Volume 4 Number 2 (2026)
July-December 2026
Page:2526-2536

Journal of Creative Power and Ambition (JCPA)
https://edujavare.com/index.php/jcpa
E-ISSN: 3031-4054
DOI: 10.70610/jcpa.v4i02.1961

The Effect Of Liquidity And Free Cash Flow On Company Dividend Policy (Study Of Food And Beverage Companies Listed On The Indonesia Stock Exchange 2022–2024)

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Article history Submitted: 2026/08/07; Revised: 2026/08/12; Accepted: 2026/08/19;

Abstract

This study aims to examine the effect of liquidity and free cash flow on dividend policy in food and beverage companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024. This study employs a quantitative approach with an associative research design. The population consists of food and beverage companies listed on the IDX during the observation period, while the sample is selected using purposive sampling based on predetermined criteria. Secondary data are obtained from annual reports and audited financial statements published by the IDX and respective company websites. Liquidity is measured using the Current Ratio (CR), free cash flow is measured based on operating cash flow after capital expenditures, and dividend policy is measured using the Dividend Payout Ratio (DPR). The data are analyzed using descriptive statistics, classical assumption tests, and multiple linear regression, followed by t-tests, F-tests, and the coefficient of determination. The study is expected to provide empirical evidence regarding whether liquidity and free cash flow influence dividend policy, both partially and simultaneously. The findings are expected to contribute to the literature on corporate financial decision-making and provide practical insights for management and investors in evaluating dividend distribution decisions in the Indonesian food and beverage sector. Keywords: Liquidity, Free Cash Flow, Dividend Policy, Dividend Payout Ratio, Food and Beverage Companies, Indonesia Stock Exchange.

Keywords Liquidity; Free Cash Flow; Dividend Policy; Dividend Payout Ratio; Food and Beverage Companies; Indonesia Stock Exchange.

INTRODUCTION

Dividend policy is one of the most important financial decisions because it determines how a company allocates its earnings between payments to shareholders and retained earnings for future business activities. Dividend decisions are not merely related to the amount of profit generated, but also reflect management's assessment of cash availability, investment opportunities, financing needs, and shareholder

expectations. Lintner (1956) explains that companies tend to consider dividend stability and the sustainability of earnings when determining dividend payments, indicating that dividend decisions are generally made cautiously rather than based solely on current-period profits. From the perspective of corporate finance, dividend policy also becomes an important mechanism for balancing the interests of shareholders and management. Miller and Modigliani (1961) emphasize that under ideal market conditions dividend policy does not independently determine firm value, but in real-world conditions such as taxes, transaction costs, information asymmetry, and agency conflicts, dividend decisions may have significant economic consequences. Therefore, understanding the financial factors that influence dividend policy remains important, particularly in sectors with relatively stable consumer demand such as food and beverage companies.

Liquidity is one of the financial factors that may influence a company's ability to distribute dividends. Liquidity reflects the company's capacity to meet its short-term obligations using available current assets. A company with a high level of liquidity generally has greater financial flexibility because it possesses sufficient current resources to finance operational obligations and potentially distribute cash to shareholders. However, high liquidity does not automatically guarantee a high dividend payout because liquid resources may also be retained to support working capital, expansion, debt repayment, or other investment activities. Empirical evidence concerning the relationship between liquidity and dividend policy remains inconsistent. Putra and Kurnia (2022), examining food and beverage companies listed on the Indonesia Stock Exchange (IDX), found that liquidity had a positive effect on dividend policy, suggesting that stronger liquidity provides greater capacity for dividend distribution. Similarly, Wahyuni and Badera (2020) demonstrate that liquidity can be considered in explaining dividend policy, although its influence may depend on other company characteristics. In contrast, Soeiswanto et al. (2024) found that liquidity did not significantly affect dividend policy among food and beverage companies, demonstrating that sufficient current assets do not necessarily translate into higher dividend payments.

In addition to liquidity, free cash flow (FCF) represents another important factor in determining dividend policy. Free cash flow refers broadly to cash remaining after a company has financed the investments required to maintain or expand its operating capacity. The availability of excess cash provides management with several alternatives, including paying dividends, reducing debt, undertaking new investments, or retaining funds for future opportunities. Jensen's (1986) agency theory

perspective argues that large amounts of free cash flow can create agency problems because managers may have incentives to use excess funds for projects that do not necessarily maximize shareholder wealth. Dividend payments can therefore function as a mechanism for reducing the amount of cash under managerial control and limiting potential overinvestment. Consequently, companies with substantial free cash flow may have stronger incentives to distribute dividends to shareholders. Nevertheless, the empirical relationship between free cash flow and dividend policy is not uniform. Soeiswanto et al. (2024) found that free cash flow positively and significantly affected dividend policy, whereas Putra and Kurnia (2022) reported that free cash flow did not significantly influence dividend policy. These differences indicate that the role of FCF may vary according to industry characteristics, investment opportunities, financial structures, and managerial preferences.

The relationship between internal funds and dividend decisions can also be explained through the pecking-order perspective. Myers and Majluf (1984) argue that companies generally prefer internal financing because external financing can involve information asymmetry and additional financing costs. Consequently, companies with strong internal cash generation may have greater flexibility in deciding whether funds should be distributed as dividends or retained to finance investment. In this context, free cash flow and liquidity represent related but conceptually distinct dimensions of financial capacity. Liquidity emphasizes the ability to meet short-term obligations, whereas free cash flow focuses on cash available after necessary investment expenditures. Both variables may therefore provide different information regarding the company's capacity to distribute dividends.

The food and beverage sector provides an important context for examining these relationships because it represents a significant component of the consumer-oriented manufacturing industry and generally faces continuous demand, operational working-capital requirements, and investment needs. Previous studies specifically examining food and beverage companies have produced mixed findings. Novitasari et al. (2022) investigated free cash flow, liquidity, and leverage in food and beverage manufacturing companies and demonstrated the relevance of these variables to dividend policy. More recently, Aini et al. (2025) examined food and beverage companies for the 2019–2023 period and found that among several financial and corporate factors examined, ownership structure was the only variable with a significant influence on dividend policy, suggesting that the effects of liquidity and free cash flow may not always be consistent across different research periods and models. Pramuji and Akmalia (2025) similarly reported that financial variables,

including liquidity and free cash flow, should be evaluated simultaneously when explaining dividend policy.

The inconsistency of previous findings creates an empirical gap that warrants further investigation, particularly for the 2022–2024 period. Changes in economic conditions, consumer purchasing patterns, input costs, interest rates, and corporate investment strategies may influence the financial position and dividend decisions of food and beverage companies. Therefore, this study aims to examine the effect of liquidity and free cash flow on company dividend policy among food and beverage companies listed on the Indonesia Stock Exchange during 2022–2024. The study is expected to contribute to the empirical literature by providing more recent evidence regarding the determinants of dividend policy in the Indonesian food and beverage sector. Furthermore, the findings may provide useful implications for corporate managers in determining appropriate dividend strategies and for investors in evaluating a company's capacity and consistency in distributing shareholder returns.

METHODS

This study employs a quantitative research approach using an associative research design to examine the effect of liquidity and free cash flow on dividend policy. The population consists of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The sample is selected using purposive sampling based on predetermined criteria, including companies that were consistently listed on the IDX during the observation period, published complete annual financial statements, reported the financial information required for calculating liquidity and free cash flow, and distributed dividends during the observation period. Secondary data are obtained from annual reports and audited financial statements published through the official IDX website and the respective companies' official websites. Liquidity is measured using the Current Ratio (CR), calculated as current assets divided by current liabilities, while free cash flow is measured based on operating cash flow after deducting capital expenditures. Dividend policy is measured using the Dividend Payout Ratio (DPR), calculated as dividends per share divided by earnings per share. The data are analyzed using descriptive statistical analysis, classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, followed by multiple linear regression analysis to determine the partial and simultaneous effects of liquidity and free cash flow on dividend policy. Hypothesis testing is conducted using the t-test to examine the partial effect of each independent variable, the F-test to assess the simultaneous effect of the independent

variables, and the coefficient of determination (R^2) to determine the explanatory contribution of liquidity and free cash flow to dividend policy.

FINDINGS AND DISCUSSION

The Effect of Liquidity on Dividend Policy

Liquidity represents a company's ability to meet short-term financial obligations using its current assets and is commonly measured by the Current Ratio (CR). In the context of dividend policy, liquidity is important because dividend payments require actual cash availability rather than merely accounting profits. A company may report substantial net income but still have limited capacity to distribute dividends if its working capital is tied up in inventories, receivables, or other current assets. Therefore, liquidity provides an important indication of whether a company has sufficient financial flexibility to satisfy operational obligations while simultaneously returning funds to shareholders. Brigham and Houston (2016) explain that liquidity is closely related to a company's financial flexibility, while Lintner (1956) emphasizes that managers generally adopt relatively stable dividend policies and avoid dividend increases that may not be sustainable. In this sense, a company with stronger liquidity may be more capable of maintaining or increasing its Dividend Payout Ratio (DPR), provided that management considers the cash position sustainable.

Empirical evidence from previous research demonstrates that the relationship between liquidity and dividend policy is not uniform. Soeiswanto et al. (2024), for example, examined 44 food and beverage companies listed on the Indonesia Stock Exchange during 2019–2022 and found that liquidity had no significant effect on dividend policy. This finding is important because it demonstrates that a relatively strong liquidity position does not automatically result in greater dividend distribution. In contrast, Clarentina and Setijaningsih (2024), analyzing 10 food and beverage companies using panel-data regression, reported that liquidity had a positive and significant effect on dividend policy. The difference between these findings indicates that liquidity may influence dividend decisions differently depending on sample characteristics, observation periods, company financial structures, and other variables included in the regression model.

The numerical evidence from previous research further illustrates this inconsistency. The study by Soeiswanto et al. (2024) involved 44 companies over four years, providing a substantial empirical basis for evaluating dividend behavior in the sector. Its finding that liquidity was insignificant suggests that the ability to meet short-term obligations should not be interpreted as equivalent to the availability of distributable cash. Meanwhile, Clarentina and Setijaningsih (2024), with a smaller sample of 10 companies, reported a significant positive relationship between liquidity and dividend policy. This difference in sample composition is relevant because larger samples may capture greater heterogeneity in corporate dividend

behavior, whereas smaller samples may be more strongly influenced by the characteristics of particular companies.

Theoretically, the positive relationship between liquidity and dividend policy can be explained by the financial flexibility argument. When the CR increases, a company generally possesses greater current assets relative to current liabilities. For example, a CR of 2.00 means that every IDR 1 of current liabilities is supported by IDR 2 of current assets. Such a position may provide management with greater flexibility to allocate part of its resources toward dividend payments. However, a very high CR may also indicate that resources are not being utilized efficiently. Excessive inventories, receivables, or idle cash can reduce the efficiency of asset utilization. Consequently, the relationship between liquidity and dividend policy should not be interpreted mechanically. The objective of management is not simply to maximize liquidity but to maintain an optimal level that supports operations, investment, debt obligations, and shareholder returns.

The findings of earlier studies reinforce this interpretation. Wulandari (2022), examining 17 food and beverage companies and 79 observations for the 2014–2020 period, found that both free cash flow and liquidity had positive effects on dividend policy. Similarly, Hasana et al. (2018), based on 12 food and beverage companies during 2014–2016, reported a significant positive effect of liquidity on dividend policy. These findings imply that companies with stronger liquidity positions may have greater capacity to distribute dividends. Nevertheless, Octaviana et al. (2019), also studying food and beverage companies, found that liquidity did not have a significant effect on dividend policy, showing that the effect is sensitive to differences in period and research model.

The most recent evidence also strengthens the argument that liquidity alone is insufficient to explain dividend decisions. Aini et al. (2025) studied 13 food and beverage companies, producing 65 firm-year observations for 2019–2023, and found that liquidity did not significantly affect dividend policy. Interestingly, free cash flow was also found to be insignificant in that study, while ownership structure was the only variable with a significant effect. This finding suggests that dividend policy may be driven by governance and ownership considerations rather than simply by the availability of short-term assets. For companies in the food and beverage sector during 2022–2024, management may therefore prioritize business expansion, inventory management, debt obligations, or long-term investment even when the CR is relatively high.

From the perspective of dividend theories, these results are also consistent with the argument that dividend decisions involve multiple considerations. Miller and Modigliani (1961) proposed that under perfect-market assumptions dividend policy does not affect firm value, but real-world markets contain taxes, transaction costs, information asymmetry, and agency problems. Bhattacharya (1979) further suggests that dividends can convey information regarding management's expectations about future profitability. Thus, liquidity can provide the financial capacity to distribute dividends, but management may decide whether to exercise that capacity based on expectations concerning future cash flows. Lintner's (1956) dividend-

smoothing argument similarly suggests that managers are reluctant to make substantial changes in dividends unless they believe the underlying financial improvement is persistent.

Overall, the evidence indicates that liquidity has a theoretically plausible but empirically mixed relationship with dividend policy. Positive findings suggest that greater liquidity strengthens a company's ability to distribute dividends, while insignificant findings demonstrate that liquidity does not necessarily translate into dividend payments. For food and beverage companies listed on the IDX during 2022–2024, liquidity should therefore be interpreted together with profitability, free cash flow, investment opportunities, leverage, and ownership structure. The central implication is that a high CR creates the potential for dividend distribution but does not independently determine the DPR. Dividend policy ultimately reflects management's broader assessment of sustainable cash availability and competing financial priorities.

The Effect of Free Cash Flow on Dividend Policy

Free cash flow (FCF) is another important financial factor in explaining dividend policy because it reflects the cash available after the company has financed the investments necessary to maintain and develop its operating activities. Unlike liquidity, which emphasizes the relationship between current assets and current liabilities, FCF focuses more directly on the amount of cash that remains available for discretionary corporate decisions. Consequently, FCF has a particularly strong theoretical connection with dividend payments. When a company generates substantial FCF, management has several alternatives: retain the funds, invest them in profitable projects, repay debt, repurchase shares, or distribute dividends. Jensen (1986) argues that large amounts of excess cash can create agency problems because managers may have incentives to invest in projects that do not maximize shareholder wealth. Dividend payments can therefore reduce the amount of cash under managerial control and mitigate potential agency costs.

Empirical evidence from Indonesian food and beverage companies provides substantial support for the importance of FCF, although the results remain inconsistent. Soeiswanto et al. (2024), using 44 food and beverage companies listed on the IDX during 2019–2022, found that FCF had a positive and significant effect on dividend policy. This finding indicates that companies with greater excess cash are more likely to distribute a larger proportion of their earnings as dividends. The result is consistent with Jensen's (1986) agency-cost argument because dividend distribution can serve as a mechanism for reducing excess managerial cash and transferring resources to shareholders.

The numerical evidence from previous studies is useful for understanding the variation in these findings. Fitri et al. (2023) examined 105 observations from food and beverage companies listed on the IDX during 2018–2022 and found that FCF had a positive influence on dividend policy, while investment opportunity set had a negative influence and capital structure had a positive influence. The sample size of 105 observations provides evidence that FCF can remain relevant when dividend policy is examined simultaneously with investment

and financing variables. The positive relationship suggests that companies with greater excess cash may be more willing to distribute dividends because they do not face the same degree of internal financing constraints as companies with limited cash generation.

However, not all research supports this conclusion. Aini et al. (2025) analyzed 13 companies and 65 firm-year observations during 2019–2023 and found that FCF did not significantly affect dividend policy. Likewise, Suistiyaningsih and Rodhiyah (2025), examining 22 food and beverage manufacturing companies for 2021–2023, found that FCF did not significantly affect dividend policy, while operating cash flow and profitability had positive and significant effects. These findings are particularly relevant to the 2022–2024 research period because they demonstrate that even when companies generate cash beyond immediate operating requirements, the cash may not necessarily be distributed to shareholders.

The divergence can be explained through the pecking-order theory developed by Myers and Majluf (1984). According to this perspective, firms generally prefer internal financing before relying on external sources of capital. Consequently, high FCF may actually provide management with an opportunity to finance future investments internally rather than distribute all excess cash as dividends. Myers (1984) further explains that firms may establish dividend payout targets while attempting to ensure that internally generated funds can support normal investment requirements. Therefore, the effect of FCF on dividend policy depends partly on the firm's investment opportunities. A company with high FCF and limited profitable investment opportunities may distribute more dividends, whereas a company with high FCF and substantial expansion opportunities may retain the cash.

The signaling perspective provides another explanation. Bhattacharya (1979) argues that dividends can function as a signal of management's private information regarding future profitability. If management believes that strong FCF reflects sustainable future cash-generating capacity, it may increase dividends to communicate confidence to investors. However, if current FCF is considered temporary or volatile, management may retain cash instead of increasing dividends because a future dividend reduction could negatively affect investor confidence. This reasoning is compatible with Lintner's (1956) finding that managers generally prefer gradual and sustainable dividend changes rather than unstable distributions.

The relationship between FCF and dividend policy can also be affected by investment opportunities. A high-growth company may generate substantial FCF but still retain the cash because investment opportunities offer attractive expected returns. Conversely, a mature company with fewer profitable investment opportunities has greater incentives to distribute excess cash. Recent research emphasizes that the agency-cost explanation of FCF is fundamentally connected to capital allocation: when firms possess resources exceeding profitable investment opportunities, distributing cash can reduce inefficient investment and improve capital allocation. Therefore, the positive effect of FCF on dividends should not be viewed simply as a mechanical relationship between cash and payout; rather, it reflects the

interaction between cash availability, investment opportunities, managerial incentives, and shareholder expectations.

For food and beverage companies during 2022–2024, this issue is particularly relevant because companies must continuously finance inventories, production capacity, distribution networks, product innovation, and market expansion. A company may therefore report positive FCF but retain a substantial portion of that cash to support future operations. Conversely, companies with mature products, stable demand, and limited investment requirements may have greater incentives to distribute excess cash. This explains why empirical studies can produce positive significant, insignificant, or context-dependent results.

Overall, FCF appears to have a stronger conceptual connection with dividend policy than liquidity because FCF more directly represents discretionary cash available after investment requirements. Nevertheless, empirical evidence remains mixed. The positive findings reported by Soeiswanto et al. (2024) and Fitri et al. (2023) support the agency-cost argument, whereas the insignificant findings of Aini et al. (2025) and Suistiyaningsih and Rodhiyah (2025) demonstrate that excess cash does not automatically result in higher dividends. Therefore, for the 2022–2024 period, the effect of FCF on dividend policy should be analyzed alongside investment opportunities, profitability, leverage, ownership structure, and corporate growth. The ultimate dividend decision reflects management's attempt to balance shareholder distribution with the need to preserve sufficient internal funds for sustainable corporate development.

CONCLUSION

Based on the discussion, liquidity and free cash flow are important financial factors that may influence dividend policy among food and beverage companies listed on the Indonesia Stock Exchange during 2022–2024, although their effects may vary depending on the company's financial condition, investment opportunities, and managerial considerations. Liquidity provides an indication of the company's ability to meet short-term obligations and maintain financial flexibility, but a high liquidity level does not necessarily lead to higher dividend payments because current assets may be required to support working capital, expansion, and other operational needs. Meanwhile, free cash flow has a stronger conceptual relationship with dividend policy because excess cash after investment requirements provides management with greater discretion to distribute funds to shareholders, reduce debt, or finance future investments. From the perspective of agency theory, dividend distribution can reduce the potential misuse of excess cash by management, while pecking-order and signaling perspectives indicate that companies may retain or distribute cash depending on financing needs and expectations of future performance. Therefore, dividend policy

should not be determined solely by liquidity or free cash flow, but should consider profitability, leverage, investment opportunities, ownership structure, and long-term corporate strategy. Overall, the mixed empirical findings indicate that the relationship between liquidity, free cash flow, and dividend policy remains an important issue for further examination, particularly in the food and beverage sector during the 2022–2024 period.

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