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The Impact of Financial Performance Toward Dividend Policy in the Indonesian Banking Subsector Moderated by Managerial Ownership

Siti Aisah[a]*, Made Gede Wirakusuma[b], Dewa Gede Wirama[c], Gerianta Wirawan Yasa[d]

[a,b,c,d]*Department of Accounting, Udayana University, Bali, Indonesia*

[a]*Email: sitiaisah202344@gmail.com*

Abstract

This study aims to provide empirical evidence regarding the influences of financial performance such as profitability, liquidity, leverage, free cash flow, company size and managerial ownership. A total of 47 banking sub-sector companies listed on the IDX for the period 2019-2023 were used as samples in the study. Quantitative methods were used in this study by utilizing Stata software in processing statistical data. The results of the study show that while profitability, liquidity and free cash flow (FCF) have a positive effect on dividend policy, leverage has no effect on dividend policy in banking sub-sector companies in Indonesia. The study has shown that managerial ownership does not moderate the positive influence of profitability, leverage and FCF, but managerial ownership moderates the influence of liquidity on dividend policy in banking sub-sector companies in Indonesia. The results of this study provide both theoretical and practical implications. Theoretical implications provide an empirical support for agency theory. Practical implications provide insights into the relationship between management's financial performance and the strategic formulation of dividend policies that management and company owners as parties in banking companies can produce more informed decisions and enhance corporate governance.

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* *Corresponding author.*

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1. Introduction

Dividend policy represents a critical decision for companies, as the implementation of such policies through dividend payments can significantly enhance firm value [1]. One of the primary reasons for adopting and executing a dividend policy is to signal the financial health of a company. Research conducted in the U.S. banking sector indicates that banks are more likely to continue distributing dividends compared to non-banking firms, despite a general downward trend in dividend payments [2]. However, not all banks distribute their profits as dividends; some allocate earnings to retained earnings. One common use of retained earnings is for investment purposes. For instance, during the 2024 General Meeting of Shareholders (GMS) of PT Bank Raya Indonesia Tbk, it was decided that no dividends would be distributed, and instead, profits would be reinvested in product development [3].

According to Indonesian Law No. 14 of 1967, Article 1, concerning the Principles of Banking, a bank is defined as a financial institution whose primary business activities include providing credit and offering services related to payment traffic and money circulation [4]. Banks are classified on their functions: (1) collecting funds from the public, commonly referred to as Third Party Funds (TPF), in the form of savings, time deposits, and demand deposits; (2) actively engaging in credit operations; and (3) channelling credit to the public using both their own capital and TPF [5].

Banking liquidity has fluctuated over the past five years, as reflected in the growth of TPF from 2019 to 2023. As illustrated in Figure 1, the orange line shows that TPF experienced fluctuations during this period. From 2020 to 2022, TPF increased, indicating improved banking liquidity. However, throughout 2023, TPF growth slowed. In January 2023, TPF grew by 8.5%, but by June it had declined to 5.3%, and further slowed to 3.8% by the end of the year. This trend suggests a deceleration in banking liquidity growth. Economic factors, personal financial conditions, spending habits, and declining income levels often contribute to reduced public savings [6].

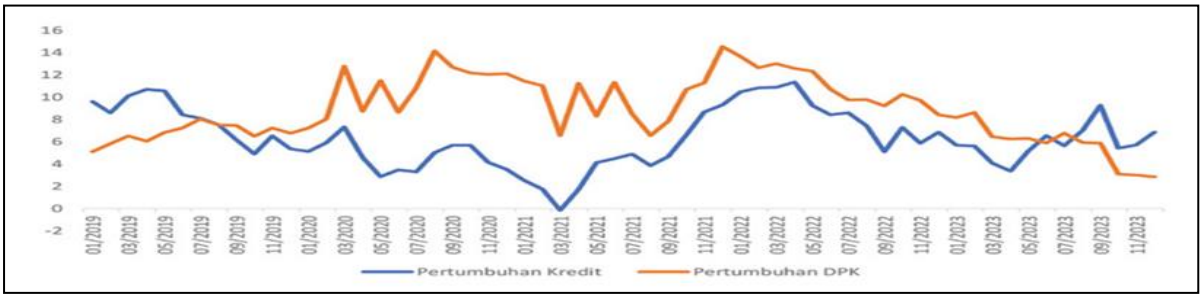

Figure 1: Growth TPF (%, YoY) 2019-2023

Source: PERBANAS

A study on TPF in Indonesian banking found that TPF has a significant and positive impact on financial performance and firm value [7]. Subject for these finding concluded that TPF significantly and positively affects

the profitability of Islamic banks in Indonesia [8]. TPF is crucial for banking institutions, and fluctuations in TPF volumes directly influence operational activities, which in turn affect financial performance and have implications for dividend policy.

In conducting their business activities, banks have the option to determine an optimal capital structure by maximizing internal funding, external funding, or a combination of both. It was concluded that the capital structure of commercial banks in Saudi Arabia is highly leveraged, primarily sourced from deposits [9]. Research found that a bank is considered to have sound capital when it maintains a high equity-to-asset ratio and a low debt-to-loan ratio [10]. This structure enables banks to maintain a strong buffer in the event of unexpected withdrawals or market fluctuations.

Dividend policies vary across companies depending on the decisions made during the General Meeting of Shareholders (GMS), including those in the banking subsector. Selecting an appropriate dividend policy model, maintaining dividends at a conservative level, and ensuring transparency in dividend payments can significantly influence a company's financial performance [11].

Numerous factors influence a company's dividend policy. Commonly studied variables include profitability, liquidity, leverage, free cash flow, and firm size. Profitability plays a crucial role in a company's operations [12] and [13]. Liquidity also plays a crucial role as only companies with strong liquidity are able to distribute profits to shareholders in the form of cash dividends, Suharli as cited in [14].

Leverage reflects the proportion of debt a company holds. Companies are advised to exercise caution in determining their debt levels, as leverage can significantly impact firm value [1]. A healthy company is often characterized by a strong free cash flow (FCF), which is the cash generated from operating activities after deducting short-term and long-term expenditures.

Corporate financial performance—measured through profitability, liquidity, leverage, and FCF—can be influenced by good corporate governance. The implementation of sound governance practices is essential for enhancing both financial performance and firm value. One aspect of good governance is managerial ownership. Ownership structure plays a critical role in the operational management of a company, as it is closely linked to the policies adopted by management.

Previous studies examining the influence of profitability, liquidity, leverage, and free cash flow on dividend policy have yielded mixed results. In light of the importance of corporate governance, this study introduces managerial ownership as a moderating variable to assess whether it strengthens or weakens the influence of the independent variables on dividend policy and to clarify the findings. Additionally, firm size is included as a control variable to minimize the influence of external factors beyond the independent variables.

2. Literature Review and Hypothesis

2.1 Agency Theory

Agency Theory serves as the foundational framework for this study. It was asserted that agents make decisions and exercise authority based on a contractual relationship with the principal (the owner of the firm) [15]. The theory emphasizes that agents do not always act solely in the best interests of the principal. Therefore, providing incentives to agents and monitoring their actions are essential mechanisms to prevent opportunistic behaviour. Agency costs are categorised into three components: monitoring costs incurred by the principal, bonding costs borne by the agent, and residual losses resulting from divergent interests [15]. Broadly, Agency Theory describes the fundamental agency relationship between the agent and the principal within a cooperative arrangement. However, in practice, each party often has differing objectives and attitudes toward risk [16]. These differences stem from the unequal distribution of information between the parties, leading to information asymmetry.

2.2 Dividend Policy

Management within a company has several alternatives regarding the allocation of net income: it can be retained as earnings, distributed to shareholders in the form of dividends, or a combination of both. Dividend policy refers to the decision concerning the use of the company's earnings, which constitutes the rightful claim of the shareholders [17].

2.3 Profitability

Profitability refers to a company's ability to generate earnings. The level of profit achieved—whether high or low—largely depends on the quality of management [18].

2.4 Liquidity

Liquidity reflects a company's ability to meet its short-term obligations in a timely manner. The higher the liquidity ratio, the more liquid the banking institution is considered to be [19].

2.5 Leverage

Leverage refers to the proportion of debt a company holds. Companies are expected to maintain a balance between the amount of debt incurred and their ability to repay it. Extreme leverage describes a condition in which a company faces significant financial risk due to excessively high levels of debt [20].

2.6 Free Cash Flow (FCF)

Free Cash Flow (FCF) refers to the cash balance a company retains from its operating activities after deducting all necessary expenditures. A negative FCF indicates a cash shortfall, whereas a positive FCF signifies that the company has surplus cash remaining from its operations [18].

2.7 Managerial Ownership

Good Corporate Governance (GCG) is a framework that outlines how a company is directed and controlled,

with the primary objectives of enhancing corporate performance, acting in the best interests of shareholders, and ensuring that all processes comply with applicable regulations [21]. Companies are governed and managed by executives who are responsible for making strategic decisions in accordance with the principles of corporate governance. When management holds ownership stakes, it is expected to help reduce information asymmetry between principals and agents.

2.8 Firm Size

Firm size can be measured by total sales, total assets, total profits, or market capacity. Larger firms tend to have easier access to third-party financing, which can lead to higher profitability. With greater cash holdings, such firms are also better positioned to allocate funds for operations, investments, or dividend payments. In the banking sector, one of the key indicators of a bank's size is the total value of its assets [22]. Higher dividends are often a result of higher profitability, which in turn can be influenced by the possession of substantial assets [23]. Research has shown that larger firms are more likely to distribute higher dividends compared to smaller firms [24].

2.9 The Effect of Profitability on Dividend Policy

Profitability is one of the key factors influencing a company's dividend policy. A firm's profits can directly determine the amount of dividends to be distributed to investors and the portion of earnings to be retained. It has been posited that there exists an information asymmetry between external investors and management regarding the firm's profitability [25]. In line with Agency Theory, to minimize this asymmetry between agents and principals concerning the company's financial performance, the formulation of dividend policy by management—subsequently approved at the General Meeting of Shareholders (GMS)—serves as an effective communication tool.

Previous studies in the banking sector found that profitability has a positive and significant effect on dividend policy decisions and dividend payments [26] and [23]. Similarly, research [27] and [2] confirmed that profitability positively influences dividend policy in the banking industry. Consistent findings were also reported indicating that dividends are positively and significantly affected by profitability [13] and [28]. These findings suggest that profitability plays a crucial role in shaping a company's dividend policy. When a company generates substantial profits, it is more likely to distribute higher dividends. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H1: Profitability has a positive effect on dividend policy.

2.10 The Effect of Liquidity on Dividend Policy

Liquidity refers to a company's ability to meet its short-term obligations using its assets. The more liquid a company is, the greater its ability to distribute dividends in cash. Only companies with strong liquidity are able to distribute profits to shareholders in the form of cash dividends, Suharli as cited in [14]. In line with Agency Theory, one source of conflict between agents and principals is the agent's tendency to act in their own interest.

To minimize such conflicts, agents must be held accountable during the General Meeting of Shareholders (GMS) for decisions regarding the allocation of funds for operational activities.

Previous studies found a significant positive relationship between liquidity and dividend policy [29] and [30]. Research on bank liquidity also supports this positive relationship [27] and [31], it was confirmed that liquidity positively affects dividend policy in Indonesian banking firms [23]. Similarly it was concluded that higher liquidity facilitates the formulation of dividend policy [28]. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H2: Liquidity has a positive effect on dividend policy.

2.11 The Effect of Leverage on Dividend Policy

Leverage reflects the proportion of debt a company holds. Companies are expected to carefully manage their debt levels, as leverage can significantly influence firm value [1]. A company's ability to manage its debt sends signals to external stakeholders through financial reports. The better a company is perceived by investors, the more likely it is to attract investment. According to Agency Theory, agents do not always act in the best interests of principals, and monitoring agent behaviour helps reduce potential deviations.

Banks, in particular, rely heavily on leverage for their operations. Unlike non-financial firms, banks are considered highly leveraged institutions and are often referred to as "masters of leverage" [32]. Banks collect deposits and channel them into loans, demonstrating how leverage is used to generate profits. Higher leverage in banks increases operational capacity and significantly impacts financial performance.

Previous studies have shown that leverage positively influences dividend policy. Islamic banks continued to distribute dividends despite rising leverage [33]. A positive relationship was reported between leverage and dividend policy decisions [34,35]. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H3: Leverage has a positive effect on dividend policy.

2.12 The Effect of Free Cash Flow (FCF) on Dividend Policy

Free Cash Flow (FCF) is crucial for a company, as it represents the remaining cash from operational activities after all necessary expenditures. From an investor's perspective, FCF indicates the availability of cash that can potentially be distributed as dividends. A company's decision to distribute dividends signals strong business performance and financial health. Dividend policies proposed by management and approved by shareholders during the GMS can help reduce agency conflicts. The availability of FCF is often a key factor in determining dividend policy.

A study conducted in Nigeria, concluded that FCF has a positive and significant effect on dividend policy [36]. Similar results were found in Indonesia, where companies listed on the main stock index prioritize dividend payments over reinvestment [37]. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H4: Free Cash Flow has a positive effect on dividend policy.

2.13 Managerial Ownership Weakens the Positive Effect of Profitability on Dividend Policy

Managerial ownership encourages managers to maximize profitability. As profitability increases, management has greater discretion in proposing corporate policies, including whether to reinvest profits or distribute them as dividends. According to Agency Theory, agents may act in their own interests rather than those of the principals, using profits in ways that benefit themselves most.

It was found that managerial ownership negatively affects dividend payments [36]. The study suggests that the more shares are held by management, the less attractive dividend payments become to investors. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H5: Managerial ownership weakens the positive effect of profitability on dividend policy

2.14 Managerial Ownership Weakens the Positive Effect of Liquidity on Dividend Policy

Granting ownership rights to management is intended to motivate better performance. With equity stakes, managers are expected to act in the company's best interest. However, excessive ownership may lead to self-serving behaviour, as suggested by Agency Theory. Overuse of cash for operational purposes can jeopardize the company's sustainability. Liquidity is essential, especially in times of crisis, such as the COVID-19 pandemic, to ensure the company can meet its short-term obligations.

In a study across the Gulf Cooperation Council (GCC) and East Asian countries research showed that during financial crises, managerial ownership significantly and negatively affected dividend payments [38]. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H6: Managerial ownership weakens the positive effect of liquidity on dividend policy.

2.15 Managerial Ownership Weakens the Positive Effect of Leverage on Dividend Policy

In modern corporate structures, ownership and control are often separated, making conflicts of interest between managers and shareholders inevitable [39] These conflicts arise due to differences in the quality of information held by each party, with management—as internal stakeholders—possessing more comprehensive knowledge of the company's condition than external parties.

According to Agency Theory, the primary responsibility of management is to operate the company in the best interest of the principals. With managerial ownership, managers act both as agents and principals. Managers

may use their authority to pursue profitable investments, potentially financing operations through debt to enhance firm value, it can be argued that when ownership lies with experienced professionals, they tend to favour debt financing for efficiency reasons [40].

Boshnak found that managerial ownership negatively affects dividend per share, a proxy for dividend policy [41]. The absolute power held by managers is cited as a reason for the lower dividend payout. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H7: Managerial ownership weakens the positive effect of leverage on dividend policy.:

2.16 Managerial ownership weakens the Positive Effect of Free Cash Flow on Dividend policy

Public companies are typically owned by multiple parties, each with different objectives. Managerial ownership allows managers to leverage their insider knowledge of the company's condition. During the General Meeting of Shareholders (GMS), managers with ownership rights may choose to reinvest profits to enhance long-term firm value rather than distribute them as dividends. This aligns with Agency Theory, which suggests that agents do not always act in the best interests of principals. Companies with high managerial ownership tend to distribute lower dividends [42]. Based on the theoretical framework and previous empirical studies, the following hypothesis is proposed:

H8: Managerial ownership weakens the positive effect of FCF on dividend policy.

3. Research Methodology

3.1 Data

This study employs a quantitative method using secondary data sourced from three platforms: financial statements published on the Indonesia Stock Exchange (IDX) website, annual reports from each company's official website, and data from Stockanalysis.com, which aggregates information from S&P and FMP. The sampling method used is saturated sampling, where the entire population is used as the sample [43]. The sample consists of 47 banking companies over the period 2019–2023, resulting in 235 observations.

3.2 Variable Measurement

3.2.1 Dependent Variable

Dividend policy refers to the decision regarding the use of a company's earnings, which are the shareholders' entitlement [17]. It is proxied by the Dividend Payout Ratio (DPR), calculated as the ratio of total dividends to earnings after tax for a given period [44].

3.2.2 Independent Variable

Profitability is the ratio used to measure a company's ability to generate profit over a specific period. It is

proxied by Return on Assets (ROA), which reflects the company's ability to generate net income from its assets [45,46,47].

Liquidity reflects a company's ability to meet its short-term obligations using current assets. It is proxied by the Loan to Deposit Ratio (LDR), which measures the ratio of loans extended to third parties (excluding interbank loans) to third-party funds [23].

Leverage is the proportion of debt a company holds and is measured using the Debt to Total Assets Ratio (DAR), which assesses long-term financial risk [33,45,47,48].

Free Cash Flow (FCF) is the remaining cash from operational activities after deducting necessary expenditures [36].

3.2.3 Moderating Variable

Managerial ownership refers to the proportion of shares held by executive directors, managers, and board members. This variable is based on the definition used by [39].

3.2.4 Control Variable

Firm size is measured by the total assets held by a company during a specific period. Larger firms are more likely to access capital markets and generate higher profits. Firm size is proxied by total assets [27,46,23, 48].

3.2.5 Data Analysis Technic

The data analysis techniques include descriptive statistics, model selection tests, classical assumption tests (normality, multicollinearity, heteroscedasticity, autocorrelation), coefficient of determination test, Moderated Regression Analysis (MRA), simultaneous effect test (F-test), and partial effect test (t-test). The analysis is conducted using Stata software.

The MRA equation is as follows:

$$DPR_{it} = \alpha_{it} + \beta_1 ROA_{1it} + \beta_2 LDR_{2it} + \beta_3 DAR_{3it} + \beta_4 FCF_{4it} + \beta_5 KM_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{1it} * KM_{it} + \beta_8 LDR_{2it} * KM_{it} + \beta_9 DAR_{3it} * KM_{it} + \beta_{10} FCF_{4it} * KM_{it} + \varepsilon_{it} \quad (1)$$

Description:

DPR = Dividend Policy

α = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$, = Regression Coefficients

$\beta_7, \beta_8, \beta_9, \beta_{10}$ = Interaction Coefficients

ROA_{1it} = Profitability

LDR_{2it} = Liquidity

DAR_{3it} = Leverage

FCF_{4it} = Free Cash Flow

KM_{it} = Managerial Ownership

$SIZE_{it}$ = Firm Size

$ROA_{1it}*KM_{it}$ = Interaction between profitability and managerial ownership

$LDR_{2it}*KM_{it}$ = Interaction between liquidity and managerial ownership

$DAR_{3it}*KM_{it}$ = Interaction between leverage and managerial ownership

$FCF_{4it}*KM_{it}$ = Interaction between FCF and managerial ownership

ε_{it} = error

4. Empirical Result

4.1 Descriptive Statistic

Based on Table 1, the minimum value of profitability is -15.89, indicating that among all the profitability values recorded by the companies, the lowest was -15.89. The maximum profitability value is 32.87, meaning the highest profitability achieved by a company was 32.87. The mean value of the profitability variable is 0.91, which indicates that the average profitability of all banking companies from 2019 to 2023 was 0.91. The standard deviation (which reflects the spread of the data) is 3.96.

The liquidity variable has a minimum value of 0.00, indicating that the lowest liquidity value recorded among the companies was 0.00. The maximum liquidity value is 527.91, showing that the highest recorded liquidity was 527.91. The mean value of the liquidity variable is 91.35, meaning the average liquidity of all banking companies from 2019 to 2023 was 91.35. The standard deviation (data dispersion) is 49.24.

The leverage variable has a minimum value of 5.54, indicating that the lowest leverage recorded among the companies was 5.54. The maximum value is 93.21, meaning the highest leverage observed was 93.21. The mean value of leverage is 75.09, which shows that the average leverage of all banking companies from 2019 to 2023 was 75.09. The standard deviation (data dispersion) is 19.47.

The Free Cash Flow (FCF) variable has a minimum value of -158.65, indicating that the lowest FCF recorded was -158.65. The maximum value is 122.88, meaning the highest FCF observed was 122.88. The mean value of FCF is 1.99, indicating that the average FCF of all banking companies from 2019 to 2023 was 1.99. The standard deviation is 21.01.

The moderating variable, managerial ownership, has a minimum value of 0.00, indicating that some companies had no managerial ownership. The maximum value is 49.14, meaning the highest level of managerial ownership recorded was 49.14. The mean value is 0.70, showing that the average managerial ownership among all banking companies from 2019 to 2023 was 0.70. The standard deviation is 4.27.

The control variable, firm size, has a minimum value of 13.48, indicating the smallest firm size observed. The maximum value is 21.50, meaning the largest firm size recorded was 21.50. The mean firm size is 17.50, showing that the average firm size of all banking companies from 2019 to 2023 was 17.50. The standard deviation is 1.77.

The dependent variable, dividend policy, has a minimum value of 0.00, indicating that some companies did not distribute dividends. The maximum value is 85.00, meaning the highest dividend payout recorded was 85.00. The mean value of dividend policy is 14.03, showing that the average dividend payout ratio of all banking companies from 2019 to 2023 was 14.03. The standard deviation is 21.74.

Table 1: Statistic Descriptive Variable

Variable	Observations	Mean	Std Deviation	Min	Max
ROA	235	0.91	3.96	-15.89	32.87
LDR	235	91.35	49.24	0.00	527.91
DAR	235	75.09	19.47	5.54	93.21
FCF	235	1.99	21.09	-158.65	122.88
KM	235	0.70	4.27	0.00	49.14
SIZE	235	17.50	1.77	13.48	21.50
DPR	235	14.03	21.74	0.00	85.00

4.2 Model Selection Test

The result of the Chow Test for the regression equation shows a probability value of 0.7226 in Figure 2, which indicates that the probability is greater than the significance level of 0.05. Therefore, the most appropriate model for this study is the Common Effect Model (CEM).

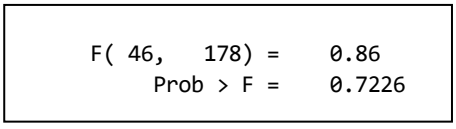

Figure 2: Chow Test

The result of the Lagrange Multiplier (LM) test for the regression equation shows a prob > chibar² value of 1.0000 in Figure 3, which means that the probability value is greater than the significance level of 0.05. Therefore, the appropriate model selected for this study is the Common Effect Model (CEM).

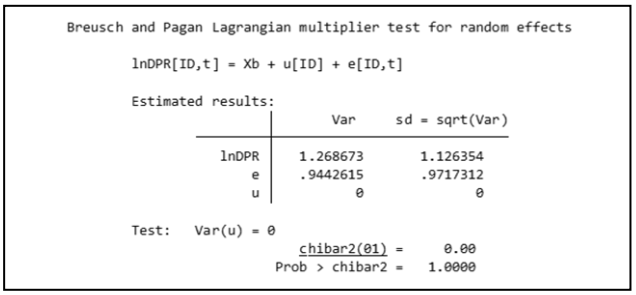

Figure 3: LM Test

The result of the Hausman test for the regression equation shows a prob > chi² value of 0.9057 in Figure 4, indicating that the probability value is greater than the significance level of 0.05. Therefore, the most appropriate model is the Random Effect Model (REM). Based on the results of both the LM test and the Hausman test, the most suitable model to be used in this study for the regression equation is the Random Effect Model (REM).

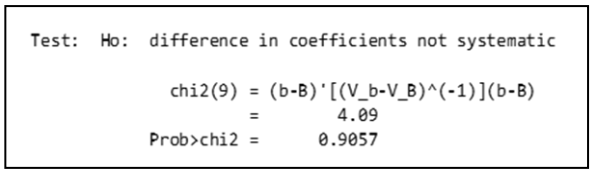

Figure 4: Hausman Test

Based on the Chow Test, LM Test and Hausman Test, the best model is *Common Effect Model* (CEM).

4.3 Assumption Classic Test

Based on the results of the normality test using the normal probability plot shown in Figure 5 the points tend to spread along the diagonal line. This indicates that the data can be considered normally distributed.

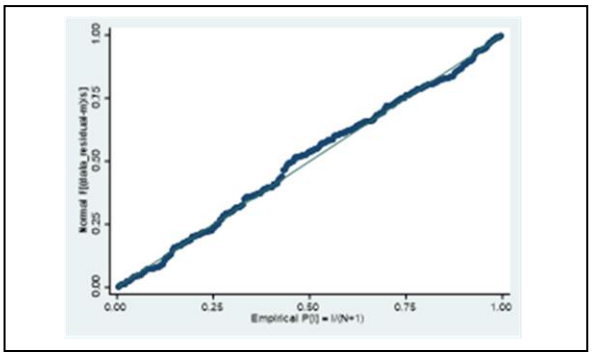

Figure 5: Normality Test

Based on the results of the multicollinearity test shown in Table 2, the VIF values are all less than 10, indicating that there is no multicollinearity among the variables.

.***Table 2:*** *Multicollinearity Test*

Variable	VIF	1/VIF
KM	8.05	0.124194
DARxKM	3.68	0.271406
ROAxKM	2.31	0.302080
FCFxKM	2.69	0.371200
SIZE	2.07	0.483021
ROA	1.70	0.586529
DAR	1.67	0.600351
LDR	1.44	0.692145
FCF	1.03	0.970721
LDRxKM	1.02	0.982426
Mean VIF	2.67	

Based on the results of the autocorrelation test shown in Figure 6 the runs test value is 0.84, which is greater than 0.05. Therefore, it can be concluded that there is no autocorrelation in the data.

```
. runtest data_residuals
 N(data_resid~s <= .0915864929556847) = 118
 N(data_resid~s >  .0915864929556847) = 117
                  obs = 235
             N(runs) = 120
                   z  = .2
            Prob>|z| = .84
```

Figure 6: Autocorrelation Test

Based on the results of the heteroscedasticity test shown in Figure 7, there is no clear pattern, and the points are scattered above and below the value of 0 on the Y-axis. Therefore, it can be concluded that heteroscedasticity is not present in the data.

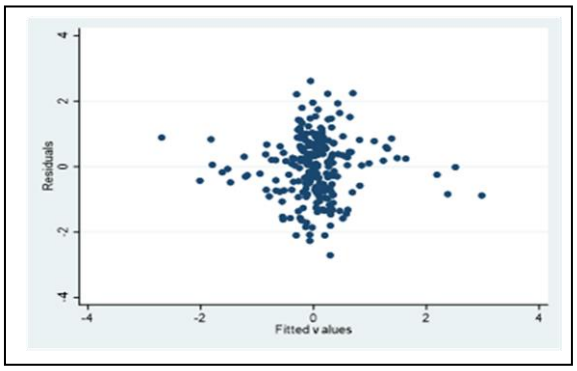

Figure 7: Heteroscedasticity Test

4.4 Empirical Findings

Simultaneous Test (F-Test)

The Prob > F value is 0.0000 in Table 3, which indicates that the probability is less than the significance level of 0.05. This means that the variables ROA, LDR, DAR, FCF, KM, and SIZE jointly or simultaneously have a significant effect on the dividend policy (DPR) variable.

Coefficient of determination test (R^2)

The result of the coefficient of determination test (R^2) shows that the Adjusted R-squared value is 0.2772 in Table 3. This indicates that the variables ROA, LDR, DAR, FCF, KM, and SIZE are able to explain 27.72% of the variation in dividend policy (DPR), while the remaining 72.28% is explained by other variables not included in the research model.

Table 3: Coefficient Determination (R^2)

Number of obs	=	235
F(10,224)	=	9.97
Prob > F	=	0.0000
R- squared	=	0.3081
Adj R-square	=	0.2772
Root MSE	=	.95759

Based on Table 4, the following Moderated Regression Analysis (MRA) equation is obtained:

$$DRP_{it} = 0.2687_{it} + 0.1122ROA_{1it} + 0.0049LDR_{2it} + 0.0074DAR_{3it} + 1.8000FCF_{4it} – 0.2896KM_{it} – 0.6940SIZE + 0.00016ROA_{1it}xKM_{it} – 0.2160LDR_{2it}xKM_{it} + 0.0000DAR_{3it}xKM_{i} - 0.0117FCF_{4it}xKM_{i} + \varepsilon_{it}$$

The constant value (α) is 0.2687, which means that if the variables profitability, liquidity, leverage, free cash flow, managerial ownership, and firm size are all zero, then the dividend policy would be 0.2687. In this context, the positive value (0.2687) indicates that even in the absence of profitability, liquidity, leverage, free cash flow, managerial ownership, and firm size, the dividend policy would still have a baseline value of 0.2687.

Table 4: *Moderated Regression Analysis Result*

Variable	Coefficient	Standard Error	P_value	Decision
ROA	0.1122	0.0206	0.000	Significant
LDR	0.0049	0.0013	0.000	Significant
DAR	0.0074	0.0041	0.075	Not Significant
FCF	1.8000	0.0100	0.000	Significant
KM	-0.2896	0.0416	0.487	Not Significant
SIZE	-0.6940	0.0510	0.175	Not Significant
ROAxKM	0.0001	0.0011	0.909	Not Significant
LDRxKM	-0.2160	0.0935	0.022	Significant
DARxKM	0.00002	0.0008	0.975	Not Significant
FCFxKM	-0.0117	0.0622	0.851	Not Significant
α	0.2687	0.7908	0.734	

4.5 Discussion

4.5.1 The Positive Effect of Profitability on Dividend Policy

Hypothesis Testing for H_1

The profitability variable has a p-value of $0.000 \leq 0.05$ with a coefficient value of 0.1122. This indicates that profitability has a positive effect on dividend policy, and therefore, the first hypothesis (H_1) is accepted.

This finding is consistent with previous studies which also concluded that profitability positively influences dividend policy [26,13,27,2,28,23]. Profitability plays a significant role in shaping dividend policy in banking subsector companies in Indonesia. The dividend policy formulated by management must be based on the profits earned. Banking companies in Indonesia are also required to comply with law No. 40 of 2007 on Limited Liability Companies, which stipulates that a company cannot declare dividends if it does not generate profits [49].

The positive influence of profitability on dividend policy aligns with Agency Theory. According to this theory, both principals and agents have vested interests in the company. One way for agents to reduce information asymmetry, regarding the company's condition, is by formulating a dividend policy. This policy is proposed by the board of directors based on the company's profitability and approved by the board of commissioners during

the Annual General Meeting of Shareholders (AGMS), where it is ratified by shareholder resolution.

4.5.2 The Positive Effect of Liquidity on Dividend Policy

Hypothesis Testing for H_2

The liquidity variable has a p-value of $0.000 \leq 0.05$ with a coefficient value of 0.0049. This indicates that liquidity has a positive effect on dividend policy, and therefore, the second hypothesis (H_2) is accepted.

This finding is consistent with previous studies which concluded that liquidity positively influences dividend policy [30,29,27,23,31]. High liquidity enables management to more easily determine the amount of dividends to be proposed at the General Meeting of Shareholders (GMS). Another possible reason is that the company does not see any attractive investment opportunities.

The positive influence of liquidity on dividend policy is also in line with Agency Theory. The difference in the quality of information held by agents and principals regarding the company's condition can lead to agency conflicts. In addition to reducing the potential misuse of funds by agents, a well-formulated dividend policy serves as a mechanism to mitigate conflicts between agents and principals.

4.5.3 Positive Influence of Leverage on Dividend Policy

Hypothesis Testing for H_3

The leverage variable yielded a p-value of 0.075, which exceeds the significance threshold of 0.05 ($0.075 > 0.05$). This indicates that leverage does not have a statistically significant effect on dividend policy, and therefore, the third hypothesis (H_3) is not supported.

This finding is consistent with previous research, which also concluded that leverage does not influence dividend policy [45]. The nature of leverage in banking institutions differs from that in non-banking firms. In the banking sector, high leverage is not necessarily perceived as a negative signal.

The absence of a significant relationship between leverage and dividend policy contradicts Agency Theory. According to Agency Theory, agency problems arise due to differing perspectives between agents and principals. However, in the context of banking institutions, both agents and principals tend to share a common understanding regarding the role of leverage. Funds sourced from third parties constitute a form of leverage in banking operations, and such leverage is considered an integral part of the bank's operational activities.

4.5.4 The Positive Influence of Free Cash Flow (FCF) on Dividend Policy

Hypothesis Testing for H_4

The Free Cash Flow (FCF) variable has a p-value of 0.000 and a coefficient value of 1.8000. This indicates that FCF has a statistically significant effect on dividend policy, thus supporting the fourth hypothesis (H_4).

This finding aligns with previous research which also found that FCF has a significant positive influence on dividend policy [37]. The availability of cash within a company allows for its allocation as dividends. Dividends, which are formulated and approved during the General Meeting of Shareholders (GMS), aim to enhance shareholder welfare and prevent agents from acting in their own interests, such as investing in projects that do not yield optimal returns. This explanation is consistent with Agency Theory, which arises from the contractual relationship between agents and principals. One of the principal's objectives in delegating authority to agents is to maximize shareholder wealth.

4.5.5 Managerial Ownership Weakens the Positive Influence of Profitability on Dividend Policy

Hypothesis Testing for H_5

The variables of profitability and managerial ownership yielded a p-value of 0.909, which is greater than the significance level of 0.05 (0.909 > 0.05). Further analysis was conducted by examining the coefficients β_5 and β_7. The regression coefficient β_5 was found to be insignificant, and the interaction coefficient β_7 was also insignificant. This suggests that managerial ownership acts as a potential moderating variable (homologiser moderator). The p-value for the interaction term between profitability and managerial ownership exceeds the significance threshold (0.909 > 0.05), indicating that managerial ownership does not moderate the effect of profitability on dividend policy. Therefore, the fifth hypothesis (H_5) is not supported.

This result is consistent with previous research which showed that the level of managerial share ownership is relatively low and thus does not significantly influence dividend policy formulation [50].

The finding that managerial ownership does not moderate the positive effect of profitability on dividend policy is inconsistent with Agency Theory. Agency problems can arise when agents act in their own interests [15]. Although dividend policy is formulated by management (agents), it must be approved by shareholders during the GMS. The low percentage of managerial ownership in the company explains why managerial ownership does not moderate the relationship between profitability and dividend policy.

4.5.6 Managerial Ownership Weakens the Positive Influence of Liquidity on Dividend Policy

Hypothesis Testing for H_6

The variables of liquidity and managerial ownership yielded a p-value of 0.022, which is below the significance level of 0.05 (0.022 < 0.05). Further analysis was conducted by examining the coefficients β_5 and β_8. The regression coefficient β_5 was found to be insignificant, while the interaction coefficient β_8 was significant. This indicates that managerial ownership functions as a pure moderator variable. The interaction coefficient value of -0.2160, being negative, suggests a weakening effect on the relationship between liquidity and dividend policy. Therefore, the sixth hypothesis (H_6) is supported.

This finding is consistent with previous research which found that the higher the percentage of managerial ownership, the lower the dividend payout ratio [38]. In the context of Indonesian banking firms, higher levels of

both managerial ownership and liquidity are associated with lower dividend policy formulation.

The finding that managerial ownership weakens the positive influence of liquidity on dividend policy aligns with Agency Theory. Agency problems arise when agents act in their own self-interest [15]. Given that agents typically possess more information about the firm, they may prefer to allocate liquidity toward investments rather than distribute it as dividends.

4.5.7 Managerial Ownership Weakens the Positive Influence of Leverage on Dividend Policy

Hypothesis Testing for H_7

The variables of leverage and managerial ownership yielded a p-value of 0.975, which is greater than the significance level of 0.05 (0.975 > 0.05). Further analysis of coefficients β_5 and β_9 revealed that both were statistically insignificant. This suggests that managerial ownership acts as a potential moderating variable (homologiser moderator). The p-value for the interaction term between leverage and managerial ownership being greater than the significance level (0.975 > 0.05) indicates that managerial ownership does not moderate the relationship between leverage and dividend policy. Thus, the seventh hypothesis (H_7) is not supported.

This result contradicts previous findings which suggested that the absolute power held by managers contributes to lower dividend payouts [41]. However, banking firms in Indonesia are subject to law No. 40 of 2007 concerning Limited Liability Companies, which may explain the discrepancy in findings [49].

The result that managerial ownership does not moderate the positive influence of leverage on dividend policy is consistent with Agency Theory. This theory describes the fundamental agency relationship between principals and agents in a cooperative arrangement [15]. Dividend policy is ultimately determined by shareholders during the Annual General Meeting. In banking firms, leverage primarily consists of third-party funds, which are part of the core operational activities. Additionally, the low percentage of managerial ownership limits the ability of managers (agents) to influence dividend policy, especially under strict regulatory oversight.

4.5.8 Managerial Ownership Weakens the Positive Influence of FCF on Dividend Policy

Hypothesis Testing for H_8

The variables of Free Cash Flow (FCF) and managerial ownership yielded a p-value of 0.851, which is greater than the significance level of 0.05 (0.851 > 0.05). Further analysis of coefficients β_5 and β_{10} revealed that both were statistically insignificant. This indicates that managerial ownership acts as a potential moderating variable (homologiser moderator). The p-value for the interaction term between FCF and managerial ownership being greater than the significance level confirms that managerial ownership does not moderate the effect of FCF on dividend policy. Therefore, the eighth hypothesis (H_8) is not supported.

This finding is consistent with the study which suggested that the dual role of management within a company provides distinct advantages, and thus, managerial decisions are not necessarily influenced by ownership [51].

The result that managerial ownership does not moderate the influence of FCF on dividend policy aligns with Agency Theory. Agents operate under contractual obligations with principals [15]. Managerial ownership does not automatically lead agents to act in their own self-interest, thereby reducing the likelihood of conflicts of interest. Instead, managerial ownership tends to prioritize sound corporate governance, particularly in the highly regulated banking sector. This explains why the availability of cash does not lead to opportunistic behaviour by managers. The low percentage of managerial ownership in Indonesian banking firms further supports the finding that it does not significantly influence dividend policy.

4.5.9 Analysis of Control Variable

There is one control variable in this study, namely firm size. The firm size variable yielded a p-value of 0.175, which is greater than the significance level of 0.05 (0.175 > 0.05). This indicates that firm size does not have a significant effect on dividend policy. Whether a firm is large or small does not influence the decision to distribute dividends during the Annual General Meeting. Therefore, firm size is not a determining factor in dividend policy decisions within the Indonesian banking subsector.

5. Conclusion

This study employs a quantitative method using secondary data sourced from three platforms. The sample consists of 47 banking subsector companies over the period 2019–2023, resulting in 235 observations. The Research results regarding profitability, liquidity, leverage, and FCF on dividend policy in the banking subsector companies in Indonesia indicated that profitability, leverage and FCF have a positive effect, while liquidity does not affect the formulation of dividend policy. Managerial ownership as a moderating variable, does not affect the positive effects of profitability, leverage and FCF but it does weaken the positive effects of liquidity on dividend policy in banking subsector companies listed on the Indonesian Stock Exchange.

This research reinforces the relevance of Agency Theory. The results suggest that to reduce information asymmetry regarding the firm's condition managed by agents. Agents may propose dividend amounts based on profitability, liquidity, and free cash flow (FCF). Furthermore, agents act under contractual agreements with principals, aligning their actions with the interests of shareholders.

For management, the findings serve as a cautionary guide in formulating dividend policies to be proposed at the Annual General Meeting of Shareholders (AGMS). Dividend decisions should not be made solely for short-term gains, as they may have long-term consequences for the firm. Variables such as profitability, liquidity, and FCF should be carefully considered when determining dividend policy. Additionally, investors may use both financial and non-financial variables examined in this study as considerations when investing in companies within the banking subsector.

One of the limitation of this study is the absence of a distinction between the pre-pandemic, pandemic and post-pandemic periods of the Covid-19 crisis. The Covid-19 pandemic significantly impacted banking regulations and internal corporate policies, thereby influencing financial performance among banking firms in Indonesia. Future research is recommended to include firm age as an additional variable, in order to assess whether there

are differences in financial performance between newly established and long-standing banking institutions. Moreover, the study does not consider the Investment Opportunity Set (IOS), which limits the ability to evaluate how firms allocate their available cash between dividend distribution and investment opportunities.

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