The Importance of Profitability and Dividend Policy for Indonesian State-Owned Entreprises – BUMN

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Abstract

The final aim of this research is to see how far the influence of liquidity and leverage on the dividend payout ratio through the intervening variable profitability. Sampling using a purposive technique that produces 91 data from 13 BUMN or state-owned entreprises registered on the IDX. The data used are financial statements for the period ending 2014 to 2020. This study uses path analysis with the Warp PLS 7.0 application. The results of this study found that profitability and leverage have a significant effect on the dividend payout ratio in state-owned companies. Meanwhile, liquidity cannot increase the dividend payout ratio of state-owned entreprises. The results of the indirect effect and total effect test state that profitability can mediate the relationship between leverage and dividend payout ratio as indicated by T statistic > 1.96 and P-Value < 0.05, but cannot mediate the relationship between liquidity and dividend payout ratio.

Key Words: Liquidity, Leverage, Profitability, Dividend Payout Ratio.

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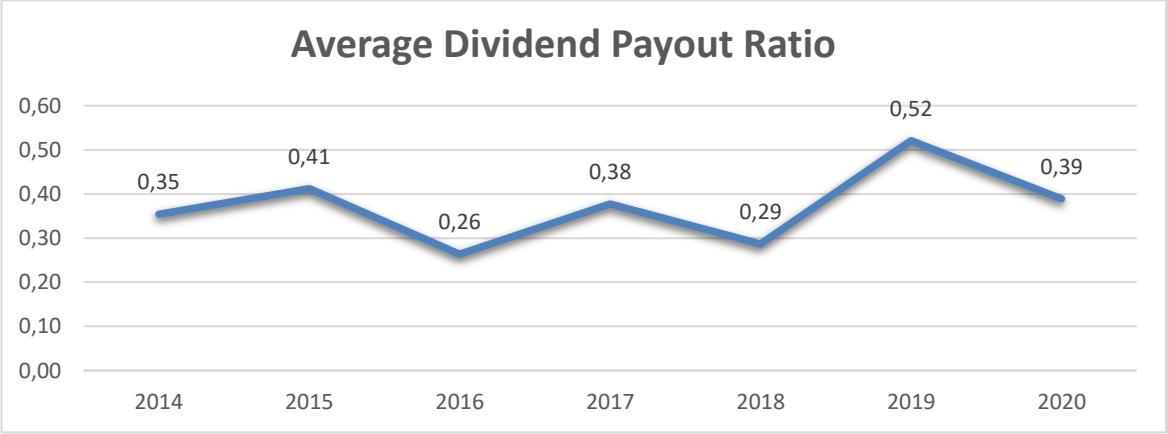
INTRODUCTION

One of the difficult decisions for companies is the policy of paying dividends to shareholders. This dividend policy must be balanced between the returns expected by shareholders and the survival of the company. Dividend payout ratio is a form of company policy in providing returns to shareholders. This ratio shows the amount of profit that can be retained by the company to pay dividends to investors who buy company shares. The greater the dividend payout ratio, the smaller the dividends that will be distributed to investors. Companies need to pay attention to factors that affect dividend ratios, including company size, both from company assets and company age, liquidity, free cash flow, profitability, and leverage or capital structure (Sudana, 2015).

This study uses a state-owned company or Badan Usaha Milik Negara (BUMN) as the object of research. BUMN has a special character, namely that all or most of its capital is owned by the state, not privately owned. (Law number 19 of 2003), there are several forms of BUMN, but the main focus is in this study are BUMN that have gone public or are registered on the Indonesia Stock Exchange. One of the goals of establishing BUMN is to make an important contribution to state revenues in particular and the smooth development of the national economy in general (Lebelaha, 2016). The realization of this goal is the contribution of the number of dividends given by BUMN to the state. The following is dividend payout ratio data from 13 BUMN registered on the Indonesian stock exchange during 2014-2020.

Figure 1. Average Dividen Payout Ratio BUMN in Indonesia in 2016 - 2020



Source: www.idx.co.id (processed, 2020).

In the picture on Figure 1, it can be explained that the dividend payout ratio of BUMN continues to fluctuate from 2014-2020. In 2020, the target for dividend payments for BUMN will be eroded by almost 50%, to be exact 46.73% (Ministry of Finance, 2020). Based on the 2021 Financial Records Book, this BUMN dividend has decreased due to the severe influence of the Covid-19 pandemic on BUMN. The impact of the Covid-19 pandemic which is quite heavy is felt by BUMN engaged in the transportation, tourism, and manufacturing industries. The BUMN's net profit is projected to decline, which will have an impact on dividends that can be distributed to shareholders. To achieve the “BUMN dividend target next year, the government will optimize several steps.

The first step that must be considered is the ability of funding, solvency (capital structure), and the level of profit or profit. Second, maintaining investor perception that has the potential to reduce the market value of state-owned enterprises listed on the stock exchange. Third, adjustment of regulations and agreements binding state-owned enterprises (covenants). Fourth, the determination of dividends is more selective to balance the needs of the state revenue budget with the implementation of programs and the sustainability of state-owned enterprises. Fifth, reform and restructuring of state-owned enterprises in order to improve company performance so as to increase state revenues.

The fluctuation of the Dividend Payout Ratio in BUMN is an interesting thing to study further and what factors make this Dividend Payout Ratio fluctuate in 2014-2020. According to Hanafi (2011), the determinants of dividend policy (DIV-PR) are the liquidity ratio (Current Ratio - CR), solvency ratio (Debt to Equity Ratio - Leverage), and profitability ratio (Return on Equity - ROE). The higher the liquidity ratio (Current Ratio), the dividend payments to shareholders will increase (Martono, 2016). If the liquidity ratio (Current Ratio) is high, it reflects the company's ability to give dividends is also high, so it becomes a strategy to attract investors (Prasetyo, 2011; Ekawati and Siswoyo, 2015; Oladipupo and Peter, 2013). This means that the liquidity ratio (Current Ratio) has a significant positively impact on dividend policy (Mertayani and Sri, 2015). Several previous studies on the relationship of the liquidity ratio (Current Ratio) to dividend policy showed the opposite result, namely the existence of a negative or

insignificant effect. (Purba, Sheren and Angeline, 2019; Fadli, Chabahib and Haryanto, 2013; Prasetyo, 2011). The measurement of Liquidity - Current ratio according Martono (2016) is:

$$LIQ - CR = \frac{Current\ Assets}{Current\ Liabilities}$$

Solvency ratio (Debt to Equity - Leverage) is one of the factors that have a negative significantly impact on dividend policy. A small solvency ratio indicates that the company's capital structure mostly comes from its own capital, so it is expected to generate high profits or Return on Equity, so that the dividends paid to shareholders are also high. This means that DER (leverage) has a significant negatively impact on profitability and dividend policy (Hendawati, 2017).

The opposite result is obtained from previous research, namely there is a significant positive or negative effect between DER (leverage) on profitability (ROE) and dividend policy. This means that if the DER (leverage) is high, there will be a decrease in profitability accompanied by a decrease in dividend payments to shareholders (Ekawati and Siswoyo, 2015). Calculation of debt-to-equity ratio, the formula can be used (Garjito and Basri, 2017):

$$LEV - DER = \frac{Total\ Debt}{Equity}$$

The profitability ratio reflects the extent to which the company's ability to earn profits. The profits obtained are taken into consideration in the size of the distribution of dividends to shareholders (Ginting, 2018). The entreprises' ability to generate high profits reflects the company's ability to pay high dividends as well. Ratio (Finingsih, Nurlaela, and Titisari, 2019). Return on Equity (ROE) is one measure of profitability ratios. ROE shows the company's ability to achieve profits from the capital owned by the company. The formula for Return on Equity according to Christine and Suryono (2017) is:

$$PROF - ROE = \frac{Earnings\ After\ Interest\ and\ Tax}{Equity}$$

The theoretical basis for dividend policy is the Dividend Signaling Theory which explains that the company will continue to strive to increase prosperity as a signal in the form of information that reflects the entreprises' prospects in the future so that maximum dividend distribution is achieved to shareholders (Izdihar, Suhendro, Fajri, 2020). Dividend Signaling Theory is a theory which states that if the entreprises' ability to pay dividends for this period is greater than the previous period, then the company's prospects are moving in a positive direction. (Halim and Hastuti, 2019). Dividend Payout Ratio is one of the measuring tools of dividend policy which describes how big the percentage of profit that can be paid to shareholders compared to the total profit available (Sartono, 2015). To find out the Dividend Payout Ratio, can use formula (Horne, 2013)

$$DIV - PR = \frac{Dividend\ Per\ Share}{Earning\ Per\ Share}$$

While the purpose of this study there are 3 empirical objectives. The first empirical objective is to find out how far the influence of the liquidity ratio (Current Ratio) and Debt to Equity Ratio (leverage) to the profitability ratio (ROE). The second empirical objective is empirical testing of the relationship between the liquidity ratio (Current Ratio), Debt to Equity Ratio (leverage) and profitability ratio (ROE) to dividend policy (Dividend Payout Ratio). The third empirical objective is to examine the ability of the profitability ratio (ROE) to mediate the relationship between the liquidity ratio (Current Ratio) and Debt to Equity Ratio (leverage) on dividend policy.

The formulation of the hypothesis in this study are:

H1. LIQ-CR (Current Ratio) has a significant impact on PROF-ROE (Return on Equity)

H2. LEV-DER (Debt to Equity Ratio) has a impact on PROF-ROE (Return on Equity)

H3. LIQ-CR has a significant influence on DIV-PR (Dividend Payout Ratio)

H4. LEV-DER has a significant impact on DIV-PR (Dividend Payout Ratio)

H5. PROF-ROE has a significant influence on DIV-PR

H6. PROF-ROE is able to mediate the connection between LIQ-CR and DIV-PR
H7. PROF-ROE is able to mediate the connection between LEV-DER to DIV-PR

METHOD

The population of data taken in this study is the company's annual financial statements from 2014-2020 which are listed on the BEI BUMN Index20. The sample of this research is thirteen state-owned companies (BUMN) listed on IDX that meet several sample criteria. The thirteen state-owned companies (BUMN) are PT. Semen Baturaja, PT. Semen Indonesia, PT. Telekomunikasi Indonesia, PT. Adhi Karya, PT. Pembangunan Perumahan, PT. Waskita Karya, PT. Wijaya Karya, PT. Jasamarga, PT. Perusahaan Gas Negara, PT. Bukit Asam, PT. Timah, PT. Kimia Farma, and PT. Indosat. Several sample criteria that must be met, so that the data obtained more representative. The criteria that will be used as samples are:

1. Companies registered on IDX BUMN20 for the 2014-2020 period.
2. BUMN entreprises that present audited financial statements for 2014-2020.
3. BUMN entreprises that distribute dividends during the 2014-2020 period.

Based on the above criteria, the state-owned companies (BUMN) that meet the criteria to conduct the research are 13 (thirteen) state-owned companies with a total of 91 data for the annual financial statements from 2014-2020. The analytical method used in this research is descriptive statistics. Descriptive statistics is a data analysis technique used to describe the condition of research variables (Widodo, 2019). The collected data were analyzed using warpPLS 7.0 software.

RESULTS

Multicollinearity between variables does not occur in the results of this study because 1.192 is the value of AVIF and AFVIF values are 1.594. Both of which are less than 3.3, as well as the GoF value of 0.389, indicating that this exploration model is fit. As seen in Table 1, the model used in this survey is exceptional because it is dependent on the normalization of thumb, which is 3.3. It implies that the model is free of upward, sidelong collinearity, and usual strategy inclination issues. Additionally, the exchange equilibrium was examined at R squared 0.049, which indicates that the effect of the

diversity of current ratio and debt to equity ratio on return on equity is 4.9%. In comparison, the remaining 95.1% are driven by factors not included in the review. The results of R squared which are varied for the effect of current ratio (LIQ-CR), debt to equity ratio (LEV-DER), and return on equity (PROF-ROE) to dividend payout ratio (DIV-PR) are 0.253 or 25.3%; the remaining 74.7% was driven by many factors not part of this inquiry model. The rule of practice for surveying the fundamental model in this audit is that it should be in a strong class, where a changed R squared of 0.253 is more noticeable than an adjusted R squared of 0.25.

Table 1.
Full Collinearity and R squared tests

	LIQ-CR	**LEV-DER**	**PROF-ROE**	**DIV-PR**
Full collinearity	1.201	1.443	1.076	1.286
R squared			0.049	0.253

Source: data processing warpPLS 7.0

Table 2 describes the coefficient model of the path test and the p-value

Table 2.
Path Test and P-Value Results

Path	**Coefficient**	***P-value***
LIQ-CR →PROF-ROE	-0.025	0.406
LEV-DER→PROF-ROE	0.218	0.015***
LIQ-CR → DIV-PR	-0.021	0.419
LEV-DER →DIV-PR	-0.311	<0.001***
PROF-ROE → DIV-PR	0.328	<0.001***

Source: data processing warpPLS 7.0

The test results for the primary hypothesis indicate that LIQ-CR has no significant impact on the PROF-ROE, as proof by the LIQ-CR coefficient value of - 0.025 and p-value 0.406, at which first hypothesis is not accepted. Then the second hypothesis is testing, the p-value of 0.015 and the LEV-DER coefficient of 0.218 indicate that hypothesis 2 is correct. Thus, LEV-DR was shown to have a beneficial and statistically significant influence on PROF-ROE. Additionally, the negative and no significant effect of LIQ-CR on DIV-PR (-0.021 coefficient and p-value 0.419) implies that hypothesis 3 is not accepted. Additionally, the coefficient value for the fourth

hypothesis is -0.311, and the p-value is <0.001, indicating that hypothesis (H4) is accepted. The test findings suggest that speculation 5 is correct, with a path coefficient of 0.328 and a p-value of <0.001. The result of testing the complete examination model, which depicts the causal link between factors, is shown in Figure 2, where LIQ-CR and LEV-DER are unbound variables and DIV-PR is non-independent variable intervened by PROF-ROE.

Figure 2. Full of Research Model

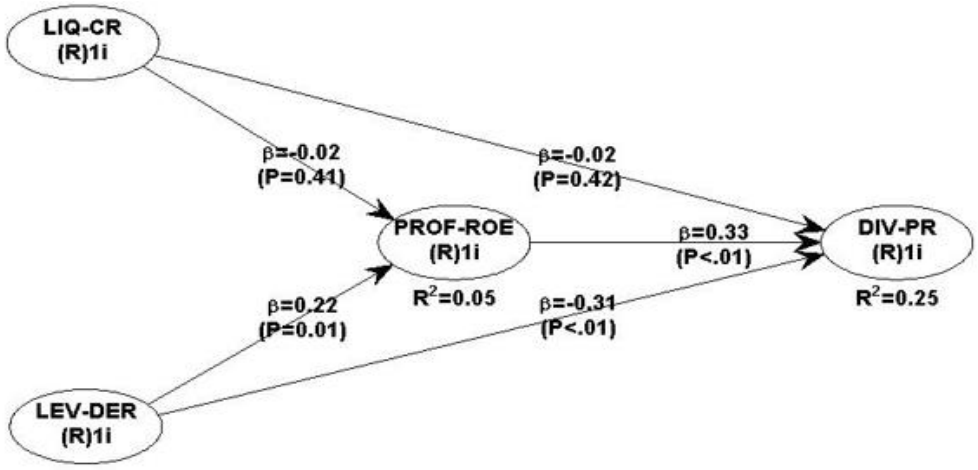


Table 3.
Indirect Effect and Total Effect

Path	Coefficient	*P-value*
LIQ-CR →PROF-ROE→DIV-PR	-0.030	0.388
LEV-DER→PROF-ROE→DIV-PR	-0.239	0.008***

Source: data processing warpPLS 7.0

Judging from the results of the mediation test in table 5, the coefficient value for the indirect effect test of LIQ-CR→PROF-ROE→DIV-PR is -0.030 with p-value 0.388. The hypothesis that states the effect of LIQ-CR on DIV-PR through the intervening variable PROF-ROE resulted in a rejected evaluation. Because the value of T Statistics is -0.030 and P value is 0.388, it is concluded that LIQ-CR has a negative and insignificant effect on DIV-PR with PROF-ROE as a mediator. Because the cut off

value that gives the limits for the accepted hypothesis must have a T statistic > 1.96 and P-Value < 0.05. The coefficient of indirect effect for testing the LEV-DER→PROF-ROE→DIV-PR is -0.239 with p-value 0.008. The hypothesis that states the effect of LEV-DR on DIV-PR through the intervening variable PROF-ROE resulted in a accepted evaluation.

CONCLUSION

This study finds the fact that the determinants of the dividend payout ratio as a dividend policy are the variables of leverage (Debt to Equity) and profitability. Leverage (Debt to Equity) have a significant and negative influence on dividend payout ratio, profitability has a positive and significant influence on dividend payout ratio. On the other hand, liquidity has no influence on dividend payout ratio. The test results of the relationship between leverage and liquidity on profitability show that only leverage has a negative and significant effect on profitability. While liquidity does not affect profitability. The final decision from the intervening test is that profitability can mediate the connection between the influence of the leverage variable on dividend payout, but cannot mediate the influence of liquidity variable on dividend payout ratio. State-owned companies must regulate the use of debt (leverage) in their capital, so that they can be used optimally to earn profits. If a state-owned company has a lot of debt (leverage), the profit earned will decrease.

The next research agenda is population expansion or the use of different research objects such as banking companies, manufacturer companies and insurance companies. Future research can use another independent variable such as cash ratio, return on investment and companies' age.

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