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The Effect of Profitability, Liquidity, Growth Potential, and Managerial Ownership on Dividend Policy

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Abstract

This study aims to examine the influence of profitability (ROA), liquidity (Current Ratio), growth potential, and managerial ownership on dividend policy in energy sector companies listed on the Indonesia Stock Exchange during the period 2020–2024. A quantitative research approach was applied using panel data from annual financial reports. The dependent variable, dividend policy, is proxied by Dividend per Share (DPS), while the independent variables include ROA, CR, growth potential, and managerial ownership. The data analysis method employed is multiple linear regression using the Fixed Effect Model (FEM). The findings reveal that profitability and managerial ownership significantly affect dividend policy, indicating that companies with higher profitability and greater ownership by management are more likely to distribute dividends. On the other hand, liquidity and growth potential do not show a significant relationship with dividend policy. These results suggest that internal financial strength and the alignment of interests between management and shareholders are key determinants of dividend decisions in the energy sector. This study contributes to a deeper understanding of dividend policy determinants and offers practical implications for investors, company executives, and policymakers.

Keywords: Dividend Policy, Profitability, Liquidity, Growth Potential, Managerial Ownership

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INTRODUCTION

Dividend policy represents a strategic decision in financial management that aims to balance the interests of shareholders in receiving profit distribution and the company's internal needs for business expansion. The determination of dividends is influenced by various internal factors, such as profitability, liquidity, growth potential, and managerial ownership. Research in the mining sector by Rajali et al. (2024) reinforces the relationship between liquidity ratios, profitability levels, and dividend policy, particularly in capital-intensive industries that are highly influenced by commodity market dynamics.

Profitability reflects a company's ability to generate earnings and is considered a primary basis for determining dividend distribution. Several studies have shown that higher profitability increases the company's ability to pay dividends (Sumarlin et al., 2020; Yunisari & Ratnadi, 2018). However, other findings contradict this view, showing that profitability does not significantly affect dividend policy (Miswanto et al., 2022; Setiawati & Simanungkalit, 2025; Arifin & Asyik, 2015).

Liquidity reflects the company's ability to meet short-term financial obligations, which can influence dividend decisions. Companies with strong cash positions are more likely to distribute dividends (Arifin & Asyik, 2015). Yet, inconsistent results have also been reported, where liquidity shows no significant impact on dividend policy (Yunisari & Ratnadi, 2018; Miswanto et al., 2022).

In terms of growth potential, companies with high growth prospects typically retain earnings to finance expansion rather than pay dividends. Although dividends remain attractive to investors, high-growth firms often prioritize reinvestment. Research has found no significant influence of growth potential on dividends in the transportation and logistics sectors, while Arifin & Asyik (2015) reported a significant negative effect in manufacturing.

Furthermore, managerial ownership is associated with agency theory, where management ownership can reduce agency conflicts and influence earnings distribution preferences. Several studies (Ernawati & Astuti, 2021; Arifin & Asyik, 2015) show a positive significant effect of managerial ownership on dividend policy, although other studies found insignificant results (Yunisari & Ratnadi, 2018; Setiawati & Simanungkalit, 2025).

Contextually, the energy sector has unique characteristics such as high capital intensity, income fluctuation due to commodity price volatility, and long-term investment needs to maintain sustainability. These complexities make dividend policy in energy companies more multidimensional. For instance, PT Bukit Asam Tbk (PTBA), a state-owned energy company in Indonesia, declared a payout ratio of 98% in 2024—a bold move demonstrating strong shareholder commitment amidst investment and global market pressures. This phenomenon highlights the need for deeper understanding of dividend policy determinants in the Indonesian energy sector.

Based on theoretical reviews, profitability, liquidity, growth potential, and managerial ownership are assumed to have significant influence on dividend policy. Therefore, this study aims to investigate the extent to which these variables affect dividend decisions in energy sector companies listed on the Indonesia Stock Exchange from 2020 to 2024.

RESEARCH METHODS

This study employs a quantitative approach with a causal associative design aimed at analyzing the influence of independent variables on dividend policy. The independent variables include profitability (measured by Return on Assets/ROA), liquidity (measured by the Current Ratio/CR), growth potential (measured by total asset growth), and managerial ownership. The dependent variable is dividend policy, proxied by Dividend per Share (DPS).

The scope of the research focuses on energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. The object of the study consists of companies that meet the following criteria: (1) listed prior to 2020; (2) publish audited financial reports consistently for the observed years; (3) use Indonesian Rupiah (IDR) as their reporting currency; (4) have international branches; and (5) indicate political connections based on board member backgrounds.

The data used in this research is secondary data, obtained from the annual financial reports of each company. These reports were collected through the official website of the Indonesia Stock Exchange (https://www.idx.co.id) and the official websites of the respective companies.

Operational definitions for each variable are as follows:

1. Profitability (ROA): Net income divided by total assets.
2. Liquidity (CR): Current assets divided by current liabilities.
3. Growth potential: Annual percentage increase in total assets.
4. Managerial ownership: Percentage of shares owned by company executives or management.
5. Dividend policy (DPS): Total cash dividends divided by the number of outstanding shares.

Data analysis was conducted using multiple linear regression with the assistance of EViews 12 software. Prior to regression testing, the data underwent descriptive analysis and classical assumption tests, including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. Hypothesis testing was performed using the coefficient of determination (R^2), t-tests for partial significance, and F-tests for simultaneous significance of the independent variables on the dependent variable.

RESULT AND DISCUSSION

Panel Data Model Test

Table 1. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.859711	(13,52)	0.0000
Cross-section Chi-square	91.865148	13	0.0000

Table 2. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.78044	4	0.0291

The Chow test produced a probability value of 0.0000, which is smaller than the 0.05 significance level. This indicates that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The Hausman test showed a p-value of 0.0291, also under 0.05, affirming FEM as the best model. Hence, the Lagrange Multiplier test was not conducted.

Table 3. Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.494781	6.597744	-0.832827	0.4088
ROA	69.67626	26.73669	2.606017	0.0119
CR	3.762602	2.893285	1.300460	0.1992
GP	-3.936396	11.03201	-0.356816	0.7227
OWNSP	148.1810	55.16184	2.686297	0.0097

The Jarque-Bera test revealed a probability value of 0.093589, indicating that the residuals are normally distributed. The Breusch-Pagan-Godfrey test showed no heteroscedasticity (Chi-Square $p > 0.05$). Multicollinearity was also not detected, with all VIF values < 10.

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Classical Assumption Test

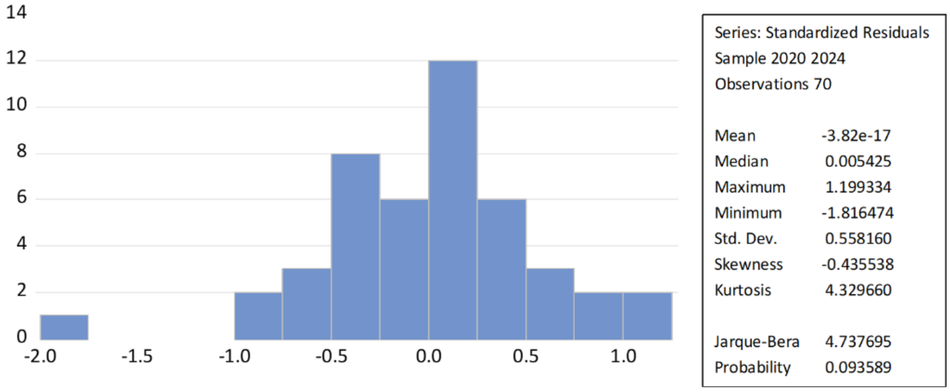

Figure 1. Normality Test Result

Table 4. Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-Statistic	1.815403	Prob. F(4,65)	0.1365
Obs*R-squared	7.034340	Prob. Chi-Square(4)	0.1341
Scaled explained SS	26.33881	Prob. Chi Square(4)	0.0000

Table 5. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	54.85598	2.866873	NA
ROA	949.8841	2.390566	1.184453
CR	13.56921	1.771481	1.028981
GP	266.8916	1.205570	1.026292
OWNSP	5329.072	1.850556	1.166567

Regression Analysis

The regression model:

DPS = −5.49478 + 69.6762(ROA) + 3.76260(CR) − 3.93639(GP) + 148.181(OWNSP) + e

ROA and managerial ownership significantly affect dividend policy ($p = 0.0119$ and 0.0097), while CR and GP do not ($p = 0.1992$ and 0.7227). This shows that companies with high profits and managerial ownership are more inclined to distribute dividends.

Determination Coefficient

Table 6. R^2 Test

R-squared	0.760788	Mean dependent var	16.08121
Adjusted R-squared	0.682585	S,D dependent var	37.67520
S.E. of regression	21.22607	Akaike info criterion	9.165372
Sum square resid	23428.40	Schwarz criterion	9.743556
Log likelihood	-302.7880	Hannan-Quinn criter	9.395034
F-statistic	9.728278	Durbin-Watson stat	1.356882
Prob(F-statistic)	0.000000		

An R^2 value of 0.7608 indicates that 76.08% of dividend policy variation is explained by the independent variables. The remaining 23.92% is influenced by other external factors such as macroeconomic conditions and tax regulations.

F-Test

The F-statistic value of 9.728278 with a p-value of 0.000000 confirms that all independent variables together significantly influence dividend policy in the energy sector during 2020–2024.

CONCLUSIONS

This study concludes that profitability and managerial ownership have a significant positive effect on dividend policy among energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. This indicates that the higher a company's profitability and the greater the proportion of shares held by management, the more likely the company is to distribute dividends. In contrast, liquidity and growth potential were found to have no significant influence on dividend decisions. These findings suggest that dividend distribution is primarily driven by internal financial performance and managerial interest, rather than short-term cash capacity or future growth prospects.

The findings support the hypothesis that internal financial indicators, particularly profitability and ownership structure, play a more substantial role in dividend policy formation than short-term financial liquidity. This reinforces the relevance of agency theory and the signaling perspective in explaining dividend behavior in capital-intensive sectors such as energy.

Theoretically, the study contributes to the literature by validating the role of profitability and insider ownership in shaping dividend policy within emerging markets. Practically, it offers valuable insights for investors in evaluating firm performance and dividend reliability, as well as for managers in formulating dividend strategies aligned with shareholder interests.

However, this study is limited to secondary data within a specific sector and time frame. Future research may expand the scope by including macroeconomic factors or exploring the moderating role of external shocks such as global energy crises or tax regulation changes.

In conclusion, this study underscores the strategic importance of profitability and managerial involvement in dividend policy, and highlights its potential application in both academic and corporate decision-making domains.

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