

The Effect of Debt Policy and Profitability on Dividend Policy

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Abstrak

Penelitian ini bertujuan untuk menguji dan menganalisis pengaruh *debt policy* dan profitabilitas, terhadap kebijakan dividen perusahaan sector perbankan yang terdaftar pada BEI tahun 2020-2024. Dalam penelitian ini, populasi yang digunakan terdiri dari 47 perusahaan sector perbankan. Sedangkan sampel diambil menggunakan teknik purposive sampling, dan menghasilkan 43 perusahaan dengan 4 tahun pengamatan sehingga diperoleh 172 data. Namun, terdapat data outlier sehingga data yang digunakan pada penelitian ini berjumlah 120 data observasi. Penelitian ini menggunakan metode kuantitatif yang diperoleh dari laporan keuangan yang diakses melalui situs resmi Bursa Efek Indonesia. Alat analisis dalam penelitian ini menggunakan SPSS versi 25. Berdasarkan hasil penelitian, ditemukan bahwa variabel *debt policy* (X1) berpengaruh negative namun tidak signifikan terhadap kebijakan dividen dan profitabilitas berpengaruh positif terhadap kebijakan dividen

Kata kunci: *Debt Policy*, Profitabilitas, Kebijakan Dividen,

Abstract

This study aims to examine and analyze the influence of debt policy and profitability on the dividend policy of banking companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2024 period. The population used in this study consisted of 47 banking companies. The sample was drawn using a purposive sampling technique, resulting in 43 companies with four years of observation, resulting in 172 data points. However, there were outliers, resulting in 120 observations. This study employed a quantitative method obtained from financial reports accessed through the official website of the Indonesia Stock Exchange. The analysis tool used was SPSS version 25. The results showed that debt policy (X1) had a negative but insignificant effect on dividend policy, and profitability had a positive effect on dividend policy.

Keywords: Debt Policy, Profitability, Dividend Policy

INTRODUCTION

Dividend policy is a crucial decision reflecting the extent to which a company distributes profits to shareholder (Muhammad Alfero et al., 2022). In the banking sector, this policy not only serves as an indicator of financial performance but also serves as a signal for investors in assessing corporate stability and governance (Aditya & Fitria, 2022). However, dividend policy does not always reflect actual financial conditions (Nai et al., 2022). In practice, dividend distribution decisions can be influenced by managerial interests or short-term corporate strategies, potentially creating information asymmetries between management and investors (Azharin & Ratnawati, 2022). This is a significant concern, given that dividend decisions directly impact stock value, the bank's reputation, and public trust in the banking industry as a whole (Aprianto, 2021).

A phenomenon related to dividend policy has emerged in recent years, marked by the tendency of major Indonesian banks to distribute significant profits as dividends. This practice has drawn widespread concern, given that dividend distributions are made despite the national economy being less than fully stable and the company's profitability not showing significant improvement. One prominent example is PT Bank Rakyat Indonesia (Persero) Tbk, which set a dividend payout ratio of 85% for the 2024 fiscal year. This figure is among the highest compared to the previous five years and is considered insufficient to fully demonstrate the application of prudent financial management principles. Bank Mandiri and BNI have also aggressively increased dividend distributions to shareholders, despite simultaneously experiencing declining net interest margins and liquidity pressures in the banking sector. This phenomenon demonstrates that dividend policy is not solely based on financial performance but is also part of a management strategy to maintain the company's image and increase investor appeal.

This research is based on findings from previous studies Septika et al. (2021) research found that debt policy had a positive effect on dividend policy. However, Ananda Muhamad Tri Utama, (2022) research showed that debt policy had a negative effect on dividend policy. Hariyanti & Pangestuti, (2021) research found that profitability had a positive effect on dividend policy.

Meanwhile, Hairudin et al., (2020) research found that profitability had a negative effect on dividend policy. These inconsistent results require further explanation of these variables. Therefore, this research aims to examine and provide empirical evidence regarding the influence of debt policy and profitability levels on dividend policy.

Theoretical and Hypothetical Study

Agency Teory

Agency theory was proposed by Jensen and Meckling (1976), who discussed the relationship between principals (shareholders) and agents (managers). In practice, differences in interests between the two parties have the potential to trigger agency conflicts, particularly when managers possess more information than shareholders and make decisions that are not entirely in line with the interests of the company's owners (Agustina & Juanda, 2023). Agency theory is particularly relevant in dividend policy because dividend distribution serves as a means to minimize potential conflicts between managers and shareholders. Dividends can serve as a disciplinary tool for managers to prevent them from using company profits for personal gain, such as unproductive expansion or inefficient spending (Ali, 2022).

According to agency theory, debt acts as a control mechanism against opportunistic management behavior. Increasing debt (debt policy) creates fixed obligations in the form of interest and principal payments, which indirectly forces management to be more disciplined in using company funds and generating sufficient cash flow (Serrano Hernández, 2023). Furthermore, debt puts external pressure on companies from creditors, which can reduce managers' opportunities for waste (Khan & Hidayat, 2022). Therefore, companies with high debt ratios typically distribute smaller dividends because income must first be allocated to meet obligations to creditors. However, debt can also reduce the need for companies to use dividends as a management control tool because the control role has been carried out by creditors (Trijayanti & Suprihhadi, 2024)

Companies with high profitability levels will generate substantial profits, potentially leading to greater agency conflicts between shareholders and managers (Putri & Hendrani, 2024). In this situation, shareholders tend to prefer the distribution of company profits in the form of dividends to avoid the accumulation of excessive internal funds in the hands of managers. According to agency theory, dividend distribution by profitable companies can indicate that management is not misusing company profits and is willing to allocate them to shareholders. Therefore, profitability encourages increased dividend payments as a way to reduce conflicts of interest and increase investor confidence (Nindi & Nur Fajri, 2020). Increasing profitability levels will increase the company's opportunity to distribute dividends, thereby reducing the potential for agency conflicts.

Dividend policy

Dividend policy is a management decision regarding the proportion of profits to be allocated to shareholders as dividends and the portion to be retained as retained earnings to meet the company's internal needs (Brigham & Houston, 2011). This policy reflects management's attitude and strategy towards profit distribution, which is influenced not only by the company's financial condition but also by shareholder interests, investment plans, and external market pressures (Muhammad Alfero et al., 2022).

Dividend policy is a crucial aspect of the relationship between management and external parties, particularly investors. Therefore, dividend policy is often used as a tool to influence market perceptions of a company's performance and growth opportunities. In practice, dividend distribution decisions can reflect an information imbalance between management and investors, which can be exploited to project a stable and profitable corporate image, even though this may not always reflect the company's actual financial condition (Tjandra, 2020).

Debt policy

Debt policy is a management decision related to the level of utilization of external funding through debt to support a company's operational and investment activities (Muhammad Alfero et

al., 2022) This policy is typically measured by the Debt-to-Equity Ratio (DER), which reflects the comparison between a company's total debt and total equity (Anggraeni & Riduwan, 2021). Selecting the right funding structure is crucial because it will impact a company's financial risk and operational flexibility.

Debt policy tends to negatively impact dividend policy. When a company's debt levels are high, management typically reduces dividend distributions because a significant portion of cash flow is allocated to meet payment obligations to creditors. Furthermore, debt also serves as a management control tool, reducing the need for companies to use dividends as an agency discipline mechanism. Therefore, the decision to use debt is a crucial factor in determining the size of dividends to be distributed to shareholders.

Based on the discussion, the following hypothesis can be formulated:

H1: Debt policy has a negative effect on dividend policy.

Profitability

Profitability is a company's capacity to generate profits from its operational activities within a specific period. The level of profitability reflects the extent to which management efficiently manages assets and capital to generate profits. One indicator often used to measure profitability is Return on Assets (ROA), which reflects the proportion of net profit earned compared to a company's total assets (Hirsch et al., 2021).

In relation to dividend policy, profitability is one of the main elements that determines a company's capacity to distribute dividends. Companies with high profitability tend to be more capable and more willing to distribute dividends to shareholders because they have sufficient profits. Furthermore, dividend distribution by profitable companies can also be a positive indication to investors that the company is in a healthy and prospective financial condition (Swandana, 2023)

Based on the discussion, the following hypothesis can be formulated:

H2: Profitability has a negative effect on dividend policy.

METHOD

This study uses quantitative research and aims to examine the influence of debt policy and profitability on dividend policy. Data were obtained from the financial reports (annual reports) of banking companies listed on the Indonesia Stock Exchange for the period 2020–2024, downloaded from the official Indonesia Stock Exchange website www.idx.co.id. The sampling technique used was purposive sampling with specific criteria. The sampling criteria for this purposive sampling method are outlined below.

Table 1 Research Sampling Criteria

No	Criteria	Total
1.	Banking sector companies listed on the Indonesia Stock Exchange for the 2021-2024 period consecutively.	47
2.	Banking sector companies that did not publish annual reports on the Indonesia Stock Exchange for the 2021-2024 period consecutively.	(2)
2.	Banking sector companies that did not publish incomplete annual reports during the 2021-2024 period due to losses.	(2)
3.	Total Sample	43
4.	Number of observation data (43 X 4 years)	172
5.	Total outlier data	(22)
6.	Amount of research data	120

Based on the table, it can be concluded that the study population comprised 47 banking companies listed on the Indonesia Stock Exchange during the 2020–2024 period. From this number, a sample of 43 companies was obtained, with an observation period of four years, resulting in 172 data points. However, after removing outliers, the total data analyzed in this study was 120 observations.

RESULTS AND DISCUSSIONS**1. Descriptive Statistics**

Descriptive analysis is a statistical method used to describe the general characteristics of research data. This technique aims to present a summary of data for each variable, including the average (mean), highest (maximum) value, lowest (minimum) value, and measures of data distribution, such as standard deviation (Sugiyono, 2017).

**Table 2 Descriptive Analysis Results
Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Debt policy	120	150,00	6160,00	2327,4167	1546,43341
Profitabilitas	120	10,00	3000,00	100,4167	387,90408
Kebijakan Dividen	120	10,00	1180,00	252,2500	215,89159
Valid N (listwise)	120				

Source: Data diolah, 2025

2. Normality Test

A normality test is conducted to ensure that the residuals in the regression model are normally distributed. Data are considered normally distributed if the significance value is greater than 0.05. In this study, the normality test used the Kolmogorov-Smirnov method with SPSS version 24 software.

**Table 3 Normality Test Results
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		120
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	202,89634690
Most Extreme Differences	Absolute	0,097
	Positive	0,097
	Negative	-0,097
Test Statistic		0,097
Asymp. Sig. (2-tailed)		0,194 ^c

Source: Data diolah, 2025

Based on Table 3, the results of the normality test using the Kolmogorov-Smirnov test show a Kolmogorov-Smirnov value of 0.194, which is greater than 0.05. This indicates that the data in this study are normally distributed.

3.F Test

The F test aims to measure the significance of the overall regression model. In other words, this test is used to assess whether all independent variables simultaneously influence the dependent

variable. If the F test results show a significant value, it can be concluded that at least one independent variable has a significant influence on the partial test.

**Table 4 F Test Results
ANOVA^a**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	647628,118	2	323814,059	7,734	0,001 ^b
	Residual	4898864,382	117	41870,636		
	Total	5546492,500	119			

a. Dependent Variable: Kebijakan Dividen

b. Predictors: (Constant), Profitabilitas, Debt policy

Source: Data diolah, 2025

Based on the F statistical test above, the significance level is known to be $F = 0.001 < 0.05$. It can be concluded that variables X1 and X2, when tested simultaneously, have an influence on the dependent variable. This finding indicates that in the partial test (t-test), there is at least one variable X that has a significant influence on Y.

4. Coefficient of Determination Test

The Multiple Determination Coefficient (R^2) test is a statistical method used to assess the extent to which a regression model can explain variation in a dependent variable through a combination of independent variables included in the model (Ghozali, 2018). This percentage or proportion value is known as the multiple determination coefficient and is symbolized by the symbol R^2 .

The results of the R^2 test in this study are presented in the following table.

Table 5 Test of Determination Coefficient

Model Summary^b

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	0,342 ^a	0,117	0,102	204,62316

a. Predictors: (Constant), Profitabilitas, Debt policy

b. Dependent Variable: Kebijakan Dividen

Source: Data diolah, 2025

Referring to the table, the results of the determination coefficient test show an Adjusted R Square value of 0.102, meaning that simultaneously there is an influence of 10.2% between variables X1 (debt policy), X2 (profitability) on Y (dividend policy).

5. Hypothesis Test (t-Test)

The t-test is used as an analytical method to determine the extent of influence of each independent variable on the dependent variable. Decisions are made by examining the significance value; if the value is less than 0.05, the hypothesis is accepted. Conversely, if the significance value is greater than 0.05, the hypothesis is considered unproven or rejected.

Table 6 Hypothesis Testing

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	287,196	33,899		8,472	0,000
	Debt policy	-0,023	0,012	-0,162	-1,858	0,066
	Profitabilitas	0,177	0,049	0,319	3,648	0,000

a. Dependent Variable: Kebijakan Dividen

Source: Data diolah, 2025

The Debt Policy variable has a significance value of $0.066 > 0.05$. This indicates that debt policy has a negative but insignificant effect on dividend policy. Therefore, H_0 is accepted and H_1

is rejected. This means that a company's debt level does not directly affect management's dividend distribution policy to shareholders. Companies can still distribute dividends despite having high debt levels, or conversely, they can withhold dividends despite having low debt levels.

These results contradict the initial hypothesis that debt policy has a negative and significant effect on dividend policy. According to agency theory, companies with high debt levels will be more cautious in distributing dividends due to the obligation to meet interest and principal payments, resulting in more conservative dividend distributions. These findings indicate that not all companies consider debt levels a primary factor in determining dividend policy, depending on the company's financial strategy and management's ability to maintain stable cash flow. These results are consistent with previous research by (Ivory, 2022) and (Anggraeni & Riduwan, 2021), which also found that debt policy does not negatively affect dividend policy.

The profitability variable has a significance value of $0.000 < 0.05$ with a coefficient of 0.177 and a calculated t-value of 3.648. These results indicate that profitability has a positive and significant effect on dividend policy. Thus, H_0 is rejected and H_1 is accepted. This finding differs from the initial hypothesis that predicted a negative effect of profitability on dividend policy. In fact, the results indicate that the higher the level of profitability, the greater the company's opportunity to distribute dividends to shareholders. Based on agency theory, high profitability can trigger potential conflicts between management and shareholders due to the presence of surplus funds that could potentially be used for management's benefit. Therefore, dividend distribution acts as a control mechanism to limit the possibility of misuse of internal funds by management. By distributing dividends, companies limit the funds that management can freely manage, thereby reducing the possibility of agency conflicts. Therefore, more profitable companies tend to distribute dividends as a form of accountability to shareholders.

CONCLUSIONS

The conclusion in this study is based on the results of hypothesis testing regarding the influence of debt policy and profitability on dividend policy in financial companies listed on the IDX for the 2020-2024 period, resulting in several conclusions, namely:

1. Debt policy has a negative but insignificant effect on dividend policy.

These results indicate that a company's debt level is not a primary factor influencing management's decision to distribute dividends. Therefore, companies can still distribute or withhold dividends without considering the level of debt they hold. This is inconsistent with the initial hypothesis, but is consistent with several previous studies showing that debt policy does not always play a role in determining dividend policy.

2. Profitability has a positive and significant effect on dividend policy.

This means that the higher a company's profitability, the more likely it is to distribute dividends to shareholders. This finding suggests that high profits provide a company with the flexibility to fulfill its obligations to shareholders through dividends. This result is consistent with signaling theory and can also be explained through agency theory, where dividend distribution serves as a mechanism to mitigate conflicts of interest between management and shareholders.

SUGGESTIONS

Future researchers are advised to include additional variables, such as company size, cash flow, or liquidity, in order to provide a more comprehensive understanding of the factors that influence dividend policy. In addition, the use of longer or shorter time periods, as well as a panel data approach with advanced regression methods can also be considered to obtain more accurate and relevant results to the dynamics of the financial market in Indonesia.

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