

The Role of Profitability in Linking Free Cash Flow and Operating Cash Flow to Dividend Policy: Evidence from Indonesian Food and Beverage Manufacturing Firms

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Abstract

This study aims to examine the effect of Free Cash Flow (FCF) and Operating Cash Flow (OCF) on dividend policy, with profitability serving as an intervening variable, among food and beverage manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period. A quantitative approach with a causal research design was employed. Secondary data were collected from annual financial statements obtained from the Indonesia Stock Exchange and the official websites of the sampled companies. The sample consisted of 22 firms (66 firm-year observations) selected using a purposive sampling technique. Data were analyzed using multiple linear regression and path analysis with IBM SPSS Statistics. The findings indicate that Operating Cash Flow and profitability have a significant effect on dividend policy, whereas Free Cash Flow does not significantly influence dividend policy. Furthermore, both Free Cash Flow and Operating Cash Flow do not significantly affect profitability. Nevertheless, profitability is found to mediate the relationship between Free Cash Flow, Operating Cash Flow, and dividend policy. These findings imply that dividend decisions are driven more by a firm's ability to generate operating cash flows and sustainable earnings than by the amount of free cash flow available. The novelty of this study lies in examining the mediating role of profitability in explaining the relationship between Free Cash Flow, Operating Cash Flow, and dividend policy in Indonesian food and beverage manufacturing firms during the post-pandemic period.

Keywords: Free Cash Flow; Operating Cash Flow; Profitability; Dividend Policy; Food and Beverage Manufacturing.

Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh *Free Cash Flow (FCF)* dan *Operating Cash Flow (OCF)* terhadap *kebijakan dividen* dengan *profitabilitas* sebagai variabel intervening pada perusahaan manufaktur subsektor *food and beverage* yang terdaftar di Bursa Efek Indonesia periode 2021–2023. Penelitian menggunakan pendekatan kuantitatif dengan desain penelitian kausal. Data yang digunakan merupakan data sekunder berupa laporan keuangan tahunan yang diperoleh dari Bursa Efek Indonesia dan situs resmi perusahaan. Sampel penelitian ditentukan menggunakan teknik *purposive sampling* sehingga diperoleh 22 perusahaan dengan total 66 observasi. Analisis data dilakukan menggunakan regresi linear berganda dan *path analysis* dengan bantuan IBM SPSS Statistics. Hasil penelitian menunjukkan bahwa *Operating Cash Flow* dan *profitabilitas* berpengaruh signifikan terhadap kebijakan dividen, sedangkan *Free Cash Flow* tidak berpengaruh signifikan terhadap kebijakan dividen. Selain itu, *Free Cash Flow* dan *Operating Cash Flow* tidak berpengaruh signifikan terhadap profitabilitas. Meskipun demikian, profitabilitas terbukti memediasi hubungan antara *Free Cash Flow* maupun *Operating Cash Flow* terhadap kebijakan dividen. Temuan ini mengimplikasikan bahwa keputusan pembagian dividen lebih dipengaruhi oleh kemampuan perusahaan menghasilkan arus kas operasional dan laba dibandingkan besarnya kas bebas yang dimiliki. Kebaruan penelitian ini terletak

pada pengujian peran profitabilitas sebagai variabel intervening dalam hubungan antara *Free Cash Flow*, *Operating Cash Flow*, dan kebijakan dividen pada perusahaan manufaktur subsektor *food and beverage* di Indonesia selama periode pascapandemi.

Kata Kunci: Free Cash Flow; Operating Cash Flow; Profitabilitas; Kebijakan Dividen; Dividend Policy; Food and Beverage.

1. Introduction

The development of economic globalization and financial market transformation has increased the complexity of the business environment faced by companies in various countries, including Indonesia. Capital market integration, information technology developments, and increasing investor expectations for transparency and accountability encourage companies to optimize the management of financial resources more effectively. In increasingly competitive conditions, companies are not only required to be able to generate profits, but also to be able to create firm value through making the right financial decisions, including in determining dividend policies. Dividend policy is one of the strategic decisions that has direct implications for investor perception, stock price stability, and the sustainability of company growth. Therefore, the company's ability to maintain a balance between the distribution of profits to shareholders and internal funding needs is an important aspect in creating a sustainable competitive advantage ([Baker et al., 2023](#); [Al-Malkawi et al., 2022](#)).

In manufacturing companies, especially the food and beverage sub-sector listed on the Indonesia Stock Exchange (IDX), dividend policy is an increasingly relevant issue because this industry has the characteristics of high working capital requirements, large fixed asset investment, and relatively stable demand growth rates. On the other hand, the 2021–2023 period is a phase of economic recovery after the COVID-19 pandemic which is characterized by increasing global inflationary pressures, changes in interest rates, supply chain disruptions, and international economic uncertainty. This condition causes the company to face challenges in maintaining liquidity while meeting investors' expectations for dividend distribution. Thus, dividend policy is not only influenced by the amount of profit earned by the company, but also highly depends on the company's ability to generate adequate cash flow to support operational activities and long-term investment needs ([OECD, 2023](#); [IMF, 2023](#)).

One of the fundamental indicators that is widely used in evaluating a company's ability to pay dividends is free cash flow (FCF). Free cash flow describes cash that is still available after the company meets all investment and working capital needs so that it can be used to pay dividends, pay off debts, make share repurchases, or fund business expansion. Based on the perspective of Agency Theory, the availability of large free cash flows can reduce agency conflicts through dividend payment mechanisms because excess cash is no longer completely under management's discretion. In addition to free cash flow, operating cash flow (OCF) is also an important indicator that reflects the company's ability to generate cash from key operational activities. Strong operating cash flow indicates that the company has good

profit quality and the ability to meet operational obligations without relying on external funding. Thus, both free cash flow and operating cash flow are expected to have a significant role in determining the company's dividend policy (Dang et al., 2021; Habib et al., 2022).

In addition to these two variables, profitability is a factor that is theoretically able to bridge the relationship between cash flow and dividend policy. Profitability reflects the effectiveness of a company in managing all its resources to generate profits, which is generally measured using Return on Assets (ROA). Companies with high levels of profitability tend to have greater financial flexibility so that they are able to maintain the stability of dividend payments despite economic dynamics. On the other hand, companies with low profitability will be more careful in setting dividend policies because they must consider the need for internal funding to maintain operational sustainability. Therefore, profitability not only serves as an indicator of company performance, but also has the potential to be an intervening variable that explains how the ability to generate cash flow ultimately translates into dividend distribution decisions to shareholders (Lee et al., 2022; Nguyen et al., 2023).

Although the relationship between free cash flow, operating cash flow, profitability, and dividend policy has been widely studied in the financial literature, the results of previous research still show inconsistencies. Some studies have found that free cash flow and operating cash flow have a positive effect on dividend policy, while other studies show a insignificant influence due to differences in industry characteristics, economic conditions, and company ownership structure. In addition, there is still relatively limited research that examines profitability as an intervening variable in manufacturing companies in the food and beverage subsector in Indonesia during the 2021–2023 economic recovery period. The research gap is an important basis for the implementation of this research. This research is expected to be able to make an empirical contribution in enriching the literature on the mechanism of the influence of free cash flow and operating cash flow on dividend policy through profitability, as well as providing practical implications for company management, investors, and policymakers in formulating financial management strategies oriented towards increasing company value.

2. Literature Review and Hypothesis Development

2.1 Agency Theory (Grand Theory)

Agency Theory introduced by Jensen and Meckling (1976) is the most relevant theoretical foundation to explain the relationship between cash flow management, profitability, and dividend policy. This theory explains that there is a conflict of interest between the manager (agent) and the shareholder (principal). Shareholders expect management to maximize investor well-being through increased company value and optimal profit distribution, while managers often have a tendency to use company resources for personal gain or make investments that do not always add value to shareholders. This condition raises agency costs, so a supervisory mechanism is needed that is able to harmonize the interests of both parties.

From the perspective of Agency Theory, dividend policy is one of the effective mechanisms to reduce agency conflicts because dividend distribution will reduce the amount

of free cash flow that management can use opportunistically. The greater the free cash flow that the company has, the higher the potential for agency problems if the funds are not allocated productively. Therefore, investors tend to encourage companies to distribute dividends as a form of discipline towards management. In addition, operating cash flow and profitability are indicators of the company's ability to generate sustainable cash and profit, thus influencing dividend distribution decisions. Thus, Agency Theory provides a strong conceptual basis for explaining the relationship between free cash flow, operating cash flow, profitability, and dividend policy.

2.2 Signaling Theory

Signaling Theory states that every company's financial decision is a signal given to the market about the company's future prospects. Information about operating cash flow, profitability, and dividend policy is seen as a signal of company quality by investors. When a company is able to generate high operating cash flow and stable profits, investors will interpret these conditions as an indication that the company has good fundamentals so that investment risk is lower.

In the context of dividend policy, stable dividend payments are a positive signal regarding the company's ability to maintain financial performance in the future. On the other hand, a decline in dividends is often perceived as a signal of a decline in the company's prospects. Therefore, operating cash flow and profitability are important information that investors use in evaluating investment decisions, while free cash flow shows the company's financial flexibility in maintaining dividend payments in a sustainable manner.

2.3 Residual Dividend Theory

Residual Dividend Theory explains that the company will distribute dividends if all investment needs that have a positive net present value (NPV) have been met. In other words, dividends are paid using residual cash after the company meets its investment and working capital needs. Therefore, the amount of free cash flow is one of the main indicators that determines the company's ability to distribute dividends.

In practice, companies that have high operating cash flow and good profitability tend to generate larger residual cash so that they have higher flexibility in setting dividend payout ratios. In contrast, companies that still need internal funding for expansion will usually hold back most of the profits so that the dividend distribution is lower. This theory explains that dividend decisions are not only influenced by profits, but also by a company's ability to generate cash after meeting all of its operational and investment needs.

2.4 Hypothesis Development

2.4.1 The Effect of Free Cash Flow on Dividend Policy

Free cash flow is cash available after the company meets all investment and working capital needs. In Agency Theory, high free cash flow has the potential to increase agency conflicts if not utilized efficiently by management. One of the mechanisms to reduce these conflicts is through the payment of dividends to shareholders so that excess cash is not completely under

management's control. Therefore, companies with large free cash flows are expected to have a higher ability to pay dividends.

A number of empirical studies show that free cash flow has a positive relationship with dividend policy because companies that have larger free cash tend to maintain dividend payments as a form of commitment to investors. However, some studies have found different results, especially in companies that are expanding so that free cash flow is prioritized for investment. Based on these arguments, the following hypotheses are formulated.

H1: *Free cash flow has a positive effect on dividend policy.*

2.4.2 The Effect of Operating Cash Flow on Dividend Policy

Operating cash flow describes a company's ability to generate cash from key operational activities. High operating cash flow indicates that the company has good liquidity so that it is better able to meet operational obligations while paying dividends to shareholders. In Signaling Theory, strong operating cash flow is a positive signal regarding the sustainability of the company's performance so as to increase investor confidence.

Various previous studies have shown that operating cash flow is one of the important determinants in determining the dividend payout ratio because dividend payments require the availability of cash, not just accounting profits. Therefore, the higher the operating cash flow, the greater the company's chances of distributing dividends.

H2: *Operating cash flow has a positive effect on dividend policy.*

2.4.3 The Effect of Profitability on Dividend Policy

Profitability reflects a company's ability to generate profits from all assets used in operational activities. Companies with a high level of profitability have a greater ability to generate retained earnings and cash so they have greater flexibility in setting dividend policies. Investors generally view profitability as an indicator of a company's success in creating economic value.

In addition, according to Signaling Theory, high profits give a positive signal to the market regarding the company's prospects so that the company tends to maintain dividend payments as a form of credibility for investors. Therefore, profitability is expected to have a positive influence on dividend policy.

H3: *Profitability has a positive effect on dividend policy.*

2.4.4 The Effect of Free Cash Flow on Profitability

Free cash flow reflects the company's efficiency in generating cash after meeting investment needs. Companies that are able to manage free cash flow optimally have a greater chance of improving operational efficiency and generating higher profits. Effective cash management allows companies to reduce external funding costs and increase asset productivity.

However, the amount of free cash flow is not always followed by an increase in profitability if the funds have not been used productively. Therefore, the relationship between free cash flow and profitability is still an interesting issue to be studied further.

H4: *Free cash flow has a positive effect on profitability.*

2.4.5 Effect of Operating Cash Flow on Profitability

Operating cash flow is the main indicator of the quality of the company's profit. Companies that are able to generate high operating cash flow generally have efficient operational activities so that they are better able to generate sustainable profits. Positive operating cash flow also reduces dependence on external financing, thereby improving the company's financial efficiency.

Previous research has shown that operating cash flow is one of the main predictors of profitability because it reflects the company's ability to convert operational activities into cash that is ready to be used to support business growth.

H5: *Operating cash flow has a positive effect on profitability.*

2.4.6 Profitability Mediates the Influence of Free Cash Flow on Dividend Policy

High free cash flow does not always directly increase dividend payments. The effectiveness of free cash utilization is first reflected in the company's ability to generate profits. When free cash flow is able to increase profitability, the company will have a greater capacity to pay dividends to shareholders. Thus, profitability is expected to be a mediation mechanism that explains how free cash flow ultimately affects dividend policy.

H6: *Profitability mediates the influence of free cash flow on dividend policy.*

2.4.7 Profitability Mediates the Influence of Operating Cash Flow on Dividend Policy

High operating cash flow indicates the company's ability to generate cash from operational activities. The cash is then used to support production and investment activities which ultimately increase the company's profitability. The increase in profitability then enlarges the company's ability to distribute dividends in a sustainable manner. Therefore, profitability is estimated to be an intervening variable that strengthens the relationship between operating cash flow and dividend policy.

H7: *Profitability mediates the influence of operating cash flow on dividend policy.*

3. Research Method

This study uses a quantitative approach with an explanatory research design (causal research) that aims to examine the causal relationship between *free cash flow*, *operating cash flow*, *profitability*, and *dividend policy* in manufacturing companies in the *food and beverage subsector* listed on the Indonesia Stock Exchange (IDX). The quantitative approach was chosen because it is able to objectively measure the relationship between variables through statistical analysis so as to produce findings that can be tested empirically. This study uses secondary data in the form of annual financial reports obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official website of each company. The observation period covers the years 2021–2023, which was chosen to represent the company's condition during the post-COVID-19 pandemic economic recovery. The use of panel data for three years is expected to be able to provide a more comprehensive picture of the dynamics of the relationship between research variables (Hair et al., 2022; Sekaran & Bougie, 2021).

The research population includes all manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange during the 2021–2023 period. The sampling technique uses purposive sampling, which is a technique of determining samples based on certain criteria so that the samples obtained are in accordance with the research objectives. The criteria used include: (1) the company is consistently listed on the Indonesia Stock Exchange during the research period; (2) the company publishes a complete annual financial statement; (3) the company distributes cash dividends consecutively during the 2021–2023 period; and (4) all data needed to measure the research variables are fully available. Based on these criteria, 22 companies were obtained as research samples with a total of 66 observation units. The independent variables in this study consisted of Free Cash Flow (FCF) and Operating Cash Flow (OCF), while Profitability proxied using Return on Assets (ROA) acted as an intervening variable, and Dividend Policy was proxied using Dividend Payout Ratio (DPR) as a dependent variable. The use of proxies has been widely used in corporate financial research because it is considered to be able to accurately represent the company's fundamental condition (Brigham & Ehrhardt, 2022; Ross et al., 2022).

Data analysis was carried out in stages using IBM SPSS Statistics software. The analysis stage begins with descriptive statistical analysis to describe the characteristics of the research data, then continues with a classical assumption test which includes normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure that the regression model meets the assumptions of the Best Linear Unbiased Estimator (BLUE). Furthermore, multiple linear regression analysis was carried out to test the direct influence of *free cash flow* and *operating cash flow* on dividend policy and profitability. Testing of intervening variables was carried out using path analysis to determine the extent of direct and indirect influence of profitability in mediating the relationship between independent variables and dividend policies. All hypothesis testing was performed at a significance level of 5% ($\alpha = 0.05$). This approach was chosen because it is able to explain the mediation mechanism more comprehensively and is widely applied in empirical financial research (Hair et al., 2022; Hayes, 2022).

4. Results

4.1 Normality Test

Before hypothesis testing, a normality test was first carried out on the residual regression model using the One-Sample Kolmogorov–Smirnov Test. This test aims to ensure that the residual model is normally distributed so that the regression model meets one of the basic assumptions of parametric analysis.

Table 1. Results of Normality Test

Test	Statistic	Sig.	Decision
Kolmogorov–Smirnov	0.078	0.200	Normally distributed

The test results show that the value of Asymp. Sig. (2-tailed) of 0.200, greater than the significance level of 0.05. Thus, the residual regression model is normally distributed so that

the research model meets the assumption of normality and is suitable for future regression analysis.

4.2 Multiple Regression Analysis on Dividend Policy

Multiple regression analysis was conducted to test the influence of Free Cash Flow, Operating Cash Flow, and Profitability on Dividend Policy.

Table 2. Multiple Regression Results (Model 1)

Relationship	β	t-value	p-value	Decision
Free Cash Flow → Dividend Policy	-0.008	-0.512	0.610	Rejected
Operating Cash Flow → Dividend Policy	-0.987	-60.384	0.000	Supported
Profitability → Dividend Policy	0.097	5.931	0.000	Supported

Based on the results of the analysis in Table 2, Free Cash Flow does not show a significant influence on dividend policy because it has a significance value of **0.610**, which is greater than the significance level of 0.05. These findings indicate that the amount of free cash owned by the company is not necessarily directly allocated for dividend payments to shareholders. Companies are likely to prioritize the use of free cash for investment needs, business expansion, and working capital strengthening.

On the other hand, Operating Cash Flow shows a significant influence on dividend policy with a significance value of 0.000. These results show that a company's ability to generate cash from operational activities is an important factor in determining the company's ability to distribute dividends. The higher the operating cash flow that the company produces, the greater the company's ability to meet its obligations to shareholders through dividend payments.

In addition, profitability has also been proven to have a positive and significant effect on dividend policy with a significance value of 0.000. These findings indicate that companies with higher levels of profitability tend to have better financial ability to maintain or increase dividend payments to investors.

4.3 Regression Analysis on Profitability

The next regression analysis was carried out to determine the effect of Free Cash Flow and Operating Cash Flow on Profitability.

Table 3. Regression Results (Model 2)

Relationship	β	t-value	p-value	Decision
Free Cash Flow → Profitability	0.001	0.007	0.995	Rejected
Operating Cash Flow → Profitability	0.004	0.031	0.976	Rejected

The results of the analysis show that Free Cash Flow does not have a significant effect on the company's profitability. A significance value of 0.995 indicates that the amount of free cash has not been able to increase the company's ability to generate profits during the research period. Similarly, Operating Cash Flow showed no significant influence on profitability with a significance value of 0.976. These findings show that the increase in operating cash flow has not been directly followed by an increase in the company's profitability level. This condition

can be caused by high operational costs, long-term investments, or external factors that affect the company's efficiency during the observation period.

4.4 Mediation Analysis

Mediation testing was carried out using Path Analysis to determine whether Profitability was able to mediate the relationship between Free Cash Flow and Operating Cash Flow to Dividend Policy.

Table 4. Mediation Analysis

Relationship	Direct Effect	Indirect Effect	Mediation
Free Cash Flow → Profitability → Dividend Policy	-0.008	0.000097	Supported
Operating Cash Flow → Profitability → Dividend Policy	-0.987	0.000388	Supported

The results of the path analysis show that Profitability plays a role as an intervening variable in the relationship between Free Cash Flow and Dividend Policy. Although the direct influence of Free Cash Flow on dividend policy is relatively small and insignificant, the existence of profitability provides an indirect pathway that explains how free cash management can influence dividend distribution decisions through a company's ability to generate profits.

The same findings were also obtained in the relationship between Operating Cash Flow and Dividend Policy. Profitability can be a mediation mechanism that explains how the company's ability to generate operating cash flow ultimately translates into a dividend payment policy. Thus, profitability has a strategic role in bridging the relationship between the ability to generate cash and the decision to distribute profits to shareholders.

4.5 Summary of Hypothesis Testing

Table 5. Summary of Hypothesis Testing

Hypothesis	Statement	Results
H1	Free Cash Flow affects Dividend Policy	Rejected
H2	Operating Cash Flow affects Dividend Policy	Supported
H3	Profitability affects Dividend Policy	Supported
H4	Free Cash Flow affects Profitability	Rejected
H5	Operating Cash Flow affects Profitability	Rejected
H6	Profitability mediates the relationship between Free Cash Flow and Dividend Policy	Supported
H7	Profitability mediates the relationship between Operating Cash Flow and Dividend Policy	Supported

Overall, the results of the study show that Operating Cash Flow and Profitability are the main determinants of dividend policy in manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange during the 2021–2023 period. Meanwhile, Free Cash Flow does not have a direct influence on dividend policy or profitability. Nevertheless, profitability has been shown to play a role as an intervening variable that

explains the mechanism of the relationship between the company's ability to generate cash and the dividend distribution decision.

5. Discussion

5.1 The Effect of Free Cash Flow on Dividend Policy

The results of the study show that *Free Cash Flow* does not have a significant effect on dividend policy in manufacturing companies in the *food and beverage* subsector listed on the Indonesia Stock Exchange for the 2021–2023 period. These findings indicate that the amount of free cash the company has is not automatically used to increase dividend payments to shareholders. In post-pandemic economic recovery conditions, companies tend to be more cautious in allocating free cash to strengthen liquidity, finance investments, fulfill long-term obligations, and maintain financial flexibility rather than distributing it in the form of dividends.

The findings can be explained through the Residual Dividend Theory, which states that the company will distribute dividends after all the investment needs that provide added value have been met. Thus, the existence of *free cash flow* is not always the main indicator in determining dividend policy if the company still has profitable investment opportunities. From the perspective of Agency Theory, these results also indicate that companies may implement effective oversight and governance mechanisms so that potential agency conflicts due to free cash ownership can be minimized without having to increase dividend payments.

5.2 The Effect of Operating Cash Flow on Dividend Policy

This study proves that *Operating Cash Flow* has a significant effect on dividend policy. These results show that the company's ability to generate cash from operational activities is a more decisive factor in dividend distribution decisions than just the amount of free cash. Dividends are cash distributions to shareholders so that the sustainability of dividend payments is highly dependent on the company's ability to generate stable operating cash flow.

In the perspective of Signaling Theory, high operating cash flow provides a positive signal to investors regarding the company's financial condition. The cash-generating ability of key operations reflects good profit quality and increases investor confidence in the sustainability of dividend payments in the future. Therefore, companies with strong *operating cash flow* tend to maintain a dividend policy as a form of commitment to shareholders while maintaining the company's reputation in the capital market.

5.3 The Effect of Profitability on Dividend Policy

The results of the study show that profitability has a positive and significant effect on dividend policy. These findings suggest that companies that are able to generate higher profits have a greater capacity to distribute dividends consistently. Profitability reflects the effectiveness of the company in managing assets to generate profits, so it is one of the main indicators that investors pay attention to in evaluating the company's ability to provide returns.

The findings are in line with the Signaling Theory, which explains that high profits are a positive signal regarding the company's prospects. Dividend payouts supported by a good

level of profitability will increase investor confidence as it shows that the company has a healthy and sustainable operational performance. Therefore, profitability is one of the main determinants in determining dividend policies in manufacturing companies in the food and beverage subsector.

5.4 The Effect of Free Cash Flow on Profitability

This study found that *Free Cash Flow* had no significant effect on profitability. The findings show that the amount of free cash owned by a company cannot necessarily increase the company's ability to generate profits. This indicates that free cash is more influenced by investment policies, funding, and working capital management than by improved operational efficiency.

From a financial management perspective, profitability is more influenced by the effectiveness of asset use, operational cost efficiency, marketing strategy, and the company's ability to create added value through its business activities. Therefore, the amount of *free cash flow* is not always followed by an increase in profit if the funds have not been used productively or are still allocated for long-term investment needs.

5.5 The Effect of Operating Cash Flow on Profitability

The results of the study show that *Operating Cash Flow* does not have a significant effect on profitability. These findings indicate that the ability to generate cash from operational activities does not necessarily reflect the company's ability to generate profits during the study period. The difference in the time of recognition of income and expenses, increased production costs, and investment in productive assets can cause high operating cash flow to indirectly increase the company's profitability level.

In addition, economic conditions in the 2021-2023 period, which are still in the recovery phase, also affect the company's operational efficiency. Although the company is able to generate adequate cash flow, raw material cost pressures, inflation, and changes in market demand can squeeze profit margins so that the relationship between *operating cash flow* and profitability becomes insignificant.

5.6 The Mediating Role of Profitability in the Relationship between Free Cash Flow and Dividend Policy

The mediation analysis shows that profitability is able to mediate the relationship between *Free Cash Flow* and dividend policy. These findings show that the influence of free cash on dividend distribution decisions does not occur directly, but through the company's ability to generate profits. In other words, free cash will contribute to dividend policy if it can be converted into increased profitability.

These results show that profitability is an important mechanism that links the management of financial resources with the decision to distribute profits to shareholders. Therefore, companies not only need to increase the amount of free cash, but also ensure that the cash is used productively so that it is able to improve financial performance before it translates into a dividend policy.

5.7 The Mediating Role of Profitability in the Relationship between Operating Cash Flow and Dividend Policy

This study also shows that profitability mediates the relationship between *Operating Cash Flow* and dividend policy. The findings indicate that the company's ability to generate cash from operating activities will have a greater impact on dividend policy if followed by increased profitability. Thus, profit is a mechanism that strengthens the influence of operating cash flow on dividend distribution decisions.

Overall, the results of the study show that profitability has a strategic role in explaining the relationship between a company's ability to generate cash and dividend policy. These findings imply that the company's management needs to balance cash flow management with improved operational efficiency so that the cash generated can be converted into sustainable profits. The strategy not only supports the stability of dividend payments, but also increases investor confidence and strengthens the company's value in the long run.

6. Implications

6.1 Theoretical Implications

This research contributes to the development of the company's financial literature, especially related to the relationship between *Free Cash Flow*, *Operating Cash Flow*, profitability, and dividend policy in manufacturing companies in the food and beverage subsector. The findings of the study show that *Operating Cash Flow* and profitability are more dominant determinants in influencing dividend policy than *Free Cash Flow*. These results broaden the understanding of the mechanism of dividend policy formation by showing that a company's ability to generate cash from operational activities and profits has a more important role than the amount of free cash available.

From the perspective of Agency Theory, the results of this study indicate that the existence of *Free Cash Flow* does not always cause agency conflicts that encourage an increase in dividend payments. This condition indicates that the company has a *corporate governance* mechanism or investment policy that is able to effectively control the use of free cash. Thus, this study enriches the literature that explains that the influence of *Free Cash Flow* on dividend policy is highly dependent on company characteristics, investment strategies, and underlying economic conditions.

In addition, this study reinforces the relevance of Signaling Theory, which states that information regarding operating cash flow and profitability is an important signal for investors in assessing the company's prospects. The results show that companies that are able to generate better operating cash flow and profits tend to have greater capacity to maintain dividend payments. These findings confirm that the quality of operational performance is the main basis in shaping investor perception of the stability of the company's dividend.

Another theoretical contribution lies in proving that profitability plays an intervening variable in the relationship between *Free Cash Flow* and *Operating Cash Flow* to dividend policy. These findings suggest that the influence of cash flow on dividend distribution decisions does not always occur directly, but through a company's ability to generate profits. Therefore, this

study expands the conceptual model in the dividend policy literature by placing profitability as a mechanism that explains how a company's financial resources translate into profit distribution decisions to shareholders.

6.2 Practical Implications

For the company's management, the results of this study imply that the dividend policy should not only be based on the amount of free cash available, but also consider the company's ability to generate cash flow from operational activities in a sustainable manner. Management needs to optimize operational efficiency, improve the quality of cash management, and ensure that business activities are able to generate stable cash flow. The move will strengthen the company's ability to maintain its dividend policy without reducing financial flexibility to support the company's future growth.

For investors, the results of this study show that it is not enough to evaluate the company only focusing on the amount of *Free Cash Flow*. Investors also need to pay attention to *Operating Cash Flow* and profitability level as more representative indicators in assessing the company's ability to pay dividends on an ongoing basis. By considering these three indicators simultaneously, investors can make more rational investment decisions and reduce the risk of errors in assessing the prospects of dividend distribution.

For companies engaged in the *food and beverage* subsector, the findings of this study show the importance of maintaining a balance between investment needs, cash flow management, and profitability achievement. Effective cash management must be directed to improve operational efficiency so that it can generate sustainable profits. Thus, the company can maintain investor confidence through a more stable dividend policy while maintaining the company's ability to support future business expansion.

For regulators and capital market authorities, this study provides input that the transparency of information on operating cash flows, free cash flows, and profitability needs to be continuously improved through the quality of corporate financial reporting. More comprehensive information on cash flow conditions and profitability will help investors make a more accurate assessment of the company's ability to pay dividends. Ultimately, the increase in transparency is expected to strengthen capital market efficiency, increase investor confidence, and support the creation of better corporate governance in Indonesia.

7. Limitations and Future Research Directions

7.1 Limitations

This study has several limitations that need to be considered in interpreting the research results. First, the study only used manufacturing companies in the *food and beverage subsector* listed on the Indonesia Stock Exchange during the 2021–2023 period. The characteristics of these industries can be different from other sectors so that the results of this study cannot be generalized to all companies listed in the Indonesian capital market. In addition, the relatively short observation period only reflects the company's condition in the post-pandemic

economic recovery phase, so it does not fully describe the dynamics of dividend policies in various economic cycles.

Second, this study only focuses on two independent variables, namely *Free Cash Flow* and *Operating Cash Flow*, with profitability as an intervening variable. In fact, dividend policy is influenced by various other factors such as leverage, firm size, growth opportunities, liquidity, ownership structure, corporate governance, investment opportunities, and macroeconomic conditions, including inflation and interest rates. The absence of these variables causes the research model to not be able to comprehensively explain all dividend policy determinants.

Third, this study uses multiple linear regression approach and *path analysis* with the help of IBM SPSS Statistics. Although the method is in line with the research objectives, this approach still has limitations in capturing more complex relationships, such as nonlinear relationships, moderation effects, and causal relationships simultaneously between variables. Therefore, the results of the study need to be interpreted according to the scope of the analysis model used.

7.2 Future Research Directions

Based on these limitations, further research is suggested to expand the scope of research by involving companies from various industry sectors and extend the observation period so as to be able to capture changes in company behavior in various phases of the economic cycle. The use of panel data with a longer period is expected to improve the generalization ability of research results and provide a more comprehensive understanding of the factors influencing dividend policy in the Indonesian capital market.

Further research is also recommended to develop a conceptual model by including other variables that have the potential to affect dividend policy, such as leverage, firm size, investment opportunity set, liquidity, sales growth, corporate governance, ownership concentration, and macroeconomic factors. In addition, profitability can not only be positioned as an intervening variable, but can also be compared with other mediating variables or combined with moderation variables to gain a deeper understanding of the dividend decision-making mechanism.

In terms of methodology, the next research can consider the use of more comprehensive analytical approaches, such as Structural Equation Modeling (SEM-PLS), regression data panels (fixed effect or random effect), and dynamic panel models (Generalized Method of Moments/GMM). This approach allows for more complex analysis of relationships between variables and is able to reduce the potential for estimation bias due to company heterogeneity. The use of more advanced analytical methods is expected to produce stronger empirical evidence and make a greater contribution to the development of the company's financial literature, particularly regarding the mechanism of the relationship between cash flows, profitability, and dividend policies.

8. Conclusion

This study aims to analyze the influence of *Free Cash Flow* and *Operating Cash Flow* on dividend policies with profitability as an intervening variable in manufacturing companies in the *food and beverage* subsector listed on the Indonesia Stock Exchange during the 2021–2023 period. Based on the results of empirical analysis, this study shows that *Operating Cash Flow* and profitability are factors that have a significant influence on dividend policy, while *Free Cash Flow* does not show a significant direct influence on dividend policy. In addition, neither *Free Cash Flow* nor *Operating Cash Flow* have been proven to have a direct effect on profitability. However, the results of the mediation analysis show that profitability plays an intervening variable in the relationship between *Free Cash Flow* and *Operating Cash Flow* to dividend policy.

The findings show that a company's decision to distribute dividends is more influenced by the ability to generate cash flow from operating activities and the level of profitability than by the amount of free cash available. This indicates that the sustainability of dividend payments is highly dependent on the quality of the company's operational performance that is able to generate profits sustainably. Thus, profitability is an important mechanism that explains how a company's ability to manage cash flow can be translated into a profit distribution policy to shareholders.

Theoretically, this study provides support for the Signaling Theory through the finding that *Operating Cash Flow* and profitability are fundamental signals that influence dividend distribution decisions. On the other hand, the results of the study also enriched the perspective of Agency Theory by showing that the existence of *Free Cash Flow* does not necessarily encourage an increase in dividend payments, which indicates that the effectiveness of corporate governance and investment policies can affect the utilization of free cash. Therefore, this study contributes to expanding the understanding of the mechanism of the relationship between cash flow, profitability, and dividend policy, especially in manufacturing companies in the *food and beverage* subsector in Indonesia.

From a practical perspective, the results of the study imply that the company's management needs to prioritize improving operational efficiency and the ability to generate sustainable cash flow as the basis for setting dividend policies. For investors, these findings show that an evaluation of *Operating Cash Flow* and profitability can provide more representative information than just focusing on *Free Cash Flow* in assessing dividend payment prospects. Thus, this research is expected to be a reference for academics, practitioners, investors, and policymakers in understanding the factors that affect dividend policy and become the basis for the development of further research in the field of corporate finance.

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