# The Effect of Profitability, Liquidity, Leverage and Company Size on the Company's Dividend Policy

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**Abstract**

*This study aims to test and analyses the effect of Profitability, Liquidity, Leverage and Company Size on Dividend Policy in the LQ45 index company sector listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. This study used the causality method. The population in this study was 45 companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period with a purposive sampling technique. The data analysis technique used is multiple regression analysis using SPSS version 26. The hypothesis test consists of a simultaneous test (statistical test F), a partial test (statistical test T), and a multiple linear regression test. The results of this study show that simultaneously the variables of Profitability, Liquidity, Leverage and Company Size affect the company's Dividend Policy. Partially, the Profitability variable affects dividend policy, and leverage negatively affects dividend policy. Meanwhile, the liquidity and company size variables do not affect the Dividend Policy.*

## I. Introduction

Typically, investors want the profits received from industrial investments in order to raise the degree of welfare. To decide how much industrial profit sharing to implement, dividend policy is required. The profit the company makes is one of several factors that influence the dividend policy. The performance of Indonesia's industrial potential was quite positive, and they offered the chance for profit growth, which would have affected the amount of dividends paid out. Following a hiatus of six years, the mineral mining division of PT Vale Indonesia Tbk (INCO) is prepared to deliver cash dividends for the 2020 fiscal year. Dividends were paid out in a sum totaling 469.98 billion rupiah, which is equal to 40% of the business's net profit. The decision to pay dividends was made with the high amount of cash income anticipated at the end of 2020 in Liquidity that demonstrates the company's capacity to pay short-term obligations out of current assets. Because the company can pay its present debt commitments thanks to its high level of industrial liquidity, it will appear to have strong financial capacity, which affects its ability to disperse the portion of profit set aside for dividends mind. (http://bisnis.com/, 2021).

Potential investors will definitely think carefully before investing by considering which companies have the opportunity to provide profits in the future. Many analyses carried out by investors before investing include profitability analysis which concerns the high and low ability of the company to make a profit or profit is closely related to how much dividend policy the company will implement (Krisardiyansah & Amanah, 2020). Liquidity that shows the company's ability to meet current liabilities by using short-term assets. With a high level of industrial liquidity so that the company will show strong financial capacity because it can meet its current debt obligations, which has an impact on

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the company's ability to distribute the amount of profit allocated as dividends (Cristina *et. al.*, 2021).

Leverage *analysis* measures an increase in debt that can impact the level of net profit available to shareholders, meaning that the higher the industry's liabilities, the lower the company's ability to pay dividends. This is because companies tend to prioritize repayment of liabilities so that it has an impact on dividend payments (Krisardiyansah & Amanah, 2020). The size of the company strongly reflects the scale of the company based on the size of the industry assets. The large size of the company can show that the industry is able to utilize assets to meet its business needs so as to allow the company to obtain a large net profit and provide dividends for investors (Rahayu & Rusliati, 2019). The higher the company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

The management of the industry pays dividends to investors must be in accordance with some of the matters specified in the company's dividend policy. The ability to distribute dividends relates to the amount of profit that the company can make, if the industry gets high profits, the company's dividend payments will be high (Subagya, 2019). Companies that can make a profit will distribute the profits in the form of dividends. The company must establish a dividend distribution ratio that corresponds to the most favorable considerations for the company.

According to research by Krisardiyansah & Amanah, (2020) shows that profitability has a positive impact on dividend policy, the greater the profitability, the greater the distribution of industrial dividends to investors, so that management can consider the company's profitability as a reference for carrying out dividend policies. Liquidity has a positive impact on dividend policy and is one of the considerations in determining the company's dividend policy, the higher the industry's capability in meeting current liabilities, the higher the industry's ability to distribute dividends (Krisardiyansah & Amanah, 2020). Research by Cristina *et. al.,* (2021) interprets the findings of *leverage* to have a significant impact on dividend policy. If the dividend is distributed by the industry, the amount of retained earnings can be smaller so that the industry needs more funding to ensure the growth of the company with liabilities to maintain shareholders. Research by Rahayu & Rusliati, (2019) shows that the size of the company has a significant positive impact on dividend policy. The high size of the company represents that the company can manage and use its assets to finance the company's operational activities so that it can provide high dividends to investors. Previous research has connected and examined various variables that affect the company's dividend policy. However, regarding the difference between the research here and the previous research, the research here replaces independent variables with company size, research is carried out in the industrial sector of the LQ45 indicator listed on the Indonesia Stock Exchange (IDX) and the research time is from the 2018-2021 period.

A high level of profit can certainly have an impact on the level of dividends paid. Thus, this study aims to objectively measure the impact of profitability, liquidity, *leverage* and company size ratios on dividend policies simultaneously and partially on the LQ45 index company sector listed on the Indonesia Stock Exchange (IDX) in the 2018-2021

period. The benefits of research for investors are to be able to study the ratios in financial statements so that they can formulate policies correctly in investing. For the industry to be able to determine the right dividend policy with the consideration of increasing the value of the company.

## II. Review of Literature

### 2.1 Signaling Theory

*Signaling theory* describes the information created by the industry, especially the company's financial statements, which is very useful for influencing the decision of potential investors to invest in a company (Spence, 1973). The signal created by the industry is a notification about the performance of company management so that company goals can be achieved. The signal theory confirms that the provision of dividends is used as a signal to investors that the company has hopes to develop in the future, so that the provision of dividends will grow market appreciation at the stock price, so dividend payments have an impact on the value of the company (Guta, 2018).

### 2.2 Agency Theory

Agency theory is an interaction between *the manager (agent)* and the owner (*principal*). Agency interactions, namely shareholder or principal agreements , entrust management or agents to exercise a number of authorities to formulate policies (Jensen & Meckling, 1976). In the process, company managers as agents have the opportunity to formulate policies contrary to industry goals, namely to maximize investors' assets. *Agency problems* can arise if the management's scale of industrial shares does not exceed 100%, then the manager leads actions to meet their needs and is not based on an increase in the value of the company in the formulation of its funding policy (Jensen & Meckling, 1976). As an agent, management sometimes attaches importance to its personal wishes, which are contrary to the goals of the investor as a principal. Principal thinks that the personal needs of the management will reduce the profit that will be obtained by the company so that it can harm investors. It is differences like this that sometimes give rise to disputes known as agency disputes. Agency disputes can be minimized through various ways, one of which is using a dividend policy. It is important for shareholders to know the amount of return on their investment paid, the industry can distribute its dividends to shareholders with stability and an increase in each period tends to attract the attention of investors (Banani *et. al.*, 2019) .

### 2.3 Profitability

Profitability ratio is a ratio used to measure the industry's ability in terms of obtaining profit (Cashmere, 2018). The profitability ratio shows the parameters of the level of effectiveness and efficiency of the management in managing the industry. This is shown in how much profit the company gets as well as investment income. In addition to ensuring the sustainability of the company, a large level of profit can also create shareholders' attention to invest in the industry. An industry that can make a profit can create the best indications for shareholders, as the industry shows an opportunity for increased dividend payments at a time when profit growth is increasing. Another interpretation is that the greater the profit obtained by the industry, the greater the ability of the industry to provide dividends for investors (Purwaningsih, 2019). Companies having a large level of profit can create shareholders' interest in investing in the industry so that profitability is very

influential when the industry pays dividends, industry managers distribute dividends to create indications to investors about the level of industry success (Puspitaningtyas *et. al.*, 2019).

## 2.4 Liquidity

Liquidity ratio, which is a ratio, is used to assess the amount of liquid industry (Cashmere, 2018). The value of the liquidity ratio is obtained by comparing its overall current assets compared to its overall current liabilities. Estimation can be carried out in several financial statement periods so that it can be seen the progress of the industry liquidity level. The liquidity ratio, namely the ability of the industry to meet its current liabilities in a timely manner (Fahmi, 2018). Companies in funding business operations require loans or debts from external parties, of course, must be in line with industry capabilities to meet these obligations. The industry generates a large level of liquidity, which illustrates that the industry can pay off its current liabilities, so that the industry's ability to distribute dividends to shareholders is also greater (Krisardiyansah & Amanah, 2020). The estimation of the liquidity ratio analysis is used by the manager as a guideline for selecting dividend policy provisions because the industry liquidity level reflects the amount of cash that exists to meet current liabilities, if the low ratio level interprets cash in the industry as small, it can have an impact on dividend distribution for investors.

## 2.5 Leverage

Leverage *ratio* is a ratio used to assess the size of industry assets funded using overall industrial liabilities (Hery, 2018). *Leverage* is a ratio used to measure a company in terms of liabilities that have been owned. Liabilities are obligations that must be fulfilled by the company when the due date comes. *Leverage*, which is the ratio of overall liabilities to the overall capital of the industry, the findings of the ratio estimation can be used by managers to estimate how much risk the industry will bear. *Leverage* can provide a positive participation for the company by adding value to the company, but on the other hand it also increases the company's risk of bankruptcy (Halim & Hastuti, 2019). *Leverage* indicates how the industry meets its liabilities by using liabilities, which has an increased risk in line with the increase in industry *expected returns* (Krisardiyansah & Amanah, 2020).

## 2.6 Firm Size

The size of the company is a parameter that shows the height or low of the industry (Hery, 2018). The size of the company can be seen in various aspects, the high and low size of the company can be based on overall assets, overall income and so on. The larger the company, the more known the company will be to the public (Indrati *et. al.*, 2018) . Thus, companies that have a large scale so that the larger the investors are interested in investing in the industry, the higher the level of equity obtained by the industry and the greater the company's responsibility to distribute dividends to shareholders.

## 2.7 Dividend Policy

Dividends, namely the company's profit, are paid to investors. Dividend policy is a provision of the company's funding to be paid between investors and reinvested or withheld to be used as funding in the next period in the company (Dang *et. al.*, 2021) . If the company chooses to pay profits as its dividends to shareholders, it will minimize its retained profits thereby reducing subsequent funding in the industry. The dividend policy is part of the company's internal spending decisions. The matter here illustrates that the

high and low dividends distributed will impact the amount of retained profits and further reduce the total internal funding sources of the company (Pattiruhu & Paais, 2020). The company's dividend policy is also an influential policy because the policy will gain the attention of shareholders who will invest their equity in the industry (Halim & Hastuti, 2019).

## 2.8 Research Modal

Based on the hypothesis above, a research model can be made that explains the impact of *independent* variables on *dependent* variables which is stated as follows:
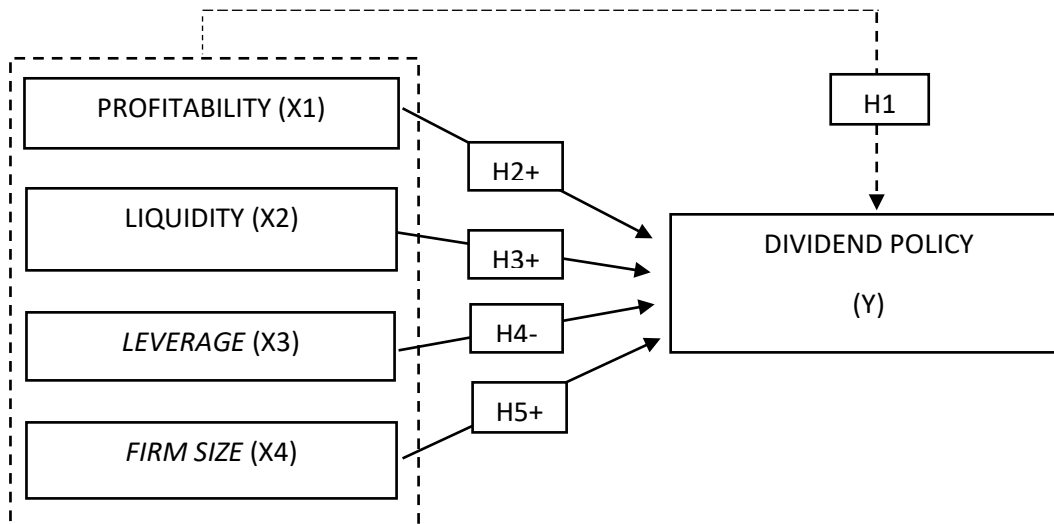


***Figure 1.*** *Research Model*

## III. Research Method

This research applies quantitative methods so that it requires measurement of each variable. The operational variables in this research are shown in appendix 2, namely testing the influence of independent variables consisting of profitability ratios proxied using *Net Profit Margin* (NPM) which is a ratio that estimates the ability of the industry to obtain its net profit based on the income generated by the industry (Lubis et al., 2020). The liquidity ratio is proxied with the *Current Ratio* (CR) used to determine the industry's capabilities in meeting its current liabilities or short-term liabilities. The *Current Ratio* (CR) value is obtained from the comparison of its current assets with current liabilities owned by the industry (Cashmere, 2018). *Leverage ratio* can be measured using debt *to asset ratio* (DAR) describing the overall amount of industrial assets funded by liabilities impacting asset management (Sujarweni, 2017). Company size is a parameter that classifies the high low of a corporation that is valued for its overall assets, total sales, *log size*, and stock market price. The size of the company is calculated using the natural logarithm of total assets and the natural logarithm of total sales (Guta, 2018). The dependent variable of the research here is that dividend policy is measured by dividend *payout ratio* (DPR), which is the result of comparing cash dividends per share with profit per share (Dewi & Sedana, 2018).

The form of multiple linear regression in this study is stated, namely:

$$DPR = \alpha + \beta1NPM + \beta2CR - \beta3DAR + \beta4Size + \varepsilon$$

Information:
DPR   = Dividend Policy
NPM = Profitability
CR     = Liquidity
DAR = *Leverage*
*Size*    = Company
Size α = Variables or Constant Numbers
β₁, β₂, β₃ = Regression Coefficient
Ɛ= *Error*

## IV. Result and Discussion

### 4.1 Descriptive Statistical Test

**Table 1.** Descriptive Statistics

|  | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| NPM | 70 | .10 | .63 | .3376 | .11857 |
| CR | 70 | .17 | .97 | .5649 | .19568 |
| DAR | 70 | .40 | .93 | .6714 | .13075 |
| FIRM SIZE | 70 | 1.21 | 1.23 | 1.2214 | .00572 |
| HOUSE | 70 | .17 | .96 | .5256 | .19249 |
| Valid          N (listwise) | 70 |  |  |  |  |

*Source: Processed SPSS data output, 2022*

The research tested four independent variables consisting of profitability, liquidity, *leverage* and company size on the dependent variable, namely the dividend policy in the LQ45 industry listed on the Indonesia Stock Exchange for the 2018-2021 period. Based on table 1, the number of research data is 70 data, the profitability variable measured *Net Profit Margin* (NPM) produces an average figure or *a mean* of 33.76% with a standard deviation of 11.85%. The matter here interprets the average level *of return* from the capital obtained by the LQ45 industry, which is 33.76%. The industry's highest level of profitability is PT Sarana Menara Nusantara Tbk (TOWR), which is 63.00% in 2021. Meanwhile, the industry with a small level of profitability is PT. Source Alfaria Trijaya Tbk. (AMRT) which is 10.00% in 2020.

The liquidity variable measured *by the Current Ratio* (CR) resulted in a *mean* of 56.49% with a standard deviation of 29.56%. The matter here interprets the *mean* that the LQ45 industry owns 56.49% of its current assets to pay off the current liabilities of the industry. The largest liquidity level industry is PT Telekomunikasi Indonesia (Persero) Tbk (TLKM) which was 97.00% in 2018. Meanwhile, the industry's liquidity level is small, namely PT Sumber Alfaria Trijaya Tbk (AMRT), which is 17.00% in 2019.

The *variable leverage* measured *debt to asset ratio* (DAR) resulted in a *mean* figure of 67.14% with a standard deviation of 13.07%. The matter here interprets the *mean* that the LQ45 industry is listed on the Indonesia Stock Exchange using liabilities from external parties, namely 67.14%. The industry has the largest leverage, namely PT Tower Bersama Infrastructure Tbk (TBIG), which was 93.00% in 2018. Meanwhile, the smallest leverage industry, namely PT Indocement Tunggal Prakarsa Tbk (INTP), was 40.00% in 2018.

The measured company size variable *Firm Size* yielded a mean figure of 122.14%. The industry with high total sales, namely PT Astra International Tbk (ASII) in 2018. Meanwhile, the industry generated low total sales, namely PT Tower Bersama Infrastructure Tbk (TBIG) in 2018.

The dividend policy variable resulted in a *mean* figure of 52.56% with a standard deviation of 19.24%. This interprets the *mean* dividend ratio distributed by the LQ45 industry listed on the Indonesia Stock Exchange, which is 52.56% based on the overall net profit obtained by the industry. The industry with the largest dividend ratio is PT Indocement Tunggal Prakarsa Tbk (INTP) in 2018. Meanwhile, the industry with the smallest dividend ratio is PT Aneka Tambang Tbk for the 2018 period.

## 4.2 Normality Test

The data normality test in this study uses the *Kolmogorov-Smirnov (K-S) non-parametric statistical* analysis test based on the stipulation that the significant figure > 0.05 so that the data is normally distributed, but if the significant figure is < 0.05 so that the data is said to be not normally distributed. From the total research data of 80 financial statements, there are 10 data that are *outlie red* so that 70 research data are left. The test results can be seen from the normality test with the *Value of Asymp.Sig* (*2-tailed*) which is 0.200 that the value > 0.05, so it is interpreted that the residual value is distributed normally.

## 4.3 Multicollinearity Test

The multicholinearity test is useful for measuring regression models there is a correlation between independent variables. A good form of regression should not correlate among *independent variables.* The multicollinearity test is measured based on tolerance numbers and *Variance Inflation Factor* (VIF). If the test results obtained the *tolerance* number exceeds 0.100 and the VIF number shows less than 10,000 so that the research model is interpreted to be free from the symptoms of multicholinearity. Based on the results of data processing carried out, it shows that NPM produces a VIF number of 1.282 and *a tolerance* number of 0.780, CR produces a VIF number of 1.214 and *a tolerance* number of 0.823, DAR produces a VIF number of 1.145 and *a tolerance* value of 0.873 and *the firm size* produces a VIF number of 1.127 and *a tolerance* of 0.887. So, it is interpreted that this study avoids the symptoms of multicollinearity.

## 4.4 Heteroskedasticity Test

The heteroskedasticity test aims to test whether in a regression model there are differences in residual variants from one observation period to another. In order to assess the absence of heteroskedasticity symptoms, it can be seen in the SPSS glejser test. The test results show npm produces a number of 0.540, CR produces a *sig number.* 0.632, DAR produces a *sig number.* 0.218 as well as *firm size* produce a *sig number.* 0.541. The glejser test interpreted the entire independent variable resulting in *a significant* number of > 0.05 so that this study interpreted no symptoms of heteroskedasticity.

## 4.5 Autocorrelation Test

The autocorrelation test is useful for testing the regression form there is a relationship between the error of the disruptor in the t code and the error of the disruptor in the t-1 code. If no relationship is found, then it can be said that the regression form does not occur symptoms of autocorrelation with testing, namely du < d < 4-du. The test results were carried out by the *Durbin Watson* method interpreting the number 2.039. Based on

the comparison with *Durbin* Watson's table, α = 5% so that the form of research here is interpreted as not an autocorrelation (1,735 < 2,039 < 2,264).

## 4.6 Multiple Linear Regression Analysis

Multiple linear regression analysis was used to test the magnitude of the transformation aspects used in this study, namely profitability (NPM), liquidity (CR), *leverage* (DAR) and company size (*firm size*) in dividend policy (DPR). The data were obtained from the observation findings using SPSS type 26. Based on the findings of the data, the test can take the form of multiple regression equations, namely:

$$DPR = -0.904 + 0.597(NPM) + 0.068(CR) - 0.423(DAR) + 1.207(\textit{Firm Size})$$

A constant value of -0.904 means that profitability, liquidity, *leverage* and company size are zero or constant, so the dividend policy in the LQ45 industry for the 2018-2021 period is -0.904. The profitability coefficient (NPM) is 0.597, this shows that in conditions where other variables are constant, if each increase in profitability figures, it can maximize the dividend policy (DPR) of 0.597. The liquidity coefficient (CR) of 0.068, this interprets in conditions where other variables are constant if each increase in liquidity figures, it can maximize the dividend policy (DPR) of 0.068. The *leverage* coefficient (DAR) is -0.423, meaning leverage has a negative impact on dividend policy. The other variable situation remains if one aspect is reduced in *leverage*, so that the dividend policy (DPR) is also reduced by 0.423. The firm size coefficient is 1.207, this interprets in conditions where other variables are constant if each increase in the company size number, it can maximize the dividend policy (DPR) of 1.207.

## 4.7 Coefficient of Determination Test

The test results of the coefficient of determination ($R^2$) interpreted the *Adjusted R Square* number of 0.161 or equivalent to 16.1%. This means that dividend policy can be influenced by profitability, liquidity, *leverage* and company size of 16.1% and the difference of 83.9% is determined that other factors are not available in this research model.

## 4.8 Test f (simultaneous)

Test F is used simultaneous hypothesis testing to determine the feasibility of a research model. If the significant number < *alpha* research is 0.05 then the independent variable in the dependent variable has a significant impact. But when a significant number > 0.05 means that the independent variable in the dependent variable has no significant impact. The F test findings from this study show a significant figure of 0.004 < 0.05 and the calculated F value > F table which is 4.30 > 2.51, it can be concluded that profitability, liquidity, *leverage* and company size have a simultaneous effect on dividend policy.

## 4.9 T-test (partial)

**Table 2.** Research Model Hypothesis Test Results

| Hypothesis | Statement | Result | Decision |
|---|---|---|---|
| $H_1$ | Profitability, Liquidity, *Leverage* and Company Size simultaneously affect the Dividend Policy. | Sig value = 0.004<br><br>0.004 < 0.05 | **Hypothesis Accepted** |
| $H_2$ | Profitability has a positive | Sig value = | **Hypothesis** |

| | effect on dividend policy. | 0.004 <br> $0.004 < 0.05$ | **Accepted** |
|---|---|---|---|
| $H_3$ | Liquidity has a positive effect on dividend policy. | Sig value = 0.569 <br> $0.569 > 0.05$ | **Hypothesis Rejected** |
| $H_4$ | *Leverage* negatively affects dividend policy. | Sig value = 0.018 <br> $0.018 < 0.05$ | **Hypothesis Accepted** |
| $H_5$ | The size of the company has a positive effect on dividend policy. | Sig value = 0.760 <br> $0.760 > 0.05$ | **Hypothesis Rejected** |

The t-test is used to partially analyze the impact of independent variables on dependent variables. From the results of the t-test, profitability partially had a significant impact on dividend policy with a calculated t result (2,945) > t table (1,994) with a significant figure of 0.004 or less than 0.05 (< 0.05). Liquidity partially did not have a significant impact on dividend policy with a calculated t yield (0.572) < t table (1.994) with a significant figure of 0.569 or exceeding 0.05 (> 0.05). *Leverage* partially negatively impacts dividend policy with a calculated t yield (-2.436) > t table (-1.994) with a significant value of 0.018 or less than 0.05 (< 0.05). The size of the company partially has no impact on dividend policy with the calculated t figure (0.306) < t table (1.994) with a significant figure of 0.760 or exceeding 0.05 (> 0.05).

## 4.10 Discussion
### a. Effect of Profitability, Liquidity, Leverage and Company Size on Dividend Policy

Based on the results of the F test (simultaneous test) showing that profitability, liquidity, *leverage* and company size simultaneously exert an influence on dividend policy, then $H_1$ is acceptable. This is in accordance with the initial thinking where the company's financial performance factors with industry financial ratio indicators can have an impact on industrial dividend policies. This finding is in accordance with the research of Hidayat *et. al.,* (2022) which states that profitability, liquidity, *leverage*, and company size simultaneously affect dividend policy.

The profitability ratio also shows the parameters of the level of effectiveness as well as the efficiency of managers in managing the industry. An industry that can make a *profit* can create a good signal to investors, as the company shows an opportunity for an increase in dividend distribution at a time when profit growth is increasing. Liquidity ratio analysis is used by managers as a reference for choosing dividend policy decisions because the industry liquidity level describes the amount of cash available to meet current liabilities, if the low ratio level reflects that the cash owned by the industry is also small, which will have an impact on dividend distribution for investors.

### b. The Effect of Profitability on Dividend Policy

The results of the study interpreted profitability to have a partial impact on the company's dividend policy, thus $H_2$, which is found to be the effect of profitability on the dividend policy **received**. This finding is in accordance with the results of research by Banani *et. al.,* (2019) and Lubis *et. al.,* (2020) suggesting that there is a significant impact of profitability on dividend policy.

Industry managers certainly distribute their dividends to create an indication of the industry's success in creating profits. This indication shows the ability of the industry to

distribute its dividends to investors as one of the functions of industrial profits (Nur, 2018). A high level of profitability can increase the portion of dividend distribution to shareholders. The better the industry's performance, the higher the rate of dividends for shareholders. The industry's capability in generating profits is used as a reference to measure the industry's capacity to distribute dividends to shareholders (Nurfatma & Purwohandoko, 2020).

### c. The Effect of Liquidity on Dividend Policy

The results of this study partially interpreted the liquidity variables as having no impact on dividend policy, so it can be concluded that $H_3$ **was rejected**. This finding is in accordance with the results of research by Banani *et. al.,* (2019) and Prastya & Jalil, (2020) which stated that liquidity has no impact on dividend policy.

Liquidity has no impact on dividend policy providing a signal that dividend payments shared by the industry in this study are not significantly affected by liquidity. If you look closely, an industry with a large liquidity level will hold back the company's profit that it earns to be used as a reserve of company funds in the next period compared to dividing the profit to investors, especially in economic conditions that are shaken by the Covid-19 pandemic, of course, forcing the industry to hold profits that can be used as industrial reserve funds. Greater industrial profits are allocated as reserves of funds and working capital of the industry for the next financial period (Pattiruhu & Paais, 2020). In addition, industries that are interpreted as liquid may choose not to distribute or provide dividend policies. Another interpretation, the industry has a large investment opportunity, of course, choosing to invest instead of distributing profits or profits as dividends to investors (Nur, 2018).

### d. The Effect of Leverage on Dividend Policy

Based on the results of the study, it shows that partially *the leverage* variable has a negative impact on dividend policy, it can be concluded that H 4 is accepted. This finding is in accordance with the research of Prastya & Jalil, (2020) and Cristina *et. al*., (2021) which suggests *leverage* has a significant impact on dividend policy.

The research findings here show that *leverage* has a partial *negative* impact on dividend policy because if the overall liabilities of the industry are large, the dividend distribution will decrease. If the dividend level is distributed by the industry so that the overall profits are reduced then the industry needs funding to fund the growth of the industry using liabilities and to safeguard shareholders (Cristina *et. al.*, 2021) . If the industry has a high level of *leverage*, the industry pays dividends smaller and smaller. The matter here is because the profit obtained by the industry is used first to fulfill its obligations (Prastya & Jalil, 2020).

### e. The Effect of Company Size on Dividend Policy

The results of this study partially show that the size of the company has no effect on the dividend policy, thus it can be concluded that $H_5$ **is rejected.** This finding is in accordance with the research findings of Cristina *et. al*., (2021) and Banani *et. al*., (2019) which stated that the size of the company does not have a partial impact on dividend policy.

When researched, the large size of the company does not guarantee that the industry can provide a large dividend rate to shareholders. The larger the size of the company, the industry will need more capital or high funding to fund operational activities, so that if the industry can generate high profits, it allows these profits to become retained earnings in

anticipation of the needs of industrial working capital in the coming period (Nurfatma & Purwohandoko, 2020) . The size of the company is an overall picture of sales owned by the industry. This means that industries that have high sales value can be interpreted as large industries, so that the higher company size can make it easier for the industry to obtain funding sources from both internal and external parties. Thus, the size of the company is not related or does not have a significant impact in terms of the distribution of dividends that the industry distributes to investors (Cristina *et. al*., 2021).

## V. Conclusion

Based on the results of data analysis and hypothesis testing that has been carried out, it can be concluded that profitability is measured by NPM, liquidity is measured by CR, *leverage* is measured by DAR and company size simultaneously affects the dividend policy of LQ45 index companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. Profitability has a positive impact on dividend policy because the industry's high level of profitability can increase the portion of dividend distribution paid to investors. The liquidity ratio has no impact on the company's dividend policy. The *leverage* ratio  negatively affects the dividend policy. Furthermore, the size of the company does not have an impact on the dividend policy because if you look at the size of the company, it does not provide guarantees that the industry will provide large dividends to investors.

The limitations of this research can be seen from researchers choosing too many internal company factors such as financial conditions which are seen from financial ratios and some variables do not have an impact on dividend policy and this study has 10 data *that are outliered*. The advice that can be given to subsequent researchers is expected to further expand their analysis using a different sample of industrial sectors and add other independent variables that can have an impact on dividend policy including interest rates and political conditions.

The results of this study can advise shareholders to pay close attention to the information published by the company in terms of decision making related to investment decisions, especially for potential investors to ensure and observe the information provided by the industry, in order to ensure that the investments they make in the industry will bring huge profits in the future. Furthermore, companies should analyze aspects that can affect the preparation of provisions related to dividend policies so that they can encourage company growth and can meet the expectations of shareholders.

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