
**FACTORS DETERMINING DIVIDEND PAYMENT POLICY: FURTHER
EVIDENCE FROM FINANCIAL SECTOR COMPANIES ON THE
INDONESIA STOCK EXCHANGE****Ahsanal Huda¹**

Universitas Islam Negeri Raden Intan, Lampung, Indonesia

huda1682@gmail.com**Muhammad Iqbal²**

Universitas Islam Negeri Raden Intan, Lampung, Indonesia

iqbalfebi@radenintan.ac.id**Wan Ruslan Abdul Ghani³**

Dinas Perhubungan Kabupaten Lampung Timur, Indonesia

wruslanabdulghani@gmail.com

Abstract

Dividend policy in the banking sector plays a strategic role because it is related to financial stability, investor confidence, capital adequacy, and the sustainability of the intermediation function. This study examines profitability, leverage, free cash flow, and firm size as determinants of dividend policy in banks listed on the Indonesia Stock Exchange. This study uses an associative quantitative approach with secondary panel data obtained from the Indonesia Stock Exchange for the period 2006 to 2025, covering six banks and 120 observations. The analysis was conducted using EViews 12 through panel data regression with the selected Random Effect Model. The results show that profitability and firm size have a positive and significant effect on dividend policy, while leverage and free cash flow have no significant effect. This finding confirms that a bank's ability to generate profits and total asset strength are the main factors in driving dividend payments, while funding structure and cash availability are not yet dominant determinants because bank dividend policy is influenced by prudential regulations, capital adequacy, liquidity risk, and the need to maintain financial stability. This study's theoretical contribution strengthens Signaling Theory and Resource-Based View Theory through evidence that profitability and firm size act as financial signals and strategic internal resources in supporting dividend policy. The empirical contribution of this study extends the dividend policy literature in the financial sector by confirming that the determinants of bank dividends are different from those in the non-financial sector.

Keywords: Profitability, Leverage, Free Cash Flow, Company Size, and Dividend Policy

INTRODUCTION

The dividend policy phenomenon in financial sector companies listed on the Indonesia Stock Exchange is a strategic result of profitability, leverage, free cash flow, and company size, each operating in a mutually reinforcing logic. High profitability does increase dividend potential, but it is often sacrificed for capital strengthening and expansion. High leverage can encourage the expansion of productive assets, but it suppresses payouts as priorities shift to repayment of liabilities and financial stability (Uyar et al., 2026). Free cash flow represents real available funds, but in the financial sector, it is often tied to credit disbursements and reserve requirements, reducing payment flexibility. Large companies strengthen their reputation, access to funding, and stability, but the propensity to pay dividends weakens when management's preference shifts to accumulating reserves rather than meeting shareholder expectations. The dynamics of dividend policy in this sector emphasize that the conflict between profitability and capital conservation, between asset expansion and liability burden, between cash availability and rigidity of liquidity regulations, and between corporate scale and preference for retaining earnings results in a non-linear pattern (Chen & Xu, 2026).

The issue of dividend policy in financial sector companies listed on the Indonesia Stock Exchange is relevant to study because dividend distribution decisions are not only related to the distribution of profits to shareholders but also reflect the company's ability to maintain financial performance, funding stability, liquidity, and business sustainability. Profitability is a crucial aspect because companies that generate high profits generally have a greater capacity to pay dividends, although this decision is still influenced by the need for expansion and capital strengthening (W. Wu et al., 2026). Leverage is a strategic issue because high debt usage can increase financial burdens and limit a company's ability to distribute profits. Free cash flow also plays a crucial role because it indicates the actual availability of funds after operational and investment needs are met, thus influencing a company's flexibility in determining dividend payments. Company size is also a concern because larger companies generally have broader access to funding, a stronger reputation, and greater business stability in maintaining dividend policies. Studying this issue is important to explain how profitability, leverage, free cash flow, and company size shape dividend decisions in the financial sector, which is characterized by regulatory and competitive characteristics and plays a strategic role in the Indonesian capital market (Matsuura, 2026).

The urgency of research on dividend policy in financial sector companies listed on the Indonesia Stock Exchange from 2006 to 2025 is based on the importance of understanding the consistency of profit distribution decisions over a time span encompassing various economic dynamics, regulatory changes, the global financial crisis, the pandemic, economic recovery, and the transformation of the financial industry. This period demonstrates that dividend policy cannot be viewed as a routine decision, but rather as a strategic one influenced by the company's ability to generate profits, the level of funding risk, the availability of internal cash, and the company's capacity to maintain business stability (Kakouris et al., 2025). This research is urgent because the financial sector plays a vital role in maintaining investor confidence and capital market stability. Changes in profitability, leverage, free cash flow, and firm size can directly impact dividend payment decisions. Furthermore, previous research has shown mixed results, necessitating more comprehensive empirical testing with a longer

observation period to obtain stronger and more relevant evidence. This research is expected to provide academic contributions to the development of corporate finance literature and practical contributions for investors, management, and regulators in assessing the fundamental factors that determine dividend policy in financial sector companies in Indonesia (Wang et al., 2025).

The relationship between profitability, leverage, free cash flow, company size, and dividend policy can be understood as a link between financial indicators that reflect a company's capacity to maintain performance, stability, and commitment to shareholders. Improved profitability demonstrates a company's ability to generate sustainable profits, thus providing management with greater latitude in determining dividend distributions. Leverage, when managed proportionally, can support the expansion of business activities and the increase of productive assets, ultimately strengthening the company's ability to generate revenue and meet dividend policy (Kumar & Damle, 2025). Free cash flow indicates the availability of internal funds after operational and investment needs are met. Therefore, the more adequate a company's free cash flow, the greater its financial flexibility in distributing dividends. Company size is also related to dividend policy, as larger companies generally have stronger market reputations, access to funding, revenue stability, and financial capacity. This relationship emphasizes that dividend policy is determined not only by profits but also by the effectiveness of funding management, cash adequacy, and the strength of the business scale in supporting the company's sustainability and fulfilling shareholder interests (Chintrakarn et al., 2025).

This research gap lies in the limited number of empirical studies that comprehensively analyze the influence of profitability, leverage, free cash flow, and company size on dividend policy, particularly in financial sector companies listed on the Indonesia Stock Exchange. Most previous studies tend to examine variables partially, using qualitative approaches or literature studies, and have not comprehensively explained how the combination of financial performance indicators, funding structure, internal cash availability, and company scale play a role in determining dividend distribution decisions (Deangelo et al., 2025). Furthermore, the observation period in previous studies has generally been relatively limited, thus failing to capture long-term dynamics from 2006 to 2025, including changes in economic conditions, regulations, the financial crisis, the pandemic, and economic recovery. Previous research has also focused largely on the manufacturing sector, while the financial sector has distinct characteristics, being heavily influenced by regulations, capital adequacy, liquidity, and investor confidence. This research is crucial to address this gap in the literature by providing broader, more specific, and more relevant empirical evidence regarding the determinants of dividend policy in financial sector companies in Indonesia (Cheng et al., 2026).

The novelty of this research lies in the integrated testing of the combined effects of profitability, leverage, free cash flow, and firm size on dividend policy in financial sector companies listed on the Indonesia Stock Exchange. Unlike previous studies that tended to examine variables partially, use relatively limited observation periods, or focus more on the manufacturing sector, this study offers a more comprehensive approach by positioning dividend policy as the result of the interaction of various fundamental company indicators (Stellian & Danna-buitrago, 2026). The next novelty lies in the use of a quantitative approach

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based on panel data with the EViews 12 analysis tool, thus capturing data variations across companies and over time more robustly, systematically, and reliably. Furthermore, this study uses a long observation period, from 2006 to 2025, thus representing the dynamics of dividend policy under various economic conditions, regulations, crises, pandemics, and economic recoveries. The focus on financial sector companies is also an important contribution because this sector has special characteristics related to regulation, capital adequacy, liquidity, financial risk, and investor confidence (Huu et al., 2026).

This study aims to examine the relationship between profitability, leverage, free cash flow, and company size and dividend policy in financial sector companies listed on the Indonesia Stock Exchange. Theoretically, this study contributes to the development of Signaling Theory and Resource-Based View (RBV) theory in explaining the dividend policy of financial sector companies listed on the Indonesia Stock Exchange. From a Signaling Theory perspective, this study confirms that profitability, leverage, free cash flow, and company size can be fundamental information that reflects the company's financial condition, business prospects, and ability to distribute dividends to shareholders. Good profitability performance, proportional leverage management, the availability of free cash flow, and large company scale can be understood as positive signals for investors in assessing the company's stability and credibility. From an RBV perspective, this study contributes that a company's ability to generate profits, manage funding structures, provide internal cash, and maintain company size are valuable internal resources and capabilities in supporting the sustainability of dividend policy. Therefore, this study expands the theoretical understanding that dividend policy is not only influenced by profit distribution decisions but also reflects the quality of financial signals and the strength of the company's internal resources in creating value for shareholders.

Practically, this study contributes to Islamic financial management and the regional economy by providing an empirical basis for managers, investors, regulators, and stakeholders in assessing the fundamental factors influencing the dividend policies of financial sector companies listed on the Indonesia Stock Exchange. For Islamic financial management, the results of this study can serve as a reference in formulating dividend policies that align with the principles of prudence, fairness, transparency, business sustainability, and shareholder benefit, particularly through the effective management of profitability, leverage, free cash flow, and company size. Information on profitability can help management ensure that dividend distributions are based on healthy profit potential, leverage management can be directed to maintain a controlled funding structure and prevent excessive financial risk, free cash flow can be used as an indicator of liquidity readiness for dividend payments, and company size can be a consideration in maintaining dividend policy consistency. For investors, this study provides a basis for more rational investment decision-making in assessing the dividend prospects of financial sector companies. For the regional economy, a stable dividend policy in the financial sector can strengthen market confidence, increase investment participation, support capital turnover, and encourage the financial sector's contribution to regional economic growth.

REVIEW OF LITERATURE

Signal Theory

Signaling Theory was first proposed by Spence (1973), who explained that parties with better information can send signals to other parties to reduce information asymmetry. In dividend policy, a company's decision to distribute dividends reflects a signal regarding the company's financial condition, performance stability, and prospects. High profitability indicates a company's ability to generate profits, so dividend payments can be understood as positive information regarding the company's financial health (Cheng et al., 2025). Proportionally managed leverage reflects a company's ability to manage its funding structure, meet financial obligations, and maintain dividend payment capacity. Profitability and leverage serve as financial indicators that shape investor perceptions of a company's quality, management credibility, and the sustainability of its dividend policy (Gosain et al., 2025).

Resource-Based View (RBV) Theory

The Resource-Based View (RBV) theory was first introduced by Wernerfelt (1984), who explained that a company's competitive advantage and sustainability are determined by its ability to manage valuable, rare, difficult-to-imitate, and non-substitutable internal resources. In dividend policy, free cash flow can be understood as an internal financial resource that reflects the availability of funds after operational and investment needs are met. Adequate free cash flow provides a company with greater capacity to maintain stable dividend payments and reduces the potential for less productive use of funds (Tong et al., 2025). Company size is also related to dividend policy because it reflects asset strength, operational capacity, market reputation, and broader access to funding. Larger companies tend to have stronger organizational and financial resources, making them more capable of maintaining a consistent dividend policy. Free cash flow and company size, from the RBV perspective, represent internal capabilities that support a company in creating value, maintaining business sustainability, and fulfilling shareholder interests through dividend policy (Tan et al., 2026).

Dividend Policy

Dividend policy refers to a company's decision in determining the amount of profits distributed to shareholders and the amount of profits retained for reinvestment (Barros et al., 2020) explains dividend policy as a decision regarding profit distribution, regularity of dividend payments, dividend amount, and distribution options through dividends or buybacks. (Pinto et al., 2020) defines dividend policy as the process of determining the percentage of profits distributed to shareholders, so this concept is closely related to payout policy and can take the form of cash dividends, bonus shares, or share buybacks. (Ali, 2020) expands this understanding by positioning dividend policy as a company's decision to maintain, increase, decrease, or stop dividend payments in response to economic conditions and signals of the company's financial prospects.

Profitability

Profitability refers to a company's ability to generate profits from operational activities and the use of its economic resources. (Sheikh, 2022) defines profitability through the ratio of earnings before interest and taxes to sales or EBIT/Sales, and uses ROA as a measure of net profit to company assets. (X. Wu et al., 2026) using earnings per share or EPS as the main indicator of company profitability because EPS shows the

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profit earned for each outstanding share. (Lee, 2026) At the company level, profitability is defined as the expected profit-generating capacity, proxied by EPS and used to assess a company's future fundamentals. Based on this study, profitability can be understood as a measure of financial performance that reflects a company's capacity to generate profits through sales, assets, and earnings per share.

Leverage

Leverage refers to a company's funding structure, which indicates the proportion of debt or equity used to finance the company's assets and activities. (Gyimah et al., 2022) measuring leverage as market leverage, namely the ratio of total debt consisting of short-term debt and long-term debt to the total market value of the company, and using book leverage as total debt to the book value of the company. (Menoncin et al., 2027) views leverage as a capital structure decision represented through the debt to equity ratio, namely the optimal use of debt chosen by the company together with dividend decisions, taking into account profitability, cost of debt, risk, and company value. (Pannella, 2025) explains leverage in the banking sector as the ratio of equity to total assets, or Tier 1 leverage ratio, which reflects a bank's capital capacity to bear asset risk and support dividend payment decisions. Based on this study, leverage can be understood as a financial structure indicator that describes a company's ability to manage the composition of debt, equity, funding risk, and dividend policy.

Free Cash Flow

Free cash flow refers to the internal cash available after a company's operational and investment needs are met, so it can be used to support internal funding, maintain financial flexibility, or be distributed to shareholders through dividends. (Harakeh, 2020) explains free cash flow through agency problems, namely when managers have discretion over the company's cash and have the potential to retain profits or use them for interests that do not always maximize shareholder value. (Dixit, 2020) emphasizes that companies with large free cash flows are more susceptible to making investments that do not increase the company's value, so that dividend payments can serve to reduce the potential for overinvestment and limit the cash under management's control. (Karim & Ilyas, 2020) views cash and excess cash as financial resources that can increase the value of the company if managed efficiently, but can also pose a risk of expropriation if supervision is weak; in such conditions, dividends become a mechanism to reduce cash held by management. Based on this study, free cash flow can be understood as an indicator of the company's internal financial capacity that plays an important role in determining dividend policy, especially because it reflects the availability of cash, potential agency conflicts, and the company's capacity to provide returns to shareholders.

Company Size

Company size refers to the economic scale of the company which reflects the size of the resources, operational capacity and asset strength owned by the company. (Trihermanto et al., 2019) measuring company size through the natural logarithm of total assets, because total assets represent the company's resource capacity in supporting business activities, CSR, and dividend policy. (Sarwar et al., 2020) using LnTA or the natural logarithm of total assets as a proxy for company size to capture company scale in dividend policy analysis, because large companies generally have stronger asset capacity

and financial capabilities. (Tahir et al., 2020) also places total assets as the basis for financial measurement, including in the ratio of dividends to total assets so that total assets can be understood as an important indicator for assessing a company's economic capacity to support dividend payments. Based on this study, company size can be understood as an indicator of company scale proxied by total assets or the natural logarithm of total assets to show the strength of resources, operational stability, and the company's ability to support dividend policy.

Hypothesis Development

Profitability and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange.

Research results by (Rahayu & Saifi, 2020) shows that profitability reflects a company's ability to generate profits and is an important basis for financial decision-making, including the distribution of profits to shareholders through dividends; the study also places dividend policy through the dividend payout ratio and dividend yield indicators as part of a company's financial decisions. (Takmaz, 2020) found that profitability has a positive effect on the probability of dividend payments, because more profitable companies have a stronger earning capacity to distribute dividends to investors. In line with these findings, (Budagaga, 2020) confirms that profitability, as measured by ROE, has a positive and significant effect on bank dividend payment decisions, as more profitable banks have a greater ability to pay dividends while simultaneously signaling good financial performance prospects to the market. Based on the information and theoretical framework provided, the following hypotheses are developed in this study:

H1: Profitability has a positive effect on dividend policy in financial sector companies on the Indonesia Stock Exchange.

Leverage and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange.

Research results by (Mulyani et al., 2016) demonstrates that leverage and dividends can be understood as corporate governance mechanisms that play a role in mitigating agency problems, as the use of debt encourages financial discipline through more targeted creditor oversight and cash flow management. In line with this, (Li & Roberts, 2023) found that dividend-paying companies with growth opportunities tend to use short-term debt to maintain dividend payments, so leverage can function as a source of funding that supports the sustainability of dividend distribution to shareholders. (Di et al., 2026) also explains that leverage as part of the capital structure plays a role in shaping dividend policy, as the use of debt can bind future cash flows, reduce managerial discretion, and strengthen corporate discipline in maintaining payment commitments to shareholders. Based on the information and theoretical framework provided, the hypotheses developed in this study are:

H2: Leverage has a positive effect on dividend policy in financial sector companies on the Indonesia Stock Exchange.

Free Cash Flow and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange.

Research results by (Lotto & Mcmillan, 2020) explains that dividend payments are

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more dependent on cash flow than accounting profit, because cash flow reflects the company's actual ability to meet payments to shareholders. (Rochmah & Ardianto, 2020) found that free cash flow has a positive effect on dividend policy, because the greater the free cash a company has, the greater the company's ability to increase the dividend payout ratio and distribute dividends to shareholders. (Bataineh & Bataineh, 2021) confirms that dividend payments can reduce the availability of free cash flow under the control of managers, thereby helping to suppress the potential use of funds for projects that are less in line with shareholder interests. Based on the information and theoretical framework provided, the hypotheses developed in this study are:

H3: Free cash flow has a positive effect on dividend policy in financial sector companies on the Indonesia Stock Exchange.

Company Size and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange.

Research result (Chang et al., 2019) emphasized that company size as measured by total assets has a positive effect on dividends, because large companies have strong internal capacity to support profit distribution and provide a signal of financial stability. (Tran, 2021) found that banks with larger total assets were able to maintain consistent dividend payments, because the company's scale supports financial flexibility and better oversight, so the risk of disrupted dividend payments is lower. (Ouyang & Zhong, 2023) This study shows that larger company size increases the company's capacity to pay dividends due to more liquid and stable resources. Based on the information and theoretical framework provided, the hypothesis developed in this study is:

H4: Company size has a positive effect on dividend policy in financial sector companies on the Indonesia Stock Exchange.

RESEARCH METHOD

This study applies an associative quantitative approach with a panel data design to analyze the empirical relationship between profitability, leverage, free cash flow, firm size, and dividend policy in financial sector companies listed on the Indonesia Stock Exchange. The data used are annual secondary data from 2006 to 2025, obtained from financial reports and official publications of the Indonesia Stock Exchange (IDX). The sample was selected using a purposive sampling technique, with the criteria being that the companies are in the financial sector, are in the banking subsector, and have complete data according to the research variable requirements during the observation period (Robert S. Pindyck, 1998). Based on these criteria, the research sample consisted of Bank Central Asia, Bank Danamon, Bank Negara Indonesia, Bank Mega, Bank Rakyat Indonesia, and the Regional Development Bank of West Java and Banten, resulting in 120 panel observations. This number of observations was deemed adequate as it fell within the recommended sample size range. Bougie and Sekaran (2019) And Roscoe (1975), namely between 30 to 500 observations for quantitative research.

Table 1. Operational Variables

Variabl es	Symb ol	Operational Definition	Measurement Indicators	Sour ce
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Dividend Policy	DPR	Dividend policy refers to a company's decision regarding the proportion of profits distributed to shareholders in the form of dividends. This variable reflects the company's ability to distribute profits and maintain stable returns for investors.	$DPR = \text{Cash Dividend} / \text{Net Profit} \times 100\%$	Indonesia Stock Exchange (IDX)
Profitability	ROA	Profitability refers to a company's ability to generate profits by utilizing all of its assets. ROA indicates management's effectiveness in managing assets to generate company profits.	$ROA = \text{Net Profit} / \text{Total Assets} \times 100\%$	Indonesia Stock Exchange (IDX)
Leverage	DER	Leverage refers to the degree to which a company uses debt compared to equity in its financing structure. DER indicates the extent to which a company uses debt-based financing to support its operations and business expansion.	$DER = \text{Total Debt} / \text{Total Equity} \times 100\%$	Indonesia Stock Exchange (IDX)
Free Cash Flow	FCFPS	Free cash flow refers to the cash available after a company meets operational and investment needs. Free Cash Flow per Share indicates the amount of free cash flow available for each outstanding share.	$FCFPS = \text{Free Cash Flow} / \text{Number of Shares Outstanding}$ $\text{Free Cash Flow} = \text{Operating Cash Flow} - \text{Capital Expenditure}$	Indonesia Stock Exchange (IDX)
Company Size	SIZE	Company size refers to the scale of a company, as reflected in its total assets. Total assets indicate a company's economic resource capacity, operational strength, and stability.	$SIZE = \ln(\text{Total Assets})$	Indonesia Stock Exchange (IDX)

The panel data equation model which is a combination of cross-section data and time series data can be written as follows:

$$DPR_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 FCFPS_{it} + \beta_4 SIZE_{it} + \epsilon_{it}$$

The panel data equation model in this study is used to analyze the relationship between profitability, leverage, free cash flow, and company size and dividend policy in banking sector companies listed on the Indonesia Stock Exchange. It shows the dividend policy of company i

in year t as measured using the Dividend Payout Ratio (ROA). DER_{it} shows profitability as measured by Return on Assets. DER_{it} shows leverage measured through the Debt to Equity Ratio. $FCFPS_{it}$ shows free cash flow measured by Free Cash Flow per Share. $SIZE_{it}$ shows the company size proxied by the natural logarithm of total assets. The symbol α indicates a constant, while $\beta_1, \beta_2, \beta_3$, And β_4 shows the regression coefficient of each independent variable. The symbol i refers to the sample companies, namely BCA, Danamon, BNI, Bank Mega, BRI, and BJB. The symbol t refers to the research period from 2006 to 2025, while ϵ_{it} indicates the error term. The total observations in this study were 120 observations, obtained from 6 companies over 20 years of observation.

Data analysis was conducted using EViews 12 with a panel data regression approach. The initial stage of the analysis was directed at selecting the most appropriate estimation model through the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test to determine the use of the Common Effect Model (CEM), the Fixed Effect Model (FEM), or the Random Effect Model (REM) based on the characteristics of the panel data (Griliches, 1998). After the best model is obtained, classical assumption testing is carried out through multicollinearity and heteroscedasticity tests to assess the stability of the relationship between independent variables and the consistency of residual variance in the model. Hypothesis testing is carried out using a t-test to analyze the partial effect of profitability, leverage, free cash flow, and company size on dividend policy, an F-test to assess the simultaneous effect of all independent variables, and a coefficient of determination (R^2) to measure the model's ability to explain variations in dividend policy (Damodar N. Gujarati, 2009).

RESULTS AND DISCUSSION

The multicollinearity test is a statistical approach used to ensure there is no excessive correlation between independent variables in a regression model. This test is important because high correlation between independent variables can impair the accuracy of coefficient estimates, increase standard errors, and weaken the validity of the interpretation of regression results. A good model requires that each independent variable contribute different information to explain the dependent variable.

Table 2. Multicollinearity Test Results

Variables	Profitability	Leverage	Free Cash Flow	Company Size
Profitability	1,000	0.491	0.016	0.362
Leverage	0.491	1,000	-0.061	0.274
Free Cash Flow	0.016	-0.061	1,000	0.217
Company Size	0.362	0.274	0.217	1,000

Source: Data Processing Results (2026)

Based on the results of the multicollinearity test, all correlation values between independent variables are below the critical limit of 0.80. The highest correlation value is found in the relationship between profitability and leverage at 0.491, which is still in the moderate category and does not indicate excessive correlation. The correlation between profitability and company size is 0.362, leverage and company size is 0.274, and free cash flow and company size is 0.217 also still at a low to moderate level. The correlation between free cash flow and profitability is 0.016 and with leverage is -0.061 indicating a very weak

relationship. These results indicate that the variables of profitability, leverage, free cash flow, and company size do not experience multicollinearity problems, so all independent variables are suitable for simultaneous use in a panel data regression model.

Table 3. Heteroscedasticity Test Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Profitability	0.318660	0.167502	1.902420	0.0596
Leverage	-0.030657	0.062072	-0.493889	0.6223
Free Cash Flow	-0.016795	0.031208	-0.538165	0.5915
Company Size	-0.068415	0.041922	-1.631973	0.1054

Source: Data Processing Results, (2026)

The heteroscedasticity test is used to assess whether the regression residuals have constant variance. Based on the heteroscedasticity test results, all probability values for the independent variables are above the 0.05 significance level. Profitability has a probability value of 0.0596, leverage 0.6223, free cash flow 0.5915, and company size 0.1054. These results indicate that there is no indication of heteroscedasticity in the regression model, as no independent variables have a probability value below 0.05. This means that the residual variance in the model is relatively constant, making the model suitable for use.

Table 4. Chow Test Results

Effects Test	Statistics	df	Prob.
Cross-section F	14.002278	(5,110)	0.0000
Cross-section Chi-square	59.104771	5	0.0000

Source: Data Processing Results, (2026)

The Chow test is used to determine the more appropriate panel data estimation model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). Based on the Chow test results, the Cross-section F probability value is 0.0000 and the Cross-section Chi-square is 0.0000, smaller than the 0.05 significance level. These results indicate that H₀ is rejected, so the Common Effect Model (CEM) is not appropriate to use. Therefore, the more appropriate model to estimate the relationship between profitability, leverage, free cash flow, and company size on dividend policy is the Fixed Effect Model (FEM).

Table 5. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	5.555823	4	0.2349

Source: Data Processing Results, (2026)

The Hausman test was used to determine the more appropriate panel data estimation model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). Based on the Hausman test results, the random cross-section probability value was 0.2349, greater than the 0.05 significance level. This result indicates that H₀ is accepted, so the Fixed Effect Model (FEM) is not the primary choice. Therefore, the more appropriate model used in this study is the Random Effect Model (REM).

Table 6. Lagrange Multiplier (LM) Test Results

Test	Cross-section	Time	Both
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Breusch-Pagan	45.20695	18.26754	63.47449
Prob.	0.0000	0.0000	0.0000

Source: Data Processing Results, (2026)

The Lagrange Multiplier (LM) test was used to determine the more appropriate panel data estimation model between the Common Effect Model (CEM) and the Random Effect Model (REM). Based on the LM test results, the Breusch-Pagan probability values for Cross-section, Time, and Both were each 0.0000, less than the 0.05 significance level. These results indicate that H0 is rejected, so the Common Effect Model (CEM) is not appropriate to use. A more appropriate model is the Random Effect Model (REM). In line with the results of the Hausman test which also leads to REM, the final model used in this study is the Random Effect Model (REM).

Table 7. Results of Partial Significance Test (t-Test)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	-0.874478	0.220493	-3.966013	0.0001
Profitability	0.664697	0.268064	2.479617	0.0147
Leverage	-0.267453	0.145057	-1.843783	0.0679
Free Cash Flow	0.073998	0.045890	1.612502	0.1097
Company Size	0.934442	0.085675	10.90678	0.0000

Source: Data Processing Results, (2026)

A partial test or t-test is used to assess the influence of each independent variable on dividend policy individually. Based on the t-test results, profitability has a coefficient value of 0.664697 with a probability of 0.0147, less than 0.05, so profitability has a positive and significant effect on dividend policy. Leverage has a coefficient of -0.267453 with a probability of 0.0679, greater than 0.05, so leverage does not have a significant effect on dividend policy at the 5% significance level. Free cash flow has a coefficient of 0.073998 with a probability of 0.1097, greater than 0.05, so free cash flow does not have a significant effect on dividend policy. Firm size has a coefficient of 0.934442 with a probability of 0.0000, less than 0.05, so firm size has a positive and significant effect on dividend policy. These results indicate that partially, the variables that are proven to be significant in explaining dividend policy are profitability and firm size.

Table 8. Simultaneous Test Results (F Test)

Sum Squared Resid	Log Likelihood	F-statistic	Prob. (F-statistic)
8.890366	-14.12121	21.59532	0.000000

Source: Data Processing Results, (2026)

The simultaneous test or F-test was used to assess whether profitability, leverage, free cash flow, and company size simultaneously influence dividend policy. Based on the test results, the F-statistic value was 21.59532 with a Prob. (F-statistic) of 0.000000, smaller than the 0.05 significance level. These results indicate that profitability, leverage, free cash flow, and company size simultaneously have a significant influence on dividend policy in banking sector companies listed on the Indonesia Stock Exchange.

Table 9. Results of the Determination Coefficient (R2) Test

R-squared	Adjusted R-squared
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0.6385830.609013

Source: Data Processing Results, (2026)

The coefficient of determination measures the extent to which independent variables are able to explain variations in dividend policy. The R-squared value of 0.638583 indicates that profitability, leverage, free cash flow, and company size are able to explain 63.86% of the variation in dividend policy in banking sector companies on the Indonesia Stock Exchange during the period 2006 to 2025. The remaining 36.14% is explained by other factors outside the research model, such as liquidity, asset growth, business risk, ownership structure, corporate governance, regulatory policies, macroeconomic conditions, and each bank's internal strategy in maintaining capital adequacy and financial stability.

The Adjusted R-squared value of 0.609013 indicates that after considering the number of independent variables and the panel data structure, the model's ability to explain dividend policy remains at a fairly strong level, at 60.90%. This result indicates that the model has adequate explanatory power because more than half of the variation in dividend policy can be explained by profitability, leverage, free cash flow, and firm size. In the context of banking companies, this finding is relevant because dividend policy is not only determined by profit-generating ability but is also influenced by funding structure, cash availability, asset scale, capital regulations, and the need to maintain financial system stability. The relatively high R^2 value indicates that fundamental company variables play a significant role in explaining dividend distribution decisions, although the scope for the influence of external factors and managerial policies still needs to be considered.

Profitability and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange.

The statistical results show that profitability has a positive and significant effect on dividend policy, as indicated by a coefficient value of 0.664697 with a probability value of 0.0147, which is lower than the significance level of 0.05. This finding indicates that increasing profitability drives an increase in dividend policy in banks listed on the Indonesia Stock Exchange during the period 2006 to 2025. Profitability as measured by ROA reflects a bank's ability to manage assets to generate profits. The higher a bank's ability to generate profits from its assets, the greater the company's financial capacity to distribute dividends to shareholders without disrupting operational sustainability, expansion needs, and capital stability.

Macroeconomically, these findings indicate that bank profitability is not only important for shareholders but also has implications for financial sector stability and capital market confidence. Profitable banks tend to have greater room to maintain consistent dividends, thereby strengthening investor confidence, increasing the attractiveness of banking sector stocks, and supporting domestic capital market liquidity. In the financial sector, a dividend policy supported by healthy profitability also reflects the quality of banking intermediation, the efficiency of asset management, and the bank's ability to generate income from lending activities, transaction services, and non-interest income sources. When bank profitability increases sustainably, this signal of stability can strengthen investors' perceptions of the resilience of the national financial system.

The policy implication is that bank management needs to maintain profitability as the primary basis for establishing dividend policy. Dividend distribution should not only be oriented towards the short-term interests of shareholders, but also consider capital adequacy, asset quality, credit risk, provisioning requirements, and business expansion agendas. Regulators also need to ensure that bank dividend policies remain aligned with prudential principles, particularly given the banking sector's strategic role in maintaining financial stability. Dividends derived from strong profitability can strengthen a bank's credibility, but overly aggressive dividend distributions without regard for capital resilience can weaken a bank's capacity to withstand economic pressures, increased credit risk, or slowing economic growth.

The influence of profitability on dividend policy also reflects the heterogeneity among banks listed on the Indonesia Stock Exchange. Banks with large asset scales, extensive business networks, and more diversified revenue sources tend to have a more stable ability to convert profitability into dividend payments. Banks with more specific business models, different funding structures, or specific market orientations may exhibit different dividend policy responses to changes in profitability. For banks with specific regional characteristics or ownership, dividend policy may also be influenced by regional development needs, the interests of institutional shareholders, and strategies to maintain a balance between profit distribution and internal capital strengthening.

Theoretically, these findings align with Signaling Theory, first proposed by Spence (1973), and the Resource-Based View (RBV) theory, first introduced by Wernerfelt (1984). Signaling Theory explains that high profitability can be important information for investors because it reflects a healthy financial condition, stable profit prospects, and the bank's ability to distribute dividends sustainably. Dividend payments supported by strong profitability can be perceived as a positive signal regarding earnings quality, management credibility, and company stability. RBV theory explains that profitability is an internal capability that reflects a bank's ability to manage assets, generate profits, and create value for shareholders. Strong profitability indicates that a bank has adequate financial resources to support its dividend policy without neglecting capital needs, business expansion, and financial stability. These findings are consistent with research by Rahayu and Saifi (2020), Takmaz (2020), and Budagaga (2020), which emphasizes that profitability plays a crucial role in enhancing a company's, particularly banks', ability to distribute dividends to shareholders.

Leverage and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange

Statistical results show that leverage has no significant effect on dividend policy, as indicated by a coefficient value of -0.267453 with a probability value of 0.0679, which is higher than the 0.05 significance level. This finding indicates that changes in leverage have not been able to strongly explain changes in dividend policy in banks listed on the Indonesia Stock Exchange during the period 2006 to 2025. The negative direction of the coefficient indicates that an increase in leverage tends to be followed by a decrease in dividend policy, but this effect is not statistically strong enough. This condition may occur because the bank's funding structure has different characteristics from the non-financial sector. In the banking sector, leverage not only reflects the use of debt, but also relates to third-party funds, financial liabilities, capital adequacy, prudential regulations, and liquidity risk management.

Therefore, bank dividend decisions are not solely determined by the level of leverage, but also by profitability, asset quality, capital stability, regulatory policies, and internal strategies in maintaining financial resilience.

Macroeconomically, these findings imply that leverage is not yet a primary channel for explaining dividend distribution in the banking sector. Within the financial system, bank leverage has a more complex function because it is directly related to financial intermediation, fundraising, credit distribution, and banking system stability. High leverage does not necessarily directly suppress dividend payments if the bank still has adequate profitability, liquidity, and capital adequacy. Conversely, low leverage does not always encourage increased dividends if the bank chooses to retain earnings to strengthen capital, expand credit, or cope with economic uncertainty. These insignificant results indicate that bank dividend policy is more influenced by the quality of financial performance and institutional stability than solely by the composition of liabilities and equity.

The policy implication is that bank management needs to consider leverage as a risk management indicator, not the sole basis for determining dividend policy. Dividend payments should consider the balance between shareholder interests and the need to maintain capital resilience. Regulators also need to ensure that bank dividend policies do not weaken capital capacity, particularly when the financial sector faces macroeconomic pressures, increased credit risk, interest rate volatility, or an economic slowdown. For investors, these results indicate that leverage alone is insufficient to predict bank dividend policy. Investors need to consider leverage alongside other indicators such as profitability, capital adequacy, asset quality, liquidity, and earnings consistency.

The insignificant effect of leverage also reflects the heterogeneity among banks listed on the Indonesia Stock Exchange. Banks with large asset scales and broad funding bases tend to have a stronger capacity to manage liabilities and maintain dividend stability. Banks with more specific business structures may have different sensitivities to leverage due to varying funding compositions, credit strategies, operational efficiencies, and risk profiles. For banks with a regional orientation or specific institutional ownership, dividend policy may also be influenced by the need to strengthen internal capital, maintain shareholder contributions, and support intermediation functions within their operational areas. These differences in characteristics result in leverage having an inconsistent effect on dividend policy in the panel model.

Theoretically, this finding is inconsistent with Signaling Theory, first proposed by Spence (1973), and the Resource-Based View (RBV) theory, first introduced by Wernerfelt (1984). Signaling Theory explains that proportionally managed leverage should signal a bank's ability to manage its funding structure, meet financial obligations, and maintain its dividend payment commitment. However, this study shows that leverage does not significantly influence dividend policy, thus, funding structure has not become a dominant signal in dividend decisions for banks listed on the Indonesia Stock Exchange. RBV theory also views the ability to manage financial resources as an internal capability that can support value creation and the sustainability of dividend policy. However, leverage is not yet able to represent internal capabilities that directly drive dividend policy, because bank dividend decisions are more influenced by other factors such as profitability, capital adequacy, asset

quality, liquidity, and capital strengthening strategies. This finding aligns with previous research by Wahjudi (2020) that found that leverage, as proxied by the debt-to-equity ratio, negatively impacts dividend policy, as increased debt increases the financial burden and limits the company's ability to distribute profits to shareholders. Similarly, Rochmah and Ardianto (2020) showed that leverage has a significant negative effect on dividend policy, as companies with larger liabilities tend to use retained earnings to meet funding needs and repay debt rather than increase dividend payments. These results confirm that in the banking sector, leverage cannot be a primary determinant of dividend policy because bank funding characteristics are heavily influenced by prudential regulations, third-party funding structures, risk management, and the need to maintain financial stability.

Free Cash Flow and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange.

Statistical results show that free cash flow does not significantly influence dividend policy, as indicated by a coefficient value of 0.073998 with a probability value of 0.1097, which is higher than the 0.05 significance level. This finding indicates that changes in free cash flow have not been able to explain changes in dividend policy strongly in banks listed on the Indonesia Stock Exchange during the period 2006 to 2025. The positive direction of the coefficient indicates that an increase in free cash flow tends to be followed by an increase in dividend policy, but the effect is not statistically strong enough. This condition may occur because in the banking sector, free cash flow does not fully represent free cash space for distribution to shareholders. Banks are obliged to maintain liquidity, meet capital adequacy, form credit risk reserves, support financing expansion, and comply with prudential regulations, so cash availability does not always directly translate into increased dividends.

Macroeconomically, these findings imply that free cash flow is not yet the primary channel for explaining dividend policy in the banking sector. Within the financial system, cash available to banks plays a strategic role in maintaining liquidity stability, strengthening intermediation capacity, supporting credit distribution, and mitigating economic pressures. High free cash flow does not necessarily encourage dividend payments if banks choose to retain funds to strengthen capital, anticipate credit risk, or maintain liquidity resilience during macroeconomic uncertainty. These insignificant results suggest that bank dividend policy is more determined by a combination of profitability, asset quality, capital adequacy, asset scale, and risk management strategies than solely by the availability of free cash flow.

The policy implication is that bank management needs to consider free cash flow as an indicator of financial flexibility, not as the sole basis for setting dividends. Dividend payments need to be aligned with the need to maintain liquidity, credit expansion, risk reserves, and capital adequacy. Regulators also need to ensure that dividend distributions do not diminish the bank's ability to perform its intermediary function and absorb economic shocks. For investors, these results indicate that free cash flow per share is insufficient as a primary indicator for predicting bank dividend policy. Investors need to interpret free cash flow in conjunction with other indicators such as ROA, capital ratios, credit quality, funding structure, company size, and earnings consistency.

The insignificant effect of free cash flow also reflects the heterogeneity among banks listed on the Indonesia Stock Exchange. Banks with large assets and a broad funding base tend to have a more stable ability to maintain liquidity and pay dividends. Banks with more

specific business orientations may have different cash policies due to varying credit expansion needs, digitalization strategies, provisioning requirements, and customer risk profiles. Banks with specific regional characteristics or institutional ownership may also direct free cash flow to strengthen the intermediation function, support strategic shareholder needs, or maintain internal capital resilience. These differences in characteristics result in free cash flow not having a uniform effect on dividend policy in the panel model.

Theoretically, this finding is not entirely in line with Signaling Theory first proposed by Spence (1973) and the Resource-Based View (RBV) Theory first introduced by Wernerfelt (1984). Signaling Theory explains that high free cash flow should signal a company's ability to maintain liquidity and pay dividends to shareholders. However, the results of this study indicate that free cash flow does not significantly influence dividend policy, so cash availability has not become a dominant signal in bank dividend decisions. RBV theory views free cash flow as an internal financial resource that can support value creation and the sustainability of dividend policy. However, this finding indicates that free cash flow is not yet able to stand as an internal capability that directly drives dividend payments, because bank dividend decisions are heavily influenced by regulations, capital adequacy, asset quality, and the need to maintain financial stability. This finding is in line with research by Utami and Inanga (2011) which found a negative relationship between free cash flow and dividend policy, because available cash flow can be used for internal company needs rather than distributed as dividends. This result can also be explained by the views of Dixit et al. (2020) that large free cash flows can increase investment risks that do not always create value, and Karim and Ilyas (2020) who emphasized that excess cash can create expropriation risks if not managed efficiently.

Company Size and Dividend Policy in Financial Sector Companies on the Indonesia Stock Exchange.

The statistical results show that company size has a positive and significant effect on dividend policy, as indicated by a coefficient value of 0.934442 with a probability value of 0.0000, which is lower than the significance level of 0.05. This finding indicates that the larger the size of a bank listed on the Indonesia Stock Exchange, the stronger its tendency to increase dividend policy during the period 2006 to 2025. Company size proxied by total assets reflects the capacity of economic resources, operational stability, and financial strength of the bank. Banks with larger total assets generally have a broader funding base, stronger intermediation capacity, better income diversification, and a more stable ability to distribute dividends to shareholders.

Macroeconomically, these findings imply that bank asset size plays a crucial role in strengthening investor confidence and financial sector stability. Larger banks tend to be more resilient to economic pressures, liquidity risks, and market fluctuations, enabling them to maintain consistent dividend payments. In the capital market, dividends from large banks can strengthen perceptions of financial sector stability, increase the attractiveness of bank stocks, and support domestic investment liquidity. Within the financial system, bank size is also related to credit distribution capacity, public fund collection, and the ability to support economic growth through its intermediation function.

The policy implication is that bank management needs to maintain healthy asset

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growth so that the increase in company size truly reflects fundamental strength, not simply balance sheet expansion. Dividend policy needs to be aligned with capital adequacy, asset quality, credit risk, and business expansion needs. Regulators also need to ensure that banks with large assets maintain prudent dividend distribution practices, as large banks have a broader systemic impact on financial stability. For investors, company size can be an important indicator in assessing dividend stability, but it must be interpreted in conjunction with profitability, liquidity, asset quality, and capital resilience.

The significant influence of company size also reflects the heterogeneity among banks listed on the Indonesia Stock Exchange. Banks with larger asset scales generally have broader operational networks, stronger customer bases, better revenue diversification, and more stable access to funding, making them more able to maintain dividend payments. Smaller banks or banks with specific business characteristics may have more limited dividend allocation space due to the need to strengthen capital, expand markets, improve efficiency, or face more specific operational risks. Differences in asset structure, business model, ownership, and market orientation make company size a significant factor in explaining variations in dividend policy across the banking sector.

Theoretically, these findings align with Signaling Theory, first proposed by Spence (1973), and the Resource-Based View (RBV) theory, first introduced by Wernerfelt (1984). Signaling Theory explains that large company size can signal a bank's stability, credibility, and financial capacity to maintain dividend payments. Large total assets can strengthen investor confidence because they reflect the bank's ability to maintain operational activities and generate value. RBV theory explains that total assets represent an internal resource that can support a company's excellence and sustainability. Banks with larger assets have a stronger capacity to manage resources, maintain income stability, and support a sustainable dividend policy. These findings align with Chang et al. (2019), who assert that company size based on total assets has a positive effect on dividends; Tran (2021), who found that banks with larger total assets are able to maintain consistent dividend payments; and Ouyang and Zhong (2023), who showed that larger companies have a stronger capacity to pay dividends because they are supported by more stable resources.

CONCLUSION

This study concludes that profitability and company size have a positive and significant effect on dividend policy in banks listed on the Indonesia Stock Exchange during the period 2006 to 2025. This finding indicates that the bank's ability to generate profits and the strength of total assets are the main factors in driving dividend payments. Leverage and free cash flow do not have a significant effect on dividend policy, so that funding structure and cash availability have not been the main determinants in dividend decisions in the banking sector. This condition reflects that bank dividend policy is not only determined by internal financial indicators, but also by the characteristics of the banking sector which are influenced by prudential regulations, capital adequacy, liquidity risk, credit reserves, and the need to maintain financial stability. Theoretically, this study contributes to Signaling Theory by showing that profitability and company size are stronger financial signals for investors in assessing a bank's capacity to distribute dividends. This study also strengthens the Resource-

Based View (RBV) Theory because profit and total assets represent internal capabilities and strategic resources that support the sustainability of dividend policy.

Empirically, this study enriches the literature on dividend policy in the financial sector by using long-term panel data and demonstrating that the determinants of dividends in banks differ from those in the non-financial sector. The policy implications are that bank management should set dividends based on healthy profitability, strong asset scale, capital adequacy, and liquidity stability, while regulators should ensure that dividend distributions do not weaken the resilience of the banking system. Future research is recommended to expand the study object to Islamic banks in IsDB member countries and banks implementing AAOIFI standards, with a longer research period to be able to capture the dynamics of dividend policy within the framework of Islamic finance, Islamic governance, banking stability, and regulatory differences between countries.

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