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DIVIDEND POLICY STUDY REVIEWED FROM LIQUIDITY AND DEBT RATIO: SIGNALING THEORY PERSPECTIVE IN INDONESIA

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Putu Diah ASRIDA[1], I Gede Agus Adi SAPUTRA[2], Bayu PASUPATI[3]
[1]Accounting Study Program, Warmadewa University, Indonesia
[2]Physical and Health Education Study Program, Mahadewa Indonesia PGRI University, Indonesia
[3]Management Study Program, Warmadewa University, Indonesia
Corresponding author: Putu Diah Asrida
Email: pdiahasrida13@gmail.com

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Abstract:
This study aims to analyze dividend policy in manufacturing companies listed on the Indonesia Stock Exchange (IDX) by reviewing the effect of liquidity and debt ratios through signaling theory. Using the liquidity ratio proxied by the Current Ratio (CR) and the debt ratio measured by the debt-to-equity ratio (DER), the results showed that liquidity has a significant negative effect on dividend policy, with a significance value of 0.000 and beta -2.933. This indicates that the higher the liquidity, the lower the dividend policy applied by the company. On the other hand, the debt ratio has a significant positive effect on dividend policy, with a significance value of 0.000 and beta of 0.729, which indicates that the higher the company's leverage, the greater the dividend policy distributed. This finding supports the signaling theory perspective, where companies use dividend policy to signal to investors about the company's financial condition and stability. This study suggests that firms consider the balance between liquidity, debt structure, and dividend policy and how these decisions affect market perceptions and investor relationships.

Keywords: Dividend policy, liquidity, debt ratio, signaling theory, Indonesia Stock Exchange

INTRODUCTION

Dividend policy is one of the most important strategic decisions for company management. This decision is closely related to how the company's profits are allocated, both to shareholders and for future investment needs. In Indonesia, dividend policy practices show significant variation. Some companies consistently provide dividends in a fixed amount to maintain investor confidence. Conversely, some companies retain profits to strengthen capital or face uncertain economic challenges. Factors such as market conditions, financial performance, and capital structure are the main drivers that influence this dividend policy pattern. According to Irfani (2020:81), a company's dividend policy involves parties with conflicting interests: shareholders who expect dividends and companies who expect retained earnings. In this context, dividend policy is often seen as one way for management to signal investors about the stability and financial prospects of the company. According to (Suardana, 2020), signaling theory explains how companies are incentivized to provide financial reporting information to external parties. The company's incentive to provide information is because there is information asymmetry between the company and external parties; the company knows more about the company and its prospects than external parties.

Signaling theory asserts that dividend policy can reduce information asymmetry between management and investors. Consistent or increasing dividend payments indicate management's confidence in the company's future performance, thus creating a positive perception among investors. Conversely, if dividends are reduced or stopped, investors may interpret it as a negative

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signal about the company's potential financial problems or uncertainty about business prospects. According to Brigham & Houston (2012), signaling theory is a behavior of company management that instructs investors regarding management's views on the company's prospects. This shows the importance of dividend policy in building investor confidence and maintaining the company's stock price stability.

Liquidity is one of the main factors influencing dividend distribution decisions. Companies with high liquidity have a greater ability to pay dividends without disrupting daily operations. Companies in this situation can maintain their financial stability while meeting investor expectations. Conversely, companies with low liquidity tend to retain profits to ensure smooth operations and reduce financial risk. According to Subarjo (2021:76), a corporate organization's liquidity level is usually used as a benchmark for decision-making by parties related to the company. The relationship between liquidity and dividend policy is only sometimes consistent. Several studies have found a significant effect of liquidity on dividends, while other studies have shown conflicting results. This is what creates doubt and opens up opportunities for further research.

In addition to liquidity, the debt ratio is important in determining dividend policy. Companies with high debt levels often prioritize paying financial obligations, such as interest and principal, rather than distributing dividends to shareholders. High debt burdens can reduce a company's ability to pay dividends, especially if the company has limited cash flow. There are also conditions where companies with high debt ratios continue to distribute dividends to maintain a positive image in the eyes of investors, even though this step has the potential to increase financial pressure. According to Kansa (2020:85), the higher the leverage ratio indicates, the greater the obligations that the company must meet; conversely, the lower the leverage ratio indicates that the company can meet its funding needs with its capital. This inconsistency shows that the relationship between debt ratio and dividend policy is sometimes linear.

The theoretical gap in this study lies in the inconsistency between the predictions of signaling theory and empirical reality, especially in emerging markets such as Indonesia. Although signaling theory emphasizes the importance of dividend policy as a communication tool, some companies in Indonesia still need to use dividend policy to provide full signals to the market. External factors such as economic instability, government regulations, and investor preferences for retained earnings can affect the application of this theory. Therefore, this study will further explore how liquidity and debt ratios affect dividend policy in Indonesia using a signaling theory approach to provide new contributions to the existing literature.

Dividend policy and influencing factors. Dividend policy is an important decision company management makes in allocating company profits to shareholders, while some are retained for reinvestment or strengthening capital positions. This policy affects the company's relationship with investors and reflects management's confidence in the company's financial prospects and future performance. In Indonesia, dividend policy practices show significant variation between companies. Some companies distribute dividends regularly to maintain investor confidence, while others retain profits to support expansion or face economic uncertainty. According to Wawan (2020:62), this dividend payout ratio is the opposite of profit. Business companies generally use profits as a source of future investment payments. If the company sets dividend payments, this Dividend Payout Ratio will generate profits owned by the company, which can affect the company's growth. The dividend increase will be considered a positive signal, which means the company has good prospects, thus causing a positive stock price reaction. Conversely, if dividends decrease, it will be considered a negative signal, which means the company has not-so-good prospects, thus causing low stock prices (Sutrisno, 2019, p. 104).

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Signaling Theory in Dividend Policy. This theory emphasizes that companies that pay stable or increasing dividends provide a positive signal about the stability and financial prospects of the company to the market. Conversely, reducing or stopping dividend payments can be considered a negative signal, reducing investor confidence in the company's financial health. The signaling theory was first put forward by Spence (2019:82), who explained that the sender (information owner) provides a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). This theory explains that investors consider cash dividend information to signal the company's prospects. This assumption is due to asymmetric information between managers and investors, so investors use dividend policy as a signal about the company's prospects (Jogiyanta, 2021, p. 174). The signaling theory illustrates that a signal or signal is an action company management takes that indicates to investors how management views the company's prospects.

The Effect of Liquidity on Dividend Policy. Liquidity is one of the factors that influences dividend policy. Companies with high levels of liquidity have a greater capacity to pay dividends without disrupting daily business operations. Conversely, companies with low liquidity will be more careful in determining the dividends to be distributed to shareholders because they must consider working capital needs and financial risk management. According to Wirahady (2019:82), The higher the level of liquidity of a company organization, the better the company's performance.

Conversely, the lower the level of liquidity of a company organization, the worse the company's performance. Companies with high levels of liquidity are usually more likely to get various kinds of support from external parties such as financial institutions, creditors, and raw material suppliers. H1: Liquidity has a positive effect on dividend policy.

The Effect of Debt Ratio on Dividend Policy. The debt ratio also has a significant effect on dividend policy. Companies with high debt ratios tend to focus more on giving positive signals to shareholders by paying stable dividends, even though they have large debt obligations. This is because companies with high leverage may use dividend payments to increase investor confidence, indicating that the company can still generate profits despite having a debt burden. High interest and principal debt obligations encourage companies to prioritize dividend distribution to maintain stock price stability and market confidence. According to Kansa (2020:85), the higher the leverage ratio indicates, the greater the obligations the company must meet; conversely, the lower the leverage ratio indicates that the company can meet its funding needs with its capital. H2: Leverage has a positive effect on dividend policy.

METHODS

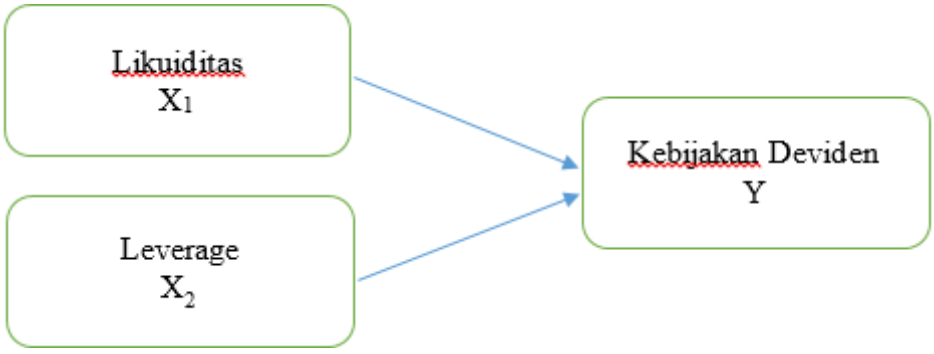

Figure 1. Research Design

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The population in this study is the BEI financial report related to liquidity, leverage and dividend policy in manufacturing companies listed on the Indonesia Stock Exchange (BEI). The purposive sampling method was used in this study. Tests conducted in this study include Descriptive statistics, which analyze data by describing the data obtained according to the facts without concluding in general (Sugiyono, 2017). Normality testing aims to test the normality of the data, which in this study was tested through the one-sample Kolmogrof-Smirnov (K-S) test. If the K-S test results show a significance value of 0.05, then the variables are normally distributed (Ghozali, 2018). Multicollinearity testing aims to test whether there is a correlation between the independent variables in the regression model. Measurement characteristics are seen from the tolerance value> 0.10 and the variance inflation factor (VIF) value <10, so there is no multicollinearity.

Multiple linear regression analysis functions to test the effect of independent variables on the dependent variables (Ghozali, 2018). Regression model equation: Y= a+ b1X1 + b2X2 + e

Information:

Y = Dividend Policy
a = Constants
b1, b2 = Regression Coefficient
X_1 = Liquidity
X_2 = Leverage

The F test determines whether all independent variables simultaneously affect the dependent variable (Sugiyono, 2018). The test criteria are if the significance of f ≤ α = 0.05, then the independent variables simultaneously affect the dependent variable and vice versa. The t-test tests each independent variable, significantly affecting the dependent variable (Sugiyono, 2018). The test criteria are if the significance of t ≤ α = 0.05, then the independent variables partially influence the dependent variable.

RESULT AND DISCUSSION

Table 1. Results of Descriptive Statistical Tests

	N	Minimum	Maximum	Mean	Std. Deviation
DPR	72	.00	8.08	1.3751	1.72943
CR	72	.13	.86	.4850	.22639
DER	72	.00	5.86	.7904	1.22166
Valid N (listwise)	72				

The results of descriptive statistical testing show that the liquidity variable's minimum value is 13, its maximum value is 86, its average value is 0.4850, and its standard deviation is 0.22639. Leverage has a minimum value of 0.00, a maximum value of 5.86, an average value of 0.7904 and a standard deviation of 1.22166. Dividend Policy has a minimum value of 0.00, a maximum value of 8.08, an average value of 1.3751 and a standard deviation of 1.72943.

Table 2. Normality Test Results

		Unstandardized Residual
N		72
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.21440484
Most Extreme Differences	Absolute	.091

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	Positive	.091
	Negative	-.046
Test Statistic		.091
Asymp. Sig. (2-tailed)		.200[c,d]

The normality test results show a Kolgomorov-Smirnov value of 0.200 > 0.05, meaning the data is normally distributed.

Table 3. Multicollinearity Test Results

Model		Tolerance	VIF
1	(Constant)		
	CR	.943	1.060
	DER	.943	1.060

a. Dependent Variable: DPR

The tolerance value >0.10 (X1=0.943; X2=0.943) and the VIF value <10 (X1=1.060; X1=1.060) indicate that there is no multicollinearity.

Table 4. Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.221	.387		5.745	.000
	CR	-2.933	.665	-.384	-4.411	.000
	DER	.729	.123	.515	5.917	.000

a. Dependent Variable: DPR

From Table 4, the regression equation is Y = 2.221 - 2.933X1 + 0.729X2. Based on the multiple linear regression model equation, it can be described as follows:

1. The constant value 2.221 indicates that if liquidity and leverage are constant (no change) at 0 (zero), the dividend policy variable increases by 2.221.
2. The liquidity variable's regression coefficient value is negative 2.933, meaning that if liquidity increases by one unit while the other variables remain constant, the dividend policy will decrease by 2.933 units.
3. The regression coefficient value of the constant leverage variable is positive 0.729, meaning that if constant leverage increases by one unit while the other variables remain constant, the dividend policy increases by 0.729 units.

Based on the regression results, the t-test results are X1 and X2 affect Y. The significance value of liquidity is 0.000 <0.05, and the coefficient value is -2.933. This means that Ho is accepted, and H1 is rejected. This means liquidity hurts dividend policy in Manufacturing Companies Listed on the Indonesia Stock Exchange. The significance value of leverage is 0.000 <0.05, and the parameter coefficient is 0.729. This indicates that H2 is accepted, where leverage has a significant positive effect on dividend policy.

Table 5. Results of Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712[a]	.507	.493	1.23188

a. Predictors: (Constant), DER, CR

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b. Dependent Variable: DPR

The R2 test results are shown by the Adjusted R-Square value as a coefficient of determination. The Adjusted R2 figure is 0.493, which indicates that the dependent variables explain 49.3% of the independent variables, while other variables, such as profitability, company size and others, explain the remaining 50.7%.

Tabel 6. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	107.647	2	53.824	35.468	.000[b]
	Residual	104.709	69	1.518		
	Total	212.357	71			

a. Dependent Variable: DPR
b. Predictors: (Constant), DER, CR

The results of the F test show the F count value of 35.468, and the significance value is 0.000 <0.05, so the independent variables jointly affect the dependent variable.

The Effect of Liquidity on Dividend Policy. The t-test results of the effect (X1) on Y produce a negative parameter coefficient value of -2.933 with a significance of 0.000 <0.05, which means that the variable X1 means that Ho is accepted and H1 is rejected. This means liquidity hurts dividend policy in Manufacturing Companies Listed on the Indonesia Stock Exchange. Companies with high liquidity or sufficient funds to meet their short-term obligations tend to choose to retain profits and not distribute large dividends to shareholders. This happens because manufacturing companies often need large funds to invest in purchasing raw materials, production equipment, and developing facilities needed to support operations and expansion. In addition, companies with high liquidity tend to be more careful in managing risk, especially when facing economic uncertainty or market fluctuations that can affect their financial performance. The company will use the available funds to maintain growth and strengthen the company's financial position rather than pay dividends. This decision reflects a long-term strategy prioritizing reinvesting profits for company development rather than distributing dividends to shareholders.

The Effect of Debt Ratio on Dividend Policy. The t-test results of the effect (X2) on Y produced a positive parameter coefficient value of 0.729 with a significance of 0.000 <0.05, which means that the variable X2, which means Ho, is rejected and H2 is accepted. This means that leverage positively affects dividend policy in Manufacturing Companies Listed on the Indonesia Stock Exchange. The higher the level of debt a company owns, the more likely the company is to pay dividends to shareholders. Companies with high debt may feel the need to give a positive signal to the market, especially to shareholders and creditors, by paying stable or increasing dividends. Consistent dividend payments can increase investor confidence in the company's ability to manage finances and meet its debt obligations. In addition, companies with high leverage may prefer to pay dividends rather than appear too focused on collecting retained earnings, which can reduce market confidence. As a result, dividend policy in companies with higher debt ratios can be seen as a strategy to maintain stock price stability and investor confidence, even though they have to meet interest and other debt obligations.

CONCLUSION

The results of the data analysis findings in the discussion and hypothesis testing can be concluded as follows:

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1. Liquidity proxied by the Current Ratio (CR) significantly negatively affects dividend policy. High liquidity reduces the company's dividend policy and vice versa. These results show a significance value of 0.000 and a beta of -2.933.
2. Leverage proxied by the debt-to-equity ratio (DER) has a significant positive effect on dividend policy. This shows that the higher the leverage, the higher the dividend policy, and vice versa. These results show a significance value of 0.000 with a beta of 0.729

Based on the conclusions compiled by the researcher, the suggestions submitted are:

1. Companies can conduct a more in-depth analysis of their capital structure and liquidity before deciding on a dividend policy. Considering internal factors such as cash flow projections and growth potential will help companies determine how much dividend can be distributed without sacrificing the company's financial stability.
2. Companies can pay attention to market conditions and applicable fiscal policies and maintain transparent communication with investors regarding dividend decisions.
3. Further research can develop the analysis by considering external factors affecting dividend policy, such as macroeconomic conditions (i.e., inflation, interest rates, and economic growth). This is important in providing a comprehensive picture of the factors affecting dividend policy other than liquidity and leverage.

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