

Economic and Business Horizon

ISSN: 2963-2765

Economic and Business Horizon

Volume: 04
Issue: 02
Year: 2024
Page: 55-66

Citation:

Marpaung, A., Brahmanto, U. & Muharam, H. (2025). Sustainable Dividend Strategies: Analyzing Factors Influencing Dividend Policy in Indonesian Manufacturing Firms. *Economic and Business Horizon* 4(2), 55-66.

Sustainable Dividend Strategies: Analyzing Factors Influencing Dividend Policy in Indonesian Manufacturing Firms

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Abstract

This study aims to provide empirical evidence on the development of sustainable dividend strategies by examining the influence of profitability, liquidity, insider ownership, free cash flow, and growth opportunities on dividend policy within Indonesian manufacturing companies. The dividend policy in this research is proxied using the dividend payout ratio (DPR), reflecting the commitment of firms to distribute profits sustainably. The population for this study includes all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period, with purposive sampling yielding a sample of 39 companies. Secondary data, primarily financial statements sourced from the IDX's official website (www.idx.co.id), is utilized for analysis. Hypothesis testing is conducted using multiple linear regression analysis facilitated by SPSS version 26. The findings indicate that profitability, insider ownership, free cash flow, and growth opportunities significantly and positively influence sustainable dividend strategies, while liquidity does not exhibit a significant effect. This research contributes to the understanding of how manufacturing firms can align their dividend policies with sustainable practices, ultimately enhancing their competitive advantage in the market.

Keywords

Dividend Policy, Growth Opportunities, Profitability, Sustainable Dividend Strategies.

1. Introduction

The capital market is a platform for trading long-term financial instruments, such as stocks and bonds, with maturities over one year. Investors expect returns either through dividends or capital gains, with many preferring dividends due to their relative stability compared to the volatility of stock price appreciation (Al-Twajjry, 2007). Dividends represent a share of company profits distributed to shareholders, enhancing their financial well-being. Decisions on dividend distribution are typically made at the General Meeting of Shareholders (GMS). At the GMS, dividend policy is determined in alignment with broader financial decisions, including investment and financing strategies. As a corporate strategy, dividend policy supports the firm's objective to maximize shareholder wealth. When shareholders are dissatisfied with returns, they may sell their shares, decreasing the company's market value and potentially weakening its competitive position. Companies seek to increase long-term value by distributing dividends while also retaining earnings for reinvestment. The challenge lies in identifying an optimal dividend policy that balances current shareholder returns with the company's sustainability (Dewasiri et al., 2019; Hartono & Robiyanto, 2023). A sustainable dividend policy aligns present earnings with future growth, contributing to a stronger stock price over time. This policy reflects management's approach to determining the appropriate profit share to be distributed, while reserving sufficient funds for internal reinvestment. When dividends are paid, retained earnings decline, limiting internal resources for growth. Conversely, withholding dividends enhances reinvestment potential and long-term sustainability.

In practice, many firms pay dividends in consistent amounts or use supplementary methods to maintain long-term stability. Investors often interpret stable or rising dividends as a positive signal of growth, while reduced payouts may raise concerns and weaken investor confidence. Thus, companies are inclined to uphold stable and predictable dividend policies. However, this creates a conflict between shareholders and management: shareholders prefer higher dividend payouts, while management, focused on long-term strategies, may opt to retain earnings to finance growth initiatives (Afifawati et al., 2023). Agency theory, as outlined by Jensen et al. (1976), underscores the conflict of interest between shareholders and managers. Shareholders may fear that managers will misuse retained profits on excessive or inefficient projects, reducing shareholder value. Sustainable dividend payments can reduce agency conflicts by limiting funds under management control, thus decreasing agency costs. Furthermore, distributing dividends reduces the risk of misallocating excess cash and enhances transparency by returning profits proportionally to shareholders (Javaid et al., 2024). Consequently, a well-designed and sustainable dividend policy is essential to resolving disputes over profit allocation and supporting long-term corporate growth (Syahputra & Imronudin, 2024).

Despite the importance of dividend policy, empirical findings regarding its determinants remain inconsistent. Wahjudi (2020) found that liquidity had a significant negative effect on dividend policy, whereas profitability's impact was negligible. On the other hand, Setiawan et al. (2024) reported that both profitability and firm size significantly and positively influenced dividend distribution. These divergent results highlight a research gap that warrants further investigation (Adiputra & Hermawan, 2020; Hartatik et al., 2025). To address this, the present study aims to examine the factors influencing dividend policy more comprehensively. It focuses on profitability, liquidity, insider ownership, free cash flow, and growth opportunities, with company size as a control variable. By analyzing manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023, this study seeks to enhance understanding of how well-calibrated dividend strategies—aligned

with financial stability and sustainable growth—can foster investor trust and strengthen long-term market competitiveness.

2. Literature Review

2.1. Profitability on Dividend Policy

Profitability denotes a firm's capacity to generate profit (Marpaung et al., 2024; Lona et al., 2024). According to the free cash flow theory proposed by Jensen et al., (1976), a company's management is inclined to augment dividend distributions to shareholders in accordance with profitability growth. This technique seeks to diminish the company's retained earnings. Firms exhibiting elevated profitability typically possess more steady earnings, enabling them to retain more cash reserves and allocate larger dividends to their shareholders.

Dewasiri et al., (2019) assert that a company's ability to generate higher profits directly influences the increase in dividend payments, as dividends are a portion of the company's profit distribution. Several subsequent studies have supported these findings, including those by Tinungki et al., (2022); Wahjudi, (2020); Wirama et al., (2024) these studies highlight a positive and strong correlation between a company's profitability and its dividend payout ratio, demonstrating that an increase in profitability is generally associated with a higher percentage of profit allocated to dividends. This relationship is integral to sustainable dividend strategies, as it suggests that firms with strong, consistent profitability are more likely to adopt dividend policies that balance current returns with long-term growth, ultimately strengthening their competitive advantage in the market.

H2: Liquidity has a positive effect on dividend policy.

2.2. Insider Ownership on Dividend Policy

Liquidity denotes a company's capacity to fulfill its short-term liabilities with current assets prior to their maturity, Kautsar et al., (2023) elucidated that, under the framework of free cash flow theory, a company's capacity to distribute dividends is significantly contingent upon the cash flow created, as cash flow indicates the company's capability to meet its dividend obligations to shareholders.

Wirama et al., (2024) suggest that a company's liquidity position plays a crucial role in determining its dividend policy, establishing a positive correlation between liquidity and dividend distribution. Firms with substantial cash reserves are more likely to issue dividends, as they have the financial flexibility to distribute a portion of their earnings without jeopardizing operational needs. This is especially important in the context of sustainable dividend strategies, where companies aim to balance immediate shareholder returns with the need for long-term reinvestment.

Similarly, a study by Bai et al., (2024) found that liquidity positively impacts the Dividend Payout Ratio, indicating that corporations with better liquidity levels have a greater capacity to reliably pay dividends to shareholders. However, Rudianto et al. (2024) presents an opposing view, suggesting that liquidity may adversely affect dividend policy, as firms with excess liquidity may choose to reinvest available capital rather than distributing it, thereby focusing on long-term growth and sustainability.

H2: Liquidity has a positive effect on dividend policy.

2.3. Insider Ownership on Dividend Policy

Insider ownership denotes the percentage of shares held by the company's management. Agency costs theory posits that one method to mitigate agency costs stemming from conflicts of interest between shareholders and managers is through

management's stock ownership (Tinungki et al., 2022). By possessing shares, managers function not only as corporate executives but also as shareholders, so having a direct stake in the adopted dividend policy. In this context, insider ownership generally exerts a favorable impact on the dividend payout ratio, as managers are motivated to allocate dividends as a return on their assets.

A higher proportion of share ownership held by management is positively correlated with an increased likelihood of the company issuing dividends. Research conducted by Afza & Mirza, (2010); Shafai & Shafai, (2020) supports this idea, indicating that insider ownership levels significantly influence dividend policy. The results of the study indicate a significant positive relationship between insider ownership and the dividend payout ratio (Trihermanto, & Nainggolan, 2020). This implies that when management possesses a larger share of the company, they are more likely to allocate profits as dividends. This finding supports sustainable dividend policies, as it aligns management's interests with those of shareholders, promoting a long-term focus on value generation and financial stability.

H3: Insider ownership has a positive effect on dividend policy.

2.4. Free Cash Flow on Dividend Policy

Free cash flow (FCF) represents the monetary resources a company possesses that are available for shareholder disbursement once expenditures on new fixed assets for operational sustainment and growth have been met. According to the free cash flow hypothesis articulated by Jensen et al. (1976), any cash exceeding the firm's optimal operational and investment needs should be returned to shareholders in the form of dividends (Akhmadi, & Januarsi, 2021; Nikmah et al., 2024). This distribution strategy is designed not only to augment shareholder value but also to curtail agency problems by limiting the funds managers can potentially utilize for non-value-maximizing endeavors, thereby serving as a mechanism to prevent the inefficient deployment of corporate assets by management. The availability of substantial free cash flow also reduces a firm's dependence on external financing, such as debt or equity issuance, which may be costly or dilute ownership. By relying on internal funding, the firm can maintain greater control over its financial structure while still rewarding shareholders. Moreover, consistent dividend payments backed by strong FCF serve as a credible signal of the firm's financial health and long-term sustainability, enhancing investor confidence and positively influencing market perception.

Prior research has established a substantial positive correlation between Free Cash Flow and Dividend Payout Ratio. Al-Fasfus (2020) and Le et al. (2019) discovered that firms with elevated free cash flows are inclined to distribute larger dividends. This indicates that sufficient cash flow affords the corporation the flexibility to satisfy shareholder demands while preserving its operational viability. Consequently, managing FCF effectively is crucial for maintaining a balance between rewarding shareholders and ensuring the firm's ability to pursue strategic investment opportunities.

H4: Free Cash Flow has a positive effect on Dividend Policy.

2.5. Growth Opportunities on Dividend Policy

Growth opportunities (GO) denote market prospects that a company can leverage to enhance its operations. When appropriately utilized, these opportunities can improve a company's operating cash flow and foster profit growth. In this scenario, a rise in profit typically results in an increase in dividends distributed to shareholders. Al-Twajjry (2007) underscored that dividend disbursements continue

to be a priority, notwithstanding the company's numerous lucrative investment prospects. Dividends are regarded as a company's duty to uphold shareholder faith and allegiance. The regular payment of dividends serves not only as a financial reward but also as a signal of the company's ongoing profitability and financial stability. According to the free cash flow theory, the augmentation of cash flow within the corporation directly influences the volume of dividends that can be allocated. A high level of free cash flow provides management with greater flexibility in distributing profits, thereby enhancing shareholder value. The substantial expansion potential provides corporations with greater capacity to earn additional profits, so enhancing their ability to provide higher dividends. This implies that firms with strong internal cash generation capabilities are well-positioned to both finance future growth and fulfill dividend commitments.

Furthermore, growth opportunities, when realized, contribute to greater market valuation, attracting more investors seeking both capital gains and reliable income streams. Research conducted by Wahjudi (2020) and Wirama et al. (2024) indicates a substantial positive correlation between growth potential and the dividend payout ratio. This suggests that companies with more substantial growth possibilities are more likely to augment their dividend payouts as a strategy to maintain investor confidence and signal long-term viability.

H5: Growth Opportunities have a positive effect on dividend policy.

2.6. Firm Size as a Control Variable

Firm size denotes the magnitude of a corporation, typically quantified by the natural logarithm of its total assets. Larger companies typically possess an advantage regarding the reliability of operating cash flow. This stability enhances corporations' ability to distribute dividends to shareholders. According to Free Cash Flow theory, larger corporations generally exhibit elevated free cash flow attributable to economies of scale, operational efficiency, and extensive resources. Companies with substantial free cash flow possess an enhanced capacity to continuously distribute dividends in higher quantities. The magnitude of a corporation frequently serves as a barometer of investor confidence in the stability and sustainability of its operations. Large corporations typically possess superior access to capital markets and funding avenues, enabling them to sustain both long-term growth and dividend distribution strategies. Moreover, on a wider scale, corporations can navigate market swings more adeptly, so reinforcing their capacity to reliably distribute dividends.

The research findings of Santosa et al., (2023); Wahjudi, (2020); Wirama et al., (2024); Yousaf et al., (2019) indicate a substantial positive correlation between firm size and dividend payout ratio. This indicates that as a company's size increases, so does its propensity to augment dividend disbursements. This results from major organizations' capacity to effectively manage financial risk and utilize their cash flows to satisfy shareholder demands.

H6: Firm Size has a positive effect on Dividend Policy.

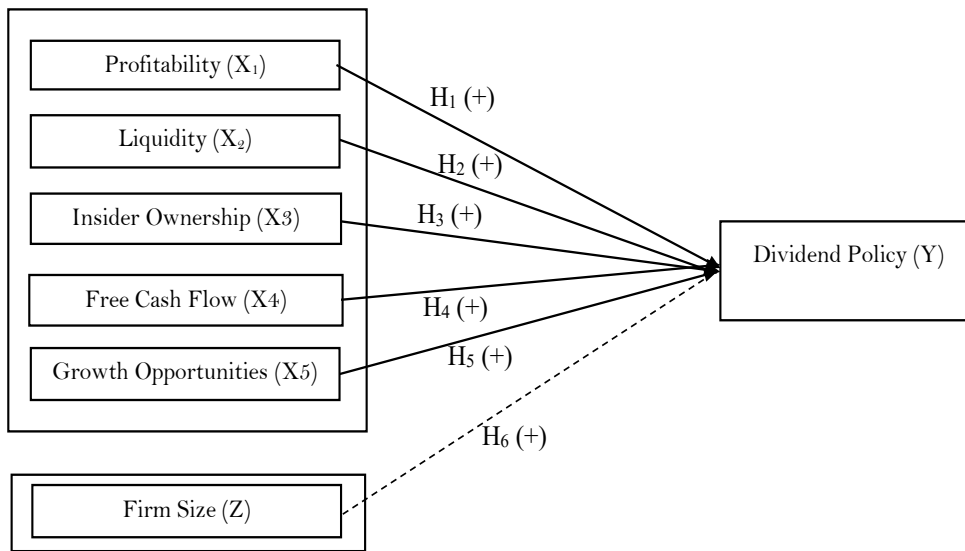


Figure 1. Theoretical Framework

3. Methods

This study employed five independent variables, one control variable, and one dependent variable, utilizing multiple linear regression for data analysis, represented by the following equations:

$$DPR = \alpha + \beta_1PROF + \beta_2LIQ + \beta_3IO + \beta_4FCF + \beta_4GO + \beta_4FS + e$$

This study encompasses all manufacturing companies that are publicly traded on the Indonesia Stock Exchange within the period from 2021 to 2023. A purposive sampling method will be employed to define the particular sample for examination, with the selection process adhering to the following criteria:

Table 1. Research Sample

No	Information	Sum
1	Manufacturing firms registered on the IDX for the 2021-2023 timeframe	165
2	Manufacturing firms that fail to disclose Annual and Sustainability Reports on the IDX for the 2021-2023 timeframe	(12)
3	Companies having financial statements denominated in currencies other than rupiah for the period 2021-2023	(30)
4	Manufacturing firms that did not distribute dividends from 2021 to 2023	(40)
5	Manufacturing firms that incurred losses during the period from 2021 to 2023	(20)
6	Manufacturing firms that fail to supply comprehensive data in accordance with the specified variables	(4)
	Number of company samples	59
	Number of company samples x 3 (2021-2023)	177

Table 2. Variable Operational Definition

Variable	Symbol	Formula
Dividend Policy	DPR (Y)	Total Dividends/EBIT x 100%
Profitability	PROF (X ₁)	Net Income/Shareholder' s Equity x100%
Liquidity	LIQ (X ₂)	Current Assets-Inventories/Current Liabilities x 100%
Insider Ownership	IO (X ₃)	Management Shares/Total Shares x 100%
Free Cash Flow	FCF (X ₄)	CFO-Capital Expenditure/Total Book Value of Assets x 100%
Growth Opportunities	GO (X ₅)	Sales t-Sales t-1/Sales t-1 x 100%
Firm Size	FS (Z)	Ln Total Assets

4. Results

Based on the coefficient of determination (R^2), the R Square value is 0.415. This indicates that the independent variables in the model, after accounting for the control variable, are able to explain 41.5% of the variation in the dependent variable. The Adjusted R Square value of 0.399 suggests that, after adjusting for the number of predictors in the model, approximately 39.9% of the variation in the dependent variable is consistently explained. Meanwhile, the standard error of the estimate is 0.92993, reflecting the average deviation of the predicted values from the actual observations. Overall, the model demonstrates a reasonably good predictive capability, although 58.5% of the variance remains influenced by factors outside the model.

The analysis showed an adjusted R-squared value of 0.399, indicating that the combined explanatory capacity of the six control variables included in the model accounts for 39.9 percent of the variations observed in dividend policy. Therefore, the significant remaining portion of 60.1 percent is probably due to other factors that are not considered in this study.

Table 4. F-Test with Control Variable

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	225.569	6	15.442	17.394	.000 ^b
1 Residual	320.915	170	1.201		
Total	546.053	176			
a. Dependent Variable: DPR					
b. Predictors: (Constant), PROF, LIQ, IO, FCF, GO, FS					

Table 5. Multiple Regression Results with Control Variables

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.169	0.172		0.977	0.316
FS	0.509	0.095	0.421	4.949	0.000
PROF	0.577	0.109	0.298	4.945	0.000
LIQ	0.087	0.087	0.099	0.990	0.310
IO	0.164	0.070	0.116	2.196	0.019
FCF	4.356	1.374	0.235	3.148	0.002
GO	0.153	0.052	0.167	2.658	0.004

The results presented in Table 5 show that insider ownership has a calculated t value of 2.196 and a significance level of 0.019, which is below 0.05. Since the significance value is less than 0.05, H₁ is accepted. This study demonstrates that insider ownership significantly positively affects dividend policy. A greater ownership proportion of shares by management correlates with an increased dividend rate disbursed. This situation demonstrates that the manager, who concurrently serves as a shareholder, possesses a direct stake in the quantity of dividends received. The test findings in table 5 indicate that free cash flow has a computed t value of 3.148 and a significance value of 0.002, which is less than 0.05. If the significance value is below 0.05, then H₁ is accepted. This study demonstrates that Free Cash Flow (FCF) exerts a substantial favorable impact on the company's dividend policy. Free Cash Flow (FCF) is crucial, as the available money inside a corporation significantly influence the extent of dividends that can be allocated. The higher the free cash flow of the organization, the larger its ability to distribute these funds to shareholders as dividends.

The test findings in table 5 indicate that liquidity has a computed t-value of 0.990 and a significance value of 0.310, which exceeds 0.05. If the significance value exceeds 0.05, H₁ is discarded. The research indicates that liquidity does not significantly affect a company's dividend policy. This indicates that the company's liquidity during a specific period is not the primary criterion utilized by management in deciding the dividend distribution to shareholders. When a corporation encounters liquidity difficulties, management's primary focus is to use available cash to fulfill immediate obligations, such as debt repayments and operational expenses, prior to contemplating dividend distribution. The test findings in table 5 indicate that growth opportunities have a computed t-value of 2.658 and a significance value of 0.004, which is less than 0.05. If the p-value is below 0.05, then the alternative hypothesis (H₁) is accepted. The findings of this study indicate that growth opportunities significantly impact the positive correlation with dividend policy. This link aligns with the Free Cash Flow theory, which posits that organizations with substantial growth potential typically experience a large increase in operational cash flow, hence enhancing the company's profitability. Increased profits furnish a more robust foundation for corporations to allocate dividends to shareholders.

This favorable correlation indicates that as managers' equity holdings rise, it suggests their wealth is not appropriately diversified. Consequently, management often promotes increased dividend disbursements as recompense for the opportunity costs associated with restricted asset diversification. This indicates that the rise in stock ownership by managers correlates closely with the proposed dividend amount, since managers are motivated to optimize the return on their personal investment in the company.

The empirical findings derived from the regression equation assessment, as presented in Table 5, are subsequently elucidated:

$$\text{DPR} = 0.169 + 0,577 \text{ PROF} + 0,087 \text{ LIQ} + 0,164 \text{ IO} + 4,356 \text{ FCF} + 0,153 \text{ GO} + 0,509 \text{ FS} + e$$

Regarding the effect of profitability on dividend policy, the statistical analysis presented in Table 5 reveals a t-statistic of 4.945 alongside a significance level of 0.000. Given that this p-value is markedly lower than the conventional threshold of 0.05, the alternative hypothesis (H1) is consequently supported. This outcome signifies a robust and positive association between a company's profitability and its approach to distributing dividends. The results indicate that a company's enhanced profit-generating capacity correlates positively with its likelihood of augmenting dividend distributions to shareholders. This viewpoint aligns with the free cash flow hypothesis proposed by Jensen et al., (1976), which asserts that optimal financial performance enables the corporation to deliver enhanced returns through elevated dividends.

5. Discussion

Companies must improve equity management to optimize earnings and ensure dividend payouts support long-term sustainability. Prior studies (Dewasiri et al., 2019; Tinungki et al., 2022; Wahjudi, 2020; Wirama et al., 2024) confirm that profitability positively influences dividend policy. Higher profitability enables consistent dividends, reflecting strong financial performance and promoting shareholder welfare. This study empirically supports that effective dividend strategies enhance competitiveness, investor trust, and long-term growth. The annual fluctuations in liquidity make this statistic less relevant for calculating the Dividend Payout Ratio (DPR), which is typically assessed and disbursed at year-end. These findings align with previous studies by Le et al., (2019); Yunisari & Ratnadi, (2018), which consistently demonstrate that liquidity does not have a significant correlation with dividend policy. This study highlights that organizations are more likely to prioritize operational stability and long-term company continuity in their cash management strategies, rather than relying on liquidity levels as a criterion for profit distribution to shareholders. By focusing on sustainable dividend policies, companies can ensure financial health and align dividend strategies with the goal of long-term value creation, which ultimately strengthens their competitive advantage by maintaining a stable financial position that supports growth and shareholder trust.

The results of this study are consistent with earlier research Afza & Mirza, (2010); Shafai & Shafai, (2020) which highlight that internal shareholding incentivizes managers to adopt a more favorable dividend policy as a direct reward for their investment in the company. These findings offer significant insights for manufacturing firms, suggesting that internal ownership arrangements are a critical element in the development of a sustainable dividend policy. By aligning managerial interests with those of shareholders, companies can strengthen their competitive advantage, fostering a long-term commitment to both profitability and dividend sustainability.

The findings of this study support Jensen et al.'s (1976) free cash flow theory, which advocates dividend distribution of surplus funds to minimize agency costs and prevent managerial misuse. Consistent with Al-Fasfus (2020) and Le et al. (2019), the results affirm that free cash flow positively influences the Dividend Payout Ratio (DPR), as strong operational cash flow enables sustainable dividends and promotes financial stability. Liquidity also plays a vital role; firms should leverage market growth to improve earnings and meet shareholder expectations. Additionally, this

study aligns with Al-Twaijry (2007) and Wahjudi (2020), who found that growth opportunities positively impact dividend policy, underlining the need for strategic growth management to enhance firm performance and shareholder value.

The test results in Table 5 show that company size has a t-value of 4.949 and a significance of 0.000, indicating a positive and significant effect on dividend policy (H1 accepted). Including firm size as a control variable significantly improves the regression model, as detailed in Table 6.

Table 6. Firm Size Results as Control Variables

Variable	Results Without Control Variables	Results with control variables
PROF	Significant positives	Significant positives
LIQ	Negative significant	No effect
IO	No effect	Significant positives
FCF	Significant positives	Significant positives
GO	No effect	Significant positives
Adjusted R ²	34.5%	39.9%

The regression results confirm the hypothesis that company size positively influences the Dividend Payout Ratio (DPR), indicating that larger firms are more likely to distribute dividends due to stronger financial capacity and operational stability. This aligns with the notion that firm size is a key determinant of sustainable dividend policy, enabling competitive advantage through consistent shareholder returns.

6. Conclusion

This study investigated the factors influencing dividend policy among manufacturing firms listed on the Indonesia Stock Exchange from 2021 to 2023, focusing on profitability, liquidity, insider ownership, free cash flow, growth opportunities, and controlling for firm size. The regression results explained 39.9% of the variation in dividend payouts, showing that profitability, insider ownership, free cash flow, growth prospects, and firm size have a significant positive impact on dividend policy, while liquidity was not a significant predictor. These findings suggest that companies with higher profitability, strong free cash flow, considerable insider ownership, and good growth potential tend to distribute higher dividends, with larger firms better positioned to sustain these payments due to greater financial stability. Practically, these results highlight the need for management to focus on increasing profitability, optimizing free cash flow, and leveraging growth opportunities to support sustainable dividend payments while balancing reinvestment for long-term growth. Insider ownership appears to align management decisions with shareholder interests, reducing agency conflicts and improving dividend strategies. For investors, company size, profitability, free cash flow, and growth opportunities serve as important indicators for predicting dividend payouts, helping guide investment decisions. Theoretically, the study reinforces agency theory by showing how effective management of internal ownership and cash flows mitigates conflicts and supports sustainable dividend policies. However, the nonsignificant role of liquidity points to complexities in emerging market contexts that warrant further investigation.

Although the model explains a substantial portion of dividend policy variation, over 60% remains unexplained, indicating other factors at play. Future research should consider additional variables such as macroeconomic conditions, corporate governance, and market sentiment, and adopt longitudinal designs to capture

dynamic changes in dividend policy. Expanding the scope beyond manufacturing firms and incorporating qualitative insights could also deepen understanding of dividend decision-making in diverse contexts.

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