THE EFFECT OF DIVIDEND POLICY DETERMINANTS WITH SIZE AS A MODERATING VARIABLES IN LQ45 COMPANIES REGISTERED INDONESIAN STOCK EXCHANGE

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ABSTRACT:

Dividend policy is of concern to many parties such as shareholders, creditors, and other external parties who have an interest in the information issued by the company. This study aims to analyze the determinants of dividend payout ratio, which is proxied by variables, profitability (ROE), liquidity (CR) and company size (size) as moderating variables in LQ45 companies listed on the Indonesian stock exchange. The population this study were all LQ-45 companies for the period 2016-2018. The sample was determined based on the purposive sampling method so that a sample of 19 companies obtained. The results of this study indicate that return on equity (ROE), current ratio (CR) have positive and significant effect on dividend policy (dividend payout ratio). The MRA test shows that firm size as a moderating variable can influence the relationship between profitability (ROE)and liquidity (CR) on dividend policy (DPR). The results of this study are also in line with the signaling theory which states that companies that pay high dividends will be positive signal for investors because they think the company will experience profits in the future and as an implication of this study the more liquid the company will be, the more internal funds it will receive.

Keywords: *Dividend Policy, Profitability, Liquidity, and Size (Company Size)*

Introduction

The influence of capital market activities is a good opportunity for the future due to the country's better economic growth. This is indicated by the increasing number of securities companies currently available, especially in Indonesia. This makes it easier for companies that need capital or funds for their company activities and the public (*investors*) who want to invest their funds in shares (Qoirotun Jannah, 2014)According to (Komang Ayu Novita Sari dan Luh Komang Sudjarni, 2015), company growth will affect dividend policy where with a reasonable growth rate the company will undoubtedly allocate funds that the company gets to invest so that it will reduce dividend distribution to shareholders.

Dividend policy is of concern to many parties, such as shareholders, creditors, and other external parties who have an interest in the information released by the company. Though this policy, the company provides a portion of the net profit to shareholders in cash (Bringham & Houston, 2014). This decision is one way to improve that welfare of shareholders, especially shareholders who invest long-term, not those who oriented towards capital gains. According to (Easterbrook, 1984)states that dividend policy is related to agency problems. One of the parties that determine the dividend allocation is the manager.

Profitability is proxied by ROE as an independent variable in this study. This is done to determine the effect of profitability used by the company in determining dividend policy. The greater the ROA, the better company's performance because the level of return on investment is getting bigger (Puspita, 2009).

The liquidity ratio (CR) is also used as an independent variable, which measures the amount of cash or the amount of investment that can be converted into cash to pay for expenses, bills and all other obligations that are due (Gill & Chatton, 2008)The greater the liquidity ratio of company's ability to pay its obligations and vice versa. One of the proxies of the liquidity ratio is the current ratio, where this ratio is calculated by dividing current asset by current liabilities.

Firm (sizes) is also used as a moderating variable on the factors that influence dividend policy. Companies that have a large size will find it easier to enter the capital market so that with this opportunity, the company will pay enormous dividends. The aim is to maintain the company's (Chang & Rhee, 1990)Conversely, small companies will pay a low dividend as well. This is because more profit is allocated to retained earnings to increase the company's assets.

Based on the above background, it encourages researches to research with the title "Analysis Factors The Effect Of Dividend Policy With Size As A Moderating Variable In LQ45 Companies Listed Indonesian Stock Exchange".

Literature Review

a. Dividend Policy

Dividend policy is an integral part of corporate finding decisions(Horne & Wachowiez, 2013). Dividend policy measurement proxied by the *dividend payout ratio*. *The dividend payout ratio* is a comparison between the dividends paid and the net profit the company gets. The higher the dividend *payout ratio will* be beneficial for investors, but not for the company because it will weaken the company's finances, but on the other hand, the lower the *dividend payout ratio* will strengthen the company's finances and will be detrimental to investors, because the dividends that investors expect are not as expected. (Gustian, 2018)

b. Profitability

Profitability ratios are a group of ratios that show the combined effects of liquidity, asset management, and debt on operating results(Bringham & Houston, 2014)The profitability ratio measures the company's ability to generate profits from the business activities it carries out. The profitability ratio is the final result of a number of policies and decisions made by the company. Return on equity (ROE) measures profitability relative to shareholder investment or equity. This ratio is generally considered the best measure of profitability and is highly favored by investors(Bringham & Houston, 2014).

c. Liquidity

Company liquidity describes the company's ability to fund operational activities and pay off company obligations. The company's liquidity is assumed to be an indicator of the return on investment in the form of dividends.(Hikmah&Astuti, 2013) The liquidity ratio is a measure of the amount of cash or the amount of investment that can be converted into cash to pay for expenses, bills and all other obligations that are due (Gill & Chatton, 2008).This means that the stronger the company's liquidity position, the ability to pay. Dividends will be even more significant. There are several ratios included in the liquidity, including *current ratio, quick ratio, loan to deposit ratio* and *cash ratio.*

d. Company Size

Company size is one tool to measure the size of the company. The size of the company is an important factor in making investors' decisions to invest in a company, because large or small companies have an effect on dividends paid to investors.(Samrotun, 2015) Company size is the average total net sales of the year concerned to several years (Bringham & Houston, 2014).The size of the company is considered capable of influencing dividend policy, the larger the size of the company, the easier it will be for companies to obtain funding sources both internally and externally. The size of the company this study seen by calculating how much assets a company has that can use for the company's operations. The assets owned by this company represent the rights and obligations as well as the company's capital.

e. Relationship Between Variables And Hypothesis Development

1) Effect of Profitability (ROE) on Dividend Policy (DPR)

This study uses the proxy ROE as a measure of company profitability. The main consideration is because ROE is a derivative of ROI so that the result is a result that can better describe profitability, besides *return on equity* (ROE) describes the company's ability to generate profits using its own capital, so that *Return on equity* (ROE) measures the relative profitability of the holder's investment. shares, or equity. This ratio is generally considered the best measure of profitability and is highly favored by investors(Bringham & Houston, 2014). The level of company profit is a basic element of dividend policy so that financial ratio analysis has an effect on dividend policy (Weston and Copeland, 1997).

Research on the positive effect of profitability on dividend policy has been conducted (Idawati, 2012). According to the results of the ROE analysis, a positive and significant effect on dividends is part of the company's net profits, meaning that dividends will be distributed to shareholders if the company makes a profit. So that company profits will significantly affect the level of payment. (Suharli, 2007) research-based on multiple linear regression test profitability (ROE) has a positive and significant effect on dividend policy, meaning that the higher the profitability, the greater the rate of return on investment in the form of dividend income.

H_1 : Profitability (ROE) has a significant effect on dividend policy (DPR)

2) The Effect of Liquidity (CR) on Dividend Policy (DPR)

The current ratio, according to Hanafi (2004) in (Kadir, 2010), measures a company's ability to meet short-term debt using current assets. *Ratio* A high current indicates excess current assets (high liquidity and low risk), the greater the current *ratio,* the higher the ability to meet short-term liabilities. The high *Current Ratio* shows investors' confidence in the company's ability to pay the promised dividends. According to the theory put forward by (Riyanto, 1995) states that the *Current Ratio* of a company is an essential factor that must consider determining the size of dividends to distribute to investors, the higher the *Current Ratio* company's, the greater the company's ability to pay dividends, so that it can conclude that there is a positive relationship between *Current ratio* and DPR.

Current ratio(CR) is a ratio to measure the company's ability to pay short-term obligations or debt that matures immediately when collected as a whole (Kasmir, 2015). A high current ratio indicates excess current assets (high liquidity and low risk), the greater the current ratio, the higher the ability to meet short-term liabilities. The high Current Ratio shows investors' confidence in the company's ability to pay the promised dividends.

Research by (Lismawati & Suryanto, 2017) also found that liquidity has a positive effect on dividend policy. The variable *liquidity* proxied by *Current ratio* has a significant positive effect on the *dividend payout ratio* following (Riyanto, 1995)**,** which revealed that liquidity problems are related to the company's ability to meet its financial obligations.

H_2 : Liquidity (CR) has a significant effect on dividend policy (DPR)

3) Profitability (ROE) and Dividend Policy (DPR) with Company Size (Size) as Moderation Variable

Company size is the average total net sales for the year concerned over several years(Bringham & Houston, 2014). In this case the sales are greater than fixed variable costs, the amount of income before tax will be obtained. Profitability has a positive influence on dividend policy because profitability is the company's ability to generate profits and dividends will be divided if the company makes a profit.

H_3 : Firm size can influence the relationship between profitability (ROE) and Dividend Policy (DPR).

4) Liquidity (CR) and Dividend Policy (DPR) with Company Size (Size) as Moderation Variables

Company(*Size*) is proxied between *Log Natural* of *Total Asset*(Hikmah & Astuti, 2013)If the share price rises, the number of investors will increase, and the company's profits will also increase. The higher the profit, the bigger the company size. A large, established company will have easy access to the capital market. In contrast, new and small companies will experience many difficulties in having access to the capital market because the ease of access to the capital market is significant enough for its flexibility and ability to raise more considerable funds so that companies can have a higher dividend payout ratio than small companies.

The liquidity ratio is a measure of the amount of cash or the amount of investment that can be converted or converted into cash to pay for expenses, bills and all other obligations that are due (Gill & Chatton, 2008). If the company's liquidity position is strong, the company's ability to pay dividends is great because dividends are cash outflows for the company. if the company is able to fulfill its obligations, it can be said that the company is liquid, on the other hand, if the company is not able to fulfill these obligations or is unable, it can be said that the company is not liquid(Kasmir, 2015).

H_4: The size of the company is able to influence the liquidity relationship on dividend

policy

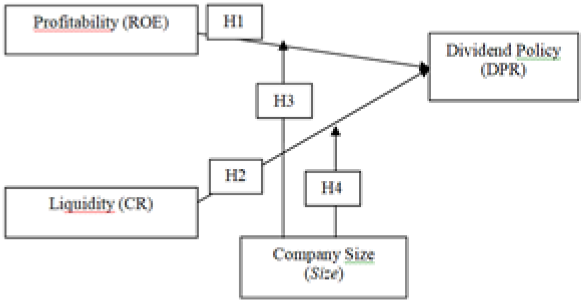

Figure.1 Research Framework

Source: (Research, 2020)

Research Methods

Sources of data collection in this study used secondary data sources, namely company records or documentation, government publications, industry analysis by the media, websites, internet and so on (Sekaran & Bougie, 2013)with data collection techniques, library methods carried out by reading books or journals related to research problems carried out as a basis for analyzing the problems discussed in this study. The population this study were LQ45 companies listed on the Indonesia Stock Exchange during the study period; companies that met the four *criteria above* were 19 companies.

Results and Discussion

a. Effect of Profitability (ROE) on Dividend Policy (DPR)

The test results on the ROE variable in this study showed a significant effect on the DPR. The test results indicate that the size of the ROE generated by the company will affect the size of the DPR that will be distributed. The results of this study are following research from (Sunarya, 2013).

According to results of this study, which shows that ROE has a significant effect, it means that the amount of ROE generated by a company affects the size of the dividends to pay, the greater the profit a company receives, the greater the dividends to distributed. Furthermore, vice versa, if the smaller the profit generated by the company, the smaller the dividends to distribute.

b. The Effect of Liquidity (CR) on Dividend Policy (DPR)

The test results on the CR variable in this study show a significant effect on the DPR. The results of this study are supported research (Fadlia & Hidayati, 2013) which show that liquidity has a significant effect on dividend policy because dividends use cash owned by the company, so the company must have sufficient cash to be able to pay dividends. The greater the *current ratio*, the higher the company's ability to meet its short-term obligations, which includes paying dividends. The high *current ratio* shows investor confidence in the company's ability to pay dividends.

c. The Effect of ***Return On Equity*** (ROE) on Dividend Policy (DPR) with Company Size ***(SIZE)*** as a Moderation Variable

The MRA test results show that firm size can influence the direct relationship between profitability and dividend policy. The results of the study (Suharli, 2007) show that profitability is necessary for a company if it wants to pay dividends. Part of the profit after tax obtained by the company distributed in the form of dividends and the other part retained in the company (retained earnings). If the profit earned is small, then the dividends distributed are also small, whereas if the profits earned are large, the dividends that will be received by the company are also large. Large companies have higher profitability than small companies. Because large companies have positive cash flow and have good prospects for an extended period, are more stable and are more able to generate profits than small companies. Meanwhile, companies with few assets tend to pay low dividends because profits are allocated to retained earnings to increase the company's assets.

d. The Effect of *Current Ratio* (CR) on Dividend Policy (DPR) with Company Sizesize is *(SIZE)* as a Moderation Variable

The MRA test results show that the company able to influence the direct relationship between liquidity and dividend policy. The results of this study supported by research (Sunarya, 2013) that companies with large sizes are more liquid because of the high demand for shares. Thus, the greater the size of a company, the greater the company's cash availability, so that the greater the dividends the company pays.

Conclusion and Implications

Conclusion

Based on the results of the data analysis of this study, conclusions that can be drawn from this study are:

1. The profitability variable proxied by *return on equity* (ROE) has a significant effect on the *dividend payout ratio* (DPR).
2. Liquidity variable, which is proxied by the *current ratio* (CR) has a significant effect on the *dividend payout ratio* (DPR).
3. The firm size variable as proxied by *SIZE can* influence the direct relationship between *return on equity* (ROE) and the *dividend payout ratio* (DPR).
4. The variable company size proxied by *SIZE can* influence the direct relationship between the *current ratio* (CR) and the *dividend payout ratio* (DPR).
5. The results of this study are in line with the *Signaling Theory* which states that companies that pay high dividends will be a positive signal for investors because they think the company will experience profits in the future. The more liquid the company is, the more available internal funds will be.

Suggestion

1. For investors

Investors must analyze the performance and prospects of stocks first before investing in shares, namely, by considering the amount of Profitability (ROE), Liquidity (CR) and Company(*Size*) which will affect the issuance's Dividend Policy (DPR) making.

2. For management

a. Company managers must consider the company's future investment opportunities by comparing it relative to projections of internal sources of funds before determining dividend policy.

b. Companies can use the residual dividend model in a long-term framework to avoid issuing new shares so that the long-term payout ratio target allows the company to remain able to meet its funding needs with equity from retained earnings.
3. For Further Researchers, further researchers should not use the variables that have been used in this study. However, they can multiply other indicators that can influence dividend policy, namely *growth, leverage, free cash flow, management ownership,* investment opportunities, share ownership structure. Then can add to the reference of this research.

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TEST RESULTS

Classical Assumption Test

1) Results Normality Test

Test *Kolmogorov-Smirnov* is used to test for normality and give Asymp. Sig. (2-tailed) of more than 0.05.

Table 1.1Normality Test Results

Variabel	K-S	Sig.	Keterangan
DPR	0,994	0,279	Normal
ROE	0,482	0,975	Normal
CR	1,146	0,146	Normal
SIZE	0,996	0,275	Normal

Source: Statistics Program, secondary data after processing

The dependent variable (Y) which is DPR has a significance value of 0.279. In the independent variable (X) has a significance value respectively, namely for ROE of 0.975, CR has a sig value of 0.146, and *SIZE*has a sig value of 0.275. All of these variables are> 0.05, so it can be concluded that all data on this research variable are normally distributed.

2) Multicollinearity Test Results

Table 1.2Multicollinearity Test Results

Model	Collinearity Statistic	
	Tolerance	VIF

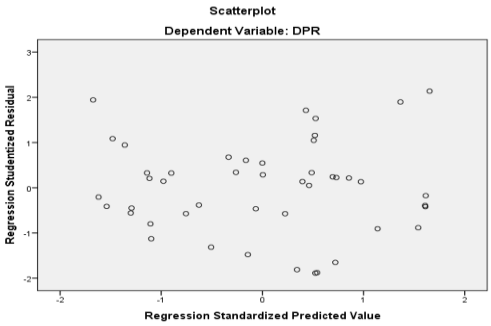
1 (Constant)		
ROE	0,793	1,264
CR	0,928	1,077
SIZE	0,774	1,296

Source: Statistics Program, secondary data after processing

3) Heteroscedasticity Test Results

Based on level 1.2, it is known that the variables ROE, CR, and *SIZE* have values *tolerance* > 0.10 and *VIF* <10, which means that there is no multicollinearity between the independent variables

Figure 1.1



Heteroscedasticity Test Results

. Source: Statistics Program, secondary data after processing

Based on Figure 1.4 above, it can be seen that the dots spread randomly and do not form a certain pattern. Therefore, the results above can be concluded that they do not experience heteroscedasticity.

Autocoleration Test Results

Table 1.3Autocoleration Test Results

D	dL	Du	4-dL	4-dU
1,388	1,43677	1,61763	2,56323	2,38237

Source: Statistics Program, secondary data after processing

The autocoleration test was carried out with the Durbin-Watson test so that based on these results in table 1.3 the DW value was inferred between the dU and 4-dU values, namely 1.61763 ≥1.388 ≤ 2.38237. So it can be concluded that the regression model does not occur autocorrelation.

Hypothesis Test

1) T Test Results

Table 1.4T Test Results

Model	T	Sig.
1 (Constant)	-1,814	0,078
ROE	0,168	0,868
CR	1,964	0,057

SIZE	2,279	0,029

Source: Statistics Program, secondary data after being processed

Based on the results of table 1.4 with a statistical significance value of 0.05, the hypotheses obtained from the regression are:

1. Hypothesis testing between ROE and Dividend Policy.
   The ROE variable has a significance level greater than 0.05, namely 0.868. With a significance level of 0.868 which is greater than 0.05, it can be concluded that partially ROE has an effect on the *dividend payout ratio.*
2. Hypothesis testing between CR on dividend policy.
   The CR variable has a significance level greater than 0.05, namely 0.057. With a significance level of 0.057 which is greater than 0.05, it can be concluded that partially CR has an effect on the *dividend payout ratio.*
3. Hypothesis test of *SIZE* on Dividend Policy.
   The variable *SIZE* has a significance level smaller than 0.05, namely, 0.029. With a significance level of 0.029 which is smaller than 0.05, it can be concluded that partially *SIZE has* no effect on the *dividend payout ratio.*

2) Moderation Regression Analysis Results

Table 1.5Results of the First Equation Analysis Variable ROE

Model	**R Square**
1	0,006

Source: SPSS version 20, secondary data after processing

Table 1.6Analysis Results of the Second Equation Variable ROE

Model	**R Square**
1	0,101

Source: Statistics Program, secondary data after processing

The value of R^2 in the first regression in Table 1.5 amounted to 0,006, while after the second regression equation in Table 1.6 the value of R^2 rose to 0,101.Dengan the above results it can be concluded that the presence of firm size *(SIZE)* as a moderating variable will be able to strengthen the relationship ROE against DPR.

Table 1.7MRA Analysis Results

Model	**T**	**Sig.**
1 (Constant)	0,465	0,644
ROE	-0,921	0,362
CR	-0,331	0,742
ROExCR	0,937	0,355

Source: Statistics Program, secondary data after being processed

Based on the results of the analysis of MRA 1.7 tables are value of 0.937 with 0.355 significance probability, then the hypothesis is accepted and it is concluded that the variable size of the company *(size)* is able to moderate the relationship profitability variables on dividend policy.

Table 1.8Analysis Results of the First Equation Variable CR

Model	R Square
1	0,051

Source: SPSS version 20, secondary data after processing

Table 1.9Results of the Second Equation Analysis Variable CR

Model	R Square
1	0,294

Source: Statistics Program, secondary data after processing

The value of R^2 in the first regression in Table 1.8 amounted to 0,051, while after the second regression equation in Table 1.9 Rvalue^2 rose to 0,294. Above results it can be concluded that the presence of firm size *(SIZE)* as a moderating variable will be able to strengthen the relationship CR against DPR.

Table 1.10 Results of the MRA Analysis

Model	T	Sig.
1 (Constant)	0,369	0,714
ROE	-1,266	0,213
CR	-0,239	0,812
ROExCR	1,347	0,196

Source: Statistics Program, secondary data after processing

Based on table 1.10, the results of the MRA analysis, there is a t-value of 1.347 with a significance probability of 0.196, so this hypothesis is accepted and it can be concluded that the variable company *size (size) is* able to moderate the relationship of the liquidity variable to dividend policy.

3) Test Results The coefficient of determination (R2)

Table 1.11Test Results The coefficient of determination (R2)

Model	R Square
1	0,263

Source: Statistics Program, secondary data after being processed

According to the table 1.11 value of the coefficient of determination ($R^{2)}$of 0.263 indicates that the dividend policy can only be explained by the variable profitability, and liquidity amounted to 0.263 or 26%. While the remaining 74% is explained by variables other than this research variable.