

THE EFFECT OF PROFITABILITY, LIQUIDITY, AND LEVERAGE ON DIVIDEND POLICY OF MANUFACTURING COMPANIES LISTED ON THE INDONESIAN STOCK EXCHANGE (BEI) LQ45

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Abstract:

Dividend policy is a reflection of managerial preferences in allocating profits between the interests of shareholders and long-term internal financing needs. In the context of manufacturing companies listed in the Indonesian LQ45 index, dividend distribution patterns exhibit inconsistent changes across periods, indicating complex policy dynamics. This study explores the role of profit performance, liquidity flexibility, and debt intensity on profit distribution decisions from 2019 to 2024. A quantitative approach was applied using secondary data from the financial statements of five manufacturing issuers consistently listed in the LQ45, analyzed through multiple linear regression. The study results indicate that profit-generating capacity is the dominant factor driving dividends, while liquidity tends to be neutral, and leverage actually limits the scope for profit distribution to shareholders.

Keywords: Profitability, Liquidity, Leverage, Dividend Policy, LQ45 Index

INTRODUCTION

Investment is essentially a strategic choice to withhold current consumption in favor of future value accumulation opportunities, with inherent consequences in the form of unavoidable risk and uncertainty (Reilly & Brown, 2020; Sharpe, 2020). Within this framework, shares represent investor ownership of a business entity traded through a structured capital market mechanism (Aryani, 2020). Therefore, the decision to invest in shares requires a thorough assessment of the company's performance prospects and stability. The capital market serves as an arena for the exchange of interests between fund owners and corporations requiring long-term financing. In Indonesia, this function is carried out by the Indonesia Stock Exchange (IDX), which ensures transparency, efficiency, and regularity in securities transactions while strengthening the foundation of the national financial system (IDX, 2022; Suwandi, 2022). The IDX's existence is a key element in building public trust in investment activities.

Through the capital market, investors gain the opportunity to earn returns in the form of dividends and increased share value, while companies gain access to capital to expand their business capacity and increase competitiveness. However, the highly responsive nature of the capital market to economic and non-economic changes, including political turmoil, makes stock movements susceptible to sharp fluctuations (Gumanti, 2020). This situation emphasizes that investment decisions are inextricably linked to the influence of the external environment.

From a financial management perspective, dividend policy serves as the meeting point between shareholder interests and the company's internal financing needs. This decision relates not only to profit distribution but also serves as a strategic signal that influences market perceptions of the company's value and prospects (Widodo et al., 2021; Brealey et al., 2020). Therefore, dividend policy is often used as an indicator of management credibility.

Dividend policy implementation is generally measured using the Dividend Payout Ratio (DPR), a ratio indicating the proportion of net profit allocated for distribution to shareholders



(Aryani, 2020). The reality on the Indonesia Stock Exchange shows that companies' DPRs tend to fluctuate between periods and are not always consistent, even though dividend stability is a primary investor preference. This fluctuation creates uncertainty in long-term investment income planning.

The LQ45 Index is a showcase of leading stocks on the IDX, encompassing issuers with high liquidity, large market capitalization, and relatively strong financial fundamentals (IDX, 2022). Within this index, the manufacturing sector plays a central role due to its contribution to added value creation, employment, and national trade activity (Ministry of Industry, 2020). This strategic position makes LQ45 manufacturing companies an important barometer for investors.

Observations of manufacturing companies consistently included in the LQ45 index during the 2019–2024 period reveal quite striking variations in the Dividend Payout Ratio, even among established issuers. This pattern indicates that dividend policy is not yet fully stable and is heavily influenced by the dynamics of internal financial conditions. This phenomenon reinforces the suspicion that financial determinants influence profit distribution decisions.

Profitability represents a company's ability to generate profits from all assets under management and is measured by Return on Assets (ROA), which is the ratio of net profit to total assets (Cindy et al., 2023). Previous empirical studies have shown mixed results, ranging from a significant positive effect to an insignificant or even negative effect on dividend policy (Musiega et al., 2020; Sari & Sudjarni, 2020; Suwandi, 2023). This diversity of results reflects the complexity of the relationship between profit and dividend distribution policy.

Liquidity reflects a company's capacity to meet its short-term obligations and is measured using the Current Ratio (CR), which compares current assets to current liabilities (Cindy et al., 2023). Adequate liquidity provides cash flow flexibility for companies to pay dividends, although empirical evidence suggests that its influence on dividend policy is not universal (Aryani, 2020; Yulianti et al., 2021). It indicates that liquidity plays a supporting role, not a sole determinant.

Leverage reflects a company's level of dependence on debt-based funding and is measured by the Debt-to-Equity Ratio (DER), which shows the comparison between total debt and equity (Aryani, 2020). A high debt structure has the potential to narrow profit distribution space due to the priority of meeting long-term financial obligations. The inconsistency of empirical findings regarding the influence of ROA, CR, and DER on dividend policy highlights a research gap; further research on LQ45 manufacturing companies on the IDX for the 2019–2024 period is relevant.

Signaling Theory. The Signaling Theory, introduced by Michael Spence in 1973, emphasizes that companies do not remain passive in their dealings with the market, but rather actively convey information about their business conditions and prospects. This information is conveyed through accounting information and strategic decisions, including dividend policy, which serve as the basis for investors' assessment of a company's quality. Dividend increases are often perceived as an indication of management's confidence in the sustainability of financial performance, thus encouraging a positive market reaction and strengthening the company's value.

Agency Theory. Agency theory views a company as a sphere of interaction between capital owners and managers, whose interests may not always be aligned. Differing goals and access to information create opportunities for opportunistic behavior, which incurs agency costs for the company. By strengthening transparency, oversight mechanisms, and controlling monitoring costs, bonding, and residual losses, companies can mitigate these conflicts, align the interests of the parties, and encourage improved performance and value in the eyes of investors.

Dividend Policy. Dividend policy reflects a company's strategic decision regarding profit management, whether to distribute it back to shareholders or retain it as a foundation for long-term





expansion. By establishing this policy, the company strives to instill confidence in investors while maintaining a balanced and resilient financial structure.

Dividend Payout Ratio. The Dividend Payout Ratio (DPR) reflects a company's decision to convert net income into direct compensation for shareholders. A high DPR is generally perceived as attractive to investors because it increases dividend flow, but this also reduces the company's profit reserves available to support investment, innovation, and sustainable business growth (Siregar & Puspitasari, 2020).

Profitability. According to Kasmir (2020), profitability indicates the extent to which a company is able to transform all its operational activities and resources into economic surplus within a single business period.

Return on Assets (ROA). Hery (2020) states that ROA reflects how effectively a company's entire asset resources are able to transform their potential into net profit. Conversely, Aryani (2020) emphasizes that ROA is a strategic benchmark that assesses the capacity of capital invested in each unit of assets to generate net profit overall.

Liquidity. Liquidity can be understood as a company's adaptive capacity to actualize current assets to meet its short-term liabilities. On the other hand, the liquidity ratio serves as a precision indicator that reveals how agile a company is in balancing the flow of short-term liabilities with available resources.

Leverage. Kasmir (2020), known as the solvency ratio, indicates the level of "debt dominance" in financing a company's activities. In other words, this ratio reveals how much a company relies on external capital to drive its operations, making it a strategic reflection of the balance between internal and external resources.

Research Hypothesis.

- H1: Profitability, Liquidity, and Leverage have a significant effect on dividend policy.
- H2: Profitability has a positive and significant effect on dividend policy.
- H3: Liquidity has a positive and significant effect on dividend policy.
- H4: Leverage does not affect dividend policy.

METHODS

For manufacturing companies listed on the Indonesia Stock Exchange (IDX) as members of the LQ45 Index, data was collected digitally through the official IDX portal at www.idx.co.id, enabling direct and structured exploration of financial information. The population size was precisely determined. The sampling procedure used was purposive sampling with eight companies. Multiple linear regression was used as the data analysis method. Validity and reliability testing were conducted as follows before data processing.

RESULT AND DISCUSSION

Panel Data Regression Model Selection Test: Common Effect Model.

Table 1. Common Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	67.75165	22.20062	3.051791	0.0038
X1	0.436703	1.262473	0.345911	0.7311
X2	-0.066999	0.079106	-0.846955	0.4016
X3	0.055281	0.101307	0.545679	0.5880
Root MSE	47.27525	R-squared		0.089119
Mean dependent var	64.07021	Adjusted R-squared		0.027014



S.D dependent var	50.05815	S.E of regression	49.37739
Akaike info criterion	10.71652	Sum squared resid	107277.6
Schwarz criterion	10.87245	Log likelihood	-253.1964
Hannan-Quin criter	10.77544	F-statistic	1.434967
Durbin-Watson stat	0.359112	Prob(F-statistic)	0.245412

Source: Processed Primary Data (2025)

Fixed Effect Model.

Table 2. Fixed Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	192.6304	29.92296	6.437329	0.0000
X1	-5.946350	1.784218	-3.332749	0.0020
X2	-0.230152	0.074176	-3.102775	0.0037
X3	-0.198483	0.099810	-1.988608	0.0542
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE	18.87087	R-squared	0.854863	
Mean dependent var	64.07021	Adjusted R-squared	0.815637	
S.D dependent var	50.05815	S.E of regression	21.49373	
Akaike info criterion	9.171449	Sum squared resid	17093.27	
Schwarz criterion	9.600266	Log likelihood	-209.1148	
Hannan-Quin criter	9.333500	F-statistic	21.79318	
Durbin-Watson stat	1.653414	Prob(F-statistic)	0.000000	

Source: Processed Primary Data (2025)

Chow Test.

Table 3. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	27.887492	(7,37)	0.0000
Cross-section Chi- square	88.163268	7	0.0000

Source: Processed Primary Data (2025)

The results of the Chow Test using the Redundant Fixed Effects Test indicate that the F-statistic probability is recorded at 0.0000, well below the significance threshold of 0.05 (p-value <0.05), indicating strong evidence for the presence of significant fixed effects.

Random Effects Model.

Table 4. Random Effects Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	147.9823	31.25369	4.734876	0.0000
X1	-3.049807	1.273369	-2.395070	0.0209
X2	-0.230420	0.069696	-3.306064	0.0019
X3	-0.051094	0.075148	-0.679921	0.5001
Effects Specification		S. D.	Rho	
Cross-section random		56.69252	0.8743	
Idiosyncratic random		21.49373	0.1257	
Weighted Statistics				



Root MSE	21.38454	R-squared	0.275938
Mean dependent var	9.799992	Adjusted R-squared	0.226570
S.D dependent var	25.39707	S.E of regression	22.33542
Sum squared resid	21950.32	F-statistic	5.589419
Durbin-Watson stat	1.400802	Prob(F-statistic)	0.002451
Unweighted Statistics			
R-squared	-0.438229	Mean dependent var	64.07021
Sum squared resid	169385.2	Durbin-Watson stat	0.181527

Source: Processed Primary Data (2025)

Hausman Test.

Table 5. Hausman Test Results

Test Summary	Chi-Sq-Statistic	Chi-Sq-d.f	Prob.
Cross-section random	6.513555	3	0.0891

Source: Processed Primary Data (2025)

The Hausman test revealed a chi-square value of 6.51 with a probability of 0.0891. Because this probability is below the critical threshold of 0.05, the null hypothesis is confirmed, while the alternative hypothesis is rejected, indicating that the random effects model is the most appropriate framework for mapping the data patterns in this study.

Lagrange Multiplier Test.

Table 6. Results of the Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	60.09328 (0.0000)	1.166937 (0.2800)	61.26022 (0.0000)
Honda	7.751986 (0.0000)	-1.080249 (0.8600)	4.717631 (0.0000)
King-Wu	7.751986 (0.0000)	-1.080249 (0.8600)	4.178832 (0.0000)
Standardized Honda	10.04552 (0.0000)	-0.901900 (0.8164)	2.982820 (0.0014)
Standardized King-Wu	10.04552 (0.0000)	-0.901900 (0.8164)	2.312788 (0.0104)
Gourjeroux, et al	--	--	60.09328 (0.0000)

Source: Processed Primary Data (2025)

Table 6 shows a p-value of 0.0000 (<0.05), thus rejecting the Null Hypothesis, indicating the presence of significant individual effects among companies in the sample. This phenomenon makes the Random Effects model the most precise and efficient choice for describing panel data dynamics.

Panel Data Regression Analysis.

Table 7. Results of Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	147.9823	31.25369	4.734876	0.0000
XI	-3.049807	1.273369	-2.395070	0.0209



X2	-0.230420	0.069696	-3.306064	0.0019
X3	-0.051094	0.075148	-0.679921	0.5001
Effects Specification		S. D.	Rho	
Cross-section random		56.69252	0.8743	
Idiosyncratic random		21.49373	0.1257	
Weighted Statistics				
Root MSE	21.38454	R-squared	0.275938	
Mean dependent var	9.799992	Adjusted R-squared	0.226570	
S.D dependent var	25.39707	S.E of regression	22.33542	
Sum squared resid	21950.32	F-statistic	5.589419	
Durbin-Watson stat	1.400802	Prob(F-statistic)	0.002451	
Unweighted Statistics				
R-squared	-0.438229	Mean dependent var	64.07021	
Sum squared resid	169385.2	Durbin-Watson stat	0.181527	

Source: Processed Primary Data (2025)

Where Y_{it} represents the dividend policy of company i in period t , the constant 147.9823 indicates the projected dividend policy when profitability, liquidity, and leverage are at zero. Profitability ($\beta_1 = -3.049807$) exhibits a decreasing effect on dividends, meaning that each 1-unit increase in ROA "erodes" the dividend policy by 3.049807%. Liquidity ($\beta_2 = -0.230420$) also reduces dividend intensity by 0.230420% per unit increase, while leverage ($\beta_3 = -0.051094$) exhibits a more subtle negative impact, indicating that increasing leverage slightly reduces dividend policy.

F-Test or Simultaneous Test.

Table 8. F-Test Results

Root MSE	21.38454	R-squared	0.275938
Mean dependent var	9.799992	Adjusted R-squared	0.226570
S.D dependent var	25.39707	S.E of regression	22.33542
Sum squared resid	21950.32	F-statistic	5.589419
Durbin-Watson stat	1.400802	Prob(F-statistic)	0.002451

Source: Processed Primary Data (2025)

t-Test or Partial Test.

Table 9. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	147.9823	31.25369	4.734876	0.0000
X1	-3.049807	1.273369	-2.395070	0.0209
X2	-0.230420	0.069696	-3.306064	0.0019
X3	-0.051094	0.075148	-0.679921	0.5001

Source: Processed Primary Data (2025)

1. The F-test confirms that profitability, liquidity, and leverage collectively form a significant influence on dividend policy ($F = 5.589$; $p = 0.0025$), although only 22.66% of the variation in dividends is explained. It is consistent with research by Pradnyani & Wirajaya (2021), who found ROA, CR, and DER simultaneously significant on dividends (adjusted $R^2 = 31.5\%$), and Kurniawan et al. (2024), who concluded that similar variables collectively influence dividend policy.



2. Profitability has a significant negative effect ($\beta = -3.049807$; $p = 0.0209$). Companies retain earnings as an adaptive response to economic uncertainty, using profitability as a “strategic fuel” for digital transformation, strengthening working capital, and liquidity reserves. This finding aligns with Susanto & Pratama (2021) and Chen & Huang (2020), who reported that companies with high profits tend to withhold dividends to prioritize liquidity and investment during periods of crisis or pandemic. Within the framework of Signaling Theory and Agency Theory, reduced dividends signal prudence and alignment of interests between management and shareholders.
3. Liquidity exhibits a significant negative effect ($\beta = -0.230420$; $p = 0.0019$). Abundant cash and current assets serve as a "strategic reservoir" for opportunistic expansion, debt consolidation, and risk mitigation. This finding is supported by Nugroho & Fahmi (2022) and Setiawan & Tarigan (2021), who show that companies with high liquidity retain dividends to strengthen reserves and capitalize on growth opportunities.
4. Leverage has no significant effect ($\beta = -0.051094$; $p = 0.5001$), indicating that debt levels serve as a "balancing force" that provides management flexibility in balancing dividend distribution and debt management. This finding is consistent with Rizky & Sari (2021), who concluded that DER is not significant to the Dividend Payout Ratio because companies are able to manage debt without reducing dividends.

CONCLUSION

1. Profitability, liquidity, and leverage simultaneously form a significant "wave of influence" on dividend policy, as reflected in the F-statistic of 5.589419 with a p-value of 0.002451 (<0.05), thus confirming H_1 .
2. Profitability acts as a negative strategic driver, with a coefficient of -3.049807 ($p = 0.0209 <0.05$), indicating that increasing profits encourages dividend retention rather than distribution; H_2 is rejected.
3. Liquidity functions as a "flexibility reserve" that suppresses dividends, with a coefficient of -0.230420 ($p = 0.0019 <0.05$), thus rejecting H_3 .
4. Leverage, like a gentle breeze that balances the financial structure, has no significant impact on dividends ($\beta = -0.051094$; $p = 0.5001 > 0.05$), so H_4 is accepted.

Recommendations. Based on the research findings, dividends should be viewed not simply as short-term financial figures but as a strategic profit stream flowing under management control, guided by operational stability, long-term vision, and dynamic market conditions. Communicating the rationale for decisions through annual reports or investor forums serves as a signal of transparency, ensuring shareholders understand the policy even if it differs from traditional expectations. Regular evaluation of dividend policy is recommended to stay aligned with internal changes and industry trends. For future researchers, the research model can be expanded by adding variables such as company size, ownership structure, free cash flow, and macroeconomic factors.

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