
RESEARCH ARTICLE

Dividend Policy Determinant: Evidence from Indonesia

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ABSTRACT

This study aims to analyze the effect of Debt to Equity Ratio (DER), Current Ratio (CR), Return on Equity (ROE), and Earning Per Share (EPS) on dividend policy in companies listed in the LQ45 index on the Indonesia Stock Exchange from 2015 to 2020. The purposive sampling method was used to collect data from 24 companies listed in the LQ45 index on the Indonesia Stock Exchange from 2015 to 2020 and analyzed using the panel data regression analysis. The results showed that the most suitable model was the fixed effect model. EPS and DER variables have an effect on dividend policy, while CR and ROE variables do not affect dividend policy.

KEYWORDS

Current Ratio, Debt to Equity Ratio, Earning Per Share, dividend policy, Return on Equity.

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1. Introduction

Dividend policy is one of the three main financial management regulations, besides from funding and investment policies. This needs to be considered by investors because it determines the maximum profit they are expected to receive. According to Fauziah (2017), a company's management implements a dividend policy to determine whether the profits earned are distributed to investors or held in the form of retained earnings for future financing investment and to boost the firm's growth. Arifin (2018) stated that several internal and external factors certainly influence the calculated dividend payments. The company's cash flow and investment requirements tend to change rapidly, making it difficult to set high dividends in terms of channeling excessive funds not needed for reinvestment. The only solution is to implement a low dividend, making it easier for the company to pay when the profit earned is small or when large enough funds are needed for reinvestment and extra dividends when excess funds are needed.

The LQ45 is a market index on the Indonesia Stock Exchange alongside 45 companies with the highest capitalization and transaction value recorded in the past 12 months. This is in addition to those listed for at least three months on the Indonesia Stock Exchange and those with a financial condition, growth prospects, and high transaction value. The majority of the LQ45 issuers experienced an increase in profit from 2015 to 2018. However, in 2019, a decrease of 7.15% was recorded, and this is in line with the weakening revenue growth. The company's DPR LQ45 tends to fluctuate, with a 41.9% increase in 2015, and a 3% rise in 2016, equating to 44.9%. In 2017 there was also an increase of 1.3%, which added up to 46.2%, and a 0.8% decrease in 2018, equating to 45.4%. Furthermore, in 2019 the ratio decreased by 4.7% compared to the previous year, equivalent to 40.7%. In 2020, dividend distribution tended to decline due to certain pressures, such as the COVID-19 pandemic. In the same year, one of the companies with the ITMG code distributed cash dividends of 35.5 million USD, lower than the 129.42 million USD recorded in 2019. Similarly, another company with the PTBA code also distributed cash dividends of 835 billion rupiahs, equivalent to 35% of the net profit in 2020. Whereas in 2019, it distributed dividends of 3.65 trillion rupiahs or 90% of net profit (Ulfah, 2021). Unfortunately, its rise and fall are influenced by internal and external factors. These internal or fundamental factors emerge from the company and are controlled by the managers. It is perceived based on their financial statements, especially profitability, liquidity, solvency, and market ratios. A measure of the solvency ratio is the DER used to assess the number of funds provided by the borrower to the company. The lower the value, the better because it is safe for creditors. Wahyuliza and Fahyani (2019) stated that the capital

structure proxied by DER has an effect on the DPR. This is different from Prawira, Dzulkrirom, and Endang's research (2014), finding that it did not affect the DPR. Al-Deehani (2003) examined the factors that influence dividend policy in Kuwait from a different perspective.

According to Al-Deehani, it is relevant to assess when decision-makers are motivated by a series of signaling or clientele-effect motives. However, there are times when they are triggered to pay dividends by factors that are irrelevant to value or financial worth. The study used primary data where respondents were divided into 3 groups, 2 of which are related to value, namely signaling and clientele-effect. The third one contains unimportant motives for financial worth and is called the "value-irrelevant" group.

The current ratio (CR) is short-term solvency, commonly used to determine the company's ability to meet debt requirements when due. This attribute can only provide a rough analysis; therefore, it is necessary to support a more comprehensive qualitative method (Fahmi, 2020). According to Yasa and Wirawati (2016), CR has a negative effect on DPR. On the contrary, Lie and Osesoga (2020) stated that the CR has no effect on the DPR. Sharma and Bakshi (2019) examined the determinants of dividend policy in the real estate sector in India. Empirical findings depict that previous firm dividends and risk, including liquidity, are strong predictors of future dividend payout ratios (DPRs). The results indicate that firm risk measured through the price-earnings ratio positively correlates with the DPR of selected real estate companies. Lagged DPR used in the GMM test as an exogenous variable also exhibits a significant positive association. The firm's growth is found to significantly affect FMOLS and GMM techniques, while its size depends on the cointegration procedures.

Return on Equity (ROE) is used to examine the extent to which the company uses its resources to make a profit. Wahyuliza and Fahyani (2019) stated that it affects DPR. The results of this study are different from Pamungkas et al. (2017), that ROE did not affect DPR. Earning Per Share (EPS) is a form of distributing profits to shareholders based on each share owned. According to Fahmi (2020), it is used to assess the company's success. Hanif and Bustamam (2017) stated that EPS affects the DPR. The results of this study are not in line with the research carried out by Pamungkas et al. (2017), that EPS did not affect DPR.

The average financial performance of companies listed on LQ45 was quite good based on diverse previous studies. Besides, this was the main reason for carrying out this research. Subarkah (2021) evaluated the effect of DER, CR, ROE, and EPS on these firms using multiple linear regression analysis methods. The variables analyzed in this study were adopted from Subarkah's research (2021). However, panel data regression was adopted. This is based on its usefulness because it allows for the exploration of economic effects that are unobtainable using only cross-time or cross-individual data (Ekananda, 2014). The use of panel data as an analytical tool was also employed by Medyawati & Yunanto (2021) to study the banking sector. The research carried out by Dwaikat, Gallali, and Saadeh (2021), was also used to analyze the impact of family ownership on the capital structure of firms listed on the Palestinian stock exchange. The panel data regression method was chosen because it accommodates the characteristics of heterogeneous companies.

This study aims to analyze the effect of DER, Current Ratio, ROE, and EPS on the dividend policy of LQ45 index companies listed on the Indonesia Stock Exchange from 2015 to 2020. Its contribution is to enrich the research models that analyze the factors that influence this regulation, especially in developing countries such as Indonesia. The benefits of this research serve as an alternative reference for investors in making decisions relating to investing in companies of interest.

2. Literature Review

According to Sugeng (2017), dividends are part of the profits made by a company within a certain period and are distributed to the shareholders. The reverse is the case when the firm suffers a loss. Darmawan (2018) stated that dividend policy is dependent on financial management in terms of determining the size of the ratio between profits to be distributed to shareholders in the form of cash, dividend smoothing distributed, stock dividends, and splits. This is in addition to the recall of outstanding shares, while the remaining is retained to benefit the company's operations and future investments. Sugeng (2017) reported that it is affected by the following factors (1) company liquidity, (2) Funding needs, (3) Control over the company, (4) The cost of capital on external funding sources, (5) Target capital structure, (6) Credit agreement.

2.1 Dividend Payout Ratio (DPR)

Sugeng (2017) stated that the dividend payout ratio is used to measure its size by comparing the amount (share) provided for dividends and the total amount of profits earned by the company within a certain period and is shown as a percentage. This variable is used to measure the company's managerial parameters related to determining the size of the profits distributed among shareholders and the portion retained for financial growth. Wahyuliza and Fahyani (2019), Atmoko, Defung and Tricahyadinata (2017), used DPR to measure dividend policy.

2.2 Debt to Equity Ratio (DER)

According to Kasmir (2018), the Debt to Equity Ratio is usually used to assess and compare the total debt to equity. Its comparison is used to determine the number of funds the borrower or creditor provides to the company's *owner*. Wahyuliza and Fahyani (2019) stated that the capital structure proxied by DER has a significant effect on DPR. The results of this study are in line with Laim, Nangoy, and Murni (2015), that the higher the DER, the greater the company's debt relating to either increasing or decreasing its dividend payments. Yasa and Wirawati (2016) stated that it has a negative effect on DPR. Perera's research (2016) stated that an increase in the DER value reduces the company's ability to pay dividends. Mui and Mustapha (2016) stated that leverage, as proxied by DER, has a positive and insignificant relationship with DPR. This study reported that companies with high leverage tend to pay more dividends to shareholders.

2.3 Current Ratio (CR)

This ratio is used to measure the company's security level (margin of safety). Riyanto (2010) stated that CR is the ratio between current assets and liabilities. Therefore, it is also altered by every related transaction, including changes in income level or liquidity. Widyatuti (2017) stated that a low CR indicates a problem in liquidity. Conversely, assuming that a company is too high is considered to be bad because this factor depicts a lot of idle funds, which in the end reduces the firm's profit capability. Mui and Mustapha (2016) stated that liquidity proxied by CR has a positive and significant relationship with DPR. The results of this study support the argument of agency theory that highly liquidated companies pay more dividends to avoid cash abuse by their management in NPV projects. This is because dividend payments are believed to alleviate the issue of overinvestment as well as minimize agency-related problems.

2.4 Return on Equity

According to Widyatuti (2017), ROE is a ratio that shows the extent to which a company effectively manages its capital (net worth) and measures the capital owners or shareholders' investments. Prawira et al. (2014), and Wahyuliza & Fahyani (2019), stated that ROE affects the Dividend Payout Ratio. This means that the profits obtained by the company are a good sign for investors because the number of dividends to be paid by the company is usually high.

2.5 Earning Per Share

Kasmir (2018) stated that the ratio of earnings per share, also called the book value ratio, is used to measure the management's success in making profits for shareholders. In circumstances where the ratio of earnings per share is low, it implies that they did not succeed in satisfying shareholders, and, assuming the reverse is the case, it simply means that they were satisfied. This is similar to a high rate of return. The distributed profit is the amount left after the deduction of taxes.

Laim, Nangoy and Murni (2015) stated that the higher the DER, the greater the company's debt, thereby reducing its dividend payments. Atmoko, Defung, and Tricahyadinata (2017) stated that the DER affects DPR, meaning that the lower it is, the greater the firm's ability to pay its obligations. Mui and Mustapha (2016) stated that leverage, as proxied by DER, has a positive and insignificant relationship with DPR. This study reported that companies with high leverage tend to pay more dividends to shareholders. On the contrary, Pamungkas, Rusherlistyani & Janah (2017), Hanif & Bustamam (2017), Prawira, Dzulkrirom, & Endang (2014), and Lie & Osesoga (2020), stated that DER has no effect on DPR. According to Pamungkas et al. (2017), CR affects DPR, meaning that the higher the liquidity level, the more the establishment is likely to pay dividends, which increases the investors' confidence in the company. Prawira et al. (2014) stated that CR does not affect DPR because the firm's easy does not only perceive dividend payments in paying its short-term debt. Yasa & Wirawati (2016), and Jóźwiak (2015), stated that it has a negative effect on DPR, meaning that every increase reduces the dividends received by the investors. The results of this study are inconsistent with that of Laim et al. (2015) and Lie & Osesoga (2020). According to them, CR has an insignificant effect on the DPR because liquidity is not used to pay dividends; rather, it is intended to purchase assets to take advantage of existing investments and for operational costs.

Yusof and Ismail (2014) state that the 5 factors are, earnings, debt, size, investment, and the highest shareholder, have a significant influence on dividend policy. In addition, earnings, firm size and investment were revealed to have a positive and significant effect, while debt and large shareholders have a negative and significant impact. Pramana and Sukartha (2015) stated that DER has a negative effect on DPR while Cash Ratio and ROA have a positive influence. Labhane and Das (2015) reported that larger, and more profitable firms with free cash flow, pay more dividends while riskier, more leveraged ones with high investment opportunities tend to pay less. Issa (2015) discovered that free cash flow, return on assets, and equity, earning per share, market to book value, and capitalization have a significant and positive correlation with dividend payout ratio.

Jóźwiak (2015) reported that ROE negatively affected DPR, while Mui and Mustapha (2016) stated that it did not affect dividends. Apriliani and Natalylova (2017) reported that profitability (ROA), firm size, collateral assets, and operating cash flow per share affect dividend policy. On the other hand, Pamungkas et al. (2017) reported that ROE does not affect DPR, meaning that the profits earned by a company are used for business expansion and paying short and long-term debts. Hanif and Bustamam (2017) stated

that EPS affects the DPR, meaning that companies that have large earnings per share are able to pay huge dividends as well. However, Pamungkas et al. (2017) stated that EPS does not affect DPR. This means that not all companies that earn profits tend to distribute dividends to investors, although these earnings are reinvested in more profitable ventures. Baker, Dewasiri, Korralage, and Azeez (2018), stated that firm size, industry impact, corporate governance, free cash flow, earnings, past dividends, profitability, investment opportunities, networking capital, concentrated ownership structure and investor preference represent the most important determinants, besides, this was confirmed by a survey. Based on the description of previous studies and the objectives of this research, the complete model is shown in Figure 1.

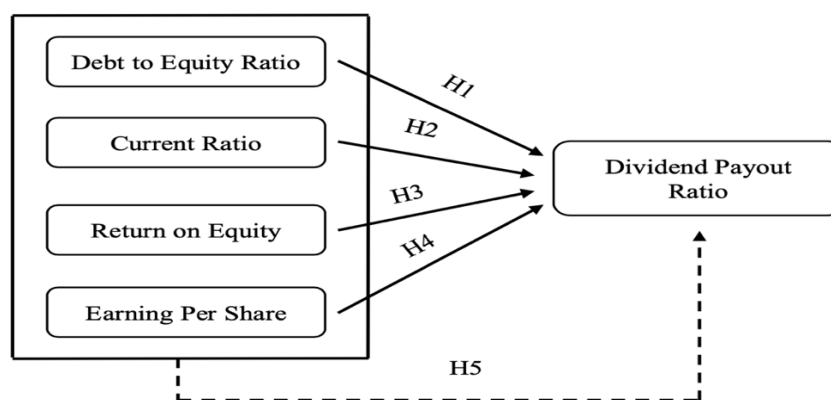


Figure 1. Research Model

2.6 Relationship Between Variable

2.6.1 Effect of DER on DPR

The solvency ratio used in this study is proxied by DER, used to measure the extent to which company assets are funded by debt. The lower the DER value, the better the firm's condition because it is safer for creditors during liquidity. Wahyuliza and Fahyani's research (2019) stated that DER affects dividend policy, which led to the proposition of the first hypothesis.

H1: DER has an effect on DPR

2.6.2 Effect of CR on DPR

The liquidity ratio used in this study is CR, and a high value depicts that the company is in a liquid condition where it is able to take advantage of its current assets to pay short-term obligations expected to mature in the future. Pamungkas et al. (2017) stated that CR affects dividend policy under disclosed conditions. In this study, it was estimated that the CR affects dividend policy, which led to the second hypothesis.

H2: CR affects DPR

2.6.3 Effect of ROE on DPR

ROE is the profitability ratio used, and the higher its level, the better the company's position. Prawira et al. (2014) stated that it affects dividend policy, thereby resulting in the formulation of a third hypothesis.

H3: ROE has an effect on DPR

2.6.4 Effect of EPS on DPR

The market ratio adopted was proxied by Earning Per Share used to measure the company's ability to cater to the shareholders' welfare. A high EPS simply means that the management succeeded in satisfying them because the rate of return obtained was increased. This variable tends to affect dividend policy, as disclosed by previous research carried out by Hanif and Bustamam (2017). This study reported that EPS affects dividend policy, which led to the fourth hypothesis.

H4: EPS has an effect on DPR.

2.6.5 Effect of DER, CR, ROE, and EPS on DPR

The four independent variables, namely DER, CR, ROE, and EPS, each have a basis for influencing dividend policy, either collectively or simultaneously. This simultaneous effect was detected through the feasibility or F test of the model, using the calculated F and

significance values obtained. In this study, it was suspected that the DER, CR, ROE, and EPS collectively impact dividend policy, thereby leading to the fifth hypothesis.

H5: DER, CR, ROE, and EPS simultaneously affect DPR.

3. Research Method

Secondary data source in each sampled companies' financial statements published from 2015 to 2020 was used. The reason for choosing 2015 as the initial research year is that the performance of the Composite Stock Price Index (JCI) was volatile throughout this period, including the sharp increase and decrease, making it interesting to study. The source used is the financial statements of sample companies listed on the Indonesia Stock Exchange (IDX). The dependent variable is dividend policy which is proxied by the DPR. The DPR was used to determine the number of dividends distributed because it measures the ratio between DPS and the firm's EPS. The population in this study is publicly traded companies that are included in the LQ45 index listed on the Indonesia Stock Exchange (IDX) from 2015 to 2020. The sample, part of the population, was selected based on certain characteristics. This research employed the *purposive sampling* technique, and the determining criteria are as follows, (1) Companies that are included in the LQ45 index listed on the IDX from 2015 to 2019, (2) those that report their finances in Rupiah currency, (3) Firms that distributed dividends for a minimum of 5 years from 2015 to 2020, (4) Published financial statements that have been audited annually from 2015 to 2020. Based on these, 24 companies were used as samples.

In accordance with the details of the selected samples, there are 2 wholesale durable and non-durable industries, including PT AKR Corporindo Tbk (AKRA) and PT United Tractors Tbk (UNTR), 1 automotive company and its components, namely PT Astra Internasional Tbk (ASCII), 5 banks, such as PT Bank Central Asia Tbk (BBCA), PT Bank Negara Indonesia (Persero) Tbk (BBNI), PT Bank Rakyat Indonesia (Persero) Tbk (BBRI), PT Bank Tabungan Negara (Persero) Tbk (BBTN) and PT Bank Mandiri (Persero) Tbk (BMRI). Apart from these, there was an animal feed company, namely PT Charoen Pokphand Indonesia Tbk (CPIN), one property and real estate establishment, such as PT Ciputra Development Tbk (CTRA), 2 tobacco manufacturing industries PT Gudang Garam Tbk (GGRM), and PT HM Sampoerna Tbk (HMSP). Furthermore, there were 2 food and beverage companies, namely PT Indofood CBP Sukses Makmur Tbk (ICBP) and PT Indofood Sukses Makmur Tbk (INDF), and 2 cement industries, including PT Indocement Tunggul Prakarsa Tbk (INTP) and PT Semen Indonesia (Persero) Tbk (SMGR). Other establishments listed in the LQ45 index are a toll road service providers' firm known as PT Jasa Marga (Persero) Tbk (JSMR), a pharmaceutical company called PT Kalbe Farma Tbk (KLBK), a coal mining industry, PT Bukit Asam Tbk (PTBA), and an advertising and media establishment, PT Surya Citra Media Tbk (SCMA). Next, an information and communication as well as service provider and telecommunications network company known as PT Telekomunikasi Indonesia (Persero) Tbk (TLKM), a cosmetic and household industry, namely PT Unilever Indonesia Tbk (UNVR), and 2 building construction companies, called PT Wijaya Karya (Persero) Tbk (WIKA) and PT Waskita Karya (Persero) Tbk (WSKT). Secondary data obtained from the Indonesia Stock Exchange through the website www.IDX.co.id was used in this study, while the variables studied are DER, ROE, EPS, and DPR.

The first step in panel data regression analysis is to generate three possible schemes such as common, fixed, and random effect models. This is followed by the Chow Test to determine the most appropriate between the Common Effect Model (CEM) and Fixed Effect Model (FEM). However, assuming the fixed effect model is selected as the appropriate one, the Hausman test is performed to determine which is better. In circumstances where the common effect model is selected, the Lagrange Multiplier Test is used to determine the most appropriate one between random and common effect models. The subsequent step is to perform the classical assumption test, which includes normality, multicollinearity, heteroscedasticity, and autocorrelation, to verify the validity of the linear regression model. It is also used to determine whether there is residual normality, multicollinearity, autocorrelation, and heteroscedasticity. A linear regression model is presumed to be good, supposing it fulfils the numerous classical assumptions, such as when the residual data is normally distributed, there is no multicollinearity, heteroscedasticity, and autocorrelation.

4. Results and Discussion

4.1 Results

The research object is the LQ45 Index Company listed on the IDX from 2015 to 2020. Meanwhile, there were 45 companies within this period, and only 24 met the criteria and were selected using purposive sampling. To facilitate the image presentation, the highest average values of the following variables, DER, CR, ROE, EPS, and DPR, were obtained from 10 companies from 2015 to 2020. The DER data of 10 companies that obtained the highest average value is shown in Figure 1, as follows.

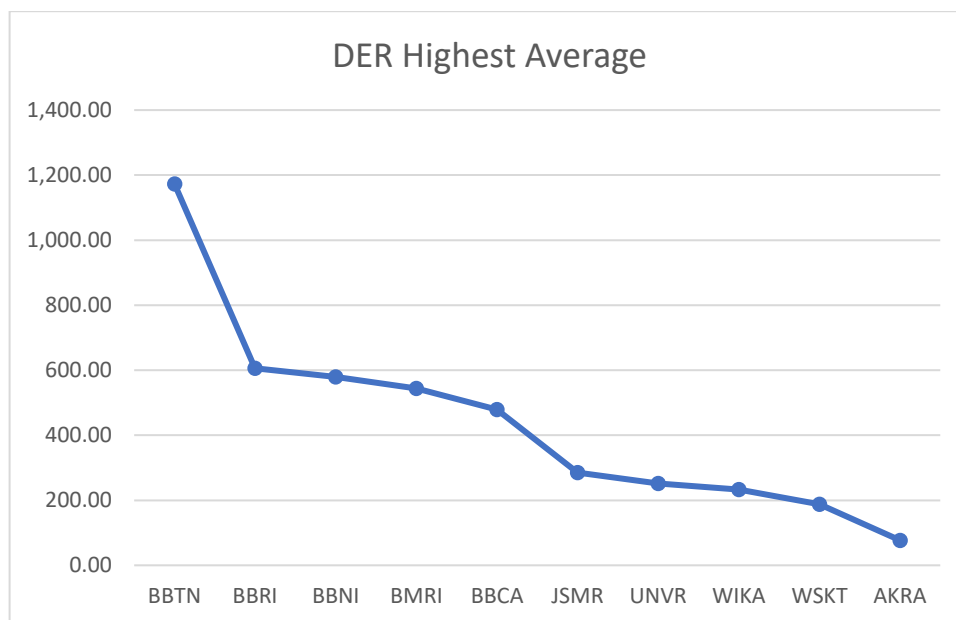


Figure 1: The Highest Average DER Value of 10 LQ45 Companies

In Figure 1, it is evident that the DER chart fluctuated during the study period. Moreover, of the 10 companies with the highest average DER value, the one with the BBTN code was placed in the first position because it had a value of 1085.94%, while the lowest is the AKRA, which had a value of 17.68%. A large DER ratio of more than 1000 percent indicates that the company is in poor condition because debt is greater than equity. The pandemic likely caused this in early 2020, namely February to March. A decrease of 104.71 trillion rupiahs which is equivalent to 33.8%, was recorded in BBTN's profit in 2020, compared to 2019's profit of 156.48 trillion rupiahs (Dewi and Sitanggang, 2021).

The CR graph of the 10 companies with the highest average fluctuated during the study period, as shown in Figure 2. The highest and lowest values of 493.04%, and 52.19%, were obtained by companies with the HMSP and UNTR codes, respectively.

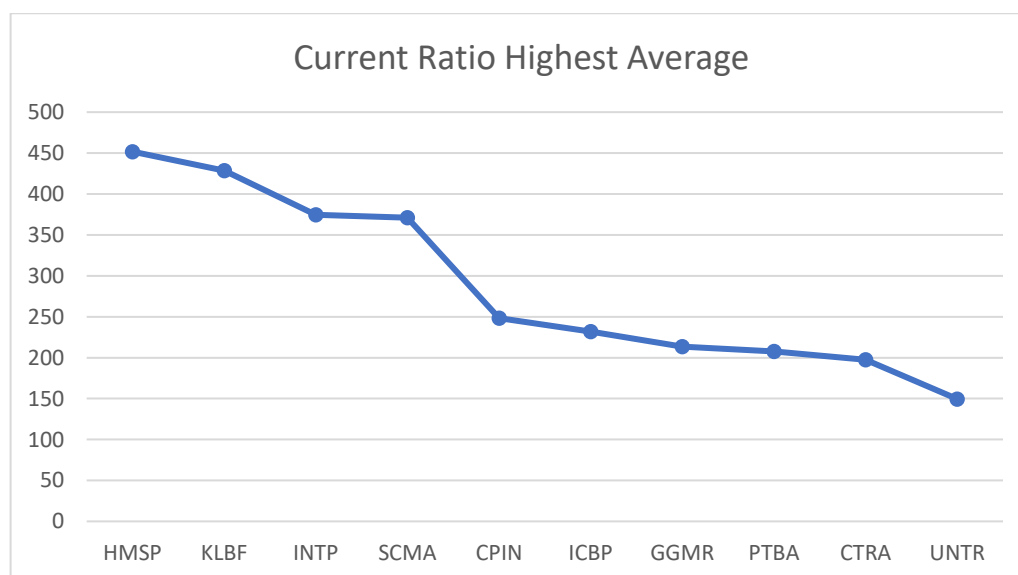


Figure 2: The Highest Average Current Ratio Value of 10 LQ45 Companies

The following is a complete picture of fluctuations in research data from the ROE of 10 companies that achieved the highest ROE value, which can be seen in Figure 3, as follows.

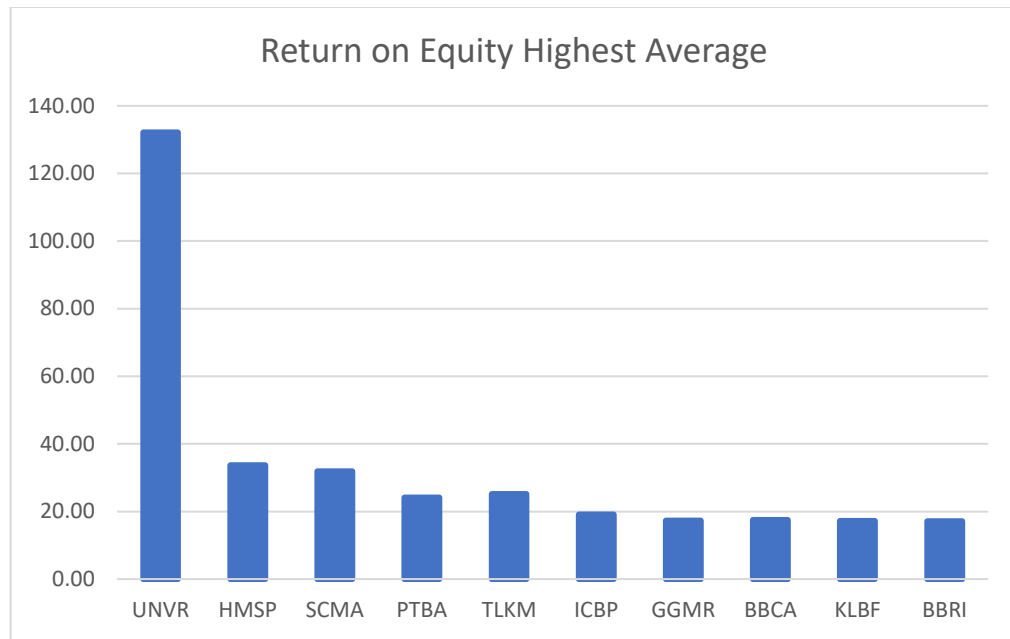


Figure 3: The Highest Average ROE of the 10 LQ45 Company

Figure 3 is a graph of ROE for the 10 samples or companies with the highest value during the study period. Firms obtained the highest and lowest ROE values with UNVR and BBRI codes of 130.53% and 8.62%, respectively. Next is the EPS of 10 samples or companies, and figure 4 shows that the chart fluctuated during the study period. The highest and lowest EPS values were obtained by companies with GGRM and INDF codes of IDR 4,110 and 49.8, respectively.

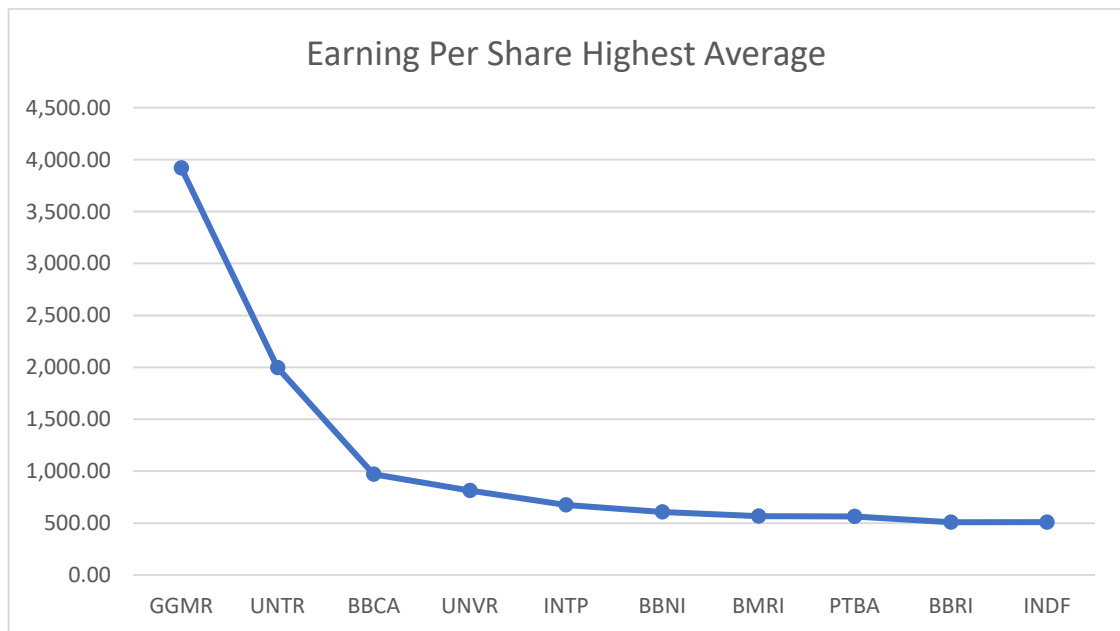


Figure 4: The Highest Average EPS of the 10 LQ45 Companies

The following data, namely the average value of the highest DPR in 10 companies, are shown in Figure 5. In Figure 5, it is evident that the DPR chart fluctuated during the study period, from 2015 to 2020. The highest and lowest values were obtained by companies with the INTP and CTRA codes of 107.8% and 12.8%, respectively.

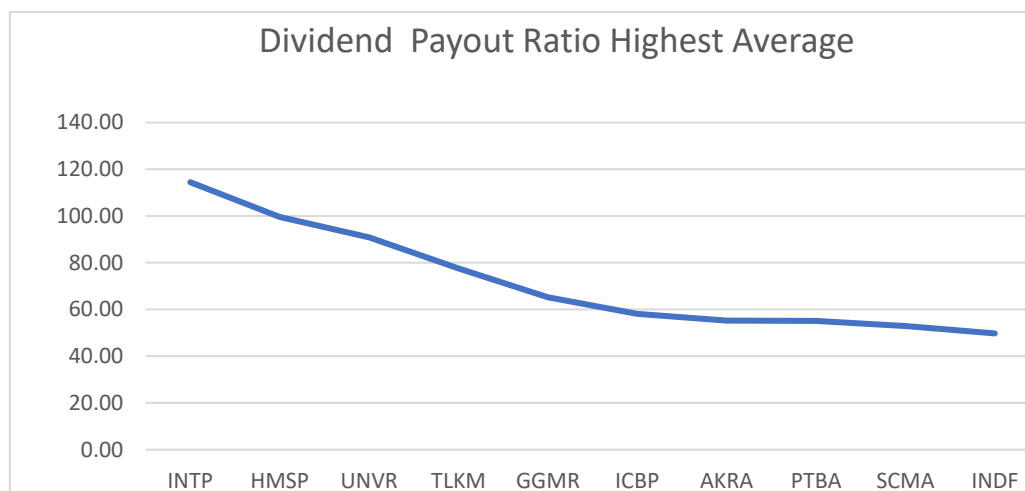


Figure 5. Dividend Payout Ratio Highest Average of 10 LQ45 Companies

The next stage is the selection of the appropriate model, in addition, to the estimated results of the common, fixed, and random effects displayed in Tables 4, 5, and 6, followed by their related regression equations.

Table 4: Common Effect Model

Variables	Coefficient	Probability
DER	0.000750	0.9173
CR	0.148613	0.0000
ROE	0.632725	0.0000
EPS	0.006317	0.0142

R-squared = 0.20

Based on the estimated results using CEM, it was discovered that DER does not affect dividend policy (DPR). It is affected by 3 variables, namely CR, ROE, and EPS, and the coefficient of determination obtained is 20%. The next step is to carry out a similar analysis using the FEM, as shown in Table 5.

Table 5: Fixed Effect Model

Variables	Coefficient	Probability
C	0.490900	0.0000
DER	-0.062776	0.0176
CR	-0.050764	0.0990
ROE	0.059680	0.8499
EPS	-0.012231	0.0041

R-squared = 0.7822

In accordance with the estimated results using FEM, it was discovered that DER and EPS affected dividend policy (DPR). On the other hand, CEM was used to prove that ROE and CR affect DPR, while the DER had no impact on DPR. The next process is to conduct a Chow test to determine the suitable model, as shown in Table 6.

Table 6: Chow Test Result

Effect Test	Statistic	d.f	Prob.
Cross-section F	10.324362	(22,111)	0.0000
Cross-section Chi-square	153.720671	22	0.0000

Table 6 shows that the probability value and appropriate model is 0.000 and FEM, respectively. The next process is to use the REM, as shown in Table 7.

Table 7: Random Effect Model

Variables	Coefficient	Probability
C	0.44588	0.0000
DER	-0.047937	0.0006
CR	-0.014114	0.5654
ROE	0.332284	0.0288
EPS	-0.007325	0.0238

R-squared = 0.1835

Based on the estimated results using REM, it was discovered that DER, ROE, and EPS affect dividend policy (DPR). In contrast to the use of FEM, it appears that ROE does not have any effect on DPR. The next process is to conduct the Hausman test to determine the appropriate model, as shown in Table 8.

Table 8: Hausman Test Result

Test Summary	Chi-Sq Statistic	Chi-Sq. d.f	Prob.
Cross-section F	17.455764	4	0.0016

Hausman test results show that the appropriate model in this study is FEM; therefore, the panel data regression equation is stated as follows.

$$DPR = 0.490900 - 0.047937*DER - 0.014114*CR + 0.332284*ROE - 0.012231*EPS$$

Based on the normality test results with Kolmogorov-Smirnov (K-S), the Asymp level was obtained as Sig of 0.200; therefore, the data was concluded to be normally distributed. Subsequently, the heteroscedasticity test results show that the points do not form a clear pattern; rather, they spread above and below the number 0 on the Y-axis. This indicates that there was no heteroscedasticity problem in the research model, and it is suitable for predicting the independent and dependent variables. The autocorrelation test results showed that the VIF value of the DER, CR, ROE, and EPS are 2,345, 2,363, 1,114, and 1,130, respectively. Meanwhile, the tolerance value for the DER, CR, ROE, and EPS are 0.426, 0.423, 0.898, and 0.885, respectively. All variables show a tolerance value greater than 0.10 and a VIF value less than 10. It was concluded that there was no indication of multicollinearity between the independent variables. Fortunately, the research model is feasible, assuming the DW value is at $dU < DW < 4-dU$. This simply infers that there is no autocorrelation. The statistical value of the Durbin-Watson test obtained is 1,897, and it was concluded that the data does not show autocorrelation symptoms.

The next stage is to carry out an F test to ensure that the research model is feasible to use, with the hypothesis that DER, CR, ROE, and EPS have an effect on dividend policy (proxied by DPR). The calculated F value obtained is 19,464 with a significance level of 0.000. The data processing result shows that the significance level is less than 0.05. This indicates that DER, CR, ROE, and EPS collectively affect DPR. All variables deserve to be included in the research model, which analyzes the effect of DER, CR, ROE, and EPS on dividend policy in companies included in the LQ45 index.

4.2 Discussion

4.2.1. The Effect of DER, CR, ROE, and EPS on DPR: Fixed Effect Model

The results show that DER has a negative effect on the dividend policy implemented by LQ45 index companies listed on the Indonesia Stock Exchange from 2015 to 2020. The results of this study are in accordance with the theory put forward by Fahmi (2020) that the lower the DER value, the better because the company is in a safer condition for creditors even during liquidation. There is no limit to how safe its value is. However, when greater than 66% or 2/3, it is considered as being risky. In this study, the DER value of the company that became the dominant research sample was greater than the normal safe limit of 66%. A high value implies that debt is also getting higher, which tends to impact the company's ability to pay dividends to shareholders. The results of this study are consistent with that of Yasa & Wirawati (2016) and Parera (2016) that DER has a negative effect on DPR. This is inconsistent with research carried out by Pamungkas, Rusherlistyani & Janah (2017), Hanif & Bustamam (2017), and Prawira, Dzulkrirom, & Endang (2014), that DER does not affect DPR. The study shows the ratio of long-term loans to equity; this variable does not affect dividend policy.

4.2.2. Effect of Current Ratio (CR) on Dividend Policy

The data processing results show that CR does not affect dividend policy. This is in line with the research carried out by Fahmi (2020), that companies with moderate CR are considered to be good, while those with high values are reportedly bad. For the managers, having a high CR level is good, as creditors presume the establishment is in good condition. Although this does not

apply to shareholders who consider high CR to be a bad thing, they are of the opinion that managers do not properly and effectively utilize current assets. However, Sugeng (2017) stated that a firm with a high level of liquidity means that it has the ability to pay greater dividends to shareholders rather than when low. This study is consistent with Pamungkas' research et al. (2017), that CR affects DPR. Interestingly, it is not in line with the research carried out by Laim et al. (2015) that CR does not affect DPR.

4.2.3. Effect of Return on Equity (ROE) on Dividend Policy

The results show that ROE does not affect dividend policy. This research was completed in 2020 when Indonesia started to experience the pandemic at the beginning of March, which greatly affected the estimated results. Theoretically, Widyatuti (2017) stated that ROE is used to determine the extent to which the company can manage its capital effectively and measure its investments. On the other hand, the choice to distribute profits in the form of dividends tends to reduce their internal sources of funds. However, supposing the company's profits is in the form of retained earnings, the ability to generate internal funds is expected to be even greater. This study is in line with the research carried out by Pamungkas et al. (2017), that ROE does not affect DPR.

4.2.4. Effect of Earning Per Share (EPS) on Dividend Policy

The acquired results show that EPS affects the dividend policy of the company. It supports the theory put forward by Kasmir (2018) that this variable is used to measure the management's ability to make profits for shareholders based on shares owned. Meanwhile, assuming the EPS ratio is found to be high, it means that their welfare has soared or the rate of return is high. On the other hand, supposing the EPS is low, it simply indicates that the company's management has failed to satisfy its shareholders. This study is consistent with Hanif and Bustamam's research (2017) that EPS affects DPR.

5. Conclusion

Based on the results obtained, it was concluded that DER and EPS negatively affect dividend policy, respectively. It was explained that a high DER value implies that long-term debt is enormous, and this reduces the company's ability to pay dividends to shareholders. High earnings per share mean the firm is in good condition, although this affects its ability to pay dividends to shareholders. Variables CR and ROE do not affect dividend policy and are explained as follows. A high level of liquidity indicated by the CR value means that the company is in good condition and it has no effect on dividend policy. A high rate of return on capital indicates that the establishment is in good condition and does not affect the company's ability to pay dividends to shareholders.

Investors need to consider the value of DER and EPS in measuring the company's performance because these ratios have the greatest impact in terms of influencing the dividend policy. For these companies, the results of this study provide additional information about the importance of these variables because investors usually pay attention to them; therefore, their values need to be kept in a good position. The limitation of this research is that the research is only devoted to companies listed in the LQ45 index; further research can be carried out on companies in the same sub-sector so that the data obtained is more dynamic. Future researchers are also expected to add other variables; that can affect dividend policy such as Return on Assets and company growth.

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