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The Influence of Firm Size, Capital Structure and Profitability on Firm Value in Food and Beverage Sub-Sector Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract:

This study aims to determine the effect of company size, capital structure and profitability on company value in food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX). The samples used were 14 from 27 populations using a purposive sampling technique with a research period of 8 years, 2015-2022. The analysis technique used is multiple linear regression. The study results show that company size, capital structure and profitability significantly affect firm value in food and beverage companies on the Indonesia Stock Exchange. Partially, capital structure impacts a firm value; profitability significantly affects firm value, while firm size has no significant impact on firm value.

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1. Introductions

The level of competition in the business world is getting tighter and tighter, causing business actors to use various methods to achieve the company's main goals. If the company can manage it well, it will enable it to achieve its desired goals. To achieve company goals, financial managers will make decisions carefully. One of the main goals of financial managers is to increase profits for their shareholders. Management in the finance department is expected to bring the company to a

better performance to increase the company's value and increase the company to a better performance to increase value and shareholder profits. In general, companies going public always try to increase company value, attracting attract investors to attract investors. A high company value reflects the excellent performance of the company.

According to Baihaqi et al. (2021), Corporate value is the market value of entity bonds. Company managers try to create high corporate value because it affects the leadership's welfare and attracts investors to invest their capital. According to Brigham & Houston (2011), Price to Book Value (PBV) is one of the variables an investor considers when deciding which stock to buy. For companies that operate well, this ratio generally reaches above one, which illustrates if the market value of the shares is greater than the book value. If the PBV ratio is more excellent, the higher the company will be valued by investors relative to the costs given to the company. Management achievement benchmarks in achieving a company's goals are crucial because they can affect other aspects, such as company value. In addition to stock prices, several other factors can influence firm value, including company size, profitability and capital structure.

According to Brigham & Houston (2011), The size of the company itself is the average value of total net sales for one year up to specific periods according to what you want to calculate (the last 5 years or 10 years). This is a standard by which the company's size can be classified. The larger the size of a company, the greater its sales and total assets Irawati et al. (2021). In this research, company size is proxied based on net sales. The total sales are used in measuring a company's size because high sales are considered capable of increasing the company's profitability. Company size can also describe a company's size, which can be shown by how many assets the company has Al-Slehat (2020). According to Fahmi (2017), capital structure is an illustration of the form of the company's financial proportions, namely between owned capital originating from long-term debt (long-term liabilities) and equity (shareholders' equity), which is a source of cost for a company. In this research, the capital structure ratio used is the Debt Equity Ratio (DER). The capital structure becomes a balance of an entity's capital by the amount of debt compared to the total capital of the company Baihaqi et al. (2021). The source of the magnitude of the ratio is directly proportional to the amount of use of the cost of debt for company capital, which can later affect the capital stock in meeting the company's capital needs. Then, the policy that is found by the company manager in managing a company's activities is a policy regarding capital structure, which is related to the ratio between the components of debt, preferred stock, and common stock.

According to Kasmir (2019), profit profit-making ability. Suppose managers in a company can manage their company well. In that case, the funds that the company will spend can be smaller so that the profits obtained will be greater. The goal of a company is to gain profitability; the higher the profitability ratio, the better the company's ability to gain profits. According to Ayem and Nugroho (2016), increased profitability will provide a positive signal to investors that the company is profitable. From an investor's perspective, profitability is the most critical indicator in measuring company value by looking at the company's prospects in the future Safiah & Kuddy (2021). Therefore, this ratio describes the final result of the company's policies and operational decisions.

This research was conducted on food and beverage sub-sector manufacturing companies listed on the Indonesian stock exchange, which publishes reports every year and sustainability reports. In this research, there were 27 manufacturing companies in the food and beverage sub-sector in 2015-

2022. Food and beverage companies are still one of the mainstay sectors supporting manufacturing growth and the national economy. Food and beverage processing is one of Indonesia's most mature industries, with many businesses competing for sales. The following is the average company size, capital structure, profitability and company value of food and beverage companies listed on the Indonesia Stock Exchange (BEI)

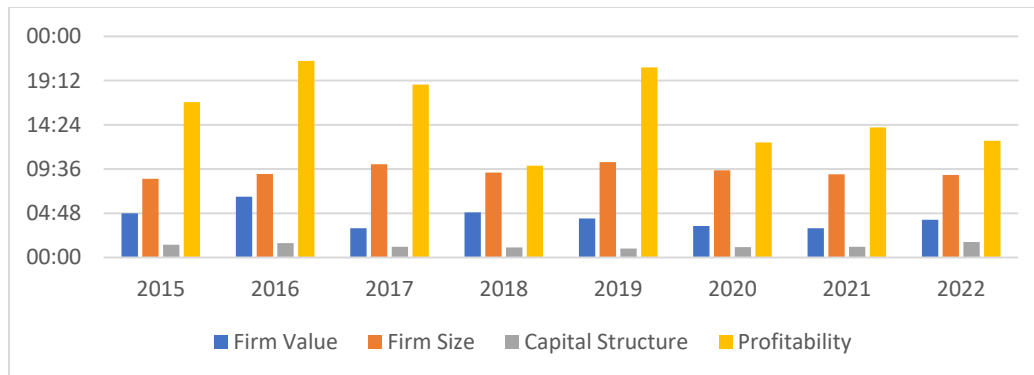


Figure I: Average Firm Value, Company Size, Capital Structure and Profitability

Source: Data Processing

Based on the picture above, the highest company value was in 2018, with a score of 4.54. Then, there was a continuous decline until 2021 to 3.10. It can be concluded that the ups and downs of the company's value can result in a lack of investor confidence to invest in the company, thus making the company's value decrease. For company size, the lowest value was in 2015, which was 8.32. Moreover, the highest value was in 2019, which was 10.21. Fluctuations in the company's value can result in a lack of investor confidence to invest in the company, thus decreasing the company's value. To increase its value, the company must improve its performance so that investors believe in its performance and want to invest in it.

Regarding capital structure, the lowest value was in 2019, namely only reaching 0.58, where the company, in this case, uses its capital rather than foreign capital or debt. Meanwhile, the highest value will be in 2022, namely 1.40, which means that the company employs more costs from debt or foreign capital than its capital. Then, the highest average profitability variable was in 2016, namely 21.20. This illustrates that in that year, the money invested in the form of assets in the company can provide high profits. In contrast, in 2018, the lowest profitability was that year, with a percentage of 9.58. The company's profitability decreased in that year because the company had more capital, which had a high cost compared to short-term capital, which cost less.

According to research conducted by Siregar et al. (2019), company size positively influences company value. Meanwhile, according to the research results of Astuti Yadnya (2019), company size does not significantly affect company value. Another variable that can affect the company's value is the capital structure, according to research conducted by (Dhani and Utama, 2017 Saputra and Lasmanah, 2020; Setiawan et al., 2021). Capital structure partially has a significant positive effect on company value. The research conducted by (Irawan and Kusuma 2019; and Syardiana et al., 2015) also produced concrete evidence that capital structure significantly negatively affects

firm value. Research by Meidiawati and Mildawati (2016) shows that profitability influences company value. According to Palupi, and Hendiarto (2018), profitability does not significantly affect firm value.

Judging from the results of previous research, there are several contradictory studies, which makes researchers interested in re-examining the effect of profitability, capital structure and firm size on firm value. Since profitability, capital structure and company size influence company value; in this study, the consumption manufacturing industry is in the cosmetics and household goods sub-sector. Based on GAP Research and the phenomenon that the author has put forward in the background description, this study raises the title Effect of Company Size, Profitability, Capital Structure on Firm Value in Food and Beverage Sub-Sector Manufacturing Companies Listed on the Indonesia Stock Exchange.

2. Literature Review

2.1 Firm Value

According to Setiawan et al. (2021), Company value is the investors' perception of the company's success rate, often associated with stock prices. Meanwhile, according to Pratiwi and Aligarh (2021), Company value is a factor used to measure the welfare provided to shareholders. So, it can be concluded that company value is the investor's view of the share price on the company's success level, which reflects the public's beliefs regarding the process the company has gone through over several years from the start of the company to the present. In general, the measurement of company value is proxied by PBV (Price to Book Value) using a formula:

$$\frac{\text{Net Income}}{\text{Total Asset}}$$

2.2 Company Size

According to Nugraha and Riyadhi (2019), company size is a scale that can classify companies into large or small companies in various ways (such as total assets or total company assets, stock market value, average sales level, and number of sales). According to Mahmood et al. (2019), Company size is calculated as the log of the company's total assets. According to Brigham & Houston (2011), company size is the scale of the company's size, which can be classified in various ways, including the size of income, total assets and total equity. If you look at the definitions above, it can be concluded that company size is the scale companies use to see the size of the company. This control variable is calculated by Warrad & Oqdeh (2018)

$$\ln(\text{Total Asset})$$

2.3 Capital Structure

According to Kasmir (2016), capital structure is the ratio used to measure how much a company's debt affects asset management. Meanwhile, according to Brigham & Houston (2011), capital structure is a comparison or balance of the company's long-term funding shown by the ratio of long-term debt to equity. So, it can be concluded that capital structure is a financial ratio used by companies in comparing foreign capital with their capital. Fulfilling the company's funding needs from capital sources, in general, the capital structure is calculated by DER (Debt Equity Ratio) with the formula:

$$\frac{\text{Total Liability}}{\text{Total Equity}}$$

2.4 Profitability

According to Kasmir (2016), the profitability ratio assesses a company's profit-making ability. According to Chasanah and Adhi (2015), Profitability describes management performance in managing the company. Judging from the definition above, it can be concluded that Profitability is a comparison to measure a company's ability to gain profits, which shows its efficiency by utilizing its resources such as assets, capital or company sales. In this study, in general, profitability can be calculated using ROE (Return on Investment) with the formula:

$$\frac{\text{Net Profit}}{\text{Total Equity}}$$

2.4 Effect of Firm Size on Firm Value

Firm size is an essential significant factor in influencing firm value. Because the size of the company's value scale can determine how much value the company has. The larger the company's size, the greater the sales and total assets. Getting internal and external funding will be more accessible if the size or scale of a company is getting bigger Hirdinis (2019). Research conducted by (Al-Slehat, 2020; Irawati et al., 2021; Setiawan et al., 2021) stated that company size positively affects company value. Here, the company's size is increasing, and it is easier for investors to invest capital, increasing its value. Meanwhile, research conducted by Meidiawati & Mildawati (2016) and Dewi & Praptoyo (2021) shows that company size has a negative and significant effect on firm value. Then, the hypothesis that will be proposed is a hypothesis that firm size has a positive impact on firm value.

2.5 Effect of Capital Structure on Firm Value

Capital structure is a financial ratio used by companies in comparing foreign capital with their capital. A company is considered at risk if it has a large portion of debt in its capital structure. However, conversely, if a company uses little or no debt, the company is considered unable to take advantage of additional external capital that can improve operations. Optimal capital structure is a capital structure that optimises the balance between risk and returns to maximise stock prices Siregar et al. (2019).

According to research conducted by (Dhani and Utama, 2017 Saputra and Lasmanah, 2020 Setiawan et al., 2021), Capital structure partially has a significant positive effect on company value. The research conducted by (Irawan and Kusuma 2019; and Syardiana et al., 2015) also

produced concrete evidence that capital structure significantly negatively affects firm value. So, in this study, the hypothesis is that capital structure has a positive and significant effect on firm value.

2.6. Effect of Profitability on Firm Value

Profitability is one of the factors that can affect the value of the company. According to Dewi and Wirajaya (2013), high profitability reflects the company's ability to generate high profits for shareholders. The greater the profit earned, the greater the company's ability to pay dividends, which impacts increasing the company's value. Research conducted by (Astuti et al., 2015; Siregar et al., 2019) shows that profitability positively affects firm value. Meanwhile (Manoppo & Arie, 2016; Pratiwi & Aligarh, 2021), profitability has no significant effect on firm value. The alternative hypothesis proposed in this study is that Profitability has a positive and significant effect on firm value.

3. Research Method

The dependent variable or dependent variable (Y) is a variable that is influenced by the independent variable or independent variable. The dependent variable in this research is company value. The population in this study was 27 Food and Beverage sub-sector companies listed on the Indonesia Stock Exchange in 2015-2022 Table 1. Operational Research Variables

No	Variable	Variable Definitions	Indicator	Scale
1	X1 : Firm Size	Company size is the scale used by the company to see the size of the company.	$Ln(Total\ Asset)$	Ratio
2	X2 : Capital Structure	Capital structure is a financial ratio used by companies in comparing foreign capital with their capital. Fulfilling the company's funding needs from its capital sources comes from share capital, retained earnings, and reserves.	$\frac{Total\ Liability}{Total\ Equity}$	Ratio
3	X3 : Profitability	Profitability is a comparison to measure a company's ability to gain profits, which shows the company's efficiency by utilising the company's resources such as assets, capital, or company sales.	$\frac{Net\ Profit}{Total\ Equity}$	Ratio
4	Y : Firm Value	Firm value is an investor's view of stock prices on the company's success level, which illustrates people's beliefs about the process the company has gone through for several years from the company's start to the present.	$\frac{Net\ Income}{Total\ Asset}$	Ratio

Purpose Sampling technique, namely by taking samples deliberately according to the criteria required by the suitability of the research. The sampling criteria determined by the author in this study are food and beverage sub-sector companies listed on the Indonesia Stock Exchange that publish annual financial reports and have complete data on the required variables starting from 2015-2022. Data collection techniques are methods researchers use to obtain quantitative information from respondents by the scope of research that is generally used. The technique used

is the documentation method. In this study, the type of data used is secondary data. The kind of data used is secondary data. This research uses secondary data originating from annual reports of food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange from 2015-2022 on the relevant company websites. This research uses analytical techniques, which include data normality testing, classical assumption testing, multiple linear regression analysis and hypothesis testing.

4. Results and Discussions

4.1. Descriptive Statistics

Table 2 Descriptive statistics

		Firm Value	Firm Size	Capital Structure	Profitability
N	Valid	112	112	112	112
	Missing	0	0	0	0
Mean		3,3438	8,9885	1,0422	12,9465
Std. Deviation		3,57700	2,97448	,98987	13,96500
Minimum		,31	-6,48	,16	-62,39
Maximum		17,97	18,64	6,79	61,12

Source: Data processing results.

In this study, the samples used for the data analysis test were 14 manufacturing companies in the food and beverage sub-sector, 8 observations (2015-2022) and a total sample of 27 populations. The statistical descriptive explanation for each research variable shows that:

- Company value as measured by share price compared to book value has a minimum value of 0.31 at the minimum value while the maximum value is 17.97. The mean value is 3.3438, and the standard deviation is 3.57700.
- Company size, as measured by the natural logarithm (LN) of total sales, has a minimum value of -6.48. While the maximum value is 18.64. The mean value is 8.9885, and the standard deviation is 2.97449
- Capital structure, as measured by the ratio between total debt and total equity, has a minimum value of 0.16 and a maximum value of 6.79. The mean value is 1.0422, and the standard deviation is 0.09353
- Profitability, as measured by the percentage of total net profit compared to total equity, has a minimum value of -62.39. The maximum value is 61.12. The mean value is 1.31957, and the standard deviation is 13.96500.

4.2.1. Normality Test

Table 3. Normality Test One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		112
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	1,65172889
Most Extreme Differences	Absolute	,062
	Positive	,062
	Negative	-,050
Test Statistic		,062
Asymp. Sig. (2-tailed)		,200 ^{c,d}
a. Test distribution is Normal. b. Calculated from data. c. Lilliefors Significance Correction. d. This is a lower bound of the true significance.		

Source: data processing, 2023

Based on the display of Table 3, it can be concluded that the significant value (2-tailed) obtained for company size, capital structure, profitability, and firm value is more significant than 0,05, so the residual value is normal. This research can be continued by obtaining a normal significant value; this because it meets the normality assumption.

4.2.2. Multicollinearity Test

4.2.3.

Table 4. Multicollinearity Test Results

		Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
Model		B	Std. Error	Beta	Tolerance	VIF
1	(Constant)	-,222	,782			
	X1	,044	,080	,037	,982	1,019
	X2	1,057	,242	,293	,974	1,026
	X3	,160	,017	,624	,977	1,023

Based on the output coefficients table above, we can observe collinearity statistics in the tolerance section for company size (X1) is 0.982, capital structure (X2) is 0.974, profitability (X3) is 0.977, so the value of the four variables is greater than 0.10. Meanwhile, the VIF value for company size (X1) is 1.019, capital structure (X2) is 1.026, and profitability (X3) is 1.023, so the variable value is <10.00. Referring to the basis of decision-making in the multicollinearity test, we can conclude that there are no symptoms of multicollinearity in the regression model.

4.2.4. Heteroscedasticity Test

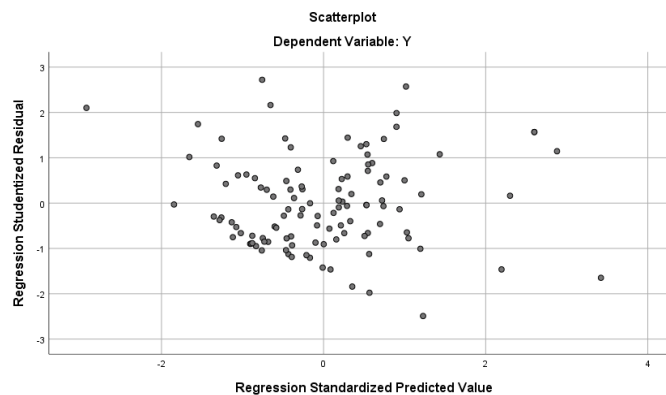


Figure 2. Heteroscedasticity Test Results

Based on Figure 2, we can see that the data points are spread above and below or around the number 0, and the points do not gather only above or below. It can be concluded that there is no heteroscedasticity in the regression, so this model can be used to predict firm value based on input from firm size, capital structure and profitability.

4.2.5. Autocorrelation Test

Table 5 Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,727 ^a	,529	,516	2,48840	1,413

a. Predictors: (Constant), Profitability, Firm Size, Capital Structure

b. Dependent Variable: Firm Value

The output table above shows that DW is 1.13 with the condition that Durbin Watson (DW) ranges from -2 to +2, with no autocorrelation. The results of the researcher's test showed that the processed data did not occur autocorrelation because the $DW > -2$ value was 1.413, indicating no autocorrelation in the regression model.

4.3 Multiple Linear Regression Analysis

$$Y = -0.222 - 0.044X_1 + 1.057X_2 + 0.160X_3$$

From the multiple linear regression equation model above, it can be concluded that:

1. Constant (α) = -0.222

That is, if the company size (X_1), capital structure (X_2), and profitability (X_3), equal to zero, then the company value is -0.222.

2. Regression coefficient (X1) = -0.044
This means that every increase in company size by 1 will be followed by a decrease in company value by 0.044, assuming other variables are constant or fixed.
3. Regression coefficient (X2) = 1.057
This means that every increase in capital structure by 1 will be followed by an increase in firm value of 1.057, assuming other variables are constant or fixed.
4. Regression coefficient (X3) = 0.160
This means that every increase in profitability of 1 will be followed by an increase in firm value of 0.160, assuming other variables are constant or fixed.

4.4 F Test

Table 6. F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	751,487	3	250,496	40,454	,000 ^b
	Residual	668,749	108	6,192		
	Total	1420,235	111			

a. Dependent Variable: Firm Value

b. Predictors: (Constant), Profitability, Firm Size, Capital Structure

Table 6 shows that the calculated F value is 40.454 with an F_{table} of 2.69, so $40.454 > 2.69$ F count > F table with a significance level of $0.000 < 0.05$. There is an influence of firm size, capital structure, and profitability together on firm value.

4.5 t-test (partial test)

Table 7. Test Results t

Model	Unstandardize d Coefficients Std. B	Error Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	-,222	,782		-,284	,777
Firm Size	-,044	,080	,037	-,549	,584
Capital Structure	1,057	,242	,293	4,374	,000
Profitability	,160	,017	,624	9,337	,000

Source: data processing, 2023

Based on Table 7, the results of the partial hypothesis test show that a significant level of 5% is found. so $t\text{-table value} = t(\alpha/2)$; $db = t(0.05/2)$; 108 obtained for 1.982. These results can be explained as follows:

- a. The results of the hypothesis test show that the t value for company size is -0.590 and the t table value for the significance level (α) 5% is 1.982; in other words, $t\text{ count} < t\text{ table}$ ($-0.549 < 1.982$) so it can be concluded that H_0 is accepted H_a is rejected which means there is no effect of company size on firm value in companies listed on the Indonesia Stock

Exchange. Meanwhile, the significance of $0.556 > 0.05$ illustrates that the effect of firm size is not significant on firm value. So, the conclusion is that company size does not significantly affect firm value.

- b. The results of the hypothesis test show that the calculated t value for capital structure is 4.051 and the t table value for the fundamental level (α) 5% is 1.982; in other words, t count $>$ t table ($4.374 > 1.982$) so it can be concluded that H_02 is rejected H_a2 is accepted, which means capital structure affects the firm value of companies listed on the Indonesia Stock Exchange. Meanwhile, based on a significance of $0.000 < 0.05$, this illustrates that there is significance in the effect of capital structure on firm value. Then, in conclusion, the capital structure has a significant effect on firm value.
- c. The results of the hypothesis test showed that the t-value for profitability is 9.337 and the t-table value for the actual level (α) 5% is 1.982; in other words, t count $>$ t table ($9.337 > 1.982$) so it can be concluded that H_03 is rejected H_a3 is accepted, which means profitability effect on the value of the company in companies listed on the Indonesia Stock Exchange.

Meanwhile, based on a significance of $0.000 < 0.05$, this illustrates a significance in the effect of profitability on firm value. Then, the conclusion is that profitability significantly affects firm value.

4.6 Determination Coefficient Test (R^2)

Table 8. Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,727 ^a	,529	,516	2,48840

a. Predictors: (Constant), Profitability, Firm Size, Capital Structure

b. Dependent Variable: Firm Value

Source: data processing.

Based on the above research results, it can be seen that the Adjusted R Square value is 0.529. Based on the results of the determination coefficient test above, it is known that firm value (Y) can be explained by company size (X1), capital structure (X2), and profitability (X3) of 72.7%. In comparison, the remaining 27.3% can be explained by other variables or factors that were not examined in the study, namely company growth.

4.7 Discussion

4.7.1. Effect Of Firm Size, Capital Structure and Profitability On Firm Value

The results of testing the first hypothesis show that capital structure, firm size, and profitability simultaneously significantly affect firm value (PBV). These results are shown in the simultaneous test results in the significant column obtained 0.000, which means it is smaller than the degree of significance of 0.05. The test results show F-count $>$ F-table.

This study's results align with Manoppo & Arie (2016) research. This indicates that company management and related parties view the importance of seeing how the conditions of capital structure, company size and profitability simultaneously measure company value in food and

beverage companies, which was used as the sample in this study. This means that capital structure, company size and profitability simultaneously significantly affect the value of food and beverage companies on the Indonesia Stock Exchange.

4.7.2 The Effect Of Firm Size On Firm Value

The tests carried out on the asset structure show the value of t count $< t$ table so that it can be concluded that H_01 is accepted and H_{a1} is rejected, which means that company size does not affect firm value. The significance value of $t > \text{sig } \alpha$ illustrates that there is no significant effect of firm size (X) on firm value (Y). The results of this test show that company size does not affect firm value. Because fixed and total assets in the company studied, have not been able to affect the company's value. The results of this study are in line with the research of (Apriantini et al., 2022; Felicia & Karmudiandri, 2019; Sari & Ayu, 2019; Sembiring & Trisnawati, 2019) in this study show that company size does not affect company value. Thus, the previous and current research prove similar results, namely, company size does not affect firm value. In contrast, the results of a study conducted by (Al-Slehat, 2020; Irawati et al., 2021) with different research results, namely, company size affects company value.

4.7.3 Effect Of Capital Structure on Firm Value

The test results show that the t count $> t$ table means that the capital structure affects firm value. The significance value of t is 0.05. This illustrates the significance of the effect of the independent variable (X) on the dependent variable (Y). From the research results, it is evident that capital structure has a significant effect on firm value. The results of this study support the trade-off theory, which states that (assuming the target point of the capital structure is not optimal) an increase in the debt ratio to the capital structure will increase the company. The results of this study are in line with research conducted by (Chasanah & Adhi, 2015; Meidiawati & Mildawati, 2016; Pamungkas et al., 2017), which shows that capital structure has a significant positive effect on firm value. Thus, previous researchers and current research prove similar results. The research results are not in line with research conducted by (Irawan and Kusuma, 2019; and Yuniastri et al., 2022) their research show that capital structure has no effect and is not significant on company value.

4.7.4 Effect of profitability on firm value

The results of the tests performed on profitability show t count $> t$ table, so it can be concluded that H_02 is rejected and H_{a2} is accepted, which means that profitability affects firm value. The significance value of $t < \text{sig } \alpha$ illustrates that there is significance in the effect of profitability (X) on firm value (Y). So, the third hypothesis in this study is accepted. From the results of the study, it is evident that profitability significantly affects firm value with indicators of net profit and total equity; namely, if the company has earned a large net profit, then this will affect the size of the firm value. This study's results align with research conducted by (Astuti et al., 2015; Siregar et al., 2019), which shows that profitability affects firm value. Thus, previous and current research prove similar results, namely, profitability significantly affects the company's value. Different effects (Manoppo & Arie, 2016; Pratiwi & Aligarh, 2021), with the results of research on profitability, do not affect company value.

5. Conclusions

Based on the results of the analysis described in the previous chapter, it can be concluded that There is an influence of company size, capital structure and profitability together on company value in food and beverage companies listed on the Indonesia Stock Exchange. There is an effect of capital structure and profitability, partially on firm value in food and beverage companies listed on the Indonesia Stock Exchange. Meanwhile, company size does not affect firm value in food and beverage companies listed on the Indonesia Stock Exchange.

Based on the conclusions above, suggestions can be given to Companies in the food and beverage sector. This study found that capital structure and profitability positively influence firm value, so if a company wants to increase firm value, the most appropriate thing to do is to increase profitability. Furthermore, for further researchers, this study has various limitations, such as research variables and data; for that, it is for future researchers to be able to develop other variables that can affect firm value. In addition, the data used should also use data from more multi-company and multi-year years. So that research results can be more diverse and contribute to various companies.

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Factors Influencing Financial Management of Village Fund Allocation: Study in Lubai Ulu District

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Abstract

This research examines the impact of accountability, openness, and involvement on the financial management of village budget allocations in the Muara Enim district's Lubai ulu subdistrict. The sample included nine members of the village consultative committee from eleven communities within the subdistrict of Lubai Ulu. This study was conducted to assess how public accountability, transparency, and participation affect the administration of village budget allocations in the Muara Enim subdistrict of Lubai Ulu. The sample for this research consisted of 99 respondents from 11 villages in the Lubai Ulu subdistrict. Respondents were chosen based on their direct involvement in reporting, decision-making, accountability, and administration in the financial management of local budget allocations. The result of this research was found accountability, transparency, and participation partially have a positive and significant effect on the management of fund village allocations.

Keywords: Accountability, Transparency, Participation, Fund Village, Fund Village Allocation, and Village Expenditure.

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1. Introduction

Efforts to reduce the gap in social inequality in society require regulations that aim to ensure services to the community can be right on target so that the programs launched by the government are by the programs that have been created. Law No. 6 of 2014 states that villages are responsible for regulating and managing their problems. The enactment of this law means that regional government management is carried out professionally, efficiently, effectively, openly and responsibly in carrying out its work programs. Village government, with its

potential, will accelerate the process of improving the community's social life without ignoring existing norms. Apart from having the right to run the government budget, of course you must apply the principle of accountability in order to create good governance principles as an effort to improve services and empower the community with funds distributed by the government (Irma, 2015). In managing village funds, transparent, accountable and participatory governance is needed in budget management. (Adiwirya & Sudana, 2015) Furthermore, to implement village fund management, the government issues (Permendes No.21 Tahun 2015) regulations so that good governance must be implemented, it must apply the principles of Good Governance (Nuru et al., 2013) In Article 4 Paragraph 7 Permendagri No.37 Tahun 2007 concerning Regional Financial Management Guidelines regulates the management of village funds. Good administration of Village Funds requires Accountability, Transparency and Participation, which means that village officials can comply with relevant ethical and legal requirements.

Public accountability includes the dissemination of data about government operations and performance. The administration of public sector organizations must be open about the actions, initiatives and policies that have been, are being and will be implemented, as well as the resources they are using (Mahmudi, 2015). In PP 29/2014 which is a regulation regarding fulfilling the obligations/requirements of government agencies to be accountable for the success/failure of implementing programs/work plans or activities delegated to stakeholders in order to achieve the organization's mission in a measurable manner with targets/targets so that performance reports must be submitted periodically.

Transparency (Adiputra et al., 2018; Ball, 2009) also refers to the provision of public/direct services that are open, straightforward, and accessible to the public in an adequate and easy to understand manner. Transparency is a concept of openness/broadness that allows the community to have access to the widest possible information regarding village finances through all accessible media. Participation is an expression of the desire to enhance democracy through decentralized means so that citizen involvement in government can be triggered on demand (Novia, 2015; Rigian & Sari, 2019). Apart from that, participation is interpreted as incorporating the need for bottom-up planning by involving the community in village planning and development. (Syamsi, 2014)

As the holder of power, the central government expects village governments to increase their independence in managing village finances and advance villages by providing village funds and village fund allocations in large amounts that can be managed well by villages so that they can become more sophisticated. PP No 47 Tahun 2015 as implementing regulations for village regulations, which state, "The Regency/City Government allocates in the State Revenue and Expenditure Budget (APBD) for Village Fund Allocations (ADD) each fiscal year concerned."

One of the considerations in this research is because there is an inaccuracy in the work program with the realization of village funds disbursed, then the implementation of village project work is not carried out in accordance with government regulations. Previous research in Indonesia that examined the influence of accountability, transparency and involvement on the implementation of village budget allocations at other district levels (Putra & Rasmini, 2019; Rigian & Sari, 2019; Suci muti'ah, 2019) stated that the influence of accountability, transparency and involvement influenced the financial management of village budget allocations.

Even though the variables used by previous researchers are similar, regional characteristics can cause differences in results. For this reason, researchers are interested in researching more deeply the issues of Accountability, Transparency and Community Participation in Lubai Ulu

sub-district. It is hoped that the results found in this village can be a contribution or input for the regional government.

2. Literature Review

2.1. Accountability

Accountability According to (Halim & M. Ikbali (2012) in (Nurlinda, 2018) accountability is "an obligation to provide accountability or answer and explain the performance and actions of a person/legal entity or leader of an organization to parties who have the right or authority to ask for information or responsibility". Meanwhile (Mardiasmo, 2009) accountability is an obligation to report and be responsible for the success or failure of implementing the organization's mission in achieving previously determined results, through accountability media which is carried out periodically. Apart from that (Government Regulation No. 71, 2010) Accountability is an act of responsibility to achieve goals periodically in policy implementation management of potential resources entrusted to an organization.

2.2. Transparency

Transparency is the openness of public agencies or institutions in sharing information with each party in need related to resource management which will later be useful for decision making by the party in need (Tahir, 2015). Transparency is needed to prevent the possibility of bad things occurring in irregularities committed by an agency or institution. The community is also trained to take responsibility for implementing activities and build trust from all parties (Albugis, 2016). Meanwhile (Government Regulation No. 71, 2010) transparency provides open and honest financial information to the public based on the consideration that the public has the right to know openly and thoroughly the government's responsibilities in managing the resources entrusted to it.

2.3. Society participation

Apart from competent human resources, to support the running of village government, village community participation is also needed, Mada et al., (2017). Septyasa (2013) participation is the participation of an individual or group of people in assisting a work program in an activity. This participation and participation is either physical or non-physical by providing all the abilities they have (taking the initiative) so that all activities carried out support the achievement of goals.

2.4. Village Fund Management

According to Law No. 6 of 2014, "village government is the administration of government affairs and the interests of local communities in the government system of the Unitary State of the Republic of Indonesia". Within its authority, villages have the right to regulate their own households based on ideas and suggestions from the village community without prejudice to village norms and customs. In implementing the village work program, the budget is submitted with work procedures for planning, implementation, administration, reporting and village financial performance to achieve previously determined results, through accountability media which is carried out periodically. Apart from the Village Government Law, the implementation of village finances is Permendagri No. 113 of 2014 concerning village financial management. "Where the village work program originates from the State Revenue and Expenditure Budget (APBN) which is intended for villages which are transferred through the district/city Regional Revenue and Expenditure Budget (APBD) which is usually used to finance government

administration, implementation of development, community development and community empowerment." . Therefore, the government budgets village funds nationally in the APBN every year.

3. Research Methods

This research is quantitative descriptive in nature , using primary data originating from the 2020-2021 Village Fund Use Report. The data collection approach in this research is by interviewing respondents to obtain primary data. Multiple linear regression analysis techniques were used to evaluate the data . The independent variables in this research consist of Public Accountability (X1), Transparency (X2), Public Participation (X3). while the dependent variable is Village Fund Allocation Management (Y). The indicators in this research for the Public Accountability variable (X1) are in the form of accountability actions to achieve goals periodically in the implementation of resource potential management policies entrusted to an organization (Government Regulation No. 71 of 2010). Transparency (X2) indicators are whether there is a legal framework for transparency, there is public access to budget transparency, there is independent and effective auditing, there is community involvement in making budget decisions (Albugis, 2016). while Public Participation (X3) is an indicator of participation and participation both physically and non-physically by providing all the abilities they have (taking the initiative) (Septyasa, 2013). Meanwhile, the indicator variable for Village Fund Allocation Management (Y) is transparent, accountable, participative, orderly and budget discipline (Permendagri No. 20 of 2018).

3.1. Hypothesis Development

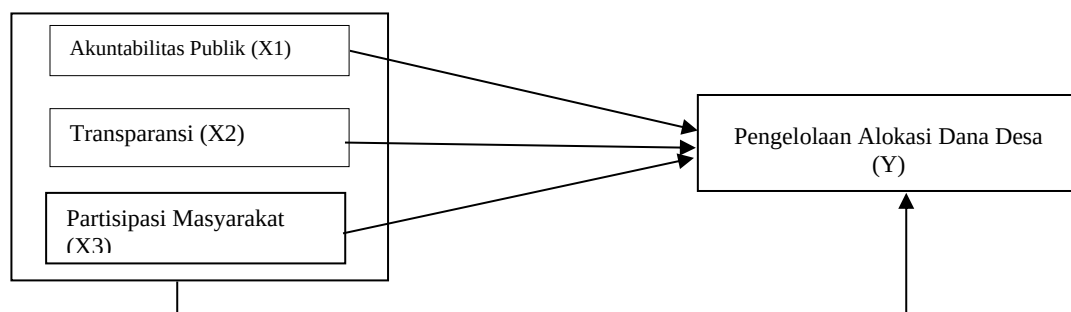


Figure 1. Framework of Thought

Based on theory from problem research, so researcher will develop framework study. As for the hypothesis Research as follows:

H₁ = Allegedly, Accountability Influences the Management of Village Fund Allocations in Villages

H₂ = It is suspected that transparency influences the management of village fund allocations

H₃ = Participation is suspected to influence Village Fund Allocation Management

H₄ = Allegedly Accountability, Transparency, and Participation simultaneous influence on management of village fund allocation

4. Results And Discussion

4.1. Results Analysis Regression Linear Multiple

Table 1. Multiple Linear Regression Analysis Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	Q	Sig.
	B	Std. Error	Beta		
1 (Constant)	-44,595	11,918		-3,742	,000
X1	,177	,087	,142	2,026	,046
X2	,411	,051	,562	8,036	,000
X3	,995	,123	,556	8,074	,000

Based on Table 1, the following regression equation is obtained:

$$Y = -44,595 + 0,177X1 + 0,411X2 + 0,995X3$$

1. A constant value of -44.595 implies that management Village fund allocation is poorly managed if the independent variables of public accountability, transparency and community participation are all 0.
2. Positive results indicate that the public accountability variable is related in the same direction to the village money allocation management variable, so that a one unit increase in the public accountability variable will result in an increase in the village fund allocation management variable by 0.177 percent. Assuming the other independent variables remain constant, the dependent variable will determine the results.
3. A positive/good value indicates a unidirectional relationship between the transparency variable and the village fund allocation management variable, so that if the value of the transparency variable increases by 1, the value of the village fund allocation management variable will also increase by 0.411 percent. Assuming the other independent variables remain constant, the dependent variable will determine the results.
4. A positive score indicates a unidirectional relationship between the community involvement variable and the management of village money allocation; If the value of the community participation variable increases by 1, the value of the village fund allocation management variable will increase by 0.995%. Assuming the other independent variables remain constant, the dependent variable will determine the results.

4.2. Hypothesis Testing Results

4.2.1. Results t test (Partial)

Testing the t test hypothesis shows the results as outlined in Table 2 below:

Public Accountability (X₁)

The t count was 2.026. To determine the t table, you can look for a significance of $0.05/2 = 0.025$ (2-sided test) with degrees of freedom $df = nk-1$ or $99-3-1 = 95$ (k is the number of independent variables and n is the number of observations). The result for the t table is 1.985. Because the t-count is more than the t-table (2.026, greater than 1.985), Ha1 is acceptable. Because the significance of the t-test is smaller than 0.05 (0.046 0.05), the t-test result is 2.026

with a significance value of 0.046; So Public Accountability has a positive and statistically significant effect on Village Fund Allocation Management.

Table 2. Results Significance of t Values

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-44,595	11,918		-3,742	,000
	X1	,177	,087	,142	2,026	,046
	X2	,411	,051	,562	8,036	,000
	X3	,995	,123	,556	8,074	,000

a. Dependent Variable: Y

Transparency (X₂)

The calculated t is 8036. To determine the t table, you can look for a significance of $0.05/2 = 0.025$ (2-sided test) with degrees of freedom $df = nk-1$ or $99-3-1 = 95$ (k is the number of independent variables and n is the number of observations). 1.985 is the result for the t table. Ha1 is accepted because the calculated t result is greater than the t table ($8.036 > 1.985$). Because the significance of the t test is smaller than 0.05 (0.000 0.05), the t value is 8.036, and the significance value is 0.000, it can be stated that partial transparency has a positive and statistically significant effect. related to Village Fund Allocation.

Community Participation (X₃)

The t count was 8.074. To determine the t table, you can look for a significance of $0.05/2 = 0.025$ (2-sided test) with degrees of freedom $df = nk-1$ or $99-3-1 = 95$ (n is the amount of data and k is the number of independent variables). The result of the t table is 1.985. Ha1 can be approved because tcount is greater than ttable ($8.074 > 1.985$). Because the significance of the t test is smaller than 0.05 (0.000 0.05), the t value is 8.074, and the significance value is 0.000, indicating that Community Participation has a positive and significant effect statistics on Village Fund Allocation Management in 11 villages.

4.2.2. Results Test F (Simultaneous)

From the calculation results, the F-count as shown in table 3 is 39.978, and the significance is 0.00. This shows that the F-count of 39.978 is greater than the F-table of 2.70, so that simultaneously it can be said that the independent variables Public Accountability (X1), Transparency (X2), and Community Participation (X3) have a positive and statistically significant effect . about Allocation Management. Village Fund (Y).

Table 3. Simultaneous Test Results (F Test)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2975.251	3	991,750	39,978	,000 ^b
	Residual	2356.709	95	24,807		
	Total	5331.960	98			

a. Dependent Variable: Y

4.3. Discussion

4.3.1. Public Accountability partially has a positive effect on Village Fund Allocation Management

Based on the results of the partial t test, the calculated t value for the Accountability variable was 2.026. Because the calculated t value is greater than the t table value ($2.026 > 1.985$), the public accountability variable has a positive and statistically significant effect on the village money allocation management variable.

Accountability is an ethical concept that is closely related to government public administration, especially villages (government executive institutions, parliamentary legislative institutions, and judicial institutions) in the central government, which has many meanings and is often used interchangeably with concepts such as accountability. (responsibility), the ability to provide adequate responses (answerability), who can be blamed/who can be blamed (blameworthiness), and who has independence/obligations, as well as other concepts related to the purpose of the debate. Responsibility can be seen as a call to be accountable for completing the responsibilities given. This result is the same as research conducted (Irma, 2015; Putra & Rasmini, 2019) where accountability has a large and beneficial influence on the implementation of village money allocation. Accountability requires every activity/program and final result of village government to be legally accountable. Carrying out fiscal responsibility in the context of administering government, especially village government. Financial accountability is a form of responsibility for government agencies that use people's money in an acceptable, economical and effective manner, thereby avoiding leakage, waste and corruption.

4.3.2. Partial transparency has a positive effect on Village Fund Allocation Management

Based on the results of the t test (partial test), the calculated t value for Transparency is 8.036%. The t-calculated value obtained is greater than the t-table value ($8.036 > 1.985$), so it can be concluded that the involvement variable has a positive and statistically significant effect on the village budget distribution management variable.

The results of this research are in line with research. (Putra & Rasmini, 2019) Transparency or openness requires that choices are made/verified and actions are implemented in accordance with institutional norms, guidelines or laws. Transparency can also imply that information relating to the company is simply and openly accessible and visible to those, especially those affected by the organization's policies. Through the dissemination of information, the concept of transparency fosters mutual trust between the government and the public and ensures easy access to accurate and adequate information. Financial transparency is the dissemination of financial data to the wider community (citizens) in the context of government accountability. In

this scenario, transparency can be achieved in various ways, including the creation of an annual banner on the use of Village Funds displayed in front of the Village Head's Office and government compliance with requirements and regulations. relevant legislation and increase the effectiveness of community supervision of development and services. Apart from that, one of the key components of successful governance is transparency. The public must have transparency, involvement and simple access to government administration so that good governance can be realized. Transparency and accessibility of government administration information influences the achievement of various other steps. As a result, the administration of village money tends to be more efficient with a more transparent process.

4.3.3. Community Participation partially has a positive effect on the Management of Village Fund Allocations

Based on the results of the t test (partial test), the participation variable has a calculated t value of 8.074. Because the resulting t-calculated value is greater than the t-table value ($8.074 > 1.985$), it can be stated that the community involvement variable has a positive and statistically significant effect on the village budget allocation management variable.

Involvement in development is defined as community involvement in development; The role of society in this matter is very important. Participation in development includes both participation in development activities and participation in using and enjoying the results of development. The findings of this research are in line with research (Novia, 2015; Putra & Rasmini, 2019) where community involvement will foster community trust in the government for implementing activities, because the community has been involved in the planning process for managing the allocation of village money and conveying hopes. Increasing community involvement will encourage community participation in implementing village government activities, such as managing village money allocations.

4.3.4. Public Accountability, Transparency and Community Participation simultaneously have a positive influence on Village Fund Allocation Management

Based on the results of the F test (simultaneous test), the F-calculation value was determined to be 39.978 and a significance value of 0.000. The F-calculated value is greater than the F-table value ($39.978 > 2.70$) and the significance value is smaller than 0.05 ($0.000 < 0.05$), so it can be said that public accountability, transparency and community involvement have a significant effect. Positive and statistically significant for the village money management allocation variable.

5. Conclusion

Based on the calculation results, it shows that accountability, transparency and community participation partially have a positive and significant effect on the management of village fund allocation. Apart from that, accountability, openness and community involvement simultaneously, in the findings of the F test (simultaneous test) Accountability (X1), Transparency (X2), and Participation (X3) have a beneficial and substantial impact on the management of village money allocation (Y).

With the working principle of accountability, it can improve the management of village fund allocations and ensure that reporting and utilization of village funds for village progress runs well. implemented in accordance with the principle of accountability. Apart from that, transparency as a provider of financial information to the community can also be beneficial for development purposes, while community participation can encourage the

acceleration of development in the village.

Regional governments can continue to allocate village funds in an appropriate and measurable manner to achieve equitable and prosperous community development, especially in Lubai Ulu village, Muara Enim sub-district.

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An Integrated Financial Management Information System and the Quality of Financial Reports Among Government Institutions in Kenya

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Abstract

The use of an Integrated Financial Management Information System among the Government institutions in Kenya is crucial in improving the management of accounting and financial reporting data to enhance efficiency and effectiveness in government institutions' financial reporting processes. This research study was set to establish the effect of integrated financial management information systems on quality financial reporting. The research targets a population of 68 government institutions (47 county government and 21 ministries) in Kenya who were purposively selected as the Integrated Financial Management Information System users and also forming the unit of analysis for the study. The primary data was collected through the use of questionnaires, and then the data was analyzed using multiple regression models and descriptive statistics applications to examine the relationship of the predictor and response variables. The study established that electronic budgeting and automated cash management positively and significantly influence the quality of financial reporting among government institutions in Kenya. The study further establishes that electronic procurement and automated financial reporting positively and insignificantly influences the quality of financial reporting among the government institutions in Kenya.

Keywords: Electronic Budgeting, Automated Cash Management, Quality of Financial Reporting, Electronic Procurement

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1. Introduction

The use of integration of information systems among the Kenyan government institutions is a critical tool that governments use in their financial reporting operations to manage resources prudently and to allocate them efficiently so as to improve information disclosure to the citizens. The value of reporting statements within the government institutions has been faced with important critics from numerous sectors including the originality due to the lack of concrete financial information used during final report preparation. The main aim of financial reporting is to give dependable and complete information on financial matters and any useful information which can be used on decision prosecution processes, (Omoro, Aduda & Okiro, 2015).

Due to increase in globalization, the government institutions have experienced various reforms intending to appreciatively advance the effectiveness of the financial reporting system (Nistor, 2012). The lately enforced reforms on the financial reporting systems established the need for reporting cooperation and development concerning public information. The reason for the use of these reforms is to improve and enhance government transparency and accountability in financial reporting (Caperchoine, 2012).

Quality financial reporting of government institutions is useful in fulfilling the public rights to know how the government spends its resources as determined by Government Accounting Standard Board (International Accounting Standard Board, 2018). The professional's institutions continuously call on the governments of the world to apply accrual accountancy and have strong financial reporting operations aimed at improving the services that boost full disclosure of financial information (White, 2016).

The International Federation of Accountants (2012) establishes that all governments institutions in the world should adopt rules and norms that protect both the public and investors through the creation of trust by adding the need for absoluteness of the financial reporting of information this will lead to better decisions. The end goals of acceptable financial reporting information by the government institutions is for the provision of information on the associations' financial statements that are of use by the investors and the public for their consumption need (International Accountant Standard Board, 2012; Financial Accounting Norms Boards, 2010).

A well-developed and completely incorporated integrated financial operation information system (IFMIS) improves financial governance through timely financial information that directors and managers can use in their operations in the preparation of budgets and proper allocation of financial resources. Hence the Integrated Financial Management Information System can minimize untimely disclosure of financial information (Reneau & Grabski, 2014).

Heeks (2018) states that an effective integrated financial management information system (IFMIS) could track records of financial transactions and summarize them to give financial reports. Integrated Financial Management Information System (IFMIS) is said to comprise financial information and communication technology for financial reporting operation. On the other hand, Hendriks (2012) establishes that an integrated financial management

information system (IFMIS) gives a real-time technological invention based on the automated system to track all the financial deals among government institutions and induce a summary of the financial report which is a tool used by the investors.

Effective and efficient financial reporting management needs adherence to the current legal and regulatory framework, with skilled and competent public officers serving to improve the system performance hence increasing the credibility of the reports. The main drivers of a good financial reporting delivery are the public finance management reforms, which is enabled data collection from the daily operations. The Integrated Financial Management Information System (IFMIS) incorporates both the accounting and financial information reporting with an aim of enhancing the quality of such information.

In Kenya, the government institutions such as county government and ministries depends on the national government for their annual budgetary allocations, and given the low level of accountability and transparency that the Office of Auditor General raised through queries. The PwC's Global Economic Crime and Fraud Survey (2022) reveals that out of a survey of 1296 executives in fifty-three countries, there was a rising threat of funds misappropriation among government ministries, with almost 70% of the public institutions indicating that their fraudulent activities were due to collusion between internal and external actors in those institutions.

Further, the quality of financial reporting in public institutions and which contributes to these actions has been linked to lack of strong systems such as the integrated financial management information system (Ochung, 2017). Ball and Plugranth (2012) reports that the integrated financial management information system (IFMIS) gives accurate, harmonious, and timely financial information to be used by the top operation in decision-making and understanding the financial liquidity of the institution.

Many studies done on the financial reporting have established that consistent and appropriate use of IPSAS helps in streamlining budget preparation and execution, minimizing the non-disclosure of financial information, and give the information to be used in planning and reporting (Ball & Plugrath, 2012; Lianzuala & Khawlhiring, 2018). However, it is not clear whether the Integrated Financial Management Information System affects the quality of financial reporting of government institutions in Kenya.

Current studies have concentrated on national governments and segregated government ministries as well as the private sector with minimal studies on how the Integrated Financial Management Information System affects the quality of financial reporting of government institutions in Kenya. Further, most of these studies have been studied in the contexts of developed countries, leaving the developing countries less researched (Marangunić & Granić, 2015; Dener & Young, 2013; Tetteh et al., 2021; Ball & Plugrath, 2012; Lianzuala & Khawlhiring, 2018). Also, this study has not come across any study which has been done in Kenya combining both the national and county governments (Njonde, & Kimanzi, 2014; Karanja, & Nganga, 2014; Kiilu, & Ngugi, 2014; Macharia, 2014). It is within these gaps that this study aims to determine the effect of the Integrated Financial Management Information System affects the quality of financial reporting of government institutions in Kenya.

This study sought to determine the influence of Integrated Financial Management Information System on the quality of financial reporting of government institutions in Kenya. The specific

objectives were: to evaluate the influence of electronic budgeting on the quality of financial reporting of government institutions in Kenya, to assess the influence of automated cash management on the quality of financial reporting of government institutions in Kenya, to investigate the influence of electronic procurement on the quality of financial reporting of government institutions in Kenya and to determine the influence of automated financial reports on the quality of financial reporting of government institutions in Kenya.

2. Literature Review

This section presents the empirical literature that was reviewed to explain the study variables, the conceptual framework as well as the operationalization of variables which explains the measurement of the study variables.

2.1 Empirical Review

In this sub-section, the research gives a review of different studies done by other scholars on the subject and their findings on the influence of integrated financial management information systems on the quality of financial reporting.

2.1.1 Electronic Budgeting and Quality of Financial Reporting

In the context of Turkey, Melek (2017) did research on the impact of electronic budgeting participation on the quality of financial reporting through organizational commitment. Focusing on work motivation, managerial performance, and organizational commitment and adopting a regression analysis to analyze its findings. The study established that there exists a strong positive relationship between electronic budgeting and the quality of financial reporting on organization commitment. In addition, the participation of various stakeholders during electronic budgeting preparation enables the users to accept and commit to achieving the objectives and better decisions.

From Indonesia, Nasution (2019) evaluated the study on the implementation of electronic budgeting in promoting transparency and accountability among the municipal government. The study focused on good corporate governance such as accountability and transparency of the management. The study adopted performance-based budgeting in analyzing the functions of electronic budgets in improving accountability and transparency within the government. The research established that to minimize wastage of public resources, streamline the usage of governments' resources, and promote organizational accountability and transparency it should fully adopt electronic budgeting techniques.

In Ghana, Aminatu (2015) also researched on the effect of budgeting automation adoption on economic growth in the government. Focusing on resource allocations, the gross domestic product, and the development of the economy. The study utilized a case study research design and used both quantitative and qualitative data to draw and make its conclusion. The study established that improving the economy fully relies on government financial policies, regulatory frameworks, interest rates, and the effectiveness of government agencies.

In Kenya, Dorotinsky (2016) investigated the impact of financial management information system among the government agencies. This allows the government departments such as Finance and Accounting employees to undertake their daily operations such as budget approval, payment orders issue and payments, and monitoring and reporting of financial resources generated. The financial management information system contains an important

element of electronic budgetary controls which provide control by improving effective service delivery, transparency, and accountability. The study adopted qualitative data to make conclusions. The study found that the financial management information system is incorporated into improving electronic budgeting performance. The implication of this study indicates that a strategy rollout on the high-value transactions captured by an integrated financial management information system should be pursued.

2.1.2 Automated cash management and quality of financial reporting

From Indian's perspective, Pandey (2010) evaluated the automation of cash management using technology in the Urban Administration. The study involved two main principles the speed at which cash is collected (Cash Inflow) which will lead to the minimization of collection float and reduces the level of cash disbursement (Cash Outflow) hence maximizing the disbursement rate float as a means of achieving proper financial reporting. The study adopted qualitative data to make its conclusion. The study established that using technology improves the cash inflows and is necessary to fully implement it.

In Turkey, Mukulu (2014) did a study on the effects of cash management on the performance of public sector institutions. The research explored effects on financial reporting, effects of financial transactions processes systems, internal controls, and governance in the public sector. The study adopted a qualitative data technique to make conclusions. The study established that there exists a positive correlation between the cash management and financial reporting; financial transaction processes systems, internal controls, and governance.

From the context of Nigeria, Nkeobuna and Ugoani (2017) evaluated how proper accounting for government institutions' revenues and expenditures plays a critical role in the quality of financial reporting, enabling good governance. The study focused on the automation of Cash management in improving the transfer of funds more efficiently and with certainty in the government institutions and how it enhances the structuring of its funds' repositories to enable the ministries to know the amount of money available for use hence minimizing misappropriation of resources. The study used qualitative and quantitative data to make its conclusion. The study established that cash management automation increases the usage execution in giving timely and more accurate information; this will increase the confidence and credibility of the cash usage through transparency of information. The use of technology such as the Integrated Financial Management Information System in cash management has improved the level of cash accountability, and the capability for easy reconciliation of data transactions in real-time.

In Kenya, Mugambi (2019) researched on the effect of information communication technology adoption and its significant effect on the Financial Management in the Meru County Government with the main focus resting on the cost of service delivery, reconciliation of transactions, and cash transparency. The study adopted both the technology acceptance model in discussing how the users and the use of a descriptive survey research design accept the technology. The study established that the automation of cash management helps in improving leadership in understanding the true cost of service delivery, and the finance unit can easily reconcile the transactions of financial information on a real-time basis the study adopted qualitative data to draw and make its conclusion. The study also recommended that to improve

cash transparency operations and service delivery in Meru County Government it should fully invest in the automation of cash activities.

2.1.3 Electronic Procurement and quality financial reporting

In the context of United Nations, Harland (2018) conducted a study on electronic procurement. The study espoused a case study of electronic procurement and three stages of methodology similar as the questionnaire check, case study on electronic procurement, and interactive factory among the heads of coping in United Nation Associations. The study established that the electronic procurement being enforced at the United Nations development agencies are only for routine deals, and purchases non-strategic, while the philanthropic aid agencies substantially borrow their electronic procurement operations efficiently as a package.

In Ireland, Harrigan (2018) determined the development of electronic procurement within information communication technology among manufacturing diligence. The study espoused an exploratory study methodology in addressing the knowledge gap within the area of electronic procurement, the use of a questionnaire to estimate the numerous electronic procurement operations. The study established that electronic procurement is of significance in reporting various benefits which may include narrowing business processes, bettered supplier connections, and reduction in business costs.

From Kenya, Gitau (2016) conducted a study on the effect of Integrated Financial Management Information System use and procurement performance in Nyeri County. A descriptive study design was espoused and the respondents were the staff of Nyeri. The study used qualitative data to make its findings. The findings from the study indicated that the Ministries of Treasury and Information Communication Technology should work together with the county government of Nyeri to develop a policy that will enhance the performance of electronic procurement through an Integrated Financial Management Information System that will improve proper transparency and responsibility of financial activities by giving all the required information to be used in financial reporting.

2.1.4 Automated financial reporting and quality financial reporting.

From Iran, Salehi and Torabi (2012) researched on the importance of Information Technology on the financial reports where the study concentrated on the effect of web- grounded financial reporting, internet financial reporting, and the effect of Enterprise Resource Planning on the significance of financial information. The study espoused qualitative data to make the conclusion and its findings established that information technology enhances the applicability of financial information.

In the Indonesian government, Gamayuni and Setyawan (2020) assessed on the quality of financial reporting and the internal control system in the where the government had installed electronic budgeting systems to enhance the quality of financial reporting between the public and indigenous finance departments. The findings from the study indicated that the indigenous government that had enforced the electronic budgeting style had better quality financial reporting compared to those that have not enforced the electronic budgeting.

In the context of Brazil, Duarte, Saur-Amaral, & Azevedo (2015) examined study on the effect of Integrated financial reporting system relinquishment and the quality of account. The study establishes that financial reporting applicability enhances the performance of institutions. And

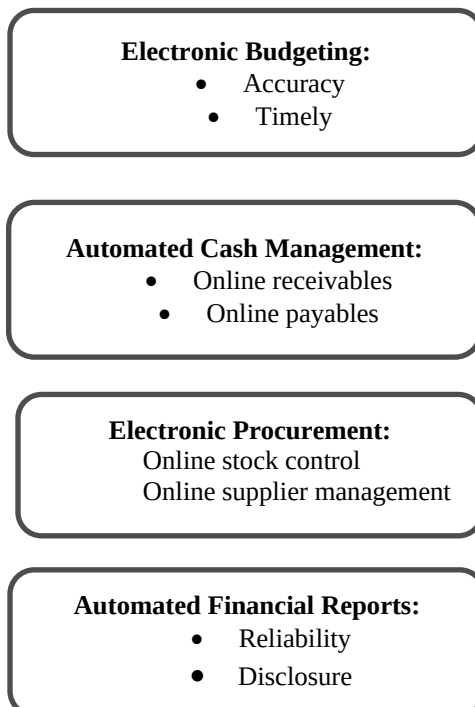
that when preparing financial reports using intertwined financial reporting systems one should take into account the departmental factors and rationality, which have a huge impact on the performance of the organization.

From Uganda, Mugaba (2016) examined the impact of financially intertwined information system on financial reporting effectiveness among the municipal governments. The researcher estimated the objectives by assessing the effect of budgeting, and sale procedures on financial reporting procedures. The study used a descriptive case study design model to give its conclusion and also adopted qualitative data to make and draw its conclusion. The study establishes that the integrated financial management information system enhances the financial effectiveness of the municipal government through harmonious financial reporting. And this effect is attained by use of integrated financial management information system that fulfills the examined objectives of financial reporting standards.

In the context of Kenya, Simiyu (2018) studied the influence of sound integrated financial management information system among the county governments. The study evaluated the effectiveness of budgeting systems reporting, and verification of accounts receivables and payables through the integrated financial management information systems. The researcher adopted questionnaire in collecting the data and used a descriptive study design and qualitative data to make and draw the conclusion. Where the researcher established that the budget frame reports, accounts payables and receivables reports significantly impact the financial reporting and the directors can use the data to develop budgets, estimate the results against the budget plans, track the status of payables, and receivables, and cover the operations of specific unit.

2.2 Conceptual Framework

Independent Variables



Dependent Variable



Figure 2.1: Conceptual Framework

2.3 Operationalization of Variables

Operationalization is where the theoretical concepts are converted into measurable units to improve the empirical evaluation. The table below gives the measurement of the variables under the research project.

Table 1. Operationalization of Variable

Variables	Nature of Variable	Indicators	Measurement scale
Electronic Budgeting	Independent variable	• Timely • Transparency • Accuracy • Credibility	Ordinal
Automated cash management	Independent variable	• Online receivables • Online payables • Inventory outstanding	Ordinal
Electronic procurement	Independent variable	• Online stock control. • Online supplier management	Ordinal
Automated financial reporting	Independent variable	• Accessibility to users • Disclosure • Accountability • Reliability of information • Error detection	Ordinal
Quality Financial Reporting	Dependent Variable	• Relevance • Completeness • Verifiability • Comprehensiveness	Ordinal

3. Research Methodology

This study adopted a descriptive research design. Descriptive design is defined as finding out what, where, and how of a specific scenario (Cooper & Schindler, 2013). The design is useful in this study due to its ability to collect qualitative data that was used to analyze and making a conclusive conclusion and the researcher used questionnaires in collecting data for analysis. In addition, the descriptive design focused on evaluating the influence of integrated financial management information systems on the quality of financial reporting among government institutions.

The target population was the 68 Government institutions in Kenya which include the current 47 county governments and the 21 ministries. The study adopted a census since the target population size was manageable to study. Using the current government data, sample sizes of 68 government institutions which includes the current 47 county government and 21 ministries were studied.

The research used primary data for the analysis and which was collected by use of structured questionnaires. The questionnaires were dropped and picked by the researcher at a given point for one week. After the respondents filled out the questionnaires the data were examined for error, legit, and completeness. Then researcher adopted STATA version 12 software to analyze the data and also both the descriptive and regression were undertaken using Microsoft –Excel on the Windows operating system and the results were presented using summarized frequencies and percentages tables.

In the case of demographic information, a descriptive statistical analysis was adopted and also it provided the profile of the respondents. The study adopted multiple regression analysis to examine the influence of integrated financial management information systems on the quality of financial reporting among the government institutions in Kenya. The multiple regressions were adopted to assess the influence of four independent variables against the dependent variable which were carried out as per the following regression model:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Where:

Y = Quality of Financial Reporting among the Government institutions.

β_0 = Constant, indicating the quality of financial reporting in absence of the variables.

$\beta_1 - \beta_4$ = The Regression Coefficients variables influencing quality financial reporting

X_1 = Electronic Budgeting

X_2 = Automated Cash Management

X_3 = Electronic Procurement

X_4 = Automated Financial Reporting

ϵ = Error term

And before the study undertaking the multiple regression analysis, various diagnostic tests were performed.

To obtain the multi-collinearity test of the variables for the study, it used pairwise correlation model. Hence the resultant correlation enabled the researcher to establish whether the four independent variables are correlated with one another using the underlying rule such as correlation greater than 0.8 indicates a spurious outcome but correlation less than 0.8 is moderately correlated.

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To test the existence of heteroscedasticity, the researcher carried out non-graphical Breusch-Pagan tests after the regression tests this was to establish if the errors within the variance are constant throughout the entire set such as test for null hypothesis. In a linear regression one of the main assumptions is that the model variables are homogeneously leading to an error term. It was forecasted that if heteroscedasticity could be present in the data, then the variance should not be used in the decision-making process because it will give inaccurate results.

The normality test examined whether the data collected for the study is normally distributed within the Ordinary Least Square assumptions. The study used Shapiro Wilk test model to test the resultant significance as $p < 0.05$ shows significance and $p > 0.05$ indicates insignificant also assessed the non-normality of the variables by use of a histogram where the normality was contained if the superimposed curve forms a bell shape covering all the bars.

4. Results and Discussion

4.1 Response Rate

The study issued 68 questionnaires to respondents. Out of the total questionnaires issued, only 54 questionnaires were duly filled and returned successfully to the researcher. Thus indicating a response rate of 79.41% percent was achieved by the researcher which is very good for analysis. Moreover, the response rate agrees with the findings done by Bobbie (2004), found out that the response rate greater than 50% are acceptable for analysis, greater than 60% are good and greater than 70% response rate are very good, while a response rate above 80% are considered excellent for analysis and publishing.

Table 2. Response Rate

Response Rate	Frequency	Percentage (%)
Response	54	79.41%
Non – Response	14	20.59%
Total	68	100.00%

4.2 Validity and Reliability Analysis

4.2.1 Validity

A sample test was carried out to ascertain the questionnaire that was used could pass the validity and reliability test using the same respondents within the 68 government institutions in Kenya.

The face validity tests were performed by the administration of questionnaires to 10 employees among the ministries and were asked to give any other comments on the questions and any other terms which might seem to be unclear. The researcher then adjusted the instruments accordingly and hence received further input information from the supervisor where the recommendation was taken into consideration and then adopted as part of the processes.

4.2.2 Reliability

Table 3. Cronbach's Alpha Test

Test scale = mean(unstandardized items)	
Average interitem covariance:	5.150105
Number of items in the scale:	5
Scale reliability coefficient:	0.8565

Also, the questionnaires were tested for reliability. Fairchild (2002) established that reliability measures the extent to which the research instruments can provide consistent outcomes even after many trials. This shows to what extent the researcher should rely on the source data. If the data is trustworthy, authentic, dependable, and reputable then its reliability is said to be certain.

A Cronbach's Alpha ($\alpha < 0.5$ indicates questionable, $\alpha > 0.5$ indicates acceptable, $\alpha > 0.8$ indicates good, $\alpha > 0.9$ indicated excellently), and that the instruments are good measuring tools and hence reliable (Field 2005). The instruments see (Appendix A) were subjected to Cronbach's Alpha test and all the 25 questions for both the predictor and response variables show an Alpha of 0.8565 which indicated the instruments were good and reliable. This shows that electronic budgeting, automated cash management, electronic procurement, automation of financial reports, and quality of financial reporting were reliable and acceptable.

4.3 Findings on Background Information of Respondents

Table 4. Demographic Data

No	Variables Percentage (%)	Description	Frequency
1	Gender	Male	28
		Female	26
2	Age of the Respondents	18 - 29	10
		30 – 39	27
		40 – 49	9
		Over 50	8
3	Education	PhD	7
		MSc	30
		Degree	12
		Diploma	5
4	Length of Working	Less than 1 year	4
		1-3 Years	9
		4-10 Years	16
		Above 10 Years	25
	Totals		54
			100.00%

4.3.1 Background Information of Respondents

4.3.1.1 Gender Information

The demographic information, from table 4.3, the findings shows that the respondents of 48.15 % were female while the remaining 51.85 % (percent) are male.

4.3.1.2 Age of the respondents

The researcher inquired about the age of the respondents and the findings show that the majority of respondents are aged between 30 -39 years represented by 50%, 16.67% representing the aged between 40 – 49 years, 14.81% representing the aged above 50 years and 18.52% representing the aged between 18 – 29 years.

4.3.1.3 Education Level of the Respondents

The majority of the respondents are degree holders indicated with 55.56%, then the Master's Degree holders 22.22%, the Diploma holders 9.26% while the Ph.D. holders are 12.96%.

4.3.1.4 Length of Working of the Respondents

The respondents' length of working in the Kenya Government institutions, and the findings show that the majority of the respondents' length of work were above 10 years as indicated by 46.30%, representing 29.63% had worked for a period of 4 – 10 years, representing 16.67% had worked for a period of 1 – 3 years while those representing 7.41% had worked for less than 1 year. The outcome indicates that many respondents have been using the integrated financial management information system for a long time and hence was relevant for the study.

4 4: Influence of Electronic Budgeting and Quality of Financial Reporting

Table 5. Electronic Budgeting

Statement	Mean	Standard Deviation
1) IFMIS seek to enhance the richness of the budget through greater comprehensiveness of information.	3.6	1.1
2) IFMIS seeks to enhance the confidence of the budget through greater transparency of information.	3.3	1.0
3) IFMIS seek to improve budget planning by providing timely data for budget management and decision-making.	2.7	1.2
4) IFMIS seek to improve execution by providing accurate data for budget management and decision making.	3.4	1.0

5) IFMIS seek to also enhance the integrity of the budget through greater credibility of information.

3.6

0.9

The study revealed that majority of the respondents were in agreement with integrated financial management information system seeks to enhance the richness of the budget through greater comprehensiveness of information as shown by a mean score of 3.6 of the results and standard deviation of 1.1, and that integrated financial management information system seeks to enhance confidence of the budget through greater transparency of information as supported by a mean score of 3.3 and standard deviation of 1.0, while integrated financial management information system seeks also to enhance integrity of budget through greater credibility of information as shown by a mean score of 3.6 and standard deviation of 0.9, and integrated financial management information system seeks to improve execution by providing accurate data for budget management and decision making process as illustrated by a mean score of 3.5 and standard deviation of 1.0, and also the integrated financial management information system seeks to improve budget planning by providing timely data for budget management and decision making as supported by a mean score of 2.7 and standard deviation of 1.2.

The findings hence imply that the relationship between the use of integrated financial management information and comprehensiveness of budget information, confidence and greater transparency of budget information, timeliness of budget planning, and accuracy of data provision in budget management are significant while the relationship between integrated financial management information system and budget integrity in so significant.

4 5: Electronic Budgeting and Quality of Financial Reporting

Table 6. Electronic Budgeting

	Frequency	Percentages (%)
Very great extent	24	44.44
Great extent	25	46.30
Moderate extent	5	9.26
Total	54	100

From the above Table 6 above, the extent that which electronic budgeting influences the quality of financial reporting among the government institutions in Kenya, shows that the majority of the respondents indicated that the electronic budgeting influences the quality of financial reporting among the government institutions to a very greater extent as supported by the frequency of 24 with 44.44 percent, while to great extent and moderate extent as shown by 46.30 percent and a frequency of 25 and 9.26 percent with a frequency of 5 respectively. The findings show that electronic budgeting influences a quality of financial reporting among the government institutions in Kenya.

4.6 Automated Cash Management among Government institutions in Kenya

Table 7. Automated Cash Management

Statement	Mean	Standard Deviation
1) It is important to keep records of all system-generated cash management.	3.13	1.01
2) The company does short-term cash management forecasting	3.093	1.154
3) The company keeps records of expected automated cash receipts.	3.574	1.057
4) The company keeps records of expected cash disbursement.	3.056	1.036
5) The company computes periodic net change in cash.	1.98	0.84

The study revealed that majority of the respondents were in agreement with integrated financial management information system that the ministries keeps record of expected automated cash receipts as shown by a mean score of 3.574 of the results and standard deviation of 1.057, integrated financial management information systems keeps the records of all the systems generated cash management as illustrated by a mean score of 3.13 and standard deviation of 1.01, the integrated financial management information systems also helps in keeping the records of expected cash disbursements as supported by a mean score of 3.056 and standard deviation of 1.154, and integrated financial management information systems assist the ministries in short term forecasting of revenues and expenditures as shown by a mean of 3.093 and standard deviation of 1.154, while the integrated financial management information systems processes the periodic net change in cash as shown by a mean of 1.98 and standard deviation of 0.8.

The study shows that the relationship between the use of an integrated financial management information system and record-keeping of all the cash generated information, short-term cash forecasting, and periodic net cash is significant.

4.7. Automated Cash Management and Quality of Financial Reporting

Table 8. Automated Cash Management

	Frequency	Percentages (%)
Very great extent	14	29.93
Great extent	39	72.22
Moderate extent	1	1.85
Total	54	100

Table 8 above shows that majority of the respondents indicated that the automated cash management influences the quality of financial reporting among the government institutions to a very greater extent nor great extent as supported by the frequency of 14 with 29.93 percent and 39 with 72.22 percent respectively, and while the moderate extent as shown by the frequency of 1 and 1.85 percent that the automated cash management influences the quality of financial reporting among the government institutions in Kenya.

4.8. Electronic Procurement among the Government institutions in Kenya

Table 9. Electronic Procurement

Statement	Mean	Standard Deviation
1) E- procurement has led to employee efficiency and effectiveness	1.9	0.9
2) E –procurement has led to better and improve customer satisfaction	3.1	1.4
3) E-procurement has enhance timely delivery of goods and services	3.1	1.2
4) E- procurement has led to increased efficiency on stock management control	3.2	1.22
5) E –procurement has facilitated improved purchasing and supply chain management	2.0	1.0

The above table 9 revealed that the respondents agreed that the use of electronic procurement through the integrated financial management information system has increased the efficiency of stock management control and enhanced the timely delivery of goods and services as illustrated by a mean of 3.2 and standard deviation of 1.22, and that integrated financial management information system has led to better and improved customer satisfaction as shown by a mean score of 3.1and standard deviation of 1.4, while integrated financial management information system has facilitated improved purchasing and supply chain management as supported by a mean score of 2.0 and standard deviation of 1.0, moreover integrated financial management information system has led to employee efficiency and effectiveness as indicated by a mean score of 1.9 and standard deviation of 0.9.

The study indicated that the relationship between the use of integrated financial management information and improved employee efficiency and effectiveness, better customer satisfaction, timely delivery of goods and services, improved stock management control, and improved purchasing and supply chain management are significant.

4.9 Electronic Procurement and Quality of Financial Reporting

Table 10. Electronic Procurement

	Frequency	Percentages (%)
Very great extent	14	25.93
Great extent	30	55.56
Moderate extent	10	18.52
Total	54	100

Also from Table 10 above, the study established the extent to which electronic procurement influences the quality of financial reporting among the government institutions in Kenya. From the study, it shows that most respondents supported to a great extent that the electronic procurement influences the quality of financial reporting among the government institutions in Kenya as shown by 55.56 percent and a frequency of 30, while those who agreed to a very great extent was 25.93 percent and a frequency of 14, and those said that electronic procurement influences the quality of financial reporting among the government institutions with moderate extent were 18.52 percent with a frequency of 10.

4.10 Automation of Financial reports among the Government institutions in Kenya

Table 11. Automation of Financial reports

Statement	Mean	Standard Deviation
1) The automated financial reports your organization prepares are complete, neutral, lack of material error and can be verified.	1.5	1.0
2) The automated financial reports prepared by your organization shows high level of transparency and accountability to the users.	3.0	1.4
3) The automated Financial reports disclose financial and non-financial matters which help in decision making process.	2.0	1.2
4) Automation of Financial reports prepared by your organization contains relevant information that the users require.	2.0	1.0

From the table 11 establishes that the respondents admit that the ministries uses the integrated financial management information systems that the financial reports prepared and generated through the integrated financial management information system shows high level of transparency and accountability to the users of the reports as supported by a mean score of 3.0

and standard deviation of 1.4, and that the financial reports aspect prepared through the integrated financial management information systems contains relevant information that the users of the information requires as shown by a mean of 2.0 and standard deviation of 1.0, and the financial reports prepared through the integrated financial management information system discloses all the financial and non-financial matters which do help in decision making process as shown by a mean of 2.0 and standard deviation of 1.2, and while the financial reports generated through the integrated financial management information system are verifiable, complete, neutral and lack material error as supported by a mean score of 1.5 and standard deviation of 1.0.

The findings show that the relationship between the use of an integrated financial information system and the completeness, lack of material error on financial reports prepared, a time frame of financial report preparation, the level of transparency and accountability of financial reports to the users, disclosure of both financial and non-financial information are significant.

4 11: Automation of Financial Reports and Quality of Financial Reporting

Table 12. Automated of Financial Reports

	Frequency	Percentages (%)
Very great extent	8	14.81
Great extent	40	74.07
Moderate extent	6	11.11
Total	54	100

From the above table 4.11, on the extent that which the automation of financial reports influences the quality of financial reporting among the government institutions in Kenya the study established that the respondents with the highest frequency of 40 and 74.07percent supported that the automation of financial reports influences the quality of financial reporting among the government institutions in Kenya, while 14.81 percent agreed to a very great extent with a frequency of 8, and those accepted with moderate extent were 11.11 percent and a frequency of 6.

4 12: Quality Financial Reporting among the Government Institutions in Kenya

Table 13. Quality Financial Reporting

Statement	Mean	Standard Deviation
1) Is the IFMIS used for directly generating periodic quality financial reports, or does it require manual intervention and use of Excel or similar spreadsheet software.	2.0	1.0
2) Can the IFMIS automatically produce the necessary project quality financial reports?	3.1	1.1
3) Do IFMIS safeguard the confidentiality, integrity and availability of the data?	3.3	1

4) Is the financial accounting and reporting system computerized?	3.2	1
5) Is the IFMIS standalone, or integrated and used by all departments in the headquarters and field units using modules?	3.1	0.9

Table 13. above sought to establish that the integrated financial management information system safeguard the confidentiality, integrity, and availability of the data in the financial reporting preparation as shown by a mean of 3.3 and standard deviation of 1, it also established that the financial accounting and reporting has been computerized through the integrated financial management information system as shown by a mean of 3.2, with a standard deviation of 1 further ore the study established that integrated financial management information system is not a standalone system but integrated and used by all departments among the government institutions as show by a mean of 3.1 with a standard deviation of 0.9. The study also revealed that the integrated financial management information system automatically produces the necessary project quality financial reporting among the government institutions in Kenya as shown by a mean of 3.1 with a standard deviation of 1.1. And also the study found out that an integrated financial management information system was used directly in generating periodic quality financial reports, and does not require any manual intervention and use of Excel or similar spreadsheet software as shown by a mean of 2.0 and a standard deviation of 1.0.

4.13. Diagnostic Tests

After fieldwork the researcher performed Regression Analysis through Ordinary Least Squares formulae, this was to examine if the data conforms to the Linear Regressions assumptions. The researcher performed both the pre-estimation and post-estimation tests on the study.

4.13.1 Pre –Estimation Tests

Under this, the researcher assesses data for multi collinearity and normality pre-fitting the model. The main procedure for undertaking these tests includes the following.

4.13.2 Shapiro Wilk Test for Normal Data

The Shapiro-Wilk test model is said to be non-graphical in that it tests if the test outcomes are insignificant or significant such as ($p \leq 0.05$ indicates significant and $p > 0.05$ indicates insignificant). If the p-value is above 0.05 it means that the data that the study uses follows the normal distribution (insignificant). But if the p-value of the variables tested is equal to or less than 0.05 then it means that the data being used for ordinary least squares is not following the normal distribution and hence not good for ordinary least squares analysis (significant).

Table 14. Shapiro Wilk Test for Normal Data

From the table 14 below, it shows the results presented from the Shapiro Wilk test.

Shapiro-wilk w test for normal data					
Variable	Obs	W	V	z	Prob>z
Electronic~g	54	0.97938	1.031	0.064	0.47431
AutomatedC~t	54	0.97126	1.437	0.776	0.21885
Electronic~t	54	0.99080	0.460	-1.665	0.95205
Automation~s	54	0.99094	0.453	-1.698	0.95527
QltyFinaci~g	54	0.96787	1.606	1.015	0.15508

In conclusion, the results from the table above show that all the variables have p-values above 0.05 and the researcher can conclude that the variables used for the study follow the normal distribution. Hence the ordinary least square model was useful for further analysis.

4.13.3 Pairwise Correlation Test for Multi-collinearity

The independent variables must not show a high correlation with each other, this may give rise to unrealistic outcomes while performing the regression analysis, Gujarat (2003). For the researcher to minimize the occurrences of such problems the independent variables must be tested for multi-collinearity through a pairwise correlation model as indicated by the table below:

Table 15. Pairwise Correlation

	Electr~g	Automa~t	Electr~t	Automa~s	QltyFi~g
Electronic~g	1.0000				
AutomatedC~t	0.4496	1.0000			
Electronic~t	0.4232	0.6055	1.0000		
Automation~s	0.5110	0.5301	0.4606	1.0000	
QltyFinaci~g	0.7201	0.6752	0.4799	0.5924	1.0000

The outcome from the above table 4.14 (Pairwise Correlation table), shows the four independent variables to be moderately correlated with one another and hence there is no independent variable that has disobeyed the thumb rule of correlation above 0.8 which gives a spurious outcome. Hence the ordinary least square model was the most appropriate.

4.13.4 Post-Estimation Tests

The non-uniformity of error (heteroscedasticity) forms other assumptions and this residual behavior can only be confirmed after performing a regression. The test for estimation is of importance so as to evaluate with certainty if the data used in the study followed the normal distribution or alternatively it may need a certain transformation the table below shows the post-estimation test carried out.

4.13.5 VIF Test for Multi-collinearity

From the pairwise correlation performed previously, it showed that the independent variables were not greatly correlated, then the VIF test was performed just after regression to ascertain the authenticity of the pre-test as shown and the outcome presented 4.15.

Table 16. VIF Test for Multi-collinearity

. vif		
Variable	VIF	1/VIF
AutomatedC~t	1.85	0.540861
Electronic~t	1.69	0.592393
Automation~s	1.63	0.612972
Electronic~g	1.47	0.678603
Mean VIF	1.66	

From the table 4.15 above the mean for VIF is 1.66 which shows that it is less than the set standard of 10 when all variables are said to be perfectly collinear, further it ascertains that the pre-test performed on the data there exist no multi-collinearity issues on the used data.

4.13.6 Test for Heteroscedasticity

Gujarat (2003), established that 'the pattern of errors must remain constant throughout the observation and any violation of this assumption would render the ordinary least squares outcome to be biased'. To reduce the occurrence of heteroscedasticity issues, the variables were subjected to both graphical and non-graphical Breusch-Pagan tests immediately after regression tests.

The Null hypothesis was tested using the Breusch-Pagan test to evaluate if the errors within the variance are constant throughout the set observation and if only the outcome shows alternatively. As indicated in Table 17. below.

Table 17. Test for Heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Ho: Constant variance	
Variables: ElectronicBudgeting AutomatedCashManagement ElectronicProcurement AutomationFina	
chi2(4)	= 2.13
Prob > chi2	= 0.7121

From the above table 17 on the test for heteroscedasticity shows that the p-value is 0.7121 at a 95% percent confidence level meaning that the study failed to reject the null hypothesis that errors are homogeneous. In conclusion, the analysis indicated that there exists no possibility of heteroscedasticity presence in the technique.

4.13.7 Histogram Test for Normality

The research study ascertains whether non-normality of variables using the graphical models, in which the normality is curtained if the, superimposed curve forms a bell shape covering all the bars. As shown in figure 4 1 below:

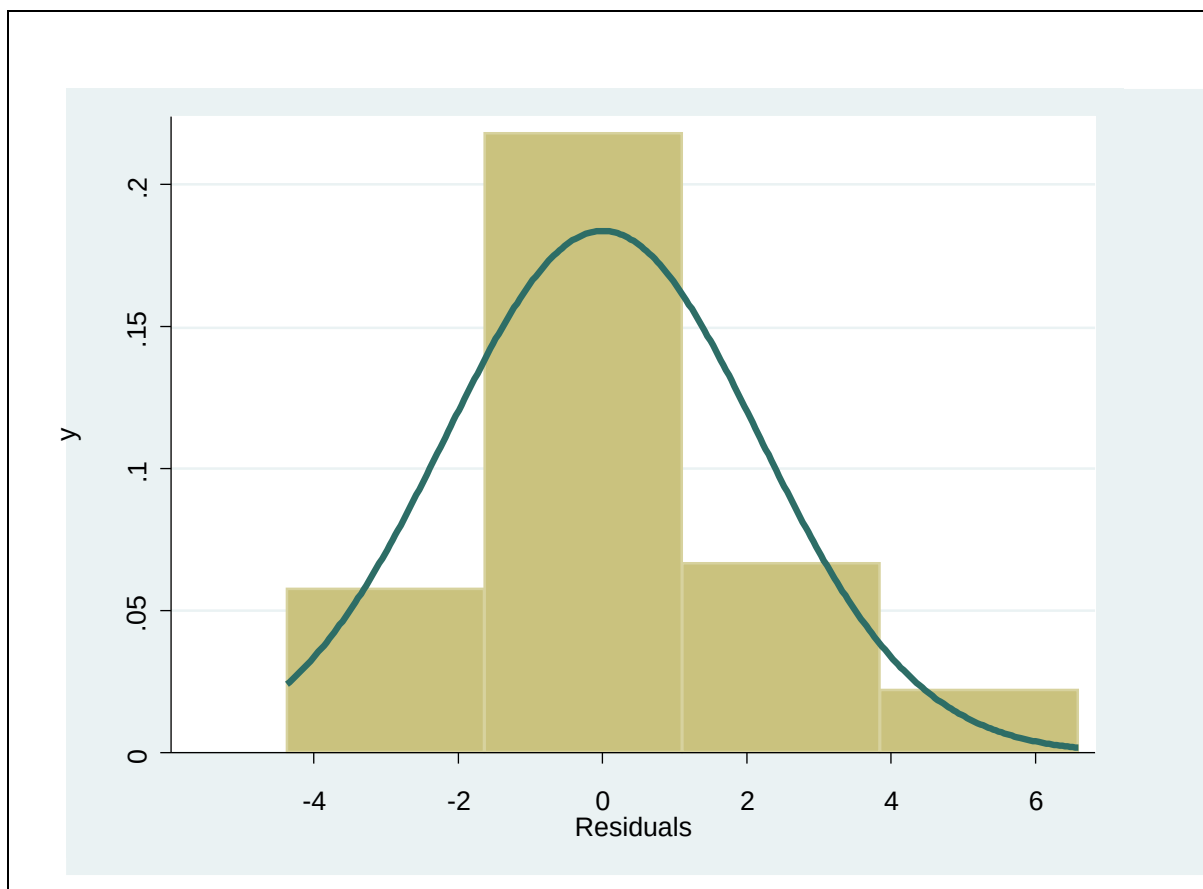


Figure 1. Histogram for Normality Test

From the above figure 4 1, the histogram indicates that the bell shapes occur in a superimposed curve and covers the entire bars within the histogram hence it ascertained the Shapiro Wilk test previously at the pre-test that showed the data used for the research study were normally distributed and fit to use ordinary least square model within the entire analysis.

4.14 Inferential Analysis

To evaluate the influence of integrated financial management information systems on the quality of financial reporting among the government institutions in Kenya. This was examined by assessing the relationship between the predictor and response variables. Multiple linear regressions were carried out as shown below.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Where:

Y = Quality of Financial Reporting among the Government institutions.

β_0 = Constant, indicating the quality of financial reporting in absence of the variables.

$\beta_1 - \beta_4$ = The Regression Coefficients variables influencing quality financial reporting

X₁ = Electronic Budgeting

X₂ = Automated Cash Management

X₃ = Electronic Procurement

X₄ = Automated Financial Reporting

ϵ = Error term

4.15 Regression Analysis

The study adopted a multiple regression analysis in determining the correlation between the Integrated Financial Management Information System aspects such as electronic budgeting, automated cash management, electronic procurement, and automated financial reporting as the independent variables and the quality of financial reporting as the dependent variable among the government institutions in Kenya.

Table 19. Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the estimate
1	0.8316	0.6876	0.6621	2.1364

The R-Square is mostly used in statistics to determine the model fit. R-Square is 1 Less the ratio of the residual variability while the Adjusted R² which is also known as the coefficient of multiple determinations, is the percent (%) of the variance as explained jointly by the predictor variables. From table 4.18 above, the R-value was 0.8316 while the R-square was 0.6876 and the Adjusted R-Squared was 0.6621. This shows that 66.21% of changes in the outcome variable (the quality of financial reporting among the government institutions in Kenya) are majorly attributed to the predictor variables of the study such as electronic budgeting,

automated cash management, electronic procurement, and the automation of financial reporting while the 33.79% change is explained by other variables.

Table 20. ANOVA Analysis of the study

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	492.231883	123.057971	26.96	6.83872E-10
Residual	49	223.638487	4.56405076		
Total	53	715.87037			

From the ANOVA analysis table 4.19, above the study revealed that at 95% confidence level and 5% significant level the F- calculated is 26.96 while F critical is 2.56. Hence the F-value computed (26.96) is greater than the F-critical value of 2.56 which indicates that the overall model of the study was significant and therefore reliable estimates among the variables were investigated.

Table 21. Regression Coefficients

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-4.46647	1.882852	-2.37	0.022
Electronic Budgeting	.5912808	.1202392	4.92	0.000
Automated Cash Management	.47306	.1279435	3.70	0.001
Electronic Procurement	-.0443655	.1315172	-0.34	0.737
Automation Financial Reports	.2128776	.1426997	1.49	0.142

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

$$Y = -5.3876 + 0.6064X_1 + 0.4721X_2 - 0.0465X_3 + 0.1828X_4 + \epsilon$$

Where:

Y = Quality of Financial Reporting among the Government institutions.

β_0 = Constant, indicating the quality of financial reporting in absence of the variables.

$\beta_1 - \beta_4$ = The Regression Coefficients variables influencing quality financial reporting

X_1 = Electronic Budgeting

X_2 = Automated Cash Management

Published by:

X3 = Electronic Procurement

X4 = Automated Financial Reporting

ϵ = Error term

The regression coefficients model above shows that the quality of financial reporting among the government institutions of Kenya was -4.46647 if all variables are held constant, however, if a unit of electronic budgeting is increased it will lead to an increase in the quality of financial reporting among the government institutions by 0.591288, a unit increase in automated cash management would lead to an increase in the quality financial reporting among the government institutions by 0.47306, and a unit increase in the electronic procurement would also lead to a decrease in the quality financial reporting among the government institutions by -0.0443655 while a unit increase in automation of financial reports would lead to an increase in the quality of financial reporting among the government institutions in Kenya by 0.2128776.

Moreover, the P-values of the independent variables as shown in the regression coefficient model such as electronic budgeting (P-Value = 0.000), automated cash management (P-Value 0.001), and are less than 0.05 and this shows that the independent variables such as electronic budgeting, and automated cash management are statistically significant to the relationship of the variables of the research, while the automation of financial reporting (P-Value = 0.737) and P-Value for electronic procurement (P-value = 0.142) is greater than 0.05 indicating that the predictor variable is not statistically significant.

5. Summary

From the study the first objective, to establish the influence of electronic budgeting on the quality of financial reporting, the study reveals that the electronic budgeting has a significant and positive relationship on the quality of financial reporting among the government institutions in Kenya. The findings established that the electronic budgeting coordinates critical roles on the quality of financial reporting and major focus is on the efficiency and its effectiveness of budgeting.

The study second aim was to determine the influence of automation of cash management systems on the quality of financial reporting among the government institutions in Kenya and it was established that the automation cash systems had a positive and significant relationship on the quality of financial reporting among the ministries in Kenya. The outcome of the findings shows that the automation of cash systems is of importance and should be fully adopted and implemented among the ministries.

The third objective of the study was to evaluate the influence of electronic procurement on the quality financial reporting among the ministries and the study established that the electronic procurement has no significance relationship on the quality of financial reporting among the government institutions in Kenya. The finding established that electronic procurement was insignificant and has no influence on the quality of financial reporting.

The fourth objective of the study aimed to evaluate the influence of automation of financial reports on the quality of financial reporting among the government institutions in Kenya. It was established that the financial reporting had positive and insignificant relationship on the quality

of financial reporting among the ministries. The finding established that the automation of financial reports was insignificant and has no influence on the quality of financial reporting.

In conclusion, the study provides that electronic budgeting and automated cash management positively and significantly influence the quality of financial reporting among the government institutions in Kenya. The study further concludes that electronic procurement and automated financial reporting positively and insignificantly influences the quality of financial reporting among the government institutions in Kenya.

This study recommends that all the government institutions should have established proper financial reporting systems in place; this would improve the financial reporting performance and also would help in the processing of quality financial reporting information to be used by the users of the information for decision making processes.

In the case of electronic budgeting, this study recommends that the top management of government institutions who are charged with the responsibilities of integrated financial management information systems should adopt a rewarding system so as to improve the financial reporting transparency and management. Also, the study recommends that the top decisions making organ can make use of the information for many reasons such as; budget formulation reporting, and examination of results against budget reports.

In regard to automation of cash management the non-conforming state agencies should underpinned the requirement by the National government to bring those remnants of state agencies in adopting the use of automation of cash management due to the fact that the public expenditure by the state agencies accounts for over 45 percent of the Gross Domestic Product of the country. Also, the study recommends that the introduction of automation must not be only seen as a technology for fixing, but rather an implementation of integrated financial management information systems and its use must be seen as financial reporting reforms that influence the way most operations are done across the government institutions.

The research basically focused on the government institutions only and hence failed to collect more information from all government units and also the private sector. Therefore, the study recommends that in the future, study be carried out across all government institutions and also in the private sector to validate the results. This study sought to evaluate the influence of integrated financial management information systems on the quality of financial reporting among the government institutions in Kenya. It involves the 68 current government institutions which were the target population for the study.

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Factors Affecting Stock Prices With Dividend Policy as an Intervening Variable in Mining Companies Listed on The IDX

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Abstract

This study aims to determine and analyze the factors influencing stock prices with dividend policy as an intervening variable in mining companies listed on the Indonesia Stock Exchange. The objects in this study are stock prices, dividend policy, current ratio, debt-to-asset ratio and net profit margin. This research was conducted at Mining Companies listed on the Indonesia Stock Exchange. The research method used in this research is associative. The data used in this research is secondary data. The population in this study were 63 companies, samples obtained through purposive sampling method, namely 21 companies for a period of 5 years with 5 research variables. The data analysis technique used in this study is path analysis by testing direct and indirect effects. The results of the direct effect research show that the current ratio has no significant effect on dividend policy, the debt to asset ratio has a significant effect on dividend policy, the net profit margin has a significant effect on dividend policy, the current ratio has no significant effect on stock prices, debt to asset ratio has no significant effect on stock prices, the net profit margin has a significant effect on stock prices, dividend policy has a significant effect on stock prices. The results of the study show that the current ratio has no significant effect on stock prices with dividend policy as an intervening variable, debt to asset ratio has a significant effect on stock prices with dividend policy as an intervening variable, and net profit margin has a significant effect on stock prices with dividend policy as an intervening variable.

Keywords: Stock Prices, Dividend Policy, Mining Companies

How to Cite:

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1. Introduction

The impact of competition in the business world makes entrepreneurs compete to increase profits and maintain the survival of their companies; for that, the company needs capital, and capital against it can come from debt and equity. The benchmark for company management that shows the value of a company's achievements can be seen from its stock price; according to Jogiyanto (2017: 143) stock prices are prices that occur in the stock exchange market at certain times which are determined by the demand and supply of market participants in the

capital market.

According to Yudistira and Adiputra (2020: 177) factors that affect stock prices come from internal and external factors that cause this stock price to increase or decrease. If the company earns large profits, it will be able to distribute dividends in large quantities, stock prices are expected to increase, and shares will be in great demand so that they will experience an increase in stock prices, and vice versa.

External factors are factors that come from outside the company, such as political and security situations, changes in currency rates, rising bank interest rates and so on that cause a sense of security to invest so that many investors will buy shares. In contrast, internal factors or fundamental factors are factors originating from within the company that reflect financial conditions related to company performance. Financial performance can be seen from the company's financial statements, by looking at the financial statements, an analysis can be carried out to determine the condition of the company's overall financial performance. According to J. Fred Weston in Cashmere (2019: 106) to measure company performance can be done using financial ratio analysis. Some financial ratio analyses include profitability, liquidity and solvency ratios.

Current ratio is a liquidity ratio used to show the company's ability to fund the company's operations and meet its short-term obligations by comparing the amount of current assets and current debt owned by the company (Rudianto, 2021: 183). Debt to asset ratio is a solvency ratio that compares the amount of debt and the amount of company assets, the higher this ratio will be the greater the demand for the company's management to fulfill its various obligations to creditors, both in the form of obligations to pay regular loan interest and to return the principal at a certain time regardless of the amount of income earned by the company in a period (Rudianto, 2021: 200).

According to Ariani (2021: 66), net profit margin measures a company's profitability in generating net profit at a certain level of sales after considering all costs and income taxes. Net profit margin is useful for net sales results over a certain period and is used to measure net profit for every dollar of company sales. Wijaya (2017: 461), stated that dividend policy is analogous to a sustainable puzzle, where dividend policy is a puzzle that is difficult and dilemmatic to be decided by management where this policy is an important financing policy for the company and impacts stock prices.

This research was conducted on mining companies listed on the Indonesia Stock Exchange. Based on data from the Central Statistics Agency (BPS), the contribution of mining in Indonesia to national economic growth fluctuates every year. In 2018, the mining contribution was 8.07%, then decreased by 0.81% in 2019 and due to the impact of the Covid-19 pandemic, this mining company also decreased again by 1.63% in 2020. Hence, the mining company's contribution was only 6.44%. In 2021, the contribution of mining companies began to grow positively by 8.98%, in line with increasing national economic growth. It continued to increase by 3.24% from the previous year so its contribution to national economic growth was 12.22%. The following is data on average stock prices, current ratio, debt-to-asset ratio, net profit margin and dividend policy in mining companies presented in graphic form:

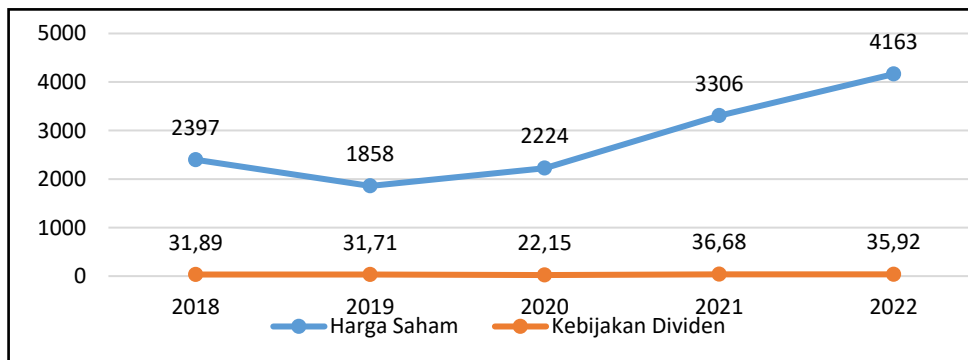


Figure 1. Chart of average stock prices and dividend policy

Source: Data processed, 2023

Stock price movements in mining companies sampled for the 2018-2022 period experience fluctuations or instability every year. In connection with the fluctuations in stock prices above, there is another phenomenon that is also in the spotlight, namely regarding dividend policy. Changes in the dividend policy that the company distributes to shareholders, do not follow changes in share prices. In 2019, when the stock price fell but the dividends distributed increased, on the contrary, in 2020 when the stock price rose, the amount of dividends distributed actually decreased. This indicates that changes in stock prices that rise and fall are not solely a reference for setting a company's dividend policy.

Several previous studies have linked the current ratio with stock prices. Research conducted by Wardani (2018) shows the results that the current ratio affects stock prices. Conversely, research conducted by Siampa, Murni and Rogi (2020) shows that the current ratio has no effect on stock prices. Another factor that can also affect stock prices is the debt to asset ratio. Research by Pane, et al (2021) shows that the debt to asset ratio affects stock prices. While research conducted by Wijaya (2017) shows that debt to asset ratio has no effect on stock prices. The last variable that also links stock prices with net profit margin is Hendri's (2015) research which shows the results that net profit margin affects stock prices. Meanwhile, research conducted by Ariani (2021) shows that net profit margin has no effect on stock prices. Research conducted by Aini (2017) concluded that dividend policy affects stock prices because when the dividend policy paid is higher than expected is a signal to investors that company management expects future profits to increase, this will cause a positive reaction so that stock prices rise. Research by Latifah and Suryani (2020) shows that dividend policy has no effect on stock prices.

Several previous studies have linked the current ratio with dividend policy. Research conducted by Yasa and Wirawati (2016) shows the results that the current ratio affects dividend policy. Conversely, research conducted by Rahayu and Hari (2016) shows that the current ratio has no effect on dividend policy. Another factor that can also affect dividend policy is the debt to asset ratio. Sanjaya's research (2020) shows that debt to asset ratio affects dividend policy. While research conducted by Putri (2017) shows that debt to asset ratio has no effect on dividend policy. The last variable that also links dividend policy with net profit margin is Melani and Napisah's (2022) research which shows that net profit margin affects dividend policy. Meanwhile, research conducted by Nugraha, Kusno and Finanto (2021) shows that net profit margin has no effect on dividend policy.

2. Literature Review

Bogna Kazmierska, Jozwiak (2015) The paper examines determinants of dividend policy of non-financial companies listed on Warsaw Stock Exchange. The main goal of this paper is to examine cash dividend payments of Polish-listed companies. In this study, panel data analysis is applied to investigate the determinants of dividend policies of Polish companies. The paper also explains the impact of different factors on dividend policy on the Polish market. Moreover, it examines whether the same factors (profitability, liquidity, size, leverage of the firm) affect dividend payout decisions on the Polish market as in developed countries.

Ayu Rahmania Putri (2017) This research is meant to examine the influence of debt policy (which is proxy by Debt to Asset Ratio), profitability (which is proxy by Return on Asset), liquidity (which is proxy by Current Ratio), and investment opportunity (which is proxy by Price Earnings Ratio) to the dividend policy (which is proxy by Dividend Payout Ratio). The population is all companies which are engaged in the field of property and real estate sub sector which are listed in Indonesia Stock Exchange (IDX). This research is useful not only for company decision makers in setting the right dividend policy but also for shareholders in making investment decisions.

Albertus Karjono (2019) This study is to determine the effect of cash ratio, net profit margin, debt to equity ratio, and firm size on dividend policy in manufacturing companies listed on the IDX in the 2013-2017 period. Cash ratio, net profit margin, debt to equity ratio, and firm size are common determinants in dividend payment decisions or policies. The more liquid a company is and the increase in cash ratio can also increase investor expectations of the company's ability to distribute dividends, companies with high profitability with more stable profits can manage the company's greater cash flow allowing for an increase in dividend payments. , companies with a high debt-to-equity ratio have high transaction costs, and are in a weak position to pay higher dividends to avoid external funding costs.

Asih Puji Lestari dan Aris Susetyo (2020) This study aims to determine the effect of Net Profit Margin, Earnings Per Share, Debt Equity Ratio and Price Book Value on Stock Prices through Dividend Payout Ratio as an Intervening Variable. This research was conducted on companies listed on the High Dividend 20 Index listed on the Indonesia Stock Exchange (IDX) in 2014-2018. In his research, it shows that increasing sales that are not followed by increasing net income can reduce the percentage of NPM. Net profit itself is influenced by expenses and costs which in fact continue to increase. In trading stocks, earnings per share can affect Stock Prices, because investors always pay attention to the growth of the company's earnings per share so that it can affect the ups and downs of Stock Prices. The logical relationship that can be put forward that companies that have a capital structure derived from high debt will have an impact on potential investors, where potential investors and investors will turn or prefer companies with a low level of leverage because potential investors and investors will choose companies with a low level of risk. Share Price is not measured by how much DPR is given to shareholders, but by the amount of PBV owned by IDX HIDIV20 company. When the company has a high PBV value, the Stock Price is also high.

Yovita Ariani (2020). This research was conducted to see the stock price of retail companies during the pandemic which was associated with the company's NPM, CR and EPS. This financial performance will be a consideration for investors to buy company shares so that in the end it affects the stock price which is the price in the stock exchange market, especially

during the pandemic. The results of his research show that NPM that does not partially affect stock prices in the retail industry can indicate that investors not only see NPM as an indicator of company performance in investing in shares but can be influenced by other indicators. The effect of each CR and EPS on stock prices can indicate that investors consider these indicators in investing so that in turn it can affect the company's share price. The results of this study can be input for retail industry players to always pay attention to these two indicators in order to attract investors who can ultimately increase the company's stock price.

Pane dkk (2021) This study analyzes the effect of Debt to Asset Ratio, Return on Asset, Current Ratio on stock prices in Consumer Goods Industry Sector Companies listed on the IDX with samples used in research as many as 25 manufacturing sub-sector companies on the IDX for the 2015-2019 period. Research shows that the Debt to Asset Ratio has no effect on stock prices because a high Debt to Asset Ratio can indicate a high risk to the company because the company has a greater responsibility in paying off obligations to third parties. Return on Asset describes the amount of return on investment made by shareholders so that the amount of return on assets describes the company's prospects in the future, and can provide consideration for investments that investors will make. A current ratio that has no effect on stock prices indicates that companies still do not have the ability to balance the benefits and costs of debt, so additional debt tends to lower stock prices.

2.1 Dividend Policy

Dividend policy is a decision taken by the company whether the profits obtained will be distributed to shareholders as dividends or will be retained in the form of retained earnings for investment financing in the future (Sartono, 2016: 281). The image of corporate survival is shown by the act of dividend payment where regular dividend payments increase public confidence resulting in an increase in the company's market value (Ajao and Robinson, 2022: 30). The measurement of dividend policy consists of dividends per share and earnings per share, with the following formula:

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$$

2.2 Stock Price

Hartanto (2018: 22) stated that stock prices are units of value or bookkeeping in various financial instruments that refer to the ownership of a company or a form of company ownership in the capital market. Stock price measurement is determined from the closing price of the stock (closing price) with the following formula:

$$\text{Stock Price} = \text{closing price}$$

2.3 Current Ratio

According to Sawir (2017: 8) suggests the current ratio as the most common measure used to determine the ability to meet short-term obligations because this ratio shows how far the demands of short-term creditors are met by assets that are estimated to be cash in the same period as debt maturity. The current ratio measurement consists of current assets and current liabilities with the following formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2.4 Debt to Asset Ratio

Hartanto (2018: 22) stated that stock prices are units of value or bookkeeping in various financial instruments that refer to the ownership of a company or a form of company ownership in the capital market. Debt to asset ratio measurement consists of total debt and total assets, with the following formula:

$$\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

2.4 Net Profit Margin

Net profit margin is a measure of profit by comparing profit after interest and tax compared to the sales of a company (Kasmir, 2019: 202). The measurement of net profit margin consists of profit after tax and sales, with the following formula:

$$\text{Net Profit Margin} = \frac{\text{Earning After Tax}}{\text{Sales}}$$

2.5 Frameworks

Based on the analysis of theoretical foundations, the relationship between variables and previous research that tested how much influence the current ratio, debt to asset ratio, and net profit margin have on stock prices with dividend policy as an intervening variable, the framework of thought can be seen in the following figure:

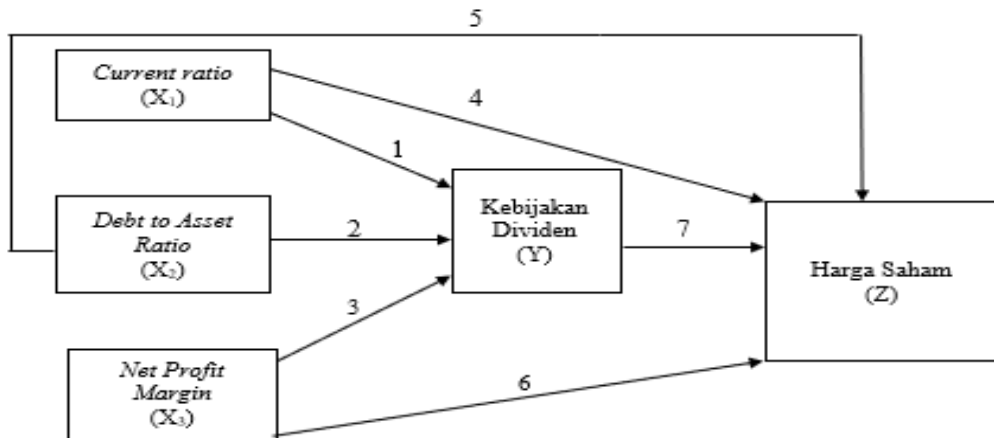


Figure 2. Frameworks

Source: Researcher, 2023.

3. Research Method

The object of this study is stock price, dividend policy, current ratio, debt to asset ratio and net profit margin. This research was conducted on Mining Companies listed on the Indonesia Stock Exchange, where the data is in the form of financial statements for the 2018-2022 period which are published and can be accessed on the IDX website. The type of research that corresponds to this study is associative research. The population in this study is the financial statements of mining companies listed on the Indonesia Stock Exchange. The total population in this study was 63 Mining Companies. Sampling was taken by purposive sampling method. Purposive sampling 21 companies meet the criteria, namely, mining companies listed on the stock

exchange in the 2018-2022 period, have conducted IPOs in the research year and mining companies that have not suffered losses, suspensions or delistings on the Indonesia Stock Exchange in the 2018-2022 period.

Current ratio (X_1) is a ratio used by Mining Companies listed on the IDX in 2018-2022 to measure the company's ability to pay current debt with indicators of current assets and current liabilities, Debt to Asset Ratio (X_2) is a ratio used to measure how much assets of Mining Companies listed on the IDX are financed by debt with indicators of total debt and total assets. Net profit margin (X_3) is a ratio that interprets the level of efficiency of Mining Companies listed on the IDX, namely the extent of the company's ability to make sales in a certain period to maximize the company's profit with profit after tax and sales indicators. Dividend policy (Y) is a policy that must be taken by management in Mining Companies listed on the IDX in determining whether the profits obtained by the company will be distributed to shareholders or retained for the company's financing purposes with indicators of dividends per share and earnings per share. The share price (Z) is the price formed according to demand and supply in the stock buying and selling market and is usually the closing price of Mining Companies listed on the IDX with closing price indicators.

The analysis design used in this study is path analysis with a mediation model or intervening variable. Path analysis with a mediation model or intervening variable where the presence of variable Y as an intermediate variable will change the influence of variable X on variable Z . This influence can decrease or increase. This model is used to calculate direct effect, indirect effect and total effect.

The path analysis of the mediation model in this study uses three independent variables (X_1 , X_2 and X_3) which function as exogenous independent variables, variable Y as an intermediate endogenous and variable Z as an endogenous dependent. The path analysis research model on this equation is as follows:

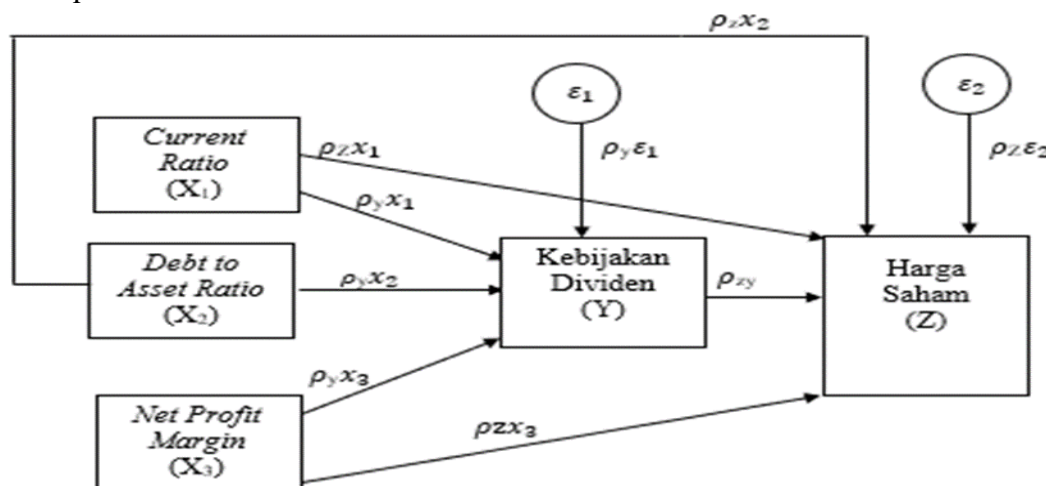


Figure 3. Research Model

Source: Researcher, 2023.

The path diagram above consists of two structural equations, of which X_1 , X_2 and X_3 are exogenous variables while Y and Z are endogenous variables. Based on the explanation above, the following is the structural equation of path analysis:

$$\text{Equation 1: } Y = \rho_{yx_1}X_1 + \rho_{yx_2}X_2 + \rho_{yx_3}X_3 + \varepsilon_1$$

$$\text{Equation 2: } Z = \rho_{zx_1}X_1 + \rho_{zx_2}X_2 + \rho_{zx_3}X_3 + \rho_{zy}Y + \varepsilon_2$$

4. Findings and Discussions

4.1 Path Analysis of Direct Influence Paths X to Y

The results of the direct effect of variables X to Y can be seen in the table below:

Table 1. Regression Test Results Model I Direct Effect X to Y

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.306 ^a	.094	.067	29.13871

a. Predictors: (Constant), NPM, CR, DAR

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	47.914	6.994		6.851	.000
CR	-.951	1.427	-.065	-.666	.507
DAR	-18.904	9.098	-.203	-2.078	.040
NPM	33.924	14.900	.217	2.277	.025

a. Dependent Variable: DPR

Source: Processing Data

Based on the results of the analysis test, in Table 1 of the summary model, shows an R Square value of 0.094 or 9.4%, this shows the influence given by the current ratio, debt to asset ratio and net profit margin is 9.4% while the remaining 90.6% is influenced by other variables that are not studied in this study such as liquidity, company size, institutional ownership, debt policy and so on. To find the value of ε_1 can use the formula $\varepsilon_1 = \sqrt{(1 - R \text{ square})}$ so that the resulting ε_1 produced in the coefficient of the model I path diagram is $\varepsilon_1 = \sqrt{(1 - 0.094)} = 0.952$

Based on the table above, in the coefficient table it can be concluded that the value of the coefficient for the current ratio is -0.065, for the value of the debt to asset ratio coefficient of -0.203 and for the net profit margin the value of the coefficient is 0.217. so that the model equation for model I is:

$$Y = \rho_{yx_1}X_1 + \rho_{yx_2}X_2 + \rho_{yx_3}X_3 + \varepsilon_1$$

$$Y = -0.065 X_1 - 0.203 X_2 + 0.217 X_3 + 0.952$$

In addition, in Table 1 the coefficient can also be seen the value of the sig current ratio is 0.507 which means the value of the sig > 0.05 so that it can be concluded that the current ratio does not have a significant effect on dividend policy, for the value of the sig debt to asset ratio is 0.040 which means the value of the sig < 0.05 so that it can be concluded that the debt to asset ratio has a significant effect on dividend policy and for the value of the sig net profit margin is

0.025 which means the value of the sig < 0.05 so it can be concluded that net profit margin has a significant effect on dividend policy.

4.2 Path Analysis of Direct Influence Path X to Z

The results of direct influence (direct effect) variable X to Z can be seen in the Table below:

Table 2. Model II Regression Test Results Direct Effect of X to Z

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.259 ^a	.067	.030	5743.30332

a. Predictors: (Constant), DPR, CR, NPM, DAR

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	2099.742	1668.331		.211
	CR	7.390	281.898	.003	.979
	DAR	-1671.828	1831.123	-.093	.363
	NPM	3948.641	3011.300	.130	.033
	DPR	30.180	19.612	.156	.027

a. Dependent Variable: Harga Saham

Source: Processing Data.

Based on the results of the analysis test, in Table 2 in the model summary section, shows an R Square value of 0.067 or 6.7%, this shows the influence given by the current ratio, debt to asset ratio and net profit margin is 6.7% while the remaining 93.3% is influenced by other variables that are not studied in this study such as inflation, interest rates, rupiah exchange rate, company growth and so on. To find the value of ε_2 can use the formula $\varepsilon_2 = \sqrt{(1-R \text{ square})}$ so that the resulting ε_1 produced in the coefficient of the model I path diagram is $\varepsilon_2 = \sqrt{(1-0.067)} = 0.967$.

Based on the table above, in the coefficient table it can be concluded that the value of the coefficient for the current ratio is 0.003, for the value of the debt to asset ratio coefficient of -0.093, for the net profit margin, the value of the coefficient is 0.130 and for the value of the dividend policy coefficient of 0.156 so that the equation model for this model II is:

$$Z = \rho_{zx_1}X_1 + \rho_{zx_2}X_2 + \rho_{zx_3}X_3 + \rho_{zy}Y + \varepsilon_2$$

$$Z = 0.003 X_1 - 0.093 X_2 + 0.130 X_3 + 0.156 Y + 0.967$$

In addition, in the coefficient table, it can also be seen that the value of the sig current ratio is 0.979 which means the value of the sig > 0.05 so that it can be concluded that the current ratio does not have a significant effect on the stock price, for the value of the sig debt to asset ratio is 0.363 which means the value of the sig > 0.05 so that it can be concluded that the debt to asset ratio does not have a significant effect on the stock price, For the GIS Net Profit Margin value is 0.033 which means the GIS value < 0.05 so it can be concluded that the Net Profit

Margin has a significant effect on the stock price, in the dividend policy the GIS value shows 0.027 which means the GIS value < 0.05 so it can be concluded that the dividend policy has a significant effect on the stock price.

From equation I and equation II in the results of the path analysis above, a path diagram is obtained as follows:

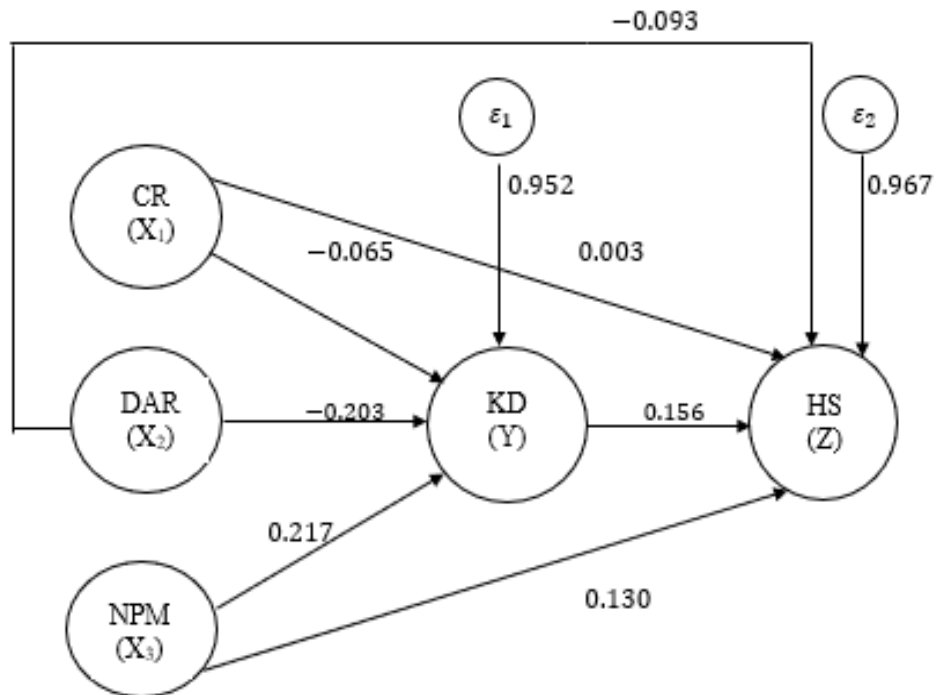


Figure 3: Path Analysis Model

Sources: Data processed by researchers, 2023.

Based on Figure 3 we can see the direct influence of its significance value in the following table:

Table 3. Significance of direct influence between variables ($\alpha=5\%$)

Influence between variables		t-Count	Significance value	Decision
CR	→ Dividend Policy	-0.666	0.507	Insignificant
DAR	→ Dividend Policy	-2.078	0.040	Significant
NPM	→ Dividend Policy	2.277	0.025	Significant
CR	→ Stock Price	0.026	0.979	Insignificant
DAR	→ Stock Price	0.913	0.363	Insignificant
NPM	→ Stock Price	2.311	0.033	Significant
Dividend Policy → Stock Price		2.539	0.027	Significant

Source: Data processed by Researchers, 2023.

4.3 Path Analysis of Indirect Paths of Influence

Table 4. Indirect Influence Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2203.697	969.864		2.272	.025
CR*DPR	4.381	5.684	.078	0.771	.443
DAR*DPR	13.538	43.635	.008	2.081	.036
NPM*DPR	81.922	45.321	.190	2.808	.014

a. Dependent Variable: Harga Saham

Source: Processing data

Table 5. Significance of indirect influence between variables ($\alpha=5\%$)

Influence between variables	Intervening	t-Count	Significance value	Decision
CR → Stock Price	Dividend Policy	0.771	0.443	Insignificant
DAR → Stock Price	Dividend Policy	2.081	0.036	Insignificant
NPM → Stock Price	Dividend Policy	2.808	0.014	Significant

Source: Data processed by Researchers, 2023.

4.4 Total Effect

To clarify the role of intervening variables it is necessary to calculate their total influence, as follows:

Table 6. Direct Influence, Indirect Influence and Total Influence

No.	Flow	Intervening Variables	Direct Effect	Indirect Effect	Total Effect
1.	CR → Stock Price	Dividend Policy	0.003	$-0.065 \times 0.156 = -0.01014$	-0.00714
2.	DAR → Stock Price	Dividend Policy	-0.093	$-0.203 \times 0.156 = -0.031668$	-0.12466
3.	NPM → Stock Price	Dividend Policy	0.130	$0.217 \times 0.156 = 0.033852$	0.16385

Source: Researchers' Calculations based on Test Results, 2023.

Based on Table 6 above, it can be seen that the direct influence of the current ratio on stock prices is 0.003, the indirect influence of the dividend policy is -0.01014 so that the effect of the current ratio on stock prices with a dividend policy of -0.00714 means that the dividend policy is unable to strengthen the influence of the current ratio on stock prices.

The direct effect of debt to asset ratio on stock price is -0.093, indirect influence with dividend policy is -0.031668 so that the effect of debt to asset ratio on stock price with dividend policy is -0.12466 meaning that dividend policy is able to strengthen the effect of debt to asset ratio on stock price.

The direct effect of net profit margin on stock price is 0.130, indirect influence on dividend policy is 0.03385 so that the effect of net profit margin on stock price with dividend policy of 0.16385 means that dividend policy is able to strengthen the effect of net profit margin on stock price.

4.5 Discussion

4.5.1 The effect of the current ratio on dividend policy in Mining Sector Companies listed on the Indonesia Stock Exchange.

The results of tests conducted on the current ratio show the value of $t_{hitung} < t_{tabel}$ **So it can be concluded that H_{01} Accepted and H_{a1} rejected**, Where this means that the current ratio directly does not affect dividend policy. Significant Value $t > \text{sig } \alpha$, this illustrates that there is no significance in the effect of the exogenous variable (X) on the intervening endogenous variable (Y). So the first hypothesis in this study was rejected.

From the results of the study, it is proven that the current ratio directly has no effect on dividend policy. The direct effect between the current ratio on dividend policy in this study is negative, but this influence is not significant, meaning that the negative influence of CR does not have a strong impact on decreasing dividend policy. The lack of influence of the current ratio on dividend policy shows that the results of this test do not support the theoretical results in the research of Yasa and Wirawati (2016), on the contrary, the results of this test support the results of Rahayu and Hari's (2016) research.

4.5.2 The effect of debt to asset ratio on dividend policy in Mining Sector Companies listed on the Indonesia Stock Exchange

The results of tests conducted on the debt to asset ratio show the value of $t_{hitung} > t_{tabel}$ **So it can be concluded that H_{02} rejected and H_{a2} accepted**, Where this means that the debt to asset ratio directly affect dividend policy. Significant Value $t < \text{sig } \alpha$, this illustrates that there is significance in the effect of the exogenous variable (X) on the intervening endogenous variable (Y). So the second hypothesis in this study was accepted.

From the results of the study, it is proven that the debt to asset ratio directly affects dividend policy. The direct effect of debt to asset ratio on dividend policy is negative, with a significant effect, meaning that the negative effect of debt to asset ratio can have a strong impact on decreasing dividend policy. This result is in line with research conducted by Sari (2018), which shows that debt to asset ratio affects dividend policy.

4.5.3 The effect of net profit margin on dividend policy in Mining Sector Companies listed on the Indonesia Stock Exchange

The results of tests conducted on the net profit margin show the value of $t_{hitung} > t_{tabel}$ **So it can be concluded that H_{03} rejected and H_{a3} accepted**, Where this means that the net profit margin directly affect dividend policy. Significant Value of $t < \text{sig } \alpha$, this illustrates that there is significance in the effect of the exogenous variable (X) on the intervening endogenous variable (Y). So the third hypothesis in this study was accepted.

From the results of the study, it is proven that net profit margin directly affects dividend policy. The direct effect of net profit margin on dividend policy is positive, with a significant effect, meaning that the positive effect of net profit margin can have a strong impact on improving dividend policy. This result is in line with research conducted by Melani and Napisah (2022), which shows that net profit margin has an effect on dividend policy.

4.5.4 The effect of current ratio on stock price in Mining Sector Companies listed on the Indonesia Stock Exchange.

The results of tests conducted on the current ratio show the value of $t_{hitung} < t_{tabel}$

So it can be concluded that H_{04} Accepted and H_{a4} rejected, Where this means that the current ratio directly does not affect stock price. Significant Value $t > \text{sig } \alpha$, this illustrates that there is no significance in the effect of the exogenous variable (X) on the endogenous dependent variable (Y). So the fourth hypothesis in this study was rejected.

From the results of the study, it is proven that directly the current ratio has no effect on stock prices. The direct influence between the current ratio on stock prices is positive, with an insignificant effect, meaning that the positive influence of the current ratio does not have a strong impact on increasing stock prices. The value of the current ratio that is too high is not necessarily good because this shows that many company funds are idle which in turn can reduce company profits, a low current ratio will result in a decrease in the company's stock price. This also illustrates that the company has not been able to use its excess assets to invest where the investment can add a profit and if the company cannot use its excess current assets, of course investors will see that the company is experiencing losses, then the demand for share prices in the company will decrease and of course this will not affect the stock price.

The lack of influence of the current ratio on stock prices shows that the results of this test do not support the theoretical results in the research of Wardani (2018), Ariani (2021) and Parmuji (2021) where the results of the study show that the current ratio affects stock prices, on the contrary, the results of Siampa, Murni and Rogi (2020) research in this test support the results of research which shows that the current ratio has no effect on stock prices..

4.5.5 The effect of debt to asset ratio on stock price in Mining Sector Companies listed on the Indonesia Stock Exchange.

The results of tests conducted on the debt to asset ratio show the value of $t_{hitung} < t_{tabel}$
So it can be concluded that H_{05} Accepted and H_{a5} rejected, Where this means that the debt to asset ratio directly does not affect stock price. Significant Value $t > \text{sig } \alpha$, this illustrates that there is no significance on the direct effect of the exogenous variable (X) on the endogenous dependent variable (Y). So the fifth hypothesis in this study was rejected.

Based on the results of the study, it is proven that directly the debt to asset ratio has no effect on stock prices. The direct effect of debt to asset ratio on Stock Price is negative, with an insignificant effect, meaning that the negative influence of debt to asset ratio does not have a strong impact on the decline in Stock Price. The lack of effect of debt to asset ratio on stock price shows that the results of this test do not support the theoretical results in the research of Pane, et al (2021), on the contrary, the results of Wijaya's research (2017), in this test support the results of this study. This result is in line with research conducted by Wijaya (2017), which shows that debt to asset ratio has no effect on stock prices.

4.5.6 The effect of net profit margin on stock price share price in Mining Sector Companies listed on the Indonesia Stock Exchange

The results of tests conducted on the net profit margin show the value of $t_{hitung} > t_{tabel}$
So it can be concluded that H_{06} rejected and H_{a6} accepted, Where this means that the net profit margin directly affect stock price. Significant Value of $t < \text{sig } \alpha$, this illustrates that there is significance in the effect of the exogenous variable (X) on the intervening endogenous variable (Y). So the sixth hypothesis in this study was accepted.

Based on the results of the study, it is proven that directly net profit margin affects stock prices. The direct effect of net profit margin on stock price is positive, with a significant influence,

meaning that the positive influence of net profit margin can have a strong impact on increasing stock price. This result is in line with research conducted by Hendri (2015), which shows that net profit margin affects stock prices.

4.5.7 The effect of dividend policy on stock price in Mining Sector Companies listed on the Indonesia Stock Exchange.

The results of tests conducted on the dividend policy show the value of $t_{hitung} > t_{tabel}$. **So it can be concluded that H_{06} rejected and H_{a6} accepted**, Where this means that the dividend policy directly affect stock price. Significant Value of $t < \text{sig } \alpha$, this illustrates that there is significance in the effect of the intervening endogenous variable (Y) on the endogenous dependent variable (Z). So the seventh hypothesis in this study was accepted.

Based on the results of the study, it is proven that dividend policy directly affects stock prices. The direct influence of dividend policy on stock prices is positive, with significant influences, meaning that the positive influence of dividend policy can have a strong impact on increasing stock prices. The higher the declared dividend policy value, it will tend to increase the value of the company's stock price, on the other hand, the low value of the dividend policy will reduce the value of the company's stock price. This result is in line with research conducted by Aini (2017) and Bulutoding (2018) which shows that dividend policy affects stock prices.

4.5.8 The effect of current ratio on stock price with dividend policy as an intervening variable in Mining Sector Companies listed on the Indonesia Stock Exchange.

The results of tests conducted on the current ratio to stock price with dividend policy as an intervening variable, show the calculated value of $t_{hitung} < t_{tabel}$. **So it can be concluded that H_{08} Accepted and H_{a8} rejected**, Where this means that indirectly the current ratio does not affect stock price through dividend policy as an intervening variable. Significant Value $t > \text{sig } \alpha$, this illustrates that there is no significance in the indirect effect of the exogenous variable (X) through intervening endogenous variable (Y) on the endogenous dependent variable (Z). So the eighth hypothesis in this study was rejected.

Based on the results of the study, it is proven that indirectly the current ratio does not affect the stock price with dividend policy, with indicators of current assets and current liabilities, namely if the value of the company's current assets is able to meet the company's current obligations. Because if the company has too many current obligations that must be met, then the dividends distributed will be limited or restrained to cover the current obligations that must be fulfilled by the company. So that the decline in dividend policy will have an impact on reducing the company's stock price which is considered less profitable for shareholders. The indirect influence between the current ratio on stock prices and dividend policy as an intervening variable is negative, with an insignificant effect, meaning that the negative influence of the current ratio on stock prices with dividend policy as an intervening variable has little impact on the decline in stock prices.

4.5.9 The effect of debt to asset ratio on Stock Price with dividend policy as an intervening variable in Mining Sector Companies listed on the Indonesia Stock Exchange

The results of tests conducted on the debt to asset ratio to stock price with dividend policy as an intervening variable, show the calculated value of $t_{hitung} > t_{tabel}$. **So it can be concluded that H_{09} rejected and H_{a9} accepted**, Where this means that indirectly the debt to asset ratio affects stock price with dividend policy as an intervening

variable. Significant Value $t < \text{sig } \alpha$, this illustrates that there is significance on the indirect effect of the exogenous variable (X) through intervening endogenous variable (Y) on the endogenous dependent variable (Z). So the ninth hypothesis in this study was accepted.

The indirect influence between debt to asset ratio on stock price through dividend policy as an intervening variable is positive, with a significant influence, meaning that the positive influence of debt to asset ratio on stock price with dividend policy as an intervening variable has a strong impact on increasing stock prices.

This result is in line with research conducted by Ariani, Andini and Santoso (2018) showing that the debt to asset ratio affects stock prices with dividend policy as an intervening variable, because the higher the value of the debt to asset ratio, the more likely the company will distribute profits well, due to healthy management, so that it can provide benefits to shareholders or investors. However, the results of this study are not in line with research conducted by Stevanus (2017) showing that the debt to asset ratio does not affect dividend policy because the level of debt owned by the company is not a consideration in dividend distribution decisions, so it cannot affect stock prices.

4.5.10 The effect of net profit margin on Stock Price with dividend policy as an intervening variable in Mining Sector Companies listed on the Indonesia Stock Exchange

The results of tests conducted on the net profit margin to stock price with dividend policy as an intervening variable, show the calculated value of $t_{hitung} > t_{tabel}$. **So it can be concluded that H_{10} rejected and H_{a10} accepted**, Where this means that indirectly the net profit margin affects stock price with dividend policy as an intervening variable. Significant Value $t < \text{sig } \alpha$, this illustrates that there is significance on the indirect effect of the exogenous variable (X) through intervening endogenous variable (Y) on the endogenous dependent variable (Z). So the tenth hypothesis in this study was accepted.

The indirect influence between net profit margin on stock price and dividend policy as an intervening variable is positive, with a significant influence, meaning that the positive effect of net profit margin on stock prices with dividend policy as an intervening variable has a strong impact on increasing stock prices. This result is in line with research conducted by Lestari and Susetyo (2020) which shows that net profit margin affects stock prices with dividend policy as an intervening variable, because the higher the net profit margin value, the profit can be distributed properly to shareholders through dividends distributed, so that it can have a strong impact on increasing stock prices. However, the results of this study are not in line with research conducted by Kurniawan and Ariawan (2022), which shows that net profit margin has no effect on dividend policy, because every increase in sales is not always accompanied by an increase in profits, and high profits are not necessarily accompanied by high dividend distribution, because it depends on how the company agrees to allocate the profits generated, Therefore, the stock price can only be influenced by the dividend policy itself

5. Conclusion

1. Based on the results of research and discussion, it can be concluded that: The direct influence of the current ratio on dividend policy is negative, but this influence is insignificant, meaning that the negative influence of the current ratio does not have a strong impact on the decline in dividend policy.
2. The direct effect of debt to asset ratio on dividend policy is negative, but this effect is

insignificant, meaning that the negative effect of debt to asset ratio does not have a strong impact on decreasing dividend policy.

3. The direct effect of net profit margin on dividend policy is positive and significant, meaning that the positive effect of net profit margin can have a strong impact on improving dividend policy.
4. The direct effect of the current ratio on stock prices is positive, but this influence is insignificant, meaning that the positive influence of the current ratio does not have a strong impact on increasing stock prices.
5. The direct effect of debt to asset ratio on stock price is negative, but this effect is insignificant, meaning that the negative effect of debt to asset ratio does not have a strong impact on stock price decline.
6. The direct effect of net profit margin on stock prices is positive and significant, meaning that the positive effect of net profit margin can have a strong impact on increasing stock prices.
7. The direct effect of dividend policy on stock prices is positive and significant, meaning that the positive influence of dividend policy can have a strong impact on increasing stock prices.
8. The indirect effect of the current ratio on stock prices with dividend policy is positive, but this influence is insignificant, meaning that the positive influence of the current ratio through dividend policy does not have a strong impact on increasing stock prices.
9. The indirect effect of debt to asset ratio on stock prices with dividend policy is positive and significant, meaning that the positive influence of debt to asset ratio can have a strong impact on increasing stock prices.
10. The indirect effect of net profit margin on stock prices with dividend policy is positive and significant, meaning that the positive effect of net profit margin can have a strong impact on increasing stock prices.

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Exploring the General Knowledge of Islamic Finance Principles: A Factor Analysis Study Among College Students

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Abstract

This study explored the foundational constructs of general knowledge concerning the principles of Islamic Finance, with a specific focus on college students majoring in Business, Finance, and Accountancy. Employing a combination of exploratory factor analysis (EFA) and confirmatory factor analysis (CFA), the research identified and validated three distinct factors shaping this knowledge domain. The first factor, "Risk Tolerance and Permissible Transactions," looks at how well students understand financial risk and which transactions are allowed in Islamic finance. The second, "Shari'ah Foundation and Transparency," highlights the importance of Shari'ah principles and transparency in financial dealings. The third, "Riba Prohibition and Ethical Finance," strongly emphasizes banning Riba (interest) and unethical financial practices in Islamic finance. These factor names were chosen carefully to represent the main ideas in each category. Overall, this research contributes by creating a validated objective knowledge scale for Islamic Finance knowledge among students in Business, Finance, and Accountancy programs.

Keywords: Islamic Finance, Knowledge Assessment, Factor Analysis, College Students, Financial Literacy

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1. Introduction

Islamic Finance (herein referred as "IF") represents a faith-driven financial system, rooted in Shariah law and the principles of Islamic economics (Habib, 2018). Its foundation rests on a fundamental rule: the avoidance of exchanging current money for future money at an additional cost (Al-Jarhi, 2017, p. 118). Moreover, its underlying principles emphasize equity, fairness, compassion, collaboration, entrepreneurship, morality, and the overall welfare of both the environment and society, as opposed to mere profit maximization (Habib, 2018). Among its guiding principles is the avoidance of exchanging current goods or services for future monetary gains at a premium (Bourar & Mouloudi, 2020, referencing Al-Jarhi 2017). Additionally, there is a core prohibition on Riba (interest) due to its inclination towards risk-sharing and profit-and-loss distribution (Khattak & Rehman, 2010), rendering IF an alternative to conventional finance. To attain proficiency in IF, one must acquire, through education and/or experience, knowledge specific to Islamic financial products and concepts (Rahman, Tajudin, & Tajudin, 2018). Notably, IF is not confined solely to Muslims countries; it is increasingly garnering interest and acceptance worldwide (Bourar et al., 2020, citing Khattak & Rehman, 2010).

The demographic and educational landscape in Mindanao, as highlighted by the 2015 Census of Population conducted by the Philippine Statistics Authority (PSA), underscores the significance of Islam as the second largest religion in the region. With 93% of the entire Islamic population of the Philippines residing in Mindanao, this region serves as a crucial hub for the practice and propagation of Islamic faith and culture (PSA, 2017). Notably, Mindanao is also home to Ateneo de Davao University, an institution with a Catholic-Jesuit heritage. This juxtaposition of religious diversity is a testament to the region's commitment to fostering inclusivity and understanding among its diverse student population. Ateneo de Davao University, through its support for organizations like the Al Qalam Institute and the Salaam Movement, plays a pivotal role in nurturing the Muslim student community within its walls (Ateneo de Davao University, 2017).

In line with this inclusive approach, the School of Business and Governance (SBG) at Ateneo de Davao University offers a forward-thinking Bachelor of Science in Finance program that includes a subject titled "Finance in Asia," specifically dedicated to Islamic Finance and Banking (Ateneo de Davao University, 2018). This academic initiative not only reflects the university's commitment to providing a holistic education but also recognizes the importance of Islamic Finance (IF) in the contemporary financial landscape. Graduates from this program are well-positioned to become potential practitioners who can effectively operationalize the principles of IF. This educational endeavor not only equips students with the necessary skills and knowledge to engage with Islamic finance but also contributes to the broader goal of promoting economic inclusivity and diversity in the region.

In essence, the presence of Islam as a significant religious demographic in Mindanao, alongside the efforts of Ateneo de Davao University to promote interfaith understanding and inclusivity, serves as a compelling example of how diverse religious and educational institutions can coexist and collaborate to enrich the educational experience. By offering a specialized finance program in Islamic finance and banking, the university not only empowers its graduates to be effective practitioners in this field but also contributes to the promotion of Islamic finance principles and economic diversity in the region. This multifaceted approach highlights the importance of

recognizing and celebrating religious and cultural diversity within educational institutions to foster mutual respect, understanding, and economic growth.

There is, however, a limited assessment tool to measure these students' financial knowledge on IF. Existing tools that have been developed are subjective and may be inadequate to objectively measure their knowledge. Further, an assessment tool specific to the said students incidentally assesses the curriculum's effectiveness on ensuring that IF knowledge survives generations. The objective of this research, therefore, was to develop an objective type of questionnaire with an attempt to establish constructs that measure the general knowledge of SBG students from Ateneo de Davao University, regarding the core principles of Islamic Finance.

2. Literature Review

2.1 Core Principles of Islamic Finance

Islamic finance represents an approach to financial activities that operates in accordance with Shariah principles, as founded, regulated and illustrated by Shariah law (Alamad, 2017). The term "IF" is also used to denote a financial service or product that is consistent or principally implemented to adhere to Shariah or Islamic law principles (Gait & Worthington, 2008). Additionally, Islamic Finance constitutes a comprehensive rule-based financial system, with its foundational principles rooted in the Holy Quran and the practices of Prophet Muhammad (Uddin, 2015). Its banking and financial framework are established to provide range of religiously acceptable financial services to Muslim communities (Hassan and Lewis, 2007, citing Chapra, 1985). In contrast to the profit-maximizing focus of interest-based banking systems, its primary objective is to render socio-economic benefits to Muslims (Ahmad and Hassan, 2007). This underscores the importance of comprehending the fundamental rules that set Islamic Finance distinct from Conventional Finance. Velayutham (2014) affirms that the Islamic principles exerting the most profound influence on Islamic Economics encompass the prohibition of interest payments (Riba), the sale of high-risk assets or dealings involving uncertainties (Gharar), and speculative activities like gambling (Maysir).

Riba, an Arabic word (raba), literally means "to grow" or "expand," or "increase" or "inflate" or "excess" and is generally translated as "usury" or "interest" (Ahmad and Hassan, 2007, citing Al-Isfahani, Al-Raghib Al-Husain, 1961). In Shariah, it technically refers to the "premium" that must be paid by the borrower to the lender, along with the principal amount as a condition for the loan or for an extension in its maturity (Ahmad and Hassan, 2007, citing Chapra). The absolute prohibition of Riba in al-Qur'an is a command to establish an economic system from which all forms of exploitation are eliminated, that is, the injustice of the financier being assured of a positive return without sharing the risk, while the entrepreneurs, despite their management and hard work, is not assured of such a positive return (Ahmad and Hassan, 2007). The prohibition of Riba in al-Qur'an is, therefore, a way to establish equity between financiers and entrepreneurs (Id). Riba in Islamic Finance is absolutely prohibited. In practical terms, it signifies the additional amount that borrowers must pay to lenders, in addition to the principal amount, as a requirement for the loan or an extension in its maturity (Iqbal & Mirakhor, 2011).

Meanwhile, the Arabic word Gharar literally means deceit, risk, fraud, uncertainty, or hazard that might lead to destruction or loss (Uddin, 2015). Scholars have defined it as something which its consequence is undetermined or something that is concealed in both its manner and

consequences (Uddin, 2015). Gharar in Islam, therefore, refers to any transaction of probable objects whose existence or description is not certain due to a lack of information and knowledge of the ultimate outcome of the contract or the nature and quality of its subject matter (Id). Gharar occurs in all sorts of transactions where the subject matter, the price, or both are not determined and fixed in advance or there are certain ambiguities in a contract or transaction. Modern financial practices such as speculative activities in the capital market, derivatives instruments, and short-selling contracts often exhibit bright examples of Gharar (Uddin, 2015). In Islamic Finance, the basic principle is avoidance of Gharar, although it is not absolutely prohibited as there are certain exceptions to it in certain cases.

Lastly, "Maysir" refers to speculation or the easy acquisition of wealth by chance, whether or not it deprives others of their rights (Uddin, 2015). In the Qur'an, the term "Maysir" is mentioned three times, while the specific term "Qimar," referring to betting, is not found within its verses (Abdullah, 2017). Engaging in Maysir and Qimar can lead to consequences such as hostility, cursing and disagreement among participants, and harm to economic growth, in addition to diverting people from remembering Allah and performing prayers (Abdullah, 2017, citing Al-Razi, 1981). Participation in betting associated with Qimar and Maysir can also create an insatiable desire to win, especially after experiencing losses, potentially leading to the depletion of all one's assets. This inevitably results in significant social problems and disrupts the socio-economic fabric of society (Abdullah, 2017). In the context of business activities, Maysir involves deriving monetary gains solely through chance, speculation, or guesswork (Uddin, 2015, citing Hameed, 2009). What makes Gharar illegal is not just the degree of uncertainty but also the absence of risk-sharing between the contracting parties (Uddin, 2015).

2.2 Studies on Islamic Financial Knowledge

Abdullahi and Shahrudin (2016) conducted a study to assess the extent of knowledge and awareness among the Muslim population in Macedonia, a country where approximately 50% of the population practices Islam, regarding Islamic banking services. The research outcomes revealed that a substantial portion of the Muslim community in Macedonia is well-informed about the prohibition of interest (Riba) and consequently refrains from engaging with conventional banks. However, the study also found that their comprehension of Islamic banking principles and services is at a moderate level. In essence, this research illustrates that while many Macedonian Muslims are cognizant of the importance of avoiding interest-based transactions, there is room for further education and awareness-building regarding the intricacies of Islamic banking concepts and services within this demographic.

Alfarisi (2020) conducted a comprehensive analysis of the influence of courses related to Islamic economics and finance on the level of Islamic Financial Literacy (IFL) among university students. The findings of this study unveiled a significant impact of these specialized courses on enhancing the level of Islamic financial knowledge or literacy among the students. This observation aligns with a similar study conducted by Md and Ahmad (2020), which revealed that courses specifically designed for Muslim undergraduate students in Malaysia had a substantial positive effect on their overall financial literacy scores.

Additionally, Rahim, Rashid and Hamed (2016) identified key factors that play a pivotal role in shaping IFL among university students. These factors encompass religiosity, financial

satisfaction, and hopelessness, highlighting the multifaceted nature of IFL development. Interestingly, a study concentrating on a sample group of students enrolled in the faculty of Islamic economics and business found that, among these factors, "age" was the sole determinant influencing the level of financial literacy (Hisan, 2019). However, it's important to note that the existing literature on IFL seems to have gaps when it comes to exploring other potential contributors to this concept, suggesting the need for further research in this domain to gain a more comprehensive understanding of the determinants and dynamics of Islamic financial literacy.

Widityani, Faturhman, Rahado and Yulianti (2020) put forth a framework comprising three key variables—attitude, perception, and knowledge and behavior—that contribute to the development of Islamic Financial Literacy (IFL) among college students. Their research also highlighted that the IFL index varies depending on the level of education and gender, with students who have taken Islamic finance-related courses tending to exhibit higher IFL indices. Furthermore, students with a higher IFL index demonstrated a greater preference for Islamic financial products. This underscores the significance of education and awareness in fostering IFL among students.

Antara and Musa (2020) took a different approach by employing Rasch analysis to create a reliable and valid instrument for measuring IFL among Muslim urban millennial (MUM) generations. Their study successfully resulted in the development of a robust measurement scale. However, it did reveal gender-based biases in the responses to three specific items, emphasizing the need for addressing potential biases when assessing IFL.

In a related context, Nawi, Daud, Ghazali, Yazid and Shamsuddin (2018) delved into the IFL concept and suggested suitable items for its measurement. Their research led to the creation of proposed measurement items for IFL, along with the formulation of various questions related to topics such as Islamic banking, fundamental financial principles, Shariah-compliant investments, and takaful. These contributions in the literature are crucial for advancing our understanding of IFL and providing the tools to effectively measure and nurture this essential financial literacy concept among various demographic groups.

3. Research Method

3.1 Design and Measurement

In this study, an exploratory quantitative research approach was employed to establish constructs for measuring the general knowledge of Principles of Islamic Finance (PIF) among students majoring in business management, accountancy, and finance at Ateneo de Davao University (AdDU) during the second semester of the academic year 2022-2023. The instrument for this research took the form of an objective questionnaire featuring statements with binary responses (true or false).

To assess PIF knowledge, the researchers crafted 30 statements grounded in the fundamental principles of Islamic Finance. These constructs were then rigorously analyzed through exploratory factor analysis, followed by validation through confirmatory factor analysis. This methodological framework enabled a systematic and comprehensive evaluation of the students' understanding of PIF, contributing to a better grasp of the state of Islamic financial literacy

within this academic cohort.

3.2 Sample, Data Collection and Statistical Analysis

The study involved a sample of 201 respondents, consisting of college students enrolled in the School of Business and Governance at Ateneo de Davao University. These students were specifically from academic programs such as Business Management, Finance, and Accountancy. Data collection was carried out through an online survey conducted via Google Forms, with the survey link distributed to the intended respondents via email.

The collected data were subsequently subjected to a series of statistical analyses. Initially, Exploratory Factor Analysis (EFA) was employed, using methods like Principal Axis factoring and Varimax rotation, to identify and extract underlying factors within the dataset. Following this, Confirmatory Factor Analysis (CFA) was conducted to assess the validity of the factor structure that had been derived from the EFA results. Several fit indices, including χ^2/df , TLI, and CFI, were utilized to evaluate the goodness of fit. The entire statistical analysis process was facilitated using a dedicated statistical software known as JAMOV 2.2.5 (The Jamovi Project, 2022). This comprehensive methodological approach ensured the rigorous examination and validation of the constructs underlying the study's objectives.

4. Findings and Discussions

4.1 Exploratory Factor Analysis

Exploratory Factor Analysis (EFA) is a statistical technique used to uncover the underlying structure or latent factors within a set of observed variables or items. In this specific case, the researchers employed Principal Axis Factoring (PAF) with varimax rotation, a common EFA method. The goal of EFA is to reduce the complexity of data by identifying patterns or relationships among the items, allowing for a more straightforward interpretation of the data.

The results of the analysis, as shown in Table 1, reveal two important indicators: the Kaiser-Meyer-Olkin (KMO) test and the Bartlett test of sphericity. The KMO test assesses the adequacy of the sample size for factor analysis, with a value above 0.5 indicating that the data are suitable for factor analysis. In this case, the KMO value meets this criterion, indicating adequate sample size. The Bartlett test of sphericity, which tests the null hypothesis that the correlation matrix is an identity matrix (meaning there are no underlying factors), becomes significant when there is evidence of a meaningful factor structure in the data. The fact that the Bartlett test is significant ($P < 0.001$) suggests that underlying factors are present in the data, further validating the appropriateness of conducting factor analysis. These results collectively indicate that the dataset is suitable for EFA, allowing for the identification of latent factors among the items in the scale.

Table 1: KMO and Bartlett's test

Test	Value
KMO measure of sampling Adequacy	0.636
Bartlett's test of sphericity approximately Chi-square	248
Degrees of freedom (df)	66
Significant	0.000

To determine the number of dominant factors in the dataset, the researchers conducted a Parallel Analysis using a Monte Carlo Simulator. This analysis involved comparing the actual data to simulated data. In Figure 1, the analysis showed that there were three factors based on the number of points where the data intersected with the simulated lines. Following this determination, the data analysis was rerun with three factors, and a threshold of factorial saturation at 0.4 or higher was applied. This criterion was used to assess the strength of the relationship between each item and its respective factor. As a result of this analysis, a total of 18 items were removed from the factors because their factor loadings were below the 0.4 threshold. This step was crucial for refining the factor structure and retaining only those items that demonstrated a strong association with their respective factors, ensuring the validity of the factor analysis results.

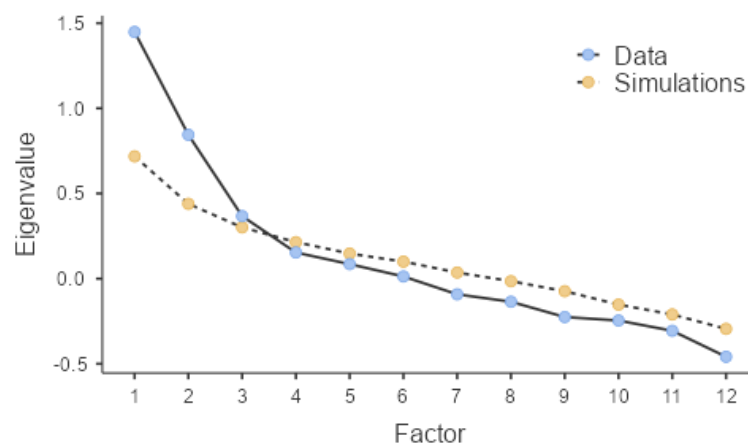


Figure 1. Parallel Analysis using Monte Carlo Simulator

The development of the Principles of Islamic Finance (PIF) General Knowledge scale involved several steps to refine the questionnaire. Initially, it comprised 30 items designed to assess participants' understanding of Islamic finance principles. Following the first exploratory factor analysis, the scale was refined, reducing the number of items to 12. Subsequently, a factor analysis was conducted on these 12 selected items. The results of this analysis, as presented in Table 2, revealed a categorization of these items into three distinct factors.

Factor 1 encompasses 5 items, each demonstrating factor loadings ranging from 0.39 to 0.66. These factor loadings indicate the strength of the relationship between each item and Factor 1, with higher loadings suggesting a more significant contribution to this factor. Factor 2 comprises 3 items, and their factor loadings range from 0.35 to 0.54. Similarly, Factor 3 encompasses 4 items with factor loadings between 0.34 and 0.49. These factor loadings indicate how well each item aligns with its respective factor. Altogether, this factor analysis resulted in classifying the 12 items into three distinct factors, helping simplify and structure the PIF General Knowledge scale for assessing participants' knowledge of Islamic finance principles.

Table 2. Extracted Factors with Factor Loadings

Factor	Item Number	Item Statement	Factor Loading
1	IF15	It is permissible for a person to speculate or spend money on an undertaking with a high risk or probability of failure.	0.66
	IF11	Acquisition of wealth by chance such as lotteries is permissible.	0.61
	IF16	Riba means interest, which is allowed in Islamic law.	0.50
	IF9	Option derivatives are permitted because there is no certainty whether a transaction will take place because the option buyer has the right but not the obligation to transact.	0.47
	IF2	It is permitted to pay the principal borrowed with pre-agreed additional commodities of different kinds.	0.39
2	IF22	Islamic finance prohibits dealing in liquor, pork, gambling, pornography and anything else that Shari'a (Islamic law) deems haram (unlawful).	0.54
	IF18	The Shari'ah teachings are considered to be the bedrock of the Islamic financial system as the Shari'ah teachings are not confined only to the boundaries of law.	0.54
	IF24	In certain Islamic financial contract, the bank should inform the customer of the cost/capital outlay which is the history of the acquisition and the profit/added value margin of the transaction.	0.35
3	IF17	Any risk-free or guaranteed interest on a loan is considered a Riba.	0.49
	IF20	A misconception of riba is that it is often translated as usury because in modern times usury normally refers to exorbitant rates of interest.	0.47
	IF13	The prices in a derivative are based on the fluctuations of underlying assets such as stocks and bonds which makes it prohibited.	0.42
	IF26	Any form of interest-free banking based on ethical ideals of financial transactions will be recognized as Shariah -compliant.	0.34

4.2 Confirmatory Factor Analysis

After establishing the factor structure through the exploratory factor analysis (EFA), the researchers conducted a confirmatory factor analysis (CFA) to validate the obtained model. The CFA aims to assess how well the data align with the hypothesized factor structure. As indicated in Table 3, the results of this analysis demonstrated that the 3-factor scale exhibited a good fit with the data based on several fit indices.

The χ^2/df ratio, which measures the goodness of fit, was found to be 1.241. A value close to 1 suggests a good fit, and in this case, it indicates a relatively good fit of the model to the data. The p-value associated with the χ^2 test was 0.115, indicating that the model's fit was not significantly different from the observed data. Additionally, the Comparative Fit Index (CFI) and the Tucker-Lewis Index (TLI) were both reported as 0.916 and 0.935, respectively. These indices measure the model's fit in comparison to a baseline model. Values closer to 1 for both

CFI and TLI indicate a better fit, and in this case, they suggest a reasonably strong fit of the 3-factor model. Lastly, the Root Mean Square Error of Approximation (RMSEA), which assesses the discrepancy between the model and the observed data, was reported as 0.035. An RMSEA value below 0.08 is typically considered a good fit, and here, the RMSEA falls well within this criterion. Collectively, the results of the confirmatory factor analysis (CFA) suggest that the 3-factor scale is a good fit for the data, providing validation for the proposed factor structure of the Principles of Islamic Finance (PIF) General Knowledge scale.

Table 3. Fit Measures of the 3-Factor Scale

Fit Index	Criterion	Values
χ^2/df	$1 < <2$	1.241
p-value	>0.05	0.115
CFI	>0.90	0.916
TLI	>0.90	0.935
RMSEA	<0.05	0.035

The confirmatory factor analysis (CFA) results, as presented in Table 4, provide further validation for the proposed 3-factor structure of the scale developed through the exploratory factor analysis. Specifically, the CFA results demonstrate that all item factor loadings for each of the three factors were highly significant ($p < 0.001$). This statistical significance confirms the strength of the relationships between the individual items and their respective factors.

To delve deeper into the specifics, the CFA analysis revealed that Factor 1 is significantly influenced by the IF11, IF16, IF2, IF9, and IF15 indicators. Factor 2 is significantly measured by IF18, IF24, and IF22, while Factor 3 is significantly accounted for by IF13, IF26, IF20, and IF17. These findings reinforce the validity of the 3-factor structure and provide insights into which specific items contribute most significantly to each factor, offering a deeper understanding of the scale's underlying constructs. Overall, the CFA results underscore the robustness of the scale and its ability to effectively measure the Principles of Islamic Finance (PIF) General Knowledge across these three distinct factors.

Following the comprehensive analysis of both the EFA and CFA results, the researchers thoroughly examined the statements associated with each factor. This examination aimed to discern the prevalent themes or underlying concepts conveyed by these statements. It involved a meticulous interpretation of the factor contents and a systematic approach to the naming process. Consequently, the final factor names, namely "Risk Tolerance and Permissible Transactions," "Shari'ah Foundation and Transparency," and "Riba Prohibition and Ethical Finance," were thoughtfully selected to aptly encapsulate the fundamental concepts embodied by the statements within each respective factor.

Table 4. Significance of the Item Factor Loadings

Factor	Indicator	Unstandardized Estimate	Standardized Estimate	SE	Z	p
Factor 1	IF11	0.314	0.631	0.0411	7.63	< .001
	IF16	0.253	0.506	0.041	6.16	< .001
	IF2	0.169	0.377	0.0375	4.52	< .001
	IF9	0.213	0.470	0.0373	5.7	< .001
	IF15	0.312	0.634	0.0404	7.72	< .001
Factor 2	IF18	0.139	0.402	0.035	3.96	< .001
	IF24	0.119	0.375	0.0354	3.37	< .001
	IF22	0.208	0.682	0.0447	4.66	< .001
Factor 3	IF13	0.168	0.372	0.0477	3.52	< .001
	IF26	0.204	0.456	0.0484	4.22	< .001
	IF20	0.221	0.536	0.0469	4.72	< .001
	IF17	0.154	0.349	0.0457	3.36	< .001

5. Conclusions

This study represents an initial endeavor to investigate the fundamental constructs related to general knowledge concerning the core principles of Islamic Finance. Through exploratory factor analysis, three distinct factors were identified. Subsequently, a confirmatory factor analysis was conducted to validate these three factors, each of which is characterized as follows:

Factor 1, termed "Risk Tolerance and Permissible Transactions," centers on the willingness to accept financial risk and the permissibility of specific transactions within the domain of Islamic finance.

Factor 2, denominated "Shari'ah Foundation and Transparency," underscores the pivotal role of Shari'ah principles in Islamic finance and highlights the significance of transparency in financial transactions.

Factor 3, labeled "Riba Prohibition and Ethical Finance," emphasizes the prohibition of Riba (interest) and other unethical financial practices, accentuating Islamic finance's ethical underpinnings.

These findings offer valuable insights into the underlying dimensions that constitute the Principles of Islamic Finance. However, it is essential to recognize that this study's scope is restricted to evaluating the general knowledge of core principles of Islamic finance, utilizing a researcher-developed true-or-false questionnaire to gauge the perceived knowledge of college students majoring in Finance, Accountancy, and Business Management. In sum, this research makes a noteworthy contribution to the existing literature by creating a validated objective knowledge scale for Islamic Finance, which holds promise for future research endeavors.

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