THE EFFECT OF PROFITABILITY, LEVERAGE AND LIQUIDITY ON STOCK RETURN WITH DIVIDEND POLICY AS A MEDIATION VARIABLE IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

Elga Dian Sefti

Master of Management Study Program, UHW Perbanas Surabaya, Indonesia
Rungkut, Surabaya, East Java, 60296

Abstract

This study aims to examine the effect of profitability, leverage and liquidity on stock returns by using dividend policy as a mediating variable. The sample of this research is companies engaged in the manufacturing sector which are listed on the IDX in the 2015-2019 period. Analysis of research data using linear regression equation model and mediation test with Sobel Test. The research findings prove that profitability has a significant positive effect on stock returns. On the other hand, leverage and liquidity have no significant effect on stock returns. Meanwhile, dividend policy is not able to mediate the effect of profitability, leverage and liquidity on stock returns. This proves that investors need to consider the company's profitability when investing.

Keywords: Profitability, Leverage, Liquidity, Stock Return, Return on Assets, Dept to Equity Ratio, Cash Ratio, Dividend Payout Ratio

Preliminary

In an effort to obtain the desired profit, investors will analyze the company by utilizing any information, especially in terms of company performance. The financial information presented in the company's financial statements is information used by investors in making investment decisions. The annual financial report is one source of information that describes the condition of the balance sheet and the company's profit and loss. The company's published financial statements are the information that investors have been waiting for. With this publication, investors can assess the company's performance and predict the movement of the share price in question.

Stock is a form of investment that has a high level of risk compared to other forms of investment, such as savings and time deposits. Uncertainty in terms of income is a risk for investors who will invest in stocks. Stock income includes dividends and profits on the increase in share prices (capital gains). Dividend payments by the company depend on the company's ability to generate profits, while capital gains depend on changes in stock prices (Abdullah, Muda, and Syahyunan, 2018). The amount of return obtained by investors will be determined by several factors. The first factor is the profitability achieved by the company. The potential of the company in the future can be known by looking at the value of its profitability. The greater the profitability value, the better the condition of the company (Nalrita, 2015).

Furthermore, the amount of stock return obtained by investors is also determined by the leverage ratio. Abdullah, Muda, and Syahyunan (2018) explain that a high leverage ratio describes a higher total debt than the total capital itself. This implies that the higher the burden that is borne by the company to creditors as external parties, so the company has a higher risk of falling stock prices. The ability of a business entity to meet short-term debt or what is known as liquidity also affects stock returns. According to Heikal, Gaddafi, and Ummah (2014), the level of liquidity can reduce income which has an impact on the stock return that will be received by investors. Great liquidity shows the company's ability to meet maturing obligations, thus giving a positive signal to investors. However, excessively high liquidity can indicate a large number of unproductive funds that will reduce company profits and ultimately have a negative impact on stock investment returns. The results of research from Heryanto (2016) and Khotimah and Murtaqi (2015) show that liquidity has a negative effect on stock returns where the effect is significant. Different results are found in the research of Fitriana, Andini, and Oemar (2016) which shows that liquidity has a negative, but not significant, effect on stock returns.

In addition, the level of investor returns on their investment is also influenced by the company's dividend policy. Companies in taking dividend policies have various considerations such as the need for profits generated to be retained for investment purposes to increase greater profits in the future or distribution of dividends in cash so that the trust held by investors in the company also increases. The cash dividend paid by the company is the hope of investors because it provides more certainty on the return of their investment. Fitriana, Andini, and Oemar (2016) research shows that dividend policy has a positive and significant effect on stock returns. A different finding was obtained by Fitri (2017) which shows that dividend policy does not have a significant effect on stock returns.

Investments in sectors that have bright prospects and have an important role in the economy of a country will provide greater profit opportunities for investors. In Indonesia, the sector that has an important role for the country's economy is the manufacturing sector. Based on data from the Ministry of Industry in 2019, it shows that in that year the manufacturing sector had the ability to contribute to the national Gross Domestic Product (GDP) of 20 percent. Several manufacturing sub-sectors that are projected to grow high include the food and beverage industry, machinery, textiles and apparel. Meanwhile, other sub-sectors that are able to develop include the leather and footwear industry, as well as the metal, computer and electronic goods industry.

During the period 2010 – 2017, the output value of the manufacturing industry increased by 10 to 22 percent every year. Unlike in 2013, the increase was only 0.46 percent. And the highest increase occurred in 2016 which was 34.47 percent or an increase of around 1.177 trillion rupiah. An increase in the value of output indicates an increase in the value of output in the form of goods produced from the process of manufacturing industrial activities that can bring in income and profits for the company. If the company has a good ability to generate income, it will attract investors to buy shares so that it will increase the share price. The increasing share price will cause the return received by investors to also increase.

The difference between previous research and current research is using dividend policy as a mediating variable from the effect of profitability, leverage, and liquidity on stock returns. This is because the level of profit given to shareholders cannot be separated from the dividend policy set by the company's directors. The research will be conducted on manufacturing sector companies listed on the Indonesia Stock Exchange for the period 2015 – 2019.

Research Methods

This study uses the dependent variable, namely stock returns. The independent variables are profitability, leverage and liquidity. And the mediating variable is dividend policy. Stock return is the rate of return that will be obtained by investors as a result of investing their funds in the company. Stock returns can be obtained by investors in the form of dividends and capital gains. Stock return is measured by using the value in the form of a percentage obtained from stock investments in a certain period which has a calculation based on the difference between changes in stock prices for the current period and the previous period (Abdullah, Muda, and Syahyunan, 2018). Profitability is a financial ratio to assess the company's performance in obtaining profits from its sales (Nurhakim, Yunita, and Iradianty, 2016). Melicher and Norton (2017: 435) explain that profitability shows the company's ability to generate returns on sales, assets, and equity. ROA ratio is used to measure profitability by calculating the distribution of net profit after tax with total assets. Leverage is the use of borrowed money to make investments and obtain returns on these investments with the amount of debt represented in the company's capital structure. Leverage shows how much of the assets owned by the company comes from debt financing, so that leverage will see the company's ability to meet its obligations (Fitriana, Andini, and Oemar, 2016). The measurement of leverage used in this study is DER (Debt to Equity Ratio). According to Fabozzi and Drake (2012:66) liquidity describes the ability of a business entity to fulfill its short-term debt payments by using assets converted into cash. Liquidity indicates the company's ability to meet its short-term obligations as they fall due. Measurement of the liquidity variable can be done by using the cash ratio. Dividend policy is a policy taken by the company in determining the amount of dividends that need to be paid and the amount of profit to be retained for reinvestment purposes. Dividend policy shows the overall managerial policy to determine how much net profit will be paid as dividends and how much net profit can be maintained for the company (Fitri, Hosen, and Muhari, 2016). The company's policy on dividends can be measured based on the Dividend Payout Ratio (DPR).

The population of this study are companies engaged in the manufacturing sector listed on the Indonesia Stock Exchange in the 2015-2019 period with a total of 141 companies. This study uses a non-random sampling technique, namely purposive sampling. This technique takes samples from the population based on predetermined criteria with reference to the objectives of the study. The criteria are that the financial statements are listed on the IDX, consistently publish financial reports, publish financial reports in rupiah currency, the company does not experience losses and distributes cash dividends.

This study uses secondary data because it is obtained from existing sources. The data collection technique used in this research is a documentation study. Documentation study is a data collection technique by collecting financial reports from manufacturing companies published by

the Indonesia Stock Exchange sourced from the official website www.idx.co.id. The data for the stock return variable comes from financial report data for 2014 – 2019 because it takes stock price data for the previous period. While the data for the variables of profitability, leverage, liquidity, and dividend policy were obtained from the 2015 – 2019 financial statements.

Based on the development of the previous hypothesis, this research model can be illustrated as shown in Figure 1. This study uses linear regression equation analysis techniques and mediation test with Sobel Test.
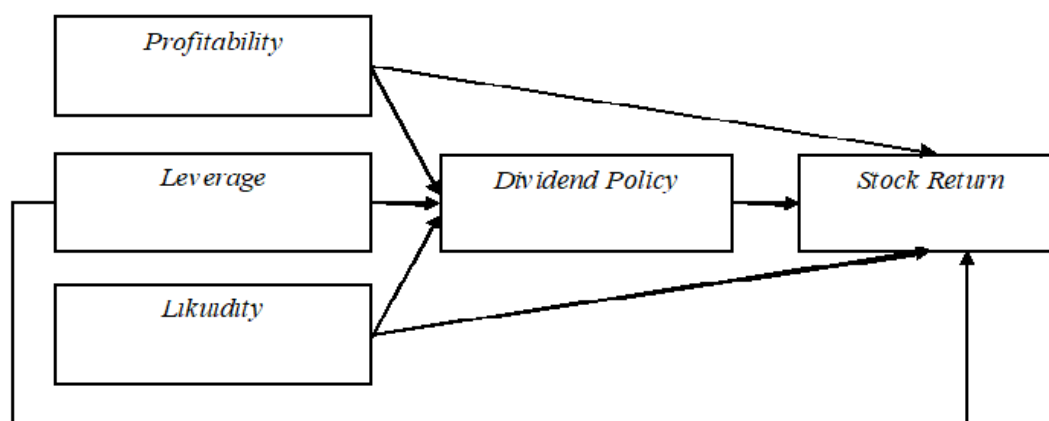

Figure 1. Research Framework

Results and Discussion

The first stage in this study is to test descriptive statistics which are used to provide an overview of the minimum value, maximum value, standard deviation, average value of the research variables. Table 1 shows the results of the descriptive statistics of the research variables. Return on Assets (ROA) which is used as a proxy in measuring the profitability variable has an average value of 0.084. This shows the average comparison of net income with total assets of manufacturing companies for the 2015 – 2019 period of 0.084. This means that manufacturing companies are able to generate profits of 8.4 percent of the total assets owned. The Debt to Equity Ratio (DER) which is used as a proxy in measuring the leverage variable has an average value of 0.649. This shows the average comparison between total debt and total equity of manufacturing companies for the 2015 – 2019 period of 0.649. This means that the average source of funds for manufacturing companies in that period was 64.9 percent financed by debt. A DER number smaller than 1 indicates that on average manufacturing companies use more equity than debt. Cash Ratio (CR) which is used as a proxy in measuring the liquidity variable obtained an average value of 0.750. This shows the average comparison for cash and cash equivalents to current liabilities in manufacturing companies for the 2015 – 2019 period of 75 percent. DPR is used as a ratio to measure dividend policy with an average value of 0.384. This shows that the average ratio of dividend per share to earnings per share in manufacturing companies in the 2015 – 2019 period is 0.384. This means that on average, manufacturing companies use 38.4 percent of their net income as dividends and the rest is used as retained

earnings. The stock return variable in manufacturing companies for the 2015-2019 period as measured by the comparison of the difference between stock prices and dividends against stock prices in the previous period, obtained an average value of 0.042.

Table 1. Descriptive Statistics of Research Variables

Variable	Minimum	Maximum	Mean	Std. Deviasi
ROA	0.005	0.237	0.08452	0.053837
DER	0.102	2.799	0.64877	0.477573
CR	0.007	5.010	0.74967	0.846772
DPR	0.012	1.321	0.38410	0.226198
Stock Return	-0.763	1.427	0.04168	0.333322

Source: SPSS Output, 2021

Table 2 below explains that the results of processing the tested data are normally distributed. Based on the results of the Kolmogorov-Smirnov test, it shows the Asymp value. Sig. (2 – tailed) of 0.123 > 0.05. This indicates that the data used in this study has a normal distribution.

Table 2. Kolmogorov Smirnov Test After Outlier Data

	Unstandardized Residual
Test Statistic	1.182
Asymp. Sig. (2-tailed)	0.123

Source: SPSS Output, 2021

Table 3 presents the results of the multicollinearity test conducted on the variables that affect stock returns, namely profitability, leverage, liquidity, and dividend policy. The mutilinearity test was seen based on the tolerance value and VIF contained in the Coefficients table resulting from data processing using SPSS. Based on the results of the multicollinearity test, the resulting tolerance value is > 0.1 and VIF < 10 so that there is no multicollinearity, meaning that the variables that affect stock returns are not related to each other so that they are free from multicollinearity.

Table 3. Multicollinearity Test Results

Variabels	*Tolerance*	VIF
Profitability	0.818	1.222
Leverage	0.772	1.296
Likuidity	0.762	1.313
Dividend Policy	0.994	1.006

Source: SPSS Output, 2021

Table 4 describes the results of the autocorrelation test based on the magnitude of the Durbin Watson value. Based on Table 4, it can be seen that the Durbin Watson value produced is 1.958 so it can be said that there is no autocorrelation symptom. This is because Durbin Watson's number is between − 2 to + 2 which means that there is no autocorrelation.

Table 4. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.234	0.055	0.030	0.3282	1.958

Source: SPSS Output, 2021

After testing the classical assumptions, then an analysis of the coefficient of determination is carried out which is used to explain the contribution given by the variables of profitability, leverage, liquidity, and dividend policy in explaining changes that occur in the stock return variable. Table 5 below shows the magnitude of the R Square value of 0.055 which, when presented as a percentage, becomes 5.5 percent. This means that the contribution given by the variables of profitability, leverage, liquidity, and dividend policy in explaining changes that occur in the stock return variable is 10.1 percent while the remaining 94.5 percent is explained by other reasons outside the model.

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square
1	0.234	0.055	0.030

Source: SPSS Output, 2021

The results of the study in Table 6 below, show that the profitability variable as measured by the ROA ratio has a t-count value of 2.240 and a significant level of 0.026 which is smaller than 0.05. Thus, it can be concluded that the profitability variable has a positive and significant effect on stock returns. The regression coefficient of the profitability variable has a positive value of 0.192 so that the effect is unidirectional. This means that every time there is an increase in profitability, it will significantly increase stock returns. The leverage variable as measured by the DER ratio has a t-count value of -0.062 and a significant level of 0.484 which is greater than 0.05. Thus, it can be concluded that the leverage variable has no significant effect on stock returns. The regression coefficient of the leverage variable is negative at -0.062 so that the effect is opposite. This means that every time there is an increase in leverage, it will reduce the value of stock returns, but the decrease that occurs in the stock return variable is not significant. The liquidity variable as measured by the CR ratio has a t-count value of -0.777 and a significant level of 0.439 which is greater than 0.05. Thus, it can be concluded that the liquidity variable has no significant effect on stock returns. The regression coefficient of the liquidity variable has a negative value of -0.069 so that the effect is opposite. This means that every time there is an

increase in liquidity, it will reduce stock returns, but the decline that occurs in the stock return variable is not significant. The dividend policy variable as measured by the DPR ratio has a t-count value of -1.691 and a significant level of 0.093 which is greater than 0.05. Thus, it can be concluded that the dividend policy variable has no significant effect on stock returns. The regression coefficient of the dividend policy variable is negative at -0.194 so that the effect is opposite. This means that every time there is an increase in dividend policy, it will reduce stock returns, but the decrease is not significant.

The profitability variable as measured by the ROA ratio has a t-count value of 0.808 and a significant level of 0.420 which is greater than 0.05. Thus, it can be concluded that the profitability variable has no significant effect on dividend policy. The profitability variable regression coefficient is positive at 0.071 so that the effect is unidirectional. This means that every time there is an increase in profitability, it will increase dividend policy, but the increase is not significant. The leverage variable as measured by the DER ratio has a t value of -0.137 and a significant level of 0.891 which is greater than 0.05. Thus, it can be concluded that the leverage variable has no significant effect on dividend policy. The regression coefficient of the leverage variable is negative at -0.012 so that the effect is opposite. This means that every time there is an increase in leverage, it will reduce dividend policy, but the decrease is not significant. The liquidity variable as measured by the CR ratio has a t-count value of -0.756 and a significant level of 0.451 which is greater than 0.05. Thus, it can be concluded that the liquidity variable has no significant effect on dividend policy. The regression coefficient of the liquidity variable has a negative value of -0.069 so that the effect is opposite. This means that every time there is an increase in liquidity, the dividend policy will decrease, but the decrease is not significant.

Table 6. Hypothesis Test Results

Variable	Model I (dependent = Stock Return)			Model II (dependent = Dividend Policy)		
	Regression Coefficient	t	Sig.	Regression Coefficient	t	Sig.
Profitability	0.192	2.240	0.026	0.071	0.808	0.420
Leverage	-0.062	-0.702	0.484	-0.012	-0.137	0.891
Likuidity	-0.069	-0.777	0.439	-0.069	-0.756	0.451
Dividend Policy	-0.194	-1.691	0.093			

Source: SPSS Output, 2021

The last test of this research is the Sobel Test, which was conducted to assess the mediating role or not of the dividend policy variable. The Sobel test will be conducted online at http://quantpsy.org/sobel/sobel.htm. Based on the results of the Sobel test, which is presented in

Table 7 below, it shows that the test statistics resulting from the Sobel test are -0.01929075, 0.27117017 and 1.06600749 which are below 1.96, meaning that dividend policy does not mediate the effect of profitability, leverage. and liquidity on stock returns.

Table 7. Sobel Test Liquidity Test Results
Against Stock Returns Through Dividend Policy

	A	B	Sa	Sb	Sobel Test
Profitability	0.071	-0.132	0.368	0.115	-0.01929075
Leverage	-0.012	-0,132	0.043	0.115	0.27117017
Likuidity	-0.069	-0.132	0.024	0.115	1.06600749

Source: Sobel Test, 2021

The results showed that profitability had a significant effect on stock returns so that the H1 hypothesis was accepted. The profitability variable as measured by the ROA ratio has a t-count value of 2.240 and a significant level of 0.026 which is smaller than 0.05. The results of this study support previous research conducted by Abdullah, Muda, and Syahyunan (2018) and Ida and Gede (2018) which show that the effect that occurs is positive and significant ROA on stock returns. Changes in the value of ROA make a positive and significant contribution to changes in stock returns, where an increase in ROA will be followed by an increase in stock returns. Thus, investors can predict stock returns based on the profitability generated by the company. Profitability will show the company's performance in carrying out its operational activities. The performance achieved can be seen from the profit generated from sales and investments made by the company. As stated by Nurhakim, Yunita, and Iradianty (2016) that profitability is a financial ratio to assess the company's performance in obtaining profits from its sales. Profitability can be measured using the ROA proxy which compares net income with total assets. This is because when the company can produce a high ROA, it will show better company performance because the company is considered capable of providing large profits. This high profitability will attract investors to buy shares of the company. Furthermore, this will affect the increase in the company's stock price. The increase in stock prices will cause the return obtained by investors to also increase. According to Jasman and Kasran (2017) profitability will show the company's ability to generate profits by utilizing its assets, so that profitability can be a reference for investors as an information signal in making investment decisions. The results of this study are in line with signaling theory which states that profitability is a signal for investors about the company's performance in the future. High profitability is a positive signal for investors, whereas low profitability is a bad signal for investors about the company's performance in the future.

The results of further research show that leverage does not have a significant effect on stock returns so that the H2 hypothesis is rejected. The leverage variable as measured by the DER ratio has a t value of -0.702 and a significant level of 0.484 which is greater than 0.05. The results of this study support the research of Wijaya (2017) and Alozzi and Obeidat (2016) who found that DER had an insignificant negative effect on stock returns. In other words, the level of leverage (debt) is not an important consideration for investors in investing in stocks. The logical relationship that can be explained from the results of this study is that companies that have a high

debt capital structure will prioritize obligations first before distributing dividends. So that it will have an impact on the head of potential investors, where the potential investors are not interested in placing their funds in the company. The higher the leverage value, the greater the debt owned by the company. High leverage has an unfavorable impact on the company because higher debt will result in reduced profits and affect investor interest in buying shares. According to the trade-off theory, the use of debt initially increases stock prices due to tax savings. After reaching a certain point which is called optimal, the addition of debt will reduce the stock price or the value of the company due to the emergence of high interest expenses and the risk of bankruptcy (Brigham & Ehrhardt, 498). As stated by Adair and Adaskou (2015) that if the benefits obtained are greater than the sacrifices, the added debt can be allowed. The results of this study indicate that debt does not significantly affect firm value so that it can also be indicated that the debt ratio is in the optimal range.

The results of the third study show that liquidity has no significant effect on stock returns so that the H3 hypothesis is rejected. The liquidity variable as measured by the CR ratio has a t-count value of -0.777 and a significant level of 0.439 which is greater than 0.05. The results of the study are in line with research conducted by Sitorus and Elinarty (2017) which states that liquidity has a negative and insignificant effect on stock returns. However, the results of this study differ from those of Violita and Suharto (2019) which show that the effect of liquidity on stock returns is positive and significant. In other words, the level of liquidity is not an important consideration for investors in investing in stocks. Insignificant influence can occur because the condition of a high cash ratio reflects that the company is in a liquid condition which means that the company has a good ability to fund the company in the short term. However, some investors have different opinions, where a high cash ratio actually reflects the company does not have the ability to optimize its liquid assets to increase capital through debt loans. Whereas the capital obtained from debt loans can be used for investments that can bring profits to the company, as long as the management is carried out properly and efficiently by the company. The results of this study show that the size of the cash funds owned by the company is not a determining factor for investors in investing in shares, but depends on the extent to which these liquid funds can be invested to generate profits for the company.

Based on the results of hypothesis testing using the Sobel Test, the test statistics value is -0.01929075 which is below 1.96, meaning that dividend policy does not mediate the effect of profitability on stock returns, so H4 is rejected. The results of this study support previous research conducted by Akhmadi, Nurohman, and Robiyanto (2020) that dividend policy does not act as a mediating variable for the effect of profitability on stock returns. Table 4.8 shows that profitability has a positive but not significant effect on dividend policy. However, dividend policy has a positive and significant effect on stock returns. Companies that generate profits in their operations will not necessarily use these profits to be distributed as dividends, especially for companies that plan to invest in assets in the future. Companies with profitable investment opportunities, namely having a positive net present value, may prefer to use their profits to be reinvested in the hope of increasing future profits. The results of this study prove that the higher the company's profit level, the higher the company's dividend distribution is not necessarily, on the other hand companies with low profits are not necessarily unable to pay dividends.

Based on the results of hypothesis testing using the Sobel Test, the test statistics value generated from the Sobel test is 0.27117017 which is below 1.96, meaning that dividend policy does not mediate the effect of leverage on stock returns, so H5 is rejected. Thus, dividend policy does not act as a mediating variable for the effect of leverage on stock returns. Table 4.8 shows that leverage has no significant effect on stock returns. This insignificant result indicates that when using debt, the company uses these debt funds to fund new projects or business expansion, not to support the ability to pay dividends. The use of debt to finance business activities is expected to increase the profits generated by the company. This can happen when the company is able to maintain a balance between profit and costs related to debt to maintain the leverage ratio at the maximum level (Adair and Adaskou, 2015). When profits increase then the company can use it to pay dividends. In other words, the amount of dividends paid by the company is determined by the company's ability to generate profits (Table 4.8, model II).

The test results show that the Test statistics value generated from the Sobel test is 1.06600749 which is below 1.96, meaning that dividend policy does not mediate the effect of liquidity on stock returns, so H6 is rejected. Bustami and Heikal (2019) explain that liquidity shows the ability of a company to meet obligations when billed so that this result shows that dividend policy is not significantly affected by the company's ability to pay its short-term obligations. According to Enekwe, Nweze, and Aug (2015), companies can decide to distribute dividends even though the cash ratio is small to provide guarantees for investors for the return of their investments. This also indicates that the amount of dividends paid by the company is determined by the company's ability to generate profits. So even though the company's liquidity is low, if the profit is large, the company will distribute large dividends as well.

Conclusions and Suggestions

The conclusion that can be drawn from this research is that only profitability is able to have a positive and significant effect on stock returns. Meanwhile, leverage and liquidity are not able to be a determining factor for the high and low value of stock returns. And the results of this study also state that dividend policy is not a mediator in the influence of profitability, leverage and liquidity on stock returns.

The results of this study imply that potential investors and investors need to consider the company's profitability when investing. The higher the profitability of a company, the greater the return obtained by investors on stock investments in the company. Because profitability as measured by ROA can provide an overview of how efficient the company is in managing its assets to generate company net income.

The limitation of this research is that the number of manufacturing companies that do not meet the specified sample criteria is quite large so it is necessary to add a research period to add the amount of data to be analyzed. The low coefficient of determination of 5.5 percent indicates that there are many other variables that can affect stock returns so that additional variables can be added. The research hypotheses used in this study were mostly rejected so it is expected to use different ratios in measuring leverage and liquidity to provide different research results.

The results of this study suggest that further researchers can increase the research period to increase the amount of data to be observed. It is also recommended for further researchers to conduct research by adding other variables that affect stock returns, so that the ability to explain stock return variables can be better. Example by adding other financial ratio analysis such as Net Profit Margin. This ratio shows the percentage of net profit obtained from each sale. The greater this ratio, it can be considered the better the company's ability to earn high profits. Future researchers should be able to use different ratios in measuring liquidity other than those used in this study, such as measurements using the quick ratio. A high cash ratio does not necessarily indicate good liquidity because the company is considered less able to optimize its current assets properly.

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