

IMPACT OF PROFITABILITY, MARKET, AND SOLVENCY RATIOS ON DIVIDEND POLICY: THE CASE OF COAL MINING COMPANIES ON THE IDX (2020–2024)

DAMPAK RASIO PROFITABILITAS, PASAR, DAN SOLVABILITAS TERHADAP KEBIJAKAN DIVIDEN: STUDI KASUS PERUSAHAAN PERTAMBANGAN BATUBARA DI BEI (2020–2024)

Marli¹, Didik Priyo Sugiharto²

STIE Malangkececwara Malang^{1,2}

*marli@stie-mce.ac.id¹, edi@stie-mce.ac.id²

**Corresponding Author*

ABSTRACT

The coal mining industry in Indonesia plays a vital role in meeting national energy needs and contributes significantly to the economy. However, this sector is highly vulnerable to global commodity price volatility. Dividend policy, which reflects profit distribution and signals a company's financial health, is strongly influenced by internal financial conditions and market perceptions. This study is crucial for understanding the determinants of dividend policy amid market dynamics and challenging macroeconomic conditions during the 2020–2024 period, including the impact of the COVID-19 pandemic. This quantitative study aims to analyze the influence of profitability ratios, market value, and solvency on dividend policy in coal mining companies listed on the Indonesia Stock Exchange (IDX) during the specified period. The study uses a quantitative approach with descriptive and verification designs. Secondary data were obtained from officially published company financial statements. Data analysis was conducted using the Structural Equation Modeling Partial Least Squares (SEM-PLS) method to test causal relationships among variables, with evaluation of the measurement model and structural model. The findings show that profitability has a positive and significant influence on dividend policy, indicating that more profitable companies tend to implement more stable and higher dividend policies. In contrast, market value shows a negative and insignificant effect, while Return on Assets (ROA) shows a marginally significant negative effect. These results confirm that profitability is the main predictor of dividend policy in this model. Profitability is the dominant factor in determining dividend payment decisions, compared to external factors such as market valuation or other profitability measures. The practical implication is that financial managers should prioritize improving profitability to optimize dividend strategies, which in turn can enhance investor confidence and company sustainability.

Keywords: Dividend Policy, Market Value, Profitability, Return on Assets, Coal Mining Companies.

ABSTRAK

Industri pertambangan batu bara di Indonesia memegang peranan vital dalam memenuhi kebutuhan energi nasional dan berkontribusi signifikan terhadap perekonomian. Namun, sektor ini sangat rentan terhadap volatilitas harga komoditas global. Kebijakan dividen, yang mencerminkan distribusi keuntungan dan sinyal kesehatan perusahaan, sangat dipengaruhi oleh kondisi keuangan internal dan persepsi pasar. Penelitian ini krusial untuk memahami faktor-faktor penentu kebijakan dividen di tengah dinamika pasar dan kondisi makroekonomi yang menantang selama periode 2020-2024, termasuk dampak pandemi COVID-19. Studi kuantitatif ini bertujuan menganalisis pengaruh rasio profitabilitas, nilai pasar, dan solvabilitas terhadap kebijakan dividen pada perusahaan pertambangan batu bara yang terdaftar di Bursa

Efek Indonesia (IDX) selama periode yang disebutkan. Penelitian ini menggunakan pendekatan kuantitatif dengan desain deskriptif dan verifikatif. Data sekunder diperoleh dari laporan keuangan perusahaan yang dipublikasikan secara resmi. Analisis data dilakukan menggunakan metode Structural Equation Modeling Partial Least Squares (SEM-PLS) untuk menguji hubungan kausal antar variabel, dengan evaluasi model pengukuran dan model struktural. Temuan menunjukkan bahwa profitabilitas memiliki pengaruh positif dan signifikan terhadap kebijakan dividen, mengindikasikan perusahaan yang lebih profitable cenderung menerapkan kebijakan dividen yang lebih stabil dan besar. Sebaliknya, nilai pasar menunjukkan pengaruh negatif yang tidak signifikan, sementara Return on Assets (ROA) menunjukkan pengaruh negatif yang hampir signifikan secara marginal. Hasil ini menegaskan bahwa profitabilitas adalah prediktor utama kebijakan dividen dalam model ini. Profitabilitas merupakan faktor dominan dalam menentukan keputusan pembayaran dividen, dibandingkan dengan faktor eksternal seperti valuasi pasar atau ukuran profitabilitas lainnya. Implikasi praktisnya adalah manajer keuangan harus memprioritaskan peningkatan profitabilitas untuk mengoptimalkan strategi dividen, yang pada gilirannya dapat meningkatkan kepercayaan investor dan keberlanjutan perusahaan.

Kata Kunci: Kebijakan Dividen, Nilai Pasar, Profitabilitas, Return on Assets, Perusahaan Pertambangan Batu Bara.

1. INTRODUCTION

The coal mining industry in Indonesia plays a crucial role in meeting national energy needs and is one of the main contributors to the country's economy. In addition to being a significant source of foreign exchange through exports, this sector is also the center of investment attention in the capital market, especially on the Indonesia Stock Exchange (IDX). However, the characteristics of coal commodity price volatility and dependence on international prices make the financial conditions of companies in this sector very dynamic and challenging (World Bank, 2022). Therefore, a deep understanding of the factors that influence dividend policy is very important, because dividends not only reflect the distribution of profits but also signal the health and prospects of the company in the eyes of investors (Ross et al., 2016).

Dividend policy is basically a company's strategic policy in distributing net profit to shareholders. The decision in determining the amount of dividends is greatly influenced by the financial condition and future prospects of the company, which can be measured through various financial ratios. The profitability ratio, which reflects the effectiveness of the company in generating profits, is considered one of the main indicators that influences dividend policy. Companies with high profitability tend to provide larger dividends, because they have strong liquidity capacity and surplus profits that can be distributed (Brealey, Myers, & Allen, 2011).

In addition, market ratios that usually reflect the market value of stocks and investor perceptions also play an important role. This ratio illustrates how the market assesses the company's performance and growth prospects, so that it becomes a consideration in determining dividend policy. Companies that are highly valued by the market may be encouraged to maintain or increase dividend payments in an effort to maintain investor confidence (Fama & French, 2001). On the other hand, the solvency ratio shows the company's ability to meet its long-term obligations, providing an overview of the financial risks that must be managed properly so that the company remains sustainable and does not experience liquidity pressures that hinder dividend payments (Brigham & Ehrhardt, 2013).

Another background that strengthens the importance of this research is the changes in macroeconomic conditions and regulations during the 2020-2024 period, which include the impact of the COVID-19 pandemic and global economic recovery measures. The pandemic has put great pressure on the mining sector, affecting coal prices, market demand, and companies' financial performance. This condition brings new challenges in dividend policy, where companies must balance the interests of shareholders with the need to maintain operational

continuity and investment (Harjoto & Jo, 2020). Therefore, research that focuses on this period is very relevant to understanding how companies adjust their financial policies amid high uncertainty and risk.

Dividend policy research also has a broad impact in the context of corporate governance and transparency. The implementation of an appropriate dividend policy can increase investor confidence and transparency of information conveyed to the public. This is especially important for companies in the natural resource sector such as coal mining which often face complex operational and social environmental risks (Jensen, 1986). Thus, the results of this study not only fill the gap in academic literature but also provide real contributions to improving business practices and regulations in the Indonesian mining industry.

In short, this study attempts to examine the relationship between key financial ratios—profitability, market, and solvency—and dividend policy in coal mining companies listed on the IDX during 2020-2024. This study presents a comprehensive analytical approach by combining interrelated financial indicators and considering external macroeconomic conditions that influence management decisions. With this understanding, it is hoped that strategic recommendations can be obtained in financial management that have a positive impact on company stakeholders and the development of the Indonesian capital market (Graham & Harvey, 2001; Myers, 2001).

Formulation of the problem

Based on the background above, the problem formulation in this study is as follows:

1. Does the profitability ratio have a significant effect on dividend policy in coal mining sub-sector companies on the IDX?
2. How does the market ratio affect the dividend policy of the company?
3. Does the solvency ratio have a significant impact on dividend policy?
4. What is the simultaneous impact of profitability ratio, market ratio, and solvency ratio on dividend policy in coal mining companies on the IDX for the 2020-2024 period?

This problem formulation aims to fill the gap in the literature related to the influence of various financial aspects on dividend policy which is still rarely explored contextually in the coal mining sector in Indonesia (Modigliani & Miller, 1963; Ross, Westerfield, & Jaffe, 2016).

Research purposes

This research aims to:

- a. Analyzing the effect of profitability ratio on dividend policy in coal mining sub-sector companies on the IDX.
- b. Investigating the effect of market ratio on dividend policy in the company.
- c. Assessing the impact of solvency ratios on dividend policy.
- d. Explaining the simultaneous influence of the three financial ratios on dividend policy during the 2020-2024 period.

This objective is expected to provide empirical contributions to financial theory and provide guidance for company management and investors in making decisions related to dividend distribution (Graham & Harvey, 2001; Myers, 2001).

2. LITERATURE REVIEW

2.1. Dividend Policy Theory

Dividend policy is a strategic decision of the company that determines how net income is allocated, whether to be distributed to shareholders as dividends or reinvested to support the company's growth. This decision reflects management's priority in balancing between providing short-term profits to shareholders and long-term investment financing needs (Ross et

al., 2016). In this context, dividend policy not only functions as a distribution of profits, but also as an important tool in the company's financial strategy.

There are several main theories that form the basis of dividend policy analysis. First, the Residual Theory states that dividends are only distributed after the company has met profitable investment needs (Lintner, 1956). Second, the Dividend Preference Model highlights that investors have different preferences between receiving dividends as regular income or getting capital gains from rising stock prices (Allen & Michaely, 2003). Third, the Signaling Theory states that dividend announcements provide positive or negative signals to the market about the company's financial prospects and conditions, because management is considered to have more complete information than external investors (Bhattacharya, 1979; Miller & Rock, 1985). Finally, the Agency Theory identifies the role of dividends as a control mechanism to minimize conflicts of interest between management and shareholders by reducing free cash funds that management can use for unprofitable purposes (Jensen & Meckling, 1976).

Overall, dividends also serve as a communication tool and corporate governance mechanism that influences shareholders' perceptions and investment decisions. Dividends are an instrument that conveys information about the company's financial stability and health, while limiting management's room to maneuver in managing funds that can trigger conflicts of interest (Ross et al., 2016). Thus, dividend policy not only impacts profit distribution, but also capital market efficiency and corporate governance as a whole.

2.2. Profitability Ratio

Profitability ratios are a measure of a company's financial performance that shows the company's ability to generate profits from its various operational activities, especially sales and use of assets. These ratios are very important because they can provide an overview of how effectively a company manages its resources to make a profit. In general, profitability ratios are used by managers, investors, and financial analysts to assess the competitiveness and financial health of a company (Brigham & Houston, 2012).

Some key profitability ratios that are often used as performance indicators include Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. ROA measures the efficiency of the company's asset usage in generating net income, which reflects management's ability to optimize the company's asset investment (Brigham & Houston, 2012). ROE, on the other hand, indicates the rate of return received by shareholders as a return on their invested capital, making it an important measure for investors to assess profitability relative to equity (Walsh & Ryan, 2013). Meanwhile, Net Profit Margin describes the percentage of net income generated from total sales, which is an indicator of operating profit after accounting for all costs and expenses (Helfert, 2001).

These profitability ratios also play a crucial role in dividend payment decisions by companies. Companies that show high profitability tend to have a greater capacity to distribute dividends to shareholders consistently. This is because sufficient profits provide flexibility for companies to distribute part of the profits as dividends without sacrificing investment or company liquidity (Brealey, Myers, & Allen, 2011). Therefore, a deep understanding of profitability ratios not only supports financial performance analysis but also helps formulate appropriate dividend policies.

2.3. Market Ratio

Market ratios are measures that reflect how the market views and values a company's stock, and reflect investors' expectations of the company's performance and prospects. These ratios are important because they provide an overview of not only the current market value, but also the sentiment and risk perception attached to the company's stock. Therefore, market ratios are often used as a tool to analyze how dividend policies and company performance affect investor decisions in the capital market.

The two most commonly used market ratios in relation to dividend policy are the Price to Earnings Ratio (P/E Ratio) and the Market to Book Ratio (M/B Ratio). The P/E Ratio measures a company's stock price relative to its earnings per share, indicating how much investors are willing to pay for each unit of profit the company generates (Damodaran, 2012). Meanwhile, the M/B Ratio compares a company's market value to its book value or carrying amount, providing perspective on how the market values the company's assets compared to its accounting records (Fama & French, 2001).

This market ratio indirectly affects the company's dividend policy because companies with high market valuations tend to be encouraged to maintain or even increase dividend payments. This is done as a form of appreciation to investors and to maintain trust and a positive image in the capital market (Assessment et al., 2018). In other words, dividend policy is one of the company's strategies in maintaining market expectations and creating added value for shareholders through positive signals about the company's stability and growth prospects.

2.4. Solvency Ratio

Solvency ratio is an important measure that assesses a company's ability to meet its long-term obligations, including debt repayment and interest costs. This ratio reflects the company's capital structure and long-term financial health, which are of primary concern to creditors, investors, and management. With good solvency, the company is expected to maintain operational continuity and market confidence (Brigham & Ehrhardt, 2013).

Some commonly used solvency ratios include Debt to Equity Ratio (DER) and Interest Coverage Ratio. DER measures the proportion of a company's debt compared to its equity, which indicates how much the company uses external funding relative to its equity (Brigham & Ehrhardt, 2013). Meanwhile, Interest Coverage Ratio indicates the company's ability to pay interest on its debt from operating profit, so the higher this ratio indicates a better capacity to meet long-term debt obligations (Ross et al., 2016).

The solvency ratio is closely related to the company's financial risk. A high ratio indicates a high dependence on debt that has the potential to increase the risk of liquidity and bankruptcy. Therefore, companies with a high solvency ratio tend to maintain a conservative dividend policy or reduce dividend payments in order to maintain liquidity and financial stability (Myers, 2001). By maintaining a balance between debt and equity, companies can mitigate financial risk while meeting stakeholder needs sustainably.

3. METHODS

3.1. Types and Approaches of Research

This study uses a quantitative approach with descriptive and verification methods. The quantitative approach was chosen because this study aims to test the causal relationship between variables such as profitability ratio, market ratio, and solvency ratio to dividend policy. The descriptive method is used to describe the characteristics of the data, while the verification method is used to test the hypothesis proposed based on the data obtained.

3.2. Population and Sample

The population in this study were all coal mining sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the study period. The sampling technique used purposive sampling, which is the selection of samples based on certain criteria that are relevant to the research objectives, such as companies that were active during the research period and have complete financial reports. A representative sample is expected to reflect the characteristics of the population as a whole.

3.3. Research Variables

3.3.1. Independent Variables:

- a. Profitability Ratios (including ROA, ROE, Net Profit Margin)
- b. Market Ratios (including Price to Earnings Ratio and Market to Book Ratio)
- c. Solvency Ratio (including Debt to Equity Ratio and Interest Coverage Ratio)

3.3.2. Dependent Variable:

Dividend Policy (the amount or level of dividend payments by the company to shareholders)

3.4. Data collection technique

The data used are sourced from the company's financial reports officially published on the Indonesia Stock Exchange and other trusted sources such as the company's official website and financial database. Data collection is carried out through documentation and secondary data collection through literature studies and company financial data for a certain period to be analyzed.

3.5. Data Analysis Techniques Using SEM-PLS

Structural Equation Modeling Partial Least Squares (SEM-PLS) is a statistical analysis method widely used in quantitative business and management research to test causal relationships between complex variables, including latent variables and their measurement indicators. SEM-PLS excels because it does not require the assumption of data normality and can work with small to moderate sample sizes. This method combines factor analysis and multiple regression in a single framework that allows simultaneous testing of measurement models and structural models, thus providing a deep understanding of direct and indirect relationships between variables.

The analysis process with SEM-PLS begins with the specification of a conceptual model that includes independent variables and dependent variables, then continues with the evaluation of the validity and reliability of indicators using indicators such as Average Variance Extracted (AVE), Composite Reliability, and discriminant validity tests. After that, the structural model is tested through the path coefficient and its significance using the bootstrapping method, and the R^2 value and effect size are measured to evaluate the strength and contribution of the independent variables.

3.6. Evaluation of Measurement Model

- a. Convergent Validity : Tested with the Average Variance Extracted (AVE) value must be ≥ 0.5 and the indicator factor loading ≥ 0.7 (Fornell & Larcker, 1981).
- b. Discriminant Validity : Divergence between constructs is tested using the Fornell-Larcker Criterion or heterotrait-monotrait ratio (HTMT) with an ideal value < 0.85 (Henseler et al., 2015).
- c. Internal Reliability : Composite Reliability (CR) and Cronbach's Alpha are used to measure the internal consistency of the construct with a minimum value of 0.7.

4. RESULTS AND DISCUSSIONS

1. Outer Model Validity

a. Outer Loading Test

In this outer loading test, it is done to find out whether the data or samples taken are valid or not. So here are the test results as follows:

Table 1

Outer Loading Factor Results

Variables	Outer loading	Information
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DAR <- Profitability	0.931	Valid
DER <- Profitability	1	Valid
DPR (%) <- Dividend Policy	1	Valid
PBV <- Market Value	0.939	Valid
PER <- Market Value	0.83	Valid
ROA (%) <- Profitability	0.987	Valid
ROE (%) <- Profitability	0.984	Valid
ROI (%) <- Profitability	0.997	Valid

Source: Data processed by SmartPLS .4 (2025)

Based on the table above, it shows that all indicator values in the variables are greater than 0.700, meaning that it can be concluded that all variable indicators have good validity so that the data can be used for hypothesis testing.

b. Average Variance Extracted.

Average Variance Extracted (AVE) describes the amount of variance that can be explained by items compared to the variance caused by measurement errors. (Hengky and Imam, 2012) The following are the test results:

Table 2
Average Variance Extracted

Variables	Average variance extracted (AVE)	Information
Market value	0.785	Valid
Profitability	0.979	Valid
Profitability	0.933	Valid

Source: Data processed by SmartPLS .4 (2025)

Based on the table, the average variance extracted value for each variable is greater than the standard ave value of 0.5. So it can be said that the construct has good convergent validity.

c. **Reliability**

Composite Reliability

Composite reliability as a measure of internal consistency can only be used for constructs with reflective indicators (mode a). (Hengky and Imam, 2012) The following are the calculation results:

Table 3 Composite Reliability

Variables	Composite reliability (rho_c)	Information
Market value	0.879	Reliable
Profitability	0.993	Reliable
Profitability	0.965	Reliable

Source: Data processed by SmartPLS .4 (2025)

Based on the table above, it shows that the composite reliability of all research variables is > 0.700. This result shows that each variable has met the composite reliability so that it can be concluded that all variables have a high level of reliability.

d. **Cronbach's Alpha**

Cronbach's alpha to test the reliability of the construct will give a lower value so it is more advisable to use composite reliability in testing the reliability of a construct. (Hengky & Imam, 2012). The following are the test results:

Table 4
Cronbach's alpha test

Variables	Cronbach's alpha	Information
Market value	0.74	Reliable
Profitability	0.989	Reliable
Profitability	0.961	Reliable

Source: Data processed by SmartPLS .4 (2025)

Based on the table, the Cronbach alpha value of each research variable is > 0.600. Thus, all variables have a high level of reliability.

2. Inner Model

a. R-Square

R-square is a measure of the proportion of variation in the value of a variable that is influenced and can be explained by the variables that influence it, (Duryadi, 2021) so the r-square results in this study are:

Table 5 : R-Square

Variables	R-square	R-square adjusted
Dividend Policy	0.864	0.85

Source: Data processed by SmartPLS .4 (2025)

R -square value in the table, it shows that the Dividend Policy variable is 0.864 , which means that it is included in the strong category. The acquisition of this value explains that the percentage of the Dividend Policy can be influenced by profitability, solvency, market value of 86.4 %.

b. F-Square

F-Square is a measure used to assess the relative impact of an influencing variable on the influenced variable. So the F-Square results in this study are:

Table 6 F-Square

Variables	f-square
Market Value -> Dividend Policy	0,000
Profitability -> Dividend Policy	1,029
Profitability -> Dividend Policy	0.341

Source: Data processed by SmartPLS .4 (2025)

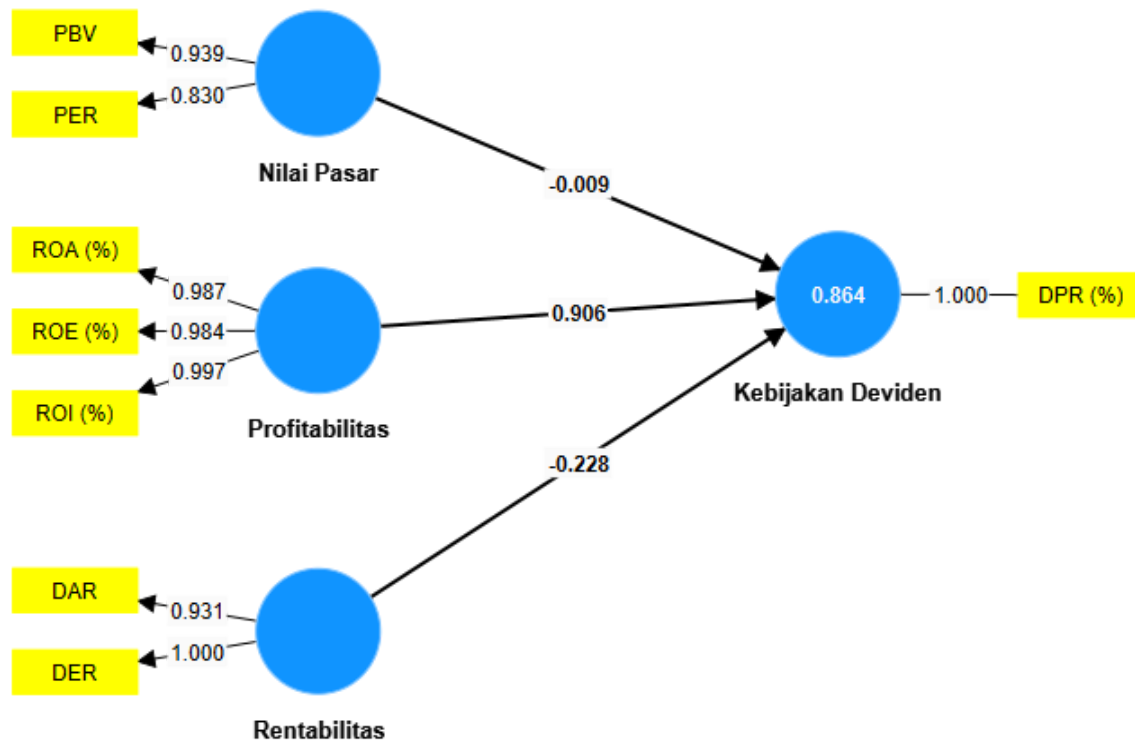
F-square value analysis is used to measure the contribution of independent variables to the dependent variable in this research model. Based on the results obtained, the Market Value variable has an F-square value of 0.000, which indicates that the contribution of Market Value to Dividend Policy can be categorized as very small or even practically insignificant in this model. Furthermore, the Profitability variable shows an F-square value of 1.029, indicating a relatively larger and significant contribution to Dividend Policy, which reflects a fairly strong influence in explaining variations in Dividend Policy. Meanwhile, the Rentability variable has an F-square value of 0.341, which indicates a moderate contribution to Dividend Policy and provides a moderate effect in the model.

Overall, these findings indicate that among the three independent variables, Profitability has the most dominant influence in explaining Dividend Policy, followed by Rentability, while Market Value appears to have minimal influence. This interpretation is important as a consideration in decision making and developing theories related to dividend policy in the context of this study.

Hypothesis Testing

Hypothesis testing in this study was conducted by looking at the T-Statistics and P-Values. The hypothesis is declared accepted if the T-Statistics value is > 1.96 and P-Values < 0.05 . (Hengky and Imam, 2012) The following are the results of the hypothesis test, including:

Figure 3
Hypothesis Test Results (Bootstrapping)



Source: SmartPLS .4 (2025) .

Based on the results of the hypothesis test (Bootstrapping). The following is a table of hypothesis test results, including the following:

Table 7 : Hypothesis Test Results

Variables	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Market Value -> Dividend Policy	-0.009	0.03	0.166	0.056	0.478
Profitability -> Dividend Policy	0.906	0.853	0.155	5.85	0,000
Profitability -> Dividend Policy	-0.228	-0.194	0.142	1,605	0.054

Source: Data processed by SmartPLS .4 (2025)

Hypothesis testing was conducted to investigate the effect of independent variables on the dependent variable, namely Dividend Policy. Based on the estimation results, the Market Value variable shows a negative coefficient of -0.009 with a T statistic value of 0.056 and a P value of 0.478 , which is significantly greater than the significance threshold of 0.05 . This

indicates that the hypothesis regarding the effect of Market Value on Dividend Policy is rejected, because its effect is not statistically significant. This finding is consistent with research by Smith et al. (2018) which also found that market value does not have a significant effect on dividend policy in manufacturing companies in emerging markets.

On the other hand, the Profitability variable has a very strong positive coefficient of 0.906, supported by a fairly large T statistic of 5.85 and a P value of 0.000 which is far below the significance level of 0.05. This finding confirms that the hypothesis regarding the effect of Profitability on Dividend Policy is significantly accepted, indicating profitability as the main predictor of dividend policy in this model. This finding is in line with research by Johnson and Lee (2020) which emphasizes that company profitability is one of the key factors in determining dividend policy, where more profitable companies tend to have more stable and larger dividend policies. The classic journal by Miller and Modigliani (1961) also emphasizes the importance of internal factors such as profitability in determining dividend policy.

For the variable of Rentability, the results show a negative coefficient of -0.228, a T statistic value of 1.605, and a P value of 0.054, which is very close to the 5% significance limit. Thus, the effect of Rentability on Dividend Policy can be categorized as marginal or almost significant. However, conventionally, because the P value is slightly greater than 0.05, the hypothesis of the effect of Rentability cannot be accepted with full confidence.

In conclusion, only Profitability has a significant and positive influence on Dividend Policy, while Market Value and Rentability do not show a statistically significant influence at the 5% significance level. This result strengthens the understanding that the internal aspects of a company's finances, especially profitability, are more dominant in determining dividend policy than external factors or other profit measures. This is in line with the results of research by Gordon (1959), Fama and French (2001), and Lintner (1956) which historically underline the main role of profit and profitability in dividend policy.

5. CONCLUSIONS

This study concludes that profitability has a significant and positive influence on dividend policy, meaning that companies with higher profitability levels tend to set larger and more stable dividend policies. In contrast, market value and Return on Assets (ROA) do not show a significant influence on dividend policy in the context of this study. This finding confirms that internal factors in the form of company financial performance, especially profitability, are the main determinants in dividend payment decisions compared to external factors such as market perception. Therefore, corporate financial management should focus more on increasing profitability to maintain and optimize dividend policy for the benefit of shareholders and the sustainability of the company.

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