

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Every company, especially for profit-oriented entity like state-owned enterprises, plans to increase profits so that they can appear more attractive to potential shareholders and investors. This means that businesses in the same industry will compete to show better performance in their financial statements. According to Hasanaj & Kuqi (2019), the financial statements of a company are an organized portrait of its financial transactions. To gather, analyze, and display economic data, financial statements are used extensively in the field of accounting. A manager's ability to rely on accurate and complete financial records is crucial for making good business decisions. Financial statistics are collected and analyzed so that a broad variety of users may make informed decisions about their financial futures. This data includes the current financial state of a business, as well as its past performance and any changes in its financial position (Utami, 2022).

The assessment of a company's progress can be ascertained through an examination of its financial statements. By doing so, it is possible to ascertain the financial status of the organization. Upon analyzing a company's financial statements, investors can ascertain the organization's prospects, which is deemed a crucial point for investors. The rationale behind this is that financial statements contain data that can facilitate an assessment of the company's capacity to generate investment funds, which can subsequently translate into returns for its stakeholders.

According to Prasetya Margono & Gantino (2021), the company's immediate goal is to optimize profits through effective asset management, while its ultimate objective is to enhance the overall value of the organization. In the current era of globalization, heightened competition among companies to attract shareholders and improve performance require companies to possess the ability to confront and forecast all circumstances to endure and maintain a competitive edge, particularly regarding realizing the company's principal and enduring objectives. Stock market investments should be considered by investors seeking the highest return. Inadequate evaluation of potential dangers will make investment in the stock market disagreeable, as high returns are accompanied by high risks. Investors generally examine the company's stock history, including the average return, standard deviation, dividend distribution policy, financial statements, and financial analysts' profit projections. After gathering this information, investors will evaluate it (Rodgers & McFarlin, 2017).

State-owned enterprises (BUMN) are defined by Law No. 19 of 2003, Article 1, as companies in which the state holds all or most of the capital through direct participation derived from segregated public assets (Presiden Republik Indonesia, 2003). Sovereignty is the foundation of Indonesia's political system, therefore it might be claimed that state ownership of businesses is the same as people's ownership, and that state-owned businesses thus have an obligation to report on their operations to the entire market (Wiratama & Budiwitjaksono, 2021).

Therefore, state-owned enterprises are pushed to take on the role of development agents to increase their contributions to national development,

economic growth, and tax income. In addition, state-owned businesses are crucial to support the success of many government initiatives. This may be seen in the efforts of state-run businesses to improve the country in areas like infrastructure. Putting money into state-run businesses to carry out public initiatives has reaped economic and social dividends. In the construction industry, for example, it can help to both create new jobs and reduce logistical costs (Ansari, 2022).

Dividends derived from state-owned enterprises that are publicly traded on the Indonesia Stock Exchange do not only confer advantages on the government as the primary shareholder. Public investors are also able to benefit from the profits generated by state-owned enterprises (BUMN). Dividends distributed by state-owned enterprises (BUMN) make a significant contribution to both the national economy and the Indonesian capital market sector (Febrian, 2023).

The following is a graph that shows the amount of dividends received by government from State-Owned Enterprises for each fiscal year (Databoks, 2023).

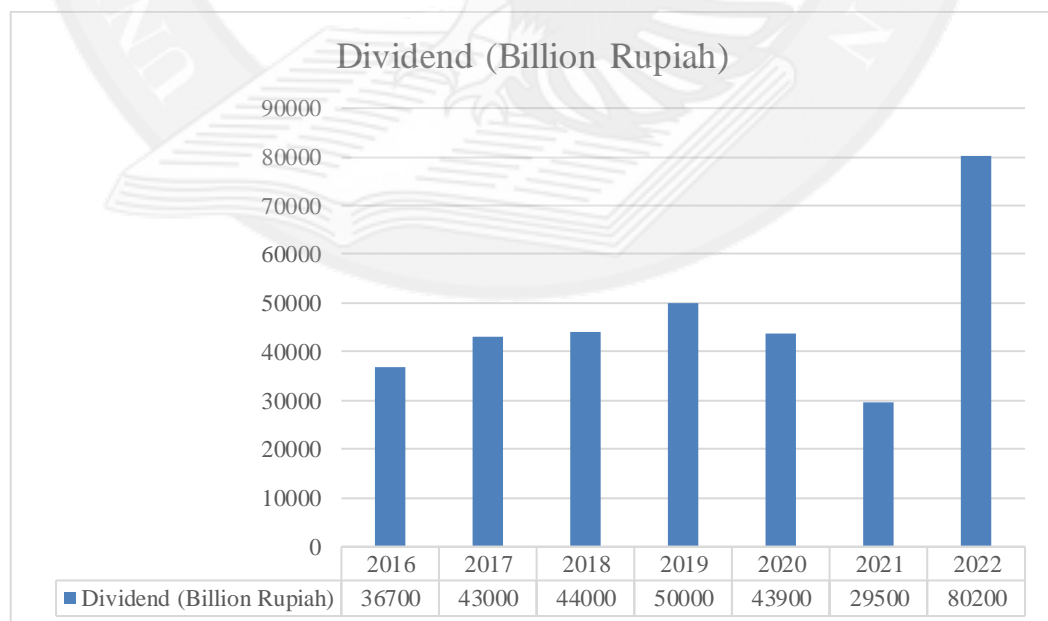


Figure 1.1 Chart of Dividend Receipts from State-Owned Enterprises

Source: Databoks (2023)

From the chart above, it can be concluded that the receipt of dividends from state-owned enterprises to the government for the year 2016 to 2019 has increased gradually, while for the year 2019 to 2021, the receipt of dividends decreased. And in 2022, dividends received from state-owned enterprises recovered significantly.

In 2016, the amount of dividend received is 36,700 billion rupiah. In 2017, the amount of dividend received is 43,000 billion rupiah which indicates a growth of 17.17% from the dividend in 2016. In 2018, the amount of State-Owned Enterprises dividend received by the government is 44,000 billion rupiah which indicates a growth of 2.33% from the dividend in 2017.

On the other hand, the amount of dividend in 2019 is 50,000 billion rupiah. Thus, this indicates that the dividend amount increases by 13.64% compared to the dividend in 2018. In addition, in 2020, the dividend received by the government is 43,900 billion rupiah which indicates a decrease of 12.2% from the dividend received in 2019. In 2021, the dividend received by government perform a decrease by 32.8% from the year 2020 with the amount of 29,500 billion rupiah. Lastly, in 2022 the dividend received by the government is 80,200 billion rupiah which equals to a significant increase by 171.86% compared to 2021.

Below are three state-owned companies PT. Bank Rakyat Indonesia (Persero) Tbk, PT. Telekomunikasi Indonesia (Persero) Tbk, and PT. Semen Indonesia (Persero) Tbk traded on the Indonesia Stock Exchange provided the information from 2016 to 2022. Dividends information of the companies are displayed as follows:

Table 1.1 The Phenomenon of Profitability and Leverage toward Dividend Policy at State-Owned Enterprises during the Period of 2016-2022

No	Nama Perusahaan	Year	ROA	DAR	DPR
1	PT. Bank Rakyat Indonesia (Persero) Tbk	2016	0.02616	0.853171	0.292419
		2017	0.025762	0.850984	0.363187
		2018	0.024997	0.85714	0.403168
		2019	0.024291	0.835114	0.470578
		2020	0.012343	0.845576	1.105399
		2021	0.018328	0.82612	0.859194
		2022	0.027555	0.837377	0.167343
2	PT. Semen Indonesia (Persero) Tbk	2016	0.10254	0.308692	0.40099
		2017	0.033626	0.387674	1.105614
		2018	0.06032	0.360068	0.268046
		2019	0.029712	0.550266	0.525021
		2020	0.032144	0.512904	0.095153
		2021	0.025894	0.453855	0.535051
		2022	0.030124	0.401044	0.425881
3	PT. Telekomunikasi Indonesia (Persero) Tbk	2016	0.162418	0.412375	0.62632
		2017	0.164754	0.435068	0.733372
		2018	0.130842	0.431109	0.991141
		2019	0.124733	0.469956	0.936757
		2020	0.119716	0.510458	0.779353
		2021	0.122475	0.475442	0.880317
		2022	0.100584	0.457608	0.901698

Source: Prepared by Writer (2023)

According to the table above, PT. Semen Indonesia (Persero) Tbk's DPR increased significantly by 95.87% between 2018 and 2019, as well as between 2020 and 2021, the DPR increased significantly by 462.31%. However, its ROA decreased significantly by 50.74% and 19,45% respectively. Additionally, the DPR of PT. Telekomunikasi Indonesia (Persero) Tbk increased by 35.15% and its ROA decreased 20.58% in 2018 compared to the data in 2017.

Another contradictory pattern emerged when the DAR was compared to DPR. In 2022, PT. Bank Rakyat Indonesia (Persero) Tbk's DPR decreased significantly by 80.52% yet its DAR increased by 1.36%. Additionally, the DPR of

PT. Semen Indonesia (Persero) Tbk between the year 2019 and 2020 decreased 81.88% significantly and DAR decreased 6.79%

According to the Supreme Audit Agency (BPK) report, in the 2021 fiscal year, State-Owned Enterprises paid dividends of IDR 30.49 trillion to the state (Databoks, 2022). As additional, in accordance with Databoks (2023), there are 10 companies who become the largest contributors in the dividend payment to the state, namely PT. Bank Rakyat Indonesia (Persero) Tbk in the first place which contributed IDR 14,046 billion, PT. Telekomunikasi Indonesia (Persero) Tbk in the third place which contributed IDR 7,738 billion, and PT. Semen Indonesia (Persero) Tbk in the tenth place which contributed IDR 522 billion.

Besides, by comparing the chart of State-owned Enterprises dividend received by government in figure 1.1 with the table of phenomenon in table 1.1, another contradicting issue is found. Based on the chart, the dividend receipt slightly increases from 2016 to 2017 amounted 17.17%, 2017 to 2018 amounted 2.33%, and 2018 to 2019 amounted 13.64%. However, the dividend receipt decreased 12.20% for the year 2019 until 2020 and 32.80% for the year 2020 until 2021. After that decrease, in 2022 the dividend received increased significantly by 171.86% (Databoks, 2022). While based on the table, the dividend payout ratio of the three State-owned Enterprises namely, PT. Bank Rakyat (Persero) Tbk, PT. Semen Indonesia (Persero) Tbk, and PT. Telekomunikasi Indonesia (Persero) Tbk are not as shown as the chart. The data shows that the dividend policy of the companies increased and decreased randomly and did not follow the pattern.

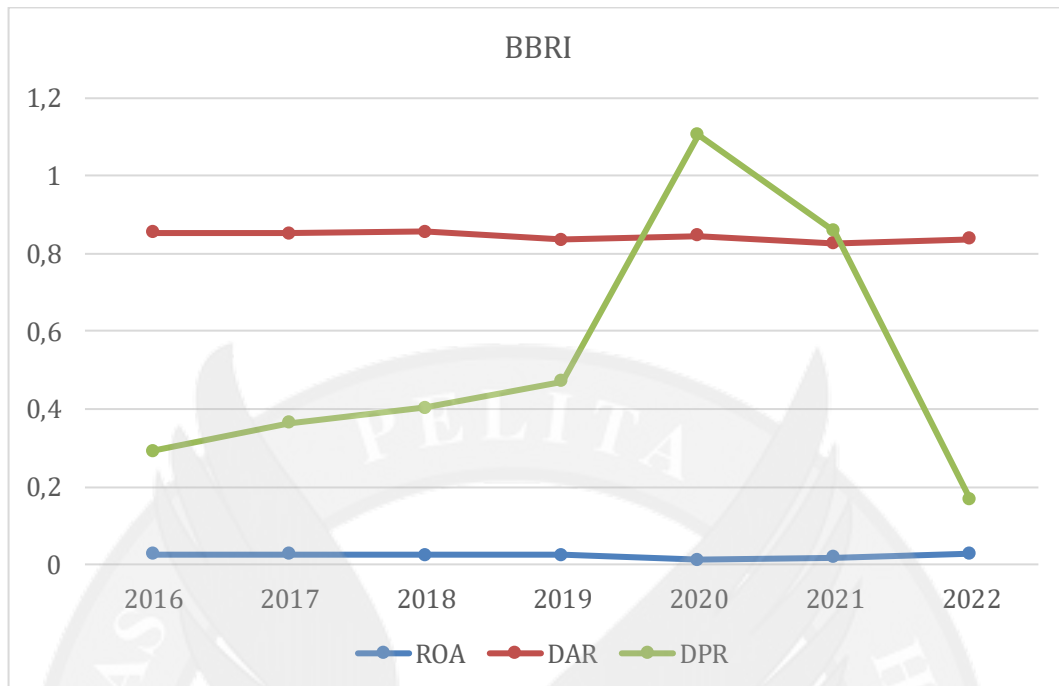


Figure 1.2 Chart of Phenomenon in PT. Bank Rakyat Indonesia (Persero) Tbk
Source: Prepared by Writer (2023)

The green line interprets the DPR of PT. Bank Rakyat Indonesia (Persero) Tbk. As can be seen from Figure 1.2, the DPR increased gradually from 2016 to 2020 by 24.2%, 11.01%, 16.72%, and 134.90% respectively. While in 2021 and 2022, its DPR decreased significantly by 22.27% and 80.52% respectively. Compared with the data from figure 1.1, there is a contradicting pattern which is the dividend receipt performed a decrease in 2020 amounted 12.20% and an increase in 2022 by 171.86%.

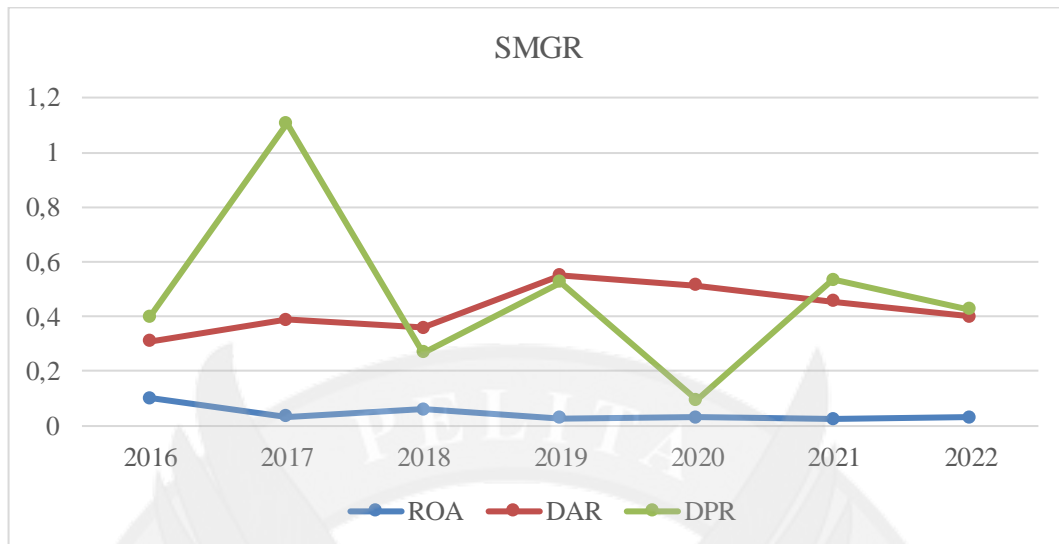


Figure 1.3 Chart of Phenomenon in PT Semen Indonesia (Persero) Tbk
Source: Prepared by Writer (2023)

The green line interprets the DPR of PT. Semen Indonesia (Persero) Tbk. As can be seen from Figure 1.3, the DPR decreased significantly by 75.76% from 2017 until 2018 and increased significantly by 95.87% from 2018 until 2019. The DPR decreased again for the year 2019 until 2020 by 81.88% and increased again by 462.31%, after that in 2022 the DPR decrease again by 20.40%. Compared with the data from figure 1.1, there are contradicting patterns which is the dividend receipt is slightly increase from 2017 to 2018 amounted 2.33% and 13.64% from 2018 to 2019. However, the dividend receipt decreased 12.20% for the year 2019 until 2020 and 32.80% for the year 2020 until 2021, while in 2022 the dividend receipt increased significantly by 171.86%.

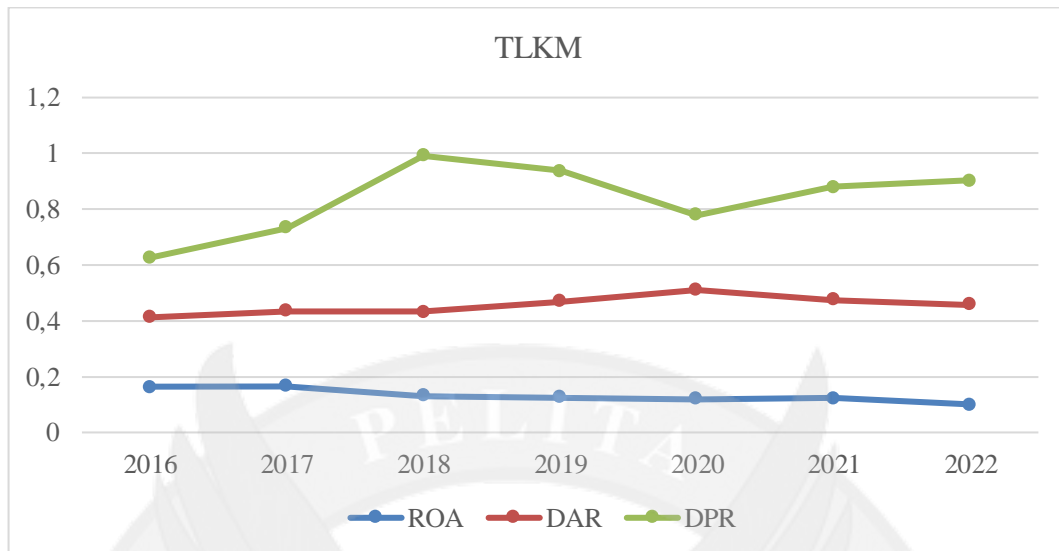


Figure 1.4 Chart of Phenomenon in PT. Telekomunikasi Indonesia (Persero) Tbk
Source: Prepared by Writer (2023)

The green line interprets the DPR of PT. Telekomunikasi Indonesia (Persero) Tbk. As can be seen from figure 1.4, the DPR increased 35.15% from 2017 until 2018 and decreasing significantly until the year of 2020, 5.49% and 16.80% respectively. From the year 2020 until 2021, the DPR increased by 12.95%. Compared with the data from figure 1.1, there are contradicting patterns which is the dividend receipt is slightly increase from 2017 to 2018 amounted 2.33% and 13.64% from 2018 to 2019. However, the dividend receipt decreased 12.20% for the year 2019 until 2020 and 32.80% for the year 2020 until 2021.

In general, a part of the profit is distributed to shareholders as dividends, while the remainder is either reinvested or held as retained profits. This available options means that a decision must be made on the amount of profit to be handed to shareholders as dividends (Jeradu, 2021). Dividend policy relates to decisions on the number of dividends to be distributed and whether retained profits should be held for future reinvestment by the enterprise. In addition, amount of the dividend

relies on the size of the profit earned. Companies that implement a dividend policy with a high dividend payout ratio face higher risk than companies that use a low dividend payout ratio.

According to Tjhoa (2020), profitability is one of the factors that is typically taken into consideration when determining whether or not a firm should pay dividends. This is something that is readily apparent when one considers the fact that dividends are, in essence, a transfer of either the earnings of the corporation or the profits that the corporation has made to shareholders. A high return on assets (ROA) is indicative of a company's ability to maximize profits through prudent management of its resources. As a result, the company will be in a better position to pay out dividends to shareholders as a percentage of earnings. According to Soi & Buigut (2020) and Lee et al. (2022), profitability has significant impact towards dividend policy. On contrary, Prša et al. (2022) and Cristina et al. (2021) stated that profitability has no significant impact on dividend policy.

Leverage is a metric that quantifies how much of a company's funding comes from debt in relation to its liquidity. In addition, it can show how much collateral was actually put up against the loan (Ekadjaja et al., 2020). Leverage analysis also provides a comprehensive evaluation of the company's ability to fulfill its commitments to its stakeholders. The high leverage value also makes debt repayment a top priority for the company. As a result, there has been a significant cut in the percentage of income earmarked for debt service. As a result of paying down debt, there is less money available for dividends. As a result of paying off its debts, the company now has less money available for investment. To put it another

way, the amount of risk that the company is exposed to will increase in direct proportion to the value of the leverage it possesses (Nainggolan & Wahyudi, 2023). According to Soi & Buigut (2020) and Lee et al. (2022), leverage has significant impact towards dividend policy. On contrary, Le et al. (2019) and Dang et al. (2018) stated that leverage has no significant impact on dividend policy.

Based on the background of the study that has been provided and explained above, it encourages the writer to do research entitled *“The Impact of Profitability and Leverage toward Dividend Policy on State-Owned Enterprises Listed on the Indonesia Stock Exchange”*.

1.2 Problem Limitation

To prevent deviating from the topic, the author set the following issue limitations:

1. The object of this research is State-owned Enterprises listed at Indonesia Stock Exchange from 2016 to 2022.
2. The dependent variable in this research is Dividend Policy.
3. The independent variables in this research are Profitability and Leverage.

1.3 Problem Formulation

Based on the previously stated background, the problem formulation in this research are as follows:

1. Does Profitability have a significant impact toward Dividend Policy on State-Owned Enterprises Listed on the Indonesia Stock Exchange partially?
2. Does Leverage have a significant impact toward Dividend Policy on State-Owned Enterprises Listed on the Indonesia Stock Exchange partially?
3. Do Profitability and Leverage have a significant impact toward Dividend Policy on State-Owned Enterprises Listed on the Indonesia Stock Exchange simultaneously?

1.4 Objective of the Research

In accordance with the problem formulations that have been described above, the objective of research which supposed to solve the problems that already been found are as follows:

1. To find out whether profitability has a significant impact toward dividend policy on state-owned enterprises listed on the Indonesia Stock Exchange partially.
2. To find out whether leverage has a significant impact toward dividend policy on state-owned enterprises listed on the Indonesia Stock Exchange partially.
3. To find out whether profitability and leverage have a significant impact toward dividend policy on state-owned enterprises listed on the Indonesia Stock Exchange simultaneously.

1.5 Benefit of the Research

The results of this study are expected to benefit everyone involved in this endeavor. These advantages can be broken down into two groups:

1.5.1 Theoretical Benefit

In conceptual terms, the author foresees that this study could potentially lay the groundwork for further investigations and references by scholars seeking to conduct supplementary research on dividend policy. The writer anticipates that the findings of this research will enhance understanding and provide valuable insights into the influence of profitability and leverage on dividend policy.

1.5.2 Practical Benefit

In practical terms, the author expects this research will be beneficial to:

1. For Scholars

This study is intended to provide information, references, and empirical data to other academics interested in doing research in the same topic.

2. For Investors

It is anticipated that the results of this study will give information and examples on the condition of the companies, particularly those that were the subject of this research. In addition, the study results may be used as inputs for investment-related decision making.

3. For Companies

It is expected that the findings of this study will provide the company with knowledge on the factors that affect dividend policy. In addition, this research may serve as a resource for managers reviewing the firm's financial

performance, allowing the business to make strategic decisions about its profitability and leverage that are predicted to separate it from dividend policy.

4. For Other Stakeholders

According to their respective interests, this research is expected to provide stakeholders with important information.

