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Research Article

Revealing the Role of Liquidity in the Relationship between Operating Cash Flow, Profitability, and Leverage to Dividend Policy

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Abstract
This study aims to determine the effect of operating cash flow, profitability and leverage on dividend policy with liquidity as a moderating variable and reviewed from an Islamic perspective (empirical study of LQ45 companies listed on the Indonesia Stock Exchange for the period 2017-2021). The population in this study were 45 companies whose shares were included in the LQ45 index and 16 companies were selected as research samples. The sampling technique used purposive sampling technique. Data were analyzed using descriptive statistical analysis, classical assumption test, multiple linear regression analysis, moderation regression analysis, hypothesis testing using t-test and determination test. The results showed that partially operating cash flow and leverage did not affect dividend policy, profitability had a negative and significant effect on dividend policy. Liquidity was unable to moderate the partial effect of operating cash flow, profitability, and leverage on dividend policy.

Keywords: Operating Cash Flow, Profitability, Leverage, Liquidity, Dividend Policy

JEL Classification: G30, G32, G35

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1. Introduction

The company was established of course with the main objective of getting maximum profit. The profit obtained by this company will be used to run the company's operational activities. If the profit is used to fulfill investors' desires for high dividends, then the decision to retain profits for the benefit of the company will be ignored, conversely if the company retains profits then the interests of shareholders regarding dividend profits are also ignored. Thus, a dividend policy is needed to regulate the amount of dividends distributed (Monika & Sudjarni, 2018).

Dividend policy is a decision about the profits generated by the company that will be distributed to shareholders as dividends or profits will be retained in the form of retained earnings and used to finance future investments. Retained earnings are an important source of funds to finance the company's growth, while dividends are funds that will be paid to shareholders (Sugiharto & Amanah, 2020). Dividend policy is often a difficult decision for management. This dividend policy is related to the consideration of two interests, namely the interests of shareholders with their dividends and also the interests of the company with its retained earnings. This condition can cause agency conflicts caused by differences in interests between management and shareholders (Ratnasari & Purnawati, 2019).

Dividend policy in public companies has a very important impact on investors and companies. Generally, investors have the main goal of improving their welfare, namely expecting a return on their investment in the form of dividends or capital gains. On the other hand, companies also expect continuous growth to maintain their survival. Company management must be able to create a policy that can meet funding needs, while investors get what they want, so that investors do not shift their investments to other companies (Yunisari & Ratnadi, 2018).

Dividend policy in this study is measured by the dividend payout ratio (DPR), which is the percentage of income that will be paid to shareholders in the form of cash dividends. The higher the dividend payout ratio applied by a company, the smaller the funds that can be used to finance investments, which will hinder the development and growth of the company. The higher the dividend payout ratio, the greater the investor's profit, but the company will get internal financial, because it reduces retained earnings (Nugroho & Indrawati, 2018).

Profitability is also one of the factors that can affect dividend policy. Profitability is part of the financial ratio that aims to show the company's ability and also measure the level of management effectiveness in generating profits, the size of the profit can affect the company's decision in paying dividends to investors (Ginting, 2018). Profitability is needed when the company will distribute its dividends. The company's management will pay dividends to signal shareholders regarding the company's level of success in making a profit. The signal created by profitability shows a company's ability to pay dividends to shareholders (Puspitaningtyas et al., 2019). Profitability can be generated from the level of profit of a company in carrying out its operational activities. The profit that will be distributed to shareholders is the profit that has been reduced by interest and tax (after interest and tax). If the profit generated is large, the company's ability to pay dividends and continue its business activities will be greater (Bawamenewi & Afriyeni, 2019b). The profitability ratio used in this study is return on assets (ROA), a ratio that shows the results (return) on the amount of assets used in the company.

Another factor that can also affect dividend policy is leverage. Companies pay lower dividends when the company's leverage is high. Companies do this in order to reduce dependence on the use of funds from outside the company so that the greater the proportion of debt used for a company's capital structure, the greater the amount of dividends that will be distributed to investors due to the large obligations that must be paid (Bawamenewi & Afriyeni, 2019).

Leverage is a ratio to measure the extent to which a company is financed by borrowed funds (Wiagustini, 2014). The use of large amounts of debt will increase the company's risk, which increases the cost of debt (Brigham & Houston, 2018, p. 153). High corporate debt means investors will not be interested in buying the company's shares because the dividends that will be distributed will not be in accordance with investor expectations. The leverage ratio in this study is measured by the debt to equity ratio (DER), which is a ratio that measures the percentage of funds provided by creditors by dividing the company's total debt by total equity.

The next factor is liquidity, which means the company's ability to meet its immediate financial obligations. Cash position or liquidity is a consideration that can change dividend decisions that are influenced by operating cash flow, profitability, and leverage. The higher the level of liquidity a company has, the higher the company's cash capacity and the greater the dividends that can be distributed to shareholders (Kusuma & Purwaningsih, 2021). Liquidity in this study is used as a moderating variable that will test its ability to strengthen or weaken the influence of independent variables on the dependent variable. Liquidity in this study is measured by the current ratio, which is a ratio that describes the company's ability to pay off current liabilities from current assets. This current ratio can also be used as an assessment material for shareholders or investors to calculate how far the company can provide its dividends.

Although stocks in the LQ45 index are known to have high liquidity and relatively better stability compared to other stocks, the movement of stock prices in this index still experiences significant fluctuations. One of the main challenges faced is the external impact, such as the Covid-19 pandemic, which caused a drastic decline in early 2021. This decline not only affected stock prices, but also the company's ability to pay dividends to its shareholders. Although most issuers in the LQ45 index have consistent dividend policies, factors such as operating cash flow, profitability, leverage, and liquidity remain the main considerations in determining the amount of dividends distributed. The uncertainty of economic conditions and changes in market structure that occur every six months are also challenges for investors in assessing the long-term prospects of stocks in this index. Therefore, it is important for company management to continue to manage finances well in order to meet investor expectations while maintaining business stability in the long term.

2. Literature Review and Hypothesis

Capital market

The capital market is a place where supply and demand for securities meet. The capital market is also known as a place where sellers and buyers of capital or funds meet. The capital market is a link between investors (parties who have funds) and companies (parties who need funds) or government institutions through instrument trading (Puspitaningtyas et al., 2019). According to Fahmi (2018), the capital market is "a place for companies to market shares and bonds, the proceeds of which will be used to strengthen the company's capital or as additional funds for the company.

Financial statements

According to the Indonesian Institute of Accountants (2015) in Financial Accounting Standards (SAK) No. 1, it is stated that financial statements are part of the financial reporting process and financial statements are a structured presentation of the financial position and financial performance of an entity. Complete financial statements generally include a balance sheet, income statement, cash flow statement, statement of changes in equity and statement of changes in financial position (which can be presented in various ways, for example, as a cash flow statement or fund flow statement), notes and other reports and explanatory materials that are an integral part of the financial statements.

Dividend

Musthafa (2017) defines Dividends as a portion of the profits received by shareholders from a company. Meanwhile, according to Sulindawati et al (2017) Dividends are a distribution of profits given by the company and come from the profits generated by the Company. Based on several definitions of dividends above, it can be concluded that dividends are a distribution of profits or benefits generated by the company to its shareholders.

Operating Cash Flow

Sukamulya (2022) explains that, “Operating cash flow in the cash flow statement is cash received or paid by the company to carry out operational activities. Operating cash flow is the most important cash flow for investor decision making because this flow describes the cash obtained from the company's main activities. Based on the understanding of operating cash flow above, it can be concluded that operating cash flow is cash flow obtained from the results of operational activities that describe the company's main activities and can be used as a basis for decision making for investors.

Research Concept Framework

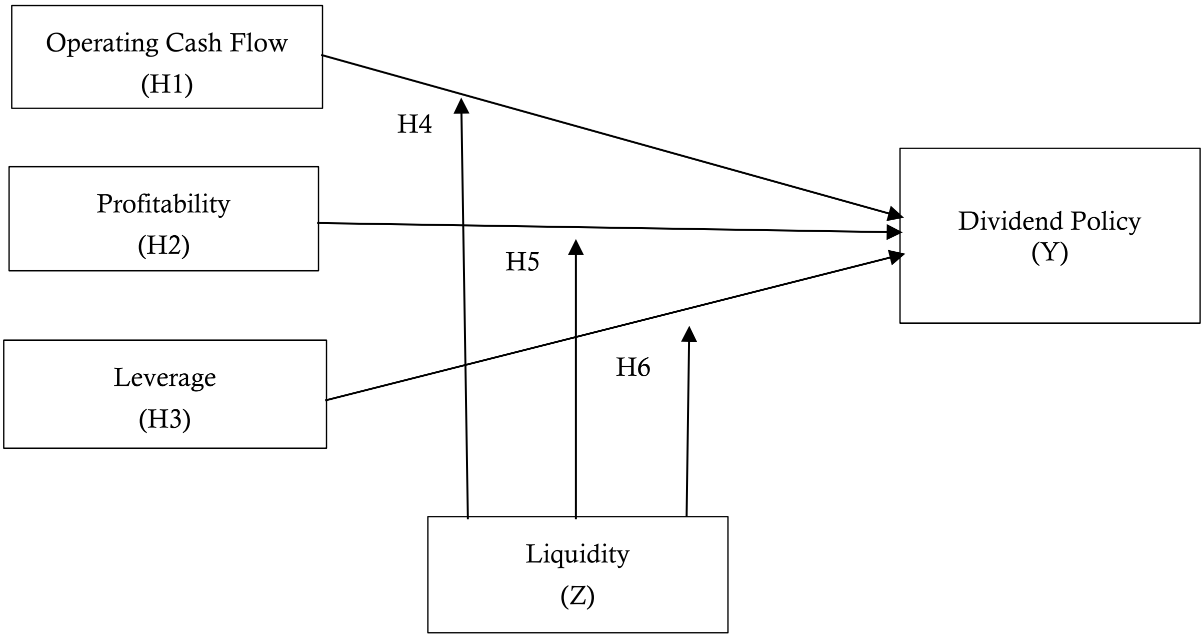

Figure 1. Research Concept Framework

Research Hypothesis

The Influence of Operating Cash Flow on Dividend Policy

Operating cash flow is cash obtained from the company's operating activities, which is useful for providing information about cash obtained from cash inflows and cash outflows from the company's operating activities, the ability to pay dividend obligations for investors and so on. Operating cash flow is also useful in the profits that the company will get, for investors, operating cash flow is very useful for predicting the dividend income that will be received. The cash obtained by the company greatly affects the amount of dividends that will be distributed to investors. Thus, the greater the cash inflow obtained from the company's activities shows that the company is able to distribute dividends in large amounts to investors (Suwardana & Subardjo, 2020).

Research conducted by Rachmah and Riduwan (2019), Dhaneswara and Haryanto (2019) and Suhaimi and Haryono (2021) shows that operating cash flow has a significant positive effect on dividend policy. So the higher the operating cash flow, the higher the dividend policy. Based on the explanation above, the hypothesis in this study is as follows.

H1: Operating Cash Flow Has a Positive and Significant Influence on Dividend Policy

The Influence of Profitability on Dividend Policy

Dividend policy cannot be separated from a company's profitability because dividend distribution depends on the amount of profit the company is able to achieve. An increase in net profit will increase the rate of return on investment in the form of dividend income for investors. Companies that have stable profits can set the level of dividend payments with confidence and signal the quality of their profits (Yunisari & Ratnadi, 2018). Profitability is the company's ability to generate profits, and this profit will be the basis for the company's dividend distribution. Companies that make a profit have the ability to pay dividends while saving internal funds in the form of retained earnings to finance investments on condition that the profits generated by the company tend to be stable. The higher the level of profit of a company, the higher the dividends distributed. The higher the profit generated by the company, the higher the cash flow in the company so that the company can pay higher dividends (Ratnasari & Purnawati, 2019).

Research conducted by Arifah and Suzan (2018), (Puspitaningtyas et al. (2019) and Monika and Sudjarni (2018) stated that profitability has a positive effect on dividend policy. So the higher the

profitability obtained by the company, the higher the dividend policy implemented by the company. Based on the explanation above, the hypothesis in this study is as follows.
H2: Profitability Has a Positive and Significant Influence on Dividend Policy

The Effect of Leverage on Dividend Policy
Leverage is the company's ability to meet obligations (debts) both short-term and long-term. If the higher the debt level indicates that the greater the obligations that must be met by the company, vice versa, the lower the debt level means that the company is able to meet the company's funding needs with its own capital will also be low. The high obligations that must be paid will reduce the profits obtained by the company, of course, it will have an impact on the distribution of dividends (Monika & Sudjarni, 2018). An increase in debt can affect the acquisition of net income in the form of dividends for investors, which means that the higher the debt owned by the company, the lower the company's ability to distribute dividends. An increase in debt can affect the amount of net profit obtained by the company so that the distribution of dividends to investors will be constrained or the distribution of dividends with a low amount. Therefore, the higher the debt, the lower the level of dividends that will be distributed (Suwardana & Subardjo, 2020).

Research conducted by Suwardana and Subardjo (2020), Monika and Sudjarni (2018) and Bawamenewi and Afriyeni (2019b) stated that leverage has a negative effect on dividend policy. So the higher the company's leverage level, the lower the dividend policy implemented by the company. Based on the explanation above, the hypothesis in this study is as follows.
H3: Leverage Has a Negative and Significant Effect on Dividend Policy

The Effect of Operating Cash Flow on Dividend Policy Moderated by Liquidity
Operating cash flow is a function of cash owned by the company and is used to finance the company's operational activities and also pay the company's obligations, this shows that operating cash flow can affect the company's ability to meet its obligations (liquidity). The level of liquidity can be increased if the company is able to manage cash properly. Liquidity is one of the factors that affects dividend policy. The liquidity ratio is a ratio that shows the company's ability to pay off short-term obligations with current assets owned. Dividend policy is one of the current obligations that must be fulfilled by the company to the company's shareholders (Nugraheni & Mertha, 2019). Thus, it means that liquidity is able to moderate the causal relationship between operating cash flow and dividend policy. Based on the explanation above, the hypothesis in this study is as follows.
H4: Liquidity Moderates the Effect of Operating Cash Flow on Dividend Policy

The Effect of Profitability on Dividend Policy Moderated by Liquidity
Only companies with good liquidity will distribute dividends to shareholders in cash. Dividends are cash outflows so that if the company's profitability increases with the company's higher liquidity, the greater the amount of dividends that will be distributed. Adequate cash is not necessarily owned by companies with high profits, so if a company wants to distribute dividends, the company needs to have sufficient cash because dividends are generally distributed in the form of cash dividends (Yunisari & Ratnadi, 2018). Research conducted by Puspitaningtyas et al (2019) states that liquidity moderates the relationship between profitability and dividend policy. So that companies that have a high level of profitability and good liquidity, the dividends that will be distributed will also be greater. Based on the explanation above, the hypothesis in this study is as follows.
H5: Liquidity Moderates the Effect of Profitability on Dividend Policy

The Effect of Leverage on Dividend Policy Moderated by Liquidity
Leverage is a reflection of a company in fulfilling its responsibilities that use some of its personal capital to pay it off and can also influence dividend policy. When a company has debt, the cash it has is used first to fulfill its obligations before distributing dividends to investors (Kasmir, 2017). The influence of leverage on dividend policy is strengthened by the presence of liquidity, because high liquidity will increase the funds owned by the company and be used as dividend payments (Cahyono & Asandimitra, 2021). Research conducted by (Cahyono & Asandimitra, 2021) states

that liquidity can strengthen the relationship between leverage and dividend policy. Based on the explanation above, the hypothesis in this study is as follows.
H6: Liquidity Moderates the Effect of Leverage on Dividend Policy

3. Data and Method

Method of collecting data

The type of data used in this study is secondary data. Secondary data that will be used in the analysis of this study includes audited financial reports of LQ45 companies for the period 2017-2021 which can be downloaded from the official website of the Indonesia Stock Exchange, namely www.idx.co.id and also from the website of each sample company. The data collection technique in this study is documentation. This study emphasizes measuring variables with numbers and conducting data analysis with statistical procedures using multiple linear regression analysis. The analysis was carried out using the SPSS version 25 program, with several stages, namely descriptive analysis, classical assumption tests, multiple linear regression tests with moderation, determination tests and hypothesis testing using the t-test.

Population and Sample

The population in this study were companies whose shares were included in the LQ 45 index for the 2017-2021 period, totaling 45 companies. The sampling technique in this study was purposive sampling, which is a sampling technique with certain criteria based on research objectives. Based on the criteria determined by the researcher, there were only 16 companies that met the sample criteria. Thus, the number of observations in this study was 80 observations obtained from 16 x 5 years of observation.

4. Results

Classical Assumption Test Results

Normality Test

Table 1. Normality Test Results

		Residual
N		**42**
Normal Parameters a,b	Mean	.0000000
	Std. Deviation	.11709830
Most Extreme Differences	Absolute	.131
	Positive	.131
	Negative	-.094
Test Statistics		.131
Asymp. Sig. (2-tailed)		.067c

Source: Processed data (2024)

Based on table 1 above, seeing the normality of the data can be seen from the Asymp.Sig value (2-tailed) which is 0.067. This shows that the value is > 0.05 so it can be interpreted that the variables in this study are normally distributed.

Multicollinearity Test

Table 2. Multicollinearity Test Results

Coefficientsa

		Collinearity Statistics	
		Tolerance	**VIF**
1	(Constant)		
	Operating Cash Flow	.391	2,558
	Return on Equity	.976	1,025
	Debt to Equity Ratio	.387	2,585

Source: Processed data (2024)

Based on table 2 above, it is known that the operating cash flow, return on equity and debt to equity ratio variables each have a tolerance value of > 0.10 and a Variance Inflation Factor (VIF) value of < 10, so it can be concluded that the independent variables in this study are free from multicollinearity problems.

Heteroscedasticity Test

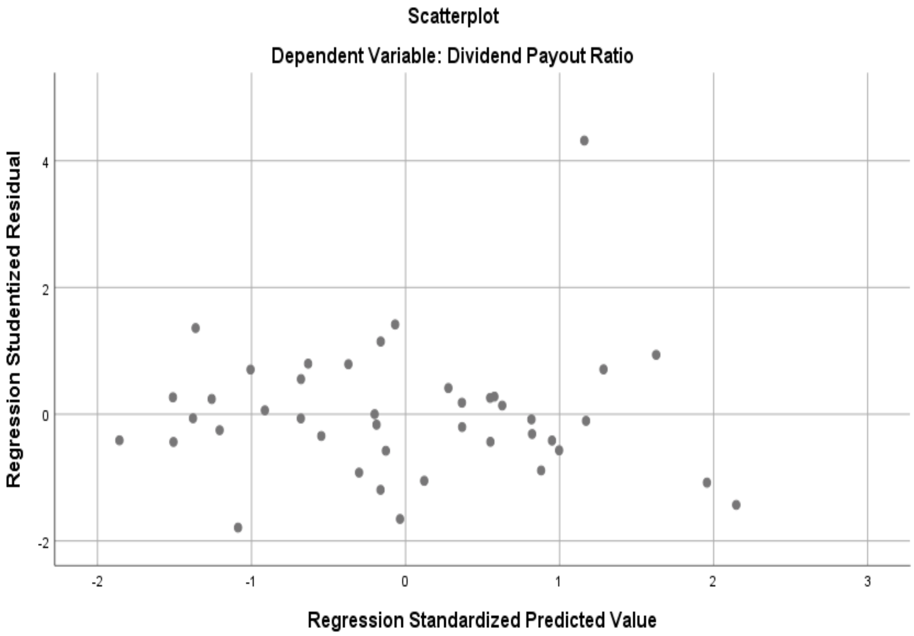

Figure 1. Scatterplot graph

Based on the image above, it can be seen that the points are spread randomly, do not form a particular pattern and are spread both above and below zero on the Y axis. Thus, it can be concluded that there is no heteroscedasticity in the regression model.

Multiple Linear Regression Analysis

Table 3. Results of Multiple Linear Regression Analysis

Coefficientsa			
		Unstandardized Coefficients	
Model		**B**	**Std. Error**
1	(Constant)	.581	.095
	Operating Cash Flow	.103	.102
	Return on Equity	-1.388	.574
	Debt to Equity Ratio	.006	.014

Source: Processed data (2024)

Based on table 3 above, the multiple linear regression equation shows that DPR is influenced by AKO, ROE, and DER. AKO and DER have a positive effect on DPR, while ROE has a negative effect. The constant 0.581 indicates the DPR value without changes in the independent variables.

Hypothesis Testing
Partial Test (t-Test)

Table 4. t-Test Results

Model		t	Sig.
1	(Constant)	6.110	.000
	Operating Cash Flow	1.005	.321
	Return on equity	-2.416	.021
	Debt to Equity Ratio	.405	.688

Source: Processed data (2024)

Based on table 4 above, the t-test results show that operating cash flow and leverage (DER) do not have a significant effect on dividend policy, while profitability (ROE) has a negative and significant effect, so that an increase in ROE actually reduces dividend policy.

Moderation Regression Analysis

Table 5. Results of Moderation Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.230	.186		1.234	.225
	Operating Cash Flow * Current Ratio	-.155	.161	-1.272	-.961	.343
	Return on Equity * Current Ratio	-.555	1.237	-.666	-.449	.656
	Debt to Equity Ratio * Current Ratio	.014	.077	.283	.183	.856

Source: Processed data (2024)

Based on table 5 above, it shows that if there is no change in the interaction of operating cash flow with liquidity. liquidity does not moderate the effect of operating cash flow on dividend policy. Thus it can be concluded that the liquidity variable cannot be used as a moderating variable.

There is no change in profitability (ROE), liquidity (CR) and the interaction of profitability with liquidity. This means that liquidity (CR) does not moderate the effect of profitability (ROE) on dividend policy (DPR). Thus, it can be concluded that the liquidity variable cannot be used as a moderating variable.

There is no change in the interaction of leverage with liquidity. This means that liquidity does not moderate the effect of leverage on dividend policy. Thus, it can be concluded that the liquidity variable cannot be used as a moderating variable.

5. Discussion

The Influence of Operating Cash Flow on Dividend Policy

Based on table 4 above, stating that operating cash flow has a positive and significant effect on dividend policy is rejected. This means that operating cash flow does not affect dividend policy as measured by the dividend payout ratio. So the higher or lower the operating cash flow cannot affect the dividend policy implemented by the company. Operating cash flow does not affect dividend policy because operating cash flow is often inappropriate when used to assess dividend increases and decreases. If the cash flow owned by the company is inadequate and the company cannot obtain alternative financing in a short time, then the company cannot freely use cash including to pay dividends. Although the cash obtained by the company greatly affects the amount of dividends that will be distributed to investors.

The results of this study are supported by research conducted by Suwarna and Subardjo (2020), Rosalin (2019) which states that operating cash flow does not affect dividend policy. However, the results of this study contradict the research conducted by Rachmah and Riduwan (2019) and Hidayat (2017) which states that operating cash flow affects dividend policy.

The Influence of Profitability on Dividend Policy

Based on table 4 above, it states that there is an influence of profitability on dividend policy is accepted. This means that profitability as measured by return on equity (ROE) has a negative effect on dividend policy as measured by dividend payout ratio. So the higher the profitability of the company, the lower the dividend policy implemented by the company. The results of the study stated that profitability has a negative effect on dividend policy because the company tends to distribute large dividends when profitability is low to maintain the company's reputation. With the company distributing high dividends, investors expect high profitability even though in reality it is not always high. Conversely, companies that have high profitability tend to pay low dividends. This is because the company will allocate profits to retained earnings for the benefit of company expansion.

The results of this study are supported by research conducted by Sugiharto and Amanah (2020) and Hidayat (2017) which stated that profitability has a negative effect on dividend policy. However, these results contradict research conducted by Ginting (2018) and Monika and Sudjarni (2018) which stated that return on equity has a positive effect on dividend policy.

The Effect of Leverage on Dividend Policy

Based on table 4 above, it states that there is an influence of leverage on dividend policy is rejected. This means that leverage as measured by the debt to equity ratio (DER) does not affect dividend policy as measured by the dividend payout ratio. So high or low leverage is unable to affect the dividend policy carried out by the company. The results of this study indicate that the ability to pay dividends is not affected by the amount of leverage (DER). The higher the DER, the greater the use of debt which results in greater financial risk faced by the company. The higher the use of company debt makes it more difficult for the company to pay its dividends, so the dividends will be smaller or even not distributed because the profits obtained are used to pay its obligations.

The results of this study are supported by research conducted by Ratnasari and Purnawati (2019) and Ginting (2018) which stated that leverage has no effect on dividend policy. However, these results contradict research conducted by Ginting (2018) and Monika and Sudjarni (2018) which stated that leverage has a positive effect on dividend policy.

The Effect of Operating Cash Flow on Dividend Policy with Liquidity as a Moderating Variable

Based on table 5 above, it states that liquidity strengthens the influence of operating cash flow on dividend policy is rejected. This means that liquidity as measured by the current ratio (CR) is unable to strengthen the influence of operating cash flow on dividend policy as measured by the dividend payout ratio. So high or low liquidity is unable to strengthen or weaken the influence of operating cash flow on dividend policy.

The inability of liquidity to moderate the effect of operating cash flow on dividend policy shows that if operating cash flow increases, it will increase the liquidity value, conversely if operating cash flow decreases, the liquidity value will also decrease. However, companies with high liquidity do not necessarily pay dividends to shareholders because the company will prioritize paying its short-term obligations that will soon mature.

The Effect of Profitability on Dividend Policy with Liquidity as a Moderating Variable

Based on table 5 above, it states that liquidity moderates the effect of profitability on dividend policy is rejected. This means that liquidity (CR) is unable to strengthen the effect of profitability (ROE) on dividend policy (DPR). So high or low liquidity is unable to strengthen or weaken the effect of profitability on dividend policy. Liquidity fails to moderate the effect of profitability on dividend policy. This shows that the high level of company liquidity is more concerned with meeting the needs or interests of the company for company operations than with distributing dividends to shareholders.

The results of this study are supported by research conducted by Yunisari and Ratnadi (2018) and Kusuma and Purwaningsih (2021) which stated that liquidity is unable to moderate the effect of profitability on dividend policy. However, these results contradict research conducted by Puspitaningtyas et al (2019) which states that liquidity is able to moderate the effect of profitability on dividend policy.

The Effect of Leverage on Dividend Policy with Liquidity as a Moderating Variable
Based on table 5 above, it states that liquidity moderates the effect of leverage on dividend policy is rejected. This means that liquidity (CR) is unable to moderate the effect of leverage (DER) on dividend policy (DPR). So high or low liquidity is unable to strengthen or weaken the effect of leverage on dividend policy. The inability of the liquidity variable to moderate the effect of leverage on dividend policy shows that companies that have a high amount of liquidity will tend to fulfill operational activities or have other considerations than distributing dividends to the company's shareholders. In addition to being used for operational needs, high liquidity will be used more to pay off the company's short-term debt.

The results of this study are supported by research conducted by Maharani and Terzaghi (2022) which states that liquidity is unable to moderate the effect of leverage on dividend policy. However, this result contradicts research conducted by Cahyono and Asandimitra (2021) which states that liquidity is able to moderate the effect of leverage on dividend policy.

6. Conclusion
Based on the results of the research and discussion in the previous chapter, namely regarding the effect of operating cash flow, profitability and leverage on dividend policy with liquidity as a moderating variable in LQ45 companies listed on the Indonesia Stock Exchange in 2017-2021, the following conclusions can be drawn: Operating cash flow does not affect dividend policy in LQ45 companies. Profitability has a negative effect on dividend policy in LQ45 companies. Leverage does not affect dividend policy in LQ45 companies. Liquidity does not moderate the effect of operating cash flow on dividend policy. This means that high or low liquidity is unable to strengthen or weaken the effect of operating cash flow on dividend policy in LQ45 companies. Liquidity does not moderate the effect of profitability on dividend policy. Liquidity does not moderate the effect of leverage on dividend policy.

The managerial implications of this study emphasize the importance of liquidity in determining dividend policy. Although operating cash flow and leverage do not significantly affect dividends, management must still ensure adequate liquidity in order to pay dividends consistently. In addition, because profitability (ROE) has a negative effect on dividend policy, companies need to balance between retained earnings for investment and dividend distribution to shareholders. With optimal liquidity management, companies can maintain financial stability while meeting investor expectations regarding dividend payments.

Recommendation
The suggestions that the author can convey in this study are as follows: For investors who want to invest, they should consider companies whose shares are indexed in LQ45 because these companies have high liquidity and market capitalization so that the invested funds provide profits with a high rate of return. Companies whose shares have been included in the LQ45 index must be able to maintain their performance and credibility in order to continue to meet the criteria determined by the Indonesia Stock Exchange so that they are not removed or replaced by other companies.

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