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Intervention of Dividend Pay Out Ratios in the Relationship of Liquidity and Debt to Equity Ratio to the Profitability of Companies Incorporated in the Indonesian Syariah Stock Index (ISSI)

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***Abstract*— Increasing the company's ability to produce profits is a focus that must be achieved so that the company is able to maintain its survival. Investment policies, debt policies and dividend policies taken by the organization will influence other financial decisions and have an impact on the company's ability to make a profit. The research objective was to analyze the effect of partial liquidity and debt to equity ratio on profitability and analyze the moderation of divident payout ratio variables in the effect of liquidity and debt to equity ratio on the ability of companies to generate profits. This research was conducted with a quantitative approach, a method of collecting data using the documentation method. The population of this research is the companies incorporated in the Sharia Stock Index (ISSI) during 2013-2017. The sample in this study amounted to 30 with the sampling technique using purposive sampling. Hypothesis testing is done by Partial Least Square (SEM-PLS). The results showed that liquidity as measured by Current Ratio (CR) did not significantly influence Profitability (ROA). So that changes in liquidity that have no effect on changes that occur profitability, while the debt to equity ratio has a significant negative effect on profitability (ROA). Increasing Debt to Equity Ratio increases the decrease in profitability. The dividend payout ratio is not able to moderate the relationship of liquidity to profitability. This is because the dividend payout ratio (DPR) cannot interact with Liquidity (CR) and is also not significantly related to the Profitability variable (dependent variable). The dividend payout ratio is able to moderate the relationship of debt to equity ratio to profitability. Dividend payout ratio can increase company profitability when the company's debt to equity ratio is low, and vice versa, dividend payout ratio can reduce profitability when the company's debt to equity ratio is high.**

Keywords— Current Ratio, debt to equity ratio, devidend payout ratio, profitability

I. INTRODUCTION

Information about the achievements of the organization in generating profits made creditors and investors interested in investing in the company [1]. The organization's ability to manage assets owned in generating income is reflected in the size of the company's return on assets [2] [3]. The optimal management of company assets will increase profits for the company [4] [5] [6] explains that the achievement of organizational capabilities in generating profits and profits divided by companies to investors will affect market valuation of organizational prospects as seen in the company's stock price movements, where shareholder investment decisions are influenced by the size of the dividend payout ratio.

The Bird in The Hand Theory explains that the share of profits made by shareholder companies is preferred by investors compared to the difference between selling and buying prices, because of the lower risk. This will have implications for rising capital costs of the company [7]. Customer Effect Theory (Clientele Effect Theory) explains that shareholders have a different perspective on profit sharing policies taken by companies where the ratio of dividend payments is very important for investors. Investors who are interested in short-term profits will prefer to invest in a company with a high Payout Ratio Dividend while for Investors who choose to have capital growth will be more interested in investing in a low Dividend Payout Ratio. The hypothesis theory of dividend signals (Dividend Signaling Hypothesis) explains that the announcement of dividend payments by company management is a signal to investors that the company's financial condition is very healthy and indicates that the company has good prospects in the future.

Suggests that a company's ability to fulfill its short-term obligations at maturity plays an important role in the functioning of the company's business success [8] . The company's ability to fulfill its short-term obligations at maturity refers to the company's overall financial position, or the ease of paying bills [2]. In addition to the company's ability to generate important profits for business, managing the company's ability to pay off its short-term liabilities at maturity is needed in all small, medium and large businesses to be able to pay short-term debt without difficulty in paying money from customers just in time [9]. The ability of a company to pay its short-term obligations at maturity illustrates the level of short-term risk that can be demonstrated through a company's current ratio as well as balancing the company's ability to generate profits in determining the prospects and health of the company [6]. If the company does not care about profits, the company cannot last longer, whereas if the company does not care about its ability to pay off its short-term obligations, it will experience bankruptcy [10]. The ability of companies to pay current

liabilities at maturity is reflected in the high current ratio [11] [12] [13] explained that there was a significant positive effect between the current ratio on profitability. Current ratio protects a company's ability to generate profits, when a company holds an adequate current ratio, the company's ability to generate profits will increase. Revealed that the current ratio is significantly positively related to the company's ability to generate profits, managers can increase shareholder value and the ability of companies to make profits by investing effectively and efficiently in current assets [3].

States that debt in a company has an influence on the size of the value of profits obtained by the company [1]. The role of debt is very important in supporting the development of a company, but the high amount of debt that exceeds the amount of a company's own capital will provide considerable risk for the company. The higher the debt to equity of the company the higher the risk of corporate bankruptcy.

Research results of [14] [15] [16] [17] [18] and [19] show that leverage (debt to equity ratio) and liquidity (current ratio) have a significant positive effect on a company's ability to generate profits (return on assets) both simultaneously and partially, so that managers can increase the company's ability to generate profits through the placement of the appropriate level of liquidity. That debt to equity ratio has an important role to the company's ability to generate profits, while the company's ability to pay off its short-term obligations at maturity which is measured by the current ratio does not have a relationship with the company's ability in generate profits [20]. Some of the results of research on the relationship of the company's ability to pay off its short-term obligations at maturity, debt, the company's ability to generate profits and the distribution of company profits to date are still very interesting to study and continue to do to obtain empirical results. The importance of research on the factors that influence profitability needs to be done to provide an overview to investors in investing their funds. Various research results provide a gap for this research to look back at the influence of the company's ability to pay its short-term obligations at maturity and debt to equity ratio to the company's ability to generate profits and to place a pay out ratio dividend as a moderating variable in testing the influence of the company's ability in pay short-term liabilities at maturity and debt to equity ratio to the company's ability to generate profits. The purpose of this study is (1) to analyze the influence of the company's ability to pay its short-term liabilities at maturity and the debt to equity ratio to the company's ability to generate profits (2) analyze the divident payout ratio to moderate the effect of liquidity and debt to equity ratio to ability company in making a profit. The benefits of this research for management are related to knowledge in seeing the feasibility of distributing profits from a company and as an investment consideration for investors.

II. HYPOTHESES

A. *Liquidity and the debt to equity ratio partially influence profitability*

The ability of a company to pay its short-term obligations at maturity illustrates the level of short-term risk that can be shown through a company's current ratio as well as balancing the company's ability to generate profits to determine the company's prospects and health [6]. Explains that the main consideration in profit sharing decisions for investors is the company's ability to pay its short-term obligations at maturity and company cash [21]. Current Ratio is a ratio that measures a company's ability to meet its short-term obligations. The higher the Current Ratio of a company, the lesser the risk of the company in meeting its short-term obligations, the less risk that will be borne by shareholders [22]. The value of the current high ratio of a company will reduce uncertainty for investors, but indicates the existence of idle cash so that it will reduce the level of the company's ability to generate corporate profits, consequently the ROA is also getting smaller. Thus it is assumed that the greater the CR value, the smaller the ROA [22]. [3] shows that there is a significantly positive relationship between the current ratio and the ability of the company to make a profit with its assets (ROA).

Achievement of profits obtained by the company is influenced by the debt equity ratio (DER). The higher DER will affect the amount of profit (return on assets) achieved by the company. If the cost of debt reflected in borrowing costs is greater than the cost of own capital, then the average cost of capital (weighted average cost of capital) will be greater so that return on assets (ROA) will be smaller, and vice versa [22]. The higher the DER shows the greater the trust of outsiders, this is very possible to improve the performance of the company, because with large capital, the opportunity to reach the level of profit is also large. Thus the effect of DER on return on assets (ROA) is positive. This is supported by a pecking order theory that establishes a sequence of funding decisions where managers will first choose to use retained earnings, then debt, and external self-capital as a last resort [23] [24] explains that a high debt to equity ratio has an impact on increasing earnings changes, meaning that it has a beneficial effect on the company. Debt to equity ratio is one of the ratios that investors pay attention to at the same time debt is one of the basic aspects to assess the company's financial condition, because it can show the composition of funding in financing the company's operational activities or the company's efforts to utilize its debts [25]. Previous research conducted by, [15] [17] concluded that Debt to Equity Ratio has a significant effect on the company's ability to generate profits (ROA), which means that higher DER indicates greater company burden against outside parties, this will reduce the company's performance and will reduce the company's ability to generate profits (ROA). Based on the description, hypothesis 1 in this study is:

H1: Liquidity has a partial effect on profitability.

H2: Debt to equity ratio has a partial effect on profitability.

B. *Divident payout ratio moderates the effect of liquidity and debt to equity on profitability*

Explains that profit sharing for investors is cash flow paid by the company to shareholders or equity investors [26]. Dividends are given to shareholders after obtaining approval from shareholders at the General Meeting of Shareholders (GMS). Reveals dividend policy is important for several reasons, first, companies can use dividends as a tool to signal outsiders' financial stability and growth prospects, secondly, dividends play an important role in the company's capital structure [27]. Explaining company liquidity is the main consideration in dividend decisions [21]. Because

dividends are cash outflows, the greater the cash position and liquidity of the company, the greater the company's ability to pay dividends. Dividend policy or dividend decision is essentially to determine the portion of profits to be shared with shareholders and will be held as part of retained earnings [28]. The Bird in The Hand Theory states that a low dividend payout ratio will cause the company's capital costs to rise, because investors prefer to receive dividends rather than capital gains. This is because dividends have a lower risk than capital gains [29]. The Customer Effect Theory (Clientele Effect Theory) explains that investors who need current income prefer high dividend Payout Ratio. While investors who don't really need money now prefer if the company holds back a large portion of the company's net income. The hypothesis theory of dividend signals (Dividend Signaling Hypothesis) explains that the announcement of dividend payments by the management of the company is a signal for investors who explain that the company's financial condition is so strong that it is able to distribute dividends. Information about healthy financial conditions indicates that the company has very bright prospects in the future. Based on the description, the hypothesis in this study are:

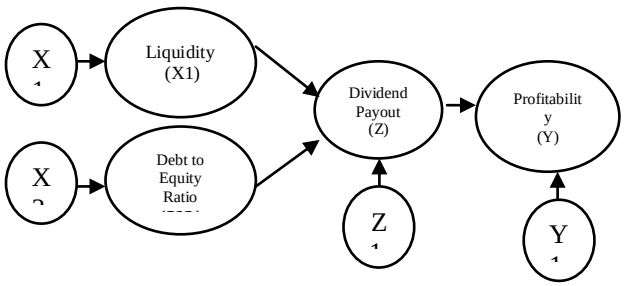
H2a: divident payout ratio moderates the effect of liquidity on profitability

H2b: divident payout ratio moderates the effect of debt to equity ratio on profitability

III. METHOD

This research was conducted with a quantitative approach. Methods of collecting data using the documentation method. The population of this research is companies incorporated in the ISSI during 2013-2017. The number of samples in the study were 30 samples with the sampling technique using the purposive sampling method. The variables in this study consisted of independent variables namely liquidity (X1), Debt to Equity Ratio (X2), dependent variables namely profitability (Y) and moderating variables namely Dividend Payout Ratio (Z). Hypothesis testing is done by Variance-based SEM or Partial Least Square (SEM-PLS) testing. The steps in Partial Least Square (PLS) analysis are (1) Determining the structural model (inner model) by formulating the existing relationship model between constructs, (2) Determining the measurement model (outer model) by explaining and classifying the relationship between latent constructs and indicators so that it can be known whether it is reflective or formative, (3) Constructing path diagrams, path diagram functions are to visualize the relationship between indicators and their constructs and between constructs that will make it easier for researchers to see the overall model.

Figure 1: Path Chart



IV. RESULT AND DISCUSSION

A. Descriptive Statistic

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR	185	.39	6.48	2.0345	1.01982
DER	185	.11	4.73	.9444	.75803
DPR	185	.02	1.39	.3879	.26418
ROA	185	.01	.54	.0994	.07968
Valid N (listwise)	185				

Source: data processed by researchers, 2019

Based on table 2 are explained as follows:

1) Liquidity

The average liquidity variable measured using the current ratio (CR) is 2.0345 times or 203.45%, the maximum value is 6.48 times or 648% and the minimum value is 0.38 times or 39%. While the standard deviation value is 1.01982.

2) Debt to Equity Ratio (DER)

The average value of Debt to Equity Ratio is 0.0637. The maximum DER value is 0.9444 or 94.44%, the minimum DER value is 0.11 or 11%. Whereas for DER standard deviation value is 0.75803.

3) Dividends

The average dividend variable measured by the Dividend Payout Ratio (DPR) is 0.3879 or 38.79%. The maximum value of the DPR is 1.39 or 139%, and the minimum value of the DPR is 0.02 or 2%. Whereas the DPR standard deviation value is 0.26418.

4) Profitability

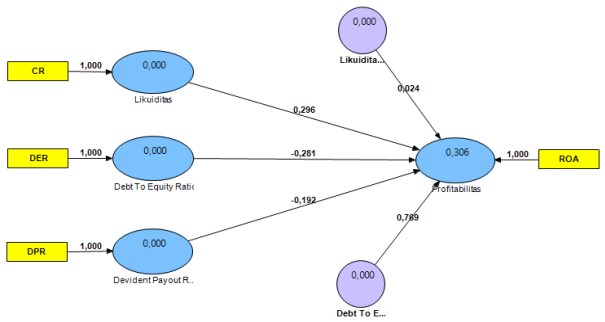
The average variable profitability as measured by Return on Assets (ROA is 0.0637. The maximum value of ROA is 0.0994 or 9.94%, and for the minimum value of ROA is 0.01 or 1%. As for the standard deviation value of ROA is 0.07968.

B. Model Evaluation

Structural Model Test (Inner Model)

Structural model testing (inner model) is done to see the relationship between constructs or variables in research. In the inner model, the ability of the independent variable is explained in explaining the dependent variable or commonly called R-Square.

Figure 2. Coefficient of Determination



Source: PLS Output, 2019

Based on the results of the inner model test shows that the value of R-Square is 0.305867 or 30.5867%. Thus, it shows the ability of the independent variables namely Liquidity, DER, and DPR to explain the dependent variable, namely profitability of 30.5867%. While the remaining 69.4133% is influenced by other variables that are not in the study and errors.

C. Test Measurement Model (Outer Model)

Based on the outer model test in table 2 shows that all variables have a good outer weight value because the p-value is 0,000 so it is less than 0.05. The overall variables in this study are compiled from one indicator so that the significance value is 0.0000, so all indicators can be used to measure variables.

Table 2: Uji Outer Weight

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	P-Value
CR-> Likuiditas	1.00000	1.00000	0.00000	0.00000
CR * DPR -> Likuiditas * Devident Payout Ratio	1.00000	1.00000	0.00000	0.00000
DER -> Debt To Equity Ratio	1.00000	1.00000	0.00000	0.00000
DER * DPR -> Debt To Equity Ratio	1.00000	1.00000	0.00000	0.00000
DPR-> Devident Payout Ratio * Devident Payout Ratio	1.00000	1.00000	0.00000	0.00000
ROA -> Profitabilitas	1.00000	1.00000	0.00000	0.00000

Source: PLS Output, 2019

D. Hypothesis testing

1. Influence of Liquidity and Debt to Equity Ratio Partially Against Profitability

a. Effect of Liquidity on Profitability

The test results of the effect of liquidity on profitability show the path coefficient value of 0.2956. The positive path coefficient shows that the relationship of liquidity to profitability is unidirectional, increasing the liquidity of the company by 1 unit then the profitability will increase 0.2956. While the t-statistic value shows a value of 1.60586 less than t-table 1.96 with the value of p-values of 0.11002 greater than 0.05. These results show no significant effect of liquidity on profitability, the hypothesis is rejected.

b. Effect of Debt to Equity Ratio on Profitability

The test results of the effect of Debt to Equity Ratio (DER) on profitability showed a path coefficient of -0.28088. The negative path coefficient indicates that the DER relationship to profitability is in the opposite direction, increasing the DER of the company by 1 unit, the profitability will decrease by 0.28088. While the t-statistic value shows a value of 2.09073 more than t-table 1.96 with a p-values of 0.0.3793 smaller than 0.05. These results indicate that there is a significant effect of DER on profitability, the hypothesis is accepted.

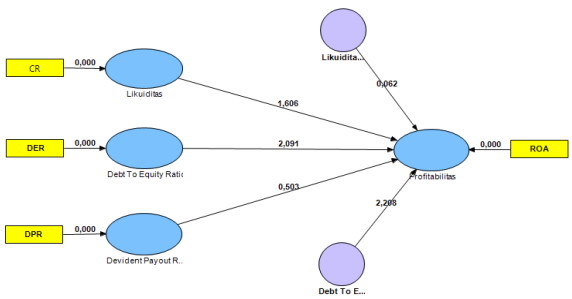
2. Effect of Liquidity on Profitability with Dividend Pay out Ratio as a Moderating variable

Hypothesis test results of the influence of liquidity on profitability moderated Dividend Payout Ratio (DPR) shows the path coefficient value of 0.02393. Positive path coefficient shows that the relationship of liquidity to profitability is moderated by the DPR in the same direction, increasing the liquidity variable by 1 unit, the profitability will increase by 0.02393 after being moderated by stock returns. The statistics of 0.06200 are less than t-table 1.96 with p-values showing a number of 0.95063 so that it is more than 0.05. These results indicate no significant effect of liquidity on profitability moderated dividend payout ratio, then H2 is rejected.

3. Profitability of Debt to Equity Ratio Against Profitability with Dividend Payout Ratio as a Moderating variable

Hypothesis test results, namely debt to equity ratio to profitability with dividend payout ratio as a moderating variable shows the path coefficient value of 0.768825. Positive path coefficient shows that the relationship of debt to equity ratio to profitability with dividend payout ratio as a moderating variable is in the same direction, increasing the variable debt to equity ratio by 1 unit then the profitability of shares will increase 0.768825 after being moderated by dividend payout ratio. The t-statistic value of 2.20832 is greater than t-table 1.96 with the p-values showing a number of 0.02846 so that it is less than 0.05. These results indicate the influence of significant debt to equity ratio to profitability with dividend payout ratio as a moderating variable, then H3 is accepted.

Figure 3. Structure Model



Source : Output PLS, 2019

Table 3: Hypothesis testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	P-Value
Debt To Equity Ratio -> Profitabilitas	-0.28088	-0.26825	0.13434	0.13434	2.09073	0.03793
Debt To Equity Ratio * Devident Payout Ratio -> Profitabilitas	0,768825	0.70581	0.34815	0.34815	2.20832	0.02846
Devident Payout Ratio -> Profitabilitas	-0.19211	-0.22474	0.38225	0.38225	0.50257	0.61587
Likuiditas -> Profitabilitas	0.29560	0.28152	0.18407	0.18407	1.60586	0.11002
Likuiditas * Devident Payout Ratio -> Profitabilitas	0.02393	0.06895	0.38602	0.38602	0.06200	0.95063

Source: Output PLS, 2019

E. Partial Effect of Liquidity and Debt to Equity Ratio on Profitability in the Indonesian Islamic Stock Index

a. The Effect of Liquidity on Profitability in the Indonesian Islamic Stock Index

Based on testing the hypothesis it can be seen that liquidity is not proven to have a significant effect on profitability in the Indonesian Islamic Stock Index. This study supports the results of [30][31] which show that the current ratio does not significantly influence the profitability of return on assets (ROA). This shows that changes that occur in the company's liquidity are not able to be a factor that causes changes in the company's ability to generate profits. Changes in the company's ability to pay its short-term obligations that are due do not show a similar change in the company's ability to generate profits. Funding that is too large on the asset side has two different effects. On the one hand, the company's ability to pay off its short-term obligations is getting better. But on the other hand, the company loses the opportunity to get additional profits, because the funds that should be used for investments that benefit the company are reserved to meet the payment of short-term obligations that are due.

b. Effect of Debt to Equity Ratio on Profitability in the Indonesian Islamic Stock Index

Based on the hypothesis testing that has been carried out the debt to equity ratio proved to have a significant negative effect on profitability in the Indonesian Islamic Stock Index for the period 2013-2017. In the pecking order theory, explain the relationship between profitability and debt is the opposite direction. The costs borne by the company in fulfilling its obligations will be even greater if the debt ratio gets bigger [32].

In general, investors and creditors want this ratio to be low, the risk of late interest payments and principal loans will be small if the company does not have too much debt burden. DER relationships and profitability tend to be in opposite directions, the greater the DER, the smaller the profitability and vice versa. The results of this study are consistent with the research of [15] [17] who concluded that Debt to Equity Ratio has a negative significant effect on profitability (ROA), which means that higher DER shows the greater the company's burden on outside parties, so that it will reduce the company's ability to generate profits (ROA).

Explains that debt to equity ratio is often used by creditors to regulate the level of assumption of business risk because it measures the level of ownership of the resources invested in the business compared to debt [33]. Pecking Order Theory, explains that companies are basically looking for funding sources with minimal risk. Selection of company funding is based on the order of preferences (hierarchy) of risk. Sort the order of long-term funding of the company (1) profit topped up, (2) debt, (3) equity (additional capital funding order that will be used by the company, namely: (1) more companies / issuance of new shares. rather than external companies, the company chooses retained earnings as the first option because of the smallest risk compared to other funding.The second option taken by the company is external funding (debt) if the retained earnings are insufficient. new shares if the debt cannot be obtained, the shareholders judge that the issuance of new shares is more risky than debt.The company that has good performance generally requires a small amount of external funding (debt), while the underperforming company has external funding (debt) is very large because debt is a preferred source of external funding.

F. Effect of Liquidity on Profitability Moderated Dividend Payout Ratio in Indonesian Islamic Stock Index

The results showed that the variable Payout Ratio dividend was not able to moderate the relationship of liquidity to profitability. The results of this study are not in accordance with [27] who revealed dividend policy is important for several reasons. First, the stability and growth prospects of the company can be seen from the dividend decisions taken by the company. Second, in the company's capital structure, dividends play an important role. Explains that the decision to pay dividends is influenced by the ability of the company to pay obligations at maturity [21]. The greater the cash position and liquidity of the company, the greater the company's ability to pay dividends. Average dividend pay out ratio in 2013 shows a fluctuating movement while liquidity tends to rise and profitability experiences a downward trend, so that the unpredictable movement of the DPR indicates that changes in the DPR will not affect changes in liquidity and profitability relations.

G. Effect of Debt to Equity Ratio on Moderate Profitability Dividend Payout Ratio on Indonesian Islamic Stock Index

The results showed that the relationship of liquidity to profitability was able to be moderated by the dividend payout ratio variable. Dividend payout ratio can increase company profitability when the company's debt to equity ratio is low, and vice versa, dividend payout ratio can reduce profitability when the company's debt to equity ratio is high. Dividend policy determines the composition of the portion of profits to be shared with shareholders and which will be held as part of retained earnings [28]. Signaling theory explains that dividend payments indicate the prospect of a

company in good condition and stakeholders appreciate a positive image and the company's reputation will trigger a potential reaction from investors. The profitability of the company will increase through the good reputation it achieves.

V. CONCLUSION

Based on the results of analysis and discussion that has been described, conclusions can be drawn as follows:

1. Liquidity measured by Current Ratio (CR) does not have a significant effect on Profitability (ROA), changes in liquidity have no effect on changes in profitability.
2. Debt to Equity Ratio has a significant negative effect on Profitability (ROA). Increasing the Debt to Equity Ratio will increase the decrease in profitability.
3. Devidend payout ratio is not able to moderate the relationship of liquidity to profitability, this is because the dividend payout ratio (DPR) cannot interact with liquidity (CR) and also not significantly associated with the variable profitability.
4. The relationship of debt to equity ratio to profitability can be moderated by the devidend payout ratio. When a company's low debt to equity ratio dividends payout ratio can increase company profitability and when a company's debt to equity ratio high debt to equity ratio can reduce the profitability of the company.

Suggestions

1. The researcher can then develop other indicators of variable liquidity and profitability
2. Dividend policy, liquidity and profitability provide a special attraction for investors in investing, so this must be considered by company management.
3. The ability of companies to produce profits and dividend policies can be used as a reference for investors in investing

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