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Effect of Liquidity and Profitability toward Dividend Policy in Companies Listed On Indonesia Stock Exchange with Firm Size As Moderating Variable For The Period 2013 – 2020

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Abstract: *Consumer goods are an industrial sector that is experiencing rapid growth and development in the era of economic recovery due to the Covid-19 pandemic. This research was conducted to determine the extent of the influence between some financial ratios such as Current Ratio and Return on Asset toward Dividend Payout Ratio of consumer goods sector companies listed in Indonesia Stock Exchange with Firm Size as moderating variable for the period year 2013 – 2020. In determining the amount of sample valid for this research, purposive sampling method is applied. Data for this research are secondary data which are obtained from Indonesia Stock Exchange official website (www.idx.co.id) and each sample companies' official websites. The results of this research show that, Current Ratio has a positive, but not significant effect toward DPR and Return on Asset has a positive and significant effect toward DPR. With Firm Size as moderating variable, it is able to strengthen the effect of Current Ratio and Return on Asset toward PBV.*

Keyword: Consumer Goods, Current Ratio, Return on Asset, Firm Size, Dividend Payout Ratio

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I. Introduction

The Covid-19 outbreak that spread so quickly had a negative impact on the world economy, and one of impacted country is Indonesia. One of the industrial sectors that has experienced rapid growth and development in the era of economic recovery due to the Covid-19 pandemic is the consumer goods sector. This is because the consumer goods sector has an important role for a country because this sector produces basic goods that are widely consumed by the community.

The consumer goods sector is classified into five sub-sectors, namely the food and beverage industry, cigarettes, pharmaceuticals, cosmetics and household appliances. The rapid development of the consumer goods sector is the main reason why many investors are starting to invest. Companies in other sectors experienced a decline in sales, causing consumer behavior patterns to change. Production of basic commodities also decreases because companies are in a serious financial burden, so that many companies send their employees home, resulting in an increase in the unemployment rate. The drastic shift in business and economy in Indonesia is expected to affect equities as well as alternative investments such as the digital currency market. As a result, investors will not hesitate to withdraw their funds from the capital market. The policy taken by the company in overcoming investor confidence is by providing cash dividends as an effort to attract investors. Companies that consistently provide dividends to their shareholders describe a good company and indicate a profitable company prospect in the future.

In signaling theory, dividend distribution announcements are considered as a signal, or an event that contains information. Investors must be able to absorb information in order to determine the right and profitable investment. The dividend distribution policy carried out by the company is a step to attract investors in order to restore investor confidence in the company amid the Covid-19 pandemic. So, this will have an impact on increasing the size of a company and the level of trading volume of the company will also increase. This dividend policy shows that the impact caused by the Covid-19 pandemic can still be controlled by the company, this means that the company's finances are still in good condition.

II. Literature Review

Signaling Theory

According to Brigham and Houston (in Suganda, 2018), signaling theory is an action taken by company management to provide clues to investors regarding the company's prospects. Signaling theory explains why companies provide information for the capital market. By providing financial information in the form of company financial reports that are accurate and reliable, it will encourage investors and the public's interest in better prospects for the company, this can be seen from the completeness of the financial statements issued by the company. Signal theory suggests about how a company should provide signals to users of financial statements. This signal can be in the form of information about what has been done by management to realize the owner's wishes. Signals can be in the form of promotions or other information stating that the company is better than other companies.

Dividend Policy

Musthafa (2017) define the dividend policy as a decision made by the company in determining whether the profits generated will be distributed as dividends or retained earnings for investment in the future. If management chooses to pay dividends, internal funding sources will be reduced. Conversely, if management chooses not to pay dividends, the company will have opportunities for investment because internal funding increases. Meanwhile, Harmono (2017) defines dividend policy as the percentage of profit paid to shareholders in the form of cash dividends, maintaining dividend stability from time to time, distributing stock dividends, and buying back shares. Dividend policy according to research by Werner R. Murhadi (2018) is a policy that is carried out with quite expensive expenses, because the company must provide large amounts of funds for the purpose of paying dividends. Companies generally make stable dividend payments and refuse to reduce dividend payments. Dividend policy is a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings for future investment payments (Sartono, 2010) in (Saputra, 2016).

According to Prof. Dr. H. Musthafa (2017), dividend policy is the decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance investment in the future. Based on the explanation above, the authors conclude that dividend policy is a company management decision to distribute profits in the form of dividends to shareholders or the profits are retained in order to finance investment in the following year. If the profit earned by a large company means that the dividends distributed are also large and vice versa if the profit earned is small, the dividends distributed are also small or dividends are not paid or held for investment financing in the following year. Companies with high profits will provide a good and positive signal for investors and potential investors because they are considered to be able to distribute dividend.

Liquidity

According to Wild, et.al in Fatmawati (2017), liquidity refers to the company's ability to meet its short-term obligations. Meanwhile, according to Kasmir (2016), the liquidity ratio is a ratio that shows the company's ability to pay short-term debts that are due or a ratio to determine the company's ability to finance and fulfill obligations when billed. Therefore, the liquidity ratio is the company's ability to meet its short-term obligations. A company that is able to fulfill its financial obligations on time means that the company is in a liquid state, and vice versa if the company cannot fulfill its financial obligations when billed, it means that the company is in an illiquid condition.

One of the liquidity ratios is current ratio. According to Kasmir (2016), the current ratio is a ratio to measure the company's ability to pay short-term obligations or debts that are due immediately when billed in their entirety. The same thing was stated by Mamduh (2016) who said the current ratio is a ratio that measures the company's ability to meet its short-term debt by using its current assets (assets that will turn into cash within one year or one business cycle). In addition, according to Syamsuddin (2016), the current ratio can be determined by comparing current assets with current liabilities. According to Hery (2018), the current ratio is a ratio used to measure the company's ability to meet its short-term obligations that are due soon by using the total available current assets. Meanwhile, according to Agnes Sawir (2017), the current ratio is used to determine the ability to meet short-term obligations.

Profitability

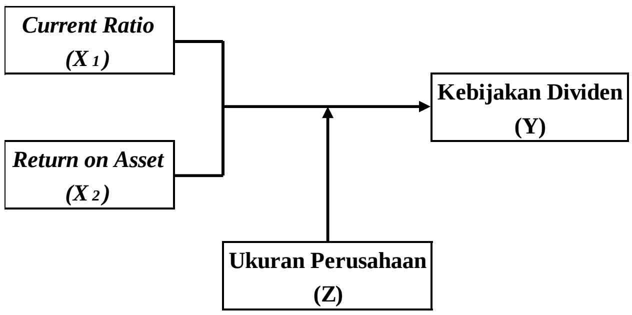
According to Kasmir (2016), profitability is a ratio to assess the company's ability to seek profit. This ratio also provides a measure of the level of management effectiveness of a company. This is indicated by the profit generated from sales and investment income. In addition, according to Hery (2016) the profitability ratio is a ratio used to measure the company's ability to generate profits from its normal business activities. Therefore, profitability is the ability of a company to generate profits that can be used in the continuity of its business. The calculation of profitability is intended to find out how far the company's management controls the business efficiently and aims to measure the level of management effectiveness in running the company's operations. One of the ratios to measure profitability is return on assets (ROA). According to Lukman Syamsuddin (2016), return on assets is a measurement of the company's overall ability to generate profits with the total amount of available assets. The higher this ratio, the better the state of a company. While the notion of return on assets according to Kasmir (2018) is a ratio that shows the results (return) on the number of assets used in the company. In addition, according to Ryan (2016), return on assets is a measure of income when compared to total assets. An increase in assets in the company without looking at anything else.

Firm Size

Putu Ayu and Gerianta (2018) described the company size as a scale where the size of the company can be classified as measured by total assets, total sales, share value and so on. Large company sizes have a wider stakeholder base, so company policies will have a greater impact on the public interest than small companies. Meanwhile, Windi Novianty and Wendy May (2018) define the company size as a scale which seen from the business field that is being operated. Company size can be determined based on total sales, total assets, average sales level. On the other hand, Risma and Regi (2017) explain that company size is a reflection of the total assets owned by a company. To sum up, company size is the size of a company that can be measured by total assets and total sales. The larger the number of assets is often considered a company with good prospects because the larger the size of the company, the higher the profitability so that the dividends distributed are also large. This will give a good and positive signal for investors and potential investors.

Conceptual Framework

The conceptual framework is an image that describes the relationship between overall variables and hypotheses of a study. Based on the literature review above, the conceptual framework of this research is presented below.



III. Research Methods

Operational Definition

The operational definition of research can be summarized in the table presented as follows:

Table 1. Operational Definition

No	Variable	Operational Defitinition	Formula	Scale
1	Current Ratio (CR)	Current ratio is a ratio that measures the company's ability to pay short-term obligations.	$\text{Current Ratio}: \frac{\text{Current Assets}}{\text{Current Liabilities}}$	Ratio
2	Return on Asset (ROA)	A ratio to measure the company's ability to generate profits by utilizing a number of assets owned by a company.	$\text{Return on Assets}: \frac{\text{Net Income}}{\text{Total Assets}}$	Ratio
3	Firm Size	A ratio that reflects total assets owned by a company.	$\text{Firm Size}: \text{Ln (Total Assets)}$	Ratio
4	Dividend Payout Ratio (DPR)	The decision made by the company in determining whether the profits generated will be distributed as dividends or retained earnings for investment	$\textit{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$	Ratio

Population and Research Sample

The object of the research is a consumer goods company listed on the Indonesia Stock Exchange. Sampling was done by purposive sampling method and obtained a sample of fourteen companies. The research period is set from 2013 to 2020. The data analysis method used in this study is the PLS (Partial Least Square) statistical analysis method.

Data analysis is carried out by first collecting and processing the necessary data, such as company financial reports, using Microsoft Excel. Companies that meet the purposive sampling criteria are then tested with the help of the SmartPLS application.

Table 2. Research Sample Criteria

No	Decription	Amount
1	*Consumer Goods* company that listed on Indonesia Stock Exchange for the period 2013 – 2020	32
2	*Consumer Goods* company that does not publish their financial statement for the period 2013 – 2020	(3)
3	*Consumer Goods* company that suffers loss for the period 2013 – 2020	(7)

Method of Collecting Data

The data collection technique used by the researcher is a data collection technique through document study. According to (Amin & Siahaan, 2016) documents are written sources for information on events that have passed. Documents can be in the form of writing, pictures, or the works of someone. Documentation studies or library studies can be done by reading books, articles, and journals related to the problem under study and collecting secondary data in the form of financial reports, published report documents, notes and other information from intermediary media.

Technique Data Analysis

In analyzing the data obtained in connection with the issue of dividend policy, the statistical method used by the researcher is descriptive statistics and Partial Least Square (PLS). PLS is an analytical method that eliminates OLS (Ordinary Least Squares) assumptions. The PLS method begins with the conceptualization of the model and does not require the design of a model based on existing theories. Rather, it can be based on several things, namely: literature review, results of previous empirical research, relationships between variables in other fields of science (analogy), normative and logic and exploration of relationships between variables.

Hypotheses

Based on background and literature review discussed above, the proposed hypothesis in this research as follows:

1. The impact of current ratio to dividend payout ratio
2. The impact of return on assets to dividend payout ratio
3. The impact of current ratio to dividend payout ratio with firm size as moderating variable
4. The impact of return on assets to dividend payout ratio with firm size as moderating variable

IV. Results

1. The impact of current ratio to dividend payout ratio

Current Ratio is a ratio to measure the company's liquidity by measuring the ability of the company's current assets to cover the company's current debt. The results of the study indicate that the Current Ratio has no significant effect on the DPR. No matter how big or small the change in the current ratio is, it will not affect the level of the company's dividend policy.

It is suspected that the company's high liquidity is not used to pay cash dividends, but is allocated for asset purchases or used for business expansion. CR does not necessarily become a reference for companies in distributing dividends. When a company's CR increases and is not supported by a good company's financial performance, the DPR will not be achieved. Unilever experienced an increase, but the company's dividend policy (DPR) decreased. On the other hand, when the company's current ratio increased in 2017, the company's dividend policy increased. The same is the case with the company PT. Delta Djakarta, Tbk (DLTA) the development of the current ratio in 2015 – 2016 has increased but the dividend policy (DPR) has decreased. On the other hand, when the current ratio increased in 2019, the company's dividend policy also increased. Based on the data above, it can be concluded that the current ratio has no significant effect on the company's dividend policy.

2. The impact of return on assets to dividend payout ratio

Return on Assets is a ratio to measure the company's efficiency in generating net income based on the assets owned by the company. The results of the study show that Return on Assets has a positive and significant effect on DPR, meaning that the higher the ROA value will affect dividend policy. Because the greater the ROA indicates an increase in the net profit of the company concerned, it will attract investors and the company itself tends to distribute dividends.

The results of this study are in line with signal theory. Growing ROA gives a positive signal to investors so that investors want to invest in order to get dividends. In addition to increasing sales, financing efficiency is also the key to increasing net profit, such as by reducing unnecessary costs and utilizing new technology. If ROA increases, this means that the utilization of assets owned by the company is efficient. With these innovations, it can increase the company's net profit, so that it will attract investors to invest. If the profitability of the company increases and in order to make the company's shares more attractive, the company needs to distribute part of the profits it has earned to investors in the form of dividends. Companies that are diligent in distributing dividends will make the shares more attractive in the eyes of investors. On the other hand, the use of profits is not always used to improve new technology like technology companies so that the profitability of consumer goods companies can be used to pay dividends to investors.

It can be seen from the data on the development of return on assets and dividend policy of PT. Hanjaya Mandala Sampoerna, Tbk (HMSP) which has been presented previously. The development of return on assets in 2018 - 2019 at HMSP companies has increased, the company's dividend policy (DPR) has also increased. The same is the case with the company PT. Indofood CBP Sukses Makmur, Tbk (ICBP) the development of return on assets in 2017 – 2018 has increased, dividend policy (DPR) has also increased. Based on the data above, it can be concluded that return on assets has a significant effect on the company's dividend policy.

3. The impact of current ratio to dividend payout ratio with firm size as moderating variable

The results of this study indicate that the size of the company as a moderator can weaken the relationship between the Current Ratio to the DPR. The variable size of the company adds to the view of investors that in addition to the company's need to have stable short-term liquidity, it also needs to pay attention to the composition of the company's structure. Consumer goods companies need to pay attention to short-term liquidity because the higher the operational activity paid, the less profit they will get, so that the dividends distributed by shareholders will be less. Therefore, the short-term liquidity of a company must be stable in order to increase investors' views and give a signal to investors that companies with large sizes are able to cover their liquidity and are able to distribute dividends.

This can be seen from the data on the development of the current ratio, company size and dividend policy of PT. Indofood Sukses Makmur, Tbk (INDF) which was previously presented. The development of the current ratio in 2019 - 2020 for INDF companies has increased, this is followed by an increase in company size and the company's dividend policy (DPR) has also increased. The same is the case with the company PT. Kalbe Farma, Tbk (KLBF) the development of return on assets in 2017 – 2018 has increased, the size of the company has also increased and the dividend policy (DPR) has also increased. Based on the data above, it can be concluded that company size is able to moderate by weakening the influence of the current ratio on dividend policy.

4. The impact of return on assets to dividend payout ratio with firm size as moderating variable

The results of this study indicate that company size as a moderator can strengthen the relationship between Return on Assets and DPR. This is because the size of the company reflects the size of the company in terms of total assets, amount of investment, working capital turnover, production equipment, human resources and so on. Company size variable is the main factor in determining the profitability of a company. Consumer goods companies in terms of producing are very dependent on the assets they have. The higher the assets used indicates the company is able to operate its assets properly so that the company is able to generate greater profits. This affects the size of a company, the larger the size of the company indicates the company can distribute large dividends to shareholders. It can be concluded that a large company size can provide a signal for investors to invest because it has a small level of risk and has a high investment attractiveness.

This can be seen from the data on the development of return on assets, company size and dividend policy of PT. Nippon Indosari, Tbk (ROTI) which has been presented previously. The development of return on assets in 2014 - 2015 in ROTI companies has increased, this is followed by an increase in company size and the company's dividend policy (DPR) has also increased. The same is the case with the company PT. Merck, Tbk (Brand) the development of return on assets in 2017 – 2018 has increased, the size of the company has also increased and the dividend policy (DPR) has also increased. Based on the data above, it can be concluded that the size of the company is able to moderate so that the return on assets has a significant effect on the company's dividend policy.

V. Conclusion

Based on the results of the study, several conclusions can be drawn as follows: Current Ratio (CR) has no significant effect on the DPR on consumer goods companies on the Indonesia Stock Exchange for the period 2013 – 2020; Return on Assets (ROA) has a significant effect on the DPR on consumer goods companies on the Indonesia Stock Exchange for the period 2013 – 2020; Company size as a moderator weakens the relationship between the Current Ratio (CR) to the DPR in consumer goods companies on the Indonesia Stock Exchange for the period 2013 – 2020; Company size as a moderator strengthens the relationship between Return on Assets (ROA) and DPR in consumer goods companies on the Indonesia Stock Exchange for the period 2013 – 2020.

Based on the results of the study, the suggestions that can be given are: for investors who intent to invest in consumer goods companies, pay attention to the ratios used in research such as CR, ROA along with Company Size as a guide to determine companies that are worth investing in. Investors are advised to delve deeper into these financial ratios such as the effect of higher ROA the better, the use of liquid and optimal CR companies; For consumer goods companies to pay more attention to the ratios used in research such as DPR, CR, ROA and Firm Size as guidelines for building a business that is credible and can be trusted by investors. Companies are advised to increase profitability by utilizing technology that can reduce costs, and use assets efficiently. Companies are also advised to pay attention to liquidity so that they can continue to overcome their short-term debt and also keep the Current Ratio at an optimal level so that the cash owned by the company can be used for other developments; For further researchers to be able to expand the field of research and the research period as well as the potential influence of other variables other than those used in research. The expansion of the field of research is to be able to find samples of other sectors that can prove the superiority of the ratios used in research and compare their effects. The research period can also be adjusted by increasing the year of the study so that it has more samples that can be studied and increases the accuracy of the research. It can also be considered to examine other variables that may have an influence on DPR such as: DAR, ROE, Firm Value, etc. as well as other moderating or intervening variables.

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