Factors affecting dividend payment policy in Indonesian banking sectors moderated by return on assets

Dwi Susilowati
Universitas Balikpapan, Kalimantan Timur, Indonesia
dwi.susilowati@uniba-bpn.ac.id

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Abstract
Purpose – This study analyses how the debt-to-equity ratio, current ratio, and free cash flow influence the dividend payment policy moderated by return on assets. **Method** – This study uses a quantitative approach with secondary data. Every Indonesian bank listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023 as the research population amounts to 47 companies. Observation data of 90 were taken from 18 banks as samples selected using a purposive sampling technique. The data is analyzed using moderated regression analysis (MRA). Based on the results of the Chow and Hausman tests, the random effect model was chosen. **Findings** – The findings of this study show that the current ratio, free cash flow, and return on assets positively impact the dividend payment policy. In contrast, the debt-to-equity ratio does not impact dividend policy. Return on assets can strengthen the influence of the current ratio and free cash flows on dividend payout. However, return on assets cannot moderate the relationship between debt-to-equity ratio and dividend payout. **Implications** – This study can complement existing theories and provide a starting point for researchers to investigate dividend theory in the stock market further, advancing the understanding of this complex financial dynamic on a global scale. These findings provide valuable insights for management in setting dividend policy and highlight potential strategies to enhance shareholder value.
Keywords: DER, CR, free cash flows, ROA, dividend payment policy.

Introduction

The ability of a company to succeed or fail is determined by how well its management carries out its duties. This seeks to expand its resources and investments, make prudent use of financial management functions, and be flexible. Investment, funding, and dividend decisions are the three financial management tasks carried out by corporations (Amimakmur et al. 2024). The management of the company's announcement of dividends is a sign of its progress. A higher dividend payout than the prior year indicates the business has a bright future. On the other hand, a dividend deduction is a warning indicator since it shows that a business does not have enough cash to continue paying dividends (Muliadi et al. 2023). However, to maintain their operations, businesses require money raised by issuing shares. Because of the advantages of high attractiveness, investors utilize stock selection as a tool during an investment (Hartono et al. 2021). The increase in the dividend amount, shown by a higher dividend payout ratio (DPR), will attract investors to invest in the company's stocks, resulting in a stock price increase (Aryantini and Jumono 2021).

The banking sector is a critical part of the economy and is essential to economic activities. The economy cannot act without an adequate banking system (Santosa et al. 2023). The financial services sector cannot be divorced from the role of banking, which is crucial to the operation of the Indonesian economy. Indonesia's economic turnover would not have been this significant without the contribution of the banking industry (Zuhri 2024). In 2023, the financial services and insurance sectors contributed around 4.77 per cent of Indonesia's gross domestic product (Siahaan 2025). Despite its seeming smallness compared to other sectors, the agriculture and trade sector accounts for about 13 percent, while the manufacturing sector accounts for 20 percent (Siahaan 2025). Public trust in the banking industry and economic stability is directly impacted by the banking industry's financial performance and business value. Additionally, the financial sector is essential in fostering economic expansion and investment by offering loans and financial services. By the end of 2022, the Indonesia Stock Exchange's (IDX) market capitalization was IDR 9.499 trillion or experienced an increase of 15.1% (yoy). According to data from Sanglap and Ramos (2023), two banking issuers, BBCA and BMRI, were the top-ranked companies with the highest market capitalizations.

The dividend is a revenue share for the company's operational performance commensurate with the number of shares each shareholder owns (A. H. Nguyen et al. 2021). When a company's investment is funded by retained earnings, reducing the profits distributed to shareholders, the dividend payment policy becomes contentious (Sihombing and Zakchona 2024). An essential component of financial and economic decisions is divided policy. The achievement of the company's financial performance is inextricably linked to the decision to pay dividends. Businesses that perform well financially in terms of profitability can deliver dividends that meet shareholders' expectations (El-Deeb and Allam 2024). Dividend payments increase shareholders' confidence and become an interest for continuing to invest. Investors will be more interested in the current dividend distribution through the dividend policy because it is thought to be safer and carries less risk than the distribution of future capital gains. Several businesses listed on the IDX have earned profits, but some do not distribute dividends to investors (Putri, Hitten, and Heniwati 2024; Wijayanti and Sari 2024).

According to the reports by Indonesia Stock Exchange (2024), the average dividend payout ratio (DPR) on the banking sector company for the 2019-2023 period has fluctuated. In 2019, the average of DPR was 11.84 percent, in 2020 decreased by 8.56 percent, and in 2021 increased by 11.91. On the other hand, in 2022 by 15.64 percent, then increased in 2023 by 16.37 percent (Wirama et al. 2024). Fluctuations that tend to decrease sectoral, as seen from the share price and dividend payout, which can be seen from the market capitalization value, are undoubtedly exciting phenomena to study. A business must fulfil its objectives, vision and mission to continue operating and surviving, even in uncertain economic conditions (Damayanti and Palinggi 2023). Since a company's primary objective is to maximize its wealth and value, increasing the dividend value is crucial. While achieving current profits is the company's short-term objective, increasing the company value over time necessitates making decisions that consider all stakeholders (Mai and Syarief 2021).

One indicator could influence a company to calculate the dividend paid to shareholders, i.e., leverage. Debt to equity ratio (DER) as a proxy for leverage is the ratio of the company's total debt to its capital. An increase in DER indicates that the business has little cash on hand to pay its debt (Prihandoko and Abadiyah 2024). This statement relates to dividend distribution; the higher the DER, the fewer dividends will be distributed to increase reserves and enable the company to fulfil its responsibilities. Meanwhile, when debt levels are low, the company distributes large dividends, ensuring that the majority of profits are utilized for the benefit of shareholders (Kumar and Sujit 2018). Businesses with much debt will be seen as riskier, which means that the investors will be less inclined to invest in them because

the company's value is reduced. A study by Octaviana and Yulianto (2019); Pattiruhu and Paais (2020) found that DER significantly influences the dividend payout ratio (DPR). In contrast, research by Le, Nguyen, and Tran (2019); Santosa et al. (2023) shows that DER did not affect dividend policy.

Another factor that influences dividend payment is liquidity. The current ratio (CR) is a proxy for liquidity, an indicator of business capacity to fulfil immediate short-term requirements (Budiman et al. 2024). An increase in CR can affect the company's value by influencing investors' perceptions that it is performing well in fulfilling its short-term obligations. Investors are motivated to invest their capital by the return they will receive as dividends (Stereńczak and Kubiak 2022). Companies with high liquidity are well-positioned to distribute a fair dividend to their shareholders. Weak liquidity implies less dividend due to cash shortage (Jati 2020). According to research by Akbar (2018); Martin and Panggabean (2020), CR significantly influences the dividend payout ratio. In contrast, research by Aman, Altass, and Qadri (2022); Samsuri, Zamasari, and Andari (2024) discovered that CR did not impact the dividend payout.

Apart from the debt-to-equity ratio and current ratio, free cash flow also affects dividend payments (Chau 2023). Because dividend payments are more predictable than capital gains, investors favor them when a company has free cash flow. Shareholders use free cash flow to assess how well the business is doing at making a profit (Munzhelele, Wolmarans, and Hall 2021). Free cash flow often causes problems between shareholders and managers (Singh, Gupta, and Chaudhary 2023). This occurs because the two parties have different interests. Although investors typically want high dividend returns, managers hope to expand the company by utilizing this free cash flow. According to a study by Al-Fasfus (2020); Rochmah and Ardianto (2020), free cash flow significantly impacts dividend payments. While a study by Deitiana et al. (2023); Surya, Taufik, and Malinda (2024) proved that free cash flow does not impact dividend policy.

The selection of banking sectors as research samples is because these sectors play a significant part in the Indonesian economy. There is still much disagreement over the phenomenon of dividend policy. However, no universal explanation has been found for the actions of the companies that decide dividend distribution can be justified. Dividend policies frequently cause management and shareholder conflicts of interest. Rochmawati and Yuniningsih (2022); Akpadaka et al. (2024) research show that ROA has demonstrated the ability to reduce the correlation between dividend policy and leverage but did not discuss liquidity and free cash flow. Meanwhile, studies by Ghofar and Pertiwi (2024); Rachmawati and Takarini (2024) show that ROA cannot moderate between leverage and liquidity on dividend payout but does not discuss free cash flows. On the other hand, Rahayu and Nurul (2024) found that ROA can moderate free cash flow on dividend payout. While Fitriyani and Khafid (2019) research found that ROA cannot moderate free cash flows on dividend payout but does not discuss leverage and liquidity. The role of ROA can function as a signal of the quality of corporate financial management, and ROA can be used as a moderate variable. Discussing the relationship between variables comprehensively is new compared to previous studies.

Recent studies on the issue of dividend payouts offer contradictory results. This study was carried out because there are research gaps in the findings of earlier studies that differ and are inconsistent. Because the values of the banking firms were previously established under normal economic conditions, they seriously considered their dividend policy throughout the crisis. The financial performance attained in banking sector companies from 2019 to 2023 demonstrates notable yearly fluctuations, making identifying the underlying causes intriguing. This research aims to analyze the effect of debt-to-equity ratio, current ratio, and free cash flows on dividend payment policy in the Indonesian banking sector listed

in the Indonesia Stock Exchange (IDX) during 2019-2023 moderated by ROA. This study gives researchers a starting point for investigating dividend theory in IDX markets further, which advances our understanding of these intricate financial dynamics on a global scale. Then, provide valuable insights for management in setting dividend policy and highlight potential strategies to enhance shareholder value.

Literature review

Signaling theory

Signaling theory was introduced by Spence (1973), a concept in information economics that explains how parties with more information (information asymmetry) can give signals to other parties to show qualities or characteristics that are not immediately visible. Strong financial statements are explained by signaling theory, indicating to its users that the business operations are proceeding satisfactorily (Basoglu and Hess 2014). The responder will respond well if the signal is in good condition. An informational announcement is being given to investors to help them decide what to buy. The primary argument of this study, signaling theory, asserts that management will inevitably purposefully send signals to the market (Abdallah and Bahloul 2023). Financial reporting and disclosure may be crucial for management to convey company performance and oversight to external investors. Full disclosure and improved market value are attributes of the company with the highest profitability. Outsiders shield themselves from information they do not receive, which drives down prices for a company. Consequently, to lessen this, the organization sends accurate, accurate, and complete signals matching the manager's information (Hussain et al. 2024).

Dividend payment policy

The company's dividend policy establishes whether or not its year-end profits will be given to stockholders as dividends or kept to increase funds for financing future investments (Al-Fasfus 2020). The amount of earnings a corporation distributes as a dividend from its net business income is known as the dividend payout (El-Deeb and Allam 2024). Dividends are profits (bonus issue or cash dividend) that are distributed to company shareholders in proportion to their equity ownership. Shareholders expect dividends and capital gains, just as businesses strive to make profits (Y. H. T. Nguyen 2025). Through the development of the corporate form itself, dividend payments to shareholders have been tied up. Due to dividends' ability to inform the market, corporate managers understood how crucial dividend payment policy is to meeting shareholder expectations. Furthermore, dividend policies are thought to influence stock prices, which can support the financial markets' dynamic state (Amimakmur et al. 2024).

Debt to equity ratio

The debt-to-equity ratio can gauge a company's capacity to repay debts financed by its funds (Nurhikmawaty, Isnurhadi, and Widiyanti 2020). The debt-to-equity ratio (DER) showed the proportion of own capital used as security for all debts. To calculate the debt-to-equity ratio, divide the entire debt amount by the total shareholder equity amount. A business entity's use of internal and external funding will result in the best possible combination to identify funding interest; DER is a significant factor in external funding (Maulana et al. 2024). Because banks are taking on a greater risk of a company failure, the higher this ratio, the less profitable they are. A higher DER suggests that the business heavily depends on outside funding, which would result in higher interest costs (Sunaryo et al. 2023). Since the rate of return is decreasing, it would undoubtedly diminish the rights of the company shareholders. Furthermore, the higher the DER, the company's liabilities are relative to its equity. A higher

DER tends to reduce stock return since a high debt level burdens the company and undoubtedly lowers profits (Pattiruhu and Paais 2020).

Current ratio

This ratio evaluates how effectively a company can pay its short-term debts with its present assets. Conflicts of interest may exist between managers and shareholders regarding financial decisions, especially in aspects of dividend distribution and also liquidity management (Sari et al. 2022). Inefficiencies not in the shareholders' best interests, such as high liquidity or low-dividend payments, may result from managers prioritizing personal security. Investors can learn important information regarding a company's prospects for the future, management confidence, and financial health from its CR and dividend payment (Budiman et al. 2024). The dividend payout ratio (DPR) shows how management distributes earnings and their confidence in future cash flow, while the CR shows the company's liquidity and short-term obligations. Investors might perceive these indicators favorably or negatively depending on the situation, which helps them create expectations and direct their investment decisions (Hutabarat et al. 2023).

Free cash flow

The amount of money a company makes from its operations after capital expenses like building or equipment costs is known as free cash flow (Januarsi and Sanusi 2024). This amount can be used for many purposes, including debt repayment, dividend payments, and business expansion. Instead of using free cash flow to pay dividends to shareholders, the management board would rather distribute resources according to their interests (Magdalena and Santioso 2023). Company cash flow can be liquidated and distributed, and it can be used for various activities. Fresh cash flow pays special attention to cash generated from activities after it has been used for reinvestment needs. As a result, managers tend to expand, invest, spend, and allow businesses to become larger than they would like to be, which boosts their income and gives them more influence. However, under the manager's direction, this payment will result in fewer company resources, reducing the manager's power (Putri, Hitten, and Heniwati 2024).

Return on assets

A ratio that assesses how effectively management uses their assets to generate profits is known as return on assets (ROA). This ratio shows how well all assets are managed to generate revenue (A. H. Nguyen et al. 2021). The leading indicator of dividend payments is the company's ability to earn profits (Hendayani et al. 2023). One of the many advantages of using ROA in this study is its capacity to measure the overall efficacy of capital use, which is sensitive to all variables affecting the business's financial health. Because it affects the company's chances of surviving and expanding, maximizing shareholder wealth, which is reflected in financial decisions and shows up in the company's funding, financing, and investment choices, is regarded as essential (Fahira and Haryadi 2022). Their price on the stock exchange determines the value of shares issued by capital market companies. As reported in its financial reports, a company's financial performance is the primary factor determining its high or low stock price (Prihandoko and Abadiyah 2024).

Hypothesis development

Decisions about dividend payouts impact managers' control over company assets; high DER can promote riskier conduct or discipline managers. By carefully managing these ratios, businesses can preserve manager incentives while reducing conflicts and increasing shareholder value in line with company objectives. According to signaling theory, the

company's capital structure can be controlled by obtaining funds through debt or issuing new shares. To finance company debt, businesses with high DER typically keep internal funds and do not distribute dividends to shareholders. On the other hand, a lack of reinvestment opportunities and a high DER indicate confidence or increased risk. Investors use these signals to set expectations for the company's future performance. In a study by Octaviana and Yulianto (2019); Pattiruhu and Paais (2020), DER significantly positively affects dividend payout. Based on the previous explanation, the hypothesis can be formulated the following:
H1: DER positively and significantly affects dividend payout.

The current ratio evaluates a company's capacity to pay short-term obligations with its current assets. A company's ability to meet its immediate obligations increases with its CR. On the other hand, the lower the CR, the less capable the company is of meeting its immediate obligations. In signaling theory, companies with high CR levels show a good signal regarding dividend payments and attract more investor interest, which can drive up stock prices due to increased demand. The ability of a business to turn assets into cash to pay for current or future obligations determines its business liquidity. Regarding dividends, businesses with more cash typically pay out larger payouts than those with less liquidity. Study by Martin and Panggabean (2020); Muhammadinah (2021), the current ratio has a significant positive effect on dividend payment. Based on the previous explanation, the hypothesis can be formulated the following:
H2: CR positively and significantly affects dividend payout.

An increase in free cash flow may increase the dividend payment policy. Since free cash flow can show a company's state, it has significant and practical implications for shareholders and management. A business with significant free cash flow may reduce shareholder agency conflicts by paying out dividends. In signaling theory, companies with more free cash flow perform better than others. They will give positive signals to investors so that companies take advantage of opportunities that other businesses cannot. This is meant to ensure that profitable projects are not the only ones that utilize the current free cash flow. The more unrestricted cash flow a business has, the better in the form of dividends repayments the corporation is producing a higher rate of return on investment. Study by Al-Fasfus (2020); Rochmah and Ardianto (2020), free cash flow significantly positively affects dividend payments. Based on the previous explanation, the hypothesis can be formulated the following:
H3: free cash flow positively and significantly affects dividend payout.

A company dividend is paid out of its net profits, the higher the company profits, the higher the dividend payment. According to signaling theory, the company's earnings indicate that investors would receive the anticipated dividends. The company will only be able to pay dividends when profitable or significant profits. The higher the ROA, the better the company's performance and it increases the dividend revenue. Investors will interpret a high ROA ratio as a positive indication that a business can effectively manage its resources and turn a profit. Profit increases undoubtedly encourage investors to put money into the business. If the ROA value is high, then the income generated by a corporation can be even more dispensed in the shape of dividends to shareholders. In a previous study conducted by Setyaningsih and Yuliana (2020); Putri, Hitten, and Heniwati (2024) explained that ROA significantly impacts the dividend payout. Based on the previous explanation, the hypothesis can be formulated the following:
H4: ROA positively and significantly affects dividend payout.

A business with a low DER also has a low debt load, which is thought to boost earnings. The dividends paid out will rise in tandem with the company's income, increasing the dividend payout. Because the responsibility to service debt takes precedence overpaying dividends, changes in debt will impact the return on assets (ROA) earned by shareholders, including dividends. Therefore, a lower debt ratio indicates a company's higher profitability

ratio. In signaling theory, the company's capacity to pay dividends will rise because of its growing profitability. A lower DER suggests that a business will generate more revenue, which is encouraging for investors and will raise their stock return as well. Based on a study by Rochmawati and Yuniningsih (2022); Akpadaka et al. (2024) found that DER significantly affects dividend payout moderated by ROA. Based on the previous explanation, the hypothesis can be formulated the following:

H5: ROA can moderate the effect of DER on dividend payout.

ROA can increase dividend payout payments when CR is high, and ROA can reduce dividend payments when CR is low. When the company wants to invest more funds, it will reduce the dividend that will be distributed to shareholders, but good CR will be able to delay the payment of short-term debt so that these funds can be used to distribute dividends. Companies must increase ROA to meet their funding needs and reduce internal funds, as a high dividend payout ratio indicates excessive use of internal funds. In signaling theory, businesses with high earnings indicate a low level of future risk. Because they can repay their debts in the future, businesses with low risks and steady profitability will take on the least amount of debt. High dividend payments reflect increased internal funding usage, necessitating more funding for investments and operational activities. Studies by Ali et al. (2022); Rahayu and Nurul (2024) show that ROA moderates the relationship between CR and dividend payout. Based on the previous explanation, the hypothesis can be formulated the following:

H6: ROA can moderate the effect of CR on dividend payout.

Profitability information can indicate an organization's potential to make money in the future. Companies make dividend payments with free cash flow, which shows the ability to generate cash according to investment. In signaling theory, the higher profits the company obtained, the better the dividends paid to shareholders in free cash flow. Funds held by businesses that are utilized for investments or distributed to shareholders are known as free cash flow and profitability. A significant amount of free cash flow generated by a business can led to disagreement between shareholders and managers. However, shareholders would rather use free cash flow to pay dividends. Its free cash flow indicates a company's ability to make money from operations after making investments, paying off debt, and receiving dividends. The dividends paid to shareholders increase with larger profits and stronger free cash flow. Research by Dabboussi (2024); Januarsi and Sanusi (2024) found that ROA moderated the relationship between free cash flows and dividend payout. Based on the previous explanation, the hypothesis can be formulated the following:

H7: ROA can moderate the effect of free cash flow on dividend payout.

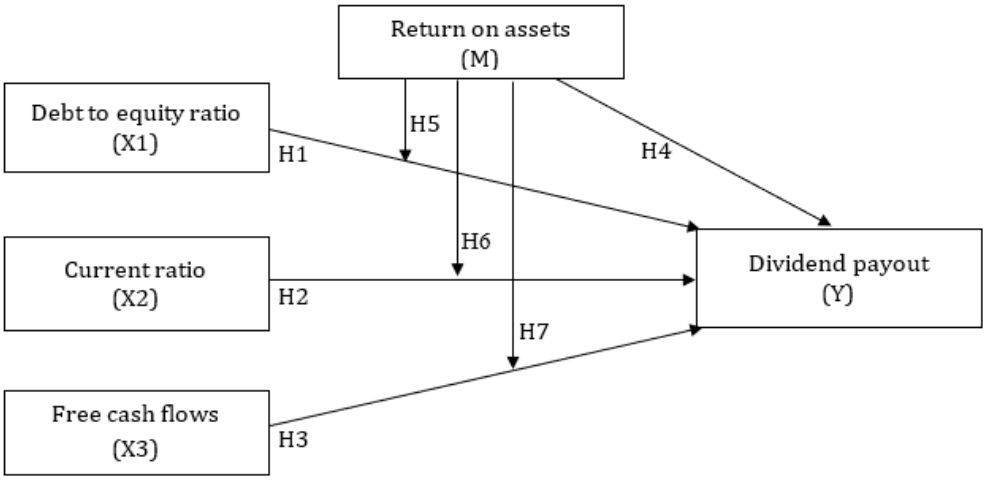

Figure 1 research model

Method

This study employs a quantitative approach using panel data regression. Financial reports provided secondary data for this investigation that were obtained through the Indonesia Stock Exchanges (IDX) official website. The data is created in numerical form. The research population is banking sector companies listed on the IDX for the 2019-2023 period, and the purposive sampling method is used to determine the sample size with predetermined criteria (Table 1). In this research, ninety samples from eighteen banking companies, a result of the sample selection were obtained that met the criteria; these are BBCA, BBNI, BBKP, BBRI, BBTN, BDMN, BEKS, BJBR, BJTM, BMAS, BMRI, BNGA, BTPS, MAYA, MEGA, NISP, PNBS, and SDRA. Based on the criteria, these banks have completed, and consistent financial records as reported in their annual reports from 2019 to 2023.

Bank Indonesia has had regulations since 2012 that divide banks into four groups. Regulation 6/POJK.03/2016 of the Financial Services Authority, which focused on corporate operations and office systems according to a bank's basic capital, later amended these rules. The rules are designed to control how banks are categorized according to their core capital size and commercial activity. This is called the business activity categorization of commercial banks (BUKU). Commercial banks, Islamic business units, and Islamic commercial banks are likewise subject to the rules. Banks with at least IDR 30 trillion in core capital are represented by BUKU 4.

Table 1 sample determination technique

No	Sample criteria	Amount
1	Banking sector in Indonesia registered with the Financial Services Authority (FSA)	47
2	Banking sector companies in Indonesia not registered in the Financial Services Authority (FSA) during 2019-2023 period	(4)
3	Banking sector companies do not consistently publish annual financial reports for the 2019-2023 period	(24)
4	Banking sector companies do not distribute dividends regularly during the 2019-2023 period	(1)
Samples that meet the criteria		18
Data observations for 2019-2023 study period = 18 x 5 years		90

Source: secondary data (processed, 2025)

Table 2 variable measurements

Variables	Measurements	Source	Scale
Dividend payout	$\text{DPR} = \frac{\text{Dividends per Share}}{\text{Profits per Share}}$	Santosa et al. (2023)	Ratio
Debt to equity ratio	$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$	Sihombing and Zakchona (2024)	Ratio
Current ratio	$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$	Sari et al. (2022)	Ratio
Free cash flows	$\text{FCF} = \frac{\text{Operating Cash Flow} - \text{Capital Expenditure}}{\text{Total Equity}}$	Rochmah and Ardianto (2020)	Ratio
Return on assets	$\text{ROA} = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$	Setyaningsih and Yuliana (2020)	Ratio

The research variables consist of debt-to-equity ratio, current ratio, free cash flows as independent variables, dividend payout as the dependent variable, and return on assets as moderating variable; more details can be seen in Table 2. The common-effect, fixed-effect, and random-effect models are the three models that are part of the multiple panel data analysis methods employed in this work. The best model is determined by applying the Chow, Hausman, and Lagrange multiplier tests. On the other hand, data were analyzed using a balanced panel data set in the context of uneven dividend distribution (Adityo and Heykal 2020; Rahayu and Nurul 2024). The research method of data analysis is the random effect model (REM) with EViews 12.

Results and discussion

The outcomes of the descriptive statistical computation output using EViews for banking organizations listed on the IDX are shown in Table 3. Descriptive analysis was used to summarize each variable's research properties. Based on the 90 bank-year samples analyzed, the following numbers for the mean, maximum, minimum, and standard deviation are displayed.

Table 3 Descriptive statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPR	90	10.28000	75.00000	47.87600	15.76790
DER	90	0.420000	9.820000	5.331092	2.789080
CR	90	0.620000	11.31000	3.486277	2.210125
FCF	90	-0.198800	0.733385	0.276900	0.141669
ROA	90	0.600000	12.69000	3.671747	2.801709

Source: secondary data (processed, 2025)

The descriptive statistics are shown in Table 3; the average dividend payout is 47.87600, with a maximum value of 75,00000 and a minimum value of 10.28000, indicating that banking sector companies are categorized as having healthy and high dividend payments to shareholders. The debt-to-equity ratio has an average value of 5.331092, with a maximum value of 9.820000 and minimum value of 0.420000; the banking sector companies have cautious financial practices and a low debt ratio. The value of CR is a minimum of 0.620000, a maximum value of 11.31000 and an average value of 3.486277, implying that banks have enough cash to distribute dividends to their owners. The average value of free cash flows was 0.276900, the highest value was 0.733385, and the lowest value was negative, i.e., -0.198800. A negative free cash flow value can indicate that company income cannot support the company's expansion. With a minimum value of 0.600000, maximum value of 12.69000, and average value of 3.671747, the ROA exhibits moderate variances in turning a profit based on total assets owned.

Many tests are conducted on model specification to ensure the optimal model is utilized in panel data analysis to approximate panel data regression. The Chow test aims to identify which common and fixed effect models best fit the data. The fixed effect model is acceptable if the Chow test probability cross-section value is less than 5% (0.05). Numerous tests are carried out on the model specification to ensure that the best model is used in panel data analysis to approximate panel data regression. Finding the common effect or fixed effect model that best fits the data is the goal of the Chow test. The fixed effect model is deemed acceptable if the Chow test probability cross-section value is less than 0.05 (5%). The Chow test findings in Table 4 indicate that Prob. 0.0000 is less than 0.05, so the fixed effect model is selected.

Table 4 the Chow-test results

Effects test	Statistic	d.f	Prob.
Cross-section F	17.958048	(17.40)	0.0000
Cross-section Chi-square	96.558353	17	0.0000

Source: secondary data (processed, 2025)

The Hausman test can determine the optimal fixed effect or random effect model. The model is considered acceptable if the random probability cross-section of fixed effect models is less than 0.05 (5%). For the random effect model to be accepted, the value of the random probability cross-section needs to be higher than 0.05 (5%). Table 5 shows that the random effect model is selected, with a probability value of 0.1158, higher than 0.05, as indicated by the Hausman test. Based on the results of the Chow and Hausman tests, the random effect model was determined to be the best model in the model goodness test.

Table 5 Hausman-test results

Test summary	Chi-sq. statistic	Chi-sq. d.f	Prob.
Cross-section random	12.885909	4	0.1158

Source: secondary data (processed, 2025)

One might apply for a standard test to ascertain whether the data distribution is expected. The data can be regarded as usual if the Jarque-Bera profitability value exceeds 0.05. The normality test findings in Table 6 indicate that the probability of 0.115878 is higher than 0.05, so the data is normally distributed.

Table 6 the normality test results

Jarque-Bera	Probability
4.286649	0.115878

Source: secondary data (processed, 2025)

The multicollinearity test is one possible test to determine whether independent variables are correlated. The data does not show multicollinearity if the VIF score is less than 10. The test result of Table 7 indicates that the center variance inflation factor's (VIF) probability value is less than 10.00, so there are no multicollinearity symptoms.

Table 7 the multicollinearity test results

Variables	Coefficient variance	Uncentered VIF	Centered VIF
C	4.006058	13.02090	NA
DER	1.054405	3.068875	2.552055
CR	2.120905	4.770555	2.800058
FCF	2.445351	5.660152	2.855038
ROA	0.155060	2.440254	1.146620

Source: secondary data (processed, 2025)

To ascertain whether variables from observations or residuals are not comparable to other regression model observations, heteroscedasticity tests can be employed. Heteroscedasticity may not be present in the data if the profitability value is higher than 0.05. Based on the test findings in Table 8, no heteroscedastic symptoms occur, and the probability value is higher than 0.05.

Table 8 the heteroscedasticity test results

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	25.55117	153.4352	0.240202	0.8191
DER	-0.143520	0.131821	-1.470464	0.6530
CR	0.343305	0.520516	0.451011	0.5210
FCF	0.295401	0.465014	0.421710	0.4610
ROA	0.142160	0.257438	0.175615	0.6107

Source: secondary data (processed, 2025)

Durbin-Watson and LM tests are useful for identifying autocorrelation. Autocorrelation is not formed by the signifier when the F-count exceeds 0.05. Autocorrelation is absent when D-W is less than (4-dU) and greater than (dU). According to autocorrelation test, DW = 2.102691, dL = 1.6345, dU = 1.6794 and 4-dU = 2.3206 also 4-dL = 2.3655. Consequently, it may be said that dL < dU < dw < 4-dU < 4-dL and probability value 0.000000 < 0.05, so there is no formation of autocorrelation. When the sig value is less than 0.05, the effect of an exogenous variable on the endogenous variable is significant. If the probability value is sig > 0.05, then exogenous variables do not affect endogenous variables.

Table 9 regression coefficient value estimation for panel data

Variables	Coefficient	Std. Error	t-Statistic	Prob.
DER	-0.802330	0.567949	-1.645841	0.1260
CR	1.804880	0.888065	2.050082	0.0168
FCF	0.998076	0.727044	4.373882	0.0002
ROA	1.146642	0.613000	4.105295	0.0007
DER*ROA	-0.573712	0.459929	-1.723752	0.1339
CR*ROA	1.022656	0.403811	2.286060	0.0125
FCF*ROA	0.267658	0.097972	2.502875	0.0120
C	0.666744	0.505133	11.09318	0.0000
R-squared	0.578867			
Adjusted R-squared	0.500335			
F-statistic	19.71502			
Prob(F-statistic)	0.000000			

Source: secondary data (processed, 2025)

Considering Table 9, the constant (α) is a positive value, i.e., 0.666744; this indicates whether the DER, CR, FCF, and ROA are zero per cent or remain the same, then the dividends payout distribution in banking sector companies is 0.666744. The DER does not affect dividend payout. This is demonstrated by the probability value of 0.1260 > 0.05 and the negative coefficient value of -0.802330, so H1 is rejected. The current ratio positively and significantly affects dividend payout. This is demonstrated by the probability value of 0.0168 < 0.05 and the positive coefficient value of 1.804880, so H2 is accepted. The free cash flow positively and significantly affects dividend payout. This is illustrated by the coefficient value of 0.998076 and the probability value of 0.0002 < 0.05, so H3 is accepted. The return on assets positively and significantly affects dividend payouts. This is demonstrated by the probability value of 0.0007 < 0.05 and the positive coefficient value of 1.146642, so H4 is accepted.

The return on assets cannot moderate the impact of DER on dividend distribution. This is illustrated by the coefficient value of -0.573712 and probability 0.1339 > 0,05, so H5 is rejected. In contrast, return on assets strengthens the relationship between the current ratio and dividend payout. This is illustrated by the coefficient value of 1.022656 and probability of 0.0125 < 0,05, so H6 is accepted. On the other hand, return on assets strengthens the

relationship between free cash flows and dividend payout. This is demonstrated by the probability value of 0.0120 < 0.05 and a coefficient value of 0.267658, so H7 is accepted.

The percentage effect of the exogenous variable on the endogenous variable can be ascertained utilizing the coefficient determination test's findings (R2). According to Table 10, an R-squared value of 0.578867 (57.8%) indicates that DER, CR, free cash flows, and ROA influence dividend payout distribution. However, 42.2% were impacted by other factors not considered. The return on assets had an R-square value of 0.425667, indicating that 42.5% of the DER, CR and free cash flow influence the return on assets. However, 57.5% were impacted by other factors not considered.

Table 10 Test coefficient of determination (R2)

	R-Square (R2)	Adjusted R-squared
Dividend payout (Y)	0.578867	0.500335
Return on assets (M)	0.425667	0.406177

Source: secondary data (processed, 2025)

Effect of debt-to-equity ratio on dividend payment

Based on the results of the analysis, the debt-to-equity ratio does not affect dividend payments in banking sector companies listed on the IDX 2019–2023 timeframe. It indicates that the bank's business model, strict regulation, and focus on profits and capital are the main determinants of dividend policy, not the debt-equity structure itself. This is because in the non-financial sector, debt is usually used to finance expansion or operations and increasing DER can indicate financial risk. However, in banking, debt in the form of third-party funds (customer deposits) is the primary source of working capital. DER becomes less reflective of "risky" leverage because the bank's business is to collect and distribute funds (Hermuningsih, Sari, and Rahmawati 2020). Therefore, a high DER does not mean the bank is experiencing financial pressure and does not automatically reduce dividends. Banks must maintain the capital adequacy ratio (CAR) by the provisions of authorities such as the Financial Services Authority (FSA). Dividend payments depend more on whether CAR is met, not on DER, so banks can continue to pay dividends if the minimum capital is safe, even though DER is high (Fabrizi et al. 2021). Many banks implement a stable dividend policy based on the payout ratio to maintain long-term investor confidence (Trinh, Kara, and Elnahass 2022). This policy considers the sustainability of profits and regulatory compliance more than fluctuations in the DER ratio. DER becomes less relevant in practice dividend decisions. According to signal theory, dividends remain the primary signal tool for banking strength and stability. At the same time, DER is not a strong or relevant signal in this sector due to the nature of the bank's business and strict capital regulations. The finding results are consistent with previous research by Le, Nguyen, and Tran (2019); Santosa et al. (2023), who state that DER did not significantly affect dividend policy. The lack of relationship between DER and dividends in the banking sector indicates that traditional capital structure is no longer dominant in determining dividend policy. Factors such as regulation, profitability, and operational risk are more important. This requires a sector-specific analytical and policy approach.

Effect of current ratio on dividend payment policy

Based on the analysis results, the current ratio (CR) positively affects the distribution of dividend payouts for banking sector companies listed on the IDX for 2019-2023. It means that the banking companies have a high value of CR and sufficient cash to distribute dividends to shareholders after meeting operational obligations. Increased dividend payments may result from high liquidity since it can lower investors' perceptions of risk and assure management and shareholders that the bank is financially sound. A high current ratio (CR) in the banking sector indicates good liquidity and operational stability, which makes

management feel safe when distributing dividends (Sihombing and Zakchona 2024). A high CR can also reflect compliance with liquidity regulations and send a positive signal to investors. The result of this study supports the signaling theory that a bank can more easily set aside a portion of its profits for dividends when it possesses sufficient present assets to pay for its immediate obligations. The bank's liquidity position supports its decision to pay higher dividends. Banks with high CR will probably use higher dividend payments to inform the market that they are strong. Investors frequently interpret high dividends as indicating a bank's sound financial standing, making them think it is well-positioned for future expansion. To reassure investors about its prospects and signal stability, the bank may decide to increase its dividend payout. The findings were backed by findings from Martin and Panggabean (2020); Muhammadinah (2021); the current ratio significantly and favorably affects the distribution of dividend payouts. According to these results, the company is financially flexible enough to pay dividends without endangering its capacity to fulfil commitments because it shows that it has enough short-term assets to cover liabilities. The findings imply that short-term liquidity is one of the primary considerations in dividend decision-making. This impacts managerial strategies, risk evaluation by investors, and supervision by regulators.

Effect of free cash flows on dividend payment policy

According to the results of the analysis, free cash flows (FCF) positively affect dividend payout distribution for banking sector companies listed on the IDX for 2019-2023. This result suggests that free cash flow motivates the firm to pay more dividends to its shareholders. High free cash flow indicates that the bank has a real cash surplus after all operational and investment obligations are met. This condition allows the bank to pay dividends safely without disrupting liquidity, regulatory compliance, or operational stability. The result of this research is supported by signaling theory, which states that the more cash a business has on hand, the more likely it is to distribute dividends to its owners. To meet the needs of shareholders, dividends are paid out using free cash flow, which serves as a signal to draw in more new investors (Nie and Yin 2022). The management board must operate efficiently in conducting business and investing to have high free cash flow. The management board should distribute free cash flow to shareholders to lessen tensions between managers and shareholders. Shareholders' demands for dividends are fair, given the size of their investment. As a result, the management board ought to utilize a portion of the free cash flow given to them. This research is supported by findings by Al-Fasfus (2020); Rochmah and Ardianto (2020), which state that free cash flows significantly impact dividend payments favourably. These results imply that the management board may feel pressured by this circumstance to manage cash flow to pay dividends and guarantee the bank's ability to make payments. The positive effect of free cash flow on dividend payments in the banking sector shows that dividend decisions are strongly influenced by actual cash strength, not just accounting profits. This reinforces the importance of efficient cash management, improving financial transparency, and encouraging sustainable dividend policies and managerial discipline.

Effect of return on assets on dividend payment policy

According to the results of data analysis, return on assets (ROA) positively affects dividend payout distribution for banking sector companies listed on the IDX for 2019-2023. It indicates that highly profitable businesses might send out a signal to prospective and existing investors that they might generate higher returns in the future. This is because ROA reflects real profitability and efficiency of asset utilization. The higher the ROA, the greater the bank's ability to generate profits that can be distributed as dividends without sacrificing financial stability. This research supports the signaling theory that stable profit distribution reduces information asymmetry between management and investors. If the company profits keep

rising, there will be a greater chance that the company will pay dividends. Banks can pay out significant dividends when they experience high-profit margins. Put differently, banks use ROA as a guide when deciding whether to pay dividends (Trinh, Kara, and Elnahass 2022). Because they can generate more profit, corporations with higher levels of ROA have a greater probability of paying dividends to shareholders. This argument is consistent with the original intent of shareholders, who invested their money in the company stock to receive dividends. The findings of this study are verified by Setyaningsih and Yuliana (2020); Putri, Hitten, and Heniwati (2024) state that ROA significantly impacts the dividend payout. These results imply that the presence of dividend payments indicates that the organization's management was effective and efficient, which improved performance and increased investor profits. This finding implies that asset profitability is a key factor in dividend policy in the banking sector. It encourages management to improve asset efficiency, provides a positive signal to investors, and supports balanced regulatory oversight between dividend distribution and capital maintenance.

Effect of debt-to-equity ratio on dividend payment policy moderated by ROA

The analysis results show that returns on assets cannot moderate the effect of the debt-to-equity ratio on dividend payments for banking sector companies listed on the IDX for 2019-2023. This indicates that asset profitability does not affect how bank capital structure impacts dividend policy in the banking sector. Strict regulations focusing on capital stability and liquidity and the separation of management views between leverage risk and profitability can influence this. ROA cannot moderate the effect of DER on dividend payments because, in the banking sector, strict regulations, a focus on leverage risk, and conservatism in dividend policy make profitability (ROA) less influential in changing the impact of capital structure on dividend decisions. Signaling theory views DER as a strong signal regarding risk and dividend policy in the banking sector, and ROA as an indicator of profitability is not enough to moderate the effect of DER. This shows that in the context of banks, signals related to financial risk are more dominant than profitability signals in influencing dividend payments. This study's findings align with research by Ghofar and Pertiwi (2024); Rachmawati and Takarini (2024) state that ROA is unable to moderate between debt to equity ratio on dividend payout. This finding implies that asset profitability does not change how leverage affects dividend decisions in the banking sector. Leverage risk and regulatory compliance factors are dominant factors in dividend policy, so management and investors must pay attention to these aspects separately from profitability.

Effect of current ratio on dividend payment policy moderated by ROA

The analysis results show that return on assets strengthens the effect of the current ratio on dividend payout distribution for banking sector companies listed on the IDX for 2019-2023. This indicates that profitability strengthens the positive effect of liquidity on the bank's ability to pay dividends. This indicates that dividend decisions in the banking sector are greatly influenced by the synergy between asset performance and healthy liquidity, providing a positive signal to investors and strengthening management confidence in determining dividend policy. This occurs because high profitability provides a strong foundation for optimizing liquidity in paying dividends. Combining the two reflects a healthy and stable financial condition, increasing management and investor confidence in the sustainability of dividends in the banking sector. According to signal theory, ROA that strengthens the influence of CR on dividend distribution indicates that the combination of profitability and liquidity sends a stronger and more convincing signal to the market. This reduces information asymmetry and increases investor confidence in the sustainability of dividends in the banking sector. The coherence of the findings of studies by Ali et al. (2022);

Rahayu and Nurul (2024) report that ROA moderated the relationship between CR and dividend payout. These findings suggest that a high current ratio can indicate efficient working capital management, reduce financial risk, and signal stability to investors. This increases investor confidence in the sustainability of dividend payments and strengthens the banking sector's stability.

Effect of free cash flows on dividend payment policy moderated by ROA

The analysis results show that return on assets strengthens the effect of free cash flows on the distribution of dividend payouts for banking sector companies listed on the IDX for 2019-2023. This indicates that the correlation between free cash flow and profitability motivates a firm to increase its dividend payment policy. The return on assets moderating function suggests that the ideal level of free cash flow signaled investors about the company's capacity to distribute profits to shareholders. The findings align with the principles of signaling theory; a combination of the company's ability to turn a profit and its ample free cash flow demonstrated that it operated at peak efficiency and had the financial flexibility to give investors even better dividends. These results corroborate earlier research by Dabboussi (2024); Januarsi and Sanusi (2024), which found that return on assets was the best factor for enhancing the correlation between dividend payout and free cash flow. These results imply that the company has enough (even more) profits and cash flow to distribute dividends to its shareholders. This reflects dividend decisions based on sound financial conditions, increasing investor confidence and the banking sector's stability.

Conclusions

The study findings, which are supported by data analysis and discussion, demonstrate that the current ratio, free cash flows, and return on assets positively affect dividend payout distribution. The bank's financial health, liquidity, free cash flow, and profitability significantly impact the percentage of profits that the business is willing and able to pay out as dividends. Banks with greater free cash flows, CR, and ROA are more likely to pay out larger dividends because they have the financial capacity to do so. In contrast, dividend payout is not significantly affected by the debt-to-equity ratio in Indonesia's banking sector companies. Banks may limit dividend payments or maintain larger cash reserves as a financial buffer to mitigate this risk. Return on assets strengthens the influence of the current ratio and free cash flows on dividend payout. On the other hand, return on assets cannot moderate the relationship between the debt-to-equity ratio and the distribution of dividends in banking. This indicates that with a high profitability increase when DER increases, the bank’s dividend policy typically decreases.

Since it has been demonstrated that businesses typically pay out larger dividends, this investigation provides investors with helpful information and insight to help them choose companies with high CR, free cash flow, and ROA. This study gives researchers a starting point for investigating dividend theory in IDX markets further, which advances our understanding of these intricate financial dynamics on a global scale. To optimize the market value of the business, management may use dividend premiums to gauge investor demand for payouts. These results were crucial in establishing rules about dividend policy. This was a possible tactic to raise the company's worth, foreseeing the dispute between investors and management.

The study limitation includes the small number of banking sector companies registered in IDX that could be included in the sample because only five years, from 2019-2023, were covered by all variables required for this study. This demonstrated that additional samples from related industries and different comparisons should be included in future research to strengthen the evidence. Future studies can increase the number of samples by incorporating additional study years and geographical areas (countries).

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