

Managerial Control and Profit Distribution: Empirical Evidence from Indonesia's Manufacturing Sector

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ABSTRACT

This study investigates the influence of profitability on dividend policy and examines the moderating role of managerial ownership in this relationship. Using a sample of 141 manufacturing firms listed on the Indonesia Stock Exchange from 2012 to 2021, also employing Pure Moderation and Moderated Regression Analysis (MRA), the findings reveal that profitability positively affects dividend payout, while leverage has a negative effect, and liquidity has a positive effect. Managerial ownership negatively influences dividend policy but does not significantly moderate the profitability-dividend link. These findings offer valuable insights for firms and regulators in designing governance structures that balance managerial control with shareholder interests, particularly in emerging markets where ownership and management often overlap

INTRODUCTION

Dividend policy has long been a central issue in corporate finance, as it directly reflects a firm's approach to profit allocation and signals managerial confidence in future performance. While profitability has consistently been identified as a primary driver of dividend distribution decisions (Barna & Pertiwi, 2021; Wardani et al., 2023), empirical evidence shows that the relationship is not always straightforward. Some profitable firms choose to retain earnings rather than distribute them, raising questions about the role of internal governance mechanisms in shaping such decisions (Zainuddin & Manahonas, 2020).

Among the various internal governance factors, managerial ownership plays a particularly nuanced role in influencing corporate financial behavior. When managers hold a significant share of ownership, they operate both as agents and principals, potentially altering their incentives in financial decision-making. This dual role can lead to earnings retention strategies, particularly when managers prioritize internal financing for future growth or the preservation of control (Ningrum, 2017; Tayachi et al., 2023). Jensen (1986) argues that managers often prefer to allocate excess cash to investments or acquisitions rather than distribute it as dividends, especially when their ownership interest provides them with greater autonomy.

This dynamic is especially pronounced in emerging markets like Indonesia, where many companies are family-owned and management is often drawn from the controlling shareholders themselves (Setiawan et al., 2016). In such contexts, dividend policy is not only a matter of financial logic but also reflects internal power structures and long-term strategic preferences. Prior research has shown that in firms with higher managerial ownership, dividend payments tend to decrease, as retained earnings are perceived as a tool for internal financing and long-term sustainability (Tayachi et al., 2023).

Despite the extensive literature exploring dividend policy and ownership structure, the specific moderating effect of managerial ownership on the connection among profitability and dividend policy has received limited attention as a standalone focus. Previous studies have often examined multiple types of ownership simultaneously, making it difficult to isolate the distinct influence of managerial interests. This study seeks to address this gap by examining how managerial ownership alone moderates the connection among profitability and dividend policy in Indonesian manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2012 to 2021. By narrowing the focus to this governance variable, the research contributes a more refined perspective on internal agency dynamics and provides actionable insights for investors and regulators concerned with dividend policy transparency and shareholder protection.

LITERATURE REVIEW

Dividend Policy and Pecking Order Theory

Dividend distribution is an imperative component of a firm's financial strategy, reflecting how corporate earnings are allocated between rewarding shareholders and supporting the company's long-term operational needs. Rather than merely representing a financial transaction, dividend policy conveys important signals about a firm's stability, governance practices, and future prospects – factors that can significantly shape investor sentiment and influence market valuation (Patel & Baria, 2023). In empirical research, dividend policy is often operationalized using the dividend payout ratio (DPR), which quantifies the proportion of earnings disbursed as dividends relative to net income. This metric, adopted by studies such as Ade Putra et al. (2022) and Ningrum (2017), offers a standardized measure for assessing how generously a firm rewards its equity holders.

The theoretical foundation for understanding managerial behavior toward dividend decisions is provided by the Pecking Order Theory (Myers & Majluf, 1984). This theory posits that firms elevate internal sources of capital over external financing due to concerns about information asymmetry and the costs aligned with issuing new equity. Under this framework, dividend payments are often minimized or delayed, particularly when internal funds are needed for reinvestment. This behavior is even more pronounced in firms where managers hold ownership stakes, as their dual role creates an incentive to retain earnings rather than disburse them. Research by Tayachi et al. (2023) supports this view, showing that higher levels of managerial ownership are typically aligned with reduced dividend payouts. Managers in such firms may prefer to reinvest profits internally to maintain control and sustain growth, rather than relinquishing liquidity through dividend distributions. Consequently, managerial ownership can play a critical moderating role, dampening the link between profitability and dividend policy by reinforcing preferences for internal capital accumulation over shareholder disbursement.

METHODOLOGY

This study adopts a quantitative empirical approach utilizing secondary data. The research population includes all manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2012 to 2021, covering three primary industry groups: basic and chemical industries, miscellaneous industries, and consumer goods—comprising a total of 222 companies. The sampling method used is purposive sampling, with inclusion criteria set as follows: (1) firms that have issued dividends at least once during the observation period, and (2) firms that possess complete and analyzable financial data. Based on these requirements, 141 firms were selected, yielding 1,117 firm-year observations. All financial data were sourced from publicly available annual reports.

To examine the moderating role of managerial ownership, the analysis was initially conducted using the Pure Moderation model, specified as follows:

$$\text{DPR} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{DER} + \beta_3 \text{CR} + \varepsilon \quad (1)$$

$$\text{DPR} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{DER} + \beta_3 \text{CR} + \beta_8 \text{ROA} * \text{MO} + \varepsilon \quad (2)$$

The second analytical model employed in this study is the Moderated Regression Analysis (MRA), following the procedure outlined by Soesetio et al. (2024):

$$\text{DPR} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{DER} + \beta_3 \text{CR} + \beta_6 \text{MO} + \varepsilon \quad (4)$$

$$\text{DPR} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{DER} + \beta_3 \text{CR} + \beta_6 \text{MO} + \beta_8 \text{ROA} * \text{MO} + \varepsilon \quad (5)$$

According to the formulated regression equations, Dividend Policy—measured by the Dividend Payout Ratio (DPR)—serves as the dependent variable. The independent variables consist of Profitability (estimated by Return on Assets - ROA), Leverage (estimated by Debt to Equity Ratio - DER), and Liquidity (calculated by Current Ratio - CR). Meanwhile, Ownership Structure—represented by Managerial Ownership (MO)—is treated as the moderating variable in the model.

Table 1. Variable Measurement

Variables	Symbol	Measurement	Source
Dependent Variable			
Dividend Payout Ratio	DPR	Total Dividend / Earning After Tax	(Ade Putra et al., 2022)
Independent Variables			
Return on Asset	ROA	Earning After Tax / Total Asset	(Shabrina & Hadian, 2021)
Debt to Equity Ratio	DER	Total Liabilities / Total Equity	(Zainuddin & Manahonas, 2020)
Current Ratio	CR	Current Asset / Current Liabilities	(Hutabarat et al., 2023)
Moderator Variable			
Managerial Ownership	MO	Management (Directors and Commisioners) Shares / Listed Shares	(Bian et al., 2023)

RESEARCH RESULT

Statistics Descriptive

Table 2. Descriptive Statistics

Variables	Obs	Mean	Std. dev.	Min	Max
DPR	1,117	0.272	0.522	-2.871	4.835
ROA	1,117	0.056	0.127	-2.641	0.921
DER	1,117	1.043	0.935	-4.937	4.948
CR	1,117	1.929	1.032	0.058	4.991
MO	1,117	0.058	0.149	0.000	0.800

Table 2 provides the descriptive statistics for all variables employed in the analysis. The mean value of the Dividend Payout Ratio (DPR) is 0.272, with a standard deviation of 0.522. The minimum value of -2.871 suggests that certain firms either operated at a net loss or distributed dividends that exceeded their earnings. In contrast, the maximum DPR value of 4.835 indicates that some firms paid out dividends well above their reported net income. For the profitability measure, Return on Assets (ROA) averages 0.056, or 5.6%, with a standard deviation of 0.127. The lowest recorded ROA is -2.641, pointing to severe losses in a subset of firms, while the highest value of 0.921 reflects strong financial performance among the most profitable companies in the sample.

The Debt to Equity Ratio (DER) averages 1.043, indicating that, on average, firms carry slightly more debt than equity. The standard deviation of 0.935 reflects considerable variation in capital structure among the sampled companies. DER values range from -4.937—potentially signifying negative equity in certain firms—to a maximum of 4.948, suggesting that some companies rely heavily on debt financing relative to their equity base. The Current Ratio (CR) has a mean of 1.929, implying that most firms possess current assets nearly

double their short-term liabilities, which indicates a strong liquidity position. Managerial Ownership (MO) has an average value of 0.058, meaning that, on average, managerial shareholders hold 5.8% of the total outstanding shares in the sample firms. This reflects a relatively limited overlap between ownership and managerial roles.

Output Regression

Table 3. Output Regression

Variable	Pure Moderation		Moderated Regression	
	DPR	DPR	DPR	DPR
ROA	1.024*** (0.080)	1.039*** (0.081)	1.036*** (0.080)	1.034*** (0.082)
DER	-0.025*** (0.005)	-0.026*** (0.005)	-0.023*** (0.005)	-0.023*** (0.005)
CR	0.014** (0.006)	0.014** (0.006)	0.015** (0.006)	0.014** (0.006)
MO			-0.102*** (0.023)	-0.139*** (0.027)
ROAxMO		-0.566 (0.469)		0.709 (0.486)
Constant	0.078*** (0.016)	0.082*** (0.016)	0.080*** (0.016)	0.083*** (0.016)
R-squared	0.331	0.337	0.341	0.363

Based on the regression analysis results presented in Table 3, profitability – measured by Return on Assets (ROA) – demonstrates a consistently positive and crucial impact on dividend policy (Dividend Payout Ratio - DPR) across all regression models, including both the baseline and moderated analyses. This exhibits that higher levels of profitability are aligned with a greater proportion of earnings being distributed to shareholders. Meanwhile, leverage (calculated by the Debt to Equity Ratio - DER) exhibits a significant negative correlation with DPR in every model, suggesting that firms with higher debt burdens are less likely to distribute dividends. Liquidity, proxied by the Current Ratio (CR), shows a generally positive and significant impact on dividend payouts in most models, implying that firms with better liquidity conditions have stronger capacity to allocate dividends.

Regarding the moderating variable, managerial ownership (MO) exerts a significant negative direct effect on DPR, indicating that as managerial shareholding increases, the likelihood of dividend distribution declines. However, the interaction term between profitability and managerial ownership (ROA×MO) does not yield a statistically significant result. This implies that managerial ownership does not moderate the connection among profitability and dividend policy.

DISCUSSION

The Influence of Profitability on Dividend Policy

The regression analysis confirms that profitability, as proxied by Return on Assets (ROA), exerts a consistently positive and crucial impact on a firm's dividend policy. This outcome supports prior research that positions profitability as a core determinant of dividend payouts (Barna & Pertiwi, 2021; Kamiana Putri & Purbawangsa, 2019; Wardani et al., 2023). Firms with higher earnings are more capable and more likely to distribute dividends to shareholders, given that profits represent the fundamental source from which dividends are drawn (Zainuddin & Manahonas, 2020). As surplus earnings increase, companies have greater flexibility to allocate portions to both dividends and retained earnings (Rais & Santoso, 2017). Because dividends are typically paid from profits remaining after meeting tax and debt obligations, strong profitability serves as a signal of financial robustness. Moreover, consistent profitability often underpins a stable dividend policy, reinforcing investor trust and sustaining market confidence over time (Wahjudi, 2020).

The Influence of Leverage on Dividend Policy

In contrast, leverage (measured by the Debt to Equity Ratio) shows a consistently negative and crucial impact on dividend policy. This finding is in line with the argument that firms with high debt levels face increased financial constraints, making them more likely to retain earnings to service debt rather than distribute them to shareholders (Wahjudi, 2020; Wardani et al., 2023). While debt can be a strategic financing tool that amplifies returns when used efficiently, it also elevates financial risk, particularly when interest obligations take precedence over dividend payments (Rifana & Geetha, 2022). As a result, highly leveraged firms often limit or forego dividend payments to preserve liquidity and fulfill debt-related obligations.

The Influence of Liquidity on Dividend Policy

Liquidity, as indicated by the Current Ratio, also demonstrates a significant positive relationship with dividend payouts in most regression models. Companies with robust liquidity profiles are more capable of fulfilling short-term liabilities and ensuring uninterrupted operations, thereby improving their ability to distribute dividends (Zainuddin & Manahonas, 2020). This supports the notion that optimal liquidity conditions not only reflect financial stability but also enhance firms' confidence in sustaining or increasing dividend payouts over time (Nurchaqqi & Suryarini, 2018). Previous studies, including Jiang et al. (2017), affirm that firms with healthy operational cash flows have greater financial flexibility, which can be leveraged for both shareholder distributions and long-term strategic growth.

The Moderation Effect of Managerial Ownership

Regarding the moderating variable, managerial ownership (MO) was found to have a negative and crucial impact on dividend policy. This suggests that when managers hold equity stakes, they are more inclined to retain profits for reinvestment or internal purposes rather than distribute them as dividends. Such

behavior is usually driven by long-term goals such as preserving the business, maintaining control over the company, and encouraging organic growth (without acquisitions or large debt) (Ningrum, 2017; Tayachi et al., 2023). Jensen (1986) reinforces this view by suggesting that managers, when left with excess cash, are more likely to use it for acquisitions or internal expansion rather than shareholder payouts. In the Indonesian context, where family-owned firms dominate the corporate landscape, managerial discretion over retained earnings is often used to consolidate control and fund future growth (Setiawan et al., 2016). Furthermore, since management often holds a relatively small portion of total shares, dividends are not their primary income stream. Instead, other forms of compensation such as salaries and bonuses are prioritized, rendering dividends less attractive from their perspective and more of a symbolic or psychological burden in decision-making.

Interestingly, although MO negatively affects dividend policy directly, the interaction between ROA and MO ($ROA \times MO$) was not statistically significant. This implies that managerial ownership does not moderate the connection among profitability and dividend policy. In other words, while managers may influence dividend outcomes through their ownership stakes, their presence does not significantly alter how profitability translates into dividend payouts.

CONCLUSIONS AND RECOMMENDATIONS

This study has examined the effect of profitability, leverage, and liquidity on dividend policy, with a specific focus on the moderating role of managerial ownership in manufacturing companies listed on the Indonesia Stock Exchange from 2012 to 2021. The results consistently show that profitability has a positive and significant impact on dividend payout, confirming that firms with higher earnings are more likely to distribute dividends. Conversely, leverage negatively affects dividend distribution, indicating that firms with greater debt levels are inclined to retain profits to meet their financial obligations. Liquidity was also found to significantly support dividend distribution, reinforcing the importance of short-term solvency in enabling cash flow for dividends. Managerial ownership, while exerting a significant negative direct influence on dividend payout, does not significantly moderate the connection among profitability and dividend policy. This implies that while managers may prioritize internal financing and long-term strategic control, their ownership does not alter the profit-dividend dynamic in a statistically meaningful way.

From a practical standpoint, companies with high managerial ownership are advised to implement transparent and balanced dividend policies that consider both reinvestment needs and shareholder expectations. Additionally, boards of directors and independent commissioners should strengthen oversight mechanisms to ensure that dividend decisions remain aligned with the firm's long-term value creation and do not solely reflect managerial preferences.

ADVANCED RESEARCH

Despite offering meaningful insights, this study is subject to several limitations. First, the scope was limited to manufacturing companies, which may not fully represent the broader corporate landscape in Indonesia. Second, the study only considered managerial ownership as a moderating variable, while other dimensions of corporate governance—such as board independence, audit quality, or family ownership—may also influence dividend decisions. Future research could address these limitations by extending the analysis to multiple sectors or comparing public and private firms. Additionally, future studies may explore behavioral aspects such as executive risk aversion or managerial career concerns as potential moderators. Incorporating qualitative insights through interviews or case studies may also enrich the understanding of how internal ownership structures influence financial decision-making in practice.

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