IConEnt
The 4th International Conference on Entrepreneurship

THE INFLUENCE OF COMPANY SIZE, INSTITUTIONAL OWNERSHIP, AND PROFITABILITY ON DIVIDEND POLICY IN MANUFACTURING COMPANIES

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ABSTRACT

Dividend policy is important thing for companies because it can be reference for investors in making decisions to invest. This research aims to examine the effect of firm size, instiutional ownership, and profitability on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022. This research uses a quantitative approach with a sample size of 28 manufacturing companies. The data used consists of secondary data from companies annual financial statemens. The analysis used is multiple regression analysis with data processing using SPSS 27. The result show that firm size has no effect on the dividend policy, while institutional ownership and profitability have an effect on dividend policy.

Keywords - **dividend policy, firm size, institutional ownership, profitability**

INTRODUCTION

The rapid development of the global economy is driven by advancements in science and technology in the era of globalization. According to Yogantara et al. (2022), evidence of this progress can be seen in the development of the capital market, as the capital market provides access to the financial resources needed. As reported by idx.co.id (2023), the Composite Stock Price Index (IHSG) of Indonesia increased by 4.09% in 2022, reaching a position of 6,850.21 compared to the previous year. This encourages public interest in investing in the Indonesian capital market.

The purpose of an individual to invest is to gain profit. According to Wahyuliza & Fahyani (2019), investors expect a return on their investments in the capital market. Dividends are one form of income distribution that companies provide to shareholders or investors. According to Sudiartana & Yudantara (2020), dividend policy is one of the funding policies. Dividend policy is the decision of whether profits will be distributed to shareholders as dividends or retained as retained earnings. In making dividend payments to shareholders, companies may face various challenges. Shareholders want dividends to be paid out as much as possible, while company management prefers to allocate profits as retained earnings for reinvestment in the future.

The increase in investment in the capital market does not mean that companies can always distribute dividends. In the Indonesia Stock Exchange, there are companies that do not distribute dividends to their shareholders. One such company is PT Gudang Garam Tbk (GGRM). As reported by cnbcindonesia.com (2023), GGRM decided to skip dividend payments to shareholders for the first time in several years in 2020. Additionally, PT Charoen Pokphand Indonesia Tbk. (CPIN) also decided not to distribute dividends in 2022. Based on

CPIN's annual report published on idx.co.id (2022), the company's performance throughout 2021 recorded a net profit of Rp. 3.62 trillion, a decrease of 5.24% compared to the previous year's net profit of Rp. 3.81 trillion in 2020.

Several factors influence companies in their dividend distribution, including company size, institutional ownership, and profitability. Company size (firm size) is a measure that indicates the scale of a company, whether large or small. The amount of dividend to be paid can also be determined by the size of the company. Larger companies have a greater opportunity to distribute larger dividends as their cash flows tend to be more stable (Rahayu & Rusliati, 2019).

Institutional ownership refers to the total shares owned by institutions or institutional investors outside the company. According to Rahayu & Rusliati (2019), oversight of company management will be higher with institutional ownership. This is due to the increased caution in decision-making by institutional investors, which may not align with the interests of shareholders. According to Khoirunnisa & Lawita (2022), one important indicator for assessing a company is profitability. Profitability can measure how well a company can generate sufficient income to cover its operational costs and produce net profits. Profitability can be calculated using Return on Equity (ROE). A high ROE indicates that the company is generating more profit with its equity. Therefore, the higher the ROE, the greater the company's potential to distribute dividends to shareholders, as the company has sufficient funds to finance its operational activities (Gunawan & Harjanto, 2019).

This research is conducted on manufacturing companies listed on the Indonesia Stock Exchange. One of the companies that plays a role in meeting societal needs is the manufacturing company. As a result, manufacturing companies continue to experience significant growth and show promising prospects for the future.

Based on the background presented, the research problem in this study is whether company size has an effect on dividend policy; whether institutional ownership has an effect on dividend policy; and whether profitability has an effect on dividend policy. The objectives of the research, based on the background and the problems outlined above, are to test the effect of company size on dividend policy; to test the effect of institutional ownership on dividend policy; and to test the effect of profitability on dividend policy.

LITERATURE REVIEW & METHODOLOGY

A. Literature Review

1. Agency Theory

In their work, Jensen & Meckling (1976) define agency theory as a contractual relationship between shareholders (principals) and management (agents) that has been mutually agreed upon. Agency theory is related to dividend policy, where there are conflicting interests between company managers as agents and shareholders (investors) as principals, leading to agency conflicts. This is because shareholders (investors) are more interested in the increase of dividends on the shares they have invested in the company (Sari & Muhammad, 2022). Meanwhile, management, which is responsible for managing the company, is likely to prefer retaining profits for future reinvestment, which can have a direct impact on the company. Agency conflicts can be mitigated, among other ways, through dividend policy. Shareholders are more likely to increase their trust in company managers if dividends can be distributed consistently.

2. Signaling Theory

According to Brigham & Houston (2018), signaling theory is an indication or signal regarding the future prospects of a company provided to shareholders by the company's management. Through dividend policy, shareholders can receive signals conveyed by the company's management. According to Sartika & Irham (2023), dividend payments can serve as a positive signal indicating that a company has sufficiently profitable prospects.

3. Dividend Policy

According to Darmawan (2018), dividends are profits distributed to shareholders based on the number of shares owned. When a company earns profits from its operations, the decision regarding the amount of dividends to be distributed to shareholders, which is determined through the General Meeting of Shareholders (GMS), is referred to as dividend policy. The proxy for dividend policy in this study is the Dividend Payout Ratio. According to Darmawan (2018), the dividend payout ratio is the cash dividends distributed to shareholders based on the available earnings, or in other words, it is used to measure the amount of dividends that will be distributed by the company compared to the earnings obtained. The Dividend Payout Ratio can be systematically formulated as follows:

$$DPR = \frac{Dividend\ per\ Share}{Net\ Income\ per\ Share}$$

4. Firm Size

Company size, according to Gunawan & Harjanto (2019), is one of the indicators used to measure the scale of a company, whether it is large or small. Company size can serve as a signal that reflects the condition of the company. According to Rahayu & Rusliati (2019), larger companies have a greater opportunity to distribute dividends. This is because larger companies can enter the capital market, making it easier to obtain capital and maintain a stronger financial position. The formula for calculating company size is as follows:

$$Firm\ Size = Ln(Total\ Asset)$$

Ln = Natural Logarithm

5. Institutional Ownership

Institutional ownership, according to Sartika & Irham (2023), refers to the ownership of shares by an institution within a company, which can be a domestic or foreign institution, agency, or organization. According to Wulansari & Lawita (2023), the amount of investment made by institutional investors can influence the level of monitoring they exert over managerial behavior. A higher level of institutional ownership results in stricter oversight, which in turn restricts managers from prioritizing their personal interests (Rahayu & Rusliati, 2019). The institutional ownership variable can be calculated using the following formula:

$$Institutional\ Ownership = \frac{Number\ of\ shares\ owned\ by\ institutions}{Number\ of\ shares\ outstanding\ in\ the\ market}$$

6. Profitability

Profitability, according to Kasmir (2022), refers to the earnings or profits that a company is able to achieve over a specific period. In this study, profitability is measured using Return on Equity (ROE). This ratio is used to assess the company's ability to manage its equity or own capital, serving as a benchmark for the company’s capability to generate net profit for every rupiah of equity. A higher ROE indicates that the company is effectively utilizing its equity or invested capital to generate net earnings, thereby enhancing its potential to distribute

profits to shareholders in the form of dividends (Gunawan & Harjanto, 2019). The calculation of ROE is formulated as follows:

$$ROE = \frac{Earning\ After\ Tax}{Total\ Equity}$$

B. Conceptual Framework

Based on the introduction, problem formulation, and research objectives, this study will focus on the influence of company size, institutional ownership, and profitability on dividend policy, as illustrated in the diagram below:

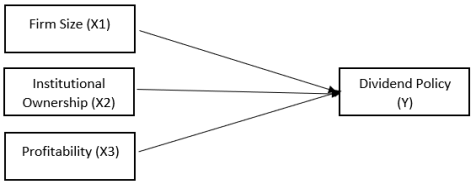

Figure 1 : Conceptual Frame Work

Based on Figure 1, the hypotheses in this study are formulated as follows: Company size has an effect on dividend policy (H1); Institutional ownership has an effect on dividend policy (H2); Profitability has an effect on dividend policy (H3).

C. Population and Sample

The population used in this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. The sampling method employed in this research is purposive sampling with specific criteria, resulting in a total of 28 companies over the four-year period, leading to a total data set of 112 observations. The criteria for sampling are as follows: manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2022; manufacturing companies with complete financial statements during 2019-2022; manufacturing companies that present their financial statements in Indonesian Rupiah; manufacturing companies that recorded profits during 2019-2022; manufacturing companies that consistently distributed cash dividends during 2019-2022; and manufacturing companies that had institutional ownership from 2019 to 2022.

D. Analysis Method

The data used in this study is secondary data obtained from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2022, processed using IBM SPSS version 27.0. The method employed in this research is quantitative, testing hypotheses to determine the influence between independent and dependent variables. This study uses multiple linear regression analysis due to the presence of more than one independent variable. Multiple linear regression analysis is conducted to examine how two or more independent variables affect one dependent variable (Wahyuliza & Fahyani, 2019). The multiple linear regression equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:
Y = Dividend Policy
α = Constant
$\beta\_1, \beta\_2, \beta\_3$= Regression coefficients
X_1 = Company Size

X_2 = Institutional Ownership
X_3 = Profitability
e = Error

RESULTS

A. Descriptive Statistical Analysis

Table I

	N	Minimum	Maximum	Mean	Std. Deviation
DPR	112	.018	2.516	.53031	.401790
Size	112	27.149	33.655	29.51549	1.669717
KI	112	.140	.934	.68041	.200765
ROE	112	.018	.385	.13900	.077660
Valid N (listwise)	112				

Based on Table 1, the total data used in this study consists of 112 observations. It can be seen that the dividend policy (Y variable), proxied by the Dividend Payout Ratio (DPR), has a minimum value of 0.018, a maximum value of 2.516, an average value of 0.53031, and a standard deviation of 0.40179. Additionally, company size (X1) has a minimum value of 27.149, a maximum value of 33.655, an average value of 29.51549, and a standard deviation of 1.669717. Institutional ownership (X2) has a minimum value of 0.14, a maximum value of 0.934, an average value of 0.68041, and a standard deviation of 0.20076. Profitability (X3), proxied by ROE, has a minimum value of 0.018, a maximum value of 0.385, an average value of 0.13900, and a standard deviation of 0.077660.

B. Classical Assumption Test

1. Normality Test

Table II
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		112
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.38510583
Most Extreme Differences	Absolute	.152
	Positive	.152
	Negative	-.093
Test Statistic		.152
Asymp. Sig. (2-tailed)		.000[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on the table, it can be observed that the significance value of the Kolmogorov-Smirnov test is 0.000, which is less than 0.05. Therefore, it can be concluded that the

regression model does not have a normal distribution. However, this is understandable as the research data in this study exhibits substantial variation due to the diverse range of company sizes. This aligns with the theories of Basuki & Prawoto (2022) and Santoso (2019), which state that if a study involves more than 30 data points, or even hundreds or thousands, it can be assumed that the data is normally distributed due to the large sample size.

2. Multicollinearity Test

Table III

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	SIZE	.893	1.120
	KI	.878	1.138
	ROE	.983	1.017

Based on the results of the multicollinearity test shown in Table 4, it can be seen that the Tolerance values for company size (SIZE) are 0.893, institutional ownership (KI) is 0.878, and profitability (ROE) is 0.983, all of which are greater than 0.1. The VIF values for company size (SIZE) are 1.120, institutional ownership (KI) is 1.138, and profitability (ROE) is 1.017, all of which are less than 10. Therefore, it can be concluded that there is no multicollinearity issue in the research data.

3. Heteroscedasticity Test

Table IV

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.590	.504		1.172	.244
	SIZE	-.015	.016	-.096	-.966	.336
	KI	.227	.131	.173	1.728	.087
	ROE	-.136	.321	-.040	-.424	.673

a. Dependent Variable: ABS_RES

Based on the results of the heteroscedasticity test using the Glejser test shown in Table 4, the significance values for each variable are greater than 0.05, namely 0.336, 0.087, and 0.673. Therefore, it can be concluded that there is no heteroscedasticity issue in the regression model.

4. Autocorrelation Test

Table V

Model	Durbin-Watson
1	1.290

b. Dependent Variable: DPR

Based on the table above, the Durbin-Watson value obtained is 1.290. Since the DW value falls between -2 and +2, it can be concluded that there is no autocorrelation present in the research.

C. Multiple Linear Regression Analysis

Table VI

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	-.703	.755		-.930	.354
Firm Size	.026	.023	.110	1.125	.263
KI	.429	.197	.214	2.176	.032
ROE	1.162	.481	.225	2.413	.017

a. Dependent Variable: DPR

Based on the table, the multiple linear regression equation obtained is as follows: DPR = -0,703 + 0,026SIZE + 0,429KI + 1,162ROE.

From the regression equation, the following explanations can be made :

1. The dependent variable, which is dividend policy (Y), has a negative constant value of **-0.703**. This means that if the company size, institutional ownership, and profitability are all equal to **0**, the Dividend Payout Ratio (DPR) would be **-0.703**.
2. The independent variable, which is company size, has a regression coefficient of 0.026. This means that if the company size increases by one unit, it will lead to an increase in the dividend policy (DPR) by 0.026 units, assuming all other variables remain constant.
3. The independent variable, which is institutional ownership, has a regression coefficient of 0.429. This indicates that if institutional ownership increases by one unit, it will result in an increase in the dividend policy (DPR) by 0.429 units, assuming all other variables remain constant.
4. The independent variable, which is profitability (measured by Return on Equity, ROE), has a regression coefficient of 1.162. This means that if profitability increases by one unit, it will result in an increase in the dividend policy (DPR) by 1.162 units, assuming all other variables remain constant.

D. Hypothesis Testing

1. Coefficient of Determination Test (R^2)

Table VII

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.285[a]	.081	.056	.39042

a. Predictors: (Constant), ROE, Firm Size, KI

b. Dependent Variable: DPR

Based on the table above, the coefficient of determination (R^2) is obtained at a value of 0.056. This means that the size of the company, institutional ownership, and profitability explain 5.6% of the variation in dividend policy. The remaining 94.4% is influenced by other variables not included in this study.

2. Simultaneous Regression Coefficient Test (F-Test)

Table VIII

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.457	3	.486	3.187	.027[b]
	Residual	16.462	108	.152		
	Total	17.919	111			

a. Dependent Variable: DPR

b. Predictors: (Constant), ROE, SIZE, KI

The criterion for the simultaneous regression coefficient test is that if the significance value of F < 0.05, there is a significant influence between all independent variables and the dependent variable used in the study. Based on Table 8, it can be seen that the significance value of F < 0.05, which is 0.027. Therefore, it can be concluded that the independent variables, consisting of company size, institutional ownership, and profitability, significantly influence the dependent variable, which is dividend policy, both individually and collectively.

3. Partial Significance Test (T-Test)

Table IX

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.703	.755		-.930	.354
	Firm Size	.026	.023	.110	1.125	.263
	KI	.429	.197	.214	2.176	.032
	ROE	1.162	.481	.225	2.413	.017

a. Dependent Variable: DPR

Based on Table 9, the following explanations can be provided:

1. The independent variable of company size shows a significance value of 0.263, indicating that the significance level of company size is > 0.05. Therefore, company size (Size) does not have an influence on the dependent variable of dividend policy (DPR), and the proposed hypothesis is rejected. This is due to the fact that companies prefer to retain their earnings to finance future activities rather than distributing those profits as dividends.
2. The independent variable of institutional ownership shows a significance value of 0.032, indicating that the significance level of institutional ownership is < 0.05. Therefore, institutional ownership (KI) has an effect on the dependent variable of dividend policy (DPR), and the proposed hypothesis is accepted. As the proportion of shares held by institutions increases, the oversight exercised by these institutions over company management becomes tighter. This results in more effective decision-making by managers, prioritizing the interests of shareholders, and consequently leading to a larger distribution of dividends.
3. The independent variable of profitability shows a significance value of 0.017, indicating that the significance level of profitability (ROE) is < 0.05. Therefore, profitability has an effect on the dependent variable of dividend policy (DPR), and the proposed hypothesis is accepted. As the level of profitability obtained by the company increases, the available funds to finance operational activities become more sufficient. Consequently, the amount of net income that can be distributed as dividends will also be higher.

ACKNOWLEDGMENT

I extend my deepest gratitude to God Almighty for granting me the strength to complete this research. I would like to thank my academic advisor for their invaluable guidance and support throughout the process. I am also grateful to my family for their unwavering encouragement and to my peers at the Faculty of Business, Kalbis University, for their assistance and motivation. Lastly, I appreciate all those who contributed directly or indirectly to the completion of this work.

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