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The Determinants of Dividend Policy: A Study of Indonesian Stock Exchange Companies in the Consumer Goods Sector

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Abstract:

Purpose:
A dividend policy is a difficult policy to implement because management needs to determine whether the company's profits will be distributed to shareholders as dividends or retained in the form of retained earnings. Thus, management needs to consider the factors that influence dividend policy. This study aims to determine the effect of liquidity, company size, solvency, company growth, and free cash flow on dividend policy.

Methodology:
The population in this study were 30 consumer goods industry companies listed on the Indonesia Stock Exchange in 2020-2022. The sample obtained in this study amounted to 90 observations determined by the purposive sampling method. The analysis technique used was the multiple linear regression analysis technique.

Findings:
The results of the study showed that liquidity, company size and solvency did not affect dividend policy. Company growth had a negative effect on dividend policy. Free cash flow had a positive effect on dividend policy. Further research is expected to add other variables that are more related to dividend policy, such as profitability, investment opportunity, managerial ownership, and institutional ownership.

Implication:
This research can provide practical implications to various parties, such as company management and investors because the results of this study can serve as a guideline for companies to determine optimal dividend policies and for investors to consider when choosing companies with the potential for dividend payments. Meanwhile, the theoretical implications can add to the reference sources that can enhance the theoretical understanding of the factors that can influence dividend policy.

INTRODUCTION

The era of globalization has brought rapid advancements in science and technology, enabling the acceleration of economic activities worldwide. Indonesia, as part of the global economy, feels significant impacts, especially in the capital market, which provides an efficient medium for channeling and investing funds productively. The capital market helps companies obtain funds for operations and expansion, which in turn increases the value of the company and the wealth of shareholders (Prayogo et al., 2021).

The economic development of a country such as Indonesia can be seen from the increasing number of companies listed on the Indonesia Stock Exchange (IDX). One important sector is the consumer goods industry, which remains stable even during a crisis because people always need daily necessities. Therefore, stocks in this sector are considered a safe investment during times of crisis.

Every company strives to maximize shareholder wealth through a good dividend policy. Dividend policy becomes an important factor that attracts investors' interest to invest. The company's management must be able to generate sufficient profits to support operational activities and distribute those profits to shareholders (Febriyani et al., 2023).

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However, dividend policies often face challenges, such as determining whether profits will be distributed or retained for investment. There are several cases where companies cannot distribute dividends, such as PT Akasha Wira International Tbk (ADES) and PT Kimia Farma Tbk (KAEF), which did not distribute dividends due to declining profits and increasing debt. In addition, companies that distribute dividends also experience fluctuations in the Dividend Payout Ratio (DPR) between 2020-2022, such as consumer goods companies like ICBP (33.8; 31.7; 30.6), MYOR (31.79; 31.64; 30.6), and ROTI (2.39; 2.95; 2.87). The data shows the existence of factors that influence dividend policies, determining whether companies distribute dividends or not and the amount distributed. In this study, liquidity, company size, solvency, company growth, and free cash flow are used.

Liquidity is a ratio that describes the company's ability to meet short-term obligations (debts). Therefore, the level of a company's liquidity can affect its dividend policy (Kasmir, 2016). Nengsih and Lestari (2020) stated in their research that liquidity has a positive effect on dividend policy. Darmawan et al. (2019) stated that liquidity has a negative effect on dividend policy. Meanwhile, Pangestuti (2019) states that liquidity does not affect dividend policy.

The size of the company is one of the measures of the scale of a company (Sari et al., 2016). Three alternative proxies can be used to determine the size of a company, namely asset size, turnover, and market strength. Widhiastuti and Pradnyani (2023) and Pratiwi and Purwaningsih (2022) state that company size has a positive effect on dividend policy. The research results of Iswara (2017) stated that company size has a negative effect on dividend policy. However, Firmansyah, et al., (2020) and Saraswati, dkk. (2021) states that company size does not affect dividend policy.

Solvency is the company's ability to pay all obligations, both short-term and long-term debts (Munawir 2014:32). However, using too much debt will weaken the company's net profit, as it also implies a large interest burden. Kristianti, dkk. (2022) and Anggraeni and Wahyudi (2023) argue that solvency has a negative impact on dividend policy, while Fitriana and Febrianto (2021) argue that solvency has a positive impact on dividend policy. However, the research by Citta et al. (2022) states that solvency does not affect dividend policy.

Company growth is expressed as the growth of total assets, where past growth will reflect future profitability and future growth. Nurhasanah (2016). The research conducted by Nai et al. (2022) shows that company growth has a positive effect on dividend policy. Agustina and Andayani (2016) showed different research results, namely that company growth has a negative impact on dividend policy. However, the research by Wahyuliza and Fahyani (2019) states that company growth does not affect dividend policy.

Free cash flow is the cash available in a company that can be distributed to various parties, such as creditors or shareholders, which cannot be used for working capital needs or investment in fixed assets (Gumanti, 2013:188). Chaerunissa's (2023) research shows that free cash flow has a positive effect on dividend policy. Hasana et al. (2018) stated that free cash flow has a negative effect on dividend policy. Meanwhile, Amanah's (2020) research states that free cash flow does not affect dividend policy.

The researcher chose consumer goods industry companies listed on the IDX as the object of the study because companies in this sector have a large scale and stocks that are resilient to economic crises. Consumer goods industry products are always in demand by the public, so companies in this sector tend to be more stable and less likely to incur losses. Based on this, this research aims to examine the influence of liquidity, company size, solvency, company growth, and free cash flow on dividend policy in consumer goods industry companies. This research can provide practical implications to various parties, such as company management and investors because the results of this study can serve as a guideline for companies to determine optimal dividend policies and for investors to consider when selecting companies with the potential for dividend payments. Meanwhile, the theoretical implications can add to the reference sources that can enhance the theoretical understanding of the factors that can influence dividend policies.

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Agency Theory. Agency theory explains the contractual relationship between the principal (shareholders) and the agent (company management), where the principal delegates decision-making authority to the agent (Supriyono, 2018:63). This relationship often leads to conflicts of interest, as the agent may prioritize personal interests over those of the principal. This conflict can trigger the occurrence of agency costs, which are the costs incurred by the principal to supervise the agent. In practice, this theory is relevant when management, as the company's administrators, has more internal information and prospects of the company compared to the capital owners, which highlights the importance of supervision and incentive policies to minimize conflicts.

Signaling Theory. Brigham and Houston (2014:184) state that signaling theory focuses on how companies provide information to investors through financial statements to reduce information asymmetry. Information asymmetry occurs when management has more information about the company's prospects compared to investors. Through the publication of financial statements, management signals the company's performance and prospects. Investors use this information in their investment decision analysis, including the analysis of financial ratios such as liquidity, leverage, and profitability. In the context of dividend policy, companies can use dividends as a positive signal to the market regarding stability and future profit prospects.

The Influence of Liquidity on Dividend Policy. Liquidity describes the company's ability to meet short-term obligations using current assets. Kasmir (2018:129) states that liquidity ratios, such as the current ratio, indicate the extent to which a company can meet its short-term debt obligations. A strong liquidity position is very important in the context of dividend payments because dividends are paid using cash, not retained earnings. The higher the company's current ratio, the better its ability to pay the promised dividends. Research by Nengsih and Lestari (2020), Pratiwi and Purwaningsih (2022), and Amanah (2020) supports this finding by showing a positive influence between liquidity and dividend policy. In agency theory, high liquidity indicates the financial stability of the company and ensures that the funds required for dividend payments do not disrupt operations. Whereas in signaling theory, high liquidity sends a positive signal to the market that the company has good financial management and can meet its obligations without sacrificing operations.

H1: Liquidity has a positive effect on dividend policy.

The Influence of Company Size on Dividend Policy. The size of the company, which can be measured through total assets, revenue, or market value of shares, reflects the financial strength and capacity of the company. According to Jogiyanto (2013:282), larger companies typically have a greater capacity to generate revenue and profit, which allows them to pay higher dividends. Research by Darmawan et al. (2019), Wahyuliza and Fahyani (2019), as well as Pratiwi and Purwaningsih (2022) shows that company size positively affects dividend policy. Large companies often have more stable dividend policies because they have more resources and capacity to withstand market fluctuations. In the context of agency theory, large companies tend to have managers who can manage finances better and maintain a consistent dividend policy. Meanwhile, the signaling theory suggests that large companies that can pay dividends regularly signal that they have better financial stability compared to small companies.

H2: Company size has a positive effect on dividend policy.

The Influence of Solvency on Dividend Policy. Solvency measures a company's ability to meet its long-term obligations. Sejati et al. (2020) stated that companies with high debt levels might choose to withhold dividend payments to reduce the risk of bankruptcy, while companies with low debt can pay larger dividends. Research by Anggraeni and Wahyudi (2023), as well as Suambara et al. (2019) and Sinaga et al. (2020) shows that solvency negatively affects dividend policy. In agency theory, companies with high solvency ratios may need to withhold dividends to maintain financial stability and reduce risk. On the other hand, in the context of signaling theory, strong solvency indicates that the company can manage its debt well and continue to pay dividends, signaling that the company is in a healthy financial position and capable of maintaining value for shareholders.

H3: Solvency has a negative effect on dividend policy.

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The Influence of Company Growth on Dividend Policy. Company growth, measured by the increase in revenue or profit, reflects the potential for future earnings. According to Anisah (2014) and Brigham (2013:211), companies experiencing high growth may prefer to reinvest profits rather than distribute them as dividends. Research by Nai et al. (2022), Septiana (2016), and Pratiwi (2019) supports this view by showing that company growth positively affects dividend policy. In agency theory, growing companies may withhold dividends to fund further expansion, which is considered an investment with higher potential returns. Whereas in signaling theory, companies that show positive growth and pay dividends signal to the market that they are not only growing but also sufficiently profitable to share profits with shareholders.

H4: Company growth positively affects dividend policy.

The Influence of Free Cash Flow on Dividend Policy. Free cash flow is the cash available to be distributed to shareholders after the company meets all investment and operational needs. According to Gumanti (2013:188) and Herwidodo (2013), high free cash flow allows companies to pay larger dividends. Research by Chaerunissa (2023), Tjhoa (2020), and Sejati et al. (2020) shows that free cash flow has a positive effect on dividend policy. In the context of agency theory, high free cash flow provides flexibility for the company to pay dividends without sacrificing necessary investments. Meanwhile, in signaling theory, adequate free cash flow indicates that the company has excess cash that can be used to pay dividends, signaling that the company is well-managed and has a strong financial position.

H5: Free cash flow has a positive effect on dividend policy.

METHODS

This research was conducted on consumer goods industry companies listed on the Indonesia Stock Exchange (IDX) for the years 2020-2022 by accessing the Indonesia Stock Exchange website at www.idx.co.id. The population in this study consists of consumer goods industry companies listed on the Indonesia Stock Exchange from 2020-2022, totaling 30 companies, with the sample for this research being 30 companies. The sampling method used is Purposive Sampling. The data analysis technique used is multiple linear regression analysis. Based on the explanation, the variables that will be measured in this study are:

Dividend Policy. A dividend policy can be operationalized as a policy regarding the use of profits distributed as dividends to shareholders. The dividend policy is measured using the DPR. The dividend payout ratio is an indication of the percentage of earned income that is distributed to owners or shareholders in cash (Trinaningsih, 2016). The company determines the dividend payout ratio to pay dividends to shareholders each year, with the DPR being influenced by the size of the profit after tax. According to Puspitasari (2014), the formula for determining the dividend payout ratio is as follows:

$$Dividend\ payout\ ration = \frac{Dividen\ per\ share}{earnings\ per\ share}\ X\ 100\%$$

Liquidity. Liquidity or Current Ratio (CR) is a ratio used to measure a company's ability to pay its obligations or debts that are due when they are called in full (Yudha, 2020). As for the formula, it is as follows (Harahap, 2016:301):

$$Current\ Ratio = \frac{\text{Current Asset}}{\text{Current Liability}}\ X\ 100\%$$

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Company Size. Idawati (2013) states that the size of a company is determined by the total assets, which indicates whether the company is large or small. The size of the company is one of the factors that investors can consider when investing. According to Prasetyorini (2013), the size of the company in this study is measured using the formula:

Company Size (Size) = Total Assets

Solvency. According to Pangestuti (2020), it assesses the extent to which a company's assets are financed by debt; this ratio measures the burden of the company's debt compared to the total assets owned. In addition, solvency can be defined as the company's ability to meet its short-term and long-term obligations through assets and equity. The measurement tool used is the Debt to Equity Ratio with the formula (Kasmir 2014:158):

$$Debt\ to\ Equity\ Ratio = \frac{\text{Total Liability}}{\text{Total Equity}}\ X\ 100\%$$

Company Growth. According to Anisah (2014), company growth is a benchmark for measuring a company's success. Assets are the resources used for the operational activities of the company. The larger the assets, the greater the operational results expected from a company. According to Arifin (2015), growth can be calculated using asset growth with the following formula:

$$Asset\ Growth = \frac{\text{Total Asset (t)} - \text{Total Asset (t} - 1)}{\text{Total Asset (t} - 1)}$$

Free Cash Flow. Free cash flow is the cash that is truly available to be distributed to all investors after the company allocates all its investments to fixed assets, new products, and working capital needed to maintain ongoing operations, according to Herwidodo (2013). Free cash flow can be calculated using the formula (Arfan, 2013):

FCF = Cash Flow from Operations - Capital Expenditures

RESULTS AND DISCUSSION

Descriptive Statistical Analysis.

Table 1. Descriptive Statistics Results

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
CR	90	.61	9.95	2.5152	1.95487
UP	90	145.49	180433.30	21752.2434	36147.19145
DER	90	.07	4.41	1.0643	.99254
AG	90	-.14	1.68	.0957	.20603
FCF	90	-982.78	11077.83	1644.2651	2899.10417

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DPR	90	-.08	2.53	.4569	.39894
Valid N (listwise)	90				

Source: Processed data (2024)

Multiple Linear Regression Analysis Test

Table 2. Results of Multiple Linear Regression Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.693	.352		1.968	.052
	CR	.033	.026	.163	1.265	.209
	LN_UP	-.041	.035	-.158	-1.166	.247
	DER	-.014	.049	-.036	-.297	.768
	AG	-.443	.194	-.229	-2.286	.025
	FCF	6.505E-5	.000	.473	3.647	<.001

a. Dependent Variable: DPR

Source: Processed data (2024)

Based on the results of the regression analysis in Table 2, the following multiple linear regression equation can be obtained:

$$DPR = 0{,}693 + 0{,}033CR – 0{,}041UP – 0{,}014DER – 0{,}443AG + 0{,}06505FCF$$

Normality Test. The normality test aims to ensure that the residuals from the regression model follow a normal distribution, which is one of the basic assumptions in regression analysis. In this study, the normality test was conducted using the One-Sample Kolmogorov-Smirnov Test. The results of this test show a significance value of 0.167, which is greater than the critical threshold of 0.05. It means that the residual distribution does not significantly deviate from the normal distribution. Thus, the regression model meets the normality assumption, so the results of the regression analysis can be considered valid and can proceed to the next stage of analysis.

Multicollinearity Test. The multicollinearity test is conducted to examine whether there is a strong linear relationship between independent variables in the regression model, which can cause problems in interpreting the results. The results of the multicollinearity test using tolerance and Variance Inflation Factor (VIF) values indicate that all tolerance values are greater than 0.1 and VIF values are less than 10. Higher tolerance and lower VIF indicate that there is no significant multicollinearity among the independent variables. In other words, each independent variable in this model has a unique contribution and is not significantly influenced by other independent variables, making this regression model suitable for further analysis.

Autocorrelation Test. The autocorrelation test is used to detect the presence of a relationship between disturbance errors at different periods in a regression model. In this study, the autocorrelation test was conducted using the Durbin-Watson test. The obtained Durbin-Watson value is 1.939. Considering the sample size of 90 and

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five independent variables, the expected Durbin-Watson value falls within the interval between the lower bound (dL) 1.5420 and the upper bound (4 - dU) 2.2242 at a significance level of 0.05. Because the Durbin-Watson value (1.939) falls within that range, there is no indication of autocorrelation in this model. It means that the disturbance errors from one period are not correlated with the disturbance errors from other periods, and this model does not have autocorrelation issues.

Heteroskedasticity Test. The heteroscedasticity test aims to examine whether the residual variance differs between one observation and another in the regression model. For this test, the Glejser method is used, which involves regressing the absolute value of residuals against the independent variable. The results of this test show that the significance values for all independent variables are greater than 0.05, which means there is no significant influence of the independent variables on the absolute residual values. It indicates that there are no signs of heteroscedasticity in the regression model, meaning the residual variance is consistent across all observations, and this model meets the homoscedasticity assumption required for valid regression analysis.

F-Test Results. Based on the F-test results in the table above, an F-calculated value of 3.941 and an F-significance of 0.003 were obtained, where the value is less than 0.05, indicating that the variables of liquidity, company size, solvency, company growth, and free cash flow simultaneously affect the dividend policy.

Results of the Coefficient of Determination Test (R^2). Based on the results of the coefficient of determination test in the table above, an adjusted R square (R2) value of 0.142 or 14.2% was obtained. It indicates that the influence of liquidity, company size, solvency, company growth, and free cash flow on dividend policy is 14.2%, while other factors outside the model influence the remaining 85.8%.

Results of the t-test. Based on the results of the t-test, it can be concluded as follows:

1. Liquidity (CR), the test results show that the liquidity variable has a regression coefficient value of 0.033 and a t-value of 1.265 with a significance level of 0.209, where this value is greater than 0.05. It indicates that liquidity does not affect dividend policy, thus H1 is rejected.
2. Company Size (CS): The test results show that the company size variable has a regression coefficient value of -0.041 and a t-statistic value of -1.166 with a significance level of 0.247, where this value is greater than 0.05. It indicates that the size of the company does not affect the dividend policy, thus H2 is rejected.
3. Solvability (DER): The test results show that the solvability variable has a regression coefficient value of -0.014 and a t-statistic value of -0.297 with a significance level of 0.768, where the value is greater than 0.05. It indicates that solvability does not affect dividend policy, thus H3 is rejected.
4. Company Growth (AG), the test results show that the company growth variable has a regression coefficient value of -0.443 and a t-value of -2.286 with a significance level of 0.025, which is less than 0.05. It indicates that company growth has a negative impact on dividend policy, thus H4 is rejected.
5. Free Cash Flow (FCF), the test results show that the free cash flow variable has a regression coefficient value of 0.06505 and a t-statistic value of 3.647 with a significance level of <0.001, where the value is less than 0.05. It indicates that free cash flow has a positive effect on dividend policy; thus, H5 is accepted.

The Influence of Liquidity on Dividend Policy. The result of the first hypothesis test is that liquidity does not affect the dividend policy. Therefore, the first hypothesis stating that liquidity has a positive effect on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange from 2020-2022 is rejected. Liquidity is the company's ability to meet short-term obligations. The extent of a company's liquidity does not affect its dividend policy. Liquid companies are not a benchmark for whether a company will distribute dividends because the current assets owned by the company are prioritized to meet its current obligations and for other purposes related to the company's operations (Azizah et al., 2020). The results of this study are in line with the research conducted by Pangestuti (2019), Azizah et al. (2020), and Sudiartana and Yudantara (2020), which state that liquidity does not affect dividend policy.

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The Influence of Company Size on Dividend Policy. The result of the second hypothesis test is that company size does not affect the dividend policy. Therefore, the second hypothesis, which states that company size has a positive effect on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange from 2020-2022, is rejected. The size of the company is the measure of the company's magnitude according to various methods, including revenue size, total asset size, and total capital size. The size of a company's total assets does not guarantee that the company will have easy access to the capital market, and a company with large total assets does not guarantee a high dividend payout ratio. Conversely, a company with small total assets does not necessarily distribute a small amount of dividends (Firmansyah et al., 2020). The results of this study are in line with the research conducted by Firmansyah et al. (2020), Darmayanti and Mustanda (2016), and Ndeo (2021), which state that the size of the company does not affect the dividend policy.

The Influence of Solvency on Dividend Policy. The results of the third hypothesis test indicate that solvency does not affect dividend policy. Therefore, the third hypothesis, which states that solvency has a negative effect on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange from 2020-2022, is rejected. Solvency shows the proportion of debt used to finance investments. The company's decision to distribute dividends is prioritized based on the company's profits; the level of solvency will not affect the dividend policy. The reason is that even though the company has a considerable amount of debt, there is a possibility for the company to distribute dividends aimed at attracting shareholders or investors to invest or place their capital in the company (Citta et al., 2022). The results of this study are in line with the research conducted by Citta et al. (2022), Adam and Yuliani (2020), and Tjhoa (2020), which state that solvency does not affect dividend policy.

The Influence of Company Growth on Dividend Policy. The result of the fourth hypothesis test is that company growth has a negative impact on dividend policy. Therefore, the fourth hypothesis, which states that company growth has a positive effect on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange from 2020-2022, is rejected. Company growth is a benchmark for the success of the company. A company that is in the growth phase will require more funds for expansion or business expansion compared to a company that is already in the maturity stage. In choosing funding sources, management will naturally first opt for cheaper funding, namely internal funding. Thus, the profits earned by the company will be more allocated to fund the company's growth rather than being distributed to investors in the form of cash dividends. Thus, the higher the company, the smaller the potential for cash dividend distribution. If the cash dividend distribution is smaller compared to the profit that investors can obtain, then the Dividend Payout Ratio will decrease (Tjhoa 2020). The results of this study are in line with the research conducted by Agustina and Andayani (2016), Tjhoa (2020), and Kusumaningtyas et al. (2019), which state that company growth negatively affects dividend policy.

The Influence of Free Cash Flow on Dividend Policy. The result of the fifth hypothesis test is that free cash flow has a positive effect on dividend policy. Therefore, the fifth hypothesis stating that free cash flow has a positive effect on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange from 2020 to 2022 is accepted. Free cash flow is the cash that is truly available to be distributed to all investors after the company has allocated all its investments to fixed assets, new products, and working capital needed to maintain ongoing operations. Positive free cash flow means it can be used by management because the company's investment needs have been met, including being used to distribute cash dividends to investors. Thus, the higher the free cash flow, the greater the flexibility and potential for management to distribute cash dividends. When the cash dividends distributed to investors are greater than the estimated earnings that the shareholders can accept, then the Dividend Payout Ratio will also increase (Tjhoa 2020). The results of this study are in line with the research conducted by Chaerunissa (2023), Tjhoa (2020), and Sejati et al. (2020), which state that free cash flow has a positive effect on dividend policy.

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CONCLUSION

This study examines the influence of liquidity, company size, solvency, company growth, and free cash flow on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange from 2020 to 2022. The results of the data analysis show that liquidity, company size, and solvency do not affect the dividend policy of consumer goods industry companies listed on the Indonesia Stock Exchange from 2020 to 2022. Company Growth has a negative impact on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange in 2020-2022. Free Cash Flow has a positive effect on dividend policy in consumer goods industry companies listed on the Indonesia Stock Exchange from 2020 to 2022.

This research is not without its limitations, which are expected to be refined in future studies. The limitations of this study are as follows:

1. In this study, the limitations are still restricted to using only the variables of liquidity, company size, solvability, company growth, and free cash flow.
2. The research was only conducted on companies in the consumer goods industry sector listed on the Indonesia Stock Exchange from 2020 to 2022.
3. In the coefficient of determination (R2) test, the adjusted R square value is 0.142 or 14.2%. It indicates that the influence of liquidity, company size, solvency, company growth, and free cash flow on dividend policy is 14.2%, while other factors outside the model influence the remaining 85.8%.

Based on the limitations of the above research, the suggestion that can be given is that future research is expected to consider the use of other independent variables related to dividend policy, such as profitability, investment opportunity, managerial ownership, and institutional ownership. Future research can expand the sample by conducting studies on companies in other sectors, such as the banking sector and other sectors listed on the Indonesia Stock Exchange, as well as extending the observation period so that the research results can provide information on the condition of the capital market.

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