The Effect of Return on Equity (ROE), Debt to Equity Ratio (DER), Current Ratio (CR) on Dividend Policy with Company Size as Intervening Variable on IDX 30 Company in Indonesia Stock Exchange 2018-2020

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Abstract

Investment is an activity of placing funds in an asset or more to increase current or future income for a certain period. Each investment has different level of risk and return. Dividend policy is a topic that is often discussed in the financial sector. Dividend policy relates to dividend payments by the company, namely in the form of determining the amount of dividends to be distributed in cash and the amount of retained earnings for the benefit of the company's development and operations. The percentage of profit that is distributed as dividends is referred as the Dividend Payout Ratio. So, this research was conducted with the aim of knowing the extent of the influence of certain financial ratios such as Return on Equity (ROE), Debt to Equity Ratio (DER), Current Ratio (CR) on Dividend Policy with Company Size as an Intervening Variable in IDX 30 companies on the Indonesia Stock Exchange 2018-2020. The method of determining the sample is done by purposive sampling method. The data was obtained from the IDX's official website, namely www.idx.co.id and the official website of each company which is secondary data. The results showed that ROE had no effect on company size. DER has an effect on company size. CR has no effect on company size. Company size has no effect on dividend policy. ROE has an effect on dividend policy. DER has no effect on dividend policy. CR has no effect on dividend policy. Company size is not able to be an intervening variable of the relationship between ROE, DER and CR toward dividend policy.

Keywords: *Return on Equity; Debt to Equity Ratio; Current Ratio; Company Size and Dividend Policy*

Introduction

Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management accountability for the resources entrusted to them (Santoso & Owen, 2021). Dividend policy is a topic

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that is often discussed in the financial sector. Dividend policy relates to dividend payments by the company, namely in the form of determining the amount of dividends to be distributed in cash and the amount of retained earnings for the benefit of the company's development and operations.

Fundamental factors that can affect dividend policy are also important to study. Some of these fundamental factors consist of profitability, capital structure, liquidity, and company size. Profitability shows the company's ability to utilize its assets to be used to generate profits. Thus, profitability can be measured by how much assets or capital a company uses to earn a profit within a certain period (Kusna & Setijani, 2018).

A good capital structure will have a positive impact on the company and indirectly the company's financial position will increase so that the company's value will increase. Fraud in managing the capital structure will result in a large amount of debt, then increase financial risk due to the company's inability to pay interest and debt expenses and result in the value of the company decreasing (Dewi & Sudiartha, 2017). The company's performance will be considered good if the company has good liquidity as well. Thus this will encourage shareholders to invest in the company (Imam, 2020). Companies that have large company sizes tend to have large total assets. In other words, the larger the size of the company, the greater the profitability, funding and is good information for investors (Eko, 2014).

Method

2.1 Research Design

Based on the background study, it aims to see the relationship among the variables on the company's dividend policy. With a conceptual framework as follows
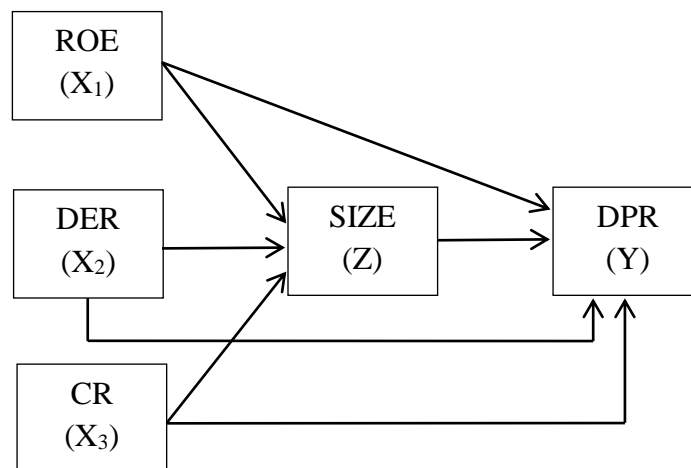
Figure 1. Conceptual Framework

2.2 Sample and Data Collection

The research site used by the researcher is companies listed on the Indonesia Stock Exchange which is listed on the IDX 30 Index for the 2018 - 2020 period. Thus, the researcher uses data from the financial statements and annual reports of related companies obtained from the company's official and www.idx.co.id. The population used by the researcher in this study were companies listed on the IDX 30 index for the 2018-2020 period. The sample in this study is the annual financial statements of companies

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that have listed on the Indonesia Stock Exchange for the period 2018 - 2020 with certain criteria. Sampling in this study was carried out by purposive sampling. The sampling criteria used by this researcher are as follows :

1. Companies listed on the Indonesia Stock Exchange on the IDX 30 index for the 2018-2020 period consecutively.
2. Companies that distribute dividends consecutively in the period 2018-2020.

Table 1. IDX 30 Company Sample 2018-2020 Period.

No	Code	Companies Name
1	ADRO	Adaro Energy Tbk.
2	ANTM	Aneka Tambang (Persero) Tbk
3	ASII	Astra International Tbk.
4	BBCA	Bank Central Asia Tbk.
5	BBNI	Bank Negara Indonesia (Persero) Tbk.
6	BBRI	Bank Rakyat Indonesia (Persero) Tbk
7	BMRI	Bank Mandiri (Persero) Tbk.
8	HMSP	H.M. Sampoerna Tbk.
9	ICBP	Indofood CBP Sukses Makmur Tbk
10	INDF	Indofood Sukses Makmur Tbk.
11	INTP	Indocement Tunggal Prakarsa Tbk.
12	KLBF	Kalbe Farma Tbk.
13	SMGR	Semen Indonesia (Persero) Tbk.
14	TLKM	Telekomunikasi Indonesia (Persero) Tbk.
15	UNTR	United Tractors Tbk.
16	UNVR	Unilever Indonesia Tbk.

2.3 Instruments

It is a matrix of data research and indicators for research.

Table 2. Operational Definition

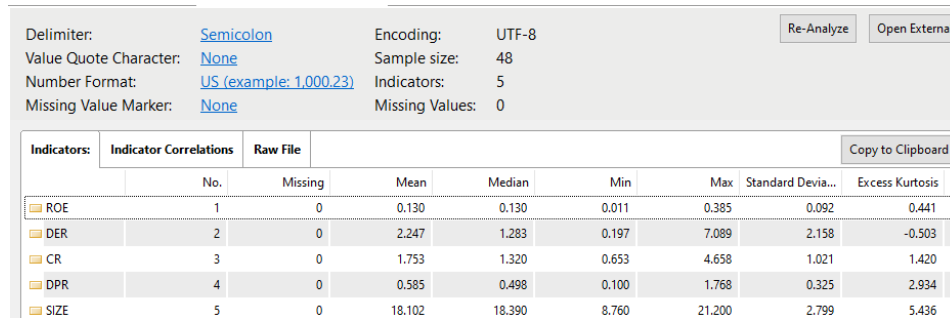| Variables	Operational Definition	Formula
Return on Equity/ROE (X1)	Return on Equity is the ratio of net income to equity of common stock, which measures the return on investment of common stockholders.	$ROE = \dfrac{Net\ Income}{Equity}$
Debt to Equity Ratio/DER (X2)	Solvency ratio that can be used to show how much the company's ability to meet its obligations, both short term and long term.	$DER = \dfrac{Debt}{Equity}$

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Current Ratio (CR)	Ratio to calculate the company's ability to pay short-term obligations with available current assets.	Current Ratio	=	$\dfrac{\text{Aktiva Lancar}}{\text{Hutang Lancar}}$
Dividend Policy/ DPR (Y)	The ratio determines how much retained earnings will be retained by the company and also how much dividends will be distributed each period by the company to shareholders or investors.	DPR	=	$\dfrac{\text{Dividend}}{\text{Net Income}}$
Size (Z)	A ratio that shows the size of a company as measured by total assets.	Size	=	Ln Total Asset

2.4 Analyzing of Data

In analyzing the data obtained in connection with the company's dividend policy problem, the statistical method used by the researcher is descriptive statistics and Partial Least Square (PLS). PLS is an analytical method that eliminates OLS (Ordinary Least Squares) assumptions. The PLS method begins with the conceptualization of the model and does not require the design of a model based on existing theories. It can be based on statistical reviews, results of previous empirical research, and relationships between variables in other fields of science, normative, and logic.

Results and Discussion

Descriptive statistics provide an explanation of the minimum value, maximum value, and average value (mean), and standard deviation values of the independent variables and the dependent variable. Based on the data of each of these variables, descriptive analysis was tested using SmartPLS.

	No.	Missing	Mean	Median	Min	Max	Standard Devia...	Excess Kurtosis
ROE	1	0	0.130	0.130	0.011	0.385	0.092	0.441
DER	2	0	2.247	1.283	0.197	7.089	2.158	-0.503
CR	3	0	1.753	1.320	0.653	4.658	1.021	1.420
DPR	4	0	0.585	0.498	0.100	1.768	0.325	2.934
SIZE	5	0	18.102	18.390	8.760	21.200	2.799	5.436

Delimiter: Semicolon — Encoding: UTF-8 — Value Quote Character: None — Sample size: 48 — Number Format: US (example: 1,000.23) — Indicators: 5 — Missing Value Marker: None — Missing Values: 0

Figure 2. Descriptive Statistical Analysis

From the output as shown in Figure 2, it shows the ROE variable has a sample size of 48, with a minimum value of 0.011 at PT Semen Indonesia Tbk in 2019 and a maximum value of 0.385 at PT HM Sampoerna Tbk in 2019, while the average value (mean) is 0.13 with a standard deviation of 0.092. DER variable has a sample size of 48 with a minimum value of 0.197 at PT Indocement Tunggal Prakarsa Tbk in 2018 and a maximum value of 7,089 at PT Bank Negara Indonesia Tbk in 2020, while the average value (mean) is 2,247 with a standard deviation of 2,158. CR variable has a sample size of 48 with a minimum value of 0.653 at PT Unilever Indonesia Tbk in 2019 and a maximum value of 4.658 at PT Kalbe Farma Tbk in 2018, while the average value (mean) is 1.753 with a standard deviation of 1.021. Variable Size has a sample size of 48 with a minimum value of 8.76 at PT Adaro Energy Indonesia Tbk in 2020 and a maximum value of 21.2 at PT Bank Rakyat Indonesia Tbk in 2020, while the average value (mean) is 18.102 with a standard deviation of 2.799. DPR variable has a sample size of 48 with a

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minimum value of 0.1 at PT Semen Indonesia Tbk in 2019 and a maximum value of 1.768 at PT Indocement Tunggal Prakarsa Tbk in 2018, while the average value (mean) is 0.585 and the standard deviation is 0.325.
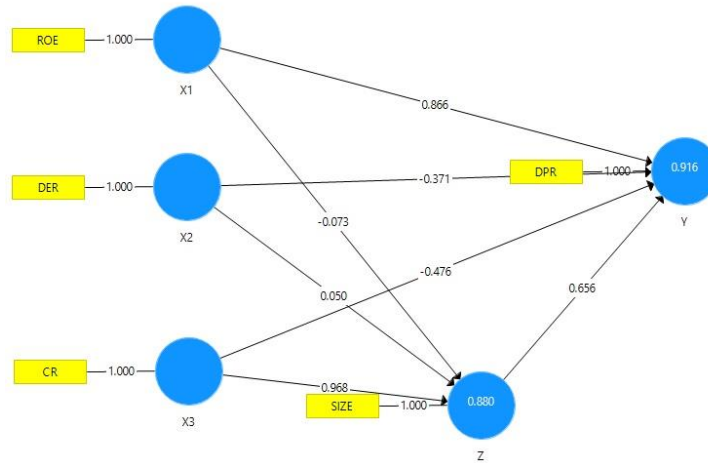

Figure 3. SmartPLS Results

R Square

			R Square	R Square Adjus...
Matrix	R Square	R Square Adjusted		
Y			0.250	0.181
Z			0.349	0.305

Figure 4. Coefficient of Determination (R-Square)

Based on Figure 4, the value of R–Square Adjusted on the dividend policy variable is 0.181. This value is interpreted as the ability of ROE, DER, CR and Size in influencing the DPR by 18.1% and the rest is explained by other variables or factors of 81.9%. The value of R-Square Adjusted on the firm size variable is 0.305. This value is interpreted as the ability of ROE, DER, and CR in influencing Size by 30.5% and the rest is explained by other variables or factors of 69.5%.

Path Coefficients

	Mean, STDEV, T-Values, P-Val...	Confidence Intervals	Confidence Intervals Bias Cor...	Samples	
	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O/...	P Values
X1 -> Y	0.342	0.359	0.163	2.093	0.037
X1 -> Z	0.161	0.153	0.108	1.490	0.137
X2 -> Y	-0.134	-0.112	0.129	1.034	0.301
X2 -> Z	0.573	0.591	0.085	6.755	0.000
X3 -> Y	0.181	0.189	0.141	1.287	0.199
X3 -> Z	0.024	0.011	0.094	0.250	0.802
Z -> Y	-0.198	-0.204	0.143	1.385	0.167

Figure 5. Path Coefficients

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Specific Indirect Effects

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O/...	P Values
Mean, STDEV, T-Values, P-Val...	Confidence Intervals	Confidence Intervals Bias Cor...	Samples		
X1 -> Z -> Y	-0.032	-0.031	0.036	0.896	**0.371**
X2 -> Z -> Y	-0.114	-0.120	0.090	1.264	**0.207**
X3 -> Z -> Y	-0.005	-0.006	0.023	0.204	**0.838**

Figure 6. Specific Indirect Effects

The analysis is performed by comparing the T-table with the T-statistics generated from bootstrapping in PLS. The hypothesis is accepted if the T-statistics value > T-table (1.96) with a significance level of 5% or through P-value =5%, p-value=0.05. Path Coefficients are useful for testing the hypothesis of the influence of an influencing variable (exogenous) on the influenced variable (endogenous). In this research, using path analysis to determine the direct and indirect effect between the variables of profitability, capital structure, liquidity, company size, and dividend policy. Based on the results of the Path Coefficients, a structural equation model can made as follows :

Size = 0.161 ROE + 0.573 DER + 0.024 CR + e1

Dividend Payout Ratio = 0.342 ROE – 0.134 DER + 0.181 CR - 0.417 SIZE +e2

The results of this study indicate that the profitability which is indicated by ROE has a positive and insignificant effect on company size. Capital structure has a positive and significant effect on company size. For every increase in capital structure marked by a DER of one, SIZE will increase by 0.573 and vice versa. The larger the DER, the company will use more debt. This is because large companies have greater access to loans from creditors. Liquidity which is indicated by CR has a positive and insignificant effect on company size.

From the second model, the results show that profitability has a positive and significant effect on dividend policy, so that every increase in ROE is marked by one, the DPR has an increase of 0.342 and vice versa. Capital structure has a negative and insignificant effect on dividend policy. So, although DER has a negative effect on DPR, it is not significant. Liquidity has a positive and insignificant effect on dividend policy. So that although CR has a positive effect on the DPR, it is not significant. Company size has a negative and insignificant effect on dividend policy. So, although size has a negative effect on DPR, it is not significant.

The results of this study also indicate that company size cannot work as an intervening variable in the relationship between ROE, DER, and CR to DPR. This shows that a large company with more total assets does not guarantee that the company will be able to ensure that the funds invested for the company's operations and expansion can provide an optimal rate of return. Also does not guarantee that the company will be able to ensure that the company's debt can be minimized. And large companies with more total assets do not guarantee that these companies will be able to meet their short-term obligations. One of the causes is the lack of skills of financial managers in managing company funds effectively. This results in small or even no dividends being distributed by the company.

Conclusion

This study concludes that with an understanding and application of financial ratios, it can provide good benefits, especially for company, investors, employees, and interested parties. Deep

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understanding of financial ratios can improve company performances and investor references in investing on Indonesia Stock Exchange. Various studies have proven that the application of financial ratios can improve the decision in investing. Based on the limitations of this study, the researcher gives several suggestions as consideration for further research, Firstly, for investors who want to invest in IDX30 index companies, they should consider the ratios used in research such as ROE as a reference to determine the companies to invest in. Investors are advised to choose a company that has a high ROE value because in general it will be able to provide optimal returns in the form of dividends by using the company's equity efficiently.

In addition, investors also need to pay attention to the company's ability to determine the optimal DER and CR that can affect dividend policy directly and indirectly. Secondly, companies are expected to pay more attention to the DER and CR ratios. If the company has a debt agreement that has a high interest rate, it is expected that the company will be able to find other funding that has a lower interest rate. So that it can reduce the burden on loan interest and be able to increase the level of the dividend ratio. Lastly, for further researchers, it is expected to be able to expand the field of research, both in the form of the year of research and other variables that affect the dependent variable. The expansion of the field of research is to be able to find samples of other sectors that can prove the superiority of the ratios used in research and compare their effects. Furthermore, adding the year of observation to be studied so that it can provide better data variations, the longer the observation time, the higher the accuracy of research information, as well as adding several other factors that are thought to have an influence on dividend policy, for example the variable net profit margin (NPM), return on assets (ROA), price book value (PBV) and can use intervening or other moderating variables.

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