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The Effect of Profitability on Dividend Policy With Liquidity as A Moderating Variable

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Abstract

This research aims to determine the effect of profitability, which is proxied by REturn On Asset, on dividend policy, which is proxied by the Dividend Payout Ratio, with liquidity, which is proxied by the Curent Ratio, as a moderating variable for companies included in the LQ 45 issuers listed on the BEI for the 2013 - 2022 period. The population used in this research is all companies included in the LQ 45 issuers listed on the BEI for the 2013 - 2022 period. The research sample consisted of 12 companies. The method used in this research is purposive sampling. The data analysis technique used in this research is Moderate Regression Analysis (MRA). The results of this research show that: (1) profitability as proxied by Rturn On Assets influences dividend policy as proxied by the Dividend Payout Ratio. (2) Liquidity as proxied by the Curent Ratio is able to moderate the influence of profitability on dividend policy.

Keywords: Profitability, Dividend policy and LIiquidity

INTRODUCTION

The main objective for investors in investing is to earn as much return on investment as possible. When a company makes a profit, it has the option to reinvest the profit in retained earnings or allocate a portion to shareholders in the form of dividends. Dividend distribution is carried out after obtaining approval from shareholders at the General Meeting of Shareholders (GMS) (idx, 2019).

Dividend policy is a decision that has great significance for the company. This policy involves two main stakeholder groups, namely shareholders and company management. Shareholders generally want large dividends as a return on their investment, while on the other hand, company management tends to choose to retain some profits to support company growth.

Dividend policy in this study is measured using Dividend Payout Ratio (DPR). The selection of DPR aims to identify the extent to which profits are given to shareholders and the extent to which profits are used to support company operations. The higher the DPR owned by the company, the greater the trust given to investors in the company, and as a result, it can reduce the uncertainty that investors may feel when they invest their funds in the company (Rohmah and Rizkiyah, 2022).

LQ 45 companies are known for their high level of liquidity, strong financial performance, and considering market capitalization. LQ 45 companies were chosen as research subjects because they have high liquidity and market capitalization, so they are able to represent the capital market on the Indonesia Stock Exchange.

During observations made on LQ 45 companies listed on the Indonesia Stock Exchange during the period 2013-2022, there is a business phenomenon related to dividend distribution which can be indicated through the Dividend Payout Ratio (DPR).

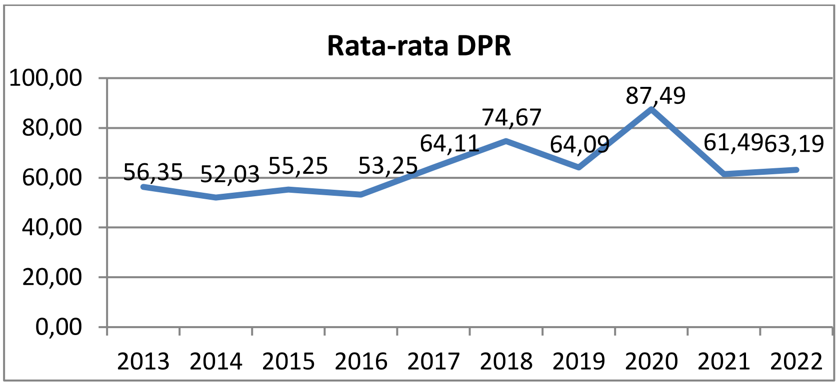

Figure 1. Devidend Payout Ratio

Based on the graph, the value of the Dividend Payout Ratio (DPR) fluctuates. It can be seen in the graph that the highest average occurred in 2020 with a percentage of 87.49% and a drastic decrease occurred from 2020 to 2021, namely from 87.49% down to 61.49%.

A decrease in the dividend distribution ratio will have an impact on shareholder decisions and at the same time affect the company's financial situation. Regarding dividend income, investors usually expect a stable dividend distribution because dividend stability can increase investor confidence in the company and thus reduce the uncertainty that investors may feel when they invest in the company (Rohmah and Rizkiyah, 2022). Therefore, companies need to consider factors that affect dividend policy, including profitability which will be investigated in this study as one of the factors that affect dividend policy, with liquidity as a moderating variable.

In previous research by Rifai et al. (2022), it is stated that there is a positive and significant relationship between profitability and dividend policy. This is due to the fact that the greater the company's ability to achieve profits, the greater the amount of dividends that can be distributed. This is in accordance with the objectives of investors in investing in company shares, namely to receive dividends. This finding is in line with the results of research conducted by Maharist (2022), Purnama Dewi et al. (2022), Nai (2022), and Wulandari et al. (2022). However, the findings in research conducted by Noviyana (2022) concluded that profitability has a negative effect on dividend policy. This means that the level of profit generated by the company is not always positively correlated with the level of dividend distribution. In other words, companies with high profits do not always produce high dividends, and vice versa, companies with low profits are not necessarily unable to pay dividends. This finding is in line with the results of research conducted by Trianti and Fitriai (2022) and Nurmalasari and Prayoga (2022).

From the previously mentioned studies, there are variations in the direct effect of profitability on dividend policy, which have not shown consistent results in the relationship between the two variables. Therefore, the gap allows that the liquidity variable has the potential to play a moderating role that can strengthen or weaken the relationship between the two variables.

LITERATURE REVIEW AND HYPOTHESIS

Signaling theory

Bhattacharya (1979) proposed a dividend theory known as dividend signaling theory. This theory states that an increase in dividend payments to shareholders is considered a "signal" that the company will have a high ability to generate profits in the future. Conversely, if the company reduces dividends or does not increase dividends to the expected level, it may indicate that the company will face challenges in the future (Hayat et al., 2021).

Dividend Policy

According to Puspaningtyas et al. (2019) dividend policy is the distribution of profits earned by the company to shareholders and is proportional to the number of shares owned by the company. Dividend distribution can be in the form of cash or shares. In this research, dividend policy is proxied by Dividend Payout Ratio (DPR). DPR was chosen to determine the portion of profits given to holders and the portion of profits used to fund the company's operational continuity. The higher the DPR value obtained, the greater the portion of the DPR value obtained, the more it will attract investors to invest their capital.

Profitability

According to (Kasmir, 2019: 114) Profitability is a ratio to assess the company's ability to seek profit or profit in a certain period. Hayat et al. (2021) explain that profitability is the company's capacity obtained in a certain period in terms of earning profits, be it in terms of sales, assets, or own capital, so that this profitability is a representation of the effectiveness of the company's management performance obtained from the company's profits compared to the company's sales and investment results. Profitability in this study is proxied by Return On Asset (ROA). ROA was chosen, to measure the company's ability to generate profits from the assets used. The profit generated is later used by the company to pay dividends. The higher the profitability ratio, the higher the dividends paid.

Liquidity

According to Kasmir, (2019: 110), liquidity or liquidity ratio is a ratio that describes the company's ability to meet short-term obligations. Company management usually wants to maintain a certain level of liquidity to provide financial protection and flexibility against uncertainty. To achieve this goal, company management may refuse to pay large dividends.

In this study using the liquidity ratio proxied by the current ratio. Current ratio is used in this study because researchers want to know how much the availability of current assets owned by the company is compared to its total current liabilities. current ratio shows the ability of a company to meet financial obligations that must be paid immediately using current liabilities. The greater the current ratio, the better, meaning the greater the ability to pay.

Hypothesis Formulation

Effect of Profitability on Dividend Policy

Based on signaling theory, profitability has a positive relationship with dividend policy, and a high level of profitability provides a signal to investors that the company is performing well. Research conducted by Maharist (2022) with the analysis used multiple linear regression. The results of the study are. Profitability has a positive and significant effect on dividend policy. Profitability (ROA) has a positive and significant effect on dividend policy, this is because the higher the profitability of the company, it will reflect the company's high ability to earn profits so that the rate of return is more and more. The results of this study are in line with the results of research conducted by Purnama Dewi et al (2022), Nai (2022), and Wulandari et al. (2022).

H1 : Profitability has a positive and significant effect on Dividend Policy.

Liquidity moderates the effect of profitability on dividend policy.

Research conducted by Amah and Prasetyawati (2019). The analysis used Moderated Regression analysis (MRA). The results of this study indicate that liquidity can increase dividend payments when profitability is high and liquidity can reduce dividend payments when profitability is low. When the company wants to invest more funds, it will reduce the dividends that will be distributed to shareholders, but good liquidity will be able to delay the payment of short-term debt, so that these funds can be used to distribute dividends (Amah and Prasetyawati, 2019). The results of this study are in line with research from Devi and Muliati (2019), Salsabila and Isbanah (2020) and Abadiyah and Kusumaningrum (2023).

H2 : Liquidity can moderate the effect of Profitability on Dividend Policy.

RESEARCH METHODS

Population and Sample

The population in this study were LQ 45 companies listed on the Indonesia Stock Exchange for the period 2013-2022. Sampling is done using purposive sampling method, by limiting the determination of the sample with consideration of certain criteria. The sampling criteria are 1) Companies that are consistently included in Indekas LQ 45 during the period 2013-2022. 2) LQ45 companies that distribute their dividends consecutively and do not experience losses during the 2013-2022 period. 3) LQ 45 companies that are sampled must have complete data needed in this study. Based on the criteria, a sample of 12 companies was obtained with 10 years of research so that the research data amounted to 120 observations.

Data Analysis Technique

The data analysis technique used in this study is Multiple Linear Regression and Moderate Regression Analysis to test whether the moderating variable is able to moderate, in this case strengthening the influence between the independent variable and the dependent variable. The regression model will test classical assumptions as a condition for testing the feasibility of the data. This research uses SPSS 23 software.

Type and Source of Data

The data source in this study uses secondary data obtained from annual financial reports and fact sheet data of LQ 45 Companies from the official website (www.idx.co.id) and related company sites.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1.
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DPR	120	10,66	240,60	63,1917	36,43286
ROA	120	2,48	71,51	12,6083	10,16457
CR	120	60,56	614,81	200,9452	108,00831
Valid N (listwise)	120				

Source: SPSS 23

From the table it can be seen that the amount of data is 120 data. The Dividend Payout Ratio (DPR) variable has a data sample of 120 data with a minimum value of 10,66 occurring at PT United Tractors Indonesia Tbk (UNTR) in 2016. While the maximum value of the highest value (maximum) Dividend Payout Ratio (DPR) of 240,60 occurred in the company PT. Kalbe Farma Tbk. (KLBF) in 2018. The sample average is 63,1917 with a standard deviation of 36,43286.

The Return On Asset (ROA) variable has a data sample of 120 data with a minimum value of 2,48 occurring at PT Adaro Energy Indonesia Tbk (ADRO) in 2020. While the maximum value of the highest value (maximum) Return On Asset (ROA) of 71,51 occurred in the company PT. Unilever Indonesia Tbk. (UNVR) in 2013. The sample average is 12,6083 with a standard deviation of 10.16457.

The Current Ratio (CR) variable has a data sample of 120 data with a minimum value of 60.56 occurring at PT. Unilever Tbk (UNVR) in 2016. While the maximum value of the highest value (maximum) Curent Ratio (CR) of 614,81 occurred in the company PT. Kalbe Farma Tbk. (KLBF) in 2013. The sample average is 200,9452 with a standard deviation of 108,00831.

Normality Test

The normality test can be done using the Kolmogorov-Smirnov test. The criteria used are if the probability is greater than or equal to 0.05, it can be said that the residual variable is normally distributed, (Ghozali, 2018: 161).

Table 2.
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		87
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	16,78022041
Most Extreme Differences	Absolute	,052
	Positive	,052
	Negative	-,043
Test Statistic		,052
Asymp. Sig. (2-tailed)		,200[c,d]

Source: Processed data SPSS 23

The results of the kolmogorov-smirnov normality test obtained an asymp. sig value. (2-tailed) of 2.00, the significance value is more than 0.05 (>0.05), so it can be concluded that the data is normally distributed.

Linearity Test

Table 3. Lagrange Multiper Linearity Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,269[a]	,072	,050	16,97881

Source: Processed data SPSS 23

In this study, the calculated C^2 value ($n \times R^2$) = 87 x 0.050 = 4,350. Meanwhile, the table C^2 value (n-k) = 87 - 2 = 85 = 107,521741. From these calculations, it can be seen that the calculated C^2 value (4,350) < (107,521741) C^2 table. So, it can be concluded that the regression model in this study is linear.

Table 4.
Multicolinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	55,161	6,386		8,638	,000		
	ROA	,859	,452	,205	1,901	,061	,947	1,056
	CR	-,065	,031	-,226	-2,097	,039	,947	1,056

Based on the multicollinearity test results above, it can be seen that the profitability variable (ROA) does not occur multicollinearity symptoms, because it has a tolerance value of 0,947> 0,10 and a VIF value of 1,056 < 10. Liquidity (CR) also does not occur symptoms of multicollinearity, because it has a tolerance value of 0,947> 0,10 and a VIF value of 1,056 < 10.

Heteroscedasticity Test

Table 5. Glesjer test for heteroscedasticity

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	10,450	3,942		2,651	,010
	ROA	,446	,279	,177	1,600	,113
	CR	-,009	,019	-,053	-,481	,632

a. Dependent Variable: Abs_RES

Source: Processed data SPSS 23

Based on the results of the Glesjer test above, the ROA and CR variables respectively have a significance value of 0.113 and 0.632 greater than 0.05 so that there are no symptoms of heteroscedasticity.

Autocorrelation Test

Table 6. Autocorrelation Test Results Cochrane-Orchutt Data

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,157[a]	,025	,001	16,43648	1,951

The Durbin-watson value is 1,951 with 87 observations, the number of independent variables is 2 and the real level is 5%. Then it can be seen that the lower limit value (dL) is 1,6046 and the upper limit value (dU) is 1,6985. So in this case it means that the durbin-watson value of 1,951 is in the dU < d < 4-dU area or (1,6985 < 1,974 < 2,3015). This means that there is no autocorrelation.

Hypothesis Test t test

***Table 7. Moderate Regression Analysis* (MRA)**

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	42,619	4,556		9,355	,000
	ROA	2,246	,719	,537	3,125	,002
	Moderate	-,007	,002	-,480	-2,791	,006

a. Dependent Variable: DPR

The results of the t test of the effect of profitability on dividend policy

Based on the table above, the variable t value is 3,125 with a significance level of 0.002, while the t-table value at a significance level of 0.05 with df 87-2 = 85 is 1,66298. These results indicate that the value of t count> t table (3,125 > 1,66298) and has a significance value smaller than 0,05 (0,002 <0.05) then H0 is rejected and H1 is accepted, meaning that the profitability variable has a positive and significant effect on dividend policy.

The t-test results of Profitability on Dividend Policy moderated by Liquidity

Based on the table above, the variable t value is -2,791 with a significance level of 0,006, while the t -table value at the 0,05 significance level with df 87-2 = 85 is 1,66298. These results indicate that the value of -t count> -t table (2,791> 1,66298) and has a significance value smaller than 0,05 (0,006 <0,05) then H0 is rejected and H2 is accepted, meaning that the liquidity variable can moderate the effect of profitability on dividend policy.

Discussion

Effect of Profitability on Dividend Policy

Partial test results show that Profitability has a positive and significant effect on Dividend Policy, which means that the higher the level of profitability owned by the company, the higher the dividends paid to shareholders. The results of this study are in accordance with research conducted by Maharist (2022). An increase in dividends is a signal to investors that management foresees a good income in the future (Maharist, 2022). The results of this study are in line with the results of research conducted by Purnama Dewi et al (2022), Nai (2022), and Wulandari et al. (2022).

Liquidity as moderation of the Effect of Profitability on Dividend Policy

Partial test results show that liquidity is able to moderate the effect of profitability on dividend policy, which means that the higher the liquidity level of a company, the higher the profit generated and will affect the dividends that will be given to shareholders. The results of this study are in accordance with research conducted by Amah and Prasetyawati (2019), which states that liquidity can increase dividend payments when profitability is high and liquidity can reduce dividend payments when profitability is low. When the company wants to invest more funds, it will reduce the dividends that will be distributed to shareholders, but good liquidity will be able to delay the payment of short-term debt, so that these funds can be used to distribute dividends (Amah and Prasetyawati, 2019). This research is in line with research from Devi and Muliati (2019), Salsabila and Isbanah (2020) and Abadiyah and Kusumaningrum (2023).

CONCLUSION

The conclusions of the results of this study are: (1) Profitability has a positive and significant effect on dividend policy. (2) Liquidity is partially able to moderate the effect of profitability on dividend policy.

Based on the conclusions and limitations of this study, several suggestions can be submitted, namely: (1) It is hoped that further researchers can use or add other variables that are more likely to affect dividend policy. (2) Researchers can examine other sectors with wider coverage so that the research results reflect the capital market in Indonesia.

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