Effect of Debt Level and Liquidity on Dividend the Pharmaceutical Sub-Sector Listed on the IDX from 2015 to 2020

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Abstract

This study aims to determine the effect of debt levels and liquidity on profit persistence (an empirical study of companies in the pharmaceutical sub-sector consumer goods industry listed on the IDX for the 2015-2020 period). This type of research is a quantitative approach research with descriptive analysis method. Samples were taken using purposive sampling technique. A sample of 60 data from 10 companies in the pharmaceutical sub-sector consumer goods industry listed on the Indonesia Stock Exchange in 2015-2020. The data analysis technique used is descriptive statistical techniques and panel data regression using Eviews 9. partially the debt level variable has no effect on dividends, partially the liquidity variable has no effect on dividends and simultaneously the level of debt and liquidity has a simultaneous effect on dividends.

Keywords: level of debt, liquidity, dividends

JEL Classification : G35

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Introduction

The Background of the Study

Companies must present reliable financial reports, this is important in relation to the reliability of information, where information can be said to be reliable if the information can influence economic decision making. Economic decisions can include contracting decisions, investment decisions and standard setters. Companies must present reliable financial reports, this is important in relation to the reliability of information, where information can be said to be reliable if the information can influence economic decision making. Economic decisions can include contracting decisions, investment decisions and standard setters.

Profit becomes very important in the company. Because profit is the main goal of a business established. With profits the company can maintain its survival and carry out various developments for the progress of its business. Profit has always been the basis for imposing taxable income, dividend policy, investment guidelines, decision making, and elements for predicting performance (Harnanto, 2003, p. 444). Profit is the gain from the company's efforts to produce and sell its goods or services (Suwardjono, 2008, p. 464).

There are several factors that can affect dividends including the level of debt. The company's ability to obtain dividends is that the profits obtained are very dependent on the company's sources of capital which are useful for the company's operations so that the company can continue to develop its business and generate maximum profits. One source of company capital is debt (leverage). The level of debt (leverage) is a ratio that calculates how far the funds provided by creditors are as well as a ratio that compares total debt to all assets of a company (Sawir in Linawati, 2016). Research conducted by Fanani (2010) shows that debt levels have a positive and significant effect on earnings persistence, in line with research conducted by Sukman (2017) which shows that debt levels have a positive and significant effect on earnings persistence. Debt is one way to get additional funding from external parties. On the one hand, debt can increase capital to be used to expand business activities or can increase fixed asset investment in order to increase profit growth so that it has an impact on dividends.

Based on the description of the background above and several previous studies, the researcher is interested in conducting research with the title: “**Effect of Debt Level, and Liquidity on Dividends”**

The problems of the study are that, first, the effect the level of debts has on dividends. Second, the effect of Liquidities has on Dividends. Third, the effect of debt level liquidity has on dividends. This r**esearch purposes are** to examine the effect of debt levels on dividends, to test the effect of Liquidity on Dividends, and to test the effect of debt levels and liquidity on dividends

Literature Review

Agency Teory

Agency theory is a theory that explains the relationship between one principal and one agent (Amalia, 2021). Agency theory according to Jensen and Meckling (1976) in Hidayat and Fitria (2018) describes a relationship that arises because of a contract between the principal and another party known as the agent, where the principal delegates a job to the agent.

Signalling Theory

According to Signaling Theory or Signaling Theory developed by Ross in 1977, states that company executives who have better information about their company will be compelled to convey this information to potential investors.

Signal Theory provides an understanding that the information provided by management to outsiders will be a signal for the market. The signal in question is an action by the company's management that provides guidance to investors about how management views the company's prospects. Information about sales, debt levels and taxes contained in the report on the results of management's accountability for performance in the company is a signal about the company's ability to generate persistent profits.

Deviden

Apart from that, dividend policy can also be linked to increasing company value as in the research of Martha, Sogiroh, et al (2018). According to Suryanto, Dewi., et al., (2021) Dividend policy is an agreement that is obtained by the company and given to shareholders as dividends or retained in the form of retained earnings as investment financing in the future.

Dividend policy is also considered as part of spending decisions, especially internal spending, because the size of the dividends paid by the company will affect the level of the company's internal funding sources. There are 2 forms of dividend distribution, namely cash dividends or cash profits which are distributed in the form of money to shareholders and stock dividends, namely profits which are distributed in the form of shares to shareholders. (Nia Safitri and M. Safii, 2022).

Debt Level

Debt is generally divided into two, namely current debt and long-term debt. Current liabilities are the company's obligations or debts to other parties that must be paid immediately. Current debt term is a maximum of one year. Meanwhile, long-term debt is a company's obligations to other parties that have a maturity of more than one year. This means that the maturity of the debt is relatively longer than current debt.

Liquidity

T. Harrison, et al (2012: 161), explained that liquidity measures how quickly a system can be converted into cash. Cash is the most liquid asset. Trade receivables are relatively liquid because cash collections can usually be made promptly. Inventory is less liquid than accounts receivable because companies must sell goods first. Equipment and buildings are the least liquid items because these assets are held for use not for sale. The balance sheet presents assets and liabilities in order of their relative liquidity.

Theoretical Framework

According to Daito (2007:20) in M. Safii, et al (2022), the framework of thinking is a rational answer to the problem that has been formulated and identified (why this phenomenon occurs).

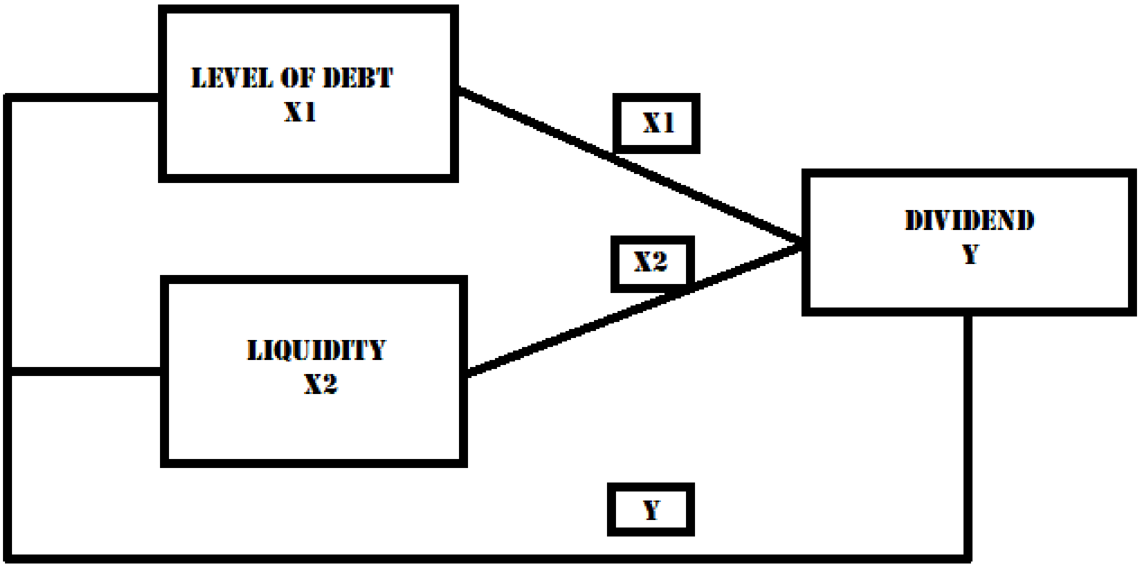

Figure 1 Theoritical Framework

Effect of Debt Level on Dividends

The use of funds sourced from debt will provide stronger incentives for companies to increase profits by managing profits aimed at maintaining good performance in the eyes of creditor investors and shareholders which has an impact on the level of trust that affects dividends earned, so that they still have confidence in funding matters.

Based on agency theory, the debt policy taken by the company in carrying out operational activities is to obtain profits from this debt. A debt level that is too high will create future obligations for the company to pay its obligations, of course, will have a negative impact on company profits. H1: It is suspected that the level of debt has an effect on dividends

Effect of Liquidity on Dividends

Liquidity is the ability of a company to meet its short-term debt with its current assets. Liquidity has a relationship with earnings quality because when a company has a high ability to pay its short-term debt, it means that the company has good financial performance in fulfilling current debt so that the company does not need to practice profit manipulation (Mahya in Sukmawati and Agustina, 2014).

There are other factors that affect profit including short-term cash (the most liquid assets, including currency, fund deposits, money orders, checks) and cash equivalents (treasury bills/securities issued by the US), commercial paper, and funds money market. The second hypothesis of this study is formulated as follows: H2: It is suspected that liquidity has an effect on dividends

Effect of Debt Level and Liquidity on Dividends

Profit Agency Theory explains the working relationship between the principal (shareholders) and agents (company management) where the shareholders have the desire, namely a fast and increasing return on investment, namely instructing company management to obtain persistent profits and obtain the expected dividends for shareholders. share.

Based on the results of the research described above, the level of debt has a significant effect on the persistence of profits where additional funds from creditors will increase funding sources in the form of capital or increase assets used to increase company revenue. From this explanation it can be concluded that a hypothesis in this study is as follows: H3: It is suspected that the level of debt and liquidity has an effect on dividends

Research Methods

This type of research is using quantitative methods. According to Sugiyono (2017: 7) says that the quantitative method can be interpreted as a positivistic method because it is based on the philosophy of positivism. This method is a scientific method because it fulfills scientific principles, namely empirical, objective, measurable, rational and systematic. It is called a quantitative method because the data and research are in the form of numbers and the analysis uses statistics.

This research was conducted on manufacturing companies in the consumer goods sector, the pharmaceutical sub-sector, which were listed on the Indonesia Stock Exchange (IDX) in the period 2015 - 2020. To obtain financial report data, it comes from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id and www.idnfinancials.com .

Operational Definition and Variable Measurement

Table 1 Operational Variables

Num.	Variabel	Indicator	Scale	Source
1	Debt Level	$\frac{Total\ Debt}{Total\ Assets}$	Ratio	Kasmir (2015:156)
2	Liquidity	$\frac{Current\ Asset}{Current\ Liabilities}$	Ratio	Kasmir (2012:135)
3	Dividend	$\frac{DPS}{EPS}$	Ratio	Senata (2016)

Results and Discussions

The research data uses a population of manufacturing companies in the consumer goods sector, the pharmaceutical sub-sector, which are listed on the Indonesia Stock Exchange (IDX) in 2015 - 2020. The sample companies that were successfully obtained in this study were 10 companies with total data of 60 company financial reports from 12 companies that registered on the Indonesia Stock Exchange using a purposive sampling method based on the following sample selection criteria:

Table 2 Sample Selection Criterias

Num.	Sample Criteria	Violation Criteria	Number of Companies
1	Sector manufacturing companies pharmacy listed on the Stock Exchange Indonesia (listing) for the time being research period 2015 - 2020.	0	12

2	Selection of manufacturing companies the consumer goods sector Delisting during the research period period 2015 - 2020	-1	11
3	Manufacturing company earn a profit during the year study.	-1	10
Number of samples used in the object of research 2015 – 2020 : 10 x 6			**60**

Normality Test

In this study the researchers compared the calculated Jarque-bera (JB) value with the Chi-Square table, as well as by comparing the probability value with the alpha value. Following are the results of the normality test histogram:

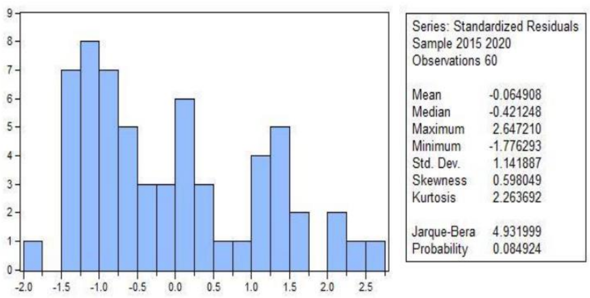

Figure 2 Normality Test

In the graph above it can be seen that the Jarque-Bera value is 4.931999 while the Chi-Square table value by looking at the number of 4 independent variables and the significance value used is 0.05, the Chi-Square table value is 9.48773 which means that the Jarque-Bera value is smaller than the value Chi-Square table (4.931999 < 9.48773). While the probability value is 0.084924 > 0.05, it can be concluded that the sample data in this study are normally distributed.

Based on the results of the autocorrelation test in the dW results table, it shows a value of 2.018337, the Durbin Watson table is a dL of 1.4443 and a dU of 1.7274 so that 4-dU is 2.2726, where 1.7274 (dU) < 2.018337 (dW) < 2.2726 (4- dU), it is concluded that no autocorrelation occurs.

Partial Test (T)

Based on the estimation model chosen in this study, namely the random effect, it shows the results of multiple regression testing for the model used in this study.

Table 2 Partially test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.297174	0.491726	10.77262	0.0000
X1	-5.931325	1.049087	-5.653799	0.0000
X2	-0.038294	0.055073	-0.695340	0.4897

Effects Specification

Table 3 T tabel

T tabel

Pr df	0.25 0.50	0.10 0.20	0.05 0.050	0,025 0.02
5 6	0.67890	129685	167252	2.000324

The first hypothesis in this study is the level of debt has an effect on dividends. The results of the t test show that the significance value of the debt level variable is prob. 0.0000 < 0.05 with the results of partial testing the value of t count < t table, namely 10.77262 > 2.00324, it can be concluded that the debt level variable has an effect on dividends.

The second hypothesis in this study is that liquidity has no effect on dividends. The results of the t test show that the significance value of the debt level variable is prob. 0.4897 <

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Simultaneous Test (Test F)

The F test is used to determine whether the independent variables simultaneously have a significant effect on the dependent variable (Ghozali, 2016: 96).

Table 4 Simulaneously Test

Weighted Statistics

R-squared	0.383497	Mean dependent var	1.340082
Adjusted R-squared	0.361866	S.D. dependent var	1.220976
S.E. of regression	0.975356	Sum squared resid	54.22518
F-statistic	**17.72851**	Durbin-Watson stat	1.179718
Prob(F-statistic)	**0.000001**		

Table 5 F- table

F tabel

df untuk penyebut (N2)	df untuk pembilang (N1)		
	1	2	3
57	4.01	3.16	2.77

Testing the two independent variables shows a significant level of 0.000001 which is less than α (0.05) and the F-Statistic value is 17.72851 greater than the F table value (df1 = 3, df2 = 60-3 = 57, a=0 .05) 2.77 (17.7281 > 2.77) so that it can be concluded that the level of debt and liquidity together (simultaneously) affect dividends.

The first hypothesis (H1) from the results of the partial test (t test) in table 4.15 obtains a probability value of 0.000 < 0.05 and the results of t-count < t-table are 10.77262 > 2.00324 thus H1 is accepted, so that the debt level variable partially affects persistence profit. This states that the company has short-term debt and long-term influence on dividends.

The second hypothesis (H2) from the results of the partial test (t test) in table 4.15 obtains a probability value of 0.4897 > 0.05, and the value of t count <t table 5.563799 > 49 2.004324 thus H2 is rejected, so that the operating cash flow variable partially affects persistence profit. This states that good operating cash flow can affect the persistence of a company's profits.

The third hypothesis (H3) simultaneously variable levels of debt and liquidity have a significant effect on dividends. It is proved that the calculated F value is greater than the F table, namely 17.7281 or (17.7281 > 2.77) and a significant value is obtained of 0.000001 (0.000001 <0.05). So that H3 is accepted, meaning that the level of debt and liquidity is considered to have a significant effect on dividends.

Conclusion

From the results of this study it can be concluded in the study of the effect of debt levels and liquidity on dividends in manufacturing companies (consumer goods industry sector, pharmaceutical sub-sector listed on the Indonesia Stock Exchange for the 2015-2020 period), partially the debt level variable has no effect on dividends, partially the liquidity variable has no effect on dividends and simultaneously the level of debt and liquidity has a simultaneous effect on dividends.

The limitations in this study are that the period used in this study is relatively short, namely only 6 years with the 2015-2020 period, the variables used in this study are only 2 independent variables and use other sectors or other sub-sectors besides the pharmaceutical sub-sector.

For further research, it is hoped that increasing the number of years of observation will make the research results more reflective of actual conditions. Adding other variables is expected to make the research range wider and examine/choose other sectors or sub-sectors because each type of company has a different character.

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