
Dividend Policy: The Impact of Financial Performance, Governance, and Managerial Ownership in Capital Markets

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Abstract:

This study explores the influence of financial performance, governance, and managerial ownership on dividend policy in companies listed on the Indonesia Stock Exchange. The main issue addressed is the ongoing controversy in the literature regarding how these factors affect Dividend Yield, given the inconsistencies in previous research. The study aims to examine the role of Retained Earnings, Return on Assets, the Board of Directors, Independent Commissioners, Managerial Ownership, and company size in shaping dividend policy. A quantitative approach is employed, using a regression method to analyse panel data from 400 companies over the period 2018–2022. The results indicate that Retained Earnings, Independent Commissioners, and Managerial Ownership have a significant impact on Dividend Yield, whereas Return on Assets, the Board of Directors, and Total Assets do not. The findings highlight the crucial role of strong governance in dividend policy, while Return on Assets, the Board of Directors, and firm size measured by Total Assets do not exhibit a significant effect. This study underscores the need for effective governance to minimize conflicts of interest and emphasizes the importance of considering local contexts when formulating dividend policies in Indonesia.

Keywords: Dividend Yield, Retained Earnings, Return on Assets, Independent Commissioner, Managerial Ownership, Total Assets

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1. Introduction

Dividend policy is very important because it determines the allocation of a company's profits between the distribution of dividends to shareholders and reinvestment in the business. This policy affects investor perception, stock price stability, and the company's financial image. Stable dividends can attract investors who want a steady income, increase market confidence, and maintain a company's reputation (Baker & Powell, 1999). The policy should also take into account the company's need to fund future expansion and growth, so a balance between profit sharing and reinvestment is essential for long-term business sustainability (Lintner, 1956). In addition, the dividend policy can reflect the company's financial condition and its future prospects, so it is a signal for investors to make investment decisions (Bhattacharya, 1979). Efforts to maintain a balance of various stakeholders are very challenging. *Agency Theory* describes that there can be a potential conflict of interest between managers as agents and shareholders as principals, especially in dividend decisions that can act as a control mechanism (Jensen & Meckling, 1976). One reason for this conflict arises,

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for example, when a manager who has operational control over the company may prefer to withhold profits rather than distribute them as dividends. Companies in Indonesia that have high Managerial Ownership have the potential to face a dilemma, where managers can be encouraged to maintain profits to strengthen their control over the company's resources and reduce the *dividend yield* expected by shareholders (Basil & Kilincarslan, 2016).

Dividend policies in companies listed on the Indonesia Stock Exchange are often influenced by various internal factors such as the company's financial performance. In addition, quality governance such as the role of the Board of Directors and Independent Commissioners also plays a significant role in reducing the risk of agency conflicts and encouraging a more balanced dividend policy. Although various studies have examined the influence of financial performance, governance, and managerial ownership on dividend policy, there are still significant gaps in the literature. Some studies have found that Retained Income and *Return on Assets* (ROA) have a significant influence on *dividend yield*, but other studies have shown conflicting results, raising controversy about how consistently these variables impact dividend policy (Fama & French, 2001).

Some studies report that high Managerial Ownership reduces agency conflicts and encourages larger dividends, while others show that Managerial Ownership actually encourages managers to withhold profits for long-term investments (Al-Najjar & Kilincarslan, 2016). In addition, the effectiveness of the Board of Directors and Independent Commissioners in overseeing dividend policies has not been fully proven, with mixed results in the context of Indonesian corporate structures. This knowledge gap underscores the importance of comprehensive research to evaluate how these factors together influence dividend policy in Indonesia, given the need for a mechanism capable of bridging the interests of managers and shareholders in a dynamic economic situation.

This research is urgent considering the importance of dividend policy in reflecting the company's financial stability and commitment to shareholders, especially in the midst of global economic fluctuations that have an impact on the Indonesian capital market. Recent trends show that investors are increasingly prioritizing companies with good governance and consistent dividend policies as indicators of corporate health. However, in practice, many companies in Indonesia face challenges in balancing reinvestment needs with shareholders' expectations for high dividends. Moreover, the issue of agency conflict and governance effectiveness has become increasingly relevant in the context of increasing investor supervision of managerial decisions. In the midst of these challenges, opportunities for companies to improve their governance structure and establish a fair dividend policy are strategic steps that can increase their attractiveness in the capital market. Therefore, this research is instrumental in providing deeper insights into how companies in Indonesia can respond to these trends and challenges through more targeted dividend policies.

2. Theoretical Background

Agency Theory

Agent theory introduced by Jensen & Meckling (1976) is an important foundation in research on the relationship between financial performance, corporate governance, managerial ownership, and *dividend yield* in the capital market. This theory focuses on agency conflicts that arise due to differences in interests between shareholders as principals and managers as agents. The manager in charge of managing the company, may have a tendency to make decisions that are in his favor, but not always in line with the interests of the shareholders. In the context of dividend policy, agent theory helps explain how dividend decisions can be influenced by various factors such as financial performance, corporate governance and managerial ownership, which ultimately affects *Dividend Yield*.

On the variable of managerial ownership, agency theory emphasizes that when managers also own significant amounts of shares, conflicts of interest between shareholders and managers tend to decrease. This is because managers, as shareholders, have financial incentives that are directly related to the company's performance, so they are more likely to behave in line with the interests of shareholders. However, in cases where Managerial Ownership is quite high, the manager may prefer to withhold profits in order to avoid high dividend payments. This is because high dividends will reduce the internal funds that they can use for investment or company development, which can ultimately reduce *the Dividend Yield* for shareholders (Basil & Kilincarslan, 2016; Crutchley & Hansen, 1989). This situation makes managers more likely to use profits as a source of internal funding, especially if they estimate that reinvesting can generate higher long-term value than dividend distributions (Jiraporn et al., 2011).

Meanwhile, corporate governance variables play an important role in reducing agency conflicts through a strict supervision mechanism. Effective governance, such as the existence of an independent Board of Directors and a strong audit committee, aims to ensure that managers act in accordance with the interests of shareholders, including in dividend policies (Shleifer & Vishny, 1997). In agency theory, good governance can suppress the opportunistic behaviour of managers who may want to withhold more profits for personal gain (Porta et al., 2000). As such, strong governance helps to ensure that dividend policies, which affect *Dividend Yield*, are taken with the interests of shareholders in mind (Bushman & Smith, 2001).

The financial performance of a company is also an important factor in agency theory, as good performance can indicate that the manager is able to manage the company efficiently and generate profits. Companies with good financial performance are more likely to have the capacity to pay higher dividends, thereby increasing *Dividend Yield* (DeAngelo et al., 2006). However, managers who are not regulated with good governance may be more likely to hold back profits despite positive company performance, if they see potential personal gains through reinvestment of profits (Jensen, 1986). Therefore, agent theory provides a comprehensive perspective in

understanding how financial performance, corporate governance, and Managerial Ownership can affect *Dividend Yield* through the reduction or increase of agency conflicts in the capital market (Mitton, 2004).

Relationship of Retained Income with *Dividend Yield*

Retained earnings and dividend yield have a significant relationship in the context of corporate finance, which is often associated with Agency Theory. If associated with Agency Theory, conflicts of interest between managers and shareholders may influence decisions regarding the distribution of profits in the form of dividends or withheld as retained earnings. In general, managers tend to hold back profits for reinvestment or business development, which is considered a way to increase the long-term value of the company. However, from a shareholder perspective, a higher Dividend Yield is considered a positive signal about the company's financial health and ability to generate profits (Jensen & Meckling, 1976). Decisions regarding Retained Revenue versus Dividend Yield often reflect a company's efforts to balance the internal need for funds and shareholders' expectations for profit sharing.

Research by Tran dan Rhoades (2023) shows that companies with higher *Dividend Yields* tend to have lower Retained Earnings due to a commitment to pay stable and sustainable dividends to shareholders (Tran & Rhoades, 2023). These findings support the idea that, in accordance with Agency Theory, companies use dividends as a mechanism to reduce conflict between managers and shareholders by reducing the cash that management can manage. Thus, the choice between Retained Profit and Dividend Yield is crucial in determining the optimal balance that can maximize shareholder value while considering the risk of agency problems.

Several previous studies have found that retained earnings have a significant effect on dividend policy Cadenovic, Deloof, & Paeleman (2024), Anang Rizky Alfahiz (2024), Ravi Thirumalaisamy & Farid Al Baloushi (2017), Mehmet Deren Caliskan (2015), Ratna Wijayanti Daniar Paramita (2020). However, the results found by victor et al (2014) which found that Retained Profit did not have a significant effect on the dividend policy. The dividend policy in the previous study was measured using various measurements such as dividend payout ratio, dividend stability, and dividend decision. In this study, the measure of the dividend policy used is Dividend Yield. Dividend yield is one of the commonly used metrics to measure dividend policy because it provides insight into the amount of dividends an investor receives relative to the stock market price (Gitman & Zutter, 2015). This measurement is important because it helps investors assess the rate of return on cash from their investments, as well as assess the company's commitment to distributing profits to shareholders.

Based on the theoretical foundation and also the results of previous research, the following hypothesis was developed:

H₁: Retained earnings have a significant effect on Dividend Yield.

The Relationship between Return on Asset and Dividend Yield

Based on *Agency Theory*, a high ROA indicates that management is able to manage assets well to increase profitability, which shareholders expect can lead to a larger

dividend distribution. *Agency Theory*, as explained by Jensen & Meckling (1976), states that there is a potential conflict of interest between management (agents) and shareholders (principals), where management may have an incentive to maintain profits rather than distribute them as dividends, especially if they intend to use those profits for investments that could increase their control over the company's resources. As such, dividends are often considered a control mechanism that shareholders use to minimize the risk of profit misuse by management, particularly in the context of high ROA.

However, *Agency Theory* also points out that despite high ROA, management may have a tendency to withhold profits as Retained Earnings, rather than distributing them as dividends, in order to increase assets under management and increase their influence in decision-making (Jensen, 1986a). This is in accordance with the findings (Fama & French, 2001), who argue that companies that perform well often prefer to withhold profits rather than share them, as this gives them greater flexibility in funding future projects. Therefore, while a high ROA should theoretically support a higher dividend policy, in practice, this decision is influenced by the extent to which management aligns with the interests of shareholders. This situation reflects the importance of a supervisory mechanism from shareholders to ensure that the dividend policy is in line with the company's performance and does not merely reflect managerial preferences.

Some previous studies such as those conducted by Saeful Nurfalah, Rumiasih, & Muhammad Nur Rizqi (2023), Annis Azizah Prasetyo Widodo (2020), Moch Fathony (2021) found that *Return on Assets* has a significant effect on dividend policy. However, there are also researchers who have found that retained earnings do not have a significant impact on dividend policy Sri Purwaningsih Angela Dirman & Nur Miftahul Falah (2019), Rahmat Agus Santoso & Anita Handayani (2019), Sari Dewi R Silaban (2024).

Referring to *Agency Theory* and several previous studies, the following hypothesis was developed:

H₂: return on assets has a significant effect on Dividend Yield

Relationship between Independent Commissioners and Dividend Yield

The existence of Independent Commissioners in the structure of the Board of Directors aims to strengthen the supervisory mechanism over management and reduce conflicts of interest between management and shareholders, in accordance with *the Agency Theory* put forward by Jensen dan Meckling (1976). *Agency Theory* explains that there is potential for management to act in their personal interests, which can be detrimental to shareholders. In this context, the Independent Commissioner has an important role in ensuring that the management does not misuse the company's profits for unproductive investments or avoid dividend payments (Jensen & Meckling, 1976). Several studies show that companies that have a higher proportion of Independent Commissioners tend to have a larger dividend policy. This is because Independent Commissioners are considered more neutral and tend to support dividend policies that aim to safeguard the interests of shareholders.

Independent Commissioners also help ensure that the company's profits are allocated wisely, including in the form of dividends. According to research by Al-Najjar & Kilincarslan (2016) The presence of Independent Commissioners on the supervisory board is positively related to dividend policy, as they are more likely to oversee management and pressure them to distribute profits to shareholders rather than withholding profits for unclear interests (Basil & Kilincarslan, 2016). In other words, Independent Commissioners can serve as an intermediary between management and shareholders, encouraging dividend policies that are more consistent with the company's financial performance. In addition, with stricter supervision, management has become more cautious in managing profits, thus ensuring that shareholders get their fair share of the company's profits. Through their roles, Independent Commissioners can mitigate *agency* risk, i.e. the potential for management not to act in accordance with the interests of shareholders, by encouraging higher dividend distributions as a form of return on their investments.

Several previous studies have shown that Independent Commissioners have a significant influence on dividend policy, as found by Ferry Bravo (2023) serta Timothy Coville & Gary Kleinman (2015). However, there are also researchers such as Ernie Hendrawaty (2021), Angela Dirman (2019), Harsono Yoewono (2023), dan Qinthara D. Kusumaningtyas (2022) which found that Independent Commissioners do have a significant impact on dividend policy.

Based on *Agency Theory* and several previous studies, the following hypothesis was developed:

H₃: Independent Commissioners have a significant effect on Dividend Yield

Relationship of the Board of Directors with *Dividend Yield*

In the context of *Agency Theory*, the Board of Directors functions as a supervisor who ensures that management acts in accordance with the interests of shareholders, including in terms of dividend policy. *Agency Theory*, as explained by Jensen dan Meckling (1976), Identify potential conflicts between shareholders (principals) and management (agents), where management may tend to withhold profits to invest in projects that benefit their positions, but not necessarily benefit shareholders (Jensen & Meckling, 1976). A strong Board of Directors, particularly one made up of independent members, can mitigate this potential conflict by encouraging management to distribute profits in the form of dividends. Study conducted by Khan et al. (2020) shows that companies with more independent and effective Board of Directors tend to have higher dividend policies, as the board acts as a strict watchdog and ensures that management does not withhold excessive profits (Khan, Hossain, & Hasan, 2017).

Furthermore, the presence of a diverse and competent Board of Directors can also increase shareholders' confidence that the company will distribute dividends consistently. *Agency Theory* states that high dividend distributions can reduce *free cash flow*, thereby reducing the potential for management to use funds for unproductive personal interests (Jensen, 1986). The Board of Directors, through their supervisory role, can encourage dividend policy as a control mechanism to reduce such conflicts of interest. According to a study by (Basil & Kilincarslan, 2016), The

Board of Directors, which plays an active role in management supervision, can support dividend distribution as a step to overcome *agency* problems and improve the welfare of shareholders (Basil & Kilincarslan, 2016). Thus, the Board of Directors not only functions as a balancer of management power, but also as a guardian of the interests of shareholders in terms of dividend policy.

Previous research has shown mixed results, where some researchers, such as Muhammad Sadiq Shahid et al. (2016), Amitava Roy (2015), and Marko Milašinović et al. (2023), found that the Board of Directors has a significant influence on dividend policy. However, there are also studies that produce the opposite findings, as reported by Janice Ardelia & Hendro Lukman (2023) serta L.R.D. Fernando et al. (2021). Based on *Agency Theory* and several previous studies, the following hypothesis was developed:

H4: The Board of Directors has a significant effect on Dividend Yield

Relationship between Managerial Ownership and Dividend Yield

Managerial ownership has a significant influence on a company's dividend policy, especially in the context of *Agency Theory*, which discusses potential conflicts between shareholders and management. *Agency Theory*, as outlined by Jensen and Meckling (1976), states that when management has shareholding in a company, the potential for conflicts of interest can be reduced as their interests are increasingly aligned with shareholders. In this situation, managers who own shares of the company are more likely to prioritize a moderate dividend policy or even withhold dividends for the sake of long-term growth, as they will also benefit from an increase in the overall value of the company. Study by Al-Najjar and Kilincarslan (2016) shows that in companies with high Managerial Ownership, managers tend to choose to hold profits as a form of reinvestment that is expected to increase the company's value in the future, rather than distributing them as dividends.

However, very high Managerial Ownership can also create *entrenchment* risk, where managers use their control to withhold profits for the sake of projects that increase their personal control, but may not be in line with the interests of the wider shareholders. This can reduce dividends that external shareholders should receive, as well as create new, more complex conflicts of interest (Jensen, 1986). In addition, research by Firth et al. (2016) suggests that excessively high Managerial Ownership can lead to a reduction in dividend distributions in an effort to maintain financial control, as managers are more likely to keep profits to strengthen their position within the company. Thus, although Managerial Ownership can reduce conflicts of interest through alignment of interests, under certain conditions, it can actually hinder the distribution of dividends as part of a managerial control strategy.

Previous research has shown that Managerial Ownership has an influence on dividend policy, as revealed by Luh Nik Oktarini & Putu Atim Purwaningrat (2019), Ihtesham Khan, Shah Raza Khan & Adnan Khattak (2020), and Aydin & Cavdar (2015). However, there are also studies that produce different findings, where Managerial Ownership is stated not to contribute to dividend policy, as reported by Zainuddin &

Manahonas (2020), Nurlaila (2021), and Rahmawati, Moeljadi, Djumahir & Sumiati (2018).

Based on the reference of *Agency Theory* and several previous studies, the following hypothesis was developed:

H5: Managerial Ownership has a Significant Effect on Dividend Yield

Relationship of Total Assets with Dividend Yield

The size of a company measured through Total Assets has a significant influence on dividend policy in the context of *Agency Theory*. According to this theory, larger companies tend to have higher *Free Cash Flow*, which has the potential to increase the risk of conflict between management and shareholders, especially when it comes to the use of corporate funds Jensen (1986). Companies with large Total Assets have more resources, which allows management to allocate funds into new projects or investments that do not necessarily benefit shareholders. Therefore, shareholders often push higher dividend policies on large companies to reduce *Free Cash Flow*, thereby minimizing the risk of abuse by management. Study by Jiraporn & Ning (2006) shows that companies with larger sizes tend to have higher dividend ratios as a form of control to prevent management from holding excessive funds (Jiraporn & Ning, 2006).

In addition, large companies that have significant Total Assets tend to be more supervised by shareholders and the market, which reduces management's flexibility in using funds for personal gain. *Agency Theory* shows that larger companies face greater pressure to distribute dividends to increase transparency and reduce uncertainty regarding the use of profits (Basil & Kilincarslan, 2016). Furthermore, research by Mollah et al. (2012) shows that company size is positively correlated with dividend policy because large companies tend to have easier access to capital markets and can reduce reliance on Retained Income (Mollah, Keasey, & Short, 2012). In this context, the high dividend policy in large companies serves as a control mechanism to reduce agency risk by distributing part of the profits to shareholders, thereby reducing the potential conflict of interest between management and shareholders.

Previous research has found that company size has a significant negative influence on dividend policy, as shown by Akhmadi Akhmadi (2023) dan Shadrina Hazmi et al. (2023). However, a number of other studies have shown that company size has no effect on dividend policy, as found in a study by Muhammad Sulhan & Tri Yeni Herliana (2019), Agung Sahbana et al. (2022), Zhang Zhixiang (2021), and Siti Sarpingah (2023).

Based on *Agency Theory* and several previous studies, the following hypothesis was developed:

H6: Total Assets have a significant effect on Dividend Yield

3. Methodology

This study uses a quantitative approach with descriptive and causality methods. This approach was chosen to identify and analyze the influencers of Retained Earnings, *Return on Assets*, Managerial Ownership, Independent Commissioners, Board of Directors, Total Assets to *Dividend Yield*. The data used is panel data from companies listed on the Indonesian capital market during the 2018-2022 period. The population in this study is all companies listed on the Indonesian capital market in the period 2018-2022, excluding financial companies (banks and insurance) because they have different financial structures. The total sample in this study is 400 companies with a total observation of 739 unbalanced panel data.

The data used in this study is secondary data obtained from the financial statements and annual reports of companies listed on the Indonesian capital market in the 2018-2022 period.

$$DY_{it} = \beta_0 + \beta_1 RE_{it} + \beta_2 ROA_{it} + \beta_3 MO_{it} + \beta_4 IC_{it} + \beta_5 BoD_{it} + \beta_6 TA_{it} + \epsilon_{it}$$

Keterangan:

DY_{it}: *Company Dividend Yield* in year t

β₀ \beta: Constant

β₁, β₂, β₃, β₄, β₅, β₆ \beta: Regression coefficients of each independent variable

RE_{it}: Retained earnings of the company in the year t

ROA_{it}: *Return on Assets* of the company in year t

MO_{it}: Managerial Ownership of the company in the year t

IC_{it}: Independent Commissioner of the company in the year t

BoD_{it}: Board of Directors of the company in the year t

TA_{it}: Total Company Assets in 2022

ε_{it}: Error term

The data analysis of this study uses panel data regression with a *fixed effects* approach with a significance level of 5%. To answer the hypothesis in this study, the significance of the statistical test results will be tested based on *the p-value* of each independent variable in the *fixed effects model*. The hypothesis testing criterion is that if *the p-value* < 0.05 (or 5%), then the null *hypothesis* is rejected, which means that the independent variable has a significant influence on *the Dividend Yield* at a confidence level of 95%. In the context of this study, this shows that these variables statistically significantly affect *Dividend Yield*. If *the p-value* ≥ 0.05, then the null hypothesis cannot be rejected, which means that the independent variable has no significant influence on *the Dividend Yield* at a 95% confidence level. This means that the influence of these variables on *Dividend Yield* is not statistically significant, so it does not support the hypothesis propose.

4. Empirical Findings/Result

Descriptive Data

Data deskriptif pada tabel 1.1 menunjukkan ringkasan statistik dari lima variabel penelitian yakni, *Dividend Yield*, Laba Ditahan, *Return on Assets* (ROA), Komisaris Independen, Dewan Direksi, Kepemilikan Manajerial dan Total Aset.

Table 1. Descriptive data of the research variables (the value of Retained Profit and Total Assets are displayed in millions of rupiah)

Variabel Penelitian	N	Mean	SD	Min	Max
<i>Dividend Yield</i>	2,475	0.27	1.55	0	51.13
Retained Earnings	2,674	1,345,003	6,344,504	-20,000,000	38,500,000
<i>Return on Assets (ROA)</i>	2,640	1.55	13.08	-62.79	46.29
Independent Commissioner	2,665	1.41	0.88	0	4
Board of Directors	2,666	4.4	1.94	2	11
Managerial Ownership	787	0.21	0.26	0	1
Total Assets	2,683	8,467,387	19,000,000	17,542.85	115,000,000

Source: Processed data of the 2024 author using STATA version 18.5

Here is an interpretation of each variable based on the data displayed. The average *Dividend Yield* in the analyzed sample of companies is 0.27%, with a standard deviation of 1.55. This shows that there is considerable variation among these companies in terms of dividend distribution to shareholders. The *Dividend Yield* range is very wide, ranging from 0 to 51.13%, which indicates that some companies do not distribute dividends at all, while others provide *very high Dividend Yields*.

The average Retained Earnings of the surveyed companies reached 1,345,003, but with a standard deviation of 6,344,504, which indicates a very significant variation. A negative Minimum Retained Earnings, which is -20,000,000, indicates that there are companies that are accumulating large losses. On the other hand, the highest Retained Profit stands at 38,500,000, indicating that some companies are able to maintain large amounts of profit over time. The value of retained earnings in this descriptive data is presented in millions of rupiah.

The average Return on Assets (ROA) stands at 1.55%, which indicates a relatively low rate of return on assets. However, with a standard deviation of 13.08, this data reflects the high variation among companies in terms of the efficiency of using assets to generate profits. The existence of a minimum value of -62.79 indicates that some companies have suffered large losses relative to their assets, while the maximum value reaches 46.29, which reflects excellent performance for some companies.

The average number of Independent Commissioners on the board among the companies studied was 1.41, with a standard deviation of 0.88, which indicates that there is a difference in the number of Independent Commissioners among the companies. Some companies do not have Independent Commissioners at all, while others have up to 4 Independent Commissioners, reflecting variations in the company's governance structure.

The average number of members of the Board of Directors is 4.4 people, with a standard deviation of 1.94. This indicates that the size of the Board of Directors varies considerably among companies, with a minimum number of 2 and a maximum of 11 members. These variations can reflect differences in the size and complexity of

companies as well as the governance approaches taken by each company in this sample of this study.

There were 787 observations for managerial ownership, with an average Managerial Ownership of 0.21, indicating that shareholding by management is generally low. A standard deviation of 0.26 indicates a variation in the level of managerial shareholding, with a range from 0 to 1, indicating that some companies have management involved in shareholding while others do not.

In the Total Assets variable, there were 2,683 observations with an average Total Assets of 8,467,387. A standard deviation of 19,000,000 indicates that the company's assets vary significantly. A minimum value of 17,542.85 indicates the presence of a small company with limited assets, while a maximum value of 115,000,000 indicates the presence of a large company with very high assets. The Total Value of these Assets is presented in millions of rupiah.

Fixed Effect Regression Results

The number of observations of research data is as many as 739 observations with a total of 400 companies that are the object of research. The following are the results of statistically processed data that illustrate the effect of Retained Earnings, *Return on Assets* (ROA), Independent Commissioners, Board of Directors, Managerial Ownership and Total Assets on *Dividend Yield*.

Table 2. The results of the fixed effect regression are the effects of Retained Earnings, *Return on Assets* (ROA), Independent Commissioners, Board of Directors, Managerial Ownership, and Total Assets on *Dividend Yield*.

<i>Dividend Yield</i>	B	SE	t	p-value
		2.41E-		
Retained Earnings	5.71E-08	08	2.37	0.018
<i>Return on Assets</i> (ROA)	0.003	0.004	0.77	0.441
Independent				
Commissioner	0.136	0.057	2.37	0.018
Board of Directors	-0.006	0.024	-0.26	0.794
Managerial Ownership	-0.778	0.391	-1.99	0.047
		3.81E-		
Total Assets	3.68E-09	09	0.97	0.335
Constant	0.076	0.136	0.56	0.574

Sumber: Data olahan penulis 2024 menggunakan STATA versi 18.5

In this study, prob value > F of 0.000 indicates that the model is overall statistically significant at very high confidence levels (generally below 0.05). This means that at least one independent variable in this model has a significant relationship with the dependent variable (*Dividend Yield*). These results show that the regression model as a whole is feasible to use in analyzing the influence of independent variables on dependent variables, as the likelihood of these results occurring by chance is very small. The model's ability to explain variations in *Dividend Yield* is quite limited as shown by the *R-squared* value of 0.074. This means that while the independent

variables in the model have a significant influence, the model may require additional variables or other factors to improve its ability to explain *Dividend Yield*.

Relationship of Retained Income with *Dividend Yield*

The *p-value* for the Retained Revenue variable in table 1.2 is 0.018 where this value is smaller than the standard error of 0.05. In other words, H1 is accepted, which means that there is sufficient evidence to say that *retained earnings* have a significant effect on *Dividend Yield*.

According to *Agency Theory*, there is a potential conflict of interest between management (agents) and shareholders (principals), especially in terms of the use of company profits (Jensen & Meckling, 1976). Management may prefer to withhold profits (Retained Earnings) rather than distributing them as dividends in order to have more control over the company's assets. However, a significant increase in Retained Income can actually strengthen shareholder confidence as it demonstrates the company's stability and capacity to distribute dividends in the future (Easterbrook, 1984).

This research is in line with the results obtained in previous studies by Thirumalaisamy & Baloushi (2017), Cadenovic et al (2024), Mehmet et al (2015), Anang Rizky Alfahiz (2024), and Ratna Wijayanti Daniar Paramita (2020). However, these findings are also different from the research conducted by Fernanda Victor et al (2014), which reveals that Retained Earnings does not play a role in determining dividend policy.

The Relationship between Return on Asset and *Dividend Yield*

Based on the regression results in table 1.2, the *p-value* for the *Return on Assets* (ROA) variable to the *Dividend Yield* is 0.441. This value is much greater than the general significance level of 5%. This shows that ROA does not have a significant influence on *Dividend Yield* at that level of confidence. Thus H2 was rejected, which means that *return on assets* does not have a significant effect on *Dividend Yield*.

Based on *Agency Theory*, one of the main principles is the potential for conflict of interest between management (agents) and shareholders (principals). In the context of the effect of *Return on Assets* (ROA) on *Dividend Yield*, regression results that show no significant influence can be interpreted as an indication that management decisions in the company's profit allocation are not solely based on operational efficiency measured through ROA. Management may focus more on other aspects of profit allocation, such as reinvesting into the business, which they perceive to be more profitable for the company in the long run, or perhaps to increase their control over the company's resources (Jensen & Meckling, 1976).

Agency Theory also suggests that when management has greater freedom in the use of a company's assets, they may be more likely to withhold profits rather than distribute them as dividends (Jensen, 1986) This is in line with the regression results which show that ROA does not have a significant effect on *dividend yield*, because ROA as an efficiency indicator is not strong enough in influencing dividend decisions Sri

Purwaningsih, Angela Dirman & Nur Miftahul Falah (2019), Rahmat Agus Santoso & Anita Handayani (2019), Sari Dewi R Silaban et al. (2024) although other studies support that *Return on Assets* has a significant effect on *Saeful Nurfalah's* Dividend Yield, Rumiasih, & Muhammad Nur Rizqi (2023), Annis et al (2020), Moch Fathony (2021). In other words, a company's profitability as measured through ROA may not necessarily translate into a high dividend policy, especially when management has a preference to keep profits in the form of retained earnings to enlarge the company's assets or reduce dependence on external funding.

In addition, several studies show that companies with low dividend policies tend to have excess internal funds that can be used to finance investment projects without having to involve shareholders through dividend distribution (Fama & French, 2001). This study supports the argument that management tends to use the profits earned for other purposes that are considered more productive, which means that ROA does not directly correlate with *Dividend Yield*.

Relationship between Independent Commissioners and *Dividend Yield*

Based on the results of the analysis, the Independent Commissioner variable showed a *p-value* of 0.018. Since this value is smaller than the commonly used significance level, which is 0.05, it can be concluded that the influence of Independent Commissioners on *Dividend Yield* is statistically significant. In other words, H3 which states that Independent Commissioners have a significant influence on *Dividend Yield* is accepted. This result indicates that the existence of Independent Commissioners in the company plays an important role in influencing dividend policy, thereby supporting the achievement of *a more optimal* Dividend Yield level.

The results of this study, which shows the significant influence of Independent Commissioners on *Dividend Yield*, can be supported by arguments based on *Agency Theory* put forward by (Jensen & Meckling, 1976). *Agency Theory* highlights the conflict of interest between managers (agents) and shareholders (principals) that can occur when managers do not always act in accordance with the interests of shareholders. In this context, the Independent Commissioner plays an important role as a supervisory mechanism that can mitigate such potential conflicts by overseeing managerial actions and ensuring that the company's policies, including the dividend policy, are aligned with the interests of shareholders.

The existence of an effective Independent Commissioner can strengthen supervision and reduce opportunistic actions from management. This ultimately has a positive impact on *Dividend Yield*, as Independent Commissioners can ensure that the company delivers optimal dividends, in line with shareholders' expectations. In line with *Agency Theory*, these results support the view that Independent Commissioners can minimize conflicts of interest and ensure that the dividend policy implemented is more consistent with the interests of shareholders, thereby driving better results in the form of *Dividend Yield*.

The results of this study are in line with the findings of several previous studies, such as Al-Najjar & Kilincarslan (2016), Ferry Bravo et al. (2023), and Coville dan

Kleinman (2015), which also shows that there is a significant influence of the Independent Commissioner on the dividend policy. These studies support the view that the existence of Independent Commissioners can increase oversight of management, thereby influencing decisions related to dividends. However, a number of other studies showed different results. For example, research by Hendrawaty et al. (2021), Dirman et al. (2019), Yoewono (2023), and Kusumaningtyas (2022) found no evidence that the Independent Commissioner had a significant influence on managerial policy. The studies highlight that the role of an Independent Commissioner may not always be strongly correlated with managerial decisions, depending on the context and governance structure of each company.

Relationship of the Board of Directors with *Dividend Yield*

Based on the results of this study, the p-value for the variable of the Board of Directors is 0.794. With a p-value of 0.794, which is much greater than 0.05, it can be concluded that the influence of the Board of Directors on *Dividend Yield* is not statistically significant. Therefore, H4 which stated that the Board of Directors had a significant influence on *the Dividend Yield* was rejected. These results show that the existence or characteristics of the Board of Directors do not directly affect the company's dividend policy, at least in the context of this study. The Board of Directors may not be directly related to dividend-related decision-making, or other factors that are more dominant in determining dividend policy.

According to *the Agency Theory* put forward by Jensen dan Meckling (1976), The Board of Directors acts as a representative of shareholders in overseeing management to ensure that the interests of shareholders are met. However, in some cases, the Board of Directors may not directly influence dividend policy because they are more focused on overseeing the company's overall strategy and performance than operational decisions such as dividend distribution.

There are several reasons why the Board of Directors may not have a significant influence on *Dividend Yield* in the context of *Agency Theory*. First, the Board of Directors often has a broader role in overseeing management and setting strategic policies, rather than just in determining dividend distribution. Dividend policies are often decisions made by management based on short-term financial and cash flow considerations, which may not be a major concern for the Board of Directors. In addition, in complex governance structures, directors are often at a greater distance from day-to-day decisions, including dividend distributions, which are more handled by management. According to *Agency Theory*, the role of the Board of Directors is to reduce conflicts of interest between management and shareholders, but they may be more focused on broader oversight aspects such as risk, long-term strategy, and compliance, rather than direct oversight of dividend policies. This may explain why this study found that the Board of Directors did not have a significant effect on *Dividend Yield*.

The findings of this study are consistent with previous studies conducted by Ardelia and Lukman (2023) and Fernando et al. (2021), which also found that the Board of Directors had no significant influence on *the Dividend Yield*. However, these results

are different from the research conducted by Shahid et al. (2016), Roy (2015), and Milašinović et al. (2023), which shows a significant influence between the role of the Board of Directors and dividend policy. These studies indicate that different corporate contexts and characteristics can affect the role of the Board of Directors in dividend decision-making.

Relationship between Managerial Ownership and *Dividend Yield*

Based on the results of the analysis, the *p-value* for the Managerial Ownership variable is 0.047. In this case, a *p-value* of 0.047 is below that threshold, indicating that the influence of Managerial Ownership on *Dividend Yield* is statistically significant. Therefore, H5 stating that Managerial Ownership has a significant influence on *Dividend Yield* is acceptable. These findings indicate that managerial ownership, or stock ownership by company management, does play a role in influencing dividend policy. This means that when management has larger shareholdings, they may be more motivated to increase or maintain dividends, which can have an impact on increasing *Dividend Yield*.

According to *Agency Theory* introduced by Jensen and Meckling (1976), Conflicts of interest between managers (agents) and shareholders (principals) often occur because managers may not always act in accordance with the interests of shareholders. However, when managers own shares in the company (managerial ownership), their incentive to act in accordance with the interests of shareholders increases, as they directly benefit from decisions that benefit shareholders. Significant Managerial Ownership can reduce potential conflicts of interest by aligning the interests of management and shareholders. When managers have substantial shareholdings, they are more likely to push for policies that will increase shareholder value, including dividend policies. In this case, higher dividends tend to increase the *Dividend Yield*, which benefits all shareholders, including the management itself. Thus, *Agency Theory* supports the finding that Managerial Ownership has a significant influence on *Dividend Yield*. Managers who have an ownership interest in the company will be more motivated to ensure that the dividend policy is structured in such a way that it results in optimal benefits for themselves and other shareholders. This reduces the potential for conflict between managers and shareholders, as their interests become more aligned in the context of dividend returns.

The results of this study are in line with the findings of several previous studies, as reported by Oktarini and Purwaningrat (2019), Khan et al. (2020), and Aydin & Cavdar (2015), which also found that Managerial Ownership has a significant effect on dividend policy. These studies support the view that stock ownership by management can affect the dividend policy set by the company. However, there are also a number of studies that report different results, where Managerial Ownership has no significant influence on dividend policy. An example of these findings can be found in a study by Zainuddin & Manahonas (2020), Nurlaila (2021), and Rahmawati et al. (2018), which states that the ownership of shares by management does not directly correlate with dividend decisions. These studies indicate that the influence of Managerial Ownership on dividend policy may depend on other contextual factors within the company.

Relationship of Total Assets with Dividend Yield

Based on the results of this study, the *p-value* for the Total Assets variable as a company size is 0.335. In this case, the *p-value* for Total Assets is 0.335, which is well above the threshold of 0.05. This shows that the influence of Total Assets on *Dividend Yield* is not statistically significant. Thus, H6 stating that the size of the company (Total Assets) has a significant effect on the *Dividend Yield* cannot be accepted or rejected. This means that in the context of this study, the size of a company measured through Total Assets does not have a significant impact on dividend policy that affects *Dividend Yield*. This may indicate that dividend policy is not directly affected by the size of the company, but by other more specific factors.

Based on the *Agency Theory* of Jensen and Meckling (1976), Conflicts of interest between managers and shareholders can occur when managers have the discretion to make decisions that are not always in line with the interests of shareholders. The size of a company, measured through Total Assets, is not directly related to *Dividend Yield* according to this theory. Although large companies have more resources, this does not necessarily encourage management to increase dividends. In contrast, in large companies, management may focus more on reinvestments and long-term projects, which are considered more beneficial to the company's growth than dividend distribution.

In addition, stricter oversight in large companies could encourage management to focus on operational efficiency and asset development, rather than directly distributing profits to shareholders. Therefore, while the size of large companies has the potential to provide room for dividend distribution, managerial policy priorities that tend to focus on reinvestment can reduce the direct impact of company size on *dividend yield*. The results of this study show that the size of the company does not have a significant effect on the dividend policy, which is in line with the *Agency Theory*, where other factors other than the size of the company are more influential in determining the dividend policy.

A number of other studies support the results of this study, which shows that company size has no significant influence on dividend policy. Similar findings were also reported by Sulhan & Herliana (2019), Sahbana et al. (2022), Zhixiang (2021), and Sarpingah (2023), which shows that the size of the company does not directly affect dividend-related decisions. However, there are also studies that report different results. For example, a study by Akhmadi (2023) and Hazmi et al. (2023) found that company size had a significant negative effect on dividend policy, suggesting that large companies may be more likely to withhold dividends for long-term investments or projects. These results reflect variations in the influence of company size on dividend policy, depending on the context and other managerial factors

5. Conclusions

This study aims to analyze the influence of financial performance factors, corporate governance, and managerial ownership on dividend policies in companies listed on the Indonesia Stock Exchange. Based on *Agency Theory*, this study explores how Retained Earnings, *Return on Assets*, Board of Directors, Independent Commissioners, and Managerial Ownership affect *Dividend Yield*. Key findings suggest that Retained Earnings and the existence of Independent Commissioners have a significant influence on *Dividend Yield*, supporting the hypothesis that governance mechanisms can reduce agency conflicts and improve shareholder welfare through dividend policies.

However, this study also shows that variables such as *Return on Assets*, Board of Directors, and Total Assets do not have a significant effect on *Dividend Yield*. These results suggest that a company's financial performance does not always directly determine dividend policy, in line with the finding that management may be more focused on reinvestment strategies or control over assets. This conclusion emphasizes the importance of the role of Independent Commissioners in managerial supervision, as well as the relevance of dividend policies that are tailored to the context of governance structures in Indonesia. Therefore, the company is advised to strengthen governance in an effort to increase the transparency and accountability of the dividend policy.

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