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Research Article

# Liquidity and Profitability Affecting The Dividend Policy: An Ecological Empirical Study On Consumer Goods Industry In Indonesia

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**Abstract**

A manager as a company manager must be able to increase profits in accordance with investor expectations, one of which is getting a stable and increasing dividend distribution. There are several factors that can influence dividend policy, namely liquidity and profitability, because the better the liquidity and profitability of the company, the better the dividends distributed to shareholders. The population in this study are companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for the 2014-2019 period, totaling 90 companies. Based on the results of the study, it is concluded that liquidity and profitability have an effect on dividend policy. The study findings educated the company managers about the impact of liquidity and profitability on the dividend policy.

**Keywords**

Liquidity, Profitability and Dividend Policy, Education.

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# Preliminary

According to investors' view, dividend distribution that is consistent and increases from time to time describes the company's financial condition that is stable and good, but if the dividend distribution is inconsistent and does not increase from time to time, the company's financial condition is unstable and not good (Kasmir, 2008, 2015). In this case a manager as a company manager must be able to increase profits in accordance with investor expectations so that investors get dividends and investor confidence in the company will increase. Dividend policy is a policy taken by management in determining whether the profits that have been achieved will be distributed entirely to shareholders or only partly for dividends and the rest for retained earnings. Dividend policies in several consumer goods sectors listed on the Indonesia Stock Exchange for the 2015-2019 period are shown in Table 1.1:

**Table 1.1**
vidend Payout Ratio in Consumer Goods Sector Companies Listed on the Indonesia Stock Exchange for the 2014-2019 Period

| Company | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| PT Nippon Indosari Corpindo Tbk. | 0,08 | 0,10 | 0,19 | 0,51 | 0,28 | 0,25 |
| PT Indofood Sukses Makmur Tbk. | 0,33 | 0,68 | 0,37 | 0,53 | 0,70 | 0,33 |

**Source:** www.idnfinancial.com and www.idx.co.id (Data is reprocessed)

Seen from Table 1.1 above that PT Nippon Indosari Corporation Tbk and PT.Indofood Sukses Makmur Tbk experienced an increase and decrease in dividend payout ratio, this indicates that there is a discrepancy with the wishes of shareholders in obtaining dividends stably and increasing from time to time.

Several factors that influence dividend policy are liquidity, aspects of company growth, legal aspects, profitability and market expectations (Hadi, 2003). Sutrisno (2009) states that liquidity is the ability of a company to pay current liabilities. A company that has a level of liquidity that is not good then in the distribution of dividends with a small amount too, this is because most of the profits will be used to increase the company's liquidity, but if the company has a good level of liquidity then the distribution of dividends with large amounts is large. High and low levels of liquidity have an impact on high and low dividends distributed to investors. The higher the liquidity, the higher the dividends distributed, but the lower the liquidity, the lower the dividends distributed (Zahidda, 2017). The results of research by (Putra, Made, and Dianawati (2018); Sari, Sudjarni, & Komang, 2015) conclude that liquidity has an influence on dividend policy, but the results of research from (Munthe, 2020) are that liquidity has no effect on dividend policy.

Sutrisno (2009) states that profitability is the ability of a company to earn a profit, the higher the level of profitability, the better management in managing the company. Profitability has an influence on dividend policy because a large level of profitability reflects that the company has the ability to pay dividends to shareholders. The higher the profits generated by the company, the higher the dividend distribution to investors, this is because the dividend policy is based on the profits generated by the company (Ginting, 2018; Tjiang, Randa, & Asri, 2018). Research conducted by (Devi, Suardikha, & Budiasih, 2014; Puspitaningtyas, Prakoso, & Masruroh, 2019) shows that profitability has an influence on dividend policy, but (Mudzakar, 2019; Sumanti & Mangantar, 2015) that profitability has no effect on dividend policy.

Thus, liquidity and profitability are very necessary because they can affect the distribution of dividends to shareholders.

In accordance with the explanation above, the researcher is interested in conducting a study entitled **"LIQUIDITY AND PROFITABILITY THAT AFFECTING DIVIDEND POLICY"**

# Theory

## Liquidity

**a. Definition of Liquidity.**
Sutrisno (2009) states that liquidity is the ability of a company to pay current liabilities.

**b. Liquidity Ratio**
The ratios used are:

$$Current\ Ratio = \frac{Aktiva\ Lancar}{Hutang\ Lancar}$$

## Profitability

**a. Definition of Profitability**
Sutrisno (2009) states that profitability is the ability of a company to earn a profit.

**b. Profitability Ratio**
The ratios used are:

$$Return\ \ on\ Equity\ (ROE) = \frac{Earning\ After\ Taxx}{Total\ Equity}$$

## Dividend Policy

**a. Definition of Dividend Policy**
Sutrisno (2009) explain Dividend policy is a policy taken by management in determining whether the profits that have been achieved will be distributed entirely to shareholders or only partially as dividends and the rest for retained earnings.

**b. Dividend Policy Ratio**
The ratios used are:

$$Dividend\ Payout\ Ratio\ (DPR) = \frac{Dividend}{Earning\ After\ Taxes}$$

# Research Methodology

## Population and Research Sample

Companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for the 2014-2019 period totaling 90 companies as a population.

## Data source

The data source is obtained from secondary data, namely the financial statements of consumer goods companies for the period 2014-2019 which have been audited from the Indonesia Stock Exchange which are accessed through www.idx.co.id and www.idnfinancial.com.

## Classic assumption test

The classical assumption test used is:
1. Normality Test
2. Multicollinearity Test

3. Autocorrelation Test
4. Heteroscedasticity Test

# Discussion

## Classic Assumption Test

1. Normality test, shows that the data used has a normal distribution
2. Multicollinearity test, reflecting that the data is free from autocorrelation
3. Autocorrelation test, explains that there is no multicollinearity for each variable.
4. Heteroscedasticity test, explains that the regression model is free from heteroscedasticity problems.

## Influence of Liquidity on Dividend Policy

Based on the results of the t test, it shows that liquidity (CR) has no effect on dividend policy in consumer goods sector companies listed on the Indonesia Stock Exchange for the 2014-2019 period. In the regression model, the significance value of the current ratio variable was 0.0599 > 0.05 (the real level of research significance).
Based on the theory proposed by (Sutrisno, 2009; Zahidda, 2017) which states that the higher the liquidity, the higher the dividends distributed, but the lower the liquidity, the lower the dividends distributed. The results of this study contradict the existing theory, where liquidity has no effect on dividend policy. This can be interpreted that the high or low liquidity of the company does not affect the size of the dividends distributed because liquidity is not only used for dividend payments but also used for other financing such as operational financing, repayment of debts that are due and purchase of fixed assets And the decision to distribute dividends depends on the General Meeting of Shareholders (GMS) and the late dividend payment agreement previously agreed with investors. So that a company with a good level of liquidity does not mean a better dividend payment or vice versa.
This research is in line with research conducted by (Adityo & Heykal, 2020; Ginting, 2018; Munthe, 2020; Nurwani, 2017) which states that liquidity has no effect on dividend policy. But this study is inversely proportional to research conducted by (Putra et al., 2018; Zahidda, 2017) concluded that liquidity has an influence on dividend policy

## The Effect of Profitability on Dividend Policy

Based on the results of the t-test on the profitability variable, the effect on dividend policy in consumer goods sector companies listed on the Indonesia Stock Exchange for the period 2014-2019. In the regression model, the significance value of the profitability variable was 0.0000 > 0.05 (significant level of research).
Based on the theory proposed by Sutrisno (2009) that profitability has an influence on dividend policy because a large level of profitability reflects that the company has the ability to pay dividends to shareholders. High profitability reflects that the company has the ability to generate profits by using its own capital. This increase in profitability will be followed by an increase in dividend payments. This can be exemplified in the ICBP company where in 2018 the return on equity increased to 0.21 which was followed by an increase in the dividend payout ratio of 0.58, higher than the previous year which had a dividend payout ratio of 0.55. Another example is that the CINT company experienced an increase in the level of return on equity in 2017 to 0.08, followed by a dividend payout ratio of 0.40 which was higher than the previous year which had a dividend payout ratio of 0.22. The results of this study are in line with the existing theory where when profitability increases it will also have an impact on increasing dividend payments. The results of this study are directly proportional to the research conducted by (Muhammad & Tri Yeni, 2019; Puspitaningtyas et al., 2019; Putra et al., 2018) concluding that profitability has an influence on dividend policy. However, this study is inversely proportional to research conducted by (Mudzakar, 2019; Nurwani, 2017; Sumanti & Mangantar, 2015) concluded that profitability has no effect on dividend policy.

### Effect of Liquidity and Profitability on Dividend Policy

Based on the results of the study, it is known that the simultaneous significant value is 0.0000000, where the value is less than the predetermined significant level of 0.05 (0.000000 <0.05) besides the comparison between the tcount and ttable values shows the Fcount value of 16.06318 and Ftable of 3.96. This shows that Fcount > Ftable, which is 16.06318 > 3.96. Thus, it can be concluded that liquidity and profitability have an effect on dividend policy. The magnitude of the influence of liquidity and profitability in contributing to dividend policy is 29.05%. The remaining 70.95% is explained by other variables outside the research model.

## Conclusions and Suggestions

### Conclusion

The results of the study can be concluded:

1. Liquidity has no effect on dividend policy in consumer goods companies listed on the Indonesia Stock Exchange for the period 2014-2019.
2. Profitability affects the dividend policy of consumer goods companies listed on the Indonesia Stock Exchange for the period 2014-2019.
3. Liquidity and profitability affect the dividend policy of consumer goods companies listed on the Indonesia Stock Exchange for the period 2014-2019.
4. The company managers were educated regarding the impact of liquidity and profitability on the dividend policy of their companies so as understand it.

### Suggestion

1. Companies used as samples are still limited to companies registered with consumer goods companies so that further research needs to be carried out using different research samples with a longer observation time.
2. The number of other factors that can affect dividend policy in a company such as inflation, government policies, taxes and also company control

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