

The Impact Of Corporate Financial Performance On Dividend Cash During The Global Health Crisis

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Abstract

This study aims to examine the impact of corporate financial performance on dividend cash the global health crisis, the Covid 19 pandemic. As a sample, I employed 4969 firms listed on the India and Indonesia Stock Exchanges to represent emerging markets and London Stock Exchange to represent developed markets for the period 2019-2021. This study applied multivariate analysis to examine the hypotheses. The results show that dividend value decreased at the onset of the global crisis and increase during the year of the pandemic for both emerging markets and developed markets. For emerging markets, corporate financial performance effect dividend cash significantly, however, for the UK, the dividend payment is not determined by corporate financial performance during the crisis. Particularly, all samples, in emerging markets or developed market (the UK region) show the same results that bigger the size of companies, tend to pay more dividend cash during the Covid 19 pandemic in 2020 and 2021.

Keywords: Dividend cash, financial performance, emerging markets, global health crisis, the Covid 19 pandemic.



INTRODUCTION

This study aims to examine whether cash dividends during the global health crisis are affected by a company's financial performance. This study is inspired by the results of Henderson's research (2023) which indexed all dividend-paying companies around the world, known as the Global Dividend Index. The results of his study show that the value of dividends on net income distributed to shareholders of public companies in the world decreased sharply by 11.3% in 2020 due to the global health crisis, the Covid-19 pandemic. Henderson (2023) analyses the value of dividends by region. Emerging market regions experienced the smallest decline, 0.3%, nevertheless, the UK region suffered the largest decline, 39.3%, followed by Europe ex UK which underwent a larger decline, 31.9%, Asia Pacific ex Japan, 19.0%, Japan 5.1%, and North America declined by 2.9%. Overall, the dividend value decreased worldwide at the onset of the crisis in 2020. Compared to 2020, the dividend value in 2019 increased by 2.9%, in 2021 it increased by 16.6%, and in 2022 it also increased by 8.4%. The sharp decline in 2020 occurred in the second (at the onset of the crisis) and fourth (when the pandemic peaked) quarters because many listed companies cut and cancelled the value of dividend payments that had been announced in the previous year. Most of the cuts and cancellations of dividend payments occurred in the mining (Henderson, 2023) and banking (Hardy, 2021) sectors due to regulatory pressures that instructed companies, especially banks, to limit dividend payments in 2020 (Hardy, 2021).

This research highlights the impact of financial performance on cash dividends of issuers listed in emerging markets - which experienced the smallest decline - and the UK market - which experienced the largest decline - as a comparison. In emerging markets, the value of dividends increased by 0.6% in 2019, then decreased by 0.3% in 2020, and then increased by another 28.3% and 13.1% in 2021 and 2022, respectively. Whereas in the UK market, the dividend value in 2019 increased by 3.6%, and then decreased by 39.3% in 2020, then increased again in 2021 and 2022 by 38.6% and 1.9%, respectively. The decline in dividend values in these two markets was due to regulatory and environmental pressures. Specifically for emerging markets, apart from regulatory pressures, the decline in dividend value was due to decreased business activity due to the Large-Scale Social Restriction (PSBB) policy (Tinungki et al., 2022).

Several previous studies tested the impact of COVID-19 on dividend policy (Tinungki et al., 2022; Xu et al., 2021; Ali et al., 2022; Ali, 2022; Ntantamis & Zhou, 2022). The results of their research are still contradictory. Xu et al. (2021), Ali et al. (2022), Ali (2022), and Ntantamis & Zhou (2022) show that many companies cut or even cancelled cash dividends at the start of the pandemic but then paid them again during the second year of the pandemic. In contrast to these studies, Tinungki et al. (2022) show an increase in dividend payments at the start of the pandemic by companies listed on emerging markets, namely the Indonesian Stock Exchange. Because of these different results, this study intends to test whether the decrease or increase in dividends at the start of the pandemic was influenced by the company's financial performance, not just because of the pandemic. This study intends to confirm the results of Tinungki et al. (2022) by adding India as a sample as a representative of Emerging Markets.

Research examining the impact of financial performance on cash dividends during the Covid 19 pandemic is still infrequent. This study focuses on testing cash

dividends as the main factor which is a novelty in this study. This study contributes to the literature on positive accounting theory regarding the effect of financial performance on cash dividends during the crisis.

THEORETICAL STUDIES

Previous researches investigate the effect of the Covid19 pandemic on dividend policy (Tinungki et al., 2022; Xu et al., 2021; Ali et al., 2022; Ali, 2022; Ntantamis & Zhou, 2022). The effect of financial performance on dividend policy is not tested specifically but is an additional test in their research. Xu et al. (2021) show that cash dividend payments have decreased along with an increase in cases of the Covid pandemic in China. The decline in cash dividend payments at the onset of the pandemic is mostly carried out by large companies and state-owned companies in China. In line with Hardy (2021), companies that reduce dividend payments at the start of Covid are companies that are subject to regulation. Large companies and state-owned companies are institutions that are vulnerable to regulatory intervention. Contrary to these results, Tinungki et al., (2022) prove that small companies (in terms of size and market capitalization) cut dividends during the pandemic. In further analysis, Xu et al. (2021) also find that the transportation and entertainment industries cut dividends early in the pandemic to ensure additional cash and flexibility to keep normal operations going despite declining revenues. In line with Xu et al. (2021), Ali et al. (2022) show that dividend payout decreased early in the pandemic by companies listed on the Pakistan Stock Exchange. Ali (2022) also shows a decrease in dividend cash early in the pandemic in G-12 countries.

Tinungki et al., (2022) examine the effect of the Covid 19 pandemic on dividend policy in Indonesia. In contrast to Xu et al. (2021), the results of their study show that the company's dividend policy is not affected by the crisis. The company continues to paying dividends even though the value of the dividend increased at the beginning of the crisis and remains stable during the crisis to give a positive signal to the market that the company's finances are fine, not affected by the Covid 19 pandemic. This finding is in line with Ali (2022) that the company continues to paying dividends cash and at the beginning of the pandemic and tried to increase dividend cash during the second year of the pandemic, even though the deduction and elimination of cash dividends still existed.

Ha1: Cash dividend decreased during the covid 19 pandemic

Ha2: Large companies reduced dividend payouts during the pandemic

At the onset of the pandemic, during 2020, companies spent a lot of cash to cover high expenses and costs caused by declining sales (De Vito et al., 2020). For service companies that make direct contact with customers, the company spends more cash to cover fixed costs and employee expenses while normal operational activities are temporarily suspended due to unfavourable conditions (Maneenop & Kotcharin, 2020; Qin et al., 2020). Then, in the second year of the pandemic, in 2021, the company began to adjust to the new normal of life that puts forward the concepts of reducing direct contact, digital business, working from home for its employees, and optimizing the use of technology. Large amounts of cash were disbursed during the adjustment process to cover operational and investment needs. So, the companies delay paying dividend in cash.

Furthermore, Ali et al. (2022) show that companies with good financial performance, and high profitability but also high leverage, reduce or do even not pay dividends at the start of the pandemic, in 2020. In contrast to Ali et al., (2022), Tinungki et al. (2022) show that the company's high financial performance, high profitability and low leverage, encourage companies to continue paying dividends at the beginning and during the pandemic.

H3: Companies with good financial performance, high profitability and low leverage, paid cash dividends during the pandemic.

RESEARCH METHODS

Sample and Data

The samples for this study are non-financial companies that pay cash dividends and have complete data for the 2019-2021 period which are listed in Emerging market regions, namely Indonesia and India, and the UK region, namely companies listed on the London Stock Exchange. Indonesia and India were taken as representatives of Emerging Markets with the consideration that the two countries experienced severe cases of Covid, India was even the worst. Under the worst pandemic conditions for India and severe for Indonesia, are there still many companies paying dividends? The number of samples in this study was 4969 companies-years consisting of 1227 companies-years listed on the London Stock Exchange, 747 companies-years listed on the Indonesia Stock Exchange, and 2995 companies-years listed on the Indian Stock Exchange. The number of samples is shown in Table 1. The financial data required in this study were obtained from the Osiris and Blumberg databases.

Table 1. Samples

Regions and Stock Exchange	Number of Samples
UK Region London Stock Exchange	1227
Emerging Markets Regions Indonesia (Indonesia Stock Exchange) India (India Stock Exchange)	747 2995
Total	4969

Variable operationalization

The summary of variable operationalization is described in Table 2.

Table 2. The summary of Variable Operationalization

Variables	Measurement
Dividend Cash ($DivC_{it}$)	Log natural of the amount of dividend cash paid by companies.
Financial Performance	Return on Assets (FP_ROA_{it}), the ratio of net income to total assets Leverage (FP_LEV_{it}), Total liability to total assets ratio
Size (Sz_{it})	Logarithm natural of total assets.

Analysis Method

To examine the hypotheses, this study employed multiple regression to data for each country. The research model used is as follows

$$DivC_{it} = \alpha_0 + \alpha_1 FP_ROA_{it} + \alpha_2 FP_LEV_{it} + \alpha_3 Sz_{it} + \varepsilon_i \dots (1)$$

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistical analysis is shown in Table 3.

Table 3. Descriptive statistics of All Variables based on Years and Countries

		DivC _{it}	FP_ROA _{it}	FP_LEV _{it}	Sz _{it}
Mean					
UK					
	2019	3,621,987,125,506.79	11.494	10.113	12.991
	2020	3,495,473,874,050.23	22.399	20.938	13.009
	2021	4,901,263,499,039.45	1.070	0.834	13.241
India					
	2019	358,072,482,998.56	0.046	0.546	12.203
	2020	374,857,696,036.76	0.077	0.566	12.270
	2021	954,042,546,072.33	0.106	0.592	12.649
Indonesia					
	2019	504,691,866.34	0.052	0.452	12.654
	2020	474,824,940.22	0.042	0.447	12.664
	2021	603,615,178.92	0.080	0.404	12.733
Max					
UK					
	2019	218,732,305,808,439.00	5,551.946	4,241.614	16.166
	2020	116,069,736,673,743.00	7,785.986	7,343.513	16.206
	2021	219,129,105,312,837.00	109.418	34.318	16.179
India					
	2019	81,854,676,475,246.00	0.975	1.000	15.403
	2020	37,403,853,063,930.60	9.456	1.000	15.418
	2021	36,624,391,494,199.60	3.968	0.998	15.453
Indonesia					
	2019	25,847,000,000.00	0.781	1.557	14.546
	2020	23,040,000,000.00	0.493	1.180	14.529
	2021	29,885,000,000.00	0.498	0.846	14.565
Min					
UK					
	2019	986,777,088.56	(115.622)	0.000	8.648
	2020	1,125,035,683.94	(72.467)	0.000	7.626
	2021	925,882,434.47	(0.303)	0.000	16.179

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India					
	2019	217,109.64	(6.613)	(6.343)	8.597
	2020	(18,805,599,187.41)	(2.132)	(12.615)	9.651
	2021	189,283.12	(0.195)	0.038	8.479
Indonesia					
	2019	115,000.00	(1.883)	0.077	10.705
	2020	329,560.00	(0.517)	0.048	10.584
	2021	125,000.00	(0.201)	0.039	10.951
Std. Dev.					
UK					
	2019	16,507,039,947,757.30	247.625	189.136	1.051
	2020	14,439,290,717,034.30	388.824	365.928	1.064
	2021	19,280,975,713,628.30	7.660	2.831	0.966
India					
	2019	2,603,892,716,525.87	0.198	0.324	0.886
	2020	2,185,288,281,434.57	0.305	0.456	0.899
	2021	3,677,148,579,071.07	0.200	0.195	0.993
Indonesia					
	2019	2,043,970,601.45	0.144	0.209	0.706
	2020	1,967,061,346.81	0.091	0.216	0.731
	2021	2,300,985,920.84	0.093	0.192	0.696

Based on the descriptive statistical data in Table 3, it can be seen that the average cash dividend decreased at the onset of the Covid 19 pandemic, in 2020, and then increased again in the second year of the Covid 19 pandemic, in 2021. This result is not in accordance with the results of Tinungki et al. (2022) which explain that cash dividends remained stable and increased at the start of the pandemic. The increase in cash dividends at the start of the pandemic was used by the company as a positive signal to investors that the company's financial condition was fine. However, the decline in cash dividends early in the pandemic confirms the results of previous studies (Xu et al., 2021; Ali et al., 2022; Ali, 2022; Ntantamis & Zhou, 2022).

Classical Assumption Testing Results

The results of the classical assumptions test are shown in Table 4 (enclosed). To test the autocorrelation, this study uses Correlogram Q-Statistics, which observes the R-Square value from the processing of the residual values. Partial autocorrelation (PAC) does not exceed 0.5 either positive or negative. India and UK are free from autocorrelation. To test multicollinearity, R-Square autocorrelation (AC) is used which does not exceed 0.5, both positive and negative. For the three countries tested, there is no multicollinearity. The heteroscedasticity test used the White Heteroscedasticity Test. The test results show that there is no Heteroskedasticity problem which is marked with a p-value of 0.000. Based on the Jarque-Berra value, the data is not normally distributed. Therefore, this study used the rule of thumb.

Table 4. The Results of Classical Assumptions Test

	Indonesia (Emerging Market)						India (Emerging Market)						United Kingdom (Developed Emerging Market)					
	AR	Partial Correlation	AC	PAC	Q- Stat	Prob	AR	Partial Correlation	AC	PAC	Q- Stat	Prob	AR	Partial Correlation	AC	PAC	Q- Stat	Prob
1	.****	.****	0.614	0.614	282.8	0.000	.****	.****	0.484	0.484	701.8	0.000	**	.****	0.337	0.337	139.5	0.000
2	.****	**	0.524	0.236	488.9	0.000	.****	**	0.478	0.319	1388.1	0.000	.****	**	0.310	0.221	257.6	0.000
3	.****	*	0.472	0.139	656.8	0.000	.****	*	0.458	0.212	2016.6	0.000	.****	*	0.279	0.146	353.4	0.000
4	.****	.	0.411	0.052	783.8	0.000	.****	.****	0.498	0.238	2759.9	0.000	.****	.****	0.280	0.133	449.7	0.000
5	**	.	0.346	0.000	873.9	0.000	.****	*	0.475	0.156	3438.0	0.000	.****	*	0.276	0.114	543.7	0.000
6	**	.	0.331	0.059	956.5	0.000	.****	*	0.491	0.161	4162.8	0.000	.****	.	0.245	0.064	618.0	0.000
7	**	.	0.296	0.020	1022.7	0.000	.****	*	0.484	0.130	4866.5	0.000	.****	.	0.244	0.067	691.3	0.000
8	**	.	0.292	0.059	1087.4	0.000	.****	.	0.446	0.045	5463.7	0.000	.****	.	0.233	0.053	758.3	0.000
9	**	.	0.280	0.036	1146.7	0.000	.****	*	0.475	0.103	6141.9	0.000	.****	.	0.201	0.014	808.3	0.000
10	**	.	0.271	0.033	1202.5	0.000	.****	.	0.460	0.063	6777.7	0.000	.****	.	0.227	0.061	872.1	0.000
11	**	.	0.223	0.040	1240.4	0.000	.****	.	0.438	0.019	7356.1	0.000	.****	.	0.233	0.065	939.4	0.000
12	**	.	0.230	0.038	1280.6	0.000	.****	.	0.431	0.021	7915.1	0.000	.****	.	0.219	0.038	998.8	0.000
13	**	.	0.249	0.073	1327.8	0.000	.****	.	0.450	0.052	8523.3	0.000	.****	.	0.236	0.064	1067.8	0.000
14	**	.	0.246	0.039	1373.9	0.000	.****	.	0.450	0.055	9134.0	0.000	.****	.	0.196	0.006	1115.6	0.000
15	**	.	0.227	0.001	1413.3	0.000	.****	.	0.435	0.029	9704.8	0.000	.****	.	0.192	0.009	1161.4	0.000
16	*	.	0.213	0.011	1448.0	0.000	.****	.	0.422	0.009	10242.0	0.000	.****	.	0.168	0.011	1196.8	0.000
17	*	.	0.194	0.011	1476.7	0.000	.****	.	0.423	0.022	10781.0	0.000	.****	.	0.183	0.020	1238.3	0.000
18	*	.	0.204	0.041	1508.7	0.000	.****	.	0.425	0.027	11326.0	0.000	.****	.	0.172	0.008	1275.4	0.000
19	**	.	0.215	0.053	1544.3	0.000	.****	.	0.419	0.015	11855.0	0.000	.****	.	0.162	0.005	1308.2	0.000

The Results of Hypotheses Testing

The results of the hypotheses testing are exhibited in Table 5. The results of hypotheses testing show that corporate financial performance represented by return on assets (FP_ROA_{it}) affects dividend cash positively and significantly at level 1% in emerging markets, Indonesia (coef. = 2.473, t-stat. = 8.492) and India (coef. = 0.454, t-stat. = 6.843). However, this factor does not influence dividend cash in the UK region (coef. = 0.001, t-stat. = 1.641). For the second measurement of financial performance, leverage (FP_LEV_{it}), the results show that the corporate financial performance represented by leverage affects dividend cash negatively and significantly at a level of significance 1% in emerging markets of Indonesia (coef. = -0.645, t-stat. = -2.715), however for India, the effect of leverage on dividend cash is positive and significant (coef. = 0.363, t-stat. = 8.150). These results of the examination are not fully aligned with my expectation based on prior studies. The expected sign of the correlation between leverage and dividend cash is negative. For the UK market, the effect of leverage on dividend cash is not significant. The results support hypothesis 1 that corporate financial performance, represented by return on assets, is positively significant.

The variable of companies' size illustrates that the effect of size on dividend cash is positive and significant at a 1% level of significance for all samples in Indonesia (coef. = 0.912, t-stat. = 19.705), India (coef. = 1.030, t-stat. = 61.242), and UK (coef. = 0.654, t-stat. = 34.200). The results indicate that bigger corporate sizes pay dividend cash during the Covid-19 pandemic. The results support hypothesis 2.

Table 5. The Results of Hypotheses Testing

Countries	Statistic Indicators	FP_ROA _{it}	FP_LEV _{it}	SZ _{it}	C
Indonesia (Emerging Market)	Coefficient	2.473	-0.465	0.912	-3.799
	Std. Error	0.291	0.171	0.046	0.566
	t-Statistic	8.492	-2.715	19.705	-6.708
	Probability	0.000	0.007	0.000	0.000
	R-squared	0.399		F-statistic	164.520
	Adjusted R-squared	0.397		Prob(F-statistic)	0.000
	Durbin-Watson stat	0.732			
India (Emerging Market)	Coefficient	0.454	0.363	1.030	-2.795
	Std. Error	0.066	0.045	0.017	0.211
	t-Statistic	6.843	8.150	61.242	-13.220
	Probability	0.000	0.000	0.000	0.000
	R-squared	0.566		F-statistic	1297.811
	Adjusted R-squared	0.565		Prob(F-statistic)	0.000
	Durbin-Watson stat	1.032			
United Kingdom (Developed Market)	Coefficient	0.001	-0.001	0.654	2.960
	Std. Error	0.001	0.001	0.019	0.251
	t-Statistic	1.641	-0.907	34.200	11.806
	Probability	0.101	0.365	0.000	0.000
	R-squared	0.489		F-statistic	390.726
	Adjusted R-squared	0.488		Prob(F-statistic)	0.000
	Durbin-Watson stat	1.313			

CONCLUSION

This study aims to examine the impact of corporate financial performance on dividend cash the global health crisis, and the Covid 19 pandemic. This study employed companies listed on India and Indonesia Stock Exchanges to represent emerging markets and London Stock Exchange to represent developed markets for the period 2019-2021. The results show that dividend value decreased at the onset of the global crisis and increase in the year of the pandemic for both emerging markets and developed markets. For an emerging market, corporate financial performance effect dividend cash significantly, however, for the UK, the dividend payment is not determined by corporate financial performance during the crisis. Particularly, all samples, in emerging markets or the developed market (UK region) show the same results that bigger the size of companies, tend to pay more dividend cash during the Covid-19 pandemic in 2020 and 2021.

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