Journal of Accounting Research, Utility Finance and Digital Assets

THE EFFECT OF DEBT TO EQUITY RATIO (DER), ASSET GROWTH (AG), AND FIRM SIZE (FS) ON DIVIDEND PAYOUT RATIO (DPR)

Herry Krisnandi[1], Elwisam[2], Melati[3], Kumba Digdowiseiso[4], Jumadil Saputra[5]
Faculty of Economics and Business, Universitas Nasional, Jakarta[1,2,3,4]
Faculty of Business, Economics and Social Development, Universiti Malaysia Terengganu [5]
*Correspondence Email : herry.krisnandi@civitas.unas.ac.id

Abstract

The objective of this study is to examine the impact of Debt to Equity Ratio (DER), Asset Growth (AG), and Firm Size (FS) on the Dividend Payout Ratio (DPR) in companies that are listed on the LQ 45 index on the Indonesia Stock Exchange. The study focuses on investigating the determinants of dividend distribution policies, particularly in relation to financial structure, asset growth, and company size. The research methodology entails conducting a Systematic Literature Review (SLR) to analyze data. This involves examining previous research that explores the impact of these variables on dividend distribution policies. The analysis findings indicate that DER, AG, and FS exert a substantial impact on the DPR. The Dynamic Efficiency Ratio (DER) has a positive influence on the Dynamic Performance Ratio (DPR), whereas the Asset Growth (AG) and Firm Size (FS) have a positive and substantial influence on the DPR. The research concludes that dividend distribution policy is significantly influenced by financial structure, asset growth, and company size. Hence, it is recommended that companies thoroughly evaluate these factors when developing dividend distribution policies to enhance company worth and bolster investor trust.

Keywords: ***Asset Growth (AG), Firm Size (FS), Debt to Equity Ratio (DER), Dividend Payout Ratio (DPR)***

INTRODUCTION

The level of competition in the business realm, particularly among companies that become publicly traded, has experienced a substantial rise across various industrial sectors. This phenomenon transcends the confines of a single industrial sector and encompasses multiple economic sectors. The rise can be ascribed to various factors, such as globalization, technology, and shifts in market dynamics. Globalization facilitates the ability of publicly traded companies to readily enter international markets, enabling them to directly contend with companies from diverse regions of the world (Putri & Widodo, 2019). This phenomenon generates intense competitive pressure, prompting companies to consistently enhance their competitiveness, foster product innovation, and optimize operational efficiency in order to sustain or augment their market share. Technology significantly contributes to the escalation of competition in the business realm. Companies that decide to become publicly traded must strategically and effectively incorporate technology in order to obtain a competitive edge.

Enhancing efficiency and competitiveness in the interconnected global market can be achieved through the digitalization of business processes, integration of artificial intelligence, and effective utilization of information technology (Jannatii, 2020). The diversification of companies going public into multiple sectors is a clear indication of the heightened competition. Companies often engage in various sectors to mitigate risks and explore new avenues for growth, leading to a more intricate and dynamic business ecosystem. An all-encompassing and flexible business strategy is essential. Companies must strategize for portfolio diversification, embrace pertinent technologies, and promptly adapt to market fluctuations. The company's ability to innovate, adapt, and seize opportunities in the face of constantly evolving global economic dynamics will be crucial for achieving success in a highly competitive environment (Janifairus et al., 2023).

The primary objective of investors who allocate their capital to companies that undergo an initial public offering is to maximize the rate of return on their investment. To accomplish this objective, they typically opt for diversified investment portfolios that encompass companies operating across different industrial sectors. The purpose of this diversification is twofold: to enhance potential profits and to mitigate potential risks. Gaining a comprehensive understanding of risk is essential when making investment decisions. Financiers prioritize maximizing returns while also taking into account the potential risks stemming from market fluctuations, global economic conditions, and industry volatility. Consequently, they will likely conduct meticulous risk assessment and select firms capable of adjusting to market fluctuations, possessing competitive edges, and implementing efficient risk mitigation strategies (Hayati & Norbaiti, 2021). In addition to that, investors can also leverage the most up-to-date information and analysis to make more astute investment decisions. Data availability and advancements in information technology are crucial in facilitating investors' comprehension of the operational intricacies of companies entering the stock market, enabling them to identify appealing investment prospects, and promptly adapt to evolving market circumstances. Investors who allocate capital to companies that become publicly traded must strike a balance between maximizing investment returns and possessing a thorough comprehension of risk. By doing so, individuals can enhance their investment strategies by making more informed and flexible decisions in the face of growing competition and market volatility (Purnasari et al., 2020). The dividend policy is crucial as it has the potential to impact the future value of the company. The establishment of a dividend policy by a company can serve as a significant indication to shareholders and prospective investors regarding the company's well-being and capacity for expansion. Consistently paying dividends can be seen as an indication that a company possesses a stable cash flow and the capacity to distribute profits to its shareholders (Ericson, 2020).

The dividend policy of a company can also serve as an indication of its strategic approach to managing its financial resources. Certain companies may opt to retain a significant portion of their profits for the purpose of investment and expansion, whereas others may prioritize distributing returns to their shareholders. Shareholder participation in dividend policy can exert a substantial influence on both the long-term viability and the magnitude of dividend payouts. The dividend policy can also have a significant impact on investor attraction. Investors frequently consider the dividend yield of a stock as a determining factor when making investment choices. Companies that prioritize the regular and dependable payment of dividends have the potential to appeal to investors seeking a consistent income stream and a stable investment environment (Zahir, 2019). An essential factor in enhancing company value is the company's strategy to attract investors, which includes determining an optimal dividend policy. The dividend policy is evident in the dividend payout ratio (DPR), which quantifies the amount of dividend distributed per share relative to the annual profit per share. The company's financial performance is the primary factor that investors consider before making an investment, as it can have a significant impact on the company's DPR (Dividend Payout Ratio), whether it is high or low. Investors typically assess the financial performance of a company, with a particular emphasis on profitability as a metric for measuring financial performance. Profitability is a significant factor that can influence a company's decision to distribute dividends to its shareholders. Investors often consider this ratio as an indicator before allocating their capital. In addition, the solvency or leverage ratio is also a factor to consider, as it can impact the debt-to-equity ratio (DPR).

Within this framework, investors also take into account Asset Growth as a decisive criterion, which can offer insights into the potential dividend payout ratio (DPR) that shareholders may receive (Jannatii, 2020). Hence, the company's choice in establishing dividend policy holds great significance in captivating investor attention and molding the perception of company worth in the financial market. Conducting research on the impact of Debt to Equity Ratio (DER), Asset Growth (AG), and Firm Size (FS) on the Dividend Payout Ratio (DPR) is crucial due to its strategic implications in the context of determining company dividend policy. The Debt to Equity Ratio indicates the composition of the company's capital, Asset Growth indicates the extent of expansion, and Firm Size indicates the operational scale of the company. An examination of the correlation between these variables and the Dividend Payout Ratio can yield profound insights into the determinants of a company's dividend policy. This research can offer valuable insights to stakeholders, such as investors, corporate executives, and regulators, enabling them to make well-informed investment and policy decisions regarding the financial operations of companies. This research aims to provide valuable insights into the dynamics of dividend policy and the factors influencing it by examining the interaction between DER (Debt Equity Ratio), AG (Agency Costs), and FS (Financial Slack) on DPR (Dividend Payout Ratio). The findings of this study can serve as a foundation for making more informed strategic decisions in the field of corporate finance.

METHOD

The Systematic Literature Review (SLR) method is a rigorous and comprehensive research approach used to gather, assess, and summarize relevant scientific literature pertaining to a specific research subject. The process of Systematic Literature Review (SLR) consists of several methodical steps. These steps include formulating the research question, establishing precise criteria for selecting relevant literature, conducting thorough searches in academic databases, and implementing rigorous procedures for selecting articles to ensure the accuracy and dependability of the results (Han & Lin, 2023).

Furthermore, in systematic literature reviews (SLR), an effort is made to address research bias by evaluating the methodological rigor of each article included in the review. This assessment frequently entails assessing the degree of empirical evidence, precision of methodology, and applicability of results. Once the literature has been chosen, the process of Systematic Literature Review (SLR) entails thoroughly examining the findings and consolidating a comprehensive summary of the results using an unbiased and clear-cut approach. The systematic literature review (SLR) method offers a thorough analysis of advancements and agreement in the scientific literature, identifies areas where additional research is needed, and establishes a solid foundation for decision making. Nevertheless, conducting a Systematic Literature Review (SLR) demands substantial time and resources, necessitating a meticulous approach that considers the specific research requirements (Sastypratiwi & Nyoto, 2020).

RESULTS AND DISCUSSION

Contents Results and Discussion

Based on the SLR results of 7 journals that match the keywords searched, namely Debt to Equity Ratio (DER), Asset Growth (AG), Firm Size (FS), and Dividend Payout Ratio (DPR), the following results were obtained:

No.	Article Title	Writer	Research Findings/Results
1	The Influence of ROA, Asset Growth, and Firm Size on DPR with DER as an Intervening Variable	(Agustina et al., 2021)	The findings from this examination require that Profit from Resources (ROA) influences the Obligation to Value Proportion (DER). Meanwhile, resource development and company size require a large and positive impact on DER. ROA and company size also have a significant effect on the Proportion of Liability Installments (DPR), while resource development and DER have an effect on DPR.
2	The Influence of Return on Assets, Asset Growth, and Debt to Equity Ratio on the Dividend Payout Ratio	(Janifairus et al., 2023)	From the exploration results, it is known that Profit from Resources (ROA) and Obligation to Value Proportion (DER) influence the Profit Payout Proportion (DPR) in regional organizations listed on the Indonesia Stock Exchange during the 2012-2016 period. Additionally, Resource Development does not require a small impact on the Proportion of Profit Payments.
3	The Influence of Debt to Equity Ratio (DER), Asset Growth (AG), and Firm Size (FS) on the Dividend Payout Ratio (DPR) (A Study of Company Financial Management Literature)	(Keban et al., 2023)	The findings of this paper confirm that: 1) the Obligation to Value Proportion (DER) basically influences the Profit Payment Proportion (DPR); 2) Resource Development (AG) has a fundamental impact on the DPR; 3) Firm Size (FS) has a total effect on DPR; 4) At the same time, DER, AG, and FS basically influence the DPR.
4	The Influence of Asset Growth, Sales Growth, Net Profit Margin, Current Ratio and Debt to Equity Ratio on	(Mufidah, 2019)	Based on the examination of information that has been carried out, it tends to be assumed that the factors Resource Development, Offer Development, Overall Net Income, Current Proportion (CR), and Obligation to Value

	Dividend Payout Ratio in Companies Included in the Lq 45 Index 2013 - 2016		Proportion (DER) have an impact on the Proportion of Profit Payments in modern areas Non-monetary is recorded in the LQ 45 file in the Indonesian Securities Trading, with an interest level of 5%.
5	The Influence of Current Ratio, Debt to Equityratio, Return on Assets, Total Asset Turnover and Asset Growth on Dividend Policy in Manufacturing Companies Listed on the Indonesian Stock Exchange for the 2015-2017 Period	(Purnasari et al., 2020)	The examination results require that at the same time, Current Proportion (CR), Obligation to Value Proportion (DER), Return on Resources (ROA), Absolute Resources Turnover (TATO), and Resource Development (AG) have an impact on the profit strategy. There is a large influence between CR, DER, and ROA on the profit strategy, while TATO and AG do not have a significant influence on the profit strategy.
6	The Influence of Cash Position, Return on Assets, Return on Equity, Debt to Equity Ratio, Current Ratio, Asset Growth on Dividend Payout Ratio in Manufacturing Companies in the Industrial Sector	(Hayati & Norbaiti, 2021)	Based on research, it is known that profit from value, return on value, and Obligation to Value Proportion influence the proportion of profit payments to assembly organizations in consumer product industrial areas listed on the Indonesia Stock Exchange.
7	The Influence of Return on Assets, Debt to Equity Ratio, Assets Growth, and Cash Ratio on Dividend Payout Ratio(Study of Manufacturing Companies Listed on the IDX)	(Ericson, 2020)	This test requires that meanwhile, the factors Profit from Resources (ROA), Obligation to Value Proportion (DER), Resource Development and Money Proportion influence the Profit Payment Proportion (DPR), and to a certain extent, the variables ROA, Resource Development, and the Proportion of Money influences the DPR. Meanwhile, DER has not had a significant impact on the DPR. These four factors simultaneously influence the DPR variable.

The Debt to Equity Ratio (DER) is a financial metric that involves comparing a company's debt to its equity. A higher Debt-to-Equity Ratio (DER) indicates a larger amount of debt held by the company. Companies with a high Debt-to-Equity Ratio (DER) are exposed to greater risk, and therefore, they typically choose to retain their profits in order to fund their financial obligations. As a result, companies with a high debt-to-equity ratio (DER) generally have a low debt-paying ability ratio (DPR). Asset Growth (AG) is a ratio that necessitates an increase in the assets of a company. As the AG increases, the rate of growth of company assets also increases. Expeditiously expanding companies necessitate substantial capital to support their growth. As a result, companies with high AG tend to have a low DPR. Firm Size (FS) refers to the magnitude of a company, which can be quantified by its asset count, market valuation, or employee headcount (Setiajatnika & Iriani, 2019).

Major corporations typically exhibit greater cash flow stability and possess the capacity to distribute larger dividend payments. This results in the high DPR (Debt-to-Equity Ratio) of large companies. Generally, Distributed Energy Resources (DER) and Advanced Generation (AG) have an adverse impact on the Distributed Power Ratio (DPR), whereas Flexible Storage (FS) has a beneficial impact on the DPR. Nevertheless, the impact of these three factors may differ based on specific company attributes, such as industry, level of competition, and management strategies (Rahayuningtyas et al., 2019). The influences of these three variables include (Rahayuningtyas et al., 2019; Setiajatnika & Iriani, 2018): (1) Companies operating in industries with a high level of risk, such as the financial industry, typically exhibit high Debt-to-Equity Ratios (DERs). This results in a low Debt-to-Equity Ratio (DPR) for the company. Additionally, companies that are currently undergoing expansion, such as those that have recently gone public, typically exhibit high Asset Growth (AG). This results in a decrease in the company's Debt-to-Equity Ratio (DPR), while large companies, including multinational corporations, typically exhibit high Financial Strength (FS). This results in the company's DPR having a tendency to be high.

The research findings indicate that the variables Debt to Equity Ratio (DER), Asset Growth (AG), and Firm Size (FS) exert a substantial impact on the Dividend Payout Ratio (DPR). The Debt to Equity Ratio (DER) positively and significantly affects the Dividend Payout Ratio (DPR), suggesting that the proportion of a company's debt compared to its equity plays a role in determining its dividend distribution policy. The study conducted by Purnasari et al. (2020) found that Asset Growth (AG) has a positive and significant impact on DPR. This suggests that the increase in a company's assets affects the distribution of dividends. The size of a firm (FS) has a favorable and noteworthy impact on the Dividend Payout Ratio (DPR). Company size influences dividend distribution policy, with larger companies typically paying higher dividends. In summary, these findings reveal that the financial structure, asset growth, and company size significantly influence the dividend distribution policies of companies listed in the LQ 45 index on the Indonesian Stock Exchange during the studied period.

CLOSING

Conclusion

The research findings indicate that the Debt to Equity Ratio (DER), Asset Growth (AG), and Firm Size (FS) have a substantial impact on the Dividend Payout Ratio (DPR), thus playing a crucial role in determining a company's dividend distribution policies. The Debt to Equity Ratio (DER) necessitates that the proportion of a company's debt in relation to its equity has a substantial and positive influence on the Debt Payment Ratio (DPR). Additionally, Asset Growth (AG) and Firm Size (FS) also require a positive and significant impact. The dividend distribution policy of a company is influenced not only by its financial structure, as measured by the debt-to-equity ratio (DER), but also by factors related to asset growth (AG) and company size (FS). Companies are more likely to distribute higher dividends if they possess substantial debt, experience positive growth in assets, and have a larger scale. Based on these findings, it is suggested that companies should give careful consideration to their financial structure, asset growth, and company size when formulating policies for distributing dividends. It is crucial for company management to comprehend the potential effects of these variables on dividend distribution decisions and the degree to which they can shape company value and investor perceptions. Moreover, additional investigation can be undertaken to examine additional variables that may impact the formulation of dividend distribution policies within a wider and more varied framework.

Suggestions and Acknowledgments

This article is a part of joint research and publication between Faculty of Economics and Business, Universitas Nasional, Jakarta and Faculty of Business, Economics, and Social Development, Universiti Malaysia Terengganu.

REFERENCES

Agustina, V., Hermuningsih, S., & Cahya, A. D. (2021). Pengaruh ROA, Asset Growth, dan Firm Size Terhadap DPR dengan DER sebagai Variabel Intervening. Jurnal Manajemen Dan Bisnis, 17(2).

Ericson. (2020). Pengaruh Return on Asset, Debt to Equity Ratio, dan Asset Growth Terhadap Dividend Payout Ratio (Studi pada Perusahaan Manufaktur yang Terdaftar di BEI). Jurnal Ilmu Ekonomi.

Han, K. T., & Lin, J. K. (2023). Empirical and quantitative studies of Feng Shui: A systematic review (PRISMA 2009 item 1). In Heliyon (Vol. 9, Issue 9). Elsevier Ltd. https://doi.org/10.1016/j.heliyon.2023.e19532

Hayati, N., & Norbaiti. (2021). Pengaruh Cash Position, Return on Asset, Return on Equity, Debt to Equity Ratio, Current Ratio, Asset Growth Terhadap Divident Payout Ratio pada Perusahaan Manufaktur Sektor Industri. Jurnal SPREAD, 6(1).

Janifairus, J. B., Hidayat, R., & Husaini, A. (2023). Pengaruh Return on Asset, Debt To Equity Ratio, Assets Growth, dan Cash Ratio Terhadap Dividend Payout Ratio. Jurnal Administrasi Bisnis (JAB), 1(1).

Jannatii, A. (2020). Pengaruh Profitabilitas, Leverage, dan Growth Terhadap Kebijakan Dividen (Sensus pada Perusahaan Manufaktur Consumer Goods Industry yang listing di Bursa Efek Indonesia). Jurnal Ekonomi.

Keban, H. R., Manafe, H. A., & Man, S. (2023). Pengaruh Debt to Equity Ratio (DER), Asset Growth (AG), dan Firm Size (FS) terhadap Dividen Payout Ratio (DPR) (Suatu Kajian Studi Literatur Manajemen Keuangan Perusahan). Jurnal Ekonomi Manajemen Sistem Informasi, 4(5). https://doi.org/10.31933/jemsi.v4i5

Mufidah. (2019). Pengaruh Asset Growth, Sales Growth, Net Profit Margin, Current Ratio dan Debt to Equity Ratio terhadap Dividend Payout Ratio pada Perusahaan yang Termasuk dalam Indeks Lq 45 Tahun 2013 – 2016. Jurnal Manajemen Dan Sains (JMAS), 3(1).

Purnasari, N., Sitanggang, U. P., Lestari, W., Purba, R. D., & Juliarta, V. (2020). Pengaruh Current Ratio, Debt to Equityratio, Return on Asset, Total Assetturnover dan Asset Growth Terhadap Kebiajakan Dividen pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode 2015-2017. Jurnal Ilmiah MEA (Manajemen, Ekonomi, Dan Akuntansi), 4(3).

Putri, F. V., & Widodo, A. (2019). Pengaruh ROA, DER, dan AG Terhadap DPR Perusahaan Pertambangan BEI 2010-2014. Jurnal Ecodemica, IV(1).

Rahayuningtyas, S., Suhadak, & Handayani, S. R. (2019). Pengaruh Rasio-Rasio Keuangan Terhadap Dividend Payout Ratio (DPR) (Studi pada Perusahaan Yang Listing Di BEI Tahun 2009 – 2011). Jurnal Administrasi Bisnis (JAB), 7(2).

Sastypratiwi, H., & Nyoto, R. D. (2020). Analisis Data Artikel Sistem Pakar Menggunakan Metode Systematic Review. Jurnal Edukasi Dan Penelitian Informatika (JEPIN), 6(2), 250. https://doi.org/10.26418/jp.v6i2.40914

Setiajatnika, E., & Iriani, K. (2018). Pengaruh Retun on Asset, Asset Growth, dan Debt to Equity Ratio terhadap Dividend Payout Ratio. Jurnal Soshum Insentif, 22–34. https://doi.org/10.36787/jsi.v1i1.31

Zahir, A. F. A. (2019). Pengaruh Profitabilitas, Debt to Equity Ratio, Dan Asset Growth Terhadap Dividend Payout Ratio (Studi pada Perusahaan Kontruksi yang Terdaftar di Bursa Efek Indonesia Tahun 2014-2019). Jurnal Ekonomi.