



The Influence Cash Position Analysis over Debt to Equity Ratio, Return On Assets, And Inventory Turnover on Dividend Payout Ratio: Consumer Goods Companies in Indonesia Stock Exchange 2012-2017 Case Study

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Dividend policy is the most controversial topic in the context of corporate finance, where the variables that influence it are still uncertain in the literature. This study aims to analyze the effect of cash position, debt to equity ratio, return on assets and inventory turnover to the dividend payout ratio, as well as providing information and description to investors whose investment objectives to pursue dividends based on variables. Here, we analyze the panel data regression over 11 consumer goods industries in the Indonesia Stock Exchange from 2012 to 2017. The results shows that the variable return on assets and inventory turnover had a positive and significant effect on the dividend payout ratio, and also the debt to equity ratio had a negative and significant effect on the dividend payout ratio. While the cash position had not significantly affect on the dividend payout ratio

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1. INTRODUCTION

Dividend policy is a most controversial topic in the context of corporate finance. The controversy over dividend policy is one of the ten major unsolved problems of corporate finance that deserve more research to improve understanding on a subjective basis. A number of research studies were carried out in many areas globally but no general consensus was found among them regarding the variables that affect dividends [1]. Research conducted in the same country, combining almost the same variables but different industries, has produced somewhat different results. Account manufacturing and service companies in America had concluded that significant factors were different for the two industries. Apart from the above considerations, it was also found that several variables that influence dividend payments were considered to influence it in the same direction. As if there is an increase in company profitability it will be

assumed and proven to increase the dividend payout ratio of any company with rejected the relationship [2, 3, 4]. As with liquidity, some researchers concluded a positive relationship while some appear with a negative relationship [5]. These conflicting results require more research that can be clarifying the relationship. Investors also need various types of information to be able to assess the performance of a company that is needed in making investment decisions on the capital market. In general, the information needed by investors consists of fundamental and technical information. The fundamental approach focuses on analyzes to find out the fundamental conditions of companies which in turn are influenced by general economic conditions [6]. Dividends can provide information or signals to the market including investors regarding the company's future performance. A dividend excision can signal that the company maintains free cash flow for future expansion. This sign theory argues that

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managers cannot excision or increase the level of dividends arbitrarily because eliminating dividends will send negative signals to the market [7]. This research on consumer goods sector (food and beverage, tobacco, pharmaceutical, cosmetics, and household) which are listed on the Indonesia Stock Exchange and actively distribute dividends during the period of 2012 up to 2017 is the industrial sector which is generally considered stable for investment. The cause of this stability is that the consumer goods sector is considered a sector immune to decline because it looks at basic human needs. The consumer goods sector has a more stable risk and important to consider in a stock portfolio because it is as a defense [8]. Increased growth and development of consumer goods companies can trigger investors' interest in investing. This interest is based on the quality of the company in generating company profits. Therefore, earnings will generate a positive signal for potential investors as shareholder contributions because it reflects the performance of good company management, the need for securities will also increase. Securities or shares as a form of capital investment are invested by investors to obtain profits in the capital market, where the investment is still part of the country's economy, even as evidence of industrial growth. The most important stock securities substantially in the dynamics of the stock market are dividends [9]. The increasing and stable performance will attract investors to invest, in other words, to obtain income or returns, one of which is dividends. This dividend can be paid out of income and after the company fulfills financing needs and consumes profitable projects [10]. Previous research used the variable current ratio (liquidity), debt to equity ratio (leverage) and return on equity (profitability) on the subject of research on companies listed on the National Stock Exchange (NSE) of India in 2012-2018 [11]. The variable current ratio and return on equity, but the leverage ratio used the debt to assets ratio of non-financial companies listed on the Dhaka Stock Exchange (DSE). Whereas in this study using the variable cash position (liquidity), debt to equity ratio (leverage), return on assets (profitability) and inventory turnover (activities) as an additional independent variable and using research subjects in the Consumer Goods industry listed on the Indonesia Stock Exchange from 2012-2017, where the sample data taken is based on the efficiency of the Indonesian capital market at a level of weak efficiency, namely data taken based on historical data. The inventory turnover variable on steel companies listed in the National Stock Exchange and Bombay Stock Exchange (BSE) of India [12]. This research has a goal that can be a reference for scientific studies on the analysis of the influence of corporate performance variables that exist in this study, and can provide information and images to investors whose investment goal is to pursue dividends based on the variables that exist in this study.

2. METHODOLOGY

A viable capital market can be used to make the financial system more competitive and efficient without capital markets, companies must rely on internal finance through existing profits in Nigeria [13]. Basically in the market, there is always an investor who is one of the most important corporate hearings. Investors are more systematic in evaluating capital [14]. Therefore, the capital market is a market for trading securities related to more than one year of age, such as dividend shares and contracts, as well as long-term loans and financial leasing, and corporate securities [15].

Alternative and relatively old theories about dividend policy which show that dividend payments increase firm value (Bird-in-the-hand theory) so that high dividend payments will increase the firm value [16, 17]. As mentioned until now, the factor of dividend payments on profits remains an important topic in the financial literature and still relevant in financial markets [18]. Although much research has been done on dividend dynamics, no explanation has yet been received about the main factors influencing dividend payments [19]. The word dividend has a meaning that is dividing. Dividends are the distribution of profits to shareholders from profits or reserves available to reach the goal. Part of net income distributed to shareholders, where profits were reduced by all costs, provisions are made for taxation and transfers a portion of the amount to a reserve of the company's total income. If a company wants to pay dividends to shareholders, it must have sufficient profit, must obtain approval from the directors and shareholder acceptance at the annual general meeting [20].

Signal theory shows that stock prices will likely increase if there is an announcement of an increase in dividends, and vice versa. Based on this theory, it is not the increase or decrease in dividends that cause an increase or decrease in stock prices, but the prospects of the company contained in the announcement information. Because according to this theory, dividend announcements have information content [21]. The theory assumes that efficient companies provide relevant information for investors rather than companies that are less efficient for obtaining capital. This information can be obtained through financial information, which is about the financial position and financial performance that is presented and can be understood, relevant, reliable and can be compared to describe the company's condition in the past and future projections [22].

Many dividend theories have been put forward, as these theories explain how dividend decisions are accepted and whether they have an impact on firm value. Different perspectives for dividends have been suggested, this includes conservatives who believe that paying dividends increases the value of the company, radical groups who believe that it reduces the value of the company while those who believe that it has no effect on the value of the

company [23]. There is a theory which states that dividends are irrelevant to firm value (dividend irrelevance theory). The capital market is in good condition, there is rational investor behavior, and has certainty, where dividend payments are not related to firm value. This irrelevant theory assumes that in an ideal business world there is no conflict of interests between managers and investors, and all information and access are easily obtained by investors. Likewise with the transaction costs when buying and selling shares there is no difference between the tax rate for dividends and capital gains, therefore in this policy dividends follow investment decisions and result in dividends having no effect on the value of the company. Financial information or company fundamentals can be seen from the company's financial statements which can later be used as a signal to investors in obtaining information about the company's prospects. A financial reports are an important source of information about the company's financial performance, financial condition, and resource management [24]. The financial statements are one of the products of the accounting system needed to make economic decisions. This report is used to provide information to investors in ensuring the possibility of evaluating the company's past performance effectively assessing and predicting possible future profits in achieving high investment volumes. The financial statements are used as information purposes to determine whether earnings quality influences investor decisions [25]. In this study, the financial statements taken based on research variables include the variable cash position (CP) which is part of the liquidity ratio where cash is the basic input needed to start and run a business, each business venture is based on how management has planned its cash position. A shortage of cash will disrupt the company's operations and even lead to bankruptcy [26]. The cash position reflects the availability of cash from a company. The availability of cash is an important factor in determining the amount of dividends to be paid to investors. Cash dividends are cash outflows for companies. Therefore, if a company adopts a policy to pay cash dividends to its investors, then there must be sufficient cash to make payments [27]. The company's cash position and overall liquidity, the greater the company's ability to pay dividends [28].

Debt to equity ratio (DER) is a ratio that reflects a company's ability to fulfill all its obligations, which is indicated by several parts of its own capital used to pay debts. Companies that have large debt ratios must pay smaller dividends because the profits obtained are used to pay off obligations first [29]. The higher the value of the company's debt to equity ratio, the greater the company's capital is financed by debt. And vice versa, companies with low debt to equity shows that the company's capital is slightly financed by debt [30]. Companies with high debt tend to have low dividend payments also vice versa, the lower the debt to equity ratio, the greater the dividend payment.

Profitability is the company's ability to make a profit. Profitability can be measured by using the proxy return on assets which is an indicator of a company's profit assets relative to its assets. This ratio can also help investors to get an idea of company efficiency that how efficiency management uses its assets to generate profits [31]. The profitability used to evaluate the company's internal performance, which helps to determine success in achieving the company's main objectives [32]. The company's dividend payout ratio is more or less dependent on the predictability of the company's profits over time. Companies with stable income trends will usually pay most of their income in the form of dividends. This profitability variable was chosen to explain that profitability is the goal of every business and previous studies also used this determinant and were found to be important variables that influence dividend payments [33].

Inventory turnover (ITO) is a ratio of activities to measure the effectiveness of the use of capital or assets in a business. Inventory turnover is a ratio that has a function to measure the number of times a company's inventory is sold and replaced during the year. In financial statements, inventory turnover is useful in evaluating company liquidity. The company can identify unsold inventory. The lower the sales, the lower the investor returns [34]. Inventory turnover will provide investors with information about how well the company manages assets in the form of inventory. This inventory turnover ratio has a positive relationship with the ratio of sales growth [35]. The higher inventory turnover ratio would indicate that more inventory was spinning and could increase company profits which would later go into company cash. This means that the profits generated will increase or increase dividend payments later [36].

H1: Cash position has a positive effect on the dividend payout ratio.

H2: Debt to Equity Ratio has a negative effect on the dividend payout ratio.

H3: Return on Assets has a positive effect on the dividend payout ratio.

H4: Inventory turnover has a positive effect on the dividend payout ratio.

The design used in this study is a quantitative approach because it requires a systematic approach to the relationship between variables that focuses on testing hypotheses using statistical tools to conduct the test. The variables used in this study are five variables consisting of one dependent variable namely Dividend Payout Ratio (DPR) and four independent variables namely Cash Position (CP), Debt to Equity Ratio (DER), Return on Assets (ROA), and Inventory Turnover (ITO). The operational definition and measurement scale of the research variables can be seen in Table 1 below. Purposive sampling data collection techniques with the

population used in this study were 11 consumer goods companies that published financial statements and were listed on the Indonesia Stock Exchange from 2012 to 2017, and actively distributed dividends, consisting of 3 food and beverage companies, 2 cigarette companies, 4 pharmaceutical companies, and 2 cosmetic companies.

Testing in this study was carried out with the help of STATA software. Hypothesis testing uses multiple linear regression tests and pre-test panel data regression test is used to determine whether the structure has a significant relationship or not. Regression analysis data used in this study is data that has been selected from the three models, namely Pool Least Square (PLS), Fixed Effect (FE) and Random Effect (RE), then proceed with the Blue Test (multicollinearity, heteroscedasticity, and autocorrelation). If the Blue Test of the best model still has problems with multicollinearity, heteroscedasticity, and autocorrelation, a Robust Test is performed to provide the test output used to correct classical assumptions. This is done if the selected estimation model is Pooled Least Square and Fixed Effect which can be performed by this Robust Test. If the selected Random Effect model does not need to be tested again due to GLS-regression has been processed before. The output model of the selected model can be used as a data interpretation of regression results [37].

Table I. Measurement of Research Variables

Variables Name	Measurement Method	Scale
Dependent: Dividend Payout Ratio (DPR)	$DPR = \frac{\text{Dividend per share}}{\text{Earning per share}} \times 100$	Ratio
Independent: Cash Position (CP)	$CP = \frac{\text{Cash and cash equivalent}}{\text{Earning after tax}}$	Ratio
Debt to Equity Ratio (DER)	$DER = \frac{\text{Total debt}}{\text{Total equity}}$	Ratio
Return on Assets (ROA)	$ROA = \frac{\text{Earning after tax}}{\text{Total Assets}} \times 100$	Ratio
Inventory Turnover (ITO)	$ITO = \frac{\text{Cost of Sales}}{\text{Inventory}}$	Ratio

3. RESULT AND DISCUSSION

In this study, the objects of research are 11 Consumer Goods companies that are active in dividend distribution and are listed on the Indonesia Stock Exchange in 2012-2017. The list of Consumer Goods companies can be seen in Table II below.

Table II. Consumer Goods Companies that actively distribute dividends in 2012-2017

No	Company Name	Issuer Code	Sub-Sector
1.	PT. Delta Djakarta, Tbk.	DLTA	Food and Beverage
2.	PT. Indofood CBP Sukses Makmur, Tbk.	ICBP	Food and Beverage
3.	PT. Indofood Sukses Makmur, Tbk.	INDF	Food and Beverage
4.	PT. Gudang Garam, Tbk.	GGRM	Tobacco
5.	PT. HM Sampoerna, Tbk.	HMSP	Tobacco

6	PT. Darya-Varia Laboratoria, Tbk.	DVLA	Pharmacy
7	PT. Kalbe Farma, Tbk.	KLBF	Pharmacy
8	PT. Kimia Farma, Tbk.	KAEF	Pharmacy
9	PT. Tempo Scan Pacific, Tbk.	TSPC	Pharmacy
10	PT. Unilever Indonesia, Tbk.	UNVR	Cosmetic
11	PT. Mandom Indonesia, Tbk.	TCID	Cosmetic

The panel data regression method used in this study is based on three models, namely Pool Least Square (PLS), Fixed Effect (FE) and Random Effect (RE) which model will be used in this study for further analysis, then a paired test is performed on each model. The pair test results for each model can be seen in Table 3 below.

Table III. Model Estimation Test Results

Determination Test	Prob > Chi2	Information
Chow test (PLS vs FE)	0,0006	Fixed Effect
LM test (RE vs PLS)	0,1257	Pooled Square
Hausman test (FE vs RE)	0,0070	Fixed Effect

Each probability result can be interpreted from a confidence level of 95% or in statistics read with a probability value of 0.05. That is if the probability value below equals 0.05 can be said to have a significant correlation. From table 3 shows it has been proven from the results of testing the best model estimation that the fixed effect model is the best model with a probability of 0,0006 <0.05 in the Chow test and probability 0.0070 <0.05 in the Hausman test. It can be concluded that the fixed effect model can be used as a model for further testing, namely testing the interpretation of regression results. However, before continuing to test the interpretation of the regression results, the fixed effect model was tested by the Blue Test. Blue Test results can be seen in Table 4 below.

Table IV. Blue Test Results

Blue Test	Multicollinearity	Heteroscedasticity	Autocorrelation
Mean VIF	3,93		
Prob > Chi2		0,000	
Prob > F			0,009

In Table 4 shows Blue Test results above have proven that the selected fixed-effect model data is free from multicollinearity, but in the heteroscedasticity test with a probability of 0,000 <0.05 which means it still has a heteroscedasticity problem. Likewise with the autocorrelation test with a probability of 0.009 <0.05, which means it still has autocorrelation problems. Both can be said to be free from classical assumption problems if the probability is above 0.05. Therefore, Robust Test is performed to overcome the problem of classical assumptions and GLS-regression tests to get the best final model data and used as data interpretation of the regression results. The best regression test data can be seen in Table 5 below.

Table V. Hypothesis Test Results

Cross-Sectional time-series FGLS regression
Coefficients: generalized least square
Panels: homoskedastic
Correlation: no autocorrelation



Dpr	Coef.	Std. Err.	z	P> z	95% Conf.	Interval	Result
ito	0,0073	0,0033	2,22	0,027	0,0008	0,0139	Accepted
roa	0,6048	0,2501	2,42	0,016	0,1146	1,0950	Accepted
der	-0,0937	0,0349	-2,6	0,007	-0,1622	-0,025	Accepted
cp	0,0008	0,0202	0,04	0,966	-0,0387	0,0404	Rejected
_cons	0,3620	0,0651	5,56	0,000	0,2343	0,4897	-

In table 5 shows the best regression data results above show that the results of the regression analysis on the independent variables on the dependent variable with the regression equation are as follows:

$$DPR = 0.3620 + 0.0008 CP - 0.0937 DER + 0.6048 ROA + 0.0073 ITO$$

Based on table V, the results of the estimated return on assets variable with a coefficient of 0.6048 and inventory turnover with a coefficient of 0.0033, both have a positive and significant effect on the dividend payout ratio with a probability below 0.05. While the debt to equity ratio variable with a coefficient value of -0.0937 has a negative and significant effect on the dividend payout ratio with a probability under 0.05. However, the cash position variable with a coefficient value of 0.0008 has an insignificant effect on the dividend payout ratio.

4. CONCLUSIONS

The cash position has a positive but not significant effect on the dividend payout ratio. The results of this research state that in 2012-2017, consumer goods companies use cash that goes into re-use in managing their products which can be said to continue to provide profit, so statistically the cash position ratio has a positive but not significant effect for dividend payments. It also can be said that the company uses its cash back whether to pay obligations or to reduce business risk by managing the inventory that has a good rotation. Companies with excess cash flow (surplus) do not use cash to invest, but the company chooses to use cash to run operations or turn back its inventory even though the company is liquid. This is the best choice for the company. The debt to equity ratio has a negative and significant effect on dividend payout ratio. The results of this study state the truth of the inverse relationship between the ratios of debt to equity to dividends. So it can be concluded that the strength and relationship between the two are not consistent. It can be concluded that the higher the ratio of debt to equity owned by a company, the company will tend to distribute small amounts of dividends to shareholders and vice versa. Return on Assets has a positive and significant effect on the dividend payout ratio. The results of this study state that there is a relationship between dividend payments and profitability. Return on assets that are positive or higher can be used by the company whether to pay dividends or maintain company income. Research data from 11 Consumer

Goods companies listed on the Indonesia Stock Exchange in 2012-2017 have regression results shows that return on assets and inventory turnover have a positive and statistically significant effect on the dividend payout ratio. The debt to equity ratio has a negative and statistically significant effect on the dividend payout ratio. The results of this study are consistent with the empirical results in the research hypothesis which states that the debt to equity ratio has a negative and significant effect on the dividend payout ratio. Whereas Cash position has a positive and not significant effect on the dividend payout ratio. The results shown do not match or differ from the empirical results which state that the cash position has a positive and significant effect on the dividend payout ratio. The greater the company's cash position, the greater the company's ability to pay dividends, but this has no significant effect. It can be concluded that companies that have sufficient cash and profits generated annually can be reused to play their inventory, so the company does not distribute dividends. For Consumer Goods companies in increasing profits every year, it is expected to be able to improve operational cost efficiency, effective use of company assets and proper use of debt to finance company assets. The variables in this study can also be used as a company reference in obtaining empirical information about the company's fundamental conditions for dividends. Thus, consumer goods companies are expected to be able to increase their cash position, return on assets and inventory turnover and reduce their debt to equity ratio from year to year, so that they can attract investors to invest their funds. Thus, after 2017 the consumer goods company can be expected to make a greater contribution to increasing Indonesia's economic growth. For investors and prospective investors who are oriented to obtaining dividends, they can consider the conditions of liquidity, profitability, sales inventory and the company's leverage conditions in helping to make investment decisions in a company. This study also has limitations including the first research sector is limited to researching the Consumer Goods sector with 11 companies active in dividend distribution in 2012-2017. Second, the independent variables use in this study are limited to cash position variables, debt to equity ratio, return on assets and inventory turnover. This is because researchers only measure directly one of the variables from each part of financial performance that can affect dividends. Third, the measurement of liquidity ratios is limited to using the cash position ratio, because there are the same inventory rotation variables in the independent variable in order to know the direction and purpose of its relationship with the dividend payout ratio. For further research, it is expected to be able to add other variables such as investment opportunity set, company size, and company intangible assets and try to project company intrinsic value to companies in other sectors listed on the Indonesia Stock Exchange. Further researchers must also add other theories besides signal theory, such as agency theory, capital structure theory, capital market theory and

other financial management theories related to dividends. Inventory turnover has a positive and significant effect on the dividend payout ratio. The results of this study state that the higher the inventory cycle will show that more inventories will produce profits and later the profits will go into the company's cash. That is, cash derived from profits generated by the company in the sale of its inventory can be used to pay dividends. With the profits generated and payment of dividends to investors, the company's value will increase and increase investor confidence later. More investors will invest their capital in companies that have good sales conditions.

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