financing, and dividend policy are related (Grabowski and Mueller, 1972; McCabe, 1979; Anderson, 1983 in Abor, 2010). The main factors that determine the amount of cash dividends is the earnings of the corporation in that year (Adaoglu, 2000).

The finding is supported by the result of research that conducted by Abor (2010) and also Hussain (2013). Research that conducted by Abor (2010) find that the firm with high investment potentials will pursue very low dividend payout policy. Hussain (2013) also stated that relationship between investment opportunities and dividend policy is found negative. Firm size also has a positive and significant effect towards the dividend policy. The other research that support the relationship between funding, dividend and IOS is the research that conducted by Herdinata (2009). The findings stated that firm with a high growth opportunity tend to give a lower dividend, because that kind of firm need the money to financed their potential investment. He also stated (Herdinata, 2009) that the firm with a high growth opportunity tends to have a higher debt to financed their potential investment, because their internal funding can't cover the company needs. Even though there is an opposite result about this issue, another research support the positive relationship between IOS and dividend policy (Andaswari, 2017). Based on the research of Marpaung (2009), he found that IOS using the market to book ratio have positive impact on dividend policy but IOS using sales growth proxy has no impact on dividend policy.

Dividend policy has brought about an international perspective of theoretical issues on dividends (La Porta et al., 2000; Denis and Osoboc, 2008; Abor and Bokpin, 2010 in Subramanian et al., 2011). Emerging Markets (EM) add more pieces to the 'dividend puzzle' and have recently attracted research trying to explain the dividend policy behavior of corporations operating in these markets (Glen et al., 1995 in Adaoglu, 2000). As emerging market get a bigger portion of global equity investments, international investors are more concerned with the dividend policy behavior of emerging market corporations (Adaoglu, 2000). An important body of literature examined dividend policies in developed capital markets – mainly the USA (e.g. Jensen and Meckling, 1976; Rozeff, 1982; Easterbrook, 1984 in Abdelsalam et al., 2008).

However, relatively few empirical studies have addressed the determinants of dividends in emerging capital markets (Smith and Watts, 1992; Adaoglu, 2000 in

Abdelsalam et al., 2008) especially in southeast Asian countries which usually called Association of Southeast Asian Nations (ASEAN). Yet the sorts of firm and market characteristics that may influence dividend policy may in fact be more likely to be present in developing markets in an exaggerated fashion than in developed markets (Al-Malkawi, 2007). An increasing volume of literature (Glen et al., 1995; Adaoglu, 2000 in Abdelsalam, 2008) is suggesting significant differences in dividend policy behavior between developed countries and developing countries. Dividend policy behavior of corporations operating in EM is significantly different from widely accepted dividend policy behavior of corporations operating in developed market. Unlike the empirical result supporting the stable dividend policy behavior in developed market, the empirical result show that the dividend behavior in EM tend to follow unstable cash dividend policies (Adaoglu, 2000). Most of these studies tend to focus on developed markets. This present study contributes to the extant literature by focusing on emerging markets.

Figure 1.1 will help us to see the trailing correlation between Emerging Market and world. The Morgan Stanley Capital Market Index (MSCI) World Index offers a broad global equity benchmark without emerging markets exposure. It represents large and mid-cap equity performance across 23 developed markets countries. The MSCI Emerging Markets Index was launched over 25 years ago and is designed to measure the equity market performance of the emerging markets. Today, Emerging Markets correlation with the Developed Markets is, for some people, surprisingly high. For many years, people saw the Emerging Markets as an uncorrelated source of growth in their equity portfolio – completely different from their Developed Markets equity allocation. But following the Asian crisis in 97/98, it shows that the Developed and Emerging Markets moving much more closely together. The Emerging Markets still outpace the Developed Markets in terms of economic growth and that should continue to translate into higher equity returns, but there is no longer this uncorrelated source of growth. The figure below show the trailing correlation between Emerging Market and World. Where it show us in a 1 year form and also 3 year form. (MSCI Emerging Markets Views)

Figure 1.1 12M Trailing Correlation (EM and World)

Source: MSCI Emerging Markets Views

Figure 1.2 shows the annualized dividend growth from MSCI Emerging Market, MSCI World and MSCI Europe, Australasia, and the Far East (EAFE). The MSCI EAFE Index represents developed markets around the world, excluding the US and Canada.

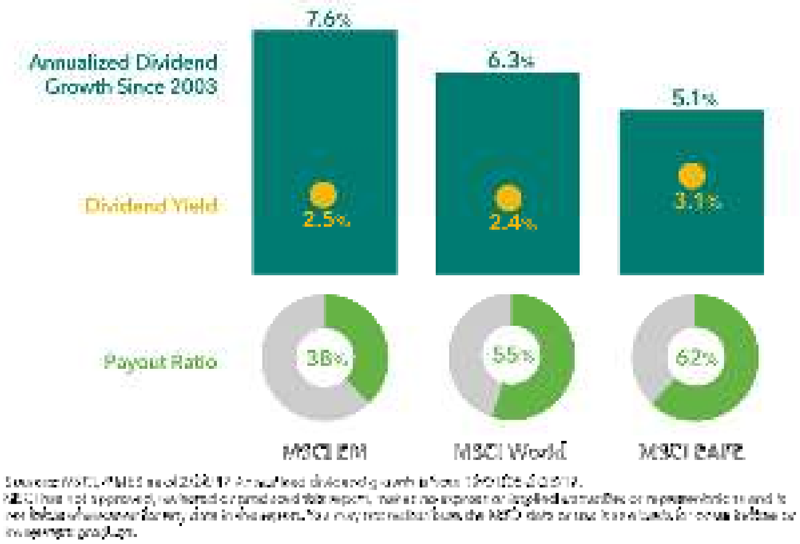

Figure 1.2 Annualized Dividend Growth

Source: Morgan Stanley Capital Market Index

When considering reasons to invest in emerging markets, dividends may not be near the top of the list — but perhaps they should be. Since 2003, emerging markets have grown dividends by an average of 7.6% per year. This is faster growth than in developed markets (6.3%), especially countries within the MSCI EAFE Index (5.1%). Relative to the rest of the world, emerging markets payout ratios are low, so there may be more room for growth as earnings rise.

Author want to concern of this issue in emerging markets, especially in ASEAN countries. Little is, however, known about how investment opportunities and corporate finance influence dividend payout policy of emerging markets. An important point to note is that what attracts people to the Emerging Markets is that they are dynamic. We can't predict what's going to happen in the EM – what we aim to do is to keep the index as dynamic as possible so that it reflects the EM opportunity set.

Firms in emerging markets tend to exhibit different dividend behavior from those of developed markets like the US. This may be a result of the differences in levels of efficiency and institutional arrangements between developed markets and emerging markets (Abor, 2010). The market is said to be efficient if it meets two criteria, namely the stock price reflects all relevant information at that time and because information spreads evenly then the price reaction to new information occurs instantly because all players on the market have enough anticipation (Hendrawaty, 2007). The factors that affect dividend policy in developed stock markets seem to apply for this emerging market, but often in different ways and on a different scale (Al-Malkawi, 2007). There is a differences of developed and emerging market when determine their dividend behavior. In term of emerging market, especially in ASEAN, the existing literature about this issue is just few (Abdelsalam, 2008; Abor, 2010; Adaoglu, 2000).

Most of the existing literature, explained this issue using the sample from just one emerging market country. From the literature, stated that factors can affect the dividend behavior of an emerging markets county in a different way and scale, compared by developed country. There is a possibility, that dividend behavior in one emerging market country as a sample will be different compared by the research that use more than one emerging market county as a sample. It is, therefore, useful to improve our understanding of the issue from an emerging market perspective. Another reason is because emerging markets have a big portion of global equity investment. As emerging markets get a bigger portion of global investments, international investors are more concerned with the dividend policy behavior of emerging markets corporations (Adaoglu, 2000).

Some of investors look at the firm based on it shared dividend. Based on a certain theory, dividend help the firm to determine it's firm value. But then how can the firm can do all things that matters for the firm itself, but there is a trade-off if they doing those kind of action (investment and corporate financing). The logical thinking is considering the theory of dividend. The residual theory of dividend policy holds that the firm will only pay dividend from residual earnings, that is dividends should be paid only if funds remain after the optimum level of capital expenditures is incurred i.e. all suitable investment opportunities have been financed. With a residual dividend policy, the primary focus of the firm is on investments and hence dividend policy is a passive decision variable. The value of a firm is a direct function of its investment decisions thus making dividend policy irrelevant. Under this policy, dividends are paid out of earnings not needed to finance new acceptable capital projects. The dividends will fluctuate depending on investment opportunities available to the company. Under this theory, a negative relationship is expected between dividend payout and external financing costs. The residual dividend theory also postulates that a firm will pay dividends only when it's internally generated funds are not completely used up for investments purposes. In additions, firms experiencing high growth rates generally have large investments requirements. (Alli, 1993)

Based on the explanation above, the purpose of this research is to examine the effects of investment opportunity set and corporate finance on dividend payout evidence from big cap companies in ASEAN emerging market countries. Different from the existing literature, this research will focus on the big cap company as a subject. The scope of this research is international. Author considered big cap (where 'cap' represent capitalization) company because returns on big cap stocks are substantially driven by common global factors (Eun,2008). To determine the size category of the company, this research pays attention to its capitalization. Company size divided into big and small based on the median of market capitalization calculation. The period of data is from 2014-2018.

B. Problem Formulation

Based on the background above, then the authors formulate problem as follows:

1. Does investment opportunities set has negative effect on dividend payout policy of big cap companies in ASEAN emerging market countries ?
2. Does debt has negative effect on dividend payout policy of big cap companies in ASEAN emerging market countries ?

C. Purpose of The Research

The general purpose of this research are :

1. To investigate the negative effect of investment opportunities on dividend payout policy of big cap companies in ASEAN emerging market countries.
2. To investigate the negative effect of debt (funding) on dividend payout policy of big cap companies in ASEAN emerging market countries.

D. Research Benefits

The results of this study are expected to provide a benefits :

1. Theoretical benefits
   - Academics can take advantage of this research as a real case that can be used in financial management research and can complement other studies and can develop further research
2. Practical benefits
   - Analysts and investors in stock market will be able to get a clear picture of the effect of investment opportunities in emerging market country, so that it can help them to make a right decision in doing the investment.
   - Companies whose shares are incorporated in big cap companies in ASEAN emerging market countries can evaluate and provide input to company management on alternatives a combination of investment opportunities set proxies that can be used to predict growth of the company in the future.

II. LITERATURE REVIEW

A. Theoretical Basis

1. Dividend Policy Theory

Dividend is the company's net profit that is distributed to the owners of capital or shareholders as a consequence of their capital participation in the company concerned. The dividend policy is the decision whether the profits earned by the company will be distributed to the shareholders as dividends or to be retained in the form of retained earnings for future investment financing. The size of the dividend will depend on the size of the profits obtained and the proportion of profits to be shared with shareholders. The dividend-sharing policy can be divided into two, which are partially distributed in dividends, and some are set aside retained earnings to finance investment in the future. If the company chooses to share profits as dividends, it will reduce the retained earnings and further reduce the total source of internal funds. Conversely, if the company chooses to hold the profits obtained, then the ability to form internal funds will be even greater (Sartono, 2001).

Some relevant theories in dividend policy are smoothing theory, clientele effect theory, tax preference theory, dividend irrelevance theory, bird in the hand theory, and residual theory of dividend (Manurung, 2009).

- Residual Theory of Dividends (The remaining dividend theory)

The grand theory of this research is residual theory of dividends (The remaining dividend theory). The theory suggests that the dividend paid by a firm should be viewed as a residual – the amount left over after all acceptable investment opportunities have been undertaken. But this theory is a bit more involved than this simple idea. The residual dividend model prescribes such a dividend policy. As the word "residual" suggests, dividends are what's left over after the firm has paid all its bills and undertaken all profitable (i.e., positive Net Present Value /NPV) investment projects.

This theory forces the firm to simultaneously consider its target capital structure when raising capital for investment. It forces the capital budgeting process to exhaust all positive NPV projects in arriving at its optimal investment spending plan. The method reinforces the idea that earnings that can't be put to work in profitable projects should rightly be returned to shareholders as dividends (barring the negatives associated with signaling effects). While firms should not use the residual model to set yearly dividend payouts, they can use the model to set the firm's long-run target payout ratio.

That is a theory that has to do with paying dividends with the remaining profit / cash in the company, because the theory of residual dividends is determined by:

a. Consider the opportunity of corporate investment,
b. Consider the target capital structure of the company to determine the amount of own capital needed for investment,
c. Utilizing retained earnings to meet the needs of their own capital as much as possible and,
d. Pay dividends only if there is profit remaining.

The residual dividend policy thus pays dividends only if there is profit / cash remaining after the company funds all investment proposals that have a positive NPV (Net Present Value). Under this theory, a negative relationship is expected between dividend payout and external financing costs. The residual dividend theory also postulates that a firm will pay dividends only when it's internally generated funds are not completely used up for investments purposes. In additions, firms experiencing high growth rates generally have large investments requirements (Alli, 1993).

- Smoothing Theory

This theory was developed by Lintner. This theory is related to dividend policy, because where the theory is in dividing the amount of dividends depends on current company profits / profits and previous year's dividends.

- Clientele Effect Theory

This theory was expressed by Black and Scholes. That is the theory relating to dividends, because this theory in the group (clientele) different shareholders will have different preferences for company dividend policy. For example, a group of investors with high tax rates will avoid dividends, because dividends have a higher tax rate than capital gains. According to this theory certain dividends will attract certain segments then the task of the company (financial management) is to serve the segment. Changing dividend policies will disrupt the client's effect, causing stock prices to change.

- Tax Preference Theory (Preferred tax theory)

That is the theory relating to taxes in dividends, because according to this theory investors do not really like dividends because dividends are not tax deductibles (reducing taxes). This theory refers to the imposition of taxes imposed on every investor who gets capital gains or dividends. In general, the amount of tax imposed is different, where taxes for dividends are greater than taxes for capital gains. In addition, a tax on new capital gains can be paid if the capital gains have been realized. Thus, if the investor does not immediately realize his capital gain, it means that the investor delays the payment of his tax. Of course the present value (PV) of the tax payment will decrease.

- Dividend Irrelevance Theory (Dividend theory is irrelevant)

That is a theory that has to do with dividend policy with stock market prices. This theory was developed by Miller and Modigliani (MM), explaining that in the world of taxes, transaction costs are not taken into account and in perfect market conditions, the dividend policy will not have any effect on the stock market price. According to MM, dividend policy is actually irrelevant. Supporting the irrelevance of dividend policy is MM. They argued that however the dividend policy did not affect share prices or prosperity of shareholders. MM further argues that the value of the company is determined by the earning power and assets of the company. Thus the value of the company is determined by investment decisions. Meanwhile the decision whether profits will be distributed in the form of dividends or will be retained does not affect the value of the company. MM states that dividends are not relevant based on the assumptions below:

1. Perfect capital markets, where investors have the same information, no transaction fees and no taxes.
2. Investors are rational.
3. All market participants are price-takers
4. There is an element of uncertainty for future income flows and investors have the same information.
5. Managers in making decisions about production and investment adjusted to the information.
6. To separate the effect of dividends and leverage, then all companies are considered to have the same dividend per share ratio.
7. Companies should have the same risk class.
8. Companies with current production have the same yield

- Bird in the Hand Theory

That is the theory relating to dividend payments, where the relation here is that dividend payments reduce uncertainty because dividends are accepted at this time, while capital gains are accepted in the future Gordon suggests a bird in the hand theory which says that getting a dividend (a bird in the hand) is more good than a bird in the bush because in the end the retained earnings may never be realized as a dividend in the future (it can fly away).

- Signaling Hypothesis Theory

There is empirical evidence that if there is an increase in dividends, it is often followed by an increase in stock prices. Conversely, a decrease in dividends generally causes stock prices to fall. This phenomenon can be considered as evidence that investors prefer dividends to capital gains.

But Modigliani and Miller argue that a dividend increase above is usually a "signal" to investors that management of the company predicts a good income in the future. Conversely, a decrease in dividends or an increase in dividends that are below the normal (usually) cost of investors is a signal that the company faces a difficult period in the future.

According to Djohanputro (2008) there are two forms of dividends that can be paid to shareholders, namely:

- Cash Dividend (Dividend cash)

  Cash dividends are dividends distributed in cash. Technically, the company divides cash dividends in the form of checks or account transfers. For public companies (companies that have gone public) in general, payments are made using checks, while for closed companies such as family companies payments are made using account transfers.
- Stock Dividend (Stock dividend)

  Share dividends are dividends distributed by companies in the form of new shares and not in the form of cash. Payment of dividends in the form of shares results in no money flowing out of the company, what happens is an increase in the number of shares held by shareholders.

There are another form of dividend policy, namely:

- Stock Split

  Stock split is, breaking up a sheet of shares into n shares. Price per new share after stock split is 1 / n from the previous price. Thus, the actual stock split does not add value to the company or in other words the capital structure does not change, and the sale value of ordinary shares, agio, and profit does not change. But the nominal price and shares changed proportionally.
- Repurchasing Stock

  As an alternative to providing dividends in the form of cash, companies can distribute income to shareholders by repurchasing company shares (repurchasing stock). The repurchased shares will be recorded as an estimate of the Treasury Stock. With part of the shares bought back, the number of shares outstanding will decrease
- Asset Dividends (Property Dividend)

  Dividends distributed in the form of goods or assets other than cash. This property dividend distributed is part of the assets that will not interfere with the survival of the company's business. And the goods can be shared equally among the shareholders.
- Debt Dividend (Scrip Dividend)

  Debt dividend is a written promise to pay a certain amount of cash dividends to shareholders in the future. This promise is generally in the form of a promissory note. This debt dividend can occur if the company's profit is sufficient but the company's cash balance is not enough to pay it.

- Liquidation Dividend

  Liquidation dividends are dividends that arise when the management of the board of directors wishes to liquidate their business and return all remaining net assets to shareholders in cash.

There are several factors that influence the dividend policy of a company (Brigham and Houston, 2001: 267), namely:

a. Company's liquidity position

This position is an important factor to consider before making a decision to determine the amount of dividends to be paid to shareholders. Since the dividend is cash outflow, the stronger the company's liquidity position on the funding outlook means the greater the company's ability to pay dividends or the higher dividend payout ratio (DPR) is distributed.

b. The need for funds to pay

If the company does the debt then to pay it off the company can provide its own funds derived from profits or pay off the debt that has matured by opening new debts. If the company applies debt repayment by using retained earnings means the company must hold most of its revenue. This means that the company must set a lower dividend.

c. Company growth rate

The faster the company's growth will be the greater the amount of funds to finance the growth of the company. The bigger the opportunity to make a profit, the greater part of the income of the funds held. This means the lower the DPR is distributed. However, if the funding needs are met by external funding sources then the parliament that is distributed may be higher.

d. Supervision of the company

There is a company policy that only expands from the source of internal funds alone, because if using the debt will increase the financial risk. Entrusting on internal expenditures in order to maintain control over the company would mean reducing the DPR.

2. Funding Policy

Christian (2007) in his paper described that, funding policy is a policy related to determining the source of funds to be used, determining the optimal balance of expenditure, and companies using sources of funds from within the company or will take funds from outside the company. One measure of company growth is indicated by the amount of investment. This will affect the funding policy made. Therefore, it is suspected that companies that have high growth potential have different funding policies than companies that have low growth potential.

Growing companies need large funds to finance their investments. The company must make a funding decision, where the company simply uses funds originating from within the company (in the form of retaining earnings) or taking funds from outside the company (in the form of debt and equity). Companies that have high investments will cause debt to be high. This happens because high debt is used to finance investment opportunities. This is in accordance with the statement by Fama (2000) in Christian (2009) that debt will usually increase when investment exceeds retained earnings and debt will decrease if investment is less than retained earnings.

The company's funding decision concerns the decision on the shape and composition of funding to be used by the company. After assessing the amount of funds required for an investment that is deemed feasible to be implemented, the next consideration is to determine from which funds will be used to finance the investment, whether financed from debt, equity, or a combination of both.

Company funding sources (Brigham and Hauston 2001: 202) include:

a. Source of Funds According to Origin

1) Internal Source

Funds originating from internal sources are funds or capital formed or produced in the company itself such as retained earnings and depreciation. The amount of retained earnings is influenced by the amount of profits earned during a certain period as well as dividend policies run by the company. While the amount of depreciation each year depends on the depreciation method used by the company concerned. Before depreciation is used to replace fixed assets that need to be replaced, depreciation may be used to fund the company even though it is limited until such time.

2) External Source

External sources are sources that come from outside the company. Funds originating from external sources are funds originating from creditors and owners, participants or internal shareholders. Funds or capital derived from the creditors is a debt to the company and capital derived from the creditor called foreign capital. The method of spending by using foreign capital is called foreign expenditure or debt-financing. Funds or capital derived from the owner, participant or partisan within the company are funds that will remain embedded within the company, and will become their own capital. The method of funding using funds derived from the owner or prospective owner is called own funding (equity financing). Thus, funds originating from external sources consist of foreign capital and own capital.

b. Source of Funds According to the Term

1) Short Term Funding Source

Short-term funding sources are a source of funds embedded within the company for a maximum of one year. There are several types of short-term funding sources that are often used by companies such as accrual accounts, accounts payable, bank loans, and others.

2) Long Term Funding Source

Long-term funding sources are sources of funds that are embedded within the company for more than 10 years. There are various types of long-term funding sources available to companies such as long term debt, preferred stock and common stock.

Long term debt (long term debt) is a form of agreement between the borrower and the creditor where the creditor is willing to provide a certain amount of loan and the borrower is willing to pay periodically covering interest and loan principal. This long-term debt can be obtained through banks, insurance companies or can also to pension funds. This long-term debt has three characteristics: fast, flexible and low cost. This is because these loans are negotiated directly between the borrower and the creditor. Administrative costs are relatively small, and approval is required with the supervision of the capital market as well as if the firm issues bonds. Examples of term debt include bank loans, bonds, unsecured debt, and long-term debts that can be traded.

The company's funding decision will directly involve a decision on the amount of debt to be used. If the inside source of the company is not good enough to finance all of the company's operational funding needs, the funding decisions sourced from outside the company become indispensable to the company by reasoning among others (Alwi 1994):

a. Funding needs can’t always be met from the growth of retained earning so that it is unable to form the necessary funding reserves.

b. The burden to be borne in the form of an interest rate on a loan that is not necessarily beneficial to the interests of its own capital
c. The sale of shares is not always profitable is due to the public perception or investment on the company's shares are less attractive.

Brigham and Houston (2001) provide an explanation that the large proportion of debt with own capital to fund the activities of the company is influenced by many factors. If the development cost for the sale of a common stock is greater than the cost of issuing a debt, it will encourage a fast-growing company to rely more on debt. But at the same time growing companies often face greater uncertainty, and when high-risk debt, companies tend to reduce the desire to use debt. If a company is forced to disconnect a good business opportunity because the funds are not available, it will reduce its long-term proficiency so that the company should always try to provide the necessary capital to support the company's brighter operation, the company can raise capital by selling shares, hard times, the capital suppliers will be willing to provide funds if the company gives them a secure position, and this means debt. Highly profitable companies usually have high rates of return allowing them to fund most of their funding needs with internally generated funds that increase the retained earnings to finance the company's operations.

B. Summary of Previous Research

In this section will be discussed on some previous research. The study is particularly concern to the relation between investment opportunity set and corporate finance with dividend policy of big cap companies in ASEAN emerging markets countries. There are several existing research that support this research. Author is conducting this research based on the earlier research as a base. The result from earlier research will help author to do this research. Some of these studies are:

Table 2.1 Summary of Previous Research

No	Authors	Dependent Variable	Independent Variable	Result
1	Andaswari (2017)	Dividend policy (DPR and DPS)	IOS (CAPBVA, EPS, and MMVABVA)	IOS has a positive and significant effect on the dividend policy of construction companies listed on IDX
2	Hussain (2013)	Dividend policy (dividend yield ratio)	IOS (MBR), financial leverage, and size	The relationship between the investment opportunity and dividend policy is found negative and significant, but the financial leverage is not significantly affecting the dividend policy although it is negatively related to dividend. Firm size is positively significant towards the dividend policy.
3	Subramaniam (2011)	Dividend payout ratio. Moderating variables are ownership structure consisting of	IOS (MBE)	More importantly this study focuses on ownership structures and documents the consistent strong support on the negative significant association between growth

		family control, government linked, and non-government linked companies.		opportunities and dividend payout for non-government linked companies only. This study found that, on the interaction between IOS and FLYC, the negative relationship between high growth firms and dividend payout is weaker for family controlled firms.
4	Abor (2010)	Dividend payout (ratio of dividend to capital)	IOS (Tobin's q) and Corporate finance (financial leverage, external finance, and debt maturity)	Firm with high investment potentials will pursue very low dividend payout policy. There is insignificant relationship between all measures corporate finance to dividend payout.
5	Herdinata (2009)	IOS	Dividend policy (DY) and funding policy (DER)	The empirical results showed that company having potency to grow high had higher debt and lower dividend payment than companies having potency to grow low
6	Marpaung (2009)	Dividend policy (DPR)	Profitability (ROA) and IOS (sales growth and MTBV)	The results state that profitability and market to book ratio have positive impact on dividend policy. Sales growth has no impact on dividend policy.

C. The Conceptual Framework

The dependent variable, dividend policy is defined as the dividend payout ratio (Andaswari, 2017). Dividend is total cash dividend paid to equity and preferred shareholders. The company's dividend policy is reflected in its dividend payout ratio (Yulia, 2017). Dividend payout ratios are found to be inversely related to the cost of external funds (equity and debt), expected investment outlays, and growth. This is consistent with the residual theory of dividends (Alli, 1993). The independent variables include investment opportunity set and corporate finance. We also control for profitability. In terms of the independent variables, Market value equity to book value equity is used as a proxy for investment opportunity set (Subramaniam, 2011; Herdinata, 2009). Investment opportunity set cannot be observed directly (latent) so that in their calculations using proxies (Kallapur and Trombley, 1999 in Hasnawati, 2005). The measures of corporate finance (funding) are using financial leverage represented by the ratio of debt to equity (Hussain,2013 ; Abor, 2010; Herdinata,2009). In terms of the control variables, profitability is measured as return on assets (Marpaung, 2009). Profitability is considered as the primary indicator of the firm's capacity to declare and pay dividends. Under the residual dividend theory, relationship is expected between dividend payout and external financing costs (Financial leverage). The residual dividend theory also postulates that a firm will pay dividends only when it's internally generated funds are not completely used up for investments purposes (Alli, 1993).

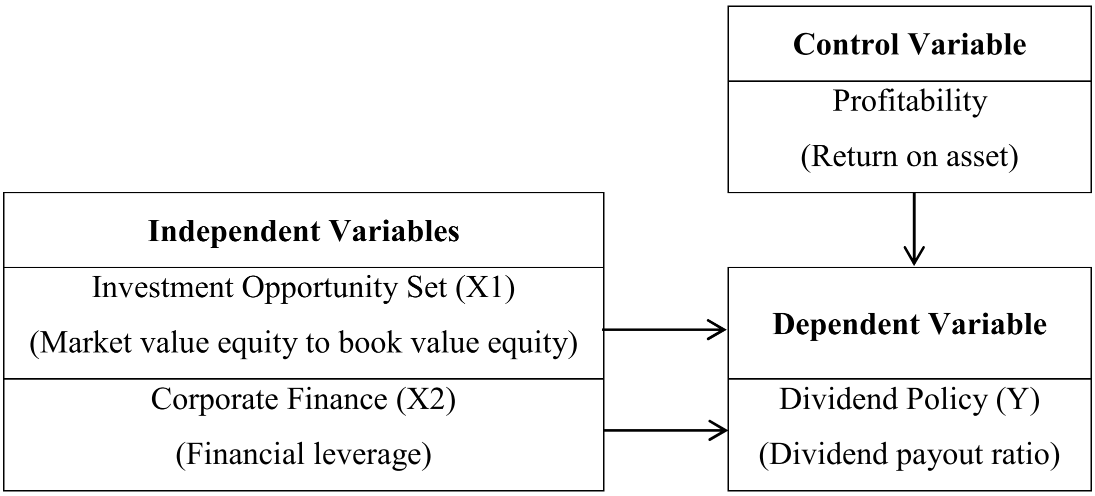

Figure 2.1 Conceptual Framework

D. Hypothesis Development

Based on literature review and conceptual framework, there are two hypothesis, they are:

1. Investment opportunities and dividend payout

This research use residual theory as the main base. This theory consider the dividend as a residual. Companies tend to focus on the potential investment to support company growth. After the company allocate the money to the investment with a positive NPV, if it's still left over, the will give it to the investors. Based on this theory, we can see that the relationship between investment and dividend is negative. Most of the result from the previous research is support this theory. The firm with a high investment will have a very low dividend payout policy (Abor, 2010). In his research, Abor (2010) stated that his findings supported by the existing empirical studies in this area, like the research by Subramaniam (2011). The result of Subramaniam (2011) and Herdinata (2009) found that there is a negative relationship between growth firms and dividend policy. The other research also state that dividend and IOS have a strong and negative relationship (Hussain, 2013). So, based on the explanation above, here is the first hypothesis:

H1 : Investment opportunity set has negative effect on dividend policy of big cap companies in ASEAN emerging market countries.

2. Corporate finance and dividend payout

Existing researches have suggested a relationship between choice of financing and firm value. The firms with high financial leverage and implied financial risk tend to avoid paying high dividends, so they can accommodate risk associated with the use of debt finance. Aivazian and Booth (2003) in Abor (2010) support the fact that financial constraints can affect dividend decisions, therefore, firms with relatively less debt have greater financial slack and are more likely to pay and maintain their dividends.

Herdinata (2009) stated that the firm with a high growth opportunity tends to have a higher debt to financed their potential investment, because their internal funding can’t cover the company needs and the firm with a high growth opportunity also tend to give a lower dividend, because that kind of firm need the money to financed their potential investment. The explanation above has a correlation with the residual theory of dividend. The company will share the dividend if it’s still left over, after the company use the company profit to investment and saving some money to accommodate the risk from debt. The relationship between debt/funding and dividend is negative. If the debt is high, off course the higher the risk. The company must have a higher amount of money to accommodate the risk, so that the dividend shared will lower. Based on the explanation above, here is the second hypothesis:

H2 : Debt has negative effect on dividend policy of big cap companies in ASEAN emerging market countries.

III. RESEARCH METHODOLOGY

A. Research Design

This type of research is a causal research. The causal research design is used to prove the relationship between cause and effect of several variables. Causal research usually uses an experimental method that is by controlling independent variables that will affect the dependent variable on the planned situation. The causal research in this study uses companies included in the big cap companies of the MSCI Emerging Market ASEAN Index with mathematical and statistical analysis to describe, explain, and make predictions based on secondary data that has been documented.

B. Population and Sample

Population is the whole group of people, events, or things that researchers want to investigate (Sekaran, 2007). The population in this study are all companies listing in emerging market exchanges in Southeast Asia for the period 2014-2018. Samples are part of a population that must have population characteristics and are in accordance with research objectives. Determination of the sample in this study will be conducted by stratified random sampling.

In term of determine the sample, author use the Morgan Stanley Capital International (MSCI) Emerging Market Index. The MSCI Emerging Markets Index is designed to represent the performance of large- and mid-cap securities in 24 Emerging Markets. The emerging markets are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. As of March 2018 it had more than 830 constituents and covered approximately 85% of the free float-adjusted market capitalization in each country.

So, the countries in ASEAN that is the samples are Indonesia, Malaysia, Philippines, and Thailand. From those 4 countries there are 131 companies that included in MSCI Emerging Market Index. There are 28 companies from Indonesia, 44 companies from Malaysia, 36 companies from Philippines, and 23 companies from Thailand. This research considered the big cap companies as samples based on the market capitalization median value (Rp 79.304.571.558.000) of all the samples. There are 66 companies as sample that fit with the big cap criteria from those 4 countries. There are 17 banks in the sample that must be disposed of. There are also 2 companies that had not conducted an IPO in 2014. As a result, the final numbers of samples are 42 companies. There are 8 companies from Indonesia, 9 companies from Philippines, 13 companies from Malaysia, and 12 companies from Thailand.

Sample size determined by Solvin formula (Sugiyono, 2011). The research uses the Solvin formula because in sampling, the number must be representative so that the results of the study can be generalized and the calculations also do not require a table of sample quantities, but can be done using simple formulas and calculations.

Here is the formula of Solvin: $n = \frac{N}{1+N\ (e)^2}$

Note :

n = Sample size or number of respondents

N = Population

e = Percentage of accuracy sampling errors that can still be tolerated; e = 5%

Here is the sample size calculation:

$$n = \frac{47}{1 + 47(0{,}05)^2} = 42{,}058$$

The result of sample size is 42 companies.

Table 3.1 List of Samples

No	Company Name	Code	Market Capitalization
1	PTT PCL	PTT	Rp 631.073.697.138.000
2	AIRPORTS OF THAILAND PCL	AOT	Rp 441.237.415.905.000
3	HM SAMPOERNA TBK	HMSP	Rp 440.845.511.451.000
4	TELEKOMUNIKASI INDONESIA TBK	TLKM	Rp 383.370.778.242.000
5	UNIVLEVER INDONESIA TBK	UNVR	Rp 381.690.750.000.000
6	SM INVESTMENTS CORP	SM	Rp 315.732.637.069.594
7	ASTRA INTERNATIONAL TBK	ASII	Rp 314.759.625.663.500
8	CP ALL PCL	CPALL	Rp 311.886.988.920.000

9	SM PRIME HOLDINGS INC	TENA	Rp 299.821.584.316.256
10	TENAGA NASIONAL BHD	SCC	Rp 262.633.456.567.223
11	SIAM CEMENT PC	SMPH	Rp 255.389.760.000.000
12	PETRONAS CHEMICALS GROUP BHD	PCGB	Rp 252.656.388.000.000
13	ADVANCED INFO SERVICE PCL	ADVANC	Rp 237.950.940.978.000
14	AYALA LAND INC	ALI	Rp 174.829.953.421.308
15	IHH HEALTHCARE BHD	IHHH	Rp 173.133.051.398.314
16	BANGKOK DUSIT MEDICAL SERVICES PCL	BDMS	Rp 171.682.713.567.000
17	AYALA CORP	AC	Rp 161.552.256.456.314
18	GUDANG GARAM	GGRM	Rp 161.046.165.600.000
19	CENTRAL PATTANA PUB PCL	CPN	Rp 152.278.849.800.000
20	MAXIS BHD	MXSC	Rp 152.166.483.970.721
21	PTT GLOBAL CHEMICAL PCL	PTTGC	Rp 145.870.622.928.000
22	AXIATA GROUP BHD	AXIA	Rp 134.951.921.201.977
23	JG SUMMIT HOLDINGS INC	JGS	Rp 128.446.870.101.570
24	PETRONAS GAS BHD	PGAS	Rp 124.301.842.826.616
25	CHAROEN POKPHAND INDONESIA TBK	CPIN	Rp 124.214.850.000.000
26	INDOFOOD CBP SUKSES MAKMUR TBK	ICBP	Rp 122.450.034.000.000
27	NESTLE MALAYSIA BHD	NESM	Rp 121.409.678.250.000
28	INDORAMA VENTURES	IVL	Rp 118.985.268.546.000
29	MANILA ELECTRIC COB	MER	Rp 113.671.105.359.572
30	MISC BHD	MISC	Rp 106.617.732.188.623
31	IOI CORPORATION BHD	IOIB	Rp 102.601.921.872.845
32	CHAROEN POKPHAND FOODS	CPF	Rp 100.953.038.070.000
33	GENTING BHD	GENT	Rp 99.679.574.681.606
34	UNITED TRACTORS TBK	UNTR	Rp 96.983.513.536.000
35	ABOITIZ EQUITY VENTURES CORP	AP	Rp 95.693.146.977.999
36	KUALA LUMPUR KEPONG BHD	KLKK	Rp 92.901.518.903.648
37	PETRONAS DAGANGAN BHD	PETR	Rp 92.788.628.833.732
38	HOME PRODUCT CENTER PCL	HMPRO	Rp 90.134.102.889.000
39	JOLLIBEE FOODS CORP	JFC	Rp 90.132.868.926.296
40	UNIVERSAL ROBINA CORP	URC	Rp 88.561.769.109.407
41	HAP SENG CONSOLIDATED BHD	HAPS	Rp 85.159.938.767.251
42	ENERGY ABSOLUTE PCL	EA	Rp 79.467.743.250.000

Source: data processed

The samples are included 4 countries which are Indonesia (Indonesia Stock Exchange), Philippines (Philippines Stock Exchange), Malaysia (Kuala Lumpur

Stock Exchange), and Thailand (Stock Exchange of Thailand). Here's the detail of each country's sample.

Table 3.2 Detail of Samples

NO.	COUNTRY	STOCK MARKET	CODE
1	INDONESIA	IDX	HMSP
2	INDONESIA	IDX	TLKM
3	INDONESIA	IDX	UNVR
4	INDONESIA	IDX	ASII
5	INDONESIA	IDX	GGRM
6	INDONESIA	IDX	CPIN
7	INDONESIA	IDX	ICBP
8	INDONESIA	IDX	UNTR
9	PHILIPPINES	PSE	SM
10	PHILIPPINES	PSE	SMPH
11	PHILIPPINES	PSE	ALI
12	PHILIPPINES	PSE	AC
13	PHILIPPINES	PSE	JGS
14	PHILIPPINES	PSE	MER
15	PHILIPPINES	PSE	AP
16	PHILIPPINES	PSE	JFC
17	PHILIPPINES	PSE	URC
18	MALAYSIA	KLSE	TENA
19	MALAYSIA	KLSE	PCGB
20	MALAYSIA	KLSE	IHHH
21	MALAYSIA	KLSE	MXSC
22	MALAYSIA	KLSE	AXIA
23	MALAYSIA	KLSE	PGAS
24	MALAYSIA	KLSE	NESM
25	MALAYSIA	KLSE	MISC
26	MALAYSIA	KLSE	IOIB
27	MALAYSIA	KLSE	GENT
28	MALAYSIA	KLSE	KLKK
29	MALAYSIA	KLSE	PETR
30	MALAYSIA	KLSE	HAPS
31	THAILAND	SET	PTT
32	THAILAND	SET	AOT
33	THAILAND	SET	CPALL
34	THAILAND	SET	SCC
35	THAILAND	SET	ADVANC

36	THAILAND	SET	BDMS
37	THAILAND	SET	CPN
38	THAILAND	SET	PTTGC
39	THAILAND	SET	IVL
40	THAILAND	SET	CPF
41	THAILAND	SET	HMPRO
42	THAILAND	SET	EA

Source: data processed

C. Data Collection

The type of data used in this study is secondary data, namely research data obtained indirectly through intermediaries (obtained and recorded by other parties). The data used in the study is quantitative data or data in the form of numbers that are processed using formulas. The data source used in this study is the financial statements of companies included in the big cap companies in MSCI Emerging ASEAN Market Index in the period 2014-2018.

The data collection method used in this study is the documentation method, the documentation method is to find data on things or variables in the form of notes, transcripts, books, newspapers, magazines, inscriptions, minutes of meetings, agendas and so on (Arikunto, 2002). Besides that, it also uses literature studies by collecting data, articles, journals, and other written sources related to research variables.

D. Operational Definition of Variables

Research variables are everything in the form of what is determined by researchers to be studied so that information can be obtained about it (Sugiyono, 2005). In this study there are two variables used, namely the independent variable or the independent variable which is then expressed by the symbol X and the dependent variable or non-independent variable which is then stated by the symbol Y. In this study the variables to be analyzed are:

1. Dependent Variable (Y)

The dependent variable is a variable that is influenced by independent variables. This study uses the dependent variable namely dividend policy. Dividend payout ratio is the dependent variable of the research. Payout ratio dividend is something that is determined by the company to pay dividends to shareholders every year based on the small earnings after tax and measured by the ratio scale (Andaswari, 2017).

Table 3.3 Dependent Variable (Y)

Dividend policy	$Dividend\ payout\ ratio = \dfrac{Dividend\ per\ share}{Earning\ per\ share}$	Andaswari, 2017

2. Independent Variable (X)

Independent variable is a variable that affects the magnitude of the dependent variable. The dependent variable in calculating dividend policy is the Investment opportunity set (X1) and corporate finance (funding) (X2). Investment Opportunity Set (IOS) is an illustration of the extent of investment in a company in the future. Investment opportunities cannot be directly observed so that in their calculations using proxies (Kallapur and Trombley, 1999 in Hasnawati, 2005).

Companies that have high growth tend to have the opportunity high investment too. This prompted the company to do a large amount of reinvestment and reduce rates payment of dividends to shareholders or not even pay at all (Pradana and Sanjaya, 2014). In this research the proxy of IOS is the market to book value of equity (MVE / BVE). Corporate finance (funding) represented by financial leverage. Leverage ratio or solvency ratio is a ratio used to measure the extent to which a company's assets are financed by debt, meaning how much the debt burden is borne by the company compared to its assets (Kasmir, 2010).

Table 3.4 Independent Variables (X)

IOS (X1)	$Market\ Value\ Equity\ to\ Book\ Value\ Equity = \frac{Outstanding\ share\ x\ Closing\ Stock\ Price}{Total\ Equity}$	Subramaniam, 2011 ; Herdinata, 2009
Corporate finance (funding) (X2)	$Financial\ leverage = \frac{Debt}{Equity}$	Hussain, 2013; Abor, 2010; Herdinata, 2009

3. Control variable

Control variables are variables that are controlled / made constant so that the influence of independent variables on the dependent variable cannot be influenced by external factors not examined. The control variables in this study are profitability. In the case of control variables, profitability is measured as return on assets. Profitability is management's ability to make a profit. In this study, researchers used Return on Assets (ROA) as a proxy to measure the level of profitability with a measurement scale in the form of a ratio. ROA will measure the company's ability to generate net income by utilizing company-owned assets (Ang in Pradana and Sanjaya, 2014). Profitability is considered a leading indicator of a company's capacity to declare and pay dividends.

Table 3.5 Control Variable

Profitability	$Return\ on\ asset = \frac{Earning\ after\ tax}{Total\ asset}$	Marpaung, 2009

E. Analysis Method

1. Descriptive Statistics Analysis

Descriptive statistics are used to briefly describe the variables in the study. In Ghozali (2007) it is stated that the analysis tools used in the descriptive statistical test include the maximum, minimum, average (mean) and standard deviation values. Descriptive statistics present numerical measures that are very important for sample data. This numerical measure is a form of simplifying data into a more concise and simple form which ultimately leads to an explanation and interpretation.

2. Classic Assumption Test

The classic assumption test is used to find out whether the results of multiple linear regression analysis used to analyze in this study are free from classic assumptions deviations which include normality, multicollinearity, autocorrelation and heteroscedasticity tests

- Normality test

  This test aims to determine whether the distribution is in the data already follows or approaches normal distribution. In testing a hypothesis, the data must be normally distributed. Winarno (2009) there are two ways to test normality in Eviews 9 software, namely by histogram and Jarque-Bera test. The smaller the probability value of Jarque-Bera statistics (close to 0.000), the model is not normal. If the Jarque-bera probability value is> alpha, the regression model is stated to meet the assumption of normality.

- Multicollinearity test

  The multicollinearity test aims to test whether the regression model found a correlation between independent variables. Good regression model should not have a correlation between independent variables. If the independent variable correlates with each other, then these variables are not orthogonal. Orthogonal variables are independent variables whose correlation value between each independent variable is zero. The use of bivariate correlation can be done to detect multicollinearity between independent variables with a tolerance standard of 0.8. If the correlation shows a value smaller than 0.8, it is assumed that these variables do not have a meaningful colinearity problem (Widarjono, 2013).

- Autocorrelation test

The autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding errors in period t and the disturbing errors in the t-1 period (before). If there is a correlation, then there is an autocorrelation problem. Autocorrelation arises because sequential observations over time are related to each other. This problem arises because the residuals are not free from one observation to another.

A good regression model is a regression that is free from autocorrelation. The Durbin Watson test is a way to detect autocorrelation, where multiple linear regression models are free from autocorrelation if the Durbin Watson calculated value is in the area of no positive and negative autocorrelation. The autocorrelation test of this study used the Durbin-Watson test (DW test) (Widarjono, 2013). The DW test is done by comparing the calculated DW value (d) with the values dL and dU in the Durbin-Watson table. Table 3.5 describes the rule of thumb of the DW test.

Table 3.6 Durbin Watson Statistic Test

d Statistic Value	Result
$0 < d < d L$	There's positive autocorrelation
$d L < d < d U$	Cannot be decided
$d U < d < 4 – d U$	There's no autocorrelation
$4 – d U < d < 4 – d L$	Cannot be decided
$4 – d L < d < 4$	There's negative autocorrelation

Source : Widarjono, 2013

Remarks: Values of d U and d L can be obtained from the Durbin Watson statistical table which depends on the number of observations and the number of variables that explain.

- Heteroscedasticity test

  Heteroscedasticity test aims to test whether in the regression model variances occur from residual inequalities, one observation to another observation. If the variant of the residual one observation to another observation remains, then it is called Homoscedasticity and if it is different it is called Heteroscedasticity. A good regression model is Homoscedasticity or Heteroscedasticity does not occur. If in a regression model there is a problem of heteroscedasticity, it will cause the variance value to be no longer minimum. This will result in a standard error that cannot be trusted so that the regression results from the model cannot be accounted for (Widarjono, 2013). To test the model whether there is heterocedasticity can use the White test. The White Test is done by looking at the Obs * R-squared value. Data is exposed to heteroscedasticity if all independent variables have Obs * R-squared or Chi-Square probability <alpha ($\alpha = 0.05$).

3. Panel Data Regression Analysis

This study uses multiple regression analysis, regression analysis aims to measure the strength of the relationship between two or more variables and shows the direction of the relationship between the independent variable and the dependent variable used in a study (Widarjono, 2013). The multiple linear regression model in this study was carried out by using analysis tools namely Eviews 9 software. Meanwhile, the regression models used are as follows :

$Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \mu$

Information:

Y = Dividend Payout Ratio (DPR)

α = constant

μ = standard error

$\beta 1$, $\beta 2$, $\beta 3$ = Regression coefficient

X1 = Investment opportunity set

X2 = Corporate finance

X3 = Control variable

This study uses panel data. Panel data is a combined data from cross section data and time series data (Widarjono, 2013). Regression with panel data is required to choose some of the most appropriate approach models to estimate panel data, namely the approach of the Common Effect, Fixed Effect, and Random Effect models. The explanation is as follows (Widarjono, 2013):

- Common Effect Model Approach

  The approach to the Common Effect model is the simplest approach to estimate panel data. The approach with the common effect model has a weakness, namely the incompatibility of the model with the real situation because of the assumption that behavior between individuals and the same period of time when in reality the condition of each object will be different from one another at a time (Widarjono, 2013).

- Model Fixed Effect approach

  The fixed effect model approach assumes the difference between objects even though using the same regression coefficient. Fixed effect here means that one object has a constant that remains large for various periods of time, thus with the regression coefficient (Widarjono, 2013).

- Random Effect Model Approach

  The random effect model approach is to overcome the weaknesses of the fixed effect model. This model is known as the generalized least square (GLS) model. The random effect model uses residuals that are thought to have a relationship between time and between objects. To analyze panel data using this model, there is one condition that must be met, namely cross-data objects greater than the number of coefficients (Widarjono, 2013).

4. Model Selection

Panel data regression processing must first choose the estimation model, namely common effects, fixed effects and random effects. Model selection is done by chow test and Hausman test, the explanation is as follows:

- Chow Test

  This test is used for the selection between the common effect model and the fixed effect model by looking at the results of F statistics (Widarjono, 2013). If the statistical significance value F is more than the value of the alpha, the chosen model is the common effect, but if the significance value of the F statistic is less than the alpha, the chosen model is the fixed effect.

- Hausman Test

  According to (Widarjono, 2013), to find out whether the Random effect model is better than the fixed effect model used the Hausman Test. The Hausman test is based on the Chi-Squares distribution. If the Chi-Squares statistic is greater than the alpha, the chosen model is Random Effect, but if the Chi-Squares statistic is smaller than the alpha, the chosen model is Fixed Effect.

5. Hypothesis Testing

Hypothesis testing in this study was carried out by t test. Before regressing, it is better to test the feasibility of the model first using the coefficient of determination and statistical test F. The coefficient of determination (R^2) can be seen in the R-square value of the Eviews 9. Regression results, the F test statistic can be seen in the F-Statistic value on the results regression Eviews 9. The t statistical test is used to find out how far the influence of the independent variables partially in explaining the dependent variable (Widarjono, 2013). In this t test the hypothesis is accepted if the probability value is less than alpha (P value $<\alpha$)

V. CONCLUSION AND SUGGESTION

A. Conclusion

The purpose of this research is to find out the effect of investment opportunity set and funding (debt) to dividend payout policy. According to the result and discussion of this research, found that investment opportunity has an insignificant effect to dividend payout policy and financial leverage has a negative significant effect to dividend payout policy. This research is using a quantitative method. Regarding to the method, it prove something as follows:

1. Hypothesis that state the investment opportunity set has negative effect on dividend policy of big cap companies in ASEAN emerging market countries is not supported. The result of this research shows that there’s insignificant influence between investment opportunity set and dividend policy. Based on this result, prove that investment opportunity of big cap companies in ASEAN emerging market countries is not a determinant for the company to make a dividend payout policy, and also not all the company that maximize the investment opportunity set will distribute lower dividend.
2. Hypothesis that state debt has negative effect on dividend policy of big cap companies in ASEAN emerging market countries is supported. The result of this research show that there’s a significant influence between debt to

dividend policy, although has a negative relationship. Based on this result, prove that big cap companies in ASEAN emerging market countries with high debt tend to distribute lower dividend, because the company need to hold some cash to accommodate all the risk and additional expenses as a consequence for having such a high debt. That condition, affected the amount of dividend shared to investors.

Some of research results support the logic residual theory of dividend. The argument is also supported by the result of the other researcher.

B. Suggestion

Regarding to the result of this research, there are some suggestion:

1. For investor

Investor need to analyze the crucial factor when doing an investment. Investor that interested in dividend must consider some factors. The factors are leverage and size. The level of leverage must be considered, because it relates to the risk that the company might face. Investor also has to see the size of company to know how it reacts to the high investment opportunity set. Based on this research, investor advised to adjust their preferences of alpha.

2. For further researcher

This research can be developed by adding other factors that might influence dividends. Moreover, it's better to use more than two variables when conduct a research so that the results of the calculations are more clear and accurate.

For further research on an international scale, it is recommended to consider the developed country as a sample or mixing between emerging and developed country. Consider the industry, a larger sample, and longer period. It's also better to look for additional theory that can perfectly fit with the research.

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