AAJ ACCOUNTING ANALYSIS JOURNAL

Accounting Analysis Journal

https://journal.unnes.ac.id/sju/index.php/aaj

The Effect of Leverage and Liquidity on Cash Dividend Policy with Profitability as Moderator Moderating

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ARTICLE INFO

Article History:
Received Oct 24, 2018
Accepted March, 1 2018
Available March, 31 2018

Keywords:
Cash Dividend Policy;
Leverage;
Liquidity;
Profitability

ABSTRACT

This study aims to determine the effect of leverage and liquidity on cash dividend policy with profitability as a moderating variable. The population of this study is 59 real estate, property and building construction companies which is listed in Indonesian Stock Exchange (IDX) during the year 2013-2015. Selection data of sample by using purposive sampling obtained sample of 23 companies and the unit analyze are 69. Data collection method used in this research is documentation. Methods of data analysis used descriptive statistical analysis and regression moderation with the test of absolute difference value. The results show that leverage and liquidity have positive significant effect on cash dividend policy. Profitability does not moderate the effect of leverage on cash dividend policy, but profitability can moderates the effect of liquidity on cash dividend policy. Based on the result of this study, it can be concluded that cash dividend policy is influenced by leverage and liquidity. Profitability does not moderate the effect of leverage on cash dividend policy but profitability can moderates the effect of liquidity on cash dividend policy.

INTRODUCTION

Shareholders who invest their funds in a company will get a return or profit on the investment, which can be either capital gains or dividends. Dividends are payments made by a company to shareholders derived from corporate profits. Kieso, Weygandt, and Warfield (2008) classified dividends into 4 types namely cash dividends, property dividends, liquidation dividends and stock dividends. Cash dividends are generally more attractive to shareholders when compared to stock dividends (Suharli, 2007). This is for cash dividends are perceived will give direct benefits to shareholders because they are distributed in cash.

The decision of the company's management in setting its shareholding policy is called dividend policy. Dividend policy is the policy taken by the management of a company to decide to pay part of the corporate profits in the form of dividend to shareholders rather than hold them as retained earnings. Suharli (2007) said that cash dividend policy can be used as a tool for shareholders to supervise management in order to they do not hold much cash because the cash that many will stimulate management to enjoy the cash for its own interest.

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The distribution of dividends that tend to increase in each period will be difficult to be achieved given the profit generated always fluctuate every year. Based on the data obtained from the Kustodian Sentral Efek Indonesia (KSEI) quoted from (www.ksei.co.id), the number of companies distributing cash dividends in the period of 2013-2015 fluctuated. This can be seen in the following table:

Table 1. GAP Phenomena

Year	Companies that share cash dividends	Number of listed companies
2013	212	486
2014	222	509
2015	225	525

Source: KSEI (www.ksei.co.id) and IDX (www.idx.co.id), 2017

Based on table 1, it can be explained that although the number of companies increases in each year but the number of companies that share cash dividends in the period 2013-2015 is still less than half or 50% from the total companies listed in that period. Such condition means there are still many companies that do not share dividend, whereas dividend is one of the signals that can be given by the company. Dividend payments are a signal from companies that they trust they have good

DOI 10.15294/aaj.v5i3.18631

p-ISSN 2252-6765 e-ISSN 2502-6216

prospects in the future (Setiawan & Kee Phua, 2013). Dividend payments are sometimes also used to signal if the company is growing rapidly (Khan, Nadeem, Islam, & Salman, 2016).

Searches of previous research still show inconsistent results for leverage and liquidity variables in their influence on dividend policy, so that found research gap. Research conducted by Fistyarini & Kusmuriyanto (2015) companies listed on the LQ-45 index as well Oktaviani & Basana (2015) in the manufacturing companies stated that leverage has a significant negative effect on dividend policy. While (Parsian & Koloukhi, 2014) who conducted research on companies listed on Tehran Stock Exchange (TSE) found leverage has a significant positive effect on dividend policy. Research of (Fitri, Hosen, & Muhari (2016) in a company listed in the Jakarta Islamic Index found that leverage has no significant effect on dividend policy.

Not much different, liquidity variable also still shows inconsistent results. Research conducted by Sari & Sudjarni (2015) in manufacturing companies stated that liquidity has a significant positive effect on dividend policy while research conducted by Sunarya (2013) in manufacturing companies stated that liquidity has a significant negative effect on dividend policy. Other research conducted by Arifin & Asyik (2015) in manufacturing companies showed a contradictory result, where liquidity does not significantly affect dividend policy.

This research uses leverage and liquidity variables to be studied further because based on previous research still has inconsistent results. The existence of inconsistent results raises the presumption that there are other variables that also determine the fluctuations in the influence of leverage and liquidity on dividend policy, therefore profitability variable is added into this study as a moderating variable. Profitability is a ratio that assesses the ability of companies in finding profit in a certain period. The purpose of this study is to examine the effect of leverage and liquidity on cash dividend policy, and to examine the effect of profitability in moderating the effect of leverage and liquidity on cash dividend policy.

Increased profitability means that companies will have many internal funds so that the tendency toward debt will decrease. Decreased debt use will allow company to pay higher dividends. Increased profitability will also increase the amount of corporate cash. This means it will make it easier for companies to increase their dividend payout.

This research is based on signalling theory and agency theory. Signalling theory states that corporate executives have better information about the condition of the company, therefore the company will be compelled to convey the information to shareholders (Randa & Abraham, 2009). The information provided by the company will improve asymmetric information that occurs between the executive (manager) and the shareholder. Bhattacharya (1979) recommended managers use dividends to signal corporate information to shareholders.

Agency theory is an agency relationship that occurs through a contract involving two parties, namely principal and agent (Jensen & Meckling, 1976). Principal or shareholder will assign authority to manager as agent to act as the manager of the company, therefore the manager must act in accordance with principal's interest, but this theory explains if the agent does not always act in the best interests of the principal. This is due to differences in interests that will cause the emergence of agency problems. Agency problems arise because people tend to emphasize self-interest and agency conflicts will arise when those interests meet at a joint activity (Mahadwartha, 2002).

Supervision is necessary for managers to perform their duties and functions well. This supervision activity certainly requires a fee that is usually called agency fee. In relation to agency costs, cash dividend policy can be one form of supervision mechanism that can be done. The cash dividend policy can be used as a tool for shareholders to supervise the management not to hold too much cash because a lot of cash will stimulate the management to enjoy the cash for their own benefit (Suharli, 2007).

The effect of leverage on cash dividend policy is supported by agency theory which states that agency conflict arising from differences of interests between agents and principals will lead to the emergence of agency costs. Agency costs can be minimized in several ways, one of which is by using debt policy (Putri & Nasir, 2006). The use of funds from external parties (debt) will make the company not only overseen by shareholders but also creditors. The use of debt will minimize agency costs because supervision done by two parties. The higher the company is funded by the debt, the greater the obligation to be borne by the company.

Companies with high debt levels tend to pay low dividends. This is because the company must pay instalments and interest from the debt so that shareholders must give up the flow of funds that previously can be used to pay dividends to pay instalments and interest. This assumption is supported by research conducted by Asif, Rasool, & Kamal(2011); Emamalizadeh, Ahmadi, & Pouyamanesh (2013); Kaźmierska-Jóźwiak (2015); Tamimi & Takhtaei(2014); Sunarya(2013), Oktaviani& Basana(2015) as well as Sari & Sudjarni(2015) which stated that leverage has a negative influence on dividend policy.

H1: Leverage has a significant negative effect on the cash dividend policy.

Liquidity is defined as the company's ability to pay off short-term debt (Harmono, 2014). The effect of liquidity on the firm's cash dividend policy is supported by the signalling theory which states that the company executive (manager) has better information about the condition of the company, therefore the company is encouraged to convey the information to shareholders (Randa & Abraham, 2009). Through liquidity, the company is trying to give a signal for its performance so far. Good liquidity is a sign that the company's performance is good because it is able to provide cash to meet its short-term debts which is due. If the company finds it difficult to meet its short-term debt, the company does not have enough cash when the debt is due.

Cash dividends are distributed in cash, which means the company must have cash available for dividend payments. Companies that have good liquidity are likely to be easy to distribute higher dividends to their shareholders. This is because companies with good liquidity will have enough cash available, so the effect of liquidity on dividend policy has a positive direction. That is, the higher the liquidity the higher the ability to divide the dividend. This assumption is supported by research conducted by Ahmed (2014); Kaźmierska-Jóźwiak (2015); Kimutai (2012); Olang, Akenga, & Mwangi (2015); Marlina & Danica (2009) as well as Sari & Sudjarni (2015) which stated that liquidity has a positive influence on dividend policy.

H2: **Liquidity has a significant positive effect on the cash dividend policy.**

Previous research on the effect of leverage on the cash dividend policy gives different results. Fistyarini & Kusmuriyanto (2015) as well as Oktaviani & Basana (2015) find that leverage has a significant negative effect on the cash dividend policy. In contrast to research conducted by Fitri, Hosen, & Muhari (2016) which states that leverage has no significant effect on the cash dividend policy. The results explain that the effect of leverage on cash dividend policy shows the results which are still inconsistent. This indicates the existence of other variables that allegedly participate in moderating the effect of leverage on dividend policy so that profitability variable appears as a moderating variable in this study.

Signalling theory states that the company executive (manager) has better information about the condition of the company, therefore the company will be enucouraged to convey the information to shareholders (Randa & Abraham, 2009). Increased corporate profitability will signal the company's success in managing its business. The higher profitability of the company will give a positive signal to external parties that the company has a bright future prospects. High profitability also gives a sign that the company can distribute more dividends.

Companies that have high debt tend to divide low dividend, but because of high debt, management is required to work more optimally to increase profits. (Kasmir, 2014) stated the advantages of loan capital (debt) one of them is to increase the motivation of management to work more actively and creatively because burdened to pay its obligations. If profitability increases then the company will have a lot internal funds so that the tendency towards debt will be reduced. The decreasing use of debt will enable companies to pay higher dividends.

Several studies have proven that the level of profitability affects on dividend policy. Some of these studies are research conducted by Ahmed (2014); Elmi & Muturi (2016); Kawshala & Panditharathna (2017) found that profitability affects on the cash policy. Other than that, Ahmed (2014); Kaźmierska-Jóźwiak(2015); Kimutai (2012); Olang, Akenga, & Mwangi(2015); Marlina & Danica(2009) as well as Sari & Sudjarni (2015). Thus, the hypothesis can be developed as follows:

H3: Profitability weakens the effect of leverage on the cash dividend policy.

Previous research on the effects of liquidity on the cash dividend policy results differently. Sari & Sudjarni (2015) found that liquidity has a significant positive effect on cash dividend policy. In contrast to research conducted by Arifin & Asyik (2015) which stated that liquidity does not have a significant effect on cash dividend policy. The results explain that the effect of liquidity on cash dividend policy shows the results which are still inconsistent. This indicates the existence of other variables that allegedly participate in moderating the influence of liquidity to the dividend policy so that profitability variable appears as a moderating variable in this study.

Fistyarini & Kusmuriyanto (2015) cite Wirjolukito et al., (2003) who stated in signalling theory the management will pay dividends to signal the success of the company in the recording profit. Oktorina & Suharli (2007) also stated there will be no dividend profit if the company is unable to book a profit. This explains the profitability used by the company to signal external parties. The higher the company's profitability will give a positive signal to external parties that the company has a bright future prospect. Higher profits also give a sign that the company can pay more dividends.

A company with a good liquidity level means the company has sufficient cash, so it will be easy to share cash dividends to its shareholders as cash dividends are distribute in cash. If the condition of profitability increases, then the company will be more able to distribute high dividends. This is because high profits will increase the amount of company's cash and high cash will make it easier for companies to increase the dividend distribution.

H4: Profitability strengthens the effect of liquidity on cash dividend policy.

Based on the description above, the research model in this study was show in the following figure.

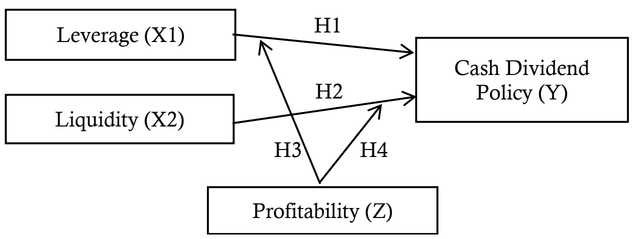

Fig. 1. Research Model

RESEARCH MODEL

This research type was quantitative research with research design of hypothesis test study. The data used was secondary data. The population in this research was all real estate, property and construction companies listed in Indonesia Stock Exchange (IDX) in the period of 2013-2015 which amounted to 59 companies. The sampling technique used in this research was purposive sampling technique. It was obtained the final sample of 23 companies with a period of 3 years observation to produce 69 units of analysis. The sample determination based on the criteria could be seen in Table 2.

The dependent variable in this research was cash dividend policy. The independent variables in this research were leverage and liquidity and the moderating variable used in this research was profitability. As for the explanation of operational definition of each variable is presented in Table 3.

Table 2. Research Sample Determination

No	Sample Criteria	Beyond Criteria	Included Criteria
1.	Real estate, property, and construction companies listed on Indonesia Stock Exchange (IDX) in 2013-2015	-	59
2.	Real estate, property, and construction companies that delivered annual reports during 2013-2015	(6)	53
3.	Real estate, property, and construction companies that shared cash dividends in succession over the period of 2013-2015	(30)	23
4.	Real estate, property, and construction companies that presented their financial statements in rupiah currency during the period of 2013-2015	-	23
	Number of companies that became sample		23
	Number units of analysis (3 x 23)		**69**

Source: Secondary data processed, 2017

Table 3. Operational Definition of the Variables

Variables	Definition	Measurement
Cash Dividend Policy (DPR)	Management policy to decide paying part of the profits earned to shareholders.	$DPR = \frac{\text{Dividend per share}}{\text{Earning per share}}$ (Laim, Nangoy, & Murni, 2015)
Leverage (DAR)	The ability of a company to finance its debt repayment. (Andriyanti & Wirakusuma, 2014)	$DAR = \frac{\text{Total debt}}{\text{Total asset}}$ (Harmono, 2014)
Liquidity (CASH)	The company's ability to pay off its short-term liabilities. Harmono (2014)	$\textit{Cash Ratio} = \frac{\text{Cash and cash equivalents}}{\text{Current debt}}$ (Kasmir, 2014)
Profitability (ROE)	The ratio to assess the ability of companies in the search for profit.	$ROE = \frac{\text{Profit after tax}}{\text{Total capital}}$ (Fistyarini & Kusmuriyanto, 2015)

Source: Processed researchers from various books and journals,2017

Technique of data collection was done by documentation method of annual financial reports of companies listed in Indonesia Stock Exchange and schedule of cash dividend payment contained in the Kustodian Sentral Efek Indonesia (www.ksei.com). Technique of data analysis used descriptive statistical analysis and t statistical test as well as moderation regression analysis by using the value of absolute difference test which used to test hypothesis. The classical assumption test was done before testing the research hypothesis in order that the test result met the criteria.

RESULTS AND DISCUSSIONS

Descriptive Statistics

Descriptive statistical analysis in this research was used to see mean value, standard deviation, maximum value and minimum value in cash dividend policy (DPR), leverage (DAR), liquidity (CASH), and profitability (ROE). Descriptive statistical test results were presented in Table 4.

Table 4. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
DPR	69	0.0417	3.9412	0.352839	0.6406386
DAR	69	0.2200	0.8407	0.541493	0.1390867
CASH	69	0.0347	1.1635	0.427400	0.2729234
ROE	69	0.0043	0.3144	0.160375	0.0693901
Valid N (listwise)	69				

Source: Secondary data processed, 2017

Before conducting the hypothesis test, in the regression model was conducted classical assumption test to examine the feasibility of data. Previously there was the problem of normality and heteroscedasticity so the data must be transformed by using Ln. After data transformation, re-testing of normality produced a Kolmogorov-Smirnov (K-S) value of 0.863 greater than the 0.05 significance level then the data was normally distributed.

Table 5. Hypothesis Test Results

Variables	Regression Coefficient	Standard error	t- count	Sig.	Explanation
Konstanta	-2.024	0.153	-13.222	0.000	-
Zscore (LN_DAR)	0.293	0.104	2.818	0.006	Significant
Zscore (LN_CASH)	0.322	0.110	2.934	0.005	Significant
ABS_DAR_ROE	0.177	0.120	1.478	0.144	Insignificant
ABS_CASH_ROE	0.308	0.110	2.812	0.007	Significant
R^2 = 0.246	*Adjusted* R^2 = 0.199		F- count = 5.214		Sig = 0.001

Source: Secondary data processed, 2017

Autocorrelation test used runs test obtained residual value of 0.183 which greater than 0.05 significance level then it was concluded there was no autocorrelation. The multicollinearity test showed that all variables had Tolerance greater than 0.10 and VIF value less than 10 so it could be concluded that there was no multicollinearity among independent variables in the regression model. Heterocedasticity test used glejser test showed that the regression model used in this study did not occur heteroscedasticity, where the level of significance of all independent variables was more than 0.05 ie leverage 0.806, 0.281 liquidity and profitability 0.389.

The direct influence test or t test was used to show how far the influence of each independent variable to the dependent variable directly. This study used the test of absolute difference value to examine the effect of moderating variable in moderating the influence of independent variables on the dependent variable. Summary of hypothesis test results could be seen from Table 5.

The coefficient of determination test obtained the result that the value of Adjusted R Square was 0.199. This meant that 19.9% of cash dividend policy variable could be explained by independent variables in the research ie leverage and liquidity variables and profitability as moderating variable, while the rest of 80.1% explained by other variables outside this research model. Based on table 5 could be seen the regression equation used in this study was as follows:

LNDPR = -2.024 + 0.293 ZDAR + 0.322 ZCASH + 0.177ABS_DAR_ROE + 0.308 ABS_CASH_ROE.

The Effect of Leverage on Cash Dividend Policy

Leverage in this study was measured using total debt divided by total assets (debt to assets ratio / DAR). The result of hypothesis test regarding the effect of leverage on cash dividend policy showed positive and significant direction. This meant that the increase in corporate leverage would increase the dividend shared, so the first hypothesis (H1) in this study which stated that leverage had a significant negative effect on cash dividend policy, was rejected.

This result was not aligned with agency theory view. Agency theory stated that agency costs arose because of differences in interests between agents and principals. This agency fee was a cost associated with supervision by the principal (shareholder) in order for the agent (management) to work in accordance with the agreement. Agency costs could be minimized in several ways, one of which was by using debt policy (Putri & Nasir, 2006).

The use of funds from external parties (debt) would make the company not only overseen by shareholders but also creditors. Supervision of these two parties would reduce the agency costs to be incurred by the principal. This was due to the creditor who has invested in the company by itself would conduct supervision on the use of these funds (Putri & Nasir, 2006). Increased oversight from these creditors would make the principal felt more secure regarding the use of corporate funds but the consequences that must be accepted was the decline in dividends to be shared. Companies with high debt levels tended to pay low dividends. This was because high debt usage meant the higher the company's liabilities that would result with the lower the company's ability to pay dividends.

The proof above got results that the effect of leverage on cash dividend policy was positive. It was possible if the company wanted to give a signal to the market for its performance if with high debt they could still divide the high dividend. Setiawan & Kee Phua (2013) declared dividend payouts was a signal from companies that they believed they had good prospects in the future. High leverage could also mean that the risk of the company increased (bankruptcy costs) so that shareholders required additional returns for additional risks that could be earned through dividends (Mahadwartha, 2002).

The results of this study were consistent with the research undertaken by Mahadwartha (2002) and Parsian & Koloukhi (2014) which stated that leverage had a significant positive effect on dividend policy. The higher the leverage the higher the dividend would be. The results of this study did not support research conducted by Suharli (2006), Simanjuntak & Kiswanto (2015) as well as Fitri, Hosen, & Muhari (2016) which stated that leverage did not affect cash dividend policy.

The Effect of Liquidity on Cash Dividend Policy

Liquidity in this study was measured using total cash and cash equivalents divided by total current debt (cash ratio). The result of hypothesis test regarding the effect of liquidity to the policy of cash dividend showed a positive and significant direction. This meant that the higher the company's liquidity the higher the dividend would be shared, so the second hypothesis (H2) in this study which stated that liquidity had a significant positive effect on cash dividend policy, was accepted.

The results obtained in this study were consistent with the signalling theory. Signalling theory said that the company's executive (manager) had better information about the condition of the company, therefore the company was compelled to convey the information to shareholders (Randa & Abraham, 2009). Through the liquidity of the company would give a signal to shareholders regarding its performance so far. High liquidity indicated the company's ability to meet its short-term obligations. High liquidity would signal to shareholders if the companies were able to share high cash dividends as well.

The results of this study were consistent with the research undertaken by Ahmed (2014); Kaźmierska-Jóźwiak (2015); Kimutai(2012); Olang, Akenga, & Mwangi(2015); Marlina & Danica (2009) as well as Sari & Sudjarni(2015); Marlina & Danica (2009) and Sari & Sudjarni (2015) which stated that liquidity had a significant positive effect on the dividend policy. This meant that the higher the company's liquidity the higher the dividend would be distributed. While in research conducted by Arifin & Asyik (2015) as well as Oktaviani & Basana (2015) stated that liquidity did not affect on the dividend policy. This meant that low high company's ability to pay off its short-term debt could not determine low high dividend to be distributed.

Profitability Weakened the Effect of Leverage on Cash Dividend Policy

The result of hypothesis test regarding the effect of profitability in weakening leverage to the policy of cash dividend showed a positive and insignificant direction. This explained that the presence of profitability variable was not able to weaken the effect of corporate leverage on the cash dividend policy. Based on the result, the third hypothesis (H3) in this study which stated that profitability weakened the effect of leverage on the cash dividend policy, was rejected.

Signalling theory said the management would pay dividends to signal the success of the company in posting profit (Wirjolukito et al., 2003) in (Fistyarini & Kusmuriyanto, 2015). This explained that profitability was used by companies to signal external parties for their performance. The higher the company's profitability would give a positive signal to external parties that the company had a bright future prospect. High profitability also gave a sign that the company could distribute more dividends.

Testing directly or partially indicated that leverage had a significant positive effect on the cash dividend policy. This meant that the higher the leverage the higher the dividends were distributed. Mahadwartha (2002) stated that high leverage meant that the risks of the company increased so that the shareholders needed additional return on the increased risk that could be obtained through dividends. This was done by the company to give a signal to the market for its performance if high debt they were still able to distribute high dividends as well.

The results of this study proved that profitability was not able to weaken the effect of leverage on the cash dividend policy. This meant that even if the company experienced an increase or decrease in profitability at the time of high corporate leverage, the condition would not affect the manager's decision to keep dividends distributed. This was because dividends were one source of information that could be provided by companies to reduce the inequality of information that occurred between managers and shareholders. Based on the proof above, then obtained the result that profitability was not able to weaken the influence of leverage on the cash dividend policy.

Profitability Strengthened the Influence of Liquidity on the Cash Dividend Policy

The result of hypothesis test regarding profitability in strengthening the influence of liquidity to cash dividend policy showed a positive and significant direction. This explained that profitability variable was able to strengthen the effect of corporate liquidity on the cash dividend policy. Based on the results, the fourth hypothesis (H4) in this study which stated that profitability moderated the effect of liquidity on the cash dividend policy, was accepted.

This result was in line with signalling theory. Signalling theory said that the management would pay dividends to signal the success of the company in posting profits (Wirjolukito et al., 2003) in (Fistyarini dan Kusmuriyanto, 2015). This explained that profitability was used by companies to signal external parties to show their performance. Such conditions would certainly attract shareholders to invest. High profitability also gave a sign that the company could distribute more dividends.

Testing directly or partially indicated that liquidity had a positive effect on the cash dividend policy. This explained that the increase in liquidity would affect the improvement of the company's cash dividend policy and vice versa. The results of profitability testing as a variable that moderated the effect of liquidity on the cash dividend policy stated the higher level of profitability of the company would have an impact on the higher the influence of liquidity on the cash dividend policy. This was for the increased profitability would increase the company's cash and cash that many would affect the increase in the amount of dividends to be distributed. Based on the proof above, then obtained the result that profitability could strengthen the influence of liquidity to the cash dividend policy.

CONCLUSIONS AND SUGGESTIONS

Based on the results of tests and discussions that have been presented previously, it can be concluded that the cash dividend policy is influenced by leverage and liquidity. Profitability does not moderate the effect of leverage on the cash dividend policy but profitability can moderate the effect of liquidity on the cash dividend policy. Suggestions for management should consider the level of liquidity in cash dividend policy. This is done because dividends will be distributed in cash which means the company needs enough cash to be able to distribute the dividends. For potential investors in order to assess the level of leverage, liquidity and profitability of the company first before deciding to invest. This is because the three factors above can affect the dividend to be distributed. The next research can add another independent variable to increase the value of low coefficient of determination in this study such as adding investment opportunity variable.

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