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# THE EFFECT OF LEVERAGE, FREE CASH FLOW, LAGGED DIVIDEND, AND BUSINESS RISK ON DIVIDEND POLICY IN JAKARTA ISLAMIC INDEX 70 (JII70) COMPANIES FOR THE 2019-2023 PERIOD

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**Abstract:**

This research aims to examine the effect of leverage, free cash flow, lagged dividend, and business risk on dividend policy. The method used is quantitative with secondary data from annual reports and financial reports of companies that are consistently listed in the Jakarta Islamic Index 70 (JII70) during the period 2019-2023. The sample consists of 17 companies with a total of 85 observations, but after removing outliers, the number of observations becomes 82. Data analysis includes descriptive statistics, panel data regression model selection tests, classical assumption tests, panel data regression, and hypothesis testing using EViews 12 software. The best model for this research is the Fixed Effect Model (FEM). The results of the research indicate that leverage has a negative effect on dividend policy, free cash flow has a positive effect on dividend policy, and lagged dividend has a positive effect on dividend policy, supporting the hypothesis and in line with agency theory. Meanwhile, the results of business risk have a positive effect on dividend policy, not supporting the hypothesis and not in line with agency theory. This implication encourages stakeholders to collaborate in implementing and obtaining optimal dividend policies. Further research is recommended to expand the sample, observation period, and add other variables.

**Keywords:** dividend policy, leverage, free cash flow, lagged dividend, business risk.

## BACKGROUND

Over time, the capital market has played an increasingly strategic role in attracting both domestic and foreign investors, with stocks becoming a primary choice due to their potential for generating returns through capital gains and dividends. Stocks are often the main investment choice for investors as they offer higher return potential, which leads investors to pay close attention to the stability of dividend policies (Prastya & Jalil, 2020). In Indonesia, Sharia-compliant stocks have shown a positive trend and are gaining popularity, reflecting that business stability and sustainability support growing investment interest (Abdullah et al., 2023). This development is also supported by instruments such as the Sharia Securities List (Daftar Efek Syariah or DES), which is regularly issued by the Financial Services Authority (OJK) as an investment guide aligned with Sharia principles (Hikmah & Selasi, 2025).

During the period from 2019 to 2023, the number of stocks listed in the Sharia Securities List increased significantly by 54%. In 2019, there were 408 (first period) and 435 (second period) companies listed, and this number continued to rise, reaching 574 (first period) and 629 (second period) companies in 2023 (Otoritas Jasa Keuangan, 2025). The number of Sharia stock investors also grew by 99%, from 68,599 in 2019 to 136,418 in 2023. This growth reflects the increasing interest and commitment to Sharia-based investments and indicates the growing potential of the Sharia stock market in Indonesia. This is further supported by the rise in market capitalization of Sharia indices released by the OJK.

Jakarta Islamic Index 70 (JII70) has shown a relatively stable market capitalization trend since its inception, with values ranging between 2,715,852 and 3,306,081 during the 2018–2023 period (Otoritas Jasa Keuangan, 2025). Despite fluctuations, the index continues to reflect the stability of the Sharia stock market and contributes to enhancing transparency and accountability in its management in Indonesia.

A stable and favorable dividend policy reflects a company's financial performance and serves as an indicator of success in meeting investor expectations (Suhaimi & Haryono, 2021). Investors seek profit distribution in the form of dividends, while management may prefer to retain earnings for long-term investments, potentially leading to conflicts of interest according to agency theory (Prastya & Jalil, 2020). Therefore, it is crucial for companies to balance their dividend policy with growth strategies to minimize conflicts and maintain investor trust.

The phenomenon observed among companies listed in the JII70 index during the 2019–2023 period indicates an inconsistency in dividend policy, as not all companies consistently distributed dividends. For instance, PT Global Mediacom Tbk (BMTR), PT Erajaya Swasembada Tbk (ERAA), and PT Media Nusantara Citra Tbk (MNCN) did not regularly distribute dividends throughout the period. In contrast, some companies, such as PT Ciputra Development Tbk, distributed dividends every year, although the amounts fluctuated annually. Another noteworthy case is PT Indofood Sukses Makmur Tbk (INDF), which

distributed dividends in 2022 despite experiencing an 18% decline in profits. Similarly, PT Telkom Indonesia (Persero) Tbk (TLKM) consistently distributed dividends even though the leverage ratio is more than 50%. These variations reflect that dividend policy is significantly influenced by each company's internal conditions and long-term strategic considerations, and thus, is not uniform across the board.

In financial studies, various factors have been examined for their influence on dividend policy, such as leverage, free cash flow, lagged dividend, and business risk. Research findings show that leverage generally has a negative effect (Aghnitama & Widyarti, 2023; Widyasti & Putri, 2021), although some studies have found a positive (Jao et al., 2022) or insignificant relationship (Hariyanti & Pangestuti, 2021). Free cash flow is mostly found to have a positive effect (Gul et al., 2020; Widyasti & Putri, 2021), though there are also insignificant relationship (Prastya & Jalil, 2020) and even negative findings (Wulandari & Warsini, 2023). Lagged dividend tends to show a significant positive effect (Mayliza & Suryadi, 2023; Gennusi & Maharani, 2021), although some studies have found no such relationship (Faadhilah & Hendrani, 2023). Business risk is mostly found to have a negative effect (Jao et al., 2022; Wardhayat & Usman, 2024), but there are also findings of a positive (Putri et al., 2022) or insignificant relationship (Wulandari & Warsini, 2023).

Based on the background described above, the researcher identified a research gap concerning the influence of leverage, free cash flow, lagged dividend, and business risk on dividend policy. Furthermore, studies that use companies listed in the Jakarta Islamic Index 70 (JII70) as the unit of analysis on the topic of dividend policy are still limited. To address this gap, the researcher conducted a study to re-examine the effect of leverage, free cash flow, lagged dividend, and business risk on dividend policy among companies listed in the Jakarta Islamic Index 70 (JII70) during the 2019–2023 period.

## THEORETICAL FRAMEWORK

### Agency Theory

Agency theory, proposed by Jensen and Meckling (1976), describes the relationship between shareholders as principals and company management as agents. This agency relationship can be defined as a contract in which shareholders, acting as principals, appoint another party, namely management, as agents to carry out specific tasks on their behalf. In this relationship, shareholders delegate part of the decision-making authority to management to run the company on their behalf (Jensen & Meckling, 1976). The theory assumes that both management and shareholders are motivated by their own self-interest (Hariyanti & Pangestuti, 2021).

### Sharia Stock Exchange

The Sharia Capital Market encompasses all capital market activities that comply with Islamic principles. In Indonesia, it is part of the Islamic finance industry and is regulated by the Otoritas Jasa Keuangan (OJK). Sharia-compliant stocks are those that do not conflict with Islamic principles and are categorized as shares issued by Sharia-compliant issuers or that meet specific Sharia criteria, as listed in the Sharia Securities List (Daftar Efek Syariah or DES), which is updated twice a year. The assessment of sharia stocks includes business activities and financial ratios such as avoiding involvement in gambling or interest based financial services, and adhering to limits on interest based debt and non halal income. To assist investors, there are five sharia stock indices in Indonesia: ISSI, JII, JII70, IDX-MES BUMN 17, and IDXSHAGROW (Bursa Efek Indonesia, 2025).

### Dividend Policy

Dividend policy refers to a company's decision regarding whether the profits earned will be distributed to shareholders as dividends or retained for future investment (Hariyanti & Pangestuti, 2021). As stated by Horne & Wachowicz (2012) in Mnune & Purbawangsa (2019), the core of dividend policy lies in

determining the appropriate way to allocate earnings between dividend distribution and retained earnings.

**Leverage**

Leverage describes a company's ability to meet all of its obligations and also serves as an indicator of the extent to which the company's operations are financed by borrowed funds. Companies with high levels of debt tend to be less attractive to investors, as they assume that the greater the debt to be repaid, the more funds the company must allocate to fulfill those obligations (Jao et al., 2022).

Leverage can pose risks for a company, such as the inability to meet obligations and limited access to additional capital, which in turn reduces the availability of funds to pay dividends. An increase in leverage encourages companies to prioritize debt repayment, thereby reducing available cash and net income for dividends. Companies with high debt levels tend to be more cautious in distributing dividends to ensure operational sustainability (Anuar et al., 2023). Based on agency theory, debt can encourage managerial discipline but reduces flexibility in dividend distribution (Jensen, 1986). Therefore, high leverage tends to decrease dividend policy. The relationship between leverage and dividend policy is negative and significant, as supported by the studies of (Wahjudi, 2020), Widyasti & Putri (2021), and Aghnitama & Widyarti (2023).

H1: Leverage has a negative effect on dividend policy.

**Free Cash Flow**

According to Suhaimi & Haryono (2021), free cash flow refers to funds generated by a company that can be allocated to shareholders after the company has completed its investments in fixed assets and working capital. This component is important as it provides flexibility for companies to seize various opportunities that may enhance shareholder value.

Free cash flow plays an important role in influencing dividend policy, as it is one of the main sources of funds for dividend distribution. A high level of free cash flow reflects a company’s financial health and flexibility, thereby enhancing

its ability to consistently pay dividends (Sumarsono & Rahmawati, 2023). Companies with high free cash flow tend to provide greater returns to shareholders (Widyasti & Putri, 2021). According to agency theory (Jensen, 1986), dividends also serve to reduce conflicts between management and shareholders by disciplining the use of excess cash. The relationship between free cash flow and dividend policy is positive and significant, as supported by the studies of Zulficha & Fahmi (2021), Sumarsono & Rahmawati (2023), and Sidharta & Nariman (2021).
H2: Free cash flow has a positive effect on dividend policy.

**Lagged Dividend**

According to Izdihar et al. (2020), lagged dividend refers to the dividend paid for the previous year. The dividend to be distributed in the current year is related to the dividend paid in past years. The amount distributed reflects the company management's commitment to a consistent dividend policy. This approach is based on the assumption that investors view dividend increases as a positive signal of the company's promising future prospects.

Lagged dividend, or dividends paid in the previous period, influences the current year's dividend policy. Investors tend to pay attention to dividend stability before making investment decisions, prompting companies to use past dividends as a reference to maintain stability and avoid negative reactions from dividend reductions (Faadhilah & Hendrani, 2023). An increase in lagged dividend sends a positive signal about earnings performance, while a decrease can undermine investor confidence (Izdihar et al., 2020). In the context of agency theory, dividend stability influenced by lagged dividend helps reduce uncertainty and conflicts between management and shareholders. Therefore, current dividends often follow past patterns as a form of commitment and a means of building investor trust. The relationship between lagged dividend and dividend policy is positive and significant, as supported by the studies of Izdihar et al. (2020), Gennusi & Maharani (2021), and Hartono & Matusin (2020).
H3: Lagged dividend has a positive effect on dividend policy.

**Business Risk**

Business risk reflects the degree of uncertainty related to the management and operation of a company's assets when the company does not use debt. In other words, business risk relates to the potential fluctuations in revenue and operating income arising from the company's core activities, such as the production, marketing, and sale of goods or services (Brigham & Houston, 2019).

Business risk affects a company's ability to distribute dividends. According to Jao et al. (2022), companies with high business risk tend to avoid paying dividends due to significant uncertainty, prompting more cautious financial decisions and preference for allocating funds to maintain liquidity and operational continuity. Generally, companies adopt low dividend policies to avoid drastic cuts during periods of declining earnings. Salsabilla & Isbanah (2020) further explain that high-risk companies prefer reducing dividends to reinvest in business development and avoid increasing debt. In the context of agency theory, high business risk may lead to conflicts of interest, as management tends to retain earnings as reserves rather than distributing them as dividends. The relationship between business risk and dividend policy is negative and significant, as supported by the studies of Jao et al. (2022), Aghnitama & Widyarti (2023), and Wardhayat & Usman (2024).

H4: Business risk has a negative effect on dividend policy.

## METHOD

The population in this study consists of all companies listed in the Jakarta Islamic Index 70 (JII70) during the period from 2019 to 2023. Throughout this period, a total of 142 companies were listed in the JII70. The sample was selected using a purposive sampling method based on two criteria: (1) companies that were consistently listed in the JII70 during the 2019–2023 period (32 companies), and (2) companies that consistently distributed dividends during 2018–2023 (17 companies). The initial sample consisted of 17 companies over 5 years, resulting in 85 observations. After conducting an outlier test, some extreme data were identified, reducing the number of valid observations to 82.

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This study uses a quantitative research method and employs secondary data collected through documentation. The documents used include annual reports and financial statements of companies listed in the Jakarta Islamic Index 70 (JII70) for the 2019–2023 period. The analysis was conducted using panel data regression. The data analysis techniques in this study consist of descriptive statistical analysis, panel data regression model selection tests, classical assumption tests, and hypothesis testing using EViews 12 software.

The dependent variable in this study is dividend policy, measured by the proxy of the Dividend Payout Ratio (DPR) (Izdihar et al., 2020; Wahjudi, 2020; Zulficha & Fahmi, 2021). The independent variables in this study include: leverage proxied by the Debt to Equity Ratio (DER) (Wahjudi, 2020; Izdihar et al., 2020; Jao et al., 2022), free cash flow measured using the free cash flow formula based on Guinan (2010) (Sidharta & Nariman, 2021; Sumarsono & Rahmawati, 2023), lagged dividend proxied by the $\text{Dividend Payout Ratio}_{t-1}$ ($\text{DPR}_{t-1}$) (Astuti & Tripuspitorini, 2021; Gennusi & Maharani, 2021; Suleiman & Permatasari, 2022), and business risk proxied by the Basic Earning Power Ratio (BEPR) as an inverse proxy (Fathony & Djuminah, 2024; Muslimin & Wenten, 2023; Roshidayah et al., 2021).

The analysis used in this study is panel data regression analysis with the following equation:

$$DP_{it} = \alpha + \beta_1 LEV_{it} + \beta_2 FCF_{it} + \beta_3 LD_{it} + \beta_4 BR_{it} + \varepsilon_{it}$$

Keterangan**:**
DP = Dividend Policy
α = Constant
β = Regression Coefficient
LEV = Leverage
FCF = Free Cash Flow
LD = Lagged Dividend
BR = Business Risk
ε = Error
i = Company-i
t = Period-t

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## RESULT

### Descriptive Statistical Analysis

**Table 1. Descriptive Statistical Analysis Results**

| | KD | LEV | FCF | LD | RB |
|---|---|---|---|---|---|
| Mean | 0.610567 | 0.767396 | 0.129071 | 0.613218 | 0.174470 |
| Median | 0.525933 | 0.633377 | 0.091531 | 0.512702 | 0.143485 |
| Maximum | 1.454196 | 3.928398 | 0.490824 | 1.766831 | 0.637350 |
| Minimum | 0.119290 | 0.112285 | -0.072521 | 0.119290 | 0.031648 |
| Std. Dev. | 0.277080 | 0.754512 | 0.110915 | 0.305133 | 0.120089 |
| Observations | 82 | 82 | 82 | 82 | 82 |

Source: Data processed using EViews 12 (2025)

The results of the descriptive statistical analysis for the dividend policy variable show a minimum value of 0.119, recorded by PT Ciputra Development Tbk in 2020. Meanwhile, the maximum value of 1.454 was observed in PT Indocement Tunggal Prakarsa Tbk in 2019. With a standard deviation of 0.277, which is smaller than the mean of 0.611.

The results of the descriptive statistical analysis for the leverage variable show a minimum value of 0.112, recorded by PT Mitra Keluarga Karyasehat Tbk in 2023. The maximum leverage value of 3.928 was observed in PT Unilever Indonesia Tbk in 2023. With a standard deviation of 0.755, which is smaller than the mean of 0.767.

The results of the descriptive statistical analysis for the free cash flow variable show a minimum value of -0.073, recorded by PT Indocement Tunggal Prakarsa Tbk in 2023. The maximum value of 0.491 was observed in PT Indo Tambangraya Megah Tbk in 2022. With a standard deviation of 0.111, which is smaller than the mean of 0.129.

The results of the descriptive statistical analysis for the lagged dividend variable show a minimum value of 0.119, recorded by PT Ciputra Development Tbk in 2021. The maximum value of 1.767 was observed in PT Indocement Tunggal Prakarsa Tbk in 2019. With a standard deviation of 0.305, which is smaller than the mean of 0.613.

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The results of the descriptive statistical analysis for the business risk variable show a minimum value (indicating high business risk) of 0.032, recorded by PT Aneka Tambang Tbk in 2019. The maximum value (indicating low business risk) of 0.637 was observed in PT Indo Tambangraya Megah Tbk in 2022. With a standard deviation of 0.120, which is smaller than the mean of 0.174.

## Panel Data Regression Model Selection Test

**Table 2. Model Selection Test Results**

| Model Selection Test | Results | Selected Model |
|---|---|---|
| Chow Test | Probability Cross-section F 0.000 (<0.05) | Fixed Effect Model (FEM) |
| Hausman Test | Probability Cross-section random 0.000 (<0.05) | Fixed Effect Model (FEM) |

Source: Data processed using EViews 12 (2025)

It can be concluded that the best model to be used is **the Fixed Effect Model (FEM)**.

## Classical Assumption Test

**Table 3. Classical Assumption Test Results**

| Classical Assumption Test | Results | Conclusion |
|---|---|---|
| Normality Test (Jarque-Bera Test) | **Before outlier**: Probability of Jarque-Bera 0.008 (<0.05)<br><br>**After outlier**: Probability of Jarque-Bera 0.053 (>0.05) | Data is normally distributed |
| Multicollinearity Test (Correlation Coefficient value) | The correlation coefficient value of all independent variables < 0.9 | Free from multicollinearity symptoms |
| Heteroscedasticity Test (Glejser Test) | The probability value of all independent variables > 0.05 | Free from heteroscedasticity symptoms |
| Autocorrelation Test (Breusch-Godfrey Test / LM Test) | Probability Chi-Square 0.764 (>0.05) | Free from autocorrelation symptoms |

Source: Data processed using EViews 12 (2025)

To address the normality issue, the study excluded 3 extreme data points using the outlier feature in EViews 12, resulting in a total of 82 observations.

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**Table 4. Outlier Data Results**

| Observasi | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| 39 | -0.531004 | 0.129823 | -4.090224 | 0.0001 |
| 62 | -0.447919 | 0.128328 | -3.490431 | 0.0008 |
| 79 | 0.715196 | 0.127266 | 5.619708 | 0.0000 |

Source: Data processed using EViews 12 (2025)

## Panel Data Regression Analysis

**Table 5. Panel Data Regression Analysis Results**

Dependent Variable: KD
Method: Panel Least Squares
Date: 05/30/25 Time: 17:31
Sample: 2019 2023
Periods included: 5
Cross-sections included: 17
Total panel (unbalanced) observations: 82

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.657204 | 0.111005 | 5.920507 | 0.0000 |
| LEV | -0.224600 | 0.108815 | -2.064054 | 0.0433 |
| FCF | 0.954504 | 0.319295 | 2.989414 | 0.0040 |
| LD | 0.378409 | 0.082929 | 4.563044 | 0.0000 |
| RB | -1.315561 | 0.329197 | -3.996279 | 0.0002 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|---|---|---|---|
| R-squared | 0.819098 | Mean dependent var | 0.610567 |
| Adjusted R-squared | 0.759786 | S.D. dependent var | 0.277080 |
| S.E. of regression | 0.135801 | Akaike info criterion | -0.938896 |
| Sum squared resid | 1.124964 | Schwarz criterion | -0.322541 |
| Log likelihood | 59.49474 | Hannan-Quinn criter. | -0.691439 |
| F-statistic | 13.80997 | Durbin-Watson stat | 2.499827 |
| Prob(F-statistic) | 0.000000 | | |

Source: Data processed using EViews 12 (2025)

The results of the panel data regression analysis show that the regression equation model used in this study, based on the Fixed Effect Model (FEM), is as follows:

$$DP_{it} = 0.657 - 0.225LEV_{it} + 0.955FCF_{it} + 0.378LD_{it} - 1.316BR_{it} + \varepsilon_{it}$$

The following is the interpretation of the panel data regression analysis results using the Fixed Effect Model (FEM):

1) The constant value is 0.657, which means that if the independent variables, namely Leverage, Free Cash Flow, Lagged Dividend, and Business Risk have a value of 0 (constant), then the Dividend Policy value is 0.657.

2) The coefficient value of the Leverage variable is -0.225, which indicates that the influence of the Leverage variable on Dividend Policy is not in the same direction. This indicates that if Leverage **increases** by 1, then Dividend Policy will **decrease** by 0.225.
3) The coefficient value of the Free Cash Flow variable is 0.955, which indicates that the influence of the Free Cash Flow variable on Dividend Policy is in the same direction. This indicates that if Free Cash Flow **increases** by 1, then Dividend Policy will **increase** by 0.955.
4) 4) The coefficient value of the Lagged Dividend variable is 0.378, which indicates that the influence of the Lagged Dividend variable on Dividend Policy is in the same direction. This indicates that if the Lagged Dividend **increases** by 1, then the Dividend Policy will **increase** by 0.378.
5) The coefficient value for the Business Risk variable is -1,316, which indicates that the influence of Business Risk on Dividend Policy is positive (direct), because Business Risk uses the Basic Earning Power Ratio (BEPR) as an inverse proxy. This means that if Business Risk **increases** by 1, Dividend Policy will **increase** by 1,316.

**Hypothesis Test**

**Goodness of Fit Test (F Test)**

Based on Table 5, the results of the goodness of fit test (F-test) show an f-Statistic Probability value of 0,000, which is less than 0,05. This indicates that the **regression model used in this study is feasible and appropriate for use**.

**Partial Significance Test (T Test)**

Based on Table 5, the results of the partial significance test (t-test) are as follows:

1) The Effect of Leverage on Dividend Policy

   The Probability value of the t-Statistic for the Leverage variable is 0,043, which is less than 0,05, with a negative coefficient sign. This indicates that Leverage has a negative effect on Dividend Policy **(H1 accepted)**.

2) The Effect of Free Cash Flow on Dividend Policy

   The Probability value of the t-Statistic for the Free Cash Flow variable is 0,004, which is less than 0,05, with a positive coefficient sign. This indicates that Free Cash Flow has a positive effect on Dividend Policy **(H2 accepted).**

3) The Effect of Lagged Dividend on Dividend Policy

   The Probability value of the t-Statistic for the Lagged Dividend variable is 0,000, which is less than 0,05, with a positive coefficient sign. This indicates that Lagged Dividend has a positive effect on Dividend Policy **(H3 accepted)**.

4) The Effect of Business Risk on Dividend Policy

   The Probability value of the t-Statistic for the Business Risk variable is 0,000, which is less than 0,05, with a negative coefficient sign. However, since Business Risk uses the Basic Earning Power Ratio (BEPR) as an inverse proxy, this indicates that Business Risk has a positive effect on Dividend Policy **(H4 rejected)**.

**Coefficient of Determination Test ($R^2$)**

Based on Table 5, the results of the coefficient of determination test (R-squared) show an Adjusted R-squared value of 0,760, indicating that the variables Leverage, Free Cash Flow, Lagged Dividend, and Business Risk **explain 76% of the variation in Dividend Policy**, while the remaining 24% is explained by other variables outside of this study.

## DISCUSSION

### The Effect of Leverage on Dividend Policy

The results of this study show that leverage has a negative effect on dividend policy. This means that the higher the company's leverage level, the less likely the company is to distribute dividends or the company may reduce the amount of dividends paid to shareholders, and vice versa. This finding is consistent with agency theory, which states that debt can serve as a control mechanism to reduce conflicts of interest between agents (management) and principals (shareholders). The obligation to pay interest and repay debt pressures management to be more

disciplined in managing company funds. However, the consequence is reduced financial flexibility, as most of the profits must be allocated to meet these obligations. As a result, the dividends distributed become lower or may not be distributed at all.

This finding aligns with the research conducted by Wahjudi (2020), Widyasti & Putri (2021), Prastya & Jalil (2020), Putri et al. (2022), and Aghnitama & Widyarti (2023), which found that dividend policy is negatively influenced by leverage.

**The Effect of Free Cash Flow on Dividend Policy**

The results of this study show that free cash flow has a positive effect on dividend policy. This means that the higher the company's free cash flow, the greater the likelihood that the company will distribute dividends or increase the amount of dividends paid to shareholders, and vice versa. This finding aligns with agency theory, which states that companies with high free cash flow potentially face greater conflicts of interest between management as agents and shareholders as principals. To minimize these conflicts, companies use dividend policy as a control mechanism, where dividend distribution serves as a tool to reduce management's freedom to use funds inefficiently. By distributing part of the free cash flow in the form of dividends, the company not only limits the potential misuse of funds but also demonstrates a commitment to financial discipline.

This finding aligns with the research conducted by Gul et al. (2020), Zulficha & Fahmi (2021), Widyasti & Putri (2021), Sumarsono & Rahmawati (2023), and Sidharta & Nariman (2021), which found that dividend policy can be positively influenced by free cash flow.

**The Effect of Lagged Dividend on Dividend Policy**

The results of this study show that lagged dividend has a positive effect on dividend policy. This means that the higher the dividend paid by the company in the previous period, the greater the likelihood that the company will distribute dividends or increase the amount of dividends paid to shareholders in the current year, and vice versa. This finding is consistent with agency theory, which states that

dividends can be used as a control mechanism to reduce conflicts of interest between management (agents) and shareholders (principals). In this context, consistent dividend payments function to limit the possibility of management using funds for personal interests or less profitable projects. Therefore, lagged dividend is considered an important factor in determining current-year dividends as a form of commitment to financial discipline and an effort to maintain investor confidence.

This finding aligns with research conducted by Mayliza & Suryadi (2023), Izdihar et al. (2020), Gennusi & Maharani (2021), Hartono & Matusin (2020), and Suleiman & Permatasari (2022), which found that dividend policy is positively influenced by lagged dividend.

**The Effect of Business Risk on Dividend Policy**

The results of this study indicate that business risk has a positive effect on dividend policy. This means that the higher the level of business risk faced by a company, the greater the likelihood that the company will distribute dividends or increase the amount of dividends paid to shareholders, and vice versa. This finding is not fully aligned with agency theory, which posits that companies with high business risk tend to retain earnings as a precautionary measure, resulting in a lower dividend policy. However, the results of this study show a different pattern, where companies continue to distribute dividends despite being in unstable business conditions. This may occur because management aims to maintain the company's image and attract investors by demonstrating that the company is still capable of providing returns even when facing high business risk. These results also support the view that dividend policy is influenced not only by internal financial conditions but also by managerial strategies to manage market expectations and maintain stock price stability.

This finding aligns with research conducted by Putri et al. (2022), Fathony & Djuminah (2024), Muslimin & Wenten (2023), and Adjie et al. (2024), which found that dividend policy can be positively influenced by business risk. In other words, the higher the business risk, the more likely it is that companies will still distribute or increase dividends as a signal of confidence to investors.

## CONCLUSION

This study indicates leverage has a negative effect on dividend policy, free cash flow has a positive effect on dividend policy, lagged dividend has a positive effect on dividend policy, and business risk has a positive effect on dividend policy. Based on the findings, It is recommended that company management consider the influence of leverage, free cash flow, lagged dividends, and business risk when formulating dividend policy, as a well-structured policy can signal market confidence and enhance the company's image among investors. For investors, these factors are important in assessing financial stability, business prospects, and the company's commitment to profit distribution. Future research is advised to extend the observation period to 6–10 years, include additional variables such as managerial ownership, corporate tax, and investment opportunities, and explore the use of moderating or mediating variables. The research scope could also be broadened to include companies listed on other indices such as ISSI, IDX-MES BUMN 17, and IDX High Dividend 20.

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