

The Effect of Company Performance on Dividend Policy in Manufacturing Companies

Onny Kusuma^{1*}, Hatane Samuel²

^{1,2}Faculty of Business and Economics, Petra Christian University
Jl. Siwalankerto 121-131, Surabaya, Indonesia

*Corresponding author, email: kusuma.onny94@gmail.com

Abstract

Companies in managing their finances are always faced with three important issues that are interrelated. The three problems are investment decisions, funding decisions, and dividend policy decisions. This study will be focusing on dividend policy decision. Not all companies distribute dividend even when they have high profit/liquidity level or because they need money to pay interest. This study investigates and aims to analyze the effect of company performance on dividend policy in manufacturing companies. Company performance used as variables is profitability, leverage, and liquidity. The author will analyze the direct effect of profitability, leverage, and liquidity with company dividend policy. After that by using liquidity as moderating variable, the author will analyze whether high liquidity level can strengthen the company decision to distribute dividends. The sample for this study is 77 manufacturing industry companies listed on the Indonesia Stock Exchange in 2010-2016, which distributed dividends. Research data is taken from annual financial report data published by the sample companies. The data in this study were processed with the help of SEM smartPLS 3.0 model. This study explains the impact of profitability, leverage, and liquidity factors on dividend policy and whether liquidity can be used to strengthen or weaken the relationship between profitability to dividend policy and leverage to dividend policy.

Keywords: Dividend payouts; Profitability; Leverage; Liquidity.

1. Introduction

Companies are established with one main goal, namely to maximize the welfare of the owner of the company. Harding & Ross (2009) states that companies in managing their finances are always faced with three important issues that are interrelated. The three problems are investment decisions, funding decisions, and dividend policy decisions. The investment decision is management policy in using company funds that are in an asset that are expected to provide benefits in the future. The funding decision is decision-related to the source of the acquisition of funds (internal or external), determining the source of funds to be used, and determining the optimal funding considerations. The dividend policy decision is the company's policy whether to pay dividends or not and determine the number of dividends if paid. The decision on dividend policy made by the company is an important decision because it can trigger an increase or decrease in the company's stock price in the capital market.

According to Brigham & Houston (2012), dividend policy is a decision about how much current profits will be paid as dividends from investments invested and how much it will be retained for reinvestment in the company. In order to strengthen

growth rates and competitiveness, company will always try to find as much profit as possible. Earnings obtained by the company can be distributed to shareholders in the form of dividends or held as retained earnings. The amount of dividend distributed depends on the amount of profit obtained and dividend policy of each company. Dividend policy does not only concern the interests of the company but also the interests of investors who invest funds in the company. By investing funds in a company, investors expect to get dividends and capital gains as a consequence of capital investment in the company.

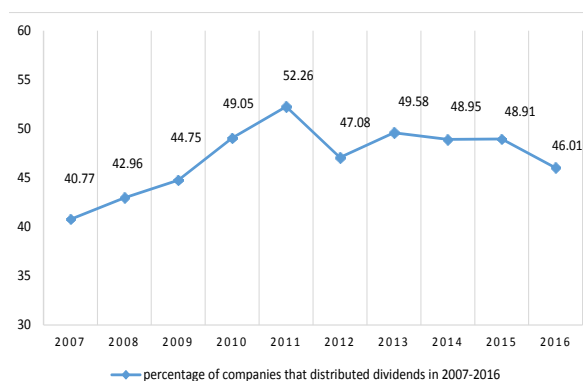


Figure 1. Cash dividend distribution all sector from 2007-2016 (Source: ksei.co.id).

Figure 1 we can see that in 2007 - 2011, the percentage of companies that distributed dividends always increased. However, when entering 2012-2016, the percentage of companies that distributed dividends began to decline. From 2007 – 2016, every year the number of new companies listed on the Indonesia Stock Exchange always increased, but this was not followed by increased number of companies that distributed dividends.

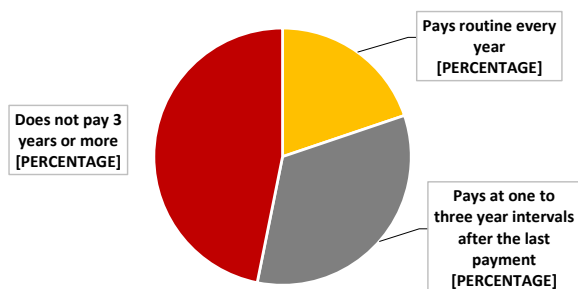


Figure 2. Dividend distribution in manufacturing industry from 2010-2016 (Source: processed data from Bloomberg)

Not all companies distribute dividends on a regular basis, and there are even companies that did not distribute dividends for consecutive years due to various reasons such as needing funds for expansion or the obligation to pay debts. In the manufacturing industry there were 47% of companies that had not paid dividends for more than three years to their shareholders from 2010-2016. This shows that the decline in companies that pay dividends also occurs in large numbers inside manufacturing industries, usually called disappearing dividends. Disappearing dividend is a phenomenon of decreasing willingness of issuers to pay dividends or the increasing desire of issuers not to pay dividends (Kisman, 2016). This can indicate a change in the trend or the dividend policy applied by some companies, so they choose not to distribute dividends and use the fund for other purposes. Other factors are because the company is experiencing losses or their leverage level is high, so the interest is huge, and as a result, the company chooses not to distribute dividends.

Study on dividend policy has been carried out in various countries by various researchers. Several factors that influence the making of dividend policy are profitability, leverage, and liquidity. Amidu & Abor (2015) conducted a study on 22 companies in Ghana from 1998-2003. This figure represents 76% of companies registered in Ghana. The results of this study state that there is a positive relationship to profitability on dividend policy. This study concludes that companies with high-profit levels tend to pay dividends, while companies that have high volatility profits have difficulty paying dividends. The com-

pany will distribute its profit a little as dividends or none at all. Studies conducted by other researchers (Martazela, Marietza, & Midiastuty, 2015; Haq, 2014; Kajola, Desu, & Agbanike, 2015; Elisabete & Neves, 2018) also conclude that profitability has a positive influence on dividend policy.

Another factor that influences dividend policy is leverage. The study by Kaźmierska-Jóźwiak (2015) states that leverage in companies has been analyzed in the literature as an essential factor in determining dividend policy decisions. High leverage increases transaction cost and company risk. Companies with high leverage ratios have high fixed payments. Therefore, the higher the leverage ratio, the lower the opportunity for dividend distribution. It can be said that leverage is negatively related to dividend policy. Studies conducted by other researchers (Sirait & Siregar, 2015 & Al-Kuwari, 2009) also conclude that leverage has a positive influence on dividend policy.

The next one is liquidity. A study by Kaźmierska-Jóźwiak (2015) also states that companies with a high level of liquidity are more likely to pay dividends than companies with low liquidity levels. The low position of liquidity gives a wrong impression to the shareholders that the company cannot distribute dividends due to lack of cash. It can be said that a high level of liquidity reflects that the company has sufficient funds to pay off its obligations and also distribute dividends to shareholders. The expected relationship is that liquidity has a positive influence on dividend policy.

Haq (2014) conducted a study on all manufacturing companies listed on the Indonesia Stock Exchange from 2008-2012. The results of the study state that companies that have a high level of profitability, coupled with a high level of liquidity will be able to increase the number of dividends distributed. Companies that prefer to pay their short-term obligations (leverage) will reduce dividends that are distributed. A high level of liquidity will minimize this, so that liquidity provides a moderating influence on profitability and leverage on dividend policy.

This study aims to examine the direct effect of profitability, leverage, and liquidity on dividend policy, and whether liquidity as a moderating variable can strengthen or weaken the influence of profitability and leverage on dividend policy.

2. Literature Review

2.1 Dividend & dividend policy

According to Stice et al. (2010), dividends are distributions to shareholders of a company in proportion to the number of shares held by each shareholder.

According to Brigham & Houston (2012) dividend policy is a decision about how much current profit will be paid as a replacement dividend from the invested investment and how much is retained for reinvestment in the company. Management has the responsibility to develop dividend policies and decide whether to pay dividends or not.

2.1.2 Internal & external factors on dividend policy

Shala, Hetemi, Livoreka, Asllanaj, & Hoti (2014) state that there are variously internal and external factors that influence dividend policy:

1. *Internal Factors*

a) *Shareholder expectation*

Shareholders expect two types of returns, namely capital gains & dividends. Some investors target dividends because 1) want to reduce uncertainty (capital gains is riskier), 2) can be an indication of the company's finances, 3) want to receive regular income.

b) *The Fiscal Situation of the Shareholders*

Shareholders of companies in countries with high dividend taxes tend to prefer to replace dividends with bonuses on salaries and vice versa. In addition to this, it should also be noted the financial situation in the company such as earnings stability, corporate liquidity, debt, access to capital markets, etc.

2. *External Factors*

a) *The Overall Economy*

Uncertainty of economic conditions and business environment cause management to hold back profits in the form of retained earnings to prepare cash reserves in the future and maintain the company's liquidity position. However, in a period of prosperity, management has more free choices because of the availability of significant cash flows

b) *The situation on Capital Market*

Managements will determine the dividend policy by looking at the stability of price movements in the capital market.

c) *Legal Restriction*

Legal regulations governing dividend policy differ in each country. For example, some countries allow dividend payments from the current year's profits or last year's profits, which have been used as cash reserves.

d) *Contractual Restriction*

Lenders can sometimes limit dividend payments to protect their interests. For example, a loan agreement states that the company will not announce dividend distribution as long as

the liquidity ratio is at a particular stage, or the company will not pay more than a percentage of dividends as long as the loan has not been repaid, etc.

e) *Entries in Capital Market*

Large companies with stable profits have more straightforward to access the capital market and get funds. However, for small companies, it will be more difficult to get funds from the capital market. Therefore, sometimes profits become retained earnings as funding requirements for various investments.

2.1.2 Dividend payout ratio

According to Van Horne & Wachowicz (2008), the dividend payout ratio is a ratio that explains the percentage of corporate profits that are distributed to shareholders in the form of cash. Dividend payout ratios generally differ from one company to another. Older, more established, and stable companies usually have a high dividend payout ratio. While start-up companies or young companies and companies seeking growth have a low dividend payout ratio. Investors will usually look for companies that have a consistent or improved dividend payout ratio. However, the dividend payout ratio may not be too high because this dividend is paid in cash (cash) so that there will be difficulties in cash management and company liquidity.

2.1.3 Dividend theories

Study on why companies distribute dividends has been carried out in various countries for almost 50 years. Various studies then produced several theories which concluded why companies distribute dividends:

1. *MM Theory*

Miller & Modigliani (1961), in their study, concluded that in a perfect capital market condition, the dividend policy decisions adopted by the company will not affect the rate of returns & market value. MM argues that regardless of how the company distributes its income, the company's market value will not be affected because its value is determined by earnings power and its investment decisions.

2. *Bird in Hand Theory*

This theory argues that increasing dividend payout decisions positively affect company value. Proponents of this hypothesis argue that because of market imperfections and uncertainties, dividends are considered different depending on capital gains. Therefore, investors will prefer cash dividends rather than future capital gains.

3. *Tax Theory*

This theory argues that tax influences and influences influence income distributed by companies. In most countries, the tax rate on dividends is different from the tax rate on capital gains. Therefore, investors in different tax groups will have different perceptions about receiving cash dividends or capital gains.

4. *Clientele Effect Theory*

This theory states that investors or clients are influenced differently by dividend policy decisions adopted by the company. Some investors will choose company companies that provide significant amounts of their income in the form of dividends. While other investors may choose companies that have higher retained earnings.

5. *Agency Cost Theory*

This theory states that there is a principal-agency relationship between shareholders (principals) and managers (agents). Managers are expected to always choose the best actions for shareholders. In many cases, this theory suggests that managers tend to choose actions that benefit themselves and harm shareholders. Therefore, this theory suggests that dividend payments can reduce conflicts between managers and shareholders.

6. *Signaling Theory*

This theory states that dividend announcements have a power called signal. The signal is related to the company's future earnings information. Increasing dividend payments sends a positive signal to investors and the general public that the company's future profits will be better. Conversely, if the company lowers the dividend rate or does not even pay dividends it will send a negative signal to investors and the general public that the company's future earnings will decline. In order for the signal to be significant, it is recommended that the signals sent by the company must be consistent. Therefore, not all companies can immediately use signals related to dividend policy. Companies with inadequate dividend payments (companies with small dividend payments or not paying dividends) cannot replicate the signaling provided by companies with better dividend payments (companies with high or increasing dividend payments) when declaring dividend distribution.

2.2 Company performance

2.2.1 Profitability

Gitman & Zutter (2012) states that profitability measures the effectiveness of a company in managing company assets. The company's profits can then be held (as retained earnings) and can be divided as

dividends. Lintner (1956) stated that profitability stability is vital to reduce risk in the event of a decrease in profits that forces management to cut dividends. Companies that have profitability stability can determine the level of dividend payments with confidence and signal the quality of their profits. So that the increase in the company's net profit will increase the return on investment in the form of dividend income for investors. Therefore, the higher the profitability ratio, the greater the dividend distributed to investors. Profitability in this study is measured using financial ratios, namely Return on Equity and Return on Asset.

2.2.2 Leverage

Leverage is the level of debt the company has as funding from external sources (Cyssco, 2007). Companies with a high level of leverage prioritize maintaining their internal cash flow in order to pay the company's liabilities before distributing profits to investors in the form of dividends. Leverage in this study is measured using financial ratios, namely Debt to Equity and Debt to Total Assets.

2.2.3 Liquidity

Liquidity is the ability of a company to fulfill obligations or debts that must be paid immediately with its liquid assets (Cyssco, 2007). The company's liquidity in this study is assumed to be the company's cash position. Companies with higher cash availability are more likely to pay dividends than companies with insufficient cash levels. Therefore, companies that have good liquidity are likely to pay better dividends. Company liquidity can be measured through financial ratios such as current ratio, quick ratio, and cash ratio.

3. Research design

3.1 Population and sample

This study uses financial data from manufacturing companies that are listed on the Indonesia Stock Exchange in 2010-2016. Research data is taken from annual financial report data published by the sample companies.

Sampling in this study was conducted using a non-random sampling technique, namely purposive sampling, which means that sampling is done with the intent and specific criteria (Sugiyono, 2015). The criteria used to determine research samples include:

- 1) The company does not experience delisting and does not carry out mergers & acquisitions with other companies during the research period.

- 2) The company publishes complete financial reports and following those required for research from the period 2010 to 2016.
- 3) The company has paid dividends in the period 2010 to 2016.

The initial model equation describes the direct effect of profitability, leverage & liquidity on the dividend payout ratio as follows:

$$DPR = \beta_1 \text{PROF} + \beta_2 \text{LEV} + \beta_3 \text{LIQ}$$

Then the liquidity variable is used as a moderating variable on profitability and leverage to the dividend payout ratio so that the equation becomes as follows:

$$DPR = \beta_1 \text{PROF} + \beta_2 \text{LEV} + \beta_3 \text{LIQ} + \gamma_1 \text{LIQ} * \text{PROF} + \gamma_2 \text{LIQ} * \text{LEV}$$

The data used is processed in the form of an average of each indicator of the latent variables in 2010-2016, so that only 1 number is obtained to define the indicator.

Table 1. Variable (proxy) & expected relationship.

	Indicator	Formula	Expected Relationship
Profitability	Return on equity	$ROE = \frac{\sum_1^n (\frac{Net\ Income}{Total\ Equity})}{n}$ (n = how many years)	Positive
Profitability	Return on total assets	$ROA = \frac{\sum_1^n (\frac{Net\ Income}{Total\ Assets})}{n}$ (n = how many years)	Positive
Leverage	Debt to equity	$DER = \frac{\sum_1^n (\frac{Total\ Debt}{Total\ Equity})}{n}$ (n = how many years)	Negative
Leverage	Debt to total assets	$DAR = \frac{\sum_1^n (\frac{Total\ Debt}{Total\ Assets})}{n}$ (n = how many years)	Negative
Liquidity	Cash ratio	$CaR = \frac{\sum_1^n (\frac{Cash+Equivalent}{Current\ Liabilities})}{n}$ (n = how many years)	Positive
Liquidity	Current ratio	$CR = \frac{\sum_1^n (\frac{Current\ Assets}{Current\ Liabilities})}{n}$ (n = how many years)	Positive
Liquidity	Quick ratio	$QR = \frac{\sum_1^n (\frac{Current\ Assets - Inventory}{Current\ Liabilities})}{n}$ (n = how many years)	Positive
Dividend Policy	Dividend payout ratio	$DPR = \frac{\sum_1^n (\frac{Total\ Cash\ Dividend\ Paid}{Net\ Income})}{n}$ (n = how many years)	

3.2 Data analysis

In this study, data processing was carried out with the help of smartPLS 3.0. The first step is conducting an outer model measurement model in the form of validity test and reliability test. After that, it is continued by doing the inner model measurement model to see the value of R² for the dependent construct, the path coefficient or t-values value for each path to test the significance between constructs in the structural model.

4. Result

4.1 Variable Descriptive Statistics

Table 2. Variable (proxy) & expected relationship.

	DPR	ROE	ROA	DER	DAR	CaR	CR	QR
Mean	27,10	13,31	7,97	50,99	20,86	0,89	2,76	1,70
Median	19,94	13,07	5,94	36,17	19,67	0,32	2,03	0,98
Min	1,43	-12,81	-4,70	0,00	0,00	0,02	0,72	0,18
Max	103,69	39,96	34,48	195,90	58,83	11,59	19,51	17,22
Std.	23,64	10,52	7,56	49,67	16,70	1,57	2,54	2,20
Deviation								

4.2 Convergent Validity

Table 3. Convergent Validity

Variable	Indicator	Outer Loading
Dividend	DP	1,000
	ROE	0,976
Profitability	ROA	0,979
	DER	0,985
Leverage	DAR	0,986
	CaR	0,988
Liquidity	CR	0,987
	QR	0,993

Table 3 Each indicator fulfilling the convergent validity test or declared valid because it has the value of outer loading above 0.70 for the destination variable with the smallest value is 0, 976 on the ROE indicator.

4.3 Cross Loading

Table 4. Cross Loading

	DIVIDEND	PROF	LEV	LIQ
DPR	1,000	0,611	-0,410	0,059
ROE	0,576	0,976	-0,373	0,124
ROA	0,616	0,979	-0,560	0,258
DER	-0,400	-0,459	0,985	-0,440
DAR	-0,409	-0,487	0,986	-0,513
CaR	0,069	0,204	-0,453	0,988
CR	0,051	0,197	-0,504	0,987
QR	0,052	0,184	-0,486	0,993

Table 4 loading factors for profitability (ROE and ROA) indicators have a loading factor for higher profitability variables than with other variables. The same is also seen in other indicators. Thus, it can be said that each indicator fulfills the validity test of the discipline or is declared valid.

4.4 Average Variance Extracted

Table 5. Average Variance Extracted

Average Variance Extracted (AVE)	
DIVIDEND	1,000
PROFIT	0,955
LEVERAGE	0,972
LIQUIDITY	0,979

Source: processed data from smartPLS

Table 5 all variables give values above 0.50 with the lowest AVE value being 0.955 in the profit variable. Thus, it can be said that each indicator fulfills the validity test of the discipline or is declared valid.

4.5 Reliability Test

Table 6. Reliability Test

Variable	Composite Reliability
DIVIDEND	1,000
PROFIT	0,977
LEVERAGE	0,986
LIQUIDITY	0,993

Table 6 the composite reliability value for all variables is above 0.70 which indicates that the variables in the model estimated to meet the reliability test requirements with the lowest composite reliability value is 0.977 in the profit variable.

4.6 Cronbach’s Alpha Test

Table 7. Cronbach’s Alpha Test

Variable	Cronbach’s Alpha
DIVIDEND	1,000
PROFIT	0,953
LEVERAGE	0,971
LIQUIDITY	0,989

Source: processed data from smartPLS

Table 7 the value of Cronbach's alpha for all variables is above 0.70 with the lowest Cronbach's alpha value of 0.953 in the profit variable.

4.7 Path Coefficient and T Statistics without moderator

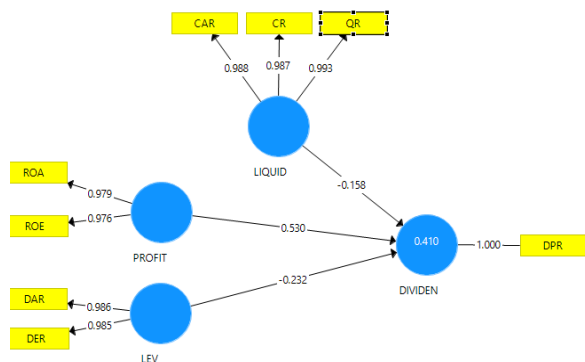


Figure 3. Path coefficient & outer loading

Figure 3 and Table 8 Profitability, leverage, and liquidity have a significant effect with a significance value smaller than 0.05 and the value of T-statistics

above 1.96. Profitability has a significant positive effect on dividend payout ratio; leverage has a significant negative effect on dividend payout ratio, and liquidity has a significant negative effect on dividend payout ratio.

Table 8. Path Coefficient and T Statistics without moderator

	Original Sample	Sample Mean	Std. Deviation	T-Statistics	P-Values
PROF→DPR	0.530	0.541	0.113	4.689	0.000
LEV→DPR	-0.232	-0.242	0.109	2.119	0.035
LIQ→DPR	-0.158	-0.170	0.078	2.023	0.044

4.8 Path Coefficient with liquidity as moderating variable

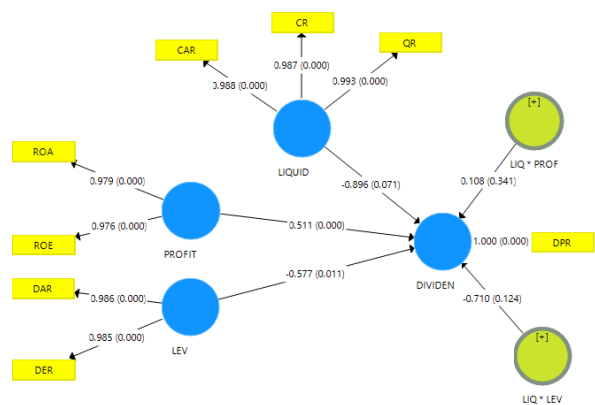


Figure 4. Path coefficient & outer loading with liquidity as moderating variable

Table 9. Path Coefficient with liquidity as moderating variable

	Original Sample	Sample Mean	Std. Deviation	T-Statistics	P-Values
PROF→DPR	0.511	0.499	0.106	4.795	0.000
LEV→DPR	-0.577	-0.544	0.226	2.549	0.011
LIQ→DPR	-0.896	-0.787	0.495	1.812	0.071
LIQ*PROF→DPR	0.108	0.158	0.114	0.953	0.341
LIQ*LEV→DPR	-0.710	-0.554	0.461	1.541	0.124

Figure 4 and Table 9 there is no interaction between liquidity and profitability or leverage against the dividend payout ratio, with the T-Statistics value below 1.96. So that it can be said that the liquidity variable does not have a moderating effect on the effect of profitability or leverage on the dividend payout ratio, with the T Statistics value lower than 1.96, which means insignificant relationship.

5. Analysis and discussion

5.1 Profitability

In this study, it was found that profitability had a significant positive effect on the dividend payout ratio on manufacture companies listed on the Indonesia

Stock Exchange. The results of this study supports the study conducted by Amidu & Abor (2015); Al-Kuwari (2009); Martazela, Maritza, & Midadiaty, 2015; Haq (2014), Kajola, Desu, & Agbanike, 2015; dan Elisabete & Neves (2018) who found profitability had a positive effect on dividend payout ratios. The results of this finding indicate that manufacturing companies in Indonesia that have high profitability tend to distribute cash dividends in a larger proportion to shareholders. Companies that have a positive profitability level will usually be able to pay dividends or provide an increase in dividends. The opposite will happen if profitability level is negative.

In addition, based on the dividend signaling theory, it is also stated that company will increase dividend payment if they are sure they have made a higher profitability level (Lintner, 1965; Miller & Rock, 1985). The increase in the proportion of dividend payments is made by the company to attract investors, by giving a positive signal so that investors believe that in the future the company is expected to have a good level of profitability (Van Horne & Wachowicz, 2008). This signal usually considered as accurate information because the company management has more information than outside parties (asymmetric information). Based on a study conducted by Joliet & Muller (2015) on companies in Asia-Pacific, North America, and West Europe, managers in Asia-Pacific countries are more dominant using signaling to inform the company's prospects in the future compared to countries in North America and West Europe where the effect looks less. In other words, asymmetric information is higher in developing countries compared to developed countries.

5.2 Leverage

This study also found that leverage has a significant negative effect on dividend payout ratio. The results of this study support the study conducted by Kaźmierska-Jóźwiak (2015) which states that high leverage increases transaction costs and company risks. This also shows that the level of the proportion of debt to the capital of the company influences the decision on the proportion of dividend distribution based on company profits. Companies with high leverage ratios have high fixed payments. Dividend payments cause a company's financial burden because the company needs additional cash flow. Companies that have a larger debt ratio will distribute smaller dividends because the profits earned are used to pay off obligations. Most companies with a high degree of leverage prioritize maintaining their internal cash flow in order to pay the company's obligations before

distributing profits to investors in the form of dividends. The result of this study supports the study conducted by Sirait & Siregar (2015) & Al-Kuwari (2009).

5.3 Liquidity

In this study, the researcher also found that liquidity had a significant negative effect on the dividend payout ratio. These findings do not support the study conducted by Kaźmierska-Jóźwiak (2015) which states that companies with high levels of liquidity are more likely to pay dividends than companies with low levels of liquidity. This also proves that dividend policy is influenced by external factors where uncertain economic conditions and business environment cause management to retain earnings to prepare future cash reserves, paying debts, making investments, maintain the company's liquidity position, or to increase company growth (Shala, Hetemi, Livoreka, Asllanaj, & Hoti, 2014).

5.4 Liquidity as moderator

This study found that liquidity does not have a moderating effect on the relationship of the independent variable profitability and leverage to the dividend payout ratio. These findings do not support the study conducted by Haq (2014). This finding shows that profitability and leverage have no significant effect on dividend payout ratio, both for companies with large liquidity levels and for companies with smaller liquidity levels. Compared when liquidity is used as an independent variable, the results obtained meet significant numbers so that it can be said that the liquidity variable remains one of the determinants of dividend policy.

In Table 2 "Variable Descriptive Statistics" the number of the liquidity ratio is far adrift when compared with the number of profitability and leverage ratios so that when multiplied there is no large number obtained. Besides, the standard deviation on profitability and leverage is also high when compared to liquidity. Both of these can be the cause of the moderating effect that is not significant liquidity on profitability and leverage to dividend payout ratio.

5.5 Limitation

The limitation in this study is that the moderator variable used is only company liquidity and there are still other moderator variables that can be tested for its effect on the dividend payout ratio, for example, company ages or company growth rates. This research can be developed further by examining the effect of other

independent variables on dividend payout ratio by using variables such as board composition, free cash flow or investment opportunity. In this study, the research sample was taken from the manufacturing industry only and in subsequent studies, it is possible to use other industries such as the service or industrial industries with the highest or lowest dividend distribution rate in Indonesia.

5.6 Managerial implication

The results of this study provide additional evidence of the influence of company performance variables on dividend policy that can be used as input for investors in determining investment decision making. Besides, this study can also be a reference in the area of financial accounting related to the moderator variable on the company's dividend policy.

6. Conclusion

The results of this study indicate that there are many manufacturing companies in Indonesia that apply signaling theory in their dividend distribution policies. When the signals sent by the company are consistent, that information can be used to attract potential investors or used for making financial decisions. This study also found that companies with higher profitability levels shared dividends in a larger proportion. In addition, companies prioritize to maintain their internal cash flow in order to pay company debts and interest before distributing profits to investors in the form of dividends. This also proves that dividend policy is influenced by external factors where the uncertain economic conditions and business environment cause management to retain earnings to prepare future cash reserves, paying debts, making investments, maintain the company's liquidity position, or to increase company growth. Lastly, this study found that liquidity does not have a moderating effect on the relationship of the independent variable profitability and leverage to the dividend payout ratio.

References

- Al-Kuwari, D. (2009). Determinants of the dividend policy in emerging stock Exchanges: The Case of GCC Countries. *Global Economy and Finance Journal*, 2(2), 38–63.
- Amidu, M., & Abor, J. (2015). Determinants of dividend payout ratios in Ghana. *Journal of Risk Finance*, 7(2), 136–145.
- Brigham, E. F., & Houston, J. F. (2012). *Dasar-dasar manajemen keuangan* (11th ed.). Jakarta: Salemba Empat.
- Cysscoco, D. R. (2007). *Kamus istilah akuntansi*. Bandung: Mulya Jaya.
- Elisabete, M., & Neves, D. (2018). Payout and firm's catering. *International Journal of Managerial Finance*.
- Gitman, L. J., & Zutter, C. J. (2012). *Principles of managerial finance* (13th ed.). London: Pearson.
- Haq, T. A. (2014). Pengaruh kepemilikan manajerial, profitabilitas dan growth terhadap kebijakan dividen dengan likuiditas sebagai variabel moderating.
- Harding, J. P., & Ross, S. L. (2009). Regulation on large financial institutions: Lessons from corporate finance theory. *Journal of Economic Literature Classification*.
- Joliet, R., & Muller, A. (2015). Dividends and foreign performance signaling. *Multinational Finance Journal*, 19, 77-107.
- Kajola, S. O., Desu, A. A., & Agbanike, T. F. (2015). Factors influencing dividend payout policy decisions of Nigerian listed firms. *International Journal of Economics, Commerce and Management*, 3(6), 539–557.
- Kaźmierska-Jóźwiak, B. (2015). Determinants of dividend policy: Evidence from Polish listed companies. *Procedia Economics and Finance*, 23(October 2014), 473–477.
- Kisman, Z. (2016). Disappearing dividend phenomenon: Review of theories and evidence. *Transylvanian Review*, 24(8), 1286-1293.
- Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *The American Economic Review*, 46(2), 97-113.
- Martazela, A., Marietza, F., & Midiastuty, P. P. (2015). Effect of profitability and investment opportunity set of cash dividend policy with the liquidity and leverage. *ASEAN Economic Community*, 1, 1-29.
- Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *The Journal of Business*, 34(4), 411–433.
- Miller, M. H., & Rock, K. (1985). Dividend policy under asymmetric information. *The Journal of Finance*, 40(4), 1031–1051.
- Shala, A., Hetemi, A., Livoreka, B., Asllanaj, R., & Hoti, A. (2014). Theories on dividend policy empirical research in joint stock companies in Kosovo. *Procedia Economics and Finance*, 14(14), 387–396.
- Sirait, F., & Siregar, S. V. (2014). Dividend payment and earnings quality: Evidence from Indonesia. *International Journal of Accounting and Information Management*, 22(2), 103–117.

Stice, Stice, Skousen. (2010). *Akuntansi Keuangan* (16th ed.). Jakarta: Grafindo Persada.

Sugiyono. (2011). *Metode penelitian kuantitatif, kualitatif dan R&D*. Bandung: Alfabeta.

Van Horne, J. C., & Wachowicz, J. M. (2008). *Fundamentals of financial management 13th edition* (13th ed.). New Jersey: Prentice-Hall.