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Financial Performance, Company Size and Dividend Payout Ratio In Banking Companies

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ABSTRACT

This study aims to analyze the effect of financial factors, Lagged Dividends, and company size on the Dividend Payout Ratio in banking companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The population in this study were all banking companies listed on the IDX as many as 43 companies. The sample in this study was taken using the purposive sampling method so that there were 21 companies as the research sample. This research data was obtained through the publication of the Indonesia Stock Exchange and the websites of these companies. This study used 21 samples with 5 years of research so that the total observations were 105 observations with the GMM method using the Eviews 12 application. The results of this study used a partial test (t test). Finds that Current Ratio, Return On Assets, Debt to Equity Ratio, Lagged Dividend, and Company Size variable has no significant effect on the Dividend Payout Ratio.

Keywords: *Dividend payout ratio, current ratio, return on asset, debt to equity ratio, lagged dividend, and firm size*

1. INTRODUCTION

Dividends are one of the factors that are seen by investors to enter the capital market. Dividend distribution and increase in dividends are one of the factors that measure company performance as seen by investors when making an investment. In general, investors investing in a company are to gain profit, there are two ways that investors can benefit from the company, either from the difference between the selling price of the shares and the purchase price (Capital Gain) or from the dividend income distributed by the company (Dividend Yield) [10].

Dividends distributed by the company (Dividend Payout Ratio) are very important because, the higher the Dividend Payout Ratio (DPR) distributed, the smaller the income retained by the company, but vice versa if the lower the company's income is withheld, the less dividends will be distributed. The amount of dividends distributed from year to year is also one of the factors the company determines dividend policy [6]. Indirectly, the distribution of dividends shows that the company can generate good profits. This condition indicates that the position of the company's financial performance. This research is focused on analyzing of financial performance uses Current Ratio, Return on Assets, Debt to Equity Ratio, Company Size and lagged dividend affect the Dividend Payout Ratio in Banking Companies in Indonesia.

2. LITERATURE REVIEW

2.1 Current Ratio

The current ratio or (Current Ratio) is a ratio to measure a company's ability to pay short-term obligations or debt that is due soon when billed as a whole. In other words, how much current assets are available to cover short-term obligations that are due soon [14].

2.2 Return On Assets

This ratio shows how much the contribution of assets is in creating profit. In other words, this ratio is used to measure how much net profit will be generated from every rupiah of funds embedded in total assets [14].

2.3 Debt to Equity Ratio

Debt to Equity Ratio (DER) is the ratio used to assess debt to equity. This ratio is sought by comparing all debt, including current debt with all equity. This ratio is used to find out the funds provided by the borrower (creditor) with the owner of the company.

2.5 Company Size

Company size or firm size can be interpreted as the size of the company seen from the size of the equity value, company value, or total assets (total assets) of a company. Firm size is measured by changing the total assets owned by the company in the form of natural logarithms.

2.6 Dividend Payout Ratio

Dividend Payout Ratio is the percentage of net profit after tax that will be distributed to shareholders. The greater the net profit earned by the company, the greater the Dividend Payout Ratio will be received [6].

3. METHODOLOGY

3.1 Data

The population used in this study were all banking companies listed on the Indonesia Stock Exchange, totaling 43 companies. Sampling in this study used the Purposive Sampling method. The criteria used are banking companies listed consecutively on the Indonesia Stock Exchange and issuing dividends at least once in 2017-2021. This study uses the panel data regression method using the GMM (Generalized Method of Moment) method [1][2]. Where the collected data were analyzed using the Eviews 12 computer application. In this study, descriptive statistical analysis tests, Hansen tests, Arrelano Bond tests and GMM estimation model tests were tested.

3.2 Operational Variables

Dividend Payout Ratio is the percentage of net profit after tax that will be distributed to shareholders and calculate by using Dividend per share divided to earning per share. The current ratio is a proxy for the liquidity ratio and calculate use current asset divided by current liabilities. Return On Assets measures a company's ability to generate profits by using the total assets owned by the company after adjusting for the costs to fund these assets and calculate use income divied by total assets [12]. The Debt to Equity Ratio is a proxy for the Leverage ratio. The formula for finding the Debt to Equity Ratio is total debt to total equity. Lagged Dividend is the amount of dividends distributed a year before the year of consideration. If the Lagged Dividend distributed by the company increases every year, it means that the company shows that the company has good performance so that it will invite investors to invest in the company. The formula for Lagged Dividend is Cash Dividend per share to net profit per share. The large of firm size will find it easier to get funds because it is easier for established companies to enter the capital market. Firm size is measured by log of total assets.

4. RESULTS AND DISCUSSION

4.1 GMM Model Estimation

The model used in this study is dynamic panel data, namely the Generalized Method of Moment. The following is the estimation result of testing the GMM model using Eviews.

Based on the table 1 shows that p*value* > 0,1 for variables Current Ratio, ROA and Firm Size (UP). It mean all of variable have no significant effect on the Dividend Payout Ratio. While DER have a negative influence and dividend lagged have a positive significant influence to Dividend Payout Ratio.

Table 1. GMM Estimation Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPR(-1)	1.092514	0.249586	4.377304	0.0009
CR	-0.362619	0.260691	-1.390989	0.1895
ROA	0.160655	0.305646	0.525625	0.6087
DER	-0.061657	0.031488	-1.958069	0.0739
UP	0.020361	0.012066	1.687385	0.1173
Effects Specification				
Cross-section fixed (first differences)				
Root MSE	1.338508	Mean dependent var		0.347297
S.D. dependent var	1.055653	S.E. of regression		1.439285
Sum squared resid	66.28931	J-statistic		5.544438
Instrument rank	11	Prob(J-statistic)		0.476102

5. DISCUSSION

The lower the amount of debt owned by the company, the lower the interest expense that needs to be paid by the company and the lower the cash issued to pay debts. The lower the interest expense of a company, it will increase the company's profit and will reduce the cash out to pay debts. By increasing the available cash balance, it will increase the possibility of the company to distribute dividends. However, in this study the increase in cash was not followed by an increase in dividend payments because cash was used more for investment for companies such as purchasing fixed assets. Therefore, the high or low DER value does not affect the increase or decrease in dividend distribution. For companies that are aware of this, they must try to continue to maintain the dividends that are distributed, and even tend to increase. Signal theory states that companies must continue to provide signals to investors that the company is able to generate good profits through dividend distribution. Dividend distribution which has increased from before also shows that the company has good job prospects.

6. CONCLUSION

Based on the results of the research that has been described Current Ratio, ROA and firm size have no significant effect on the Dividend Payout. While, DER have a negative significant and Lagged Dividends have a significant influence on the Dividend Payout Ratio in banking companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. These results indicate a suggestion for companies to pay more attention to Debt to Equity Ratio, Lagged Dividend, and Company Size because these five variables are important factors that are seen by shareholders before making a decision.

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