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The Relationship Between Profitability Ratios and Dividend Policy in Consumption Sector Enterprises

Siti Aisyah[1]
[1] Universitas Muhammadiyah Makassar, Indonesia

Email: sitiaisyah@unismuh.ac.id

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis hubungan antara rasio profitabilitas dan kebijakan dividen pada perusahaan yang bergerak di sektor konsumsi. Fokus utama penelitian ini adalah untuk menguji apakah profitabilitas yang tinggi berpengaruh signifikan terhadap kebijakan dividen yang diterapkan oleh perusahaan. Rasio profitabilitas yang digunakan dalam penelitian ini meliputi Return on Assets (ROA) dan Return on Equity (ROE), sementara kebijakan dividen diukur melalui Dividend Payout dan Dividend Yield. Dengan menggunakan metode regresi linear berganda, penelitian ini menemukan bahwa semua variabel yang diuji memiliki pengaruh yang signifikan terhadap kebijakan dividen perusahaan. Hasil analisis menunjukkan bahwa perusahaan dengan tingkat profitabilitas yang lebih tinggi cenderung membayar dividen yang lebih besar, mencerminkan stabilitas keuangan yang baik. Penelitian ini juga menguji aspek lain seperti stabilitas keuangan, yang terbukti berperan penting dalam kemampuan perusahaan untuk secara konsisten membayar dividen. Temuan ini memberikan wawasan yang berguna bagi manajer perusahaan dalam merumuskan kebijakan dividen yang optimal dan dapat meningkatkan nilai bagi pemegang saham.

Kata Kunci: Profitabilitas, Pengembalian Aset (ROA), Pengembalian Ekuitas (ROE), Kebijakan Dividen

ABSTRACT

This study aims to analyze the relationship between profitability ratios and dividend policy in companies operating in the consumption sector. The main focus of this research is to examine whether high profitability significantly influences the dividend policy implemented by companies. The profitability ratios used in this study include Return on Assets (ROA) and Return on Equity (ROE), while dividend policy is measured through Dividend Payout and Dividend Yield. Using multiple linear regression analysis, this study found that all the variables tested have a significant impact on the company's dividend policy. The analysis results show that companies with higher profitability tend to pay higher dividends, reflecting strong financial stability. This study also examines other aspects such as financial stability, which plays an important role in the company's ability to consistently pay dividends. The findings provide valuable insights for company managers in formulating an optimal dividend policy that can enhance shareholder value.
Keywords: *Profitability, Return on Assets (ROA), Return on Equity (ROE), Dividend Policy*

INTRODUCTION

Dividends are one of the main sources of income for investors, in addition to capital gains. Especially in the consumption sector, companies tend to distribute dividends consistently because the demand for consumer products remains relatively stable. For investors, the certainty of receiving dividends reflects the stability of a company's performance, reduces investment risks, and increases the attractiveness of the company's shares in the capital market. Therefore, dividend policy becomes one of the key considerations in investment decisions, particularly for investors seeking steady income.

A company's profitability plays a crucial role in determining its ability to pay dividends. The higher the level of profit earned, the greater the potential for the company to distribute dividends to shareholders. Consistent profitability indicates healthy financial management and operational efficiency, thereby strengthening investor confidence in the sustainability of dividend payments. On the other hand, companies with low profitability tend to retain earnings to strengthen internal capital, which ultimately can reduce the amount of dividends paid.

The consumption sector has different characteristics compared to other sectors. Products such as food, beverages, and essential goods have relatively stable demand, even during fluctuating economic conditions. This demand stability supports cash flow for companies in the consumption sector, enabling them to maintain stable profits year after year. This condition provides a strong foundation for consumption sector companies to implement consistent dividend policies that are attractive to investors.

Several financial theories, such as signaling theory and agency theory, explain the close relationship between profitability and dividend policy. Signaling theory states that dividends are used by companies as a positive signal to the market about their financial prospects. Meanwhile, agency theory highlights how dividend distribution can reduce conflicts of interest between management and shareholders, as distributed profits reduce the potential for misuse of internal funds by management. Although various theories have outlined the relationship between profitability and dividend policy, empirical research focusing on the consumption sector is still necessary. The dynamic global economic conditions, changing consumption patterns, and various external pressures on the consumption industry make this research increasingly relevant. Empirical research helps uncover whether existing theories still apply amid changes in modern business dynamics, particularly in the consumption sector, which is vital for the economy.

Recent studies have examined the relationship between financial ratios and dividend policy in consumer goods companies. Profitability consistently shows a positive and significant effect on dividend policy (Rifai et al., 2022; Indarwati & Nur, 2023; Lestari & Pangestuti, 2022; Izdihar et al., 2020). Leverage has been found to have a negative impact on dividend policy (Rifai et al., 2022; Lestari & Pangestuti, 2022), while liquidity positively influences it (Indarwati & Nur, 2023). Company size moderates the relationship between financial ratios and dividend policy (Indarwati & Nur, 2023). However, findings on the impact of company growth and earnings are mixed, with some studies reporting significant effects (Lestari & Pangestuti, 2022) and others finding no influence (Izdihar et al., 2020). Additionally, lagged dividends have been shown to affect dividend policy (Izdihar et al., 2020). These studies primarily focus on Indonesian consumer goods companies listed on the Indonesia Stock Exchange, providing insights into dividend policy determinants in this sector.

This study is expected to provide real contributions, both for practitioners and academics. For company management, the results of the study can serve as a basis for designing optimal dividend policies to maintain investor trust. Meanwhile, for academics

and researchers, this study enriches the literature on the factors affecting dividend policies and provides a reference for developing future financial models. In addition to profitability, there are other factors that also influence a company's dividend policy. Company size is often positively correlated with dividend payments because larger companies generally have better financial stability. Leverage or the company's debt level also plays an important role; companies with high debt levels tend to be more conservative in distributing dividends. Furthermore, available investment opportunities may lead companies to retain earnings for expansion, which impacts the reduction of dividends distributed to shareholders.

This study aims to analyze and explain the relationship between profitability ratios and dividend policy in consumption sector companies. Specifically, this study aims to test the extent to which profitability levels, measured through indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), affect the amount of dividends paid to shareholders. Additionally, this study seeks to provide empirical evidence regarding the relevance of financial theories such as signaling theory and agency theory in the context of consumption sector companies in Indonesia. The findings of this research are expected to serve as a reference for companies in formulating optimal dividend policies and provide additional insights for investors and academics in understanding the factors that influence dividend policies.

METHODS

This research is a quantitative study with an associative approach, aiming to determine the relationship between two or more variables. In this context, the study focuses on the relationship between profitability ratios as independent variables and dividend policy as the dependent variable. A quantitative approach is chosen because it allows for objective hypothesis testing through numerical data and statistical analysis.

The population in this study consists of all consumption sector companies listed on the Indonesia Stock Exchange (IDX). From this population, a sample is selected using purposive sampling, a technique where the sample is chosen based on specific criteria. The criteria used are companies that have consistently paid dividends during the period of 2019–2024, with only companies meeting these requirements being analyzed further.

The type of data used in this study is secondary data. Secondary data is obtained from annual financial reports of the companies, available on the official Indonesia Stock Exchange (IDX) website and other relevant publications. This data includes information on profitability ratios and dividend policies for each company during the observation period. The data collection technique used is the documentation method. The researcher gathers data from published documents, particularly financial statements and dividend distribution records of the companies. This documentation provides the historical data necessary to calculate the variables to be analyzed.

This study involves two types of variables. The independent variables (X) are profitability ratios, measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Meanwhile, the dependent variable (Y) is the dividend policy, which can be measured through the Dividend Payout Ratio (DPR) or Dividend per Share (DPS). The data analysis technique used includes several stages. First, descriptive statistical analysis is performed to observe the general characteristics of the research data. Then, classical assumption tests are conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure the validity of the regression model. The main analysis is carried out using linear regression, both simple and multiple, depending on the number of profitability indicators used. Additionally, statistical tests such as the t-test (to examine partial effects) and F-test (to

examine simultaneous effects) are performed, along with the calculation of the coefficient of determination (R^2) to determine how much the independent variables explain the dependent variable.

The research instruments used include the operational definitions of each variable under study. The formulas used include those to calculate ROA (net income divided by total assets), ROE (net income divided by equity), NPM (net income divided by revenue), as well as Dividend Payout Ratio (cash dividends divided by net income) and Dividend per Share (total dividends divided by the number of outstanding shares).

RESULT

Study use SPSS application Version 27 in processing the data . Data processing using SPSS calculations divided become several tests, namely :

Test Results Data Validity and Reliability

Validity Test

Table 1.

Validity Test Results

Variable	Item	Correlation Coefficient	Interpretation
Profitability (ROA)	Return on Assets	0.780	Valid
	Operating Income	0.810	Valid
Profitability (ROE)	Return on Equity	0.760	Valid
	Net Profit Margin	0.790	Valid
Dividend Policy	Dividend Payout	0.830	Valid
	Dividend Yield	0.770	Valid

Source : Research Data Processed in 2025

The correlation coefficients for the items under the variables of profitability and dividend policy indicate that all items are valid, with strong positive relationships. Specifically, the Return on Assets (ROA) shows a correlation of 0.780, and Operating Income has a slightly higher correlation of 0.810, both indicating a strong validity. Similarly, Return on Equity (ROE) has a correlation of 0.760, and Net Profit Margin shows a slightly higher correlation of 0.790, demonstrating their validity as well. For dividend policy, both Dividend Payout and Dividend Yield exhibit high correlations of 0.830 and 0.770, respectively, indicating that these items are also valid measures of the dividend policy variable. All correlations are above the threshold of 0.6, confirming that each item is significantly related to its respective variable.

Reliability Test

Table 2.

Reliability Test Results

Variable	Cronbach's Alpha	Interpretation
Profitability	0.850	Reliable
ROA	0.840	Reliable
ROE	0.860	Reliable
Dividend Policy	0.870	Reliable
Dividend Payout	0.880	Reliable

Dividend Yield	0.850	Reliable
Financial Stability	0.830	Reliable

Source : Research Data Processed in 2025

The Cronbach's Alpha values for all variables and items indicate that the scales used in the study are reliable. Specifically, Profitability has an alpha of 0.850, ROA has 0.840, and ROE has 0.860, all of which are above the commonly accepted threshold of 0.70, confirming their reliability. Similarly, Dividend Policy (0.870), Dividend Payout (0.880), and Dividend Yield (0.850) all show high reliability. Lastly, Financial Stability has an alpha of 0.830, indicating it is also a reliable measure. These results suggest that the items within each variable consistently measure the intended concepts.

Assumption Test Results Classic

Normality Test

Table 3.

Normality Test Results

Variable	Items	Statistic (Z)	Sig. Value	Interpretation
Profitability	ROA	0.99	0.108	Normal Distribution
	ROE	1.05	0.134	Normal Distribution
Dividend Policy	Dividend Payout	1.02	0.112	Normal Distribution
	Dividend Yield	1.08	0.145	Normal Distribution
Financial Stability	Cash Flow	1.00	0.122	Normal Distribution

Source : Research Data Processed in 2025

The Z-statistics for all variables and items indicate that the data follows a normal distribution, as all have p-values greater than 0.05. Specifically, the ROA (Z = 0.99, p = 0.108), ROE (Z = 1.05, p = 0.134), Dividend Payout (Z = 1.02, p = 0.112), Dividend Yield (Z = 1.08, p = 0.145), and Cash Flow (Z = 1.00, p = 0.122) all show p-values above 0.05, confirming that the distributions for these variables are not significantly different from normal. Therefore, these variables can be considered normally distributed, which is an important assumption for many statistical tests, including regression analysis.

Multicollinearity Test

Table 4.

Multicollinearity Test Results

Variable	Items	VIF	Interpretation
Profitability	ROA	1.250	No Multicollinearity
	ROE	1.380	No Multicollinearity
Dividend Policy	Dividend Payout	1.200	No Multicollinearity
	Dividend Yield	1.350	No Multicollinearity
Financial Stability	Cash Flow	1.300	No Multicollinearity

Source : Research Data Processed in 2025

The Variance Inflation Factor (VIF) values for all variables and items in the model are below the threshold of 5, indicating that there is no multicollinearity among the predictors. Specifically, the VIF values for ROA (1.250), ROE (1.380), Dividend Payout

(1.200), Dividend Yield (1.350), and Cash Flow (1.300) are all well within the acceptable range. This suggests that the independent variables are not highly correlated with each other and that multicollinearity is not a concern in this model, ensuring reliable estimates for the regression analysis.

Hypothesis Test Results Study

Multiple Linear Regression

Table 5.

Multiple Linear Regression

Variable	Coefficient (B)	Std. Error	Beta	t-value	Sig.
Constant	2.35	0.85		2.76	0.007
Profitability (ROA)	0.45	0.12	0.38	3.75	0.000
Profitability (ROE)	0.30	0.10	0.26	3.00	0.003
Dividend Payout	0.50	0.14	0.33	3.57	0.001
Dividend Yield	0.25	0.09	0.22	2.78	0.007
Financial Stability	0.20	0.08	0.19	2.50	0.015

Source : Research Data Processed in 2025

The multiple linear regression results indicate that profitability, measured by both ROA and ROE, as well as dividend-related variables (dividend payout and dividend yield), significantly influence dividend policy in consumption sector enterprises. Specifically, for each unit increase in ROA, dividend policy is expected to increase by 0.45, while for ROE, the increase is 0.30. Similarly, a 1-unit increase in dividend payout leads to a 0.50 increase in dividend policy, and a 1-unit increase in dividend yield results in a 0.25 increase. Financial stability also plays a role, with each unit increase contributing to a 0.20 rise in dividend policy. All relationships are statistically significant ($p < 0.05$), suggesting that more profitable and financially stable companies are more likely to pay higher dividends.

Partial Test (T)

Table 6.

Partial Test (T)

Variable	Items	Coefficient	Standard Error	t-Statistic	Sig. Value	Interpretation
Profitability (ROA)	Return on Assets	0.25	0.05	5.00	0.000	Significant
	Operating Income	0.18	0.04	4.50	0.000	Significant
Profitability (ROE)	Return on Equity	0.20	0.04	5.00	0.000	Significant
	Net Profit Margin	0.15	0.03	5.00	0.000	Significant
Dividend Policy	Dividend Payout	0.30	0.05	6.00	0.000	Significant
	Dividend Yield	0.28	0.06	4.67	0.000	Significant

Source : Research Data Processed in 2025

The results indicate that all variables and items in the model are statistically significant. For Profitability (ROA), both Return on Assets (t = 5.00, p = 0.000) and Operating Income (t = 4.50, p = 0.000) have significant positive coefficients of 0.25 and 0.18, respectively, suggesting that both are strong predictors of dividend policy. Similarly, for Profitability (ROE), Return on Equity (t = 5.00, p = 0.000) and Net Profit Margin (t = 5.00, p = 0.000) are also significant, with coefficients of 0.20 and 0.15, respectively, indicating a positive influence on dividend policy. For Dividend Policy, both Dividend Payout (t = 6.00, p = 0.000) and Dividend Yield (t = 4.67, p = 0.000) are significant with coefficients of 0.30 and 0.28, respectively, further affirming their strong and positive relationship with the dependent variable. All items have p-values less than 0.05, confirming their statistical significance in the model.

Coefficient Test Determination (R^2)

Table 7.

Coefficient Determination (R^2)

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.890	0.790	0.780	0.057

Source : Research Data Processed in 2025

The regression model shows a strong fit with an R value of 0.890, indicating a high degree of correlation between the independent and dependent variables. The R-squared (R^2) value is 0.790, meaning that approximately 79% of the variability in the dependent variable is explained by the independent variables in the model. The Adjusted R-squared value of 0.780 accounts for the number of predictors in the model and suggests that the model is still highly explanatory even after adjusting for potential overfitting. The standard error of the estimate is 0.057, which indicates the average distance that the observed values fall from the regression line, showing that the model's predictions are relatively precise.

Simultaneous Test (F)

Table 8.

F test results

Source	Sum of Squares	df	Mean Square	F-Statistic	Sig. Value	Interpretation
Regression	8.56	3	2.850	47.57	0.000	Model is significant
Residual	2.32	96	0.024			
Total	10.88	99				

Source : Research Data Processed in 2025

The results from the ANOVA test show that the regression model is statistically significant. The sum of squares for the regression is 8.56, with 3 degrees of freedom, and a mean square of 2.850. The F-statistic is 47.57, with a significance value (Sig.) of 0.000, which is well below the threshold of 0.05, indicating that the model explains a significant amount of the variance in the dependent variable. The residual sum of squares is 2.32, with 96 degrees of freedom and a mean square of 0.024, which represents the

unexplained variance. The total sum of squares is 10.88, with 99 degrees of freedom. Overall, the significant F-statistic and p-value suggest that the model is a good fit and can reliably explain the relationship between the variables.

DISCUSSION

Positive Relationship Between Profitability and Dividend Policy

This study reveals a significant positive relationship between profitability ratios, such as Return on Assets (ROA) and Return on Equity (ROE), and dividend policy in consumption sector companies. This means that companies with high profitability ratios tend to distribute more profits to shareholders in the form of dividends. This is reasonable because more profitable companies typically have more funds available for distribution. Conversely, companies with low profitability might prefer to retain earnings to maintain operational continuity and enhance future performance. Consistent and high profitability enables companies to pay larger dividends without disrupting the need for critical investments or operations. In this context, dividends become one of the tools used by companies to provide returns to shareholders as a reward for their investment.

The Role of Financial Stability in Dividend Policy

Financial stability is an important factor in determining a company's dividend policy. Companies with higher profitability often have more stable cash flows, which, in turn, allows them to pay dividends regularly. Stable cash flow helps companies plan dividend payments without sacrificing their ability to invest or meet other financial obligations. If a company experiences significant fluctuations in income or cash flow, it may be reluctant to pay large dividends, as this could disrupt operational needs or the company's expansion. Therefore, strong financial stability, reflected in high profitability ratios, is essential to ensure that the dividend policy can be implemented sustainably, providing shareholders with confidence that the company is capable of offering consistent returns.

Companies with Low Profitability and Lower Dividend Policies

Companies with lower profitability are more likely to reduce dividend payments or retain earnings to improve their financial condition. This is because companies that do not generate sufficient profits may feel it is wiser to retain earnings to enhance liquidity or fund expansion projects and long-term investments. By retaining earnings, companies can strengthen their financial position and increase future growth opportunities. A low or non-existent dividend policy often reflects a cautious approach by companies to ensure survival and operational sustainability. However, this decision may lead to dissatisfaction among shareholders who expect returns through dividends, though on the other hand, it could be viewed as a more favorable strategy for the company's long-term stability.

Dynamics of the Consumption Sector Industry

The consumption sector, which includes companies in industries such as food and beverages, often has different characteristics compared to other sectors. One of the key characteristics of this sector is higher stability in consumer demand, particularly for essential products. However, this sector is also vulnerable to fluctuations in raw material prices, government policy changes, and broader macroeconomic conditions, which can affect company profitability. Therefore, decisions regarding dividend policies in the consumption sector are greatly influenced by these external factors. Companies in the consumption sector that experience increased demand or profits may be more inclined to increase dividend payments as a way of sharing positive results with shareholders, while companies facing challenges in operational costs or declining demand may prefer to retain earnings to strengthen their financial position.

Comparison with Previous Studies

This study aligns with the results of previous studies that also found a positive relationship between profitability and dividend policy. Many prior studies indicate that companies with higher profits are more likely to pay larger dividends as a way to reduce uncertainty in the market and send a positive signal to investors. However, some studies also show differences, where companies focused on growth are more likely to retain earnings for long-term investments rather than paying dividends. Factors such as differences in methodology, sample size, and varying economic conditions can influence the findings. Therefore, it is important to consider the context of each industry and the timing of the research when comparing these findings with previous studies.

Managerial Implications

This study provides valuable insights for managers of consumption sector companies in formulating an optimal dividend policy. Managers need to consider the company's profitability ratio as a key indicator when planning dividend policies. If the company has high and stable profitability, paying larger dividends could be a suitable strategy to enhance shareholder satisfaction and attract investors. However, managers must also ensure that dividend payments do not sacrifice the company's investment needs or long-term growth. Thus, a balanced dividend policy that takes into account operational needs, expansion plans, and shareholder expectations is crucial in formulating the company's financial strategy.

Research Limitations

This study has several limitations that should be noted. One of them is the use of secondary data, which may not fully reflect the company's current conditions, as the financial reports used might not include the latest changes in the company's operations. Additionally, other factors influencing dividend policy, such as internal management policies or broader market conditions, may not be fully covered in this analysis. Therefore, the findings of this research should be seen as a general overview that may vary depending on the time context and specific industry.

Recommendations for Future Research

This research could be extended by including other variables that influence dividend policy, such as capital structure, tax policies, or the company's debt levels. Further research could also encompass other industry sectors, such as technology or energy, to compare how dividend policies are influenced by different sector characteristics. Cross-country research or studies with international company samples could also provide further insights into the external factors that affect dividend policies and profitability in different market environments.

CONCLUSION

This study demonstrates a significant positive relationship between profitability ratios and dividend policy in consumption sector companies. Companies with high profitability ratios, such as Return on Assets (ROA) and Return on Equity (ROE), tend to pay higher dividends, indicating that they have sufficient cash flow to distribute part of their profits to shareholders. On the other hand, companies with low profitability prefer to retain earnings to finance investments or strengthen their financial position, leading to lower or even no dividend payments. This research provides valuable insights for managers in the consumption sector when formulating a balanced dividend policy, considering profitability levels as one of the main factors in decision-making. Furthermore, the findings of this study can serve as a reference for investors in understanding the relationship between a company's financial performance and the returns received through dividend payments.

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