Analysis of the Influence of Company Size, Profitability, and Solvency on Dividend Policy in Manufacturing Companies in Indonesia

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A R T I C L E I N F O

Jurnal Economic Resources

ISSN: 2620-6196
Vol. 8 Issue 2 (2022)

Article history:
Received – August 15, 2025
Revised – August 22, 2025
Accepted – August 23, 2025

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Keywords:
Company Size,
Profitability,
Solvency,
Dividend Policy

A B S T R A C T

Dividend policy is one of the most important decisions in a company's financial management, as it is directly related to the interests of shareholders and the continuity of the company's operations. This research is quantitative. It focuses on analyzing the influence of company size, profitability, and solvency on dividend policy in manufacturing companies in Indonesia. The data in this study are secondary data obtained from reports published by the Indonesia Stock Exchange (IDX). The population used in this study consists of manufacturing companies observed during the period from 2020 to 2024. The data analysis technique in this study uses Multiple Linear Regression Analysis with SPSS. The results of this study indicate that company size, profitability, and solvency have a partial and simultaneous significant effect on dividend policy in manufacturing companies in Indonesia. This suggests that a single factor does not determine dividend policy, but rather the result of a comprehensive consideration of a company's capacity (represented by company size), profit-generating ability (profitability), and the soundness of its capital structure (solvency).

INTRODUCTION

Dividend policy is a crucial decision in corporate financial management, as it directly impacts shareholder interests and the continuity of the company's operations. Dividends are a form of return that companies provide to shareholders as compensation for their investment. The decision regarding the amount of dividends distributed will influence investor perceptions of the company's performance and prospects, thus impacting the company's value in the capital market. Dividend policy concerns the use of profits to which shareholders are entitled. Essentially, these profits can be distributed as dividends or retained for reinvestment (Permatasari R, 2018). The dividend payment policy has a significant impact on both investors and the companies that pay dividends. The amount of dividends distributed by a company depends on the company's policy, thus requiring management consideration. This is due to the differing interests of the various parties within the company; they tend to expect larger dividend payments, while management tends to retain cash to pay dividends.

In practice, dividend policy is influenced by various internal company factors, including company size, profitability, and solvency. Company size reflects the total assets or the scale of operations of a company. Larger companies generally have broader access to funding and greater financial stability, which tends to make them more consistent in distributing dividends. Firmansah (2017) found that company size has a positive and significant effect on the dividend payout ratio. Larger company size allows companies to pay larger dividends. This study uses total sales as a measure of company size. Increased sales will lead to higher company profits. High profits will also result in higher dividends for shareholders. Therefore, the higher the level of equity a company holds, the greater the company's responsibility to distribute dividends to shareholders.

Profitability indicates a company's ability to generate profits from its operational activities. Companies with high profitability are better able to pay dividends regularly due to their adequate profit reserves. Investors typically consider profitability a key indicator in predicting the amount of dividends they will receive. Profitability is used to assess a company's ability to generate profits and provides a measure of its performance effectiveness. Profitability is one of the factors determining dividend payments. The company's profits are distributed as dividends to its shareholders. Higher profits will affect the dividend payments to investors. Meanwhile, solvency reflects a company's ability to meet its long-term obligations. A healthy solvency level indicates a company with a secure capital structure, thereby avoiding the risk of default. Conversely, companies with high debt levels may allocate a significant portion of their profits to debt repayment, thereby limiting their ability to distribute dividends. One source of funds that can be used to meet debt repayment obligations is through retained earnings. However, the retained earnings policy will negatively impact dividend distribution. In line with Kisman (2020), one factor that can influence dividend policy is the need to repay debt. However, research conducted by (Adib & Fitria, 2020; Anggraini & Yan Nyale, 2022) Indicates that solvency does not affect dividend policy.

In the context of manufacturing companies in Indonesia, these factors are becoming increasingly important. The manufacturing sector is a key driver of the national economy, contributing significantly to the country's GDP. However, global economic dynamics, fluctuating raw material prices, and intense competition require manufacturing companies to be prudent in financial management, including determining dividend policies. Furthermore, investors in the Indonesian capital market often consider dividends as a primary consideration in investment decisions, making research on the influence of company size, profitability, and solvency on dividend policy relevant and beneficial.

Based on a review of the literature and previous research, several research gaps can be identified. Several studies (T. Dewi & Bagus, 2019; Firmansah, 2017) Found that company size has a significant positive effect on dividend policy, while others (Aryani & Fitria, 2020) Showed an insignificant effect. Regarding profitability, some studies (Gunawan & Harjanto, 2019; Lilis & Suryanto, 2017) Showed a strong positive effect, but others found a negative or insignificant effect. (Yesi Belina Oktaviana et al., 2023) , particularly in volatile economic conditions. Regarding solvency, some studies (Dermawan & Levina, 2019) Showed a significant negative effect on dividend policy, but others found a weak or even positive relationship. (Ihsaniah et al., 2020). Furthermore, many previous studies have sampled across sectors or only banking and non-manufacturing companies, thus failing to address the unique characteristics of manufacturing companies with varying working capital cycles and cost structures. Most previous studies have examined only two variables (e.g., size and profitability, or profitability and solvency), and rarely have they examined all three simultaneously in a single model to assess their relative contributions to dividend policy.

The novelty of this study lies in its partial and simultaneous examination of the influence of company size, profitability, and solvency on dividend policy in manufacturing companies, thereby providing a more comprehensive understanding of the factors influencing dividend policy in this sector. Unlike some cross-sectoral studies, this study focuses on the manufacturing sector, which is characterized by a large capital base, high fixed asset intensity, and characteristic cash flow fluctuations. It also provides data-driven recommendations that can assist company management in formulating optimal dividend policies and help investors understand the internal factors influencing dividend distribution in the manufacturing sector. Based on this description, it is essential to analyze how these three factors impact dividend policy in manufacturing companies in Indonesia, thereby contributing to the financial literature and providing insights for management and investors in making informed strategic decisions.

RESEARCH METHOD

This research is quantitative, meaning it aims to determine the causal relationship between two or more variables. This study examines the impact of company size, profitability, and solvency on dividend policy in manufacturing companies in Indonesia. Based on data analysis, this research is classified as quantitative research, which involves analyzing numerical data and secondary sources. The data in this study are secondary data obtained from reports published by the Indonesia Stock Exchange (IDX). The population used in this study consists of manufacturing companies observed during the years 2020-2024. The data analysis technique in this study uses Multiple Linear Regression Analysis with SPSS.

Data Types: The type of data used in this research is documentary data. Documentary data is research data in the form of archives that contain the what, when, and who of an event or transaction, as well as the individuals involved in the event. This study uses secondary data sources. Secondary data sources are data obtained or collected by researchers from various existing sources. The secondary data in this study were obtained from the Indonesia Stock Exchange (IDX) website, accessible at www.idx.co.id, in the form of company annual reports, and from www.iicg.co.id, in the form of annual reports for the observation period of 2020-2024. The data collection techniques in this study were adapted to the data source, namely, secondary data. Therefore, the data collection technique chosen was from secondary data sources provided by the Indonesia Stock Exchange (IDX).

RESULTS AND DISCUSSION

The purpose of the normality test is to determine whether the residual or confounding variables in a regression model are normally distributed. In this study, the non-parametric Kolmogorov-Smirnov statistical test was used to assess normality. If the significance value is greater than 0.05, the data are considered normally distributed. The findings of the normality test are shown in the table 1:

Table 1. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		42
Normal Parameters ^{a,b}	Mean	.0000000
	Standard Deviation	1.54310701
Most Extreme Differences	Absolute	.163
	Positive	.052
	Negative	-.144
Kolmogorov-Smirnov Z		1,062
Asymp. Sig. (2-tailed)		.324
a. Test distribution is Normal.		
b. Calculated from data.		

Source: *Data processed with SPSS 2025*

Based on the test results in the table above, the Kolmogorov-Smirnov value is 1.062, and the significance value is 0.324, which is greater than 0.05. Therefore, it can be concluded that the residual values are typically distributed, allowing for further analysis, namely, regression analysis.

Multicollinearity testing aims to determine whether a regression model exhibits correlation between independent variables. In a good regression, there should be no correlation between variables.

Table 2. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
Company Size	.325	3,278
Profitability	.242	2,641
Solvency	.241	3,002

Source: *Data processed with SPSS 2025*

Based on Table 2, it can be concluded that none of the variables exhibit multicollinearity in the data processed in this study. This is because the tolerance significance value for all variables is greater than 0.01, and the VIF value for all variables is less than 10. The Heterogeneity Test aims to determine whether the residual variances of one observation differ from those of another in the regression, which is referred to as homoscedasticity. If they differ, it is referred to as heterogeneity.

Table 3. Results of Heteroscedasticity Test (Glejser Method)

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.454	.536	.421	4,613	.007
Company Size	.342	.125	.230	2,214	.335
Profitability	.234	.138	.242	2,274	.340
Solvency	.224	.189	.243	2,301	.302
a. Dependent Variable: res2					

Source: *Data processed with SPSS 2025*

Based on the test results in Table 3, it is evident that the company size variable (X1) has a significance value of 0.335, which is greater than 0.05. Therefore, it can be concluded that there are no symptoms of heteroscedasticity in the company size variable. The profitability variable (X2) has a significance value of 0.340, which is greater than 0.05. Therefore, it can be concluded that there are no symptoms of heteroscedasticity in the profitability variable. The solvency variable (X3) has a significance value of 0.302, which is greater than 0.05. Therefore, it can be concluded that there are no symptoms of heteroscedasticity in the solvency variable.

Multiple linear regression analysis is a linear relationship between two or more independent variables (X1, X2, and X3) and the dependent variable (Y). This analysis is used to determine the direction of the relationship between the independent variables and the dependent variable, specifically whether each independent variable is positively or negatively related to the dependent variable.

Table 4. Results of the t-test

Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.654	0.452		.327	.679
Company Size	.273	.238	.236	2,870	0.00
Profitability	.331	.162	.376	2,256	0.03
Solvency	.322	.154	.297	3,021	0.00
a. Dependent Variable:					

Source: *Data processed by researchers using SPSS 2025*

Table 4 shows that company size has a significant effect on dividend policy, with a t-statistic value of 2,870 and a significance value of 0.050 (<0.05). Profitability has a significant effect on dividend policy, with a t-statistic value of 2,256 and a p-value of 0.003 <0.05. Solvency has a significant effect on dividend policy, with a t-statistic value of 3,021 and a significance value of 0.00 < 0.05.

The coefficient of determination test measures the ability of the independent variable to explain the variation in the dependent variable.

Table 5. Results of the coefficient of determination

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Standard Error of the Estimate**
1	.682 [a]	.867	.552	34.5

a. Predictors: (Constant),

Source: Data processed by researchers using SPSS 2025

Based on the table 5, the coefficient of determination (R) can be seen. Square) of 0.867, which means 86.7%. This figure indicates that the variables of company size, profitability, and solvency simultaneously influence dividend policy Y. The remaining influence is due to variables outside this regression equation or variables that have not been examined.

Discussion

Company Size Influences Dividend Policy in Manufacturing Companies in Indonesia

The results of statistical tests show that company size influences dividend policy in manufacturing companies in Indonesia. The results of this study indicate that company size is an indicator that describes the size of a company's assets, production capacity, and operational scale. In the context of manufacturing companies in Indonesia, company size is generally measured by total assets, total sales, or market capitalization. Larger companies typically have better earnings and cash flow stability than smaller companies. This stability enables a greater ability to distribute dividends consistently, thanks to broader access to funding, lower bankruptcy risk, and the importance of maintaining a positive investor image and trust. However, several studies have found that the relationship between company size and dividend policy is not always significant. Factors such as reinvestment policies, working capital requirements, and expansion strategies can lead large companies to choose to retain some profits rather than distribute them as dividends. In Indonesia's manufacturing sector, which is capital-intensive and relies on long-term financing, company size often indicates dividend-paying capacity; however, the amount and consistency are still influenced by the company's profitability and capital structure. The results of this study are in line with previous studies conducted by (Agustina & Andayani, 2016; DM Dewi, 2016; Mardiyanti & Indrati, 2024; Rahayu & Rusliati, 2019) A study found that company size influences dividend policy in manufacturing companies in Indonesia.

Profitability Influences Dividend Policy in Manufacturing Companies in Indonesia

The results indicate that profitability influences dividend policy in manufacturing companies in Indonesia. This study demonstrates that profitability is a company's ability to generate profits from its operations, which is generally measured by ratios such as Return on Assets (ROA), Return on Equity (ROE), or Net Profit Margin (NPM). High profitability indicates a company's ability to manage assets and capital to generate profits efficiently. In the context of dividend policy, profitability is a key determinant, as dividends are typically paid from net income after taxes are met. However, in Indonesia's manufacturing sector, this relationship can be influenced by other factors such as significant working capital requirements, investments in technology and production machinery, and expansion policies. Highly profitable manufacturing companies sometimes choose to retain earnings to finance long-term expansion rather than distribute them as dividends. The results of this study are in line with previous studies conducted by (Darmawan et al., 2019; Lihu & Tuli, 2023; Shelita & Dermawan, 2024; Sunarwijaya et al., 2019) A study found that profitability influences dividend policy in manufacturing companies in Indonesia.

The results indicate that solvency influences dividend policy in manufacturing companies in Indonesia. The results of this study indicate that solvency is a company's ability to meet all its long-term obligations, typically measured by ratios such as the Debt-to-Equity Ratio (DER), the Debt-to-Asset Ratio (DAR), or the Long-Term Debt-to-Equity Ratio. The level of solvency describes the extent to which a company's funding structure relies on equity rather than debt. Regarding dividend policy, solvency has a significant influence, as a healthy capital structure affects the company's ability to distribute profits to shareholders. Solvency influences dividend policy because the debt ratio influences the company's profit allocation priorities. With a high debt ratio, dividend distributions are typically suppressed to improve the capital structure. Conversely, with a manageable debt ratio, companies have greater flexibility in distributing dividends, thereby maintaining good relationships with investors. The results of this study are in line with previous studies conducted by (Apriyani et al., 2022; Ihsaniah et al., 2020; Rachman & Wahyudi, 2023; Romadhany et al., 2024) A study found that solvency influences dividend policy in manufacturing companies in Indonesia.

CONCLUSION

Based on the analysis in this study, it can be concluded that company size, profitability, and solvency have a significant influence on dividend policy in manufacturing companies in Indonesia, both partially and simultaneously. This suggests that a single factor does not determine dividend policy, but rather the result of a comprehensive consideration of a company's capacity (represented by company size), profit-generating ability (profitability), and the health of its capital structure (solvency). Companies with a large size, high profitability, and a healthy capital structure tend to have a greater ability to consistently pay dividends. Conversely, if one of these factors weakens, for example, high debt levels or declining profitability, companies tend to adjust or reduce dividend distributions to maintain business sustainability. Thus, for manufacturing company management, dividend policy decisions need to take these three factors into account simultaneously to maintain a balance between shareholder interests and the sustainability of the company's operations.

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