

ANALYSIS OF PROFITABILITY, LIQUIDITY, AND COMPANY GROWTH ON DIVIDEND POLICY

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ABSTRACT

This study aims to determine the effect of profitability, liquidity, growth on dividend policy. This research includes quantitative – correlational research. The population in this study was 636 data on Manufacturing companies registered in Indonesia Stock Exchange, after using purposive sampling samples obtained as many as 236 samples with a research period of 3 years. The data used is secondary data obtained from the Indonesia Stock Exchange. The analysis model used is Multiple Linier Regression Analysis. The results of this study show that: (1) Return on assets has a positive significant effect on dividend payout ratio with a t-count value of 2,583 and a significant value of 0,011; (2) Current Ratio has a negative insignificant effect on dividend payout ratio with a t-count value of -0,020 and a significant value of 0.984; (3) Growth has a positive significant effect on dividend payout ratio with a t value of 2,028 and a significant value of 0,045.

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1. Introduction

Dividend policy is a matter of great concern to financial managers and companies. Companies are faced with a dilemma: whether to distribute dividends to shareholders or retain profits for reinvestment activities in the context of business development (Bramaputra et al., 2022). On the other hand, high dividend distribution is less favored by management because it will reduce management utility caused by the smaller funds that are within the scope of management control. The dividend payout ratio describes how much or little the company pays out its dividends. Management needs to consider what factors affect dividend policy. So it can be said that dividend policy has an important role related to the function of corporate financial management (Kafata and Hartono, 2018).

The form of dividend policy set by the company will affect the proportion of dividends that the company wants to pay to shareholders. The company's dividend policy is reflected in the dividend payout ratio (Dividend Payout Ratio) (Sari and Budiasih, 2016). Public companies can utilize the capital market as a means of obtaining sources of funds and alternative financing. Investors will invest in companies that have the potential to generate a number of profits from their investments. The

existence of the capital market can be used as a tool for self-reflection about the company's performance and financial condition. According to Capital Market Law No. 8 of the year 1995, the capital market is an activity related to the public offering and trading of securities, public companies related to the securities they issue, and professional institutions related to securities.

Every investor has various goals. The main objective of investors investing their funds is to maximize the wealth obtained from dividends and income from the difference between the selling price of shares and their purchase price (capital gain). Shareholders are more interested in dividends that can be obtained now than capital gains. This is in accordance with the "bird in the hand theory" expressed by Gligorijevic et al. (2019). The theory states that dividend payments reduce uncertainty, which means reducing risk and, in turn, reducing the level of profit required by shareholders. Dividends are now more profitable than retained earnings because there is a possibility that the retained earnings will not become dividends in the future. However, this theory only looks at the shareholder (investor) side, while in the management position, the investor's rate of return is only one of the dilemmas of the decision to be taken (Jayanti et al., 2021).

Generally, investors are more likely to favor relatively stable dividend payments. For investors, stable dividend payments are an indicator of stable company prospects; thus, the company's risk is also relatively lower than that of companies that pay unstable dividends (Firmansyah et al., 2020). Meanwhile, management, as a company management agent, tries to maximize investor welfare by making good decisions in the form of dividends and funding policies. This is in accordance with Karen's (2003) residual theory of cash dividends, which states that excess cash should be distributed in the form of dividends, but management does not like the distribution of profits earned in the form of dividends. Management prefers to treat it as retained earnings, unless it knows that these funds do not provide a positive net present value (NVP) on additional investment.

In its activities, a company's financial management has two main tasks, namely the use and disbursement of funds. These two main tasks produce functions in finance, namely related to investment decisions, funding decisions, and dividend policies. To make the right funding source decision, management must also consider the benefits and costs incurred, whether using internal funding (retained earnings or depreciation) or external funding (debt and equity) or both. Because each source of funds has different consequences and financial characteristics (Meythi, 2012).

Return on assets is an indicator of the performance of the company's management in managing the company's wealth, which is shown by the profit generated by the company. One measure of company performance that is often used as a basis for decision-making is the profit generated by the company. This profit will be the basis for the company's dividend distribution, whether cash dividends or stock dividends. The higher the company's ability to generate profits, the easier it is for the company to make profits, which will have an impact on the amount of dividends distributed. The higher the company's ROA, the higher the company's dividend payout ratio (Suryono, 2018). However, not all profits are distributed in the form of dividends; some are set aside for reinvestment. If the company prefers to distribute profits as dividends, it will reduce the portion of retained earnings and reduce internal sources of funds, but on the other hand, it will increase the welfare of shareholders. Management often has difficulty deciding whether to distribute dividends in a greater proportion than those retained to reinvest in profitable projects or vice versa (Dewi and Muliati, 2021).

The dividend payout ratio describes how much or little the company pays out its dividends. Management needs to consider what factors affect dividend policy. One of the factors that affects dividends is the current ratio. A current ratio is a ratio to measure the company's ability to pay short-

term obligations or debts that are due immediately when billed as a whole (Kasmir, 2015: 134). Companies paying dividends require cash outflows, so there must be sufficient liquidity available. The higher the liquidity, the more capable the company is to pay dividends (Jayanti et al., 2021).

Company growth will affect dividend policy, and with a good growth rate, the company will certainly allocate the funds obtained by the company to invest so that it will reduce the distribution of dividends to shareholders. In such a case, the company can set a high dividend payout ratio. High company growth is preferred to take advantage of investments that have good prospects (Akbar and Fahmi, 2020).

An interesting thing to study further is the phenomenon of dividends. payout ratio. The dividend distribution of a number of issuers has decreased for the financial year 2021. This is due to declining profits along with performance pressures due to the pandemic. However, several issuers in the food and beverage sector in 2021 tend to experience an increase in the dividend payout ratio (DPR) and distribute dividends regularly in 2020–2022. In 2022, PT Ultra Jaya Milk paid a dividend of IDR 85 per share, which is higher than in 2021, which only paid a dividend of IDR 12 per share. PT Mayora Indah Tbk pays a dividend of IDR 52 per share, which is greater than in 2021, which only paid a dividend of IDR 30 per share. PT Wilmar, PT Indofood, and PT Indofood CBP in 2020–2022 paid dividends consistently. The average value of DPR 11 companies in the food and beverage sector increased by 50% in 2022 compared to 2021 and decreased by 26% in 2021. In carrying out company operations, managers are often proactive in increasing company profits, causing divergence of interests between investors and managers and causing the need for a dividend policy. Based on this background and phenomenon, the researcher aims to test and analyze the problem. The formulation of the problem is whether there is an influence between profitability, liquidity, and company growth on dividend policy in manufacturing companies listed on the Indonesia Stock Exchange.

2. Literature Review

Agency theory suggests a relationship between the principle (owner) and agent (manager) in terms of company management, where the principle is a business entity that delegated the authority to manage the company to the management (Kafata and Hartono, 2018). Investors (principle) and management often have different interests. Management tends to prioritize its personal interests, which is not favored by investors. Investors consider that the personal interests of management will reduce the level of profit obtained by the company (Herawati, 2017).

Such differences in interests often lead to conflicts, which are referred to as agency conflicts. Agency conflicts can be reduced by various mechanisms, one of which is the dividend policy. Regarding income in the form of dividends, investors prefer stable dividends because this will increase investor confidence in the company concerned (Sandy and Asyik, 2013). The conflict between principal and agent is increasingly evident with the difference in information owned between company owners (investors) and managers, where the information owned by managers is more complete than that of investors (Suyono, 2018).

The conflict between principal and agent is increasingly evident with the difference in information owned between company owners (investors) and managers, where the information owned by managers is more complete than that of investors (Suyono, 2018). Conflicts of interest between managers and shareholders can result in agency costs. Agency costs can be reduced by implementing a monitoring mechanism that aligns these interests. With the dividend payout ratio as one of the monitoring mechanisms, investors can assess whether the company is in good condition

and profitable as a place to invest. Cash dividends can be a signal regarding the adequacy of the company's cash to pay interest or even pay off loan principal (Bramaputra et al., 2022).

Return On Assets (ROA)

Return on Assets (ROA) is a ratio to assess the company's ability to achieve profit. Companies that earn profits tend to pay a larger portion of their profits as dividends. Management will pay dividends to signal the company's success in bookkeeping profits. The signal concludes that the company's ability to pay dividends is a function of the company's profits. The greater the profit earned, the greater the company's ability to pay dividends (Kasmir, 2018).

Return on assets is a ratio that shows the company's ability to pay dividends. The dividend payout ratio is a portion of the company's profit that can be distributed to shareholders. According to Halim (2013), the higher the profit, the higher the cash flow in the company, so that the company can pay dividends. higher dividends. Iwan and Gean's research (2019) shows that ROA has a positive effect on the dividend payout ratio. These results are supported by the research of Kafata and Hartono (2018) and Herawati (2017), which show that ROA has a positive effect on the dividend payout ratio. Based on the explanation above, the first hypothesis in this study is formulated:

H1: Return on assets has a significant positive effect on the dividend payout ratio.

Current Ratio

The company's current ratio has a very large influence on the company's investment and policy for meeting funding needs. The current ratio is a liquidity ratio to measure the company's ability to pay short-term obligations or debts that are due immediately when billed as a whole (Kasmir, 2018). The company's current ratio is a major consideration in many policies regarding dividends. Because dividends for companies are cash out, the greater the company's overall cash position and liquidity, the smaller the company's ability to pay dividends (Rejeki, 2011). Supported by research by Meilani & Amboningtyas (2017) and Bramaputra et al. (2022), which shows that the current ratio has a significant negative effect on the dividend payout ratio.

If liquidity is a ratio that describes the ability of a company to meet short-term obligations (debt), then a high level of liquidity allows the company to distribute small dividends. This happens because the company is able to finance all operations in the company with a debt burden, meaning that the greater the liquidity position of a company, the less likely its ability to make dividend payments. This is because the higher the liquidity in a company indicates the company's great ability to pay its short-term obligations using current assets in the form of cash, accounts receivable, short-term investments, inventory, and prepaid expenses (Kasmir, 2018). Based on the explanation above, the second hypothesis in this study is formulated:

H2: The current ratio has a significant negative effect on the dividend payout ratio.

Growth

Growth is the growth of assets used for the company's operational activities. The greater the asset growth, the greater the expected operational results generated by a company. An increase in assets, followed by an increase in operating results, will further increase the trust of outsiders in the company. With the increasing trust of outsiders (creditors) in the company, the proportion of debt is getting bigger than equity. This is based on the creditor's confidence that the funds invested in the company are guaranteed by the number of assets owned by the company (Permana, 2016).

In line with agency theory, a fast asset growth rate indicates an expansion by the company. The greater the expansion carried out by the company, the greater the funds needed. The greater the funds needed, the greater the profit retained by the company and the smaller the dividends distributed

to shareholders. The existence of a significant effect of growth on the dividend payout ratio means that high or stable growth is interrelated with company profits but has no effect on dividend policy. A high or stable growth rate can affect the company's assets so that it does not become a consideration for the company in determining the dividend payout ratio. This affects the operations of the company, and the company can meet some of its needs with company assets (Nurlaela, 2017). Thus, the effect becomes positive, and based on agency theory, it becomes unfavorable information asymmetry because shareholders have an unfavorable perspective on the company, so if the company's growth is lower, the company is not safe in using the dividend payout ratio. Based on the explanation above, the third hypothesis in this study is formulated:

H3: Growth has a significant positive effect on the dividend payout ratio.

3. Method, Data, and Analysis

This type of research uses correlation research, which is research that will examine the relationship between variables in the form of both relationships and influences (Nurhayati, 2012). The method used in sampling is the purposive sampling method, namely determining the sample based on certain criteria to be able to provide optimal information. The criteria set in this technique are manufacturing companies that have information about dividend distribution during the period. 2020-22022. The data analysis techniques used in this study include the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test, which are included in the classical assumption test. Further testing includes the model fit test, multiple linear regression, and hypothesis testing.

4. Result and Discussion

Classical assumption testing in this study shows the feasibility of the regression model used in the study. This test also ensures that in the regression model used, there is no heteroscedasticity, multicollinearity, or autocorrelation, and that the resulting data is normally distributed. Multiple linear regression is a regression or prediction model that involves more than one independent or predictor variable. Regression analysis is basically the study of the dependence of the dependent variable (dependent) on one or more independent variables (explanatory or free variables), with the aim of estimating and predicting the population average or average value of the dependent variable. independent variables (Ghozali, 2016). Based on analysis with the SPSS program, regression results are obtained as shown in Table 1.

Table 1. Multiple Regression Analysis Results

Tabel 1. Hasil Analisis Regresi Berganda						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	.609	.177		3.438	.001
	ROA	.034	.013	.217	2.583	.011
	CR	-1.371E-5	.001	-.002	-.020	.984
	GROWTH	.825	.407	.171	2.028	.045

Sumber: data diolah, 2023

Based on the results of multiple linear regression test analysis, it is known that the first hypothesis testing in this study was conducted to determine whether there is an effect of return on assets on dividend payout ratio. The test results show the regression coefficient value is 0.034 with a significance level of 0.011. Based on the results of hypothesis testing and the significance value being smaller than $\alpha = 0.05$, it can be concluded that there is a positive effect of return on assets on dividend payout ratio.

Testing the second hypothesis in this study was conducted to determine whether there is an effect of the current ratio on the dividend payout ratio. The test results show a regression coefficient value of -0.000014 with a significance level of 0.984. Based on the results of hypothesis testing, if the significance value is greater than $\alpha = 0.05$, it can be concluded that the statement that there is a negative effect of the current ratio on the dividend payout ratio is rejected.

Testing the third hypothesis in this study was conducted to determine whether there is an effect of growth on the dividend payout ratio. The test results show a regression coefficient value of 0.825 with a significance level of 0.045. Based on the results of hypothesis testing and the significance value being smaller than $\alpha = 0.05$, it can be concluded that there is a negative effect of growth on the dividend payout ratio.

Discussion

Effect of Return on Assets on Dividend Payout Ratio

The results showed that return on assets has a positive and significant effect on dividend payout ratio. This is shown by the t value for the effect of return on assets on the dividend payout ratio of 2.583 with a significance level of 0.011 because the significance value of the t test is less than 0.05 ($0.011 < 0.05$). Thus, the first hypothesis (H1), which states that return on assets has a positive and significant effect on the dividend payout ratio, is accepted. The results showed that return on assets has a positive and significant effect on dividend payout ratio. This is shown by the t value for the effect of return on assets on the dividend payout ratio of 2.583 with a significance level of 0.011 because the significance value of the t test is less than 0.05 ($0.011 < 0.05$). Thus, the first hypothesis (H1), which states that return on assets has a positive and significant effect on the dividend payout ratio, is accepted.

In line with agency theory, agency theory will spur agents to increase profits so that companies that make profits tend to pay a larger portion of their profits as dividends. Return on assets is the ratio that shows the company's ability to generate profits, while the dividend payout ratio is a portion of the company's profit that can be distributed to shareholders (Halim, 2013). Management will pay dividends to provide information about the company's success in bookkeeping profits. This information concludes that the company's ability to pay dividends is a function of company profits. The greater the profit earned, the greater the company's ability to pay dividends (Kasmir, 2018).

Based on the phenomenon of return on assets in manufacturing companies, it shows that the company's ROA condition for the research sample is good, namely that as much as 65% of the data is above 0.05 or 5%. Thus, the measure of the company's ability to generate profits and measure the level of operational efficiency and efficiency in using its assets is categorized as good. The higher the profit, the higher the cash flow in the company, so that the company can pay higher dividends. The results of this study are in line with the research of Iwan and Gean (2019), Kafata and Hartono (2018), and Herawati (2017), which show that ROA has a significant positive effect on the dividend payout ratio.

Effect of Current Ratio on Dividend Payout Ratio

The results showed that the current ratio has a positive and significant effect on the dividend payout ratio. This is indicated by the t value for the effect of the current ratio on the dividend payout ratio of -0.020 with a significance level of 0.019 because the significance value of the t test is less than 0.05 ($0.984 > 0.05$). Thus, the second hypothesis (H2), which states that the current ratio has a negative and insignificant effect on the dividend payout ratio, is rejected.

In relation to agency theory, the current ratio is negatively related to financial performance due to the company's high ability to meet its financial obligations that must be met immediately. The higher the liquidity, the more effort the company has to fulfill its obligations, and the more difficult it is for the company to pay or fulfill its obligations. The company's current ratio is a major consideration in many dividend policies. Because if high liquidity allows the company to pay a small dividend, this happens because the company is able to finance all operations in the company with a debt burden, meaning that the greater the liquidity position of a company, the less likely its ability to make dividend payments. This is because the higher the liquidity of a company shows the company's ability to pay its short-term obligations using current assets in the form of cash, accounts receivable, short-term investments, inventory, and prepaid expenses (Kasmir, 2018).

Based on the phenomenon of the current ratio of manufacturing companies listed on the IDX for the 2020–2022 period, it shows that the company's CR condition for the research sample is high, namely that as much as 95% of the data is between 150 and 300. The greater the liquidity position of a company, the less likely its ability to make dividend payments is. This is because the higher the liquidity in a company, the greater the company's ability to pay its obligations. al., (2021); Bramaputra et al., (2022), which shows that the current ratio has a negative effect on the dividend payout ratio.

Effect of Growth on Dividend Payout Ratio

The results showed that growth has a negative and insignificant effect on the dividend payout ratio. This is shown by the t value for the effect of growth on the dividend payout ratio of 2.028 with a significance level of 0.045 because the significance value of the t test is more than 0.05 ($0.045 > 0.05$). Thus, the third (H3), which states growth has a positive and significant effect on the dividend payout ratio, is accepted.

In line with agency theory, a fast asset growth rate indicates an expansion by the company. The greater the expansion carried out by the company, the greater the funds needed. The greater the funds needed, the greater the profit the company will earn and the greater the dividends distributed to shareholders. The existence of a significant influence of growth on the dividend payout ratio means that high or stable growth is interrelated with company profits. A high or stable growth rate can affect the company's assets so that it is not a consideration for the company in determining the dividend payout ratio. This affects the operations of the company, and the company can meet some of its needs with the company's assets (Nurlaela, 2017).

Based on the phenomenon of the condition of the sample of manufacturing companies, it shows that the majority of manufacturing companies listed on the IDX for the 2020–2022 period have growth that tends to decline. If the calculation results are constantly negative and always decreasing, this indicates that there is an error that must be corrected immediately. The more stable the growth rate the company has, the better it will be at generating profits. Thus, the effect, based on agency theory, is an unfavorable information asymmetry because shareholders have an unfavorable perspective on growth, so if the company's growth is lower, the company is not safe in using the dividend payout ratio. The results of this study are in line with research conducted by Atmoko et al. (2017), which states that growth has a positive and significant effect on the dividend payout ratio.

5. Conclusion and Suggestion

Conclusion

This study discusses the analysis of the effect of return on assets, current ratio, and growth on the effect of return on assets. dividend payout ratio with a population of companies incorporated into manufacturing companies listed on the Indonesia Stock Exchange for the period 2020–2022. Of the

three hypotheses proposed, there is a positive and significant effect of return on assets on the dividend payout ratio of manufacturing companies listed on the Indonesia Stock Exchange for the period 2020–2022. Thus, hypothesis 1 is accepted. There is a negative and insignificant effect of the current ratio on the dividend payout ratio of manufacturing companies listed on the Indonesia Stock Exchange for the period 2020–2022. Thus, hypothesis 2 is rejected. There is a positive and significant effect of growth on the dividend payout ratio of manufacturing companies listed on the Indonesia Stock Exchange for the period 2020–2022. Thus, hypothesis 3 is accepted.

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