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The Effect of Price to Book Value, Financial Performance, Company Size and Stock Trading Liquidity on Stock Split Decision (Empirical Study of Companies Listed on the Indonesia Stock Exchange in 2015-2019)

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ABSTRACT : This study aims to provide empirical evidence of the effect of price to book value, financial performance, company size, and stock trading liquidity on the company's decision to do a stock split. A stock split is a form of corporate action taken by the company by lowering the par value per share but increasing the number of shares outstanding. The research population includes all companies listed on the Indonesia Stock Exchange for the 2015-2019 period. The number of samples obtained in as many as 94 companies with the purposive sampling method. The data analysis technique used is logistic regression analysis. The results show that financial performance affects the company's decision to do a stock split, while price to book value, company size with total assets proxy, and stock trading liquidity with TVA proxy have no effect on the company's decision to do a stock split

Keywords: *stock split, price to book value, financial performance, company size, stock trading liquidity*

I. INTRODUCTION

Companies that are developing generally need funds as additional capital, where these funds are managed either to be used as working capital or for business expansion activities. Sources of funding can be done by offering company shares to the public (going public). This advantage is not only felt by the company, but also for investors, in investing their capital in the company, it can be used as a vehicle for investment in the capital market in the hope of getting a return in the future. The economy in Indonesia is increasingly helped by the existence of the capital market because the capital market serves as a vehicle for bringing together two interests, namely investors and those who need funds in terms of buying and selling various financial instruments in the capital market. The public has the opportunity to freely choose the available investment instruments by the investment objectives and risk profile of the investor.

The investment instrument that investors are most interested in stocks because it provides a relatively high return compared to other types of instruments. Shares are securities as proof of participation or ownership of individuals or organizations (agencies) in a company. Stocks offer investors the great potential for growth (capital appreciation) in the long term through the increase in the company's share price. The up and down movement of stock prices is influenced by the level of demand and supply on stock prices in the capital market. The company can be said to be in a profitable situation if there is an increase in stock prices, but the stock price fluctuates excessively (overprice) resulting in a decrease in investor demand for stock purchases. Utami (2017) also argues that high stock prices do not guarantee a high level of transactions on the demand for stocks, it can actually reduce the demand for stocks, on the contrary, low stock prices will increase the demand for these stocks As a result, the stock trading liquidity is disrupted because investors prefer to invest in companies with relatively cheaper stock prices. Facing this problem, several companies overcome it by carrying out corporate actions, namely stock splits.

A stock split is a form of corporate action taken by the company by lowering the nominal value per share of stocks but increasing the number of shares of stock in circulation. Simply put, a stock split splits one stock into n stocks which results in an increase in the number of stocks in circulation without a sale and purchase transaction changing the amount of capital. This action is usually done after the stock price has increased significantly and in maintaining the company's existence, the stock split makes the stock price more active and dynamic in its movement. In addition, issuers carry out stock splits to maintain their stocks in the optimal trading range.The act of stock splits will have a mirage effect for investors, namely investors will feel as if they are more prosperous holding a larger number of stocks. The stock split event is a cosmetic stock, in the sense that the company's actions are an effort to polish stocks to make it look more attractive in the eyes of investors even though it will not increase the welfare of investors and do not add value to the company or in other words a stock split does not provide additional economic value for company. However, a large number of studies say that the stock market reacts optimistically around the world to the announcement and execution of stock splits (Banerjee, 2019). This phenomenon raises the question that if the stock split has no economic value, why do companies do it and according to research conducted why the market also reacts to it.

The market reacting at the time of the stock split announcement, does not mean that the market reacts because the stock split information has no economic value, but reacts because it knows the company's prospects in the future which is signaled through the stock split as stated in the signaling theory. This stock split activity contains costs that must be borne so that only companies that have good prospects are able to bear these costs and as a result the market reacts positively to it. (Rahayu & Murti, 2017). Conversely, a company that does not have good prospects trying to give an invalid signal through a stock split will not be able to bear the costs, so a stock split will not increase the price of its securities but will decrease it if the market is sophisticated enough to figure it out. It can be understood that the policy of a company doing a stock split describes the condition of a healthy company, especially in terms of company finances.

Based on the trading range theory, which is the motivation for companies to split stocks, says that the price of stocks that are too high (overprice) triggers the inactivity of the stocks being traded, thus encouraging the company to do a stock split(Yasa & Sari, 2020). The increase in the price of stocks so far exceeded the expectations of all parties, in this case, the company's tendency to experience overvaluation or the expensive price of stocks. The purpose of the stock split decision for the management of the company is to accommodate the public's aspirations so that they have representative or affordable stock prices to own. Because for the public, when the price of stocks is considered too high, the desire to own those stocks becomes difficult. In this theory, it is also explained that a stock split results in a decrease in stock prices so that it will have an impact on increasing stock liquidity. Increased liquidity after a stock split can occur due to larger stock holdings and the number of transactions. The number of stockholders became more and more after the split. The increase in the number of stockholders is caused by falling prices, the greater volatility of stock prices attracts investors to increase the number of stocks they own (Adisetiawan & Atikah, 2018).

In theory, the stock split is carried out as a form of the company's efforts to increase stock trading liquidity(Untari & Yasa, 2020). However, in some cases what happened in the field showed that the theory was not fully relevant to reality. Several companies are successful with a stock split strategy to increase the liquidity of their stocks and conversely there are companies whose stocks trading liquidity decreases after the stock split. The factors that are thought to influence the stock split decision of a company in this study are price to book value, financial performance, company size, and stock trading liquidity. Price to book value (PBV) is a ratio that describes the high and low prices of stocks as well asseese the tendency of companies to experience overvalued or expensive stocks(Putra & Suarjaya, 2020). stocks with a high PBV value make it difficult for the company to reach a wider market because when the company's PBV ratio is above normal, the price of the company's shares will be very high so that not all investors, especially retail investors, dare to buy these stocks which cause investors' interest to buy stocks to decrease. . On the other hand, investors will choose to buy stocks in other companies at relatively cheaper prices. Looking at the current market conditions, the company's management tends to do a stock split to reduce the market price per share of stocks so that the stock price returns to the desired price range and stocks are liquid again because they are more attractive to trade again. The higher the PBV ratio, the higher the probability of the company to do a stock split. Budiardjo & Hapsari (2011), Lucyanda & Anggriawan (2015), Yolanda (2015), Puspita (2018); Zainuri (2020) states that price to book value (PBV) has a positive effect on the company's decision to do a stock split. However, Handayani & Yasa (2017), Ramdani et al. (2015) states that price to book value (PBV) has no positive effect on the company's decision to do a stock split.

Financial performance is a factor that can also affect the company doing a stock split. Stock split is considered as a signal given by management that the company has good prospects in the future. Companies that do stock splits are companies that have good performance conditions. That's because the better the company's financial performance, the higher the stock price. Companies should improve their performance before the stock split to signal to investors that the company's prospects will continue well in the future (Yustisia, 2018). To measure the company's financial performance can be done by using return on equity (ROE). A high return on equity reflects that the company has succeeded in generating profits from its own capital so that investors are interested in investing in the company. Investments made by investors over time will increase the price of stocks which then triggers management to do a stock split. Firdausa (2020)stated that the return on equity has a positive effect on the company to do a stock split.

The indicator of the success of the company's financial performance is profit (Hani & Assofi, 2017). Efforts to generate maximum profit cannot be separated from the effective use of company assets. Companies that have more fixed assets tend to be able to generate higher profits. How big the assets owned by the company is reflected in the size of the company. Duarsa & Wirama (2018) states that the size of the company indicates the larger and more established a company will have greater opportunities to enter the capital market. Large companies show that companies are relatively more stable, have promising prospects and are able to generate profits compared to small companies. With this, it will foster confidence for the company to do a stock split. Astuti (2015) states that company size has a positive effect on stock split decisions. However, Ramdani et al. (2015) which states that Company size has no positive effect on stock split decisions.

Another important factor that is thought to influence stock split decisions in this study is stock trading liquidity. Stock trading liquidity shows the number of transactions that occur in a certain period. The higher the transaction frequency of these stocks, the higher the liquidity of stocks trading. However, if stock trading liquidity is low continuously, it will have a bad impact on the company, even causing issuers to be delisted from the Indonesia Stock Exchange. Therefore, the company conducted a stock split to attract investors to increase stock trading liquidity.Lucyanda & Anggriawan (2015), Puspita (2018), Firdausa (2020), Astuti et al. (2018), Zainuri (2020) which states that stock trading liquidity has a negative effect on stock split decisions. While Handayani & Yasa (2017) stated that stock trading liquidity was not successful, indicating an influence on stock split decisions.

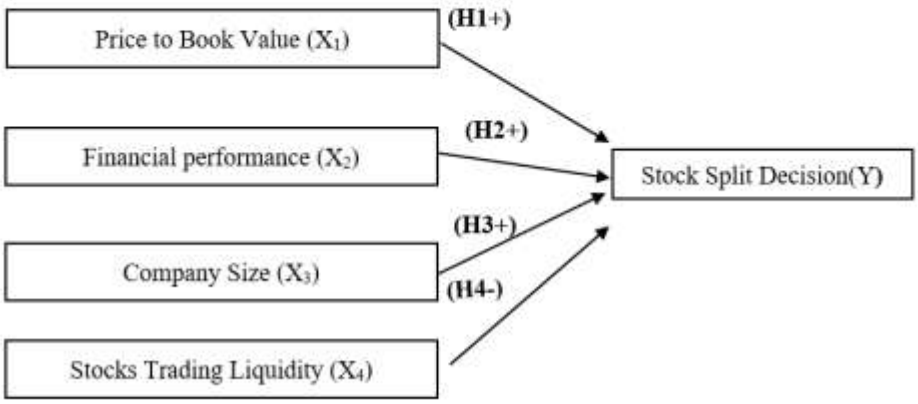

Fig. 1 Conceptual framework

Based on the background that has been described, the following hypotheses can be formulated:
H1 : Price to book value has a positive effect on stock split decisions
H2: Financial performance has a positive effect on stock split decisions
H3 : Company size has a positive effect on stock split decisions
H4 : Stock trading liquidity has a negative effect on stock split decisions.

II. RESEARCH METHODS

The approach used in this research is quantitative. This study aims to determine the effect of the independent variables, namely price to book value, financial performance, firm size, and stock trading liquidity on stock split decisions. The population in this study were companies listed on the Indonesia Stock Exchange for the 2015-2019 period totaling 436 companies. The sample in this study is using a non-probability method with a purposive sampling technique. This method stipulates that each element does not have the same opportunity to be a research sample, but only elements that meet certain conditions can be selected. The purpose of using the purposive sampling method is to obtain a specified sample. The number of samples that meet the criteria for determining the sample are 47 companies that do stock splits and 47 companies that do not do stock splits. In this study, a total sample of 94 companies was obtained. This study uses non-participant observation data collection methods. The data analysis technique used in this study is logistic regression analysis using the SPSS application program

The stock split decision is a corporate action taken by companies that have gone public (issuers) to break the nominal value of stocks into a smaller nominal value, by breaking a sheet of stocks into several pieces of stocks. The stock split policy will reduce the price of stocks so that it is expected to encourage increased transactions, thus making stocks more liquid traded and turning odd-lot investors into round lot investors. An odd lot is a condition where investors buy stocks below 100 shares (1 lot) while round lots are investors who buy stocks at least 100 shares (1 lot). The selection of stock split as the dependent variable has a quantitative nature so that measurements are made by giving a value of zero (0) for companies that do not do stock splits and one (1) for companies that do stock splits, where the variables that give values of zero and one are called dummy variables.

Price to book value (PBV) is used to find out how much the price of stocks is compared to the book value of the stocks. The stock price is the price that occurs in the stock market at a certain time and the stock price is determined by market participants. In this study, price to book value is used because it can describe whether or not the stock market price is expensive. This is reinforced by the results of research that PBV has a significant positive relationship with the price of the company's stocks.

Financial performance is the determination of certain measures that can measure the success of an organization or company in generating profits. The reason for using return on equity (ROE) is because it can describe the success or failure of the management in maximizing the return on investment of stockholders and emphasizing the return on income about the amount invested. The higher this ratio, the better because it provides a greater rate of return to stockholders, the more successful the company will be, which can be seen from its financial performance.

Company size is one indicator of the size of a company based on the scale of wealth owned by a company. The proxy used in this study to determine the size of the company is to use the natural logarithm of the company's total assets. This is because the total assets of each company are different and even have a large difference, which can cause extreme values. To avoid the existence of abnormal data, it is necessary to Ln the total assets.

Stock trading liquidity is a measure of the number of transactions of stock in the capital market in a certain period. In this study, stock trading liquidity can be measured by trading volume activity (TVA). TVA calculation is done by comparing the number of company stocks traded in a certain period with the total number of company stocks circulating in the same period. The reason for using TVA in this study is because the trading volume of stocks reflects more on the activities of investors due to the presence of new information through the sum of the stocks traded.

III. RESULTS AND DISCUSSION

A logistic regression model can be formed by looking at the estimated parameter values in Variables in The Equation. The regression model that is formed based on the estimated parameter values in Variables in The Equation is shown in table 1 as follows:

Table 1 Variables in Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	PBV	-0.304	0.179	2.898	1	0.089	0.738
	ROE	0.056	0.021	7.369	1	0.007	1.057
	SIZE	-0.194	0.125	2.391	1	0.122	0.824
	TVA	-0.015	0.162	0.008	1	0.928	0.985
	Constant	5.348	3.502	2.332	1	0.127	210.204

The Effect of Price To Book Value on Stock Split Decisions

The results of the research on the first hypothesis using logistic regression resulted that the price to book value had a negative regression coefficient of -0.304 with a significance level of 0.089 which was greater than alpha (0.05). It means that price to book value has no effect on stock split decisions for companies listed on the Indonesia Stock Exchange for the 2015-2019 period, so **H1 is rejected**.The results of this test reflect that the high and low price to book value (PBV) owned by the company cannot be used as an indicator to encourage management to do a stock split. This is because PBV is not the only variable that affects the decision to do a stock split, if the prevailing price or occurs in the market is relatively abnormal then the decision to do a stock split is not the best step, the company considers other factors as the basis for deciding to take stock action. splits such as the problem of declining market purchasing power fears that the price of stocks will reduce the liquidity of stocks, and various other factors. The results of this study are not able to confirm the trading range theory which explains that the price of stocks that are too high causes the stocks to be less actively traded because middle to lower investors or investors with limited funds are not interested in buying stocks that are too high. High stock prices will be reflected in the PBV value, so if the PBV value of a company is high, the company will do a stock split to lower the stock price so that the stock price is in the optimal trading range. Lowering the price per stock through a stock split will reach more investors, especially for small investors who prefer to buy in round-lots. However, this study did not succeed in proving the truth of the trading range theory

Effect of Financial Performance on Stock Split Decisions

The results of the research on the second hypothesis using logistic regression resulted that financial performance had a positive regression coefficient value of 0.056 with a significance level of 0.007 smaller than alpha (0.05). It means that financial performance has a positive effect on stock split decisions in companies listed on the Indonesia Stock Exchange for the 2015-2019 period so that **H2 is accepted**. The results of this test reflect the financial performance as measured by return on equity (ROE). It shows that the higher the level of the company's financial performance, the greater the tendency of management to do stock splits. This is because financial performance which is considered as a description of the results or achievements that have been achieved by the company in a certain period is a reflection of the company's health level. With the information about improving financial performance, management feels the need to convey to investors that the company currently has good financial conditions and has prospects in the future, which is signaled through stock split activities.The results of this study can confirm the signaling theory which explains that the stock split is considered a positive signal because it implies that the company is conveying the company's prospects to the public through increased profits as reflected in the company's financial performance. Companies that do stock splits require a fee, therefore, only companies that have good prospects can afford it. If the company's financial condition is not good, then the company will not do a stock split.

Effect of Company size on Stock Split Decisions

The results of the research on the third hypothesis using logistic regression resulted that the size of the company had a negative regression coefficient value of -0.194 with a significance level of 0.122 which was greater than alpha (0.05). By means that the size of the company does not have a positive effect on stock split decisions on companies listed on the Indonesia Stock Exchange for the 2015-2019 period so **H3 is rejected**. The results of this test indicate that the size of the company as measured by the total assets owned by the company cannot be used as an indicator to encourage management to do a stock split. This is because based on the tests that have been carried out, it is found that both large and small companies are doing a stock split regardless of the size of the company based on the total asset value. It can be seen from the size range between small companies and large companies which are far apart, both for companies that do stock splits and those that don't do stock splits. This situation occurs because the position of assets owned by the company has not been worried about the condition of the company's financial performance, this is because the position of the company's assets is considered to be managed properly so that the occurrence of idle assets is small. This condition can be maintained throughout the observation period as a result, size is no longer a concern of management as a variable that influences the decision to do a stock split. The results of this study are not able to confirm the signaling theory, wherein this theory it is stated that qualitatively companies have information advantages compared to outsiders and they use certain measures or facilities to imply the quality of their companies. Because in this study, high total assets do not necessarily indicate the company has better quality than companies with low total assets

Effect of Stocks Trading Liquidity on Stock Split Decisions

The results of the research on the fourth hypothesis using logistic regression resulted that stock trading liquidity has a negative coefficient value of -0.015 with a significance level of 0.928 which is greater than alpha (0.05). By means that stock trading liquidity does not have a negative effect on stock split decisions on companies listed on the Indonesia Stock Exchange for the 2015-2019 period so **H4 is rejected**. The results of this test reflect that stock trading liquidity is proxied by Trading Volume Activity (TVA), where the lower the TVA value does not affect the company's decision to do a stock split. The results of this study also contradict the trading range theory which states that the management of stock splits is driven by the behavior of market practitioners who are consistent with the assumption that doing a stock split can keep the price of stocks from being too expensive, where stocks are split because there is an optimal price limit for stocks. and to increase the purchasing power of investors so that more people are willing to trade them, which in turn will increase the liquidity of trading stocks. This is because the company is not sure enough about the holding of stock splits, this is usually related to the performance of stocks that are not enough to make potential investors confident and the uncertain or too large market risk causes higher uncertainty experienced by investors so that investors are hesitant to invest. make higher transactions. So that it will not increase the liquidity of trading stocks but will decrease the liquidity of trading stocks.

IV. CONCLUSION

This study aims to determine the effect of price to book value, financial performance, company size, and stock trading liquidity on stock split decisions in companies listed on the Indonesia Stock Exchange in 2015-2019. The results obtained through statistical testing and discussion can be concluded as follows: Price to book value does not affect stock split decisions. The results of this study indicate that the high and low value of the company's price to book value (PBV) cannot be used as an indicator that determines the company's decision to carry out a stock split policy; The company's financial performance has a positive effect on stock split decisions. Financial performance in this study is proxied by return on equity (ROE). The results of this study indicate that the higher the level of the company's financial performance, the higher the tendency of the company to decide to carry out a stock split policy; Company size does not affect stock split decisions. The size of the company in this study is proxied by the natural log of total assets. The results of this study indicate that the size of the company size cannot be used as an indicator that determines the company's decision to carry out a stock split policy, and stock trading liquidity does not affect stock split decisions. Stock trading liquidity in this study is proxied by trading volume activity (TVA). The results of this study indicate that the high and low level of stock trading liquidity cannot be used as an indicator that determines the company's decision to carry out a stock split policy.

This study only uses four independent variables, namely price to book value, financial performance, company size, and stock trading liquidity, so further researchers are expected to add other variables and replace proxies that have the potential to have an influence on stock split decisions such as company size as a proxy. with a market cap to complement and improve previous research. For further researchers, it is hoped that this research can be developed by examining stock split decisions by sector. This sector-by-sector study is expected to produce more accurate findings because the nine sector companies listed on the Indonesia Stock Exchange have different characteristics.

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