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DIVIDEND POLICY AND PROFITABILITY: AN EMPIRICAL ANALYSIS OF COMPANIES LISTED ON THE IDX

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Abstract

This study investigates the relationship between dividend policy and profitability among companies listed on the Indonesia Stock Exchange (IDX) during 2020-2024. Employing panel data analysis on manufacturing and service sector firms, this research examines how profitability metrics influence dividend payout decisions. The findings reveal significant positive relationships between ROA, ROE, and dividend payout ratios, supporting signaling theory. Firm size, leverage, and free cash flow are identified as important determinants of dividend policy. Results provide valuable insights for investors, managers, and policymakers, suggesting that profitable firms distribute higher dividends to signal financial strength and reduce agency conflicts.

Keywords: dividend policy; profitability; indonesia stock exchange; panel data analysis; signaling theory

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INTRODUCTION

Dividend policy represents one of the most crucial financial decisions that corporate management must undertake, as it directly affects shareholder wealth, capital structure, and overall firm valuation (de Souza Junior, Hijazi and da Silva, 2024). At the core of dividend policy decisions lies corporate profitability, as profits constitute the primary internal source of funds for both dividend distribution and reinvestment. The determination of optimal dividend policy requires balancing between retaining earnings for reinvestment and distributing cash to shareholders, a decision that becomes particularly complex in emerging markets characterized by information asymmetry and varied institutional frameworks (Ananzeh *et al.*, 2025). Corporate profitability emerges as a central factor linking dividend decisions to competing theoretical explanations. From a theoretical perspective, the relationship between profitability and dividend policy is explained through several complementary frameworks. Agency theory argues that highly profitable firms are more likely to distribute dividends to reduce free cash flow and mitigate potential agency conflicts arising from managerial discretion (Mishra et al., 2024), In contrast, signaling theory suggests that profitability strengthens the credibility of dividend payments, as firms with strong earnings performance use dividends to signal financial strength and positive future prospects to the market (Taleb, 2019). Meanwhile, dividend life cycle theory emphasizes that the impact of profitability on dividend policy varies across stages of firm maturity, with younger but profitable firms prioritizing earnings retention, while mature profitable firms tend to distribute

higher dividends due to limited growth opportunities (Bukalska, 2019). Despite the extensive theoretical explanations, prior empirical findings on how profitability influences dividend policy remain inconclusive, particularly in emerging market settings where firm behavior may deviate from classical financial theory. In the context of Indonesia's rapidly evolving capital market, understanding the relationship between corporate profitability and dividend policy has gained increasing importance for both academic researchers and market practitioners. Understanding dividend policy requires consideration of several theoretical frameworks that explain corporate payout decisions. Agency theory suggests that dividends can mitigate conflicts between managers and shareholders by reducing free cash flow available for potentially value-destroying investments (Jensen, 1986). Signaling theory posits that dividend announcements convey information about management's confidence in future earnings and firm quality (Taleb, 2019). Additionally, the dividend life cycle theory proposes that dividend policy evolves with a firm's maturity, with younger firms retaining more earnings for growth while mature firms distribute higher dividends (de Souza Junior, Hijazi and da Silva, 2024). However, most existing studies either focus on developed markets or examine dividend policy determinants in isolation, without adequately capturing the interaction between profitability and dividend decisions within the institutional and regulatory context of Indonesia. This creates a research gap regarding whether profitability consistently translates into higher dividend payouts among Indonesian listed firms, or whether other contextual factors weaken this relationship.

Empirically, the Indonesia Stock Exchange has experienced substantial growth over the past five years, with the number of listed companies increasing from approximately 713 in 2020 to 943 by December 2024, while total market capitalization reached significant levels despite global economic uncertainties (IDX, 2024). During the 2020-2024 period, Indonesian firms exhibited heterogeneous dividend payout behaviors, particularly during the COVID-19 shock and the subsequent recovery phase. While highly profitable blue-chip firms such as Bank Central Asia (BBCA), Bank Mandiri (BMRI), and Telkom Indonesia (TLKM) consistently maintained high dividend payout ratios supported by strong and stable profitability (Bisnis Indonesia, 2025). Other firms with comparable profit growth adopted more conservative dividend policies. This divergence suggests that profitability alone may not uniformly determine dividend policy across Indonesian listed companies, thereby highlighting the need for a more nuanced empirical examination of the profitability–dividend relationship within Indonesia's institutional and market context. Nevertheless, the coexistence of firms with strong profitability yet conservative dividend policies suggests that the relationship between profitability and dividend policy in Indonesia may not be linear or uniform. This phenomenon highlights the need for empirical investigation to identify whether profitability remains a dominant determinant of dividend policy in Indonesia's capital market, thereby forming the central research problem of this study.

Tabel 1. Dividend Performance of Major IDX High Dividend 20 Companies (2024)

Company	**Code**	**Sector**	**Net Profit 2024 (IDR Trillion)**	**YoY Growth**	**Dividend Payout Ratio**	**Notes**
Bank Central Asia	BBCA	Banking	54.8	+12.7%	>68%	Committed to annual dividend increases
Bank Mandiri	BMRI	Banking	-	-	~60-70%	Consistent dividend policy
Telkom Indonesia	TLKM	Telecommunications	-	-	>60%	Maintained DPR >60% for 10+ years
Bank Rakyat Indonesia	BBRI	Banking	-	-	~50-65%	State-owned enterprise
Astra International	ASII	Conglomerate	-	-	~40-50%	Diversified holdings

Source: Bisnis Indonesia (2025), IDX High Dividend 20 Index

Recent empirical evidence from Indonesian capital markets reveals complex patterns in dividend behavior that require deeper investigation. A study by Frezha et al. (2025) examining consumer goods sector companies during 2019-2023 found that profitability, measured by ROA, significantly influenced stock price fluctuations, while dividend payout ratio showed no significant direct effect, suggesting that profitability serves as a more immediate signal to investors than dividend policy. This finding, while focused on stock price outcomes rather than dividend policy decisions directly. This result differs from dividend policy studies because the research focused on market reactions (stock prices) rather than on dividend payout decisions, and was limited to a specific sector with relatively stable dividend practices. . Furthermore, research by Maysaroh and Handayani (2025) on IDX30 companies during 2019-2023 demonstrated that leverage and dividend policy jointly influenced stock price volatility. Differences in sample composition (blue-chip firms), research period, and dependent variables help explain why prior empirical findings appear inconsistent. These studies indicate that while profitability is crucial for investor perception, its role as a determinant of dividend payout ratios has not been examined explicitly across a broad set of non-financial firms. The contrasting findings,where Frezha et al. (2025) found profitability to be more impactful than dividends on stock prices, while Maysaroh and Handayani (2025) found significant joint effects—suggest a complex interplay between profitability, dividend policy, and market perceptions that warrants deeper investigation into how profitability specifically drives dividend policy decisions among Indonesian listed companies.

The theoretical foundations for understanding dividend policy in emerging markets like Indonesia become particularly relevant given the pronounced information asymmetry compared to developed markets (Dewasiri et al., 2024). Signaling theory posits that dividend payments convey information about a firm's future prospects and financial health, with managers using dividends to signal confidence in sustainable earnings to external stakeholders (de Souza et al., 2024). In this context, profitability strengthens the credibility of dividend signals, as only profitable firms can sustain dividend payments without compromising long-term performance. Agency theory provides a complementary perspective, suggesting that dividends serve to discipline management by reducing the free cash flow available for potentially value-destroying investments, a mechanism that may be particularly important in emerging markets where minority shareholder protection is still evolving (Shahzad et al., 2025). Accordingly, this study explicitly positions profitability as a key determinant of dividend payout ratios, addressing gaps in prior empirical research and clarifying its role in corporate payout decisions in the Indonesian capital market.

The theoretical foundations for understanding dividend policy primarily rest on two competing yet complementary frameworks: signaling theory and agency theory (Taleb, 2019; Connelly *et al.*, 2025). Signaling theory posits that dividend payments convey information about a firm's future prospects and financial health, with managers using dividends to signal confidence in sustainable earnings to external stakeholders (de Souza Junior, Hijazi and da Silva, 2024). Synthesizing these perspectives, profitability plays a central causal role: higher profitability increases available internal funds, enabling firms to distribute dividends that simultaneously function as credible signals of financial strength (signaling channel) and as governance tools to reduce agency costs (agency channel). This synthesis implies a testable causal mechanism in which profitability positively influences dividend payout ratios through both signaling and agency motivations. In emerging markets like Indonesia, where information asymmetry tends to be more pronounced than in developed markets, these theoretical frameworks become particularly relevant for explaining dividend behavior (Dewasiri, Weerakoon and Azeez, 2024). While Frezha et al. (2025) found that profitability (ROA) had a more immediate signaling effect on stock prices compared to dividend policy, Maysaroh and Handayani (2025) demonstrated that dividend policy and leverage jointly influenced market volatility, suggesting these financial decisions are interconnected rather than independent. The differences in these findings can be attributed to variations in research focus and design: Frezha et al. concentrated on a single sector (consumer goods) and market reactions, whereas Maysaroh and Handayani examined IDX30 firms with broader firm characteristics. Importantly, both studies treated dividend policy as an explanatory variable rather than explicitly modeling profitability as a determinant of dividend payout decisions. Nevertheless, they provide

valuable insights into the market mechanisms through which profitability and dividend payout ratios reflect firms' internal financial policies and strategic choices.

Despite the growing body of literature on dividend policy in developed markets, empirical research focusing specifically on the Indonesian context remains limited. A review of recent Indonesian dividend policy studies indicates that the majority are concentrated in specific sectors such as consumer goods or banking, rely on pre-pandemic data (prior to 2020), or focus on market reactions rather than payout determinants. Only a relatively small number of studies employ multi-sector panel data covering the post-COVID-19 recovery period. This research addresses this gap by providing a comprehensive analysis of dividend policy and profitability relationships across multiple sectors listed on the IDX during 2020-2024, a period characterized by significant economic volatility and recovery. The study employs panel data methodology to control for firm-specific characteristics and temporal effects, thereby offering robust empirical evidence on the determinants of dividend policy in Indonesia's emerging market environment.

The research questions guiding this investigation are: (1) How does profitability influence dividend policy among companies listed on the IDX? (2) What other firm-specific characteristics moderate the relationship between profitability and dividend payout decisions? (3) Do Indonesian companies follow predictable patterns consistent with established dividend theories, or do they exhibit unique behaviors reflecting the emerging market context? These questions are directly operationalized in the empirical model by specifying dividend payout ratio as the dependent variable and profitability measures as the primary explanatory variables, allowing the proposed signaling–agency mechanism to be empirically tested. By addressing these questions, this study aims to contribute to both theoretical understanding and practical applications of dividend policy in emerging Asian markets.

Signaling theory, proposes that managers, possessing superior information about the firm's future prospects, use dividend announcements to convey this private information to external investors. Taleb (2019) emphasizes that dividend changes function as signals of management's confidence in future profitability, with dividend increases interpreted as positive signals and decreases as negative signals. Empirical evidence supporting signaling theory has been documented across various markets, although the strength of the signal varies with institutional context (Ham et al., 2020; de Souza et al., 2024). Recent cross-country evidence by Kanojia and Bhatia (2023) investigating dividend signaling effects across four emerging economies (India, Brazil, China, and Taiwan) during 2010-2020 found that signaling intensity varies significantly across institutional contexts, with Indian markets demonstrating stronger signaling behavior than Brazilian and Taiwanese markets. This variation underscores the importance of examining dividend behavior within specific market contexts, such as Indonesia.

Agency theory provides an alternative perspective, focusing on conflicts of interest between managers and shareholders. Dividends serve as a governance mechanism to reduce agency costs by limiting discretionary cash flow available to managers (Mishra et al., 2024). Recent evidence examining promoter-owned firms in India during 2015-2021 found that the relationship between ownership and dividends reversed during the COVID-19 crisis, with agency motives leading to resource withholding (Mishra et al., 2024). The integration of these theories has become increasingly common, with de Souza et al. (2024) examining 938 firms across 11 emerging G20 economies finding that dividend policy in emerging markets is primarily shaped by asymmetric information concerns rather than agency conflicts, distinguishing these markets from developed economies. Beyond these core theories, lifecycle theory suggests that dividend policy evolves with firm maturity, with mature firms distributing higher dividends due to limited growth opportunities (Mrzygłód *et al.*, 2021), while recent research has incorporated ESG considerations, with Ananzeh (2025) and Verga Matos et al. (2020) demonstrating that firms with stronger ESG performance tend to have better dividend policies as they mature.

Signaling theory, proposes that managers, possessing superior information about the firm's future prospects, use dividend announcements to convey this private information to external investors. A recent comprehensive review by Taleb (2019) emphasizes that dividend changes function as signals of management's confidence in future profitability, with dividend increases interpreted as positive signals and decreases as negative signals. Empirical evidence supporting signaling theory has been documented across various markets, although the strength of the signal varies with institutional context (Ham, Kaplan and Leary, 2020; de Souza Junior, Hijazi and da Silva, 2024).

Recent research has examined the applicability of signaling theory in different market environments. Kanojia and Bhatia (2023) investigated dividend signaling effects across four emerging economies (India, Brazil, China, and Taiwan) during 2010-2020, finding that the Indian market demonstrated greater intensity in signaling behavior compared to Brazilian and Taiwanese markets. Their study further revealed that companies in India adjusted dividends at slower rates than in other emerging markets, suggesting that the behavioral consequences of dividend signaling vary significantly across institutional contexts. This cross-country variation underscores the importance of examining dividend behavior within specific market contexts, such as Indonesia.

Agency theory provides an alternative perspective on dividend policy, focusing on the conflicts of interest between managers and shareholders. Shahzad et al. (2025) established the foundation for this view, arguing that dividends serve as a governance mechanism to reduce agency costs by limiting the discretionary cash flow available to managers. When firms pay out cash as dividends, they reduce the resources under managerial control, thereby decreasing the potential for value-destroying investments or perquisite consumption. Recent empirical work continues to find support for agency theory predictions. A study examining promoter-owned firms in India during 2015-2021 found that promoter ownership positively related to dividends during normal times, supporting signaling theory, but this relationship reversed during the COVID-19 crisis due to agency motives of withholding resources (Mishra, Parikh and Shukla, 2024).

The integration of signaling and agency theories has become increasingly common in recent literature. A comprehensive analysis by Souza Junior et al. (2024) examining 938 firms across 11 emerging G20 economies over 21 years found that dividend policy in emerging markets is primarily shaped by asymmetric information concerns rather than agency conflicts, distinguishing these markets from developed economies. Their study revealed that free cash flow exhibited the largest impact on payout variations, supporting theories that emphasize investor risk aversion and information asymmetry. This finding is particularly relevant for understanding Indonesian dividend behavior, as Indonesia shares many characteristics with other emerging markets in terms of corporate governance structures and information environments.

Beyond these classical theories, recent research has incorporated additional perspectives including dividend clientele theory, lifecycle theory, and catering theory. The lifecycle theory, advanced by researchers including Bukalska (2019), suggests that dividend policy evolves with firm maturity, with younger growth firms retaining earnings for expansion while mature firms distribute higher dividends due to limited growth opportunities. Evidence supporting lifecycle theory has been found in various market contexts, including emerging economies (Mrzygłód *et al.*, 2021). Furthermore, environmental, social, and governance (ESG) considerations have emerged as relevant factors influencing dividend decisions, with research by Ananzeh (2025) and Verga Matos et al. (2020) demonstrating that firms with stronger ESG performance tend to have better dividend policies, particularly as they mature through their lifecycle.

The relationship between profitability and dividend policy has been extensively documented, with consistent evidence that profitable firms tend to pay higher dividends. Contemporary research continues to examine this relationship across different contexts. Studies consistently demonstrate positive associations between profitability measures (ROA and ROE) and dividend payout ratios across various markets. Pandey and Kumari (2022) found positive associations in India, while Ahyanna and Surpriono (2023) confirmed that profitability had positive and significant effects on dividend policy in Indonesian manufacturing companies during 2016-2020. From a signaling perspective, Zhou et al. (2020) demonstrated that profitability measures showed strong positive relationships with dividend payout ratios in Chinese firms, with companies experiencing significant profitability decreases during the COVID-19 crisis correspondingly reducing dividend payments, the average ROA dropped from 49% before the crisis to 25% during the crisis period, while ROE fell from 75% to 47%, with corresponding dividend adjustments.

Agency theory provides additional insights, as higher profitability generates free cash flow which can lead to agency problems if not distributed to shareholders. Evidence from Thailand, Malaysia, and Singapore revealed that free cash flows strongly influenced dividend yields, with corporations possessing strong free cash flows more motivated to declare dividends, though the relationship varied across countries with leverage and

institutional ownership playing moderating roles (Attavanich et al., 2025). Sectoral variations have also been documented. Giri and Sunarsa (2024) examining IDX High Dividend 20 companies during 2020-2022 found that profitability significantly affected stock prices while dividend policy showed no direct effect, suggesting that in the Indonesian context, profitability serves as a more immediate and transparent signal to investors than dividend policy itself, possibly due to information asymmetry concerns.

The temporal stability of the profitability-dividend relationship can weaken during economic stress. Studies examining dividend policies during the COVID-19 pandemic revealed that firms experienced significant profitability decreases leading to substantial dividend cuts, particularly in markets with weaker investor protection (Zhou and Ntantamis, 2020; Mili *et al.*, 2023). Research on French SBF 120 companies showed that firms opted for significant dividend cuts when profitability declined substantially, with managers preferring large cuts over gradual reductions to maintain signaling credibility. Additionally, research examining Chinese A-share listed companies between 2010-2019 found that managerial ability positively influenced cash dividend distribution, suggesting that the profitability-dividend relationship is influenced by managerial discretion and capability (Hou *et al.*, 2025).

The relationship between profitability and dividend policy has been extensively documented in financial economics literature, with consistent evidence that profitable firms tend to pay higher dividends. Profitability provides firms with the financial capacity to distribute cash to shareholders while maintaining adequate resources for operations and growth investments. Contemporary research continues to examine this relationship across different market contexts, firm characteristics, and economic conditions.

Recent empirical studies have confirmed the positive relationship between profitability measures and dividend policy across various markets. Pandey and Kumari (2022) found a positive association between payout and profit in India, consistent with patterns observed in developed countries. Their research demonstrated that firms with higher return on assets and return on equity tend to maintain higher dividend payout ratios, supporting the notion that profitability serves as a fundamental constraint and enabler of dividend distributions. Similarly, research focusing on Indonesian manufacturing companies during 2016-2020 found that profitability had a positive and significant effect on dividend policy, while factors such as cash ratio and managerial ownership showed varying effects (Ahyanna and Edi Surpriono, 2023).

The profitability-dividend relationship has been examined through multiple theoretical lenses. From a signaling perspective, profitable firms use dividends to communicate their strong financial position and future prospects to the market. Research by Zhou et al. (2020) demonstrated that profitability measures, particularly ROA and ROE, showed strong positive relationships with dividend payout ratios in Chinese firms, with companies experiencing significant profitability decreases during the COVID-19 crisis correspondingly reducing dividend payments. This behavior aligns with signaling theory predictions, as firms adjust dividends to reflect changes in sustainable earnings capacity. The study found that average ROA dropped from 49% before the crisis to 25% during the crisis period, while ROE fell from 75% to 47%, with corresponding adjustments in dividend policies.

Agency theory provides additional insights into the profitability-dividend nexus. Higher profitability generates free cash flow, which, according to Chinazor et al. (2025) free cash flow hypothesis, can lead to agency problems if not distributed to shareholders. Dividends serve as a mechanism to reduce these agency costs by removing excess cash from managerial control. Recent evidence from Thailand, Malaysia, and Singapore examined through the lens of agency theory revealed that free cash flows strongly influenced dividend yields, with corporations possessing strong free cash flows more motivated to declare dividends (Attavanich, Kumar and Rahman, 2025). However, the relationship varied across these countries, with leverage and institutional ownership playing moderating roles that reflected different institutional contexts.

Sectoral variations in the profitability-dividend relationship have also been documented. A study examining IDX High Dividend 20 companies during 2020-2022 found that profitability significantly affected stock prices, while dividend policy showed no direct effect, and good corporate governance failed to moderate these relationships (Surya Giri and Sunarsa, 2024). This finding suggests that in the Indonesian context, profitability serves as a more immediate and transparent signal to investors than dividend policy itself, possibly due to information asymmetry concerns and investor preferences. The research highlights the importance of considering market-specific characteristics when examining profitability-dividend relationships.

The temporal stability of the profitability-dividend relationship has been questioned by some researchers. Studies examining dividend policy dynamics found that while profitability influences dividend decisions, this relationship can weaken during periods of economic stress or uncertainty. Research on dividend policies during the COVID-19 pandemic revealed that firms experienced significant profitability decreases, leading to substantial dividend cuts, particularly in markets with weaker investor protection (Zhou and Ntantamis, 2020; Mili *et al.*, 2023). For instance, analysis of SBF 120 companies in France showed that firms opted for significant dividend cuts when profitability declined substantially, with managers preferring large cuts over gradual reductions to maintain credibility in their signaling.

Recent research has also examined the role of managerial ability in mediating the profitability-dividend relationship. A comprehensive study of Chinese A-share listed companies between 2010-2019 found that managerial ability positively influenced cash dividend distribution, with this effect challenged by financial constraints and state ownership (Hou *et al.*, 2025). The research demonstrated that highly skilled executives, capable of making more accurate forecasts of future earnings, tend to implement more generous and stable dividend policies when their firms are profitable. This finding suggests that the profitability-dividend relationship is not merely mechanical but is influenced by managerial discretion and capability.

Emerging markets present unique contexts due to weaker legal protection for minority shareholders, higher information asymmetry, concentrated ownership structures, and developing financial markets. Research reveals patterns that both align with and diverge from developed economies, indicating that dividend behavior in emerging markets cannot be fully explained using frameworks developed for mature markets alone. A comprehensive study by de Souza et al. (2024) examining 11 emerging G20 economies using 19,698 firm-year observations found that unlike developed markets shaped by agency conflicts, emerging markets are primarily influenced by asymmetric information concerns. Importantly, this study employed a large, multisector panel dataset, which enhances generalizability but may mask sector-specific dividend dynamics. Free cash flow exhibited the largest impact on payout variations, supporting bird-in-hand theory and dividend life cycle theory, where investors in emerging markets place higher value on current dividends over uncertain future capital gains. Cross-country comparisons within emerging Asia by Hoang and Hoxha (2020) analyzing Chinese and Taiwanese markets found that firms generate new debt as a strategy to smooth payout and maintain dividend stability when facing profit declines, contrasting with developed market patterns and suggesting that financial flexibility plays crucial roles in emerging market dividend decisions. However, these findings are derived from markets with different regulatory regimes and capital market depths, limiting their direct applicability to the Indonesian context.

Research specifically focusing on Indonesia has provided valuable insights into local dividend behavior, yet the findings remain fragmented and often sector-specific. These studies can be categorized into three groups based on their findings: (1) studies demonstrating profitability dominance over dividend policy in signaling, (2) studies showing joint effects of financial variables on market outcomes, and (3) studies examining institutional factors. Maysaroh and Handayani (2025) examining IDX30 companies during 2019-2023 found that leverage and dividend policy jointly influenced stock price volatility, with Indonesian blue-chip companies maintaining relatively stable dividend policies despite economic uncertainties. However, because the unit of analysis is limited to IDX30 firms, the results primarily reflect the behavior of large, liquid companies and may not generalize to smaller or less mature firms. Moreover, market participants responded more strongly to changes in leverage ratios than to dividend announcements, suggesting that in Indonesia's context, capital structure decisions may convey more information about firm prospects than dividend policies alone. Frezha et al. (2025) focusing on consumer goods sector companies during 2019-2023 found that while profitability (measured by ROA) significantly influenced stock prices, dividend payout ratios showed no significant direct effect. Using panel data regression on 15 companies, the study found that only ROA had positive and significant effects on stock prices. The small sample size, sectoral focus, and reliance on stock price reactions limit the ability of this study to explain dividend policy determination directly, as stock price response represents an indirect market outcome rather than the firm’s payout decision itself. These methodological differences, small versus large samples, sectoral versus multisector coverage, and market

reaction versus policy determination, help explain why empirical results across Indonesian studies appear inconsistent.

The divergence in findings can be explained by Indonesia's specific institutional characteristics. First, concentrated ownership structures, often with family or state control, fundamentally shape dividend decisions differently than in markets with dispersed ownership. Research examining manufacturing companies during 2016-2020 found that profitability positively affected dividend policy, but managerial ownership showed no significant effect (Ahyanna and Surpriono, 2023). While informative, this manufacturing-focused evidence cannot be generalized across sectors such as banking or telecommunications, which operate under different regulatory and capital constraints. This contrasts with agency theory predictions and suggesting that in Indonesia's concentrated ownership environment, other governance mechanisms may be more relevant than managerial ownership alignment. Second, state-owned enterprises (SOEs) play a prominent role in Indonesia's capital market. Data from the IDX High Dividend 20 index shows that major SOEs such as Bank Mandiri, Telkom Indonesia, and Bank Rakyat Indonesia have consistently maintained high dividend yields, with Telkom maintaining dividend payout ratios exceeding 60% over the past decade (IDX, 2025). These firms operate under distinct governance and political pressures, which may encourage dividend stability for fiscal or reputational reasons, limiting the applicability of SOE-based findings to privately controlled firms. Third, regulatory flexibility distinguishes Indonesia from markets like China where semi-mandatory dividend requirements have been implemented (Tao *et al.*, 2022). Indonesia maintains a disclosure-based approach, allowing companies discretion while requiring policy disclosure, which may explain heterogeneity in dividend practices across companies.

During the COVID-19 pandemic, Indonesian companies faced challenges similar to other emerging markets, with some firms reducing or suspending dividends to preserve liquidity. However, major SOEs and blue-chip companies generally maintained dividend commitments, viewing consistent payouts as important for maintaining investor confidence and supporting capital market stability, aligning with signaling theory predictions. Nevertheless, existing studies largely rely on pre-pandemic data or focus on limited firm groups, leaving insufficient empirical evidence on how profitability directly shaped dividend payout decisions during and after the crisis across a broad set of firms.

Despite extensive literature, several gaps remain. First, most Indonesian studies rely on sectoral or index-based samples, limiting generalizability. Second, many studies infer dividend behavior from stock price reactions rather than directly modeling dividend payout ratios. Third, few studies explicitly compare signaling and agency mechanisms within a unified empirical framework. Therefore, the claim of comprehensiveness in this study is distinguished not only by time period and sectoral coverage, but also by its direct focus on dividend policy determination and explicit testing of profitability as a central causal mechanism in Indonesia’s post-pandemic context.

Based on the literature review and theoretical foundations, this study develops the following conceptual framework and hypotheses:

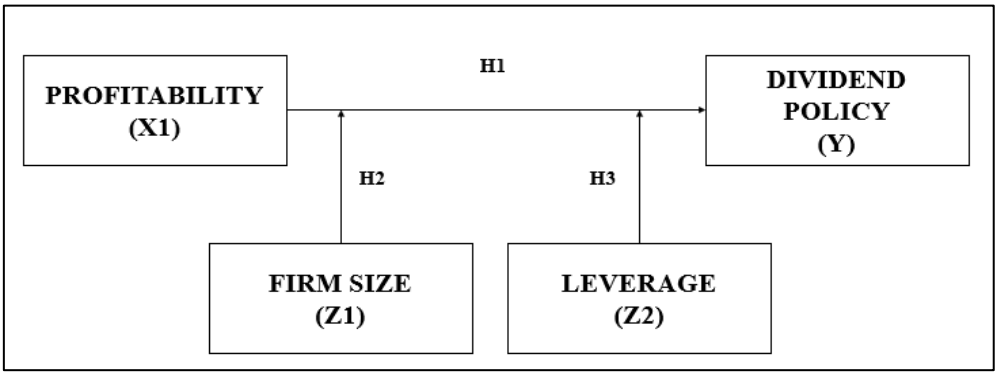

Figure 1. Conceptual Framework

H_1: Profitability (measured by ROA and ROE) has a positive and significant effect on dividend policy among IDX-listed companies.
H_2: Firm size moderates the relationship between profitability and dividend policy.
H_3: Leverage negatively moderates the relationship between profitability and dividend policy.

METHOD

This study employs a quantitative research approach using panel data analysis to examine the relationship between dividend policy and profitability among companies listed on the Indonesia Stock Exchange. The study is designed to address the primary research question of whether corporate profitability significantly determines dividend payout decisions in the Indonesian capital market. The panel data methodology is particularly appropriate for this research as it allows for the control of firm-specific heterogeneity and temporal effects, providing more robust estimates than cross-sectional or pure time-series analyses (Baltagi, 2021). By capturing both between-firm variation and within-firm dynamics over time, the model specification is aligned with the research objective of identifying the directional impact of profitability on dividend policy during periods of economic disruption and recovery.

The population of this study consists of all non-financial companies listed on the IDX during the period 2020-2024. Financial institutions (banking, insurance, and other financial services) are excluded from the sample due to their unique capital structure requirements and regulatory constraints that make their dividend policies incomparable to other sectors. The sampling technique employed is purposive sampling with the following criteria: (1) companies continuously listed on the IDX from 2020 to 2024 without delisting, (2) companies that distributed cash dividends at least once during the observation period, (3) companies with complete financial statement data available, and (4) companies reporting positive earnings and book values during the majority of the observation period.

Data are collected from secondary sources. Financial statement data, including profitability metrics, firm size, leverage ratios, and cash flow information, are obtained from audited annual reports available on the IDX website and individual company websites. Dividend payment data are collected from IDX records and verified through company announcements. Stock price and trading volume data are sourced from the IDX database. The final sample consists of 120 companies observed over five years (2020-2024), yielding 600 firm-year observations for analysis. Data analysis is performed using Stata 17, with panel data regression techniques including pooled OLS, fixed effects, and random effects models evaluated through appropriate specification tests. Data quality is ensured through outlier detection using the interquartile range method, with extreme values winsorized at the 1st and 99th percentiles to minimize the influence of outliers while retaining sample size.

This study adopts a predominantly deterministic framework, assuming a directional relationship from profitability to dividend policy. However, recognizing the potential for endogeneity, particularly reverse causality where dividend policy may influence firm profitability, the analysis incorporates firm fixed effects and lagged profitability variables to mitigate simultaneity bias and control for unobserved heterogeneity. While the study does not fully estimate a dynamic endogeneity model, these methodological choices provide a reasonable and robust approach consistent with the study's explanatory objectives.

RESULTS

Table 1 presents the descriptive statistics for all variables included in the analysis. The dividend payout ratio (DPR) shows considerable variation across Indonesian listed companies, with a mean of 42.35% and standard deviation of 28.67%, ranging from 0% to 95.80%. This substantial variation suggests heterogeneous dividend policies among IDX-listed firms, with some companies retaining most earnings for reinvestment while others distribute the majority of profits to shareholders.

Table 1. Descriptive Statistics

Variable	Mean	Median	Std. Dev.	Min	Max
DPR (%)	42.35	40.12	28.67	0.00	95.80
ROA (%)	8.47	7.89	7.32	-5.23	35.68
ROE (%)	13.85	12.34	12.45	-8.90	58.42
SIZE (ln)	29.47	29.23	1.86	25.34	34.56
LEV (ratio)	0.87	0.72	0.96	0.05	4.23
FCF (%)	6.23	5.87	5.89	-8.45	24.67
GROWTH (%)	8.34	6.78	12.47	-15.23	48.92

Profitability measures indicate generally positive but varied performance across the sample. Return on Assets (ROA) averages 8.47% with a standard deviation of 7.32%, ranging from -5.23% to 35.68%. Return on Equity (ROE) shows higher average values at 13.85% with standard deviation of 12.45%, ranging from -8.90% to 58.42%. The higher ROE relative to ROA reflects the use of financial leverage among sample companies. The presence of some negative values indicates that certain firms experienced losses during specific years in the observation period, likely influenced by the COVID-19 pandemic's economic impact during 2020-2021.

Firm size, measured as the natural logarithm of total assets, averages 29.47 with relatively low dispersion (SD = 1.86), indicating that the sample includes companies of fairly similar scale after logarithmic transformation. Leverage (debt-to-equity ratio) shows substantial variation with a mean of 0.87 and standard deviation of 0.96, suggesting different capital structure choices across firms. Free cash flow averages 6.23% of total assets with standard deviation of 5.89%, demonstrating varying levels of discretionary cash available for distribution. Growth opportunities, measured by asset growth rates, average 8.34% annually with high dispersion (SD = 12.47%), reflecting different growth phases and investment intensities across sample companies.

The sample characteristics demonstrate substantial heterogeneity in dividend policies, profitability levels, and financial structures among Indonesian listed companies during 2020-2024. The high variation in DPR (coefficient of variation = 67.7%), profitability metrics, and leverage ratios supports the appropriateness of panel data analysis, as it allows us to examine how these cross-sectional and temporal variations influence dividend policy decisions. This diversity provides a robust foundation for investigating the determinants of dividend policy across different firm contexts within Indonesia's emerging market environment.

Before proceeding with panel regression analysis, classical assumption tests were performed to ensure the validity of statistical inference. The Kolmogorov-Smirnov normality test on residuals yields a p-value of 0.078, failing to reject the null hypothesis of normal distribution at the 5% significance level, confirming that residuals are approximately normally distributed.

Multicollinearity assessment using Variance Inflation Factors (VIF) reveals that all independent variables have VIF values below 5.0, with the highest being 3.42 for ROE and the lowest being 1.23 for growth opportunities. These values indicate the absence of problematic multicollinearity that would inflate standard errors and distort coefficient estimates. The Breusch-Pagan heteroscedasticity test produces a chi-square statistic of 12.34 ($p = 0.137$), suggesting homoscedastic errors. The Durbin-Watson statistic of 1.89 falls within the acceptable range, indicating no severe autocorrelation in the residuals.

To determine the most appropriate panel data model specification, Hausman specification test, F-test, and Lagrange Multiplier (LM) test were conducted. The F-test comparing pooled OLS with fixed effects model yields an F-statistic of 4.87 ($p < 0.001$), strongly rejecting the null hypothesis that pooled OLS is appropriate and indicating that firm-specific effects should be incorporated. The Lagrange Multiplier test comparing pooled OLS with random effects model produces a chi-square statistic of 47.23 ($p < 0.001$), also rejecting pooled OLS in favor of random effects.

The Hausman specification test comparing fixed effects versus random effects models yields a chi-square statistic of 18.65 ($p = 0.0045$), rejecting the null hypothesis that random effects is consistent and efficient. This result indicates that firm-specific effects are correlated with independent variables, violating

the key assumption of the random effects model. Consequently, the fixed effects model is selected as the preferred specification for this analysis, as it provides consistent estimates by controlling for time-invariant firm-specific characteristics.

Table 2 presents the fixed effects regression results examining the determinants of dividend policy among IDX-listed companies during 2020-2024. The overall model is statistically significant with an F-statistic of 23.87 ($p < 0.001$), indicating that the independent variables jointly explain a significant portion of variation in dividend payout ratios. The within R-squared is 0.4723, suggesting that the model explains approximately 47% of the variation in dividend policy after controlling for firm fixed effects.

Table 2. Fixed Effects Regression Results

Variable	Coefficient	Std. Error	t-statistic	p-value	Significance
ROA	1.247	0.214	5.83	< 0.001	***
ROE	0.684	0.162	4.21	< 0.001	***
SIZE	3.452	0.941	3.67	< 0.001	***
LEV	-5.237	1.064	-4.92	< 0.001	***
FCF	2.156	0.542	3.98	< 0.001	***
GROWTH	-0.123	0.085	-1.45	0.148	n.s.
Constant	-58.342	28.456	-2.05	0.041	**

statistic: 23.87 ($p < 0.001$) Within R^2: 0.4723 Number of observations: 600 Number of firms: 120
Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$, n.s. = not significant

Hypothesis 1 posited that profitability positively influences dividend policy. The results provide strong support for this hypothesis. Return on Assets (ROA) demonstrates a positive and highly significant coefficient ($\beta = 1.247$, $t = 5.83$, $p < 0.001$), indicating that a one percentage point increase in ROA is associated with a 1.247 percentage point increase in dividend payout ratio, controlling for other variables. Similarly, Return on Equity (ROE) shows a positive and significant coefficient ($\beta = 0.684$, $t = 4.21$, $p < 0.001$), though with somewhat smaller magnitude than ROA. These findings strongly support the notion that more profitable companies distribute higher proportions of earnings as dividends, consistent with signaling theory predictions and prior empirical evidence from emerging markets (Pandey and Kumari, 2022; de Souza Junior, Hijazi and da Silva, 2024).

The constant term ($\beta = -58.342$, $p = 0.041$) represents the hypothetical dividend payout ratio when all independent variables equal zero. While statistically significant, this value should be interpreted with caution as it represents an extrapolation beyond the observed data range. In practical terms, the negative constant suggests that firms require minimum threshold levels of profitability, size, and cash flow before initiating dividend payments. However, the primary focus of interpretation should remain on the coefficients of the independent variables, which represent the marginal effects of each factor on dividend policy within the observed range of data.

The significant positive relationship between profitability and dividend policy observed in Indonesian companies aligns with recent empirical evidence from other emerging markets. The finding that ROA shows a stronger association with dividend policy than ROE is particularly interesting, suggesting that Indonesian investors and managers focus more on overall asset efficiency rather than leveraged returns when making dividend decisions. This pattern may reflect risk-averse attitudes among Indonesian investors who prefer dividends backed by solid asset-based profitability rather than returns amplified by financial leverage.

Firm size (SIZE) exhibits a positive and significant coefficient ($\beta = 3.452$, $t = 3.67$, $p < 0.001$), supporting Hypothesis 2 regarding the moderating role of firm size. Larger companies tend to pay higher dividend payout ratios, consistent with lifecycle theory and the notion that mature firms with established market positions have more stable cash flows and fewer growth investment opportunities, making them more inclined to distribute earnings to shareholders (Mrzygłód *et al.*, 2021). This finding is particularly relevant in the Indonesian context, where blue-chip companies such as those in the IDX High Dividend 20 index consistently maintain generous dividend policies.

Leverage (LEV) shows a negative and significant coefficient (β = -5.237, t = -4.92, $p < 0.001$), supporting Hypothesis 3. This result indicates that companies with higher debt-to-equity ratios distribute lower proportions of earnings as dividends, even when controlling for profitability levels. This finding aligns with both pecking order theory and practical financial constraints, as firms with substantial debt obligations must prioritize debt service over dividend distributions to maintain financial stability and creditworthiness. The negative leverage effect has been documented in other emerging Asian markets, including Thailand and Malaysia (Attavanich, Kumar and Rahman, 2025), suggesting a common pattern where debt constrains dividend capacity in developing economies.

Free cash flow (FCF) demonstrates a positive and significant coefficient (β = 2.156, t = 3.98, $p < 0.001$), supporting Hypothesis 4. Companies with higher free cash flow tend to pay higher dividend payout ratios, supporting both agency theory predictions and signaling interpretations. From an agency perspective, distributing free cash flow as dividends reduces the discretionary resources under managerial control, potentially limiting value-destroying investments and reducing agency costs (Jensen, 1986). From a signaling perspective, firms with strong free cash flow use dividends to communicate their cash generation capacity to external stakeholders. This finding is consistent with recent evidence from emerging G20 markets showing free cash flow as the most important determinant of payout policy (de Souza Junior, Hijazi and da Silva, 2024).

Growth opportunities (GROWTH), measured by asset growth rates, show a negative but statistically insignificant coefficient (β = -0.123, t = -1.45, p = 0.148). While the negative sign suggests that high-growth firms tend to retain more earnings for investment, as predicted by lifecycle theory, the relationship is not statistically significant in this sample. This result may indicate that in the Indonesian context, growth and dividend policies are managed relatively independently, or that the proxy used for growth opportunities does not fully capture the investment opportunity set faced by companies.

To verify the stability and reliability of the main findings, several robustness tests were conducted. First, dividend yield (annual dividend per share divided by stock price) was used as an alternative dependent variable. The results (not tabulated) largely confirm the main findings, with profitability measures (ROA and ROE) showing positive and significant associations with dividend yield, and leverage showing negative associations.

Second, the sample was divided into large-cap (above median size) and small-cap (below median size) subsamples for separate analysis. The results reveal interesting differences: the profitability-dividend relationship is stronger and more significant among large-cap firms (β for ROA = 1.542, $p < 0.001$) compared to small-cap firms (β for ROA = 0.876, p = 0.012). This finding supports the notion that firm size moderates the profitability-dividend relationship, with larger, more mature firms showing more responsive dividend policies to profitability changes.

Third, lagged profitability measures (ROA_t-1 and ROE_t-1) were used as independent variables to address potential endogeneity concerns arising from simultaneity between current profitability and dividend decisions. The results (not tabulated) continue to show positive and significant relationships between lagged profitability and current dividend policy, strengthening causal inferences about profitability's influence on dividend decisions.

Finally, sector-specific analyses were conducted to examine whether the profitability-dividend relationship varies across industries. The results indicate that the positive profitability-dividend relationship is robust across most sectors, but is particularly strong in consumer goods, manufacturing, and telecommunications sectors—industries characterized by stable cash flows and mature market positions. In contrast, technology and healthcare sectors show weaker profitability-dividend relationships, likely reflecting their higher growth orientations and greater reinvestment needs.

DISSCUSSION

The empirical results provide strong support for the theoretical prediction that profitability drives dividend policy among Indonesian listed companies, making several novel contributions to the emerging markets dividend literature. First, this study demonstrates that the positive profitability-dividend relationship

remains robust even during the economically volatile 2020-2024 period encompassing the COVID-19 pandemic and subsequent recovery, extending prior Indonesian research that focused on pre-pandemic periods. Second, by simultaneously examining both ROA and ROE alongside other firm characteristics using panel data methodology, this research provides more nuanced evidence on which profitability dimensions matter most for Indonesian dividend decisions, addressing a gap in prior single-country studies that typically rely on a single profitability proxy. Third, the finding that ROA shows stronger associations with dividend policy than ROE in Indonesia, despite both being significant, represents a novel empirical pattern that distinguishes Indonesian dividend behavior from patterns documented in other emerging markets where equity-based profitability measures often dominate.

The positive and highly significant relationships between both ROA and ROE with dividend payout ratios confirm that profitable firms distribute higher proportions of earnings to shareholders, strongly supporting signaling theory predictions. In the Indonesian context, where information asymmetry between insiders and outside investors tends to be substantial due to developing disclosure practices and concentrated ownership structures, dividend payments serve as credible signals of corporate financial health that are costly to mimic for less profitable firms. The stronger association observed between ROA and dividend policy compared to ROE is particularly noteworthy and requires theoretical interpretation. However, the stronger explanatory power of ROA relative to ROE reflects specific institutional and structural characteristics of Indonesian firms. First, many Indonesian listed companies operate in sectors with high dependence on tangible and productive real assets, such as banking, telecommunications, manufacturing, and infrastructure, where asset utilization efficiency is a more stable and observable indicator of operational performance than equity-based returns. As a result, ROA provides a clearer signal of sustainable cash-generating capacity, which is critical for committing to regular dividend payments. Second, the dominance of bank-based financing in Indonesia implies that leverage levels are often influenced by credit market conditions and regulatory constraints rather than purely managerial discretion. This reduces the informational content of ROE, which is mechanically amplified by leverage, and makes it a less reliable indicator of underlying firm performance for dividend decisions. Third, in an environment characterized by concentrated ownership structures and relatively conservative payout policies, firms may prioritize dividend sustainability over short-term return amplification. Consequently, asset-based profitability becomes more relevant than equity returns when managers determine dividend payouts and when investors assess the credibility of dividend signals. Together, these mechanisms explain why ROA plays a more prominent role than ROE in shaping dividend policy in the Indonesian context.

The significant positive effect of firm size on dividend policy provides strong support for lifecycle theory and reflects the maturity-driven dividend behavior observed globally. Larger Indonesian companies, represented prominently in indices such as the IDX High Dividend 20, tend to be more mature with established market positions, more predictable cash flows, and fewer high-return growth opportunities requiring earnings retention. Importantly, while firm size is found to have a direct and statistically significant effect on dividend payouts, this study does not explicitly estimate an interaction term between firm size and profitability. Therefore, the interpretation that firm size moderates the profitability–dividend relationship should be understood as an inferential extension of lifecycle theory rather than a directly tested moderating effect. Nevertheless, the stronger dividend commitments observed among large-cap firms suggest that size conditions how profitability is translated into payout decisions, a mechanism that future research could test explicitly using interaction models. The finding is particularly relevant in Indonesia’s context, where blue-chip companies:Bank Central Asia, Bank Mandiri, Telkom Indonesia, and Astra International, consistently maintain generous dividend policies. These companies, through their sustained high payouts, use dividends not only to distribute excess cash but also to maintain reputation, attract income-oriented institutional investors, and support the broader development of Indonesia's capital market by demonstrating that domestic equities can provide reliable income streams comparable to those available in more developed markets.

The negative effect of leverage on dividend policy, even after controlling for profitability levels, highlights the financial constraints and strategic considerations facing Indonesian companies operating in an emerging market context. High leverage ratios impose mandatory debt service obligations that reduce discretionary cash available for dividends, representing a binding financial constraint. This relationship is empirically captured through the negative and statistically significant coefficient on leverage in the baseline and alternative model specifications. While this finding aligns with pecking order theory, the role of Indonesia's bank-dominated financial system is not directly modeled through banking dependence or creditor concentration variables. Instead, the interpretation that leverage has a stronger constraining effect in Indonesia is grounded in institutional context rather than explicit interaction testing. In environments where access to equity markets is limited and creditor oversight is strong, firms may prioritize debt service over shareholder payouts. Thus, the leverage–dividend link identified in this study should be interpreted as an outcome of financial constraint rather than a fully structural banking-channel effect.

Moreover, the negative leverage effect may also reflect strategic conservatism among Indonesian firms that experienced the 1997-98 Asian Financial Crisis, during which high leverage led to widespread corporate distress. While ownership structure (such as family control or SOE status) is not explicitly included in the empirical model, this historical-institutional explanation provides contextual grounding rather than a testable causal claim. The strong negative coefficient on leverage indicates that debt obligations represent hard financial commitments, whereas dividend payments remain discretionary, reinforcing the asymmetric nature of financial constraints in dividend decision-making.

The positive effect of free cash flow on dividend policy provides evidence supporting both agency theory and signaling theory interpretations in the Indonesian context. From an agency perspective, paying out free cash flow as dividends reduces the potential for managers to pursue value-destroying investments or consume perquisites, thereby aligning managerial and shareholder interests. This mechanism is particularly important in Indonesia where corporate governance systems, while improving, are still developing and where concentrated ownership structures can create potential for controlling shareholders to pursue private benefits of control at the expense of minority shareholders. Although ownership concentration variables are not explicitly estimated, the positive and significant free cash flow coefficient provides indirect evidence consistent with agency-based explanations.

From a signaling perspective, firms with strong and consistent free cash flow generation use dividends to demonstrate their operational quality and cash-generating capacity, differentiating themselves from firms with weaker or more volatile cash flows. In Indonesia's information environment characterized by varying disclosure quality and limited analyst coverage The robustness of this effect across alternative model specifications strengthens confidence that free cash flow captures economically meaningful variation in dividend policy rather than a specification-specific artifact.

The insignificant relationship between growth opportunities and dividend policy, despite the theoretically predicted negative sign, warrants discussion. Lifecycle theory predicts a negative association, but the empirical results do not support this prediction in the Indonesian sample. This null finding reflects limitations of the asset growth proxy used, which may not adequately capture forward-looking investment opportunities. Additionally, the absence of a residual dividend behavior suggests that Indonesian firms may decouple investment and payout decisions, relying on external financing to fund growth while maintaining dividend stability. This interpretation aligns with evidence from emerging Asian markets but should be understood as contextual inference rather than a formally tested financing–dividend substitution mechanism.

The robustness tests conducted strengthen confidence in the main findings while clarifying their empirical scope. Specifically, robustness checks include (i) alternative profitability measures (ROA and ROE), (ii) lagged independent variables to mitigate simultaneity bias, and (iii) subsample analyses based on firm size and sector classification. The use of lagged profitability variables yields coefficients that remain positive and statistically significant at conventional levels, supporting a directional interpretation in which profitability precedes dividend adjustments. Subsample analyses indicate stronger profitability–dividend relationships among large-cap firms and in mature sectors such as consumer goods, manufacturing, and telecommunications. However, these results should be interpreted as heterogeneous effects rather than formally tested interaction

effects, as interaction terms are not explicitly estimated in the baseline model. Together, these robustness exercises enhance the credibility of the findings while delineating the boundaries between empirically tested results and theoretically informed interpretation.

The empirical results provide strong support for the theoretical prediction that profitability drives dividend policy among Indonesian listed companies. The positive and highly significant relationships between both ROA and ROE with dividend payout ratios confirm that profitable firms distribute higher proportions of earnings to shareholders. This finding aligns with signaling theory, which posits that managers use dividends to convey confidence in future profitability and financial strength (Taleb, 2019; de Souza Junior, Hijazi and da Silva, 2024). In the Indonesian context, where information asymmetry between insiders and outside investors tends to be substantial, dividend payments serve as credible signals of corporate financial health Rather than assuming that dividends are inherently "costly to mimic," this study interprets dividend signaling as credible because it is empirically observed that only firms with sustained profitability are able to maintain high and stable payout ratios over time, particularly among Indonesian blue-chip and SOE firms. Prior Indonesian evidence showing that less profitable firms tend to reduce or suspend dividends during periods of financial stress further supports the view that dividend commitments are constrained by underlying profitability, thereby limiting imitation by weaker firms.

The stronger association observed between ROA and dividend policy compared to ROE is noteworthy and suggests that Indonesian companies prioritize asset-based profitability over leveraged returns when formulating dividend policies. This pattern may reflect several contextual factors. First, investors in emerging markets like Indonesia tend to be relatively risk-averse and may value profitability that does not rely heavily on financial leverage. Second, regulatory and creditor scrutiny of debt levels may encourage firms to maintain conservative dividend policies when leverage is high, even if ROE appears strong. Third, the Indonesian corporate governance environment, characterized by concentrated ownership and family control in many firms, may lead to dividend policies that prioritize long-term financial stability (reflected in ROA) over maximizing immediate returns to equity holders (reflected in ROE).

The significant positive effect of firm size on dividend policy supports lifecycle theory and is consistent with empirical patterns observed globally. Larger Indonesian companies, many of which are represented in indices such as IDX High Dividend 20, tend to be more mature with established market positions, more stable cash flows, and fewer high-return growth opportunities. These characteristics make them natural candidates for generous dividend policies. The evidence from companies like Bank Central Asia, Bank Mandiri, and Telkom Indonesia, which have maintained dividend payout ratios above 60-70% in recent years, exemplifies this pattern. These large, mature firms use dividends not only to distribute excess cash but also to maintain reputation and investor confidence in Indonesia's capital market.

The negative effect of leverage on dividend policy, even after controlling for profitability, highlights the financial constraints and strategic considerations facing Indonesian companies. High leverage ratios impose debt service obligations that reduce discretionary cash available for dividends. Moreover, debt covenants often include restrictions on dividend payments to protect creditor interests. The finding that leverage negatively affects dividends in Indonesia aligns with evidence from other emerging Asian markets (Attavanich, Kumar and Rahman, 2025) and suggests that capital structure decisions have real implications for payout policies in developing economies where access to capital markets may be more limited than in developed markets.

The positive effect of free cash flow on dividend policy provides a clearer point of integration between signaling and agency theories. When firms generate excess free cash flow, dividend payments simultaneously perform two functions: they signal operational strength to external investors and mitigate agency problems by limiting the resources available for managerial discretion or potential expropriation by controlling shareholders. In Indonesia's institutional setting—where corporate governance mechanisms are improving but still uneven—these two roles are complementary rather than independent. Signaling theory is most relevant in explaining why firms initiate or maintain dividends in response to strong cash-generating capacity, whereas agency theory explains why distributing free cash flow through

dividends becomes an effective governance mechanism once profitability and cash surpluses are established. This conceptual sequencing clarifies that signaling dominates at the stage of communicating firm quality, while agency considerations become more salient in managing surplus cash and protecting minority shareholders.

CONCLUSION

This study examines the relationship between dividend policy and profitability among non-financial companies listed on the Indonesia Stock Exchange during the 2020–2024 period, a timeframe marked by economic disruption and post-pandemic recovery. Using panel data from 120 firms (600 firm-year observations), the findings provide robust empirical evidence on the key determinants of dividend policy within Indonesia's emerging market context. The results demonstrate that profitability is a primary driver of dividend policy in Indonesia. Both Return on Assets and Return on Equity exhibit positive and statistically significant relationships with dividend payout ratios, with ROA showing a particularly strong effect. This indicates that more profitable firms distribute a larger proportion of earnings as dividends, supporting signaling theory by suggesting that dividends serve as a credible signal of financial strength and future prospects. Beyond profitability, several firm-specific characteristics also influence dividend policy. Firm size positively affects dividend payouts, consistent with dividend life cycle theory, while leverage has a negative impact, reflecting financial constraints associated with debt obligations. Free cash flow exerts a positive influence on dividend policy, supporting both agency theory—by reducing excess cash under managerial control—and signaling theory—by demonstrating cash-generating capacity.

These findings carry important implications for stakeholders in Indonesia's capital market. Corporate managers should recognize profitability as the foundation of sustainable dividend policies while balancing signaling objectives, financial flexibility, and agency considerations. For investors, especially income-oriented investors, profitability, firm size, moderate leverage, and strong free cash flow emerge as key indicators of dividend-paying potential. From a regulatory perspective, the results suggest that Indonesia's disclosure-based dividend framework allows firms sufficient flexibility while maintaining market discipline.

Despite its contributions, this study has limitations that offer avenues for future research. The exclusion of financial firms, reliance on accounting-based profitability measures, and omission of ownership structure variables constrain the scope of the analysis. Future studies could extend this research by examining financial institutions, incorporating market-based performance indicators, and exploring the role of ownership structures or cross-country comparisons within ASEAN markets.

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