The Effect Of Liquidity, Leverage, And Profitability On Dividend Policy With Financial Distress As A Moderating Variable In Manufacturing Companies Sub Sector Food And Beverage Listed On The Indonesia Stock Exchange For The Period 2018-2022

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ABSTRACT

Dividend policy is a strategic corporate decision on how profits will be utilized, whether distributed to shareholders as dividends or retained to support future investment financing. The indicator used to measure dividend policy in this study is the Dividend Payout Ratio. Liquidity is the company's ability to meet short-term obligations by utilizing current assets easily convertible to cash, such as receivables, inventories, and cash. The indicator for liquidity measurement in this study is the Current Ratio. Leverage indicates the extent to which a company utilizes borrowed funds or debt to finance its assets or operations, measured by the Debt to Asset Ratio. Profitability represents the company's ability to generate profits from its operations within a specific period, measured by the Return on Total Assets. Financial distress is a critical condition in which a company faces significant financial difficulties threatening its operational continuity, measured by the Altman Z-Score. This study aims to analyze the influence of liquidity, leverage, and profitability on dividend policy with financial distress as a moderating variable. This study was conducted on 42 companies, with 17 selected as samples using purposive sampling for the 2018- 2022 period. Data analysis employed quantitative methods with Smart PLS software. The results showed that liquidity and leverage influence dividend policy, while profitability does not. Financial distress moderates the effect of profitability on dividend policy but does not moderate the effect of liquidity and leverage on dividend policy.

Keywords: Financial Distress, Liquidity, Leverage, Profitability, Dividend Policy.

INTRODUCTION

The economic growth has prompted companies to improve their financial performance to maintain competitiveness and attract investors. One approach to attracting investors is through dividend policy the distribution of a portion of profits to shareholders. In 2022, the Indonesia Stock Exchange (IDX) recorded 10.3 million investors, a 37.5% increase from the previous year (Idxchannel.com, 2023). Particularly within the food and beverage manufacturing sub-sector, dividend policies attract investors' attention due to the sector's stable growth and sustained demand, making its stocks appealing investment options. Despite the stability of the manufacturing sector, dividend policy fluctuations occur, influenced by internal factors such as liquidity, leverage, and profitability. The Dividend Payout Ratio (DPR) serves as a measure of how much profit is allocated to shareholders.

LITERATURE REVIEW

A dividend policy is a strategic corporate decision regarding the allocation of generated profits, determining whether they will be distributed to shareholders as dividends or retained as earnings to support future investment financing.

Liquidity refers to a company's ability to meet its short-term obligations by utilizing current assets that can be easily converted into cash, such as receivables, inventory, and cash itself (Yudha et al., 2024). A high level of liquidity indicates financial stability and effective cash management, providing stakeholders with confidence that the company can fulfill its financial commitments in the short term (Febriyanti et al., 2022).

Leverage is a measure indicating the extent to which a company utilizes borrowed funds or debt to finance its assets or operations. The concept of leverage reflects the degree of reliance on external financing compared to internal equity, providing insight into the company's funding structure. Higher levels of leverage indicate a greater dependency on external funds to support business activities and asset growth (Praduana et al., 2024).

Profitability is the ability of a company to generate profits from its operational activities over a specific period. It indicates how effectively the company manages its resources to achieve financial gains. High profitability demonstrates strong financial performance, making the company attractive to shareholders by enhancing its ability to provide returns on its investments (Yudha et al., 2024).

Financial distress refers to a critical condition where a company faces significant financial difficulties that threaten its operational continuity. This situation often arises when the company's cash flows are insufficient to meet its financial obligations, such as debt repayments and short-term liabilities, potentially leading to restructuring or asset sales to fulfill commitments. Financial distress not only affects daily operations but also risks damaging the company's reputation and eroding trust among various stakeholders, including creditors, investors, and suppliers (Sidhu et al., 2023).

Framework

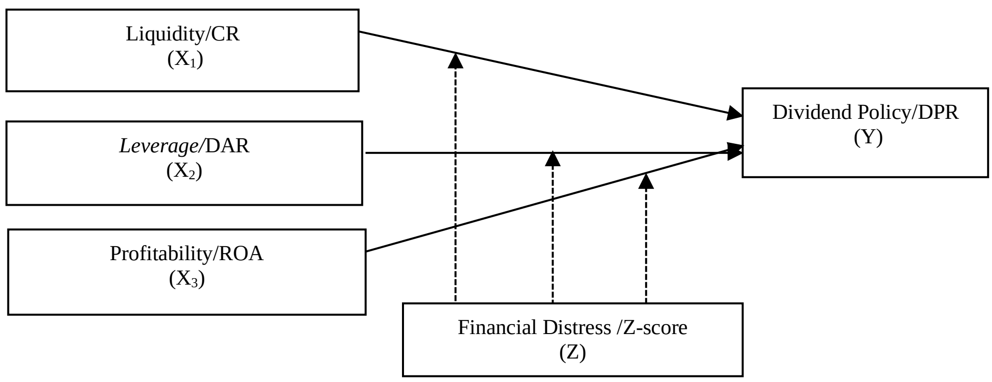

Figure 1 Framework

METHODS

Types Of Research

This study employs an associative research strategy. The associative approach is utilized to achieve the objective of determining whether liquidity, leverage, and profitability influence dividend policy, with financial distress as a moderating variable. This study was conducted on 42 companies, with 17 selected as samples using purposive sampling for the 2018- 2022 period. This study uses Partial Least Squares - Structural Equation Modeling (PLS-SEM) for data analysis.

RESULTS

Path Coefficients

This analysis is conducted by comparing the t-table value with the t-statistic obtained through the bootstrapping method in SmartPLS. A hypothesis is accepted if the t-statistic is greater than the t-table value (1.96 at a 5% significance level) or if the P-value is less than $\alpha=0.05$.

Table 1 Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
LIQUIDITY (X1) -> DIVIDEND POLICY (Y)	0.276	0.246	0.142	1.974	**0.026**
X1*Z -> DIVIDEND POLICY (Y)	0.093	0.131	0.227	0.410	**0.341**
LEVERAGE (X2) -> DIVIDEND POLICY (Y)	-0.362	-0.361	0.161	2.244	**0.013**
X2*Z -> DIVIDEND POLICY (Y)	-0.050	-0.067	0.147	0.338	**0.368**
PROFITABILITY (X3) -> DIVIDEND POLICY (Y)	-0.278	-0.234	0.195	1.428	**0.077**
X3*Z -> DIVIDEND POLICY (Y)	-0.419	-0.469	0.199	2.105	**0.018**

Source: Data processed by the researcher (2024).

Based on Table 1, the results of the partial significance tests can be summarized as follows:

1. Liquidity has a significant effect on dividend policy. The liquidity coefficient value is 0.276. An increase of one unit liquidity ratio will increase 0.276 units of the dividend policy ratio.
2. Leverage has a significant effect on dividend policy. The leverage coefficient value is -0.362. An increase of one unit leverage ratio will decrease 0.362 units of the dividend policy ratio.
3. Profitability, when moderated by financial distress, does not have a significant effect on dividend policy. The moderating coefficient for profitability, or the effect of financial distress in moderating profitability’s influence on dividend policy, is 0.419. This means that an increase of one unit in profitability moderated by financial distress results will a decrease of 0.419 units of the dividend policy ratio.
4. Profitability does not have a significant effect on dividend policy. Liquidity and leverage, when moderated by financial distress, do not significantly affect the dividend policy ratio.

DISCUSSION

The Effect of Liquidity on Dividend Policy: In this study, liquidity is proxied by the Current Ratio. Liquidity has a significant impact on dividend policy. This indicates that companies with high liquidity tend to pay larger dividends to shareholders because they have sufficient funds to support daily operations. These are consistent with research conducted by Jati (2020), Dirganingsih & Sufiyati, (2021), Arsyad et al. (2021), Rahman et al. (2022), Pradika & Rediyono (2022).

The Effect of Leverage on Dividend Policy: In this study, leverage is proxied by the Debt-to-Assets Ratio. Leverage has a significant impact on dividend policy. As leverage increases, companies tend to restrict dividend payments to allocate resources toward fulfilling debt obligations, which are given higher priority. These are consistent with research conducted by Luspratama & Handoyo (2024), Yudha et al. (2024), Winna & Tanusdjaja (2019), Diovany & Pangastuti (2020), Pattiruhu & Paais (2020), Gede Adiputra (2021).

The Effect of Profitability on Dividend Policy: In this study, profitability is proxied by Return on Assets (ROA). Profitability does not influence dividend policy. This may be attributed to factors such as the company's investment needs, capital structure, or management's preference for retaining earnings to support business growth. These are consistent with research conducted by Gede Adiputra (2021), and Rahman et al. (2022).

Financial Distress as a Moderator of the Effect of Liquidity on Dividend Policy: In this study liquidity does not influence dividend policy when financial distress is a moderating variable. Even when companies have sufficient liquidity, their primary focus is on ensuring the survival of the business, such as meeting debt obligations or retaining funds as reserves to navigate uncertainties. This suggests that other factors, including creditor pressures and operational stability, have a more dominant influence on dividend policy compared to liquidity.

Financial Distress as a Moderator of the Effect of Leverage on Dividend Policy: In this study, leverage does not influence dividend policy when financial distress is a moderating variable. During financial distress, companies have priorities, such as fulfilling debt obligations and maintaining operational stability. This may render the effect of leverage on dividend policy irrelevant, as companies focus more on addressing debt repayment rather than considering dividend distribution to shareholders.

Financial Distress as a Moderator of the Effect of Profitability on Dividend Policy: In this study, profitability does not have a significant impact on dividend policy when financial distress is a moderating variable. Companies with high profitability but experiencing financial distress tend to withhold dividend payments. Although high profitability is generally associated with the ability to pay dividends, the financial distress condition drives companies to prioritize using profits to improve their financial position, such as repaying debt or increasing liquidity reserves, rather than distributing dividends.

CONCLUSION

The results showed that liquidity and leverage influence dividend policy, while profitability does not. Financial distress moderates the effect of profitability on dividend policy but does not moderate the effect of liquidity and leverage on dividend policy.

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