

Cash Dividend Policy is Influenced by Profitability and Liquidity in Consumption Goods Industry Sector Companies Listed on the Indonesia Stock Exchange (IDX)

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Abstract

This study aimed to determine and analyze the effect of Profitability and liquidity on the cash dividend policy of companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX). The population in this study are all companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) in the 2019-2021 period. The sampling technique uses purposive sampling, so a sample of 28 companies is obtained within three periods (2019-2021). This study uses secondary data, namely a documentation study in the form of issuer's reports published on the Indonesia Stock Exchange (IDX). Data analysis was performed by multiple linear regression testing. The t-test results showed a significance level of $0.000 < 0.05$ and $0.072 > 0.05$. Meanwhile, the test results for the coefficient of determination (R^2) show that the independent variables can only explain 61.8% of the dependent variable. The conclusion of this study indicates that Profitability, as measured using Return on Equity (ROE), affects cash dividend policy. In contrast, liquidity, as measured using the Current Ratio (CR), has no impact on cash dividend policy.

Keywords: Profitability, Liquidity, and Cash Dividend Policy.

Abstrak

Tujuan penelitian ini adalah untuk mengetahui dan menganalisis pengaruh *profitability* dan likuiditas terhadap kebijakan dividen kas perusahaan sektor industri barang konsumsi pada Bursa Efek Indonesia (BEI). Populasi dalam penelitian ini adalah seluruh perusahaan sektor industri barang konsumsi yang terdaftar di Bursa Efek Indonesia (BEI) pada periode 2019-2021. Teknik pengambilan sampel yaitu menggunakan metode *purposive sampling* sehingga diperoleh sampel sebanyak 28 perusahaan dengan 3 periode (2019-2021). Penelitian ini menggunakan data sekunder yaitu studi dokumentasi berupa laporan-laporan emiten yang dipublikasikan di Bursa Efek Indonesia (BEI). Analisis data dilakukan dengan pengujian regresi linier berganda. Hasil penelitian ini menunjukkan bahwa *profitability* yang diukur menggunakan *Return on Equity* (ROE) berpengaruh terhadap kebijakan dividen kas, sedangkan likuiditas yang diukur menggunakan *Current Ratio* (CR) tidak berpengaruh terhadap kebijakan dividen kas.

Kata Kunci: Profitabilitas, Likuiditas, Kebijakan Dividen Kas

1. Introduction

The Indonesia Stock Exchange (IDX) is a place for stock players to trade shares. A large number of companies are listed on the capital market, one of which is a company in the consumer goods sector. For stockholders, the goal of trading stocks is to desire a high rate of return (profit) compared to the sacrifices incurred in investing. This means that to calculate the rate of return on investment (return), one of the considerations for investors when investing in a company is dividends.

Dividends are a matter that affects the company's share price because the size of the share price obtained by the company depends on the amount of dividends distributed to shareholders. Dividends are also part of the company's profits that will be distributed to shareholders, who usually expect significant earnings. If the company decides to share profits, all shareholders will get the same rights according to the percentage of their share ownership.

According to Sartono (2012), dividend policy is a company's decision based on profits earned. It will be distributed by shareholders in the form of dividends or retained as retained earnings. The goal is to finance the activities and development of the company's business in the future. The most common dividend distributed by companies is the cash dividend because it is a cash payment that helps reduce the uncertainty of shareholders in the company, and this dividend is also much more expected by shareholders compared to other forms.

Companies must be able to decide on the right dividend policy to meet the interests of shareholders and the interests of the company. The dividend payout ratio illustrates the company's dividend policy, namely the percentage of profits distributed as cash dividends. The dividend payout ratio will influence shareholders' investment decisions on the size of the distribution of cash dividends and will affect the company's internal funding sources. If the company's finances are stable, it will be able to determine the size of the dividend payout ratio based on the expectations of shareholders without neglecting the survival and growth of the company.

Usually, company management requires several considerations in dividend policy, which are carried out with various factors that can affect dividend policy, such as Profitability and liquidity. Profitability is one of the main factors in distributing dividends to shareholders because of the company's ability to generate profits, which will be the basis for dividend distribution in the company. The higher the Profitability of the company, the better the productivity of assets in obtaining profits, so that some of the company's profits can be distributed as dividends to shareholders.

Profitability can be measured using the Return On Equity (ROE) ratio. ROE shows the level of success of a company in generating profit after tax by using its capital and prospering shareholders. The greater the ROE, the better because the company will use capital to generate profits and will increase dividend payments if there is an increase in earnings within the company.

Liquidity is also a factor in dividend policy because it is a company's cash outflow. Management will use liquidity to pay short-term debt or use the funds for the company's operational needs. The greater the company's cash and liquidity, the greater the company's ability to distribute dividends to shareholders. Conversely, if the company's cash and liquidity are low, management does not distribute dividends to shareholders because of the risk that the company cannot pay short-term debt.

Liquidity can be measured through the Current Ratio (CR) because it can be used to measure a company's ability to pay short-term debt and debt that will mature when billed. A low Current Ratio (CR) will result in liquidity problems. Still, a high current ratio could be better because it results in many unused funds, reducing the company's profits. So high and low liquidity can affect the company's dividend policy.

Companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) are large-scale companies compared to other industrial sector companies, making it easier to compare companies in the consumer goods industry sector. In addition, companies in the consumer goods sector distribute more dividends to shareholders, both in the form of cash and stock dividends, compared to other industrial sector companies. Therefore, researchers are interested in discussing and researching "The Influence of Profitability and Liquidity on Cash Dividend Policy in Consumer Goods Industry Sector Companies Listed on the Indonesia Stock Exchange." This

study aims to determine and analyze the effect of Profitability and liquidity on the cash dividend policy of companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX).

2. Literature Review

Dividend Policy

According to Wiyono and Kusuma (2017: 11), dividend policy results from business activities carried out by management, which aim to profit through the effectiveness of the activities carried out and financing efficiency efforts. Dividends are one of the 16 returns investors expect in addition to capital gains. Dividend policy can be reflected in the measurement of the dividend payout ratio (Puspitaningtyas, 2017).

Profitability

The profitability ratio is a ratio to assess a company's ability to seek profit over a certain period of time. This ratio also provides a measure of the effectiveness of a company's management, as shown by the profits generated from sales or investment income (Kasmir, 2015: 114). In the long term, investors will be very interested in this profitability analysis; for example, shareholders will see the benefits that will be received in the form of dividends (Sartono, 2012: 122).

Liquidity

Liquidity is the ratio of the company's ability to meet its short-term obligations on time (Fahmi, 2012). If the company is billed, the company must be able to pay the debt, especially the due debt. The company's liquidity position and its ability to pay dividends are very influential because dividends are paid in cash and not with retained earnings; the company must have cash available for dividend payments. A company's liquidity is an important factor that must be considered before deciding how to determine the dividends paid to shareholders. Therefore, the stronger the liquidity position of a company, the greater its ability to pay dividends (Ginting, 2018).

Conceptual Framework

The Effect of Profitability on Cash Dividend Policy

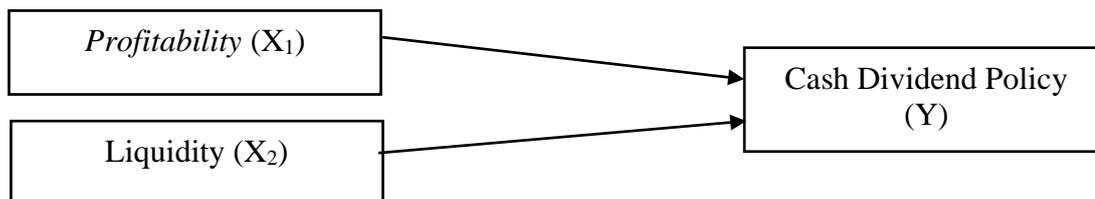
Profitability is the net profit the company earns in its operations. Dividends are net profits earned by the company and distributed if the company makes a profit. For investors, Profitability is very important for the long term because Profitability sees the profits received in the form of dividends (Sartono, 2012: 122). High Profitability in the company means an increase in profit, meaning that the company can pay dividends and even pay high dividends to shareholders. One of the ratios often used in measuring Profitability is Return on Equity (ROE). The higher the Profitability with the Return on Equity (ROE) measurement, the more the company's ability to generate profits will increase. If the company earns a large profit, then the cash dividend distributed by the issuer to the shareholders will be even greater. So Profitability positively and significantly affects the cash dividend policy.

The Effect of Liquidity on Cash Dividend Policy

Liquidity is the ability of a company to pay off short-term debt. According to Aqsho (2016), dividend policy is influenced by liquidity because it can determine how capable a company is of paying dividends to shareholders. The liquidity ratio provides an overview of the company's current financial competence and looks at the company's ability to remain competitive in the event of a problem. In measuring liquidity, this can be done using the Current Ratio. According to Kasmir (2015: 134), the current Ratio is a ratio to measure a company's ability to pay short-term debt or debt that will mature. The higher the current ratio, the higher the company's ability to pay short-term debt. If the company's current ratio is high, then shareholders believe that the company can pay the promised dividends. So liquidity positively and significantly affects the cash dividend policy.

Based on the background of the problems stated earlier, the conceptual framework model is:

Figure 2.1 Research Model



3. Research methods

The type of research conducted is associative causality research, namely the causal relationship between the independent variable (X) and the dependent variable (Y) (Sugiyono, 2013: 11). The data sources used in this study are secondary. This study obtained data from the financial statements of companies in the consumer goods industry sector for 2019–2021, listed on the Indonesia Stock Exchange (IDX). The data collection method in this study uses documentation in the form of issuer reports published on the Indonesia Stock Exchange (IDX). The population used is all companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) in 2019–2021. The sampling was done using a non-probability sample design with a purposive sampling method. Purposive sampling is a technique for determining samples with certain considerations (Sugiyono, 2013:94). The criteria used for sample selection in this study are:

1. Companies in the consumer goods industry sector will remain continuously listed on the Indonesia Stock Exchange (IDX) during 2019–2021.
2. Companies in the consumer goods industry sector have continuously distributed cash dividends to their shareholders during 2019–2021 and have complete data.
3. Companies in the consumer goods industry sector that have complete financial report data for 2019–2021 and publish financial reports consecutively

From the predetermined criteria, 28 companies met the predetermined sample characteristics.

Table 1.1 Variable Operational Definitions

No.	Variable	Definition	Measurement	Scale
1	<i>Return On Equity</i> (ROE) (X ₁)	Measuring the ability to generate profits based on certain share capital.	$\frac{\text{Earning After Interest and Tax}}{\text{Equity}}$	Ratio Scale
2	<i>Current Ratio</i> (CR) (X ₂)	Measures the company's ability to pay short-term debt or debt due soon when billed.	$\frac{\text{Current asset}}{\text{Current liabilities}}$	Ratio Scale
3	<i>Dividend Payout Ratio</i> (DPR) (Y)	Measures the percentage of income given by the company to shareholders.	$\frac{\text{Dividend per Share}}{\text{Earning per Share}}$	Ratio Scale

4. Results and Discussion

Multiple Linear Regression Analysis

The results of the regression coefficients for companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX) as a whole can be seen in Table 1.2 below:

Table 1.2 Coefficient of Regression

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	97,689	34,625			2,821	,007
ROE	3,536	,450	,714		7,853	,000
CR	-,165	,090	-,167		-1,836	,072

Sumber: Output SPSS versi 25

The consumer goods industry sector company from column B obtained a constant of 97.689; this indicates that the consumer goods industry sector company has a cash dividend policy of 97.689 even though the independent variable (free) is zero. For the variable profitability coefficient value of 3.536, liquidity is -0.165. From the coefficient values in the table, the regression equation can be arranged as follows:

$$Y = 97,689 + 3,536X_1 + 0,165X_2 + e$$

Partial Test (t-test)

By using a 95% confidence level or 5% confidence level and dk (degrees of freedom) (n-k-1) of (84-2-1 = 81), the t table value is 1.990 when compared to the t count. Based on the results of these calculations, it shows that:

1. The results of testing the first hypothesis (H₁) state that Profitability affects the cash dividend policy seen in Table 1.2. The regression coefficient value of the profitability variable (X₁) is 3.536, and the tcount is 7.853. The value of the profitability coefficient is positive, which indicates that Profitability has a unidirectional relationship with the cash dividend policy. This implies that the increasing Profitability of companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX) will also increase the cash dividend policy.

These results are strengthened by calculating the values of tcount and ttable. The tcount value is 7.853 > ttable 1.990, so changes or variations in the profitability variable will be followed by variations in the cash dividend policy variable. This profitability coefficient is significant at a significance level of 0.05 with a p-value of 0.000. Based on the results of the H₁ test, it can be interpreted that the profitability variable affects the cash dividend policy of companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX), or in other words, H₁ is accepted.

2. The results of testing the second hypothesis (H₂), which states that liquidity affects the cash dividend policy, are seen in Table 1.2. The regression coefficient value of the liquidity variable (X₂) is -0.165, and the tcount is -1.836. The coefficient of liquidity is negative; this indicates that liquidity has a relationship in the opposite direction to the cash dividend policy. This implies that the decrease in liquidity in the consumer goods industry sector companies on the Indonesia Stock Exchange (IDX) also decreases the cash dividend policy of the consumer goods industry sector companies on the Indonesia Stock Exchange (IDX).

These results are strengthened by calculating the values of tcount and ttable. The tcount value is -1.836 < ttable 1.990, so changes or variations in the liquidity variable will not be followed by the cash dividend policy variable. This liquidity coefficient is insignificant at a significance level of 0.05 with a p-value of 0.072. Based on the results of the H₂ test, it can be interpreted that the

liquidity variable has no effect on the cash dividend policy at a significance level of 5%; in other words, H2 is rejected.

Coefficient of Determination

Table 1.3 Determination Analysis

Model Summary					
Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	,786 ^a	,618	,603	131.37329	1,571

Sumner: Output SPSS versi 25

Based on Table 1.3 above, the R2 (Adjusted R Square) value of companies in the consumer goods industry sector is 0.603, or 60.3%. This shows that the percentage of the influence of the independent variables (Profitability and liquidity) on the dependent variable (cash dividend policy) is 60.3%, or the variation of the independent variables used in the model (Profitability and liquidity) can explain that it is equal to 60.3% of the dependent variable (cash dividend policy). At the same time, the remaining 39.7% is influenced or explained by other variables not included in this research model.

Discussion

Effect of Profitability on cash dividend policy

The results show that Profitability influences cash dividend policy. This is in line with the research of Wicaksono and Nasir (2014), who found that Profitability has a positive effect on dividend policy. In addition, research by Dewi and Ida (2015) also states that Profitability influences cash dividend policy. This is possible because the management of a company wants to paint a positive picture of the company's profit. This positive picture concludes that the company earns a lot of money, so it is able to pay dividends to shareholders, and this is a function of Profitability.

Effect of Liquidity on cash dividend policy

The results show that Profitability influences cash dividend policy. This is in line with the research of Wicaksono and Nasir (2014), who found that liquidity has no effect on dividend policy. In addition, research by Hardiatmo and Daljono (2013) also states that liquidity does not affect cash dividend policy. This may be due to the COVID-19 pandemic, which has had an impact on companies in Indonesia. The COVID-19 pandemic has caused many companies to face liquidity instability, which has resulted in conditions of uncertainty.

5. Conclusion

From the results of testing the hypothesis using multiple regression tests, it can be concluded that Profitability, as measured by Return On Equity (ROE), influences the cash dividend policy of companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX). This is indicated by the significance level of Profitability of 0.000, which is smaller than the significance level of 0.05. This indicates that Profitability, as measured by Return On Equity (ROE), can increase the size of the company's cash dividend policy in the consumer goods industry sector on the Indonesia Stock Exchange (IDX). Meanwhile, liquidity, as measured by the Current Ratio (CR), does not affect the cash dividend policy of companies in the consumer goods industry sector on the Indonesia Stock Exchange (IDX). This is indicated by the significance level of liquidity of 0.072, which is greater than the significance level of 0.05. This indicates that liquidity, as measured by the Current Ratio (CR), cannot increase the size of the company's cash dividend policy in the consumer goods industry sector on the Indonesia Stock Exchange (IDX).

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