Effect of Company Performance on Earning Per Share with Dividend Payout Ratio as Intervening Variable in LQ 45 Companies

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Abstract: The purpose of this study is to look at the effect of company performance on Earning per share with dividend payout ratio as an intervening variable in LQ 45 companies. Company performance is seen from the current ratio, debt to equity, total asset turnover and return on equity. This study uses path analysis techniques. The research data used is the period from 2013-2017. The results showed that not all company performance had a significant positive direct effect on Earning per share in companies LQ 45 during the period 2013-2017 listed on the Indonesia Stock Exchange.

Keywords: Current Ratio; Debt to Equity; Total Asset Turnover; Return on Equity; Earning per Share; Dividen Payout Ratio; dan LQ 45 Indonesia

JEL Classification: G1; M2

1. Introduction

Successful companies are companies that often use good ideas to create good value for shareholders. Factors that influence company value are company size, company growth, company uniqueness, asset value, dividend, electricity savings, capital structure, exchange rate fluctuations, company receivables, total assets, and capital market conditions (Kushartono & Nurhasanah, 2017).

In investing their capital, the company sets a profit policy to follow up on the profit that can be allocated with two gains, namely dividend distribution and retained earnings. Dividends are part of shareholder profits usually in the form of cash while retained earnings (earnings retaining) are available profits held for shareholders.

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The company's growth indicates the company's ability to maintain its business continuity. In general, fast-growing companies have positive results in terms of strengthening their position on the competitive map, enjoying sales that have increased significantly and accompanied by an increase in market food. Fast-growing companies also enjoy the benefits of the positive image obtained, but the company must be extra careful because the success that is obtained causes the company to be vulnerable to negative issues.

Thus, the higher the value of earnings per share the better the performance of the company. However, in predicting the value of earnings per share in the future, an analytical tool is needed to find out whether the financial information produced is useful and useful to determine the progress of earnings per share. One popular analysis tool is financial ratio analysis, the ratio in financial statement analysis is a number that shows the relationship between the elements of financial statements stated in a simple mathematical form (Jurningan, 2011).

The theory used to simplify this research information is theory according to the bird-in-the-hand theory, shareholders prefer high dividends compared to dividends to be distributed in the future and capital gains. This theory assumes that dividends are more certain than capital income. There are various considerations which believe that earnings per share are influenced by the company's financial performance. Besides, the company's growth and development is also reflected in the company's financial performance. Management and investors make the company's financial performance the basis for monitoring the company's financial condition. Company performance can be seen through financial ratios in the company's financial statements. The theory used to simplify this research information is theory according to the bird-in-the-hand theory, shareholders prefer high dividends compared to dividends to be distributed in the future and capital gains.

Company financial statements are the results of financial statements during a certain period that are used as information for prospective investors before investing their capital. Information on financial statements issued by companies is the easiest type of information to obtain. Financial statements are very useful for investors to determine the best and profitable investment decisions (Tandelilin, 2010).

2. Literature Review

2.1. Signaling Theory

Based on Signal Theory, rational investors will see that the increase in the value of the company comes from the use of high debt, so investors may offer a higher share price after the company issues debt to buy back the outstanding shares. Investors view debt as a signal of company value (Sudana, 2011).

Judging from investor relations and dividends, unexpected changes in dividend payments are an indication for investors about changes in profits earned by the company which in turn will trigger changes in stock prices. The condition of asymmetric information investors tends to interpret changes in dividends as a change in management's views on the prospects of corporate profits.

2.2. Bird-in-the-hand Theory

Bird in the hand theory is one of the theories in dividend policy, this theory was developed by Myron Gordon and John Lintner. Gordon and Lintner stated that there is a relationship between firm value and dividend policy, the company's own capital costs will rise if the Dividend Payout Ratio is low because investors prefer to receive dividends rather than capital gains, dividend yields are considered to be more secure and safer.

2.3. Earning Per Share (EPS)

According to Fabozzi (2011) Earning per share is a comparison between the profits available to ordinary shareholders (after-tax earnings minus preferred stock dividends) with the weighted average number of shares outstanding during the calculation period do. Formula to determine the number of EPS is:

$$EPS = \frac{NIAT - Devidend\ Preferred\ Stock}{Number\ of\ Share\ Outstanding}$$

2.4. Dividend Payment Ratio

The ratio of dividend payments determines the amount of profit that can be held as a funding source. The greater the retained earnings, the less the amount of profit allocated for dividend payments. According to Munawir (2012), this ratio can be searched by the following formula:

$$Dividend\ Payout\ Ratio = \frac{\text{Dividen}}{\text{net profit}}\ \text{X}\ 100\%$$

2.5. Liquidity Ratio

Liquidity ratio is the ability of a company to measure how liquid a company is. the measurement of the liquidity ratio used is the Current Ratio (CR). CR is a current ratio to measure the ability of a company to pay short-term liabilities or debts that are immediately due at the time of collection. The formula used for CR is:

$$CR = \frac{Current\ Assets}{Current\ Liabilities}\ \text{X}\ 100\%$$

2.6. Solvency Ratio

Solvency ratio is a ratio used to measure efficiently where a company's activities are financed by debt. The proxy used is Debt to equity (DER). DER is a comparison between total company debt to total equity held by the company. According to the formula, the formula used for DER is:

$$DER = \frac{Total\ Liabilities}{Total\ Equity}$$ Kali

2.7. Activity Ratio

Total turnover assets is a ratio to measure the turnover of all company assets and measure the number of sales generated from each of these assets. The greater the TATO ratio, the more income the company gets, so it will indirectly increase the number of dividends that can be given to shareholders. The formula used for TATO is:

$$\text{TATO} = \frac{Sales}{Total\ Asset} \text{x}100\%$$

2.8. Return on Equity (ROE)

According to Diaz & Jufizen (2014), ROE is a measurement of income available to company owners (ordinary shareholders and preferred shareholders) for the amount of capital they invest in the company. In general, capital profitability is analyzed using the formula:

$$\text{ROE} = \frac{\text{net profit}}{\text{Capital/ Total Aktiva}}$$

3. Research Methodology

The scope of this study is to discuss the effect of company performance on dividend payout ratio and return on assets as a variable intervening for companies registered in LQ 45 for the period 2013-2017. The company performance uses the variables Current Ratio, Return on Equity, Return on Assets, Debt to Equity Ratio and Total Asset Turnover. This research data was obtained from the internet (www.idx.co.id and http://www.idx.co.id/id-id/beranda/publikasi/lq45.aspx). The data analysis method used is path analysis with structural equation models as follows:

Sub-structural Equations I:

$$\mathbf{EPS = \alpha + \rho_1 CR + \rho_2 DER + \rho_3 TATO + \rho_4 ROE + \rho_5 DPR + e_2 \ldots\ldots\ldots 1}$$

Sub-structural Equations II:

$$\mathbf{DPR = \alpha + \rho_6 CR + \rho_7 DER + \rho_8 TATO + \rho_9 ROE + e_1 \ldots\ldots\ldots\ldots\ldots\ldots 2}$$

Where EPS is Earning Per Share, DPR as Dividend in Payout Ratio, CR as Current Ratio, DER as Debt to Equity Ratio, TATO as Total Asset Turnover, ROE as Return on Equity, α as Constants, $\rho_{1\text{-}9}$ as Regression Coefficient, and e_1- e_2 as an Error of Term.

4. Results and Discussion

The results of path analysis show the total influence, direct influence, and indirect influence, regarding the role of ROA as an intervening variable. This can be seen from the following table:

Table 1. Direct Effect (DE), Indirect Effect (IE), Total Effect (TE)

PENGARUH	Bobot DE	Bobot IE	Bobot TE
CR → EPS	0,37	0,00	0,37
DER → EPS	1,37	0,00	1,37
TATO → EPS	-0,50	0,00	-0,50
ROE → EPS	0,16	0,00	0,16
DPR → EPS	0,02	0,00	0,02
CR → DPR	0,43	0,08	0,05
DER → DPR	0,39	0,29	0,07
TATO → DPR	0,36	-0,01	0,03
ROE → DPR	0,29	0,03	0,03

Sumber : Output, data diolah peneliti (2018)

The CR path analysis model of EPS in table 1 shows that CR has a direct effect on EPS of 0.37 and indirect effect on EPS of 0.0086. While the total effect of CR on EPS is 0.3786. The magnitude of the regression coefficient direct effect is greater than the regression coefficient of indirect influence (0.37> 0.0086), it can be concluded that the DPR can mediate the effect of CR on EPS.

The DER path analysis model of EPS in table 1 shows that EPS has a direct effect on the DPR of 1.37 and indirect effect on EPS of 0.0078. While the total effect of DER on EPS is 1.3778. The magnitude of the regression coefficient direct influence is greater than the regression coefficient of indirect influence (1.37> 0.0078), it can be concluded that the DPR can mediate the influence of DER on EPS.

The TATO path analysis model for EPS in table 1 shows that TATO has a direct effect on EPS of -0.50 and an indirect effect on EPS of 0.0072. While the total effect of CR on EPS is -0.4928. The small regression coefficient direct effect is smaller

than the regression coefficient of indirect influence (-0.50 <0.0072), it can be concluded that the DPR cannot mediate the effect of TATO on EPS.

The ROE path analysis model for EPS in table 1 shows that ROE has a direct effect on EPS of 0.16 and an indirect effect on EPS of 0.0058. While the total effect of CR on EPS is 0.1658. The magnitude of the regression coefficient direct influence is greater than the regression coefficient of indirect influence (0.16> 0.0058), it can be concluded that the DPR can mediate the effect of TATO on EPS.

Structural equation from table 1 can be formed as follows:

Structural Equation I:

EPS = 0,37CR + 1,36DER – 0,50TATO + 0,16ROE + 0,346e_1

Structural Equation II:

DPR = 0,043CR + 0,039DER + 0.036TATO + 0,029ROE + 0,271e_2

Structural Equation III:

EPS = 0,39CR + 1,36DER – 0,50TATO + 0,16ROE + 0,346e_1

Based on the results of the study stated that directly Debt to Equity Ratio has a direct and significant effect on Earning Per Share (EPS). This result is in line with the Signaling Theory that rational investors will view debt as a signal from the company to repurchase outstanding shares. As a result, the amount of debt that continues to grow makes the influence received and mediated by the company.

Current Ratio has a significant effect on Earning Per Share (EPS). This result is in line with Bird-in-the-hand theory. One theory in dividend policy is that cash in the form of dividends is more valuable than wealth in other forms or with the term "Investors view one bird in the hand as more valuable than a thousand birds in the air." This statement makes Total Asset Turnover accepted and not mediated by the company.

The implications of the results of this study consist of two implications, namely the theoretical implications and practitioners' implications which will be explained in more depth as follows:

a. For investors

The results of this study indicate that the Current Ratio has a significant positive effect on Earning Per Share (EPS), so in setting the percentage of profits in dividend-paying companies. With the increase in the CR and ROE ratios indicate that the addition of profit for shares can gain investors' operational trust in order to increase the presentation of profits in companies in LQ 45.

b. For the company

For companies to make decisions, they consider the use of debt as measured by the Debt to Equity Ratio (DER). This is because of the greater the ratio, the greater the company's profits as measured by Return on Equity (ROE). Companies whose cash and total assets are in line with high levels of profitability will certainly reduce the amount of debt caused by the company's sales tax so that the profit percentage will increase and corporate debt will be reduced in LQ 45. This can attract companies to increase profits as high as high by means of the use of debt that is limited and increase the company's cash sufficiently.

5. Conclusion

Debt to Equity Ratio (DER) has a significant positive (+) direct effect on Dividend Payout Ratio and Return On Asset Turnover (ROE) which has a significant positive (+) direct effect on the Dividend Payout Ratio (DPR). Current Ratio (CR) has a positive direct effect (+) and Total Asset Turnover (TATO) has a direct negative (-) significant effect on Earning Per Share (EPS) and in LQ 45 companies during the 2013-2017 period listed on the Indonesia Stock Exchange. Debt to Equity Ratio (DER) has a significant positive (+) direct effect on Earning Per Share (EPS) which has a positive (+) direct effect on the Dividend Payout Ratio (DPR). Total Asset Turnover (TATO) does not have a direct positive effect (+) not on the Dividend Payout Ratio (DPR) in LQ 45 companies during the 2013-2017 period listed on the Indonesia Stock Exchange. Total Asset Turnover (TATO) has an indirect effect on Earning Per Share (EPS) and is not mediated through Dividend Payout Ratio (DPR). Debt to Equity Ratio (DER) has a direct effect on Dividend Payout Ratio (DPR) mediated by Return On Equity (ROE) in LQ 45 companies during the period 2013-2017 which is listed on the Indonesia Stock Exchange.

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