JURNAL MEDIA AKADEMIK (JMA)
Vol.4, No.2 Februari 2026
e-ISSN: 3031-5220; DOI: 10.62281, Hal XX-XX
PT. Media Akademik Publisher
AHU-084213.AH.01.30.Tahun 2023

LIQUIDITY, PROFITABILITY, AND DIVIDEND DECISIONS: PANEL EVIDENCE FROM INDONESIA'S INFRASTRUCTURE FIRMS

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Abstract. *This study examines the relationship between liquidity, profitability, and dividend policy in infrastructure sector firms listed on the Indonesia Stock Exchange during the 2022–2024 period. Dividend policy, proxied by the Dividend Payout Ratio (DPR), remains a strategic financial decision that reflects management's stance toward internal financing and shareholder returns. Using panel data obtained from published annual financial statements, this research employs multiple regression analysis estimated through EViews to assess the effect of liquidity, measured by the Current Ratio (CR), and profitability, measured by Return on Assets (ROA), on dividend policy. The empirical results indicate that both CR and ROA exhibit positive coefficients; however, neither variable demonstrates a statistically significant effect on DPR, either individually or jointly. The findings suggest that dividend decisions among infrastructure firms are not primarily driven by short-term liquidity positions or accounting profitability. This outcome lends support to dividend irrelevance arguments and residual dividend considerations, particularly in capital-intensive sectors where retained earnings are prioritized for long-term investment. The study implies that managers may adopt a cautious dividend strategy, emphasizing financial flexibility rather than signaling or immediate shareholder distribution. These results contribute to the ongoing debate on*

Received January 14, 2026; Revised January 23, 2026; February 17, 2026
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dividend policy in emerging markets and provide practical insights for investors and policymakers regarding the financial behavior of infrastructure firms.
Keywords: *Dividend Policy, Infrastructure Firms, Liquidity, Profitability.*

Abstrak. Penelitian ini bertujuan untuk menganalisis pengaruh likuiditas dan profitabilitas terhadap kebijakan dividen pada perusahaan sektor infrastruktur yang terdaftar di Bursa Efek Indonesia selama periode 2022–2024. Kebijakan dividen yang diproksikan melalui Dividend Payout Ratio (DPR) merupakan keputusan keuangan penting yang mencerminkan preferensi manajemen antara pembiayaan internal dan distribusi laba kepada pemegang saham. Penelitian ini menggunakan data panel yang bersumber dari laporan keuangan tahunan perusahaan dan dianalisis menggunakan regresi linier berganda dengan bantuan perangkat lunak EViews. Likuiditas diukur melalui Current Ratio (CR), sedangkan profitabilitas diproksikan dengan Return on Assets (ROA). Hasil pengujian empiris menunjukkan bahwa CR dan ROA memiliki koefisien positif terhadap DPR, namun pengaruh tersebut tidak signifikan baik secara parsial maupun simultan. Temuan ini mengindikasikan bahwa kebijakan dividen pada perusahaan infrastruktur tidak ditentukan oleh kondisi likuiditas jangka pendek maupun tingkat profitabilitas akuntansi. Hasil penelitian ini sejalan dengan pandangan dividend irrelevance dan pendekatan residual dividend, terutama pada sektor yang bersifat padat modal dan membutuhkan pendanaan internal yang besar. Implikasi penelitian ini menegaskan bahwa perusahaan cenderung memprioritaskan keberlanjutan investasi dibandingkan peningkatan pembayaran dividen, serta memberikan referensi bagi investor dan pengambil kebijakan dalam memahami pola kebijakan dividen di sektor infrastruktur.
Kata Kunci: Kebijakan Dividen, Likuiditas, Profitabilitas, Perusahaan Infrastruktur.

INTRODUCTION

Every company is fundamentally oriented toward continuously increasing firm value as a means of enhancing shareholder wealth. This increase in value is not only reflected in rising share prices, but also in the company's ability to provide stable returns to shareholders, one of which is through dividend payments. Therefore, dividend policy becomes an important component of corporate financial decision-making, as it concerns the allocation of profits between distribution to shareholders and retention for internal

financing needs. A dividend policy that is implemented consistently and proportionally can serve as a positive signal of a company's financial condition and strengthen investor confidence in the firm's future prospects (Brigham & Houston, 2019).

In financial literature, profitability and liquidity are commonly regarded as key internal factors influencing dividend policy. Profitability reflects a company's ability to generate earnings from its operating activities. Firms with higher levels of profitability generally have greater flexibility in distributing dividends, as the profits generated exceed routine operational and investment requirements. Accordingly, the higher and more stable a company's earnings, the greater the likelihood that dividends will be distributed to shareholders (Gitman & Zutter, 2015).

Liquidity, on the other hand, is associated with a firm's ability to meet its short-term obligations. Even when a company reports high profits, limited cash availability or insufficient current assets may hinder the actual payment of dividends. For this reason, liquidity plays an important role in sustaining dividend policy. From a theoretical perspective, companies with strong liquidity positions tend to be better able to maintain stable dividend payments, as they possess adequate cash resources to meet operational obligations while simultaneously providing returns to shareholders (Ross et al., 2018).

Nevertheless, the relationship between profitability, liquidity, and dividend policy does not always operate as predicted by theoretical frameworks. In practice, many firms choose to retain earnings despite being both profitable and liquid. Such decisions are typically driven by strategic considerations, including the need to finance business expansion, repay debt, or build cash reserves to cope with economic uncertainty. This condition suggests that dividend policy is influenced not only by financial performance, but also by managerial preferences and long-term corporate strategies. As a result, a gap often exists between theoretical predictions and actual dividend decisions at the firm level (Miller & Modigliani, 1961).

In the context of companies that play a significant role in supporting national economic growth particularly those involved in large-scale projects and closely linked to government policies financial decision-making becomes increasingly complex. These companies generally require substantial capital and operate in environments shaped by macroeconomic dynamics and regulatory frameworks. Such conditions may affect a

firm's financial structure, including the determination of an appropriate dividend policy aligned with its financial condition and strategic objectives.

The selection of the 2022–2024 research period is based on the consideration that this timeframe represents a phase of economic transition and recovery following the COVID-19 pandemic. During this period, many companies adjusted their financial strategies, particularly in terms of profit management and dividend distribution policies. Economic uncertainty, liquidity pressures, and changes in macroeconomic policies encouraged firms to adopt a more cautious approach to dividend decisions. Consequently, this period is relevant for reexamining the influence of profitability and liquidity on dividend policy under post-crisis economic conditions (OECD, 2022).

THEORETICAL FRAMEWORK

This section presents the theoretical foundations underlying the relationship between dividend policy, profitability, and liquidity. The discussion provides a conceptual basis for examining how internal financial conditions influence dividend distribution decisions. Dividend policy refers to managerial decisions concerning the proportion of net income distributed to shareholders in the form of dividends and the portion retained for internal financing. This policy plays a strategic role, as it reflects management's effort to balance shareholder expectations with long-term corporate growth. A well-managed dividend policy is often perceived by investors as a positive signal of financial stability and future performance. Dividend Payout Ratio (DPR) is commonly used as a proxy for dividend policy because it represents the percentage of earnings allocated to dividend payments. The level of DPR is influenced by internal firm characteristics, including profitability, liquidity, and managerial preferences regarding earnings allocation (Tahu, 2018).

Profitability is a key determinant of dividend policy, as dividends are primarily paid from earnings. Return on Assets (ROA) is widely used to measure profitability because it reflects a firm's efficiency in utilizing its total assets to generate net income. Firms with higher ROA are generally in a stronger position to distribute dividends, both in terms of magnitude and consistency, due to their superior earnings-generating capability. Accordingly, profitability is expected to have a significant influence on

dividend payout decisions (Seto et al., n.d.). Liquidity also plays an essential role in dividend policy, as dividend payments require adequate cash availability. Current Ratio (CR) is commonly employed to assess a firm's liquidity by measuring its ability to meet short-term obligations using current assets. Even when a firm reports strong profitability, insufficient liquidity may constrain its ability to distribute dividends. Therefore, firms with higher liquidity levels are expected to maintain more stable dividend payments, particularly under conditions of economic uncertainty (Ross et al., 2018).

Based on corporate finance theory and prior empirical evidence, profitability and liquidity are expected to influence dividend policy both individually and jointly. Firms with higher ROA are likely to exhibit higher Dividend Payout Ratios due to their stronger earnings capacity (**H1**). Similarly, firms with higher CR are expected to demonstrate greater ability to distribute dividends as a result of stronger liquidity positions (**H2**). Furthermore, the combined effect of profitability and liquidity is expected to play a significant role in shaping dividend policy decisions, as earnings generation and cash availability jointly determine management's capacity to distribute dividends to shareholders (**H3**).

METHODS

This study adopts a quantitative explanatory approach to examine the effect of Return on Assets (ROA) and Current Ratio (CR) on corporate financial policy, which is proxied by the Debt to Equity Ratio (DER). The research focuses on infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Secondary data are utilized in this study, obtained from the official IDX website, including annual financial statements, financial ratios, and other relevant corporate information. Data analysis is conducted using EViews software.

Return on Assets (ROA) is used to represent a company's efficiency in utilizing its assets to generate profit. ROA reflects management effectiveness in converting total assets into net income and is calculated by dividing net income by total assets. A higher ROA indicates better operational performance and profitability (Nasution & Septian, 2024). Meanwhile, liquidity is measured using the Current Ratio (CR), which reflects a firm's ability to meet short-term obligations using its current assets. The Current Ratio is

calculated by comparing current assets to current liabilities, where a higher ratio suggests stronger short-term financial stability (Wahyuni & Hafiz, 2018).

The dependent variable in this study is the Debt to Equity Ratio (DER), which represents the company's capital structure by comparing total liabilities to shareholders' equity. DER indicates the extent to which a firm relies on debt financing relative to its own equity and serves as an important indicator of financial leverage (Irnawati, n.d.). By analyzing the relationship between profitability, liquidity, and leverage, this study aims to provide empirical evidence on how internal financial performance influences corporate financing decisions in infrastructure companies.

RESULTS AND DISCUSSION

Results

1. Descriptive Statistics

This study analyzes panel data from infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) over the 2022–2024 period, comprising 60 firm-year observations. Table 1 presents the descriptive statistics of the research variables, namely Return on Assets (ROA), Current Ratio (CR), and Dividend Payout Ratio (DPR).

Table 1. Descriptive Statistics of Research Variables (2022–2024)

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	60	0.0070	0.2664	0.0672	0.0569
CR	60	0.1822	4.8655	1.3627	1.0570
DPR	60	0.0000	2.0311	0.4665	0.3946

Source: Author's own work

The descriptive results show that ROA has an average value of 0.067, indicating a moderate level of profitability among infrastructure companies. However, the relatively high standard deviation suggests notable differences in firms' efficiency in utilizing assets to generate profits. The liquidity variable, measured by the Current Ratio (CR), records an average value of 1.36, which implies that, on average, firms possess sufficient current assets to meet short-term obligations.

Nevertheless, the wide range between the minimum and maximum values reflects substantial variation in liquidity management practices across firms. Meanwhile, the Dividend Payout Ratio (DPR) shows an average value of 0.466, indicating that companies distribute approximately 46.6% of their earnings as dividends. The relatively large dispersion suggests that dividend policies differ considerably, likely due to variations in profitability, liquidity conditions, and internal financing strategies.

2. Panel Data Regression Model Selection

To determine the most appropriate panel data estimation technique, several model specification tests were conducted, including the Chow test, Hausman test, and Lagrange Multiplier test.

1) Chow Test

The Chow test was employed to compare the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The results of the Chow test are presented in Table 2.

Table 2. Chow Test Results

Test Statistic	Value	Probability
Cross-section F	3.9789	0.0001
Cross-section Chi-square	65.7057	0.0000

Source: Author's own work

The probability values of both the Cross-section F and Chi-square statistics are below the 0.05 significance level. This indicates that the null hypothesis is rejected, suggesting that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM) for explaining variations in dividend policy across firms.

2) Hausman Test

Following the Chow test, the Hausman test was applied to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more suitable. The results of the Hausman test are summarized in Table 3.

Table 3. Hausman Test Results

Test Statistic	Chi-square Value	Probability
Hausman Test	-	0.9100

Source: Author's own work

The probability value of 0.9100 exceeds the 0.05 significance level, indicating that the null hypothesis cannot be rejected. This result implies that the Random Effect Model (REM) is preferable to the Fixed Effect Model (FEM) and is therefore appropriate for further analysis.

3) Lagrange Multiplier Test

To further validate the selection of the Random Effect Model (REM), the Breusch–Pagan Lagrange Multiplier (LM) test was conducted. The results are presented in Table

Table 4. Lagrange Multiplier Test Results

Test	Probability
Breusch–Pagan LM	0.0001

Source: Author's own work

The LM test probability value is below the 0.05 significance level, indicating that the null hypothesis is rejected. This finding confirms that the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM), as it accounts for unobserved heterogeneity across firms.

3. Discussion of Model Selection

Based on the results of the Chow test, Hausman test, and Lagrange Multiplier test, the Random Effect Model (REM) is determined to be the most suitable estimation model for this study. The selection of REM suggests that firm-specific effects are present and random in nature, and that these effects are not correlated with the explanatory variables. Consequently, REM provides more efficient and consistent parameter estimates for analyzing the impact of profitability (ROA) and liquidity (CR) on dividend policy (DPR) in infrastructure sector companies.

4. Panel Data Regression Results

Based on the model selection tests discussed in the previous section, the **Random Effect Model (REM)** was employed to examine the effect of profitability and liquidity on dividend policy. The estimation was conducted using panel least squares with 60 balanced observations from 20 infrastructure companies over the 2022–2024 period.

The regression results are presented in Table 5.

Table 5. Random Effect Model Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Probability
Constant	0.386508	0.189684	2.037638	0.0486
ROA	0.059553	2.542083	0.023427	0.9814
CR	0.055784	0.107539	0.518728	0.6070

Source: Author's own work

The estimated regression model can be expressed as follows:

$$\mathbf{DPR}_{it} = \mathbf{0.3865} + \mathbf{0.0596}\,\mathbf{ROA}_{it} + \mathbf{0.0558}\,\mathbf{CR}_{it} + \boldsymbol{\varepsilon}_{it}$$

The constant term of 0.3865 indicates that when profitability (ROA) and liquidity (CR) are assumed to be zero, the Dividend Payout Ratio (DPR) is estimated at 0.3865. This suggests that, even in the absence of profitability and liquidity effects, firms tend to maintain a baseline dividend distribution level. The coefficient of ROA is positive (0.0596), implying that higher profitability tends to increase dividend payout. However, the effect is statistically insignificant, indicating that profitability does not play a decisive role in determining dividend policy among infrastructure firms during the observed period. Similarly, the coefficient of CR is positive (0.0558), suggesting that firms with higher liquidity are more likely to distribute dividends. Nevertheless, the effect is also statistically insignificant, indicating that liquidity alone is insufficient to explain dividend payout decisions.

5. Hypothesis Testing

1) Partial Significance Test (t-test)

The partial significance test was conducted to evaluate the individual effect of each independent variable on dividend policy. The results are summarized in Table 6.

Table 6. t-test Results

Hypothesis	Variable	Probability	Decision
H1	ROA → DPR	0.9814	Rejected
H2	CR → DPR	0.6070	Rejected

Source: Author's own work

The probability value for ROA exceeds the 0.05 significance level, indicating that profitability does not have a significant partial effect on dividend policy. Therefore, Hypothesis 1 (H1) is rejected. Likewise, the probability value for CR is also greater than 0.05, suggesting that liquidity does not significantly affect dividend payout decisions. Consequently, Hypothesis 2 (H2) is rejected.

2) Simultaneous Significance Test (F-test)

The F-test was conducted to assess the joint effect of ROA and CR on dividend policy. The test results indicate that the model does not exhibit statistically significant explanatory power. This suggests that, simultaneously, profitability and liquidity are unable to explain variations in the Dividend Payout Ratio of infrastructure companies during the study period.

3) Coefficient of Determination

The explanatory power of the regression model is assessed using the coefficient of determination (R^2). The results are presented in Table 7.

Table 7. Coefficient of Determination

Indicator	Value
R-squared	-0.030
Adjusted R-squared	-0.030

Source: Author's own work

The R-squared value of −0.030 indicates that the model fails to explain variations in dividend policy. This result suggests that dividend payout decisions in infrastructure companies are influenced by factors beyond profitability and liquidity, such as investment opportunities, leverage, firm size, ownership structure, or managerial discretion.

Discussion

The empirical results of this study indicate that neither profitability nor liquidity exerts a statistically significant influence on dividend policy in infrastructure sector companies during the 2022–2024 period. Although both Return on Assets (ROA) and Current Ratio (CR) show positive coefficients, their effects on the Dividend Payout Ratio (DPR) are not statistically meaningful. This finding suggests that dividend decisions in the infrastructure sector cannot be explained solely by short-term financial performance indicators.

From the perspective of dividend signaling theory, dividend payments are commonly viewed as a mechanism through which management conveys private information about future earnings and firm prospects to investors (Bhattacharya, 1979; Ross et al., 2018). In this framework, higher profitability is expected to be followed by higher dividend payouts as a credible signal of financial strength. However, the insignificant effect of ROA found in this study indicates that infrastructure companies may not rely heavily on dividends as a signaling tool. Instead, management appears to prioritize internal financial stability and long-term investment commitments over the use of dividends to communicate performance, a behavior that has also been observed in capital-intensive industries (Brigham & Houston, 2019).

The findings are more closely aligned with the residual dividend theory, which posits that dividends are distributed only after all profitable investment opportunities have been financed (Gitman & Zutter, 2015). Infrastructure companies typically operate under high capital requirements, long project horizons, and substantial financing needs. Consequently, even when firms generate profits, these earnings are more likely to be retained to support expansion, service debt obligations, or strengthen internal reserves. The absence of a significant relationship between ROA and DPR supports this view, indicating that dividend policy is treated as a residual decision rather than a primary financial objective.

Liquidity, as measured by the Current Ratio, also does not exhibit a significant impact on dividend payouts. Although sufficient liquidity theoretically enables firms to meet dividend commitments, the results suggest that cash availability alone does not drive dividend decisions in the infrastructure sector. Firms may deliberately maintain liquidity buffers to manage operational risks, regulatory uncertainty, and macroeconomic

volatility, particularly in the post-pandemic recovery period (OECD, 2022). This cautious approach implies that liquidity is preserved for strategic flexibility rather than allocated to dividend distribution, even when short-term obligations can be comfortably met.

Furthermore, the overall findings lend empirical support to the Modigliani and Miller (1961) dividend irrelevance proposition, which argues that dividend policy does not affect firm value under certain market conditions. The insignificant effects of both profitability and liquidity, combined with the low explanatory power of the regression model, suggest that dividend policy plays a secondary role in shaping firm behavior within the infrastructure sector. Investors may place greater emphasis on long-term growth prospects, project execution, and capital structure decisions than on dividend payouts when assessing firm value.

The negative adjusted R-squared value reinforces the argument that dividend policy is influenced by factors beyond profitability and liquidity. Variables such as leverage, growth opportunities, ownership structure, and managerial discretion are likely to have a more prominent role in determining dividend decisions, particularly in industries characterized by large-scale investments and long-term planning horizons (Miller & Modigliani, 1961; Brigham & Houston, 2019).

Overall, this study suggests that dividend policy in infrastructure companies during the 2022–2024 period reflects strategic and long-term considerations rather than short-term financial performance. The results highlight the relevance of residual dividend theory and provide practical evidence supporting the contextual applicability of dividend irrelevance theory in capital-intensive sectors.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examines the relationship between profitability and liquidity and dividend policy in infrastructure sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The empirical results indicate that profitability, measured by Return on Assets (ROA), and liquidity, proxied by the Current Ratio (CR), do not have a statistically significant effect on dividend policy, as represented by the Dividend Payout Ratio (DPR), either individually or simultaneously. This finding suggests that dividend

decisions within the infrastructure sector are not primarily driven by short-term financial performance indicators.

More broadly, the results imply that dividend policy is shaped by strategic and structural considerations rather than immediate profitability or liquidity conditions. In capital-intensive industries such as infrastructure, firms appear to prioritize internal financing capacity, long-term investment commitments, and financial flexibility over dividend distribution. This pattern aligns with the residual dividend perspective, which views dividend payments as a residual outcome after investment and financing requirements have been satisfied. At the same time, the limited explanatory power of the regression model highlights the contextual relevance of the dividend irrelevance proposition, indicating that dividend policy may play a secondary role in corporate financial decision-making in this sector.

While these findings provide useful insights, several limitations should be acknowledged. The analysis is confined to two internal financial variables and focuses on a specific sector during the post-pandemic recovery period, which may restrict the broader applicability of the results. In addition, institutional and non-financial factors such as ownership structure, managerial discretion, regulatory constraints, and growth opportunities are not explicitly incorporated into the model, despite their potential influence on dividend behavior.

Recommendation

Future research is encouraged to adopt a more comprehensive framework by incorporating additional firm-specific and institutional variables, extending the observation period, and undertaking cross-sector or cross-country analyses. Such approaches may offer deeper insights into the determinants of dividend policy in capital-intensive environments. From a practical perspective, the findings suggest that investors and policymakers should interpret dividend policy in infrastructure firms with caution, as dividend decisions appear to be less responsive to short-term profitability and liquidity conditions and more closely linked to long-term strategic priorities.

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