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Original Article

The Effect of Liquidity, Leverage, Profitability, Earnings Growth, and Firm Size on Dividend Policy in Consumer Goods Companies Listed on the Indonesia Stock Exchange

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Abstract: *This study aims to examine the effect of liquidity, leverage, profitability, earnings growth, and firm size on dividend policy in consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2023 period. Using purposive sampling, a total of 30 companies were selected, resulting in 60 firm-year observations. The dependent variable, dividend policy, was measured by the Dividend Payout Ratio (DPR), while independent variables included Current Ratio (CR), Debt to Equity Ratio (DER), Return on Assets (ROA), earnings growth, and firm size (Ln total assets). Multiple regression analysis was applied after classical assumption tests were conducted. The results reveal that leverage has a significant negative effect on dividend policy, whereas liquidity, profitability, earnings growth, and firm size have no significant impact. The adjusted R^2 of 0.071 indicates that the model explains only 7.1% of the variation in dividend policy, suggesting that other external factors may play a stronger role. This research provides managerial implications for dividend decision-making in consumer goods companies, particularly in managing debt levels to ensure sustainable dividend distribution.*

Keywords*: Liquidity, Leverage, Profitability, Earnings Growth, Firm Size, Dividend Policy.*

I. INTRODUCTION

Dividend policy has long been one of the most debated topics in corporate finance. The decision to distribute profits to shareholders in the form of dividends or to retain them for reinvestment purposes reflects managerial preferences that may significantly influence firm value. According to Brigham & Houston (2021), dividend policy is a key component of corporate financial management because it determines how firms balance shareholder wealth maximization with internal financing needs. Despite the proliferation of research on the dividend policy puzzle, its determinants are not clear in various sectors, markets and periods.

Indonesia's consumer goods industry provides a special background to examine the dividend policy. These companies are often seen as more stable than other industries since they make day-to-day essentials, like food and drinks, household goods, and personal care products. These are also companies that most investors gravitate toward in search of steady returns and less volatility. Nevertheless, dividend policies among Indonesian consumer goods companies are far from uniform. While some firms distribute dividends regularly with high payout ratios, others prefer to retain earnings for expansion, even when profitability is high. This inconsistency raises critical questions about which financial factors actually determine dividend distribution in the sector.

There are a number of factors known to influence dividend policy. First, liquidity, as indicated by the current ratio, captures a company's ability to pay off short-term obligations. A highly liquid company means that it has a higher ability to pay dividends (Maula, F., & Yunati, 2019). Second, leverage, as measured by the debt-equity ratio, captures a firm's dependence on external financing. Highly leveraged companies may pay a larger percentage of their earnings as debt service, which diminishes the ability to declare dividends (Madyoningrum, 2019). Third, profitabilitas, yang sering kali diestimasikan dengan return on assets (ROA), secara intuitif erat kaitannya dengan kebijakan dividen karena semakin tinggi profitabilitas maka seharusnya l ebih mudah bagi perusahaan memberikan dividen kepada para pemegang saham (Eko,M., Musfitria and Triastuti, 2022). Fourth, earnings growth reflects continuity of profit. Growing firms would prefer to plough profits back into the firm so that they can grow, rather than pay dividends (Lintner, 1963). Finally, firm size, which is often proxied by the natural logarithm of total assets, could influence dividend policy as it could also imply that larger firms are more established and tend to pay stable dividends (see PERMANA 2016).

Yet evidence supporting these claims is mixed. For instance, (Maula, F., & Yunati,2019) found that leverage has a negative influence on the dividend policy, but profitability and liquidity are not significant. Unlike in Easy Taxi and Temi

Investment Co Limited, (Eko, M., Musfitria, & Triastuti, 2022) found that profitability has a significant effect on dividend payout. Likewise, there is evidence indicating that the firm size has a positive effect on dividend policy (Madyoningrum, 2019), and other studies also negate this relationship. Such inconsistencies indicate that certain contextual factors (i.e., industry attributes and macroeconomic conditions) may be important. This makes it imperative that we revisit the determinants of the dividend policy in consumer goods companies in Indonesia, particularly at a post-pandemic time (2022–2023), as many firms would have been confronted with recovery options and financial shortages.

This paper has several implications for the ongoing dividends policy debate. First, this study considers consumer goods in Indonesia, which are still less discussed and researched when we compare the same products in the manufacturing industry, banking, or mining. Second, the paper includes five financial determinants—liquidity, leverage, profitability (PROFIT), growth of earnings, and SIZE—which result in a thorough study on the drivers of dividend policy. Third, the study adopts relatively new data samples (2022–2023), thus adding observation to test for dividend decisions in a scenario of post-COVID-19 recovery and elevated economic uncertainty. Lastly, the results of this study should have significant implications for corporate managers, investors and policy makers in framing dividend policies with the firms that seek to achieve a balance between firm sustainability and shareholder value.

Referring to the background above, the main problem of this study is: Does liquidity, leverage, profitability, earnings growth and firm size significantly influence dividend policy in the consumer goods company list on IDX 2022–2023? By answering this question, the paper will contribute both to the academic debate on dividend policy determinants and make relevant suggestions for corporate managers and investors.

II. LITERATURE REVIEW

A) Theoretical Framework

Dividend policy is a subject for which different financial theories have been used to show the reasons firms decide to pay out dividends and their investors' viewpoints in this regard. In this section, we present some of the major theoretical viewpoints and prior empirical research regarding work climate, and derive some hypotheses to verify in our study.

a. Dividend Irrelevance Theory

According to Modigliani and Miller (1961), under perfect capital market conditions, that is, in the presence of no taxes, transaction costs or information asymmetries, dividend policy is irrelevant for firm value. Their claim is that investors are ambivalent about dividends and capital gains, because they both create wealth. And if investors want cash, they can dispose of some shares to produce the equivalent of dividends. Therefore, dividend payout or retention is irrelevant to shareholder wealth.

In reality, the perfect capital market assumption is seldom met. Taxes, information asymmetries and agency conflicts in the actual world lead to the possibility that dividend policy affects firm value. This laid the groundwork for other theories like the Bird-in-the-Hand Theory, Tax Preference Theory and Agency Theory.

b. Bird-in-the-Hand Theory

GAP Theory for (Gordon, 1963) and (Lintner, 1963), Investors prefer Dividends with certainty today to Capital gains in future uncertain times. Dividend effect hypothesis. The implication of this view is that payment of dividends decreases uncertainty about the company, let alone to mention lowering riskiness to both investors and their wealth. Investors consider dividends as less risky than the potential upside from stock price appreciation. Firms with stable and predictable dividend policies (persistent payers) may then face higher valuation levels and lower cost of equity capital.

Such theory would suggest that if such factors as strong liquidity and profitability have positive impact on a firm's ability to pay dividends, they should exert the consensus effect according to dividend policy.

c. Tax Preference Theory

Miller, M. H., & Scholes, (1978), on the other hand, formulated the Tax Preference Theory that investors will prefer to keep earnings withheld from dividends owing to tax differences. In numerous tax jurisdictions, taxes on dividends tend to be more (or less deferred) deferred than taxation on capital gains that accumulates if not paid when profits happen or realised by selling. Therefore, rational investors would like to see firms retaining earnings they could use to maximise after-tax returns.

This suggests that it may not necessarily be optimal to distribute high dividends, especially in environments with the imposition of relatively high dividend taxes. Thus, firms will likely factor investor tax preferences into the setting of dividend policy.

d. Agency Theory

Another equally important perspective is provided by the agency theory, which centres on the divergence of interests

between managers (agents) and shareholders (principals). (Jensen and Meckling 1976) observed that the managers had opportunities to pursue their personal benefits by refusing to disgorge unnecessarily earned funds. Dividends are a way of decreasing free cash flow under managers' discretion and therefore weakening the agency conflicts.

From this perspective, higher firm profitability or the larger size may be likely to raise the probability of agency conflicts. To reduce these agency problems and preserve shareholders' confidence, companies may use dividend policy as a monitoring mechanism. This theory emphasises the disciplinary function of dividends in ensuring that managers' interests are consistent with shareholders' objectives.

B) Empirical Studies on Dividend Policy Determinants

There are many studies which analyze the factors influencing dividend policy of firms in numerous countries and industries, but the results remain inconclusive.

1. Liquidity: More liquid firms tend to pay higher dividends as they have the cash available to fulfill short-term obligations. For example, (Maula, F., & Yunati, 2019) found a positive but non-significant impact of liquidity on dividend payout ratios- in the Indonesian manufacturing firms.
2. Debt ratio: This variable is negatively associated with dividends in the literature because firms with high debt ratios prefer to decrease dividends; namely, they focus on reducing their debts Load et al. (Madyoningrum, 2019) and (Firmansyah, 2020) indicated that companies with high debt-to-equity ratios have the tendency to decrease dividend payout.
3. Profitability: Profit is usually related positively to dividend policy. (Eko, M., Musfitria, & Triastuti, 2022) found out that more profitable firms in Indonesia pay high dividends. Nevertheless, some evidence also suggests that profitability does not lead to dividend payments – especially for those firms that concentrate on reinvestment in emerging markets.
4. Earnings Growth Firms with high earnings growth may wish to retain profits for reinvestment rather than payout these earnings as dividends. (Lintner, 1963) argued that the payout ratio is typically lowered when investment opportunities are high.
5. Firm Size − Large The size of the firms is related to firm' stability, easier access to capital markets and reputation cost drives the large firms to play safe by paying stable dividends. (Permana, 2016) reported that the size of the firm has significantly positive effect on dividend payouts in firms listed at Indonesia.

These evidences suggest that the determinants of dividend policy may well need to be re-examined in some periods and sectors so as to incorporate context variables, as they strongly condition outcomes.

III. METHODOLOGY

A) Hypotheses Development

Drawing from the theories and empirical studies reviewed above, the following hypotheses are proposed:

- **H1: Liquidity positively affects dividend policy**: Firms with higher liquidity are more capable of distributing dividends since they possess adequate cash to cover both operational needs and shareholder payments.
- **H2: Leverage negatively affects dividend policy**: Highly leveraged firms tend to allocate earnings for debt repayment rather than dividend distribution, resulting in a negative association between leverage and dividends.
- **H3: Profitability positively affects dividend policy**: Profitable firms are expected to reward shareholders by distributing dividends, consistent with the Bird-in-the-Hand Theory.
- **H4: Earnings growth negatively affects dividend policy:** Firms experiencing high earnings growth are more likely to retain profits to fund future expansion, leading to lower dividend payouts.
- **H5: Firm size positively affects dividend policy:** Larger firms with stable cash flows and stronger reputations are more likely to pay consistent dividends to their shareholders.
- **H6: Liquidity, leverage, profitability, earnings growth, and firm size simultaneously affect dividend policy:** Collectively, these financial variables are hypothesized to significantly explain variations in dividend policy among consumer goods firms in Indonesia.

B) Sample and Data Collection

The population of this study consists of all consumer goods companies listed on the IDX as of December 31, 2023. According to IDX data, there were 55 companies in the consumer goods sector. The sampling technique used was purposive sampling, with the following criteria:

1. Companies that consistently published audited financial statements for the fiscal years 2022 and 2023.
2. Companies that distributed dividends during the observation period.
3. Companies with complete financial data relevant to the variables of this study.
4. Applying these criteria resulted in a final sample of 30 companies, yielding 60 firm-year observations (30 firms × 2 years).

This study uses secondary data obtained from the official website of the IDX (www.idx.co.id) and company annual reports published between 2022 and 2023. Financial statement data were extracted manually and cross-verified with data from the Indonesian Capital Market Directory (ICMD) to ensure accuracy and consistency.

C) The Dependent and Independent Variables Are Defined as Follows:

Dependent Variable:

Dividend Policy (DPR): measured using the Dividend Payout Ratio, calculated as:

- DPR=Dividend per Share (DPS)Earnings per Share (EPS)DPR = \frac{\text{Dividend per Share (DPS)}}{\text{Earnings per Share (EPS)}}

Independent Variables:

- Liquidity (CR): measured by the Current Ratio (current assets / current liabilities).
- Leverage (DER): measured by the Debt-to-Equity Ratio (total debt / total equity).
- Profitability (ROA): measured by Return on Assets (net income / total assets).
- Earnings Growth (EG): measured as the percentage change in net income from year t–1 to year t.
- Firm Size (FSIZE): measured as the natural logarithm of total assets (Ln Total Assets).

D) Data Analysis Technique

The study employs multiple linear regression to test the relationship between independent variables and dividend policy. The regression model is specified as follows:

DPRi,t=α+β1CRi,t+β2DERi,t+β3ROAi,t+β4EGi,t+β5FSIZEi,t+εi,tDPR_{i,t} = \alpha + \beta_1 CR_{i,t} + \beta_2 DER_{i,t} + \beta_3 ROA_{i,t} + \beta_4 EG_{i,t} + \beta_5 FSIZE_{i,t} + \varepsilon_{i,t}

Where:

- DPRi,tDPR_{i,t} = Dividend payout ratio of firm i in year t
- α\alpha = constant term
- β1…β5\beta_1 … \beta_5 = regression coefficients
- εi,t\varepsilon_{i,t} = error term

E) Classical Assumption Tests

To ensure the validity of the regression model, several classical assumption tests were conducted:

1. Normality Test – using the Kolmogorov-Smirnov test to assess whether residuals are normally distributed.
2. Multicollinearity Test – by examining the Variance Inflation Factor (VIF), with values below 10 indicating no serious multicollinearity.
3. Heteroskedasticity Test – using the Glejser test to check for variance inconsistency in residuals.
4. Autocorrelation Test – applying the Durbin-Watson statistic to detect the presence of autocorrelation in residuals.

F) Hypothesis Testing

- Partial Test (t-test): evaluates the significance of each independent variable individually on dividend policy.
- Simultaneous Test (F-test): examines whether the independent variables jointly influence dividend policy.
- Coefficient of Determination (Adjusted R^2): measures the explanatory power of the independent variables in predicting dividend policy.

All tests were conducted using SPSS 26 software, with a significance level of 5% (α = 0.05).

IV. RESULTS AND DISCUSSION

A) Descriptive Statistics

Table 1 presents the descriptive statistics of the variables used in this study.

Table 1: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Current Ratio (CR)	60	0.55	9.95	2.63	2.22
Debt-to-Equity Ratio (DER)	60	0.11	9.22	1.78	1.95
Return on Assets (ROA)	60	-0.05	0.24	0.08	0.06
Earnings Growth (EG)	60	-0.30	0.45	0.05	0.12
Firm Size (Ln Total Assets)	60	25.3	32.5	28.9	1.50
Dividend Payout Ratio (DPR)	60	0.00	0.85	0.32	0.21

First, the observational statistics disclose some important evidence. The mean DPR is 0.32, meaning that consumer goods corporations distribute in average 32% of their earnings as dividends. The minimum of 0 suggests that some firms did not pay any dividends and the maximum of 0.85 indicates that some firm distributed as high as 85% of its DTL to dividends.

The liquidity in the crawler industry, judged by CR, is varied with some firms that are extremely liquid and a few that are very illiquid. The leverage (DER) also shows significant variations between firms, ranging from 0.11 to 9.22, indicating that the capital structure across sample firms is heterogeneous.

B) Classical Assumption Tests

Prior to regression analysis, the classical assumptions were tested. The Kolmogorov-Smirnov test indicated that the residuals were normally distributed ($p > 0.05$). The variance inflation factor (VIF) values were below 10 for all independent variables, indicating no multicollinearity. The Glejser test confirmed the absence of heteroskedasticity, and the Durbin-Watson statistic was close to 2, suggesting no autocorrelation. Therefore, the regression model was deemed valid for further analysis.

C) Regression Analysis

Table 2: Regression Results

Variable	Coefficient (B)	t-Statistic	Sig.
Constant	0.120	—	0.600
Current Ratio (CR)	0.015	0.980	0.332
Debt-to-Equity Ratio (DER)	-0.048	-2.250	0.028*
Return on Assets (ROA)	0.030	1.120	0.267
Earnings Growth (EG)	0.012	0.890	0.379
Firm Size (FSIZE)	0.010	1.050	0.298

- Adjusted $R^2 = 0.071$
- F-statistic = 1.25 (Sig. = 0.280)
- *Significance level: $p < 0.05$

The regression results indicate that among the five independent variables, only leverage (DER) has a significant effect on dividend policy, with a negative coefficient. This suggests that firms with higher debt levels tend to pay lower dividends. Liquidity (CR), profitability (ROA), earnings growth (EG), and firm size (FSIZE) do not significantly affect dividend policy at the 5% significance level.

D) Discussion

a. Liquidity and Dividend Policy

Liquidity is not a significant determinant of dividend policy as indicated by the results. This finding is consistent with studies by (Mauladayi, F., & Yunati, 2019) who found that liquidity has an insignificant influence on dividend payout in Indonesian companies as well. While in theory companies with high liquidity should be able to pay out dividends, consumer firms may prefer activities of resources/ investments for future uncertainties (post-COVID recovery).

b. Leverage and Dividend Policy

H2 is supported as the negative firm specific and significant association between leverage and dividend policy. This result is in line with agency theory and pecking order theory that predict that more leveraged firms spend more resources for debt service, therefore less available for payment of dividends. This finding is also consistent with that of (Madyoningrum, 2019) and (Firmansyah, 2020) in Indonesian companies. This suggests that banks have a 'strong grip' (Sharpe, 1997) on the cash flow assignments of firms thereby restricting their dividend payments.

c. Profitability and Dividend Policy

In contrast to H3, however, profitability has no significant effect on dividend policy. This finding is contrary to (Eko, M., Musfitria,- & Triastuti, 2022) which finds that profitability has a significant positive effect on the distribution of dividends. The inconsistency could result from managers' flexibility: in the presence of high profit generation firms may decide not to pay out dividends but rather reinvest their profits for growth potential. This is especially true in the consumer goods industry, given the enormous reinvestment demands associated with growth initiatives like product innovation and market penetration.

d. Earnings Growth and Dividend Policy

The finding does not provide evidence for H4, as the impact of earnings growth on dividend policy is insignificant. This is inconsistent with the argument that firms have limited opportunities to invest and that growing firms keep more earnings and pay less dividends (Lintner, 1963). This non-significance is perhaps associated with the rather brief observation period (two years) that may not cover long term growth patterns. Moreover, earnings volatility could be deceiving post the pandemic context in relation to the correlation between growth and dividends payout.

e. Firm Size and Dividend Policy

The impact of company size is also not significant on dividend policy and H5 is rejected. While larger companies are

known to produce stronger dividends, this may not be the case in the Indonesian consumer goods sector. Large corporations may also tend to invest for the long term, expand their markets or restructure their debt and may have a smaller pool of funds available for dividends payments. It counterpoint from (Permana, 2016) as Permana determine the increase in firm size can affect positively towards dividend policy and also supported by other studies on emerging markets showed that dividend policies were discretionary.

f. Joint Effect of Variables

Further, the results of F-test show that liquidity, leverage, profitability, earnings growth and firm size do not significantly influence dividend policy together ($p > 0.05$). The R^2 The adjusted R^2 (0.071) indicates that 7.1 percent of the variation in dividend policy can be explained by the model, while the remaining 92.9 percent is affected by other independent variables used in this study—ownership structure, corporate governance, macroeconomic conditions and investor preferences among others.

V. CONCLUSION

A) Conclusion

This study investigated the effect of liquidity, leverage, profitability, earnings growth, and firm size on dividend policy in consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2023 period. Using purposive sampling, 30 companies were selected, resulting in 60 firm-year observations. Multiple linear regression was employed as the analytical tool.

The results indicate that leverage shows negative and significantly effect on dividend policy, which means companies with a higher level of debt decrease the payment of cash as dividends in the corporate payouts to cater for debt. On the other hand, liquidity, profitability, earnings growth and firm size have no significant effect on dividend policy. The independent variables jointly explain 7.1% of dividend policy variation, meaning that other outside and inside influences (corporate governance) have more significant impacts on the decision to pay dividends.

These findings underscore the significance of capital structure effects in dividend policy. For management it is a fine line, they have to be able to balance debt with shareholder return so they can keep the company stable and instill confidence with investors. For investors the results suggest a closer look at firms' funded positions when identifying dividend policy-related investment decisions.

B) Limitation

This paper has its limitations even though it does provide useful information. The first limitation is that the observation period is confined to two years (2022– 2023), and thus may not be long enough to observe long-term trends or cyclical impacts on dividend policies. It seems that a more extended time period would lead to strong evidence on financial factors and dividend decisions.

Second, the research is limited to only financial determinants of dividend policy without considering non-financial factors such as ownership structure, corporate governance provisions and managerial discretion that also affect dividend payout.

Third, the sample is focusing on consumer goods firms; therefore the generalization cannot be made for other sectors like manufacturing sector, banking sector, or any other type of mining industry. Sectoral differences in capital intensity, market dynamics, and investor expectations may produce different dividend behaviors.

C) Recommendation

Based on the findings and limitations, the following recommendations are proposed:

1. For Corporate Managers: Companies should carefully manage leverage levels when designing dividend policies. Excessive debt reduces the ability to reward shareholders and may negatively affect investor perceptions. Maintaining a balanced capital structure will support both debt obligations and dividend commitments.
2. For Investors: Dividend-seeking investors are advised to consider firms' leverage ratios as a critical factor when selecting investment portfolios. High leverage may indicate lower dividend prospects despite profitability or firm size.
3. For Policymakers and Regulators: Regulatory bodies should encourage transparency in firms' capital structure and dividend policy disclosures to help investors make informed decisions. Improved disclosure standards may enhance investor confidence in the capital market.
4. For Future Researchers: Future studies should extend the observation period to capture long-term patterns in dividend policy. Incorporating governance-related variables and sectoral comparisons would enrich understanding of the determinants of dividend distribution in emerging markets such as Indonesia. Employing panel data or advanced econometric techniques such as Generalized Method of Moments (GMM) could also provide stronger evidence regarding causality.

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