

## Corporate Life Cycle, Profitability, Institutional Ownership and Dividend Policy in Companies Listed on the IDX for the 2017-2020 Period



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**ABSTRACT:** This study to test the influence company Cycle life, profitability, ownership institutional to policy dividends on the company manufacturers listed on the IDX for the 2017-2020 period. Cycle life company classified based on growth sale with four stages cycle life company which are start-up, growth, maturity and decline. Cycle life company be measured with using retained earnings to total equity (RETE), profitability be measured with Return on Assets (ROA), Ownership institutional be measured with percentage ownership institution. The control variable of this study is age company, size company and asset growth. Dependent is Policy dividend be measured with use dividend payout ratio (DPR). Population of this study is companies listed on the Indonesia Stock Exchange except financial sector for the 2017-2020 period. Total population of 569 companies with 2850 data. The sampling technique using purposive sampling and obtained as many as 820 data that sharing dividend. Research results show that RETE has a significant negative effect to Policy dividends, Return on Assets (ROA) has a significant negative effect to Policy dividends, ownership institutional influential positive significant to dividend policy, Age effect positive significant to dividend policy, size has a significant negative effect to dividends policy and asset growth are not influence to dividend policy.

**KEYWORDS:** Dividend Policy, Corporate Life Cycle, Institutional Ownership, Profitability, Sales Growth

### I. INTRODUCTION

Indonesia is a developing country in southeast Asia, Governance index companies in Indonesia is relatively low based on governance companies in the world, especially if compared to the United States and Europe. The governance company relate with decision finance in the company. Decision finance company covers decision funding, decisions investment and policy dividend. The dividend policy is important and up to date issues moment this still becomes debate and mutual related with policy finance other.

A number of theory reveal that dividend must paid to the winners share because will upgrade company profile whereas another theory argues that dividend no relevant because no upgrade company value. Dividend policy must related tight with finance policy because after payment of dividend, internal sources funding will reduced and external funding will becomes a choice. DeAngelo et al. (2004) argued that there is deep transformation practice dividend company during last two decades whereas according to Gugler (2003) dividend payments in this world during two decades with the same magnitude. Payment dividend at each company was different, based od company condition. Company can produce high profitability so possibility company pay dividends are also high. Enhancement profitability company determined by the capital owned company. company capital one of them originate from investors. When company can pay high dividend then investors will interested for invest the funds to the company.

One influencing factors payment dividend is cycle life company. Gup and Agrrawal (1996) classify cycle life in four phase, that is pioneering, expansion, stabilization, and decline. Black (1998) stated that pioneering step as start-up and call step expansions as step growth, as well mention step stabilization as step mature. According to Weston and Brigham (1975) company life cycle classified based on growth sales company and shared becomes four stages that are startup, growth, mature, and decline. At stages start up company tend do investment so that company cash flow tend negative value. At stages growth company tend pay dividend although the amount still low. At stages mature, dividends paid already bigger compared stages

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previously whereas in stages decline company tend share smaller value dividends. Factor both affect policy dividend is profitability. Profitability is ability company in producing a profit.

Previous studied which conducted by Lestari (2017) showed results that there is influence positive significant profit detained to total equity (RETE) against payment dividend on stage mature, whereas in stage initial, growth and decline, profit detained to total equity (RETE), which no influence significant to pay dividend. Nur and Koe (2016) found that life cycle as a moderating factor, where the significant moderate influence of leverage, profitability and size of dividends policy, however, no moderate effect of liquidity on dividend policy. Deangelo et al. (2006) found that exists company step in cycle that caught with both by a mix of internal and external capital, The dividend tend have acquired high equity relatively on donated capital, and those that are not pay back.

The factor both influential to dividend is profitability company. The profitability company is ability company for produce profit. When the company can do efficiency, company will obtain maximum profit and will used for share dividend. Dividend company is part from generated profit company that magnitude earned profit company influence dividend company. The profitability be measured with using return on assets (ROA) which is net ratio profit to total assets level. higher return on assets then dividends distributed will the higher. This condition is accordance with the signaling theory which states that investors assume that dividend as company signal in produce profit. The previous research conducted by Akmal (2016), found that Return on Assets has a positive effect on dividend payments with an effect of 1.871. Pradana and Sanjaya (2017) in their research also found that (ROA) has a significant and positive effect on the dividend payout ratio.

The third influencing factor Policy dividend is institutional ownership. The institutional ownership is presentation shares holder owned by the institution. Institutional ownership could reduce problem agency in the company because exists function supervision from investors to manager behavior. It is accordance with agency theory that states the higher institutional ownership will upgrade supervision to manager so that reduce deviate manager behavior. The high institution ownership will increase the manager effectiveness in manage a company that will upgrade affect magnitude of dividends distributed. It's in accordance with the results of previous studies conducted by Nugraheni & Mertha (2019); Rahayu & Rusliati (2019); Aditya & Supriyono (2021) which stated that institutional ownership has a positive and significant effect on dividend policy. The aims of this research to analyze the influence of company life cycle, profitability, dividends policy, age company, size company, and asset growth to dividends policy on each stages company life cycle.

## **II. LITERATURE REVIEW**

Dividend policy and payment is a very important decision in a company. This policy involves two parties who have different interests, the first party is shareholders and the second one is the company itself. Dividends are defined as payments to shareholders by the company for the profits. Dividend payment determined by the holder stock at the time meeting General shareholders (GMS). The determinant factor to magnitude dividend company is magnitude profit detained for interest company. The profit hold and pay dividend is two mutual related. When company decide for withhold the profit, then profit will used for next period investment. Dividend policy related with income company among income for activity investment or for paid to holder stock. If profit detained company for necessity operational company, the mean profits to be paid as dividend becomes smaller. On the contrary if company more choose for share profit as dividends, then will reduce portion profit hold and reduce source of internal funding. However, if choose share profit as dividend will increase the holders shares welfare, so the share holders will keep going embed the stock for company. Wicaksono (2014) argued that one factor determinant dividend payment of company is company cycle life.

Several previous studies have shown that many factors can influence a company's dividend policy, one of which is the life cycle of the dividend itself. Putri (2017) said that the decision to pay dividends is related to determine the amount of profit generated by the company each period to be distributed to shareholders as a dividend or used as an internal source of financing for the company. The large investment opportunities are owned by companies in the early stages (start-up stage). To make an investment, a company at an early stage (start-up stage) requires large funding (Juniarti and Limanjaya, 2005). The companies which high growth rates tend to have a low dividend payout ratio, therefore at the start-up stage the company does not pay or distribute dividends (Gup and Agrawal, 1996).

The company cycle theory states that every company have experiences four stages in its development including the introduction stage, growth, mature, and decline. Weston and Brigham (1975) at the stage of introduction (start up) companies require high costs to introduce products, and face intense competition so that the possibility of failure is relatively high. In this phase the company tends not to distribute dividends, because the level of profitability generated tends to be low or the

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company in this phase has not generated profit. The next phase, growth phase, the company experienced increased sales, profits and increased liquidity. In the growth phase, companies tend to pay dividends. The third phase is mature, this phase the company is already known by the market and competition with competitors is low, the level of sales tends to increase. When increasing sales, it will increase profitability and pay higher dividends. The fourth phase is the decline, this phase the level of sales tends to decrease because there are new products. This phase will be experienced by companies that do not innovate their products. In this phase the company tends not to pay dividends. The company life cycle is one of the determining factors in the company's dividend policy. Gumantri and Puspitasari (2005) developed a method for determining the categorization of the company's life cycle used by Black (1998) and Gup and Aggrawal (1996) using the 4-stage sales growth percentage method, namely start-up, growth, mature and decline. Where in the start-up phase the average sales growth is more than 40%, for the growth phase the average sales growth is 20% to 40%, in the mature phase the average sales growth is 1% to 20% and for decline phase the average sales growth is less than 1%.

According to DeAngelo, DeAngelo & Stulz, (2006) company life cycle measured by low retained to common equity ratios tend to be in the growth phase and depend on external capital funding, while companies with high ratios tend to is at on phase which more mature with high profit, so that more likely for pay dividend. Consistent with theory the company's life cycle this evidence identifies that the ratio between retained earnings and common equity has a positive relationship with the probability that the company will pay dividend. Companies with low ratios tend to still be in the stage of relying on external injections of funds, while companies with high ratios tend to have reached the mature stage with sufficient cumulative profits, so they rely more on self-financing, and make these companies better candidates for dividend payments (DeAngelo, DeAngelo & Stulz, 2006).

Previous research conducted by Lestari (2017) showed that there was a significant positive effect of retained earnings on total equity (RETE) on dividend payments in the mature stage, while in the early stages, growth and decline, retained earnings on total equity (RETE), has no significant effect on dividend payout. Nur and Koe (2016) found that the life cycle as a moderating factor significantly moderates the effect of leverage, profitability, and size on dividend policy, but does not moderate the effect of liquidity on dividend policy. Wang et al. (2011) stated tha younger firms with higher growth potential but lower profitability tend to distribute more stock dividends than cash dividends. When a company becomes more mature, which is characterized by lower growth potential but higher profitability, it tends to distribute more cash dividends than stock dividends. Miletic (2015) stated that investment opportunity has a significant positive effect on dividend policy. RETE has a significant positive effect on dividend policy.

### **H1: Company Life Cycle has a significant negative effect on Dividend Policy**

Profitability measures the success of a company's operational activities over a certain period of time. Dividends paid by the company come from a portion of the profits earned by the company. The higher the profit generated by the company, the higher the level of dividends paid. This is consistent with the results of research conducted by Meidyna & Mertha (2019) that profitability has a positive effect on dividend policy.

### **H2: Profitability has a significant positive effect on dividend policy**

Institutional ownership of share ownership percentage held by institutions. The greater the percentage of institutional ownership will increase the monitoring process carried out by the institution so that it will reduce the deviant behavior of managers, when the monitoring process run well, management will maximize company profits to improve company welfare. The higher the percentage of institutional ownership, the dividends distributed will increase. This is consistent with the results of research conducted by Nurwani (2018) and Kurniawati et al. (2015) which explained that institutional ownership has a positive and significant effect on dividend policy.

### **H3: Institutional ownership has a significant positive effect on dividend policy**

## **III. RESEARCH METHODS**

This research is quantitative research with secondary data. According to Sugiyono (2018) quantitative approach it is called a quantitative method because the research data is in the form of numbers and analysis uses a statistic. The secondary data that has been collected for purposes other than adjusting the problem. This data can be found quickly. In this study, the sources of secondary data were theses, articles, journals, and sites on the internet related to the research (Sugiyono, 2013).

The research population is a generalized area consisting of objects/ subjects that have certain qualities and characteristics determined by the researcher to be studied and then drawn conclusions while the sample is part of the number and characteristics possessed by the population. In this study, the authors used a nonprobability sampling technique with the

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incidental sampling method to determine the research sample. The population in this study were all companies listed on the Indonesia Stock Exchange for 2016-2020. The sampling using purposive sampling method. Purposive sampling is a sampling method with certain criteria, where the sampling criteria are as follows:

1. Companies listed on the Indonesia Stock Exchange consecutively except for the Finance sector in 2016-2020
2. Companies that publish financial reports during the study period
3. Companies that distribute dividends during the 2016-2020 period
4. Companies that have complete data according to research needs

Based on the sample criteria, there were 164 companies with 5 research periods, so a total of 820 data. The data analysis technique uses multiple linear regression analysis of panel data with evIEWS software. The dependent variable in this study is the dividend policy as measured by the dividend payout ratio (DPR). The independent research variable is the company's life cycle which is divided into 4 categories, namely startup, growth, mature, and decline. The company's life cycle is classified based on sales growth with the criteria in the start-up phase the average sales growth is more than 40%, for the growth phase the average sales growth is 20% to 40%, in the mature phase the average sales growth is 1% to 20%. The last for the decline phase, the average sales growth is less than 1%. After classification based on sales growth, the ratio used to measure the company's life cycle includes calculating the company's life cycle based on sales growth, after being classified based on sales growth, it is measured by return earnings for total equity (RETE), profitability is measured by return on assets (ROA). Institutional ownership is measured by the percentage of institutional ownership. The control variables in this study are company age, company size, and asset growth. The data analysis method uses multiple linear regression analysis using the evIEWS application.

### IV. RESULTS

Based on the results of data processing, the following descriptive statistical results are obtained.

**Table 1. Descriptive Statistics Results**

Variable	Number of Observations	Means	Median	Maximum	Minimum	Standard deviation
<b>Independent Variable</b>						
DPR	820	0.216	-0.909	18,503	-9.015	3,930
<b>Dependent Variable</b>						
RETE	820	1.038	0.537	422,164	-423,300	25,307
ROA	820	0.549	0.057	84,523	-0.030	5.211
INST_OWN	820	72,000	0.244	14329.00	0.001	998,978
AGE	820	37,225	36,000	114,000	3,000	17,033
SIZE	820	28027	28,924	33,906	18,083	3,482
AST_GROWT	820	1,348	0.075	1014649	-0.907	35,430

Based on the results of descriptive statistics in Table 1, it was found that as many as 1755 company data, 820 company data distributed dividends and 935 company data did not distribute dividends during the research period from 2016 to 2020. The dependent variable dividend payout ratio (DPR) has a minimum value of -9.015 and the maximum value is 18.503 with an average of 0.215 and a standard deviation of 3.930. The independent variable, namely RETE, has a minimum value of -423,300 and a maximum value of 422,164%. The average RETE value is 1.038% with a standard deviation of 25.307%. Profitability as measured by return on assets (ROA) has a minimum value of -0.030 and a maximum of 84.523 with an average of 0.549 with a standard deviation of 5.211. Institutional ownership as measured by institutional ownership has a minimum value of 0.001 and a maximum of 14329 with an average of 72.00 and a standard deviation of 998.978. The control variable in this study is firm age with a minimum value of 3,000 and a maximum of 114,00 with an average value of 37,225 and a standard deviation of 17,033. Firm size with a minimum value of 18.083 and a maximum of 33.906 with an average of 28.027 and a standard deviation of 3.482. Asset growth with a minimum value of -0.907 and a maximum of 1014.649 with an average of 1.348 with a standard deviation of 35.430. The amount of data in this research is 820 companies.

The company's life cycle is classified based on sales growth with the criteria in the start-up phase the average sales growth is more than 40%, for the growth phase the average sales growth is 20% to 40%, in the mature phase the average sales

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growth is 1% to 20% and for the decline phase, the average sales growth is less than 1%. The results of the company's life cycle classification based on sales growth from 820 data are as follows.

**Table 2. Company Life Cycle Classification**

Company Classification	Amount of data
Start-up	41
Growth	96
Mature	394
Decline	294
<b>Total</b>	<b>820</b>

The classification of companies based on sales growth from 820 company data shows that companies in the start-up stage are 41 data, the growth are 96 data, mature are 394 data, and decline are 294 data. The total of this study of 820 data, which the most companies are in the mature cycle. The mature stage is the company's stability stage. At this stage, the company's opportunity to low grow so that the company tends to pay dividends.

This study using multiple linear regression analysis using eviews software with the GLS model. The results of multiple linear regression analysis are as follows.

**Table 3. Regression Results**

Independent Variable	Dependent Variable DPR
Constant	15,536 *** (24,615)
RETE	-0.002 ** * (-2.825)
ROA	-0.068 ** * (-3.254)
INST OWN	0.0006 ** * (4.257)
AGE	0.0059 *** (2,651)
SIZE	-0.5675 ** (-26.145)
AST GROWTH	-9,760 (-0.1815)
R Square	0.468

Based on the results of data processing, it was found that the company's life cycle as measured using retained earnings to total assets (RETE), found that RETE had a significant negative effect on dividend policy with a coefficient of -0.002. This shows that the higher the company's RETE level, the lower the level of dividends that will be distributed. A high RETE indicates the company is in the start-up stage, so the company tends to retain the profits. Profitability as measured by return on assets (ROA) has a significant negative effect on dividend policy with a coefficient value of -0.068. It indicates that the higher the return on assets (ROA), the smaller the dividend paid. Institutional ownership has a significant positive effect on dividend policy with a coefficient of 0.0006. This shows that the more institutional ownership remains, the higher the dividend distribution of the company.

The control variable in this study is firm age as measured by age which has a significant positive effect on dividend policy with a coefficient of 0.0059. This shows that the longer the age of the company, the higher the dividends distributed. Firm size as measured by the natural logarithm of total assets has a significant negative effect on dividend policy with a coefficient of -0.5675. This shows that the higher the size of the company, the lower the dividends distributed. Asset growth has no effect on dividend policy. The R-Square value in this study is 0.468, it's meaning that the independent variable can explain the dependent variable by 46.8 %. The results of multiple linear regression with the company's life cycle classification are as follows.

**Table 4. Regression Results of Company's Classification Cycle**

Independent Variable	Dependent Variable DPR			
	Startup Stages	Growth Stages	Mature Stages	Decline Stages
Constant	-33,963 ** (-2.120)	-3,735 (-0.610)	-0.417 *** (-100,154)	8,838 *** (14.326)
RETE	-0.0221 * (-1.8599)	2.152 (1.406)	-0.052 *** (-42.375)	-0.001 (-1.395)
ROA	-0.1820 *** (-2.9008)	-0.106 * (-1,793)	-0,000 (-0.229)	-0.078 * (-1,823)
INST_OWN	-0.0553 (-1.1394)	0.112 *** (3.147)	0.0009 *** (32709)	0.004 *** (3,098)
AGE	0.0387 (1.0242)	-0.020 (-0.888)	-0.0008 *** (-4,995)	-0.010 *** (-2.663)
SIZE	1.1446 ** (2.1011)	0.105 (0.521)	0.011 *** (92514)	-0.325 *** (-15,778)
AST_GROWH	-0.625 2 (-0.9463)	-1,493 (-0.758)	-0.0001 *** (-47.425)	-0.826 (-1,580)
R Square	0.2648	0.1509	0.999	0.4987

The results of the regression analysis for each stage of the company's life cycle show that RETE has a significant negative effect on dividend policy at the start-up and decline stages. The higher the retained earnings (RETE), the smaller the dividends distributed. RETE has no effect on dividend policy at the growth and decline stages. Return on Assets (ROA) has a significant negative effect on dividend policy at the start-up, growth, and decline stages. The higher the rate of return on assets (ROA), the smaller the dividends paid. Return on Assets (ROA) has no effect on dividend policy at the mature stage. Institutional ownership has a significant positive effect on dividend policy at the stages of growth, maturity, and decline. This shows that the higher the institutional ownership, the greater the dividends distributed. Institutional ownership has no effect on dividend policy at the start-up stage.

Firm age has a significant positive effect on dividend policy at the start-up and mature stages and a significant negative effect on dividend policy at the decline stage. The longer the company's life, the dividends distributed will increase in the start-up and mature stages, while in the decline stages, the longer the company's life, the smaller the dividends distributed. Firm age has no effect on dividend policy at the growth stage. Asset growth has a significant negative effect on dividend policy in the mature and decline stages. This shows that the higher the asset growth, the dividend will increase. Asset growth has no effect on dividend policy.

**V. DISCUSSION**

The results showed that the company's life cycle as measured using retained earnings (RETE) has a significant negative effect on dividend policy. The higher the company's RETE, the lower the level of dividends paid. This is in accordance with the dividend *Life Cycle Theory* which stated that the distribution of company dividends follows the company's life cycle (De Angelo et a., 2006). Companies that are in the mature stage are more likely to pay dividends because companies at this stage have a low opportunity to grow, so retained earnings tend to be lower. Companies in the mature stage obtain a higher profitability compared to the other three stages, but in this cycle the company is no longer focused on investment activities. Companies with high retained earnings tend to be in a group of more established companies with high profit levels so that companies tend to distribute dividends. According to Singla and Samanta (2018), the company's life cycle is a determining factor between retained earnings and distributing dividends. Companies in the mature stage have low retained earnings so companies tend to pay dividends. This is in accordance with research conducted by Nurfatma (2020) which stated that RETE has a negative effect on dividend policy. The profitability has a significant negative effect on dividend policy. This shows that the higher the profitability, the smaller the dividends paid. Profitability is a ratio that measures the success of a company's operations over a certain period of time.



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Companies with high profitability utilize company profits as retained earnings so that the dividends distributed are smaller. Companies that are stable in earning profits are companies that are in the growth and mature stages so that the level of dividends distributed is smaller. This is consistent with the results of research conducted by Lopulus (2013) which found that the profitability variable had no significant negative effect on dividend policy. Research conducted by Sugiharto & Amanah (2020); Anam, Arfan, & Shabri (2016) found that profitability has a negative effect on dividend policy.

The results of the study show that institutional ownership has a significant positive effect on dividend policy. This shows that the higher the share ownership by an institution, the dividends distributed will also be higher. This is in accordance with agency theory which stated that when high institutional ownership, the company's monitoring of company management will be better.

### VI. CONCLUSION

The results showed that the company's life cycle as measured by retained earnings to total assets (RETE) has a significant negative effect on dividend policy as measured by the dividend payout ratio (DPR). This is consistent with the dividend *life cycle theory* which stated that companies tend to pay dividends when the company is at an established stage. When high retained earnings, the dividends distributed will be smaller. when the company is in the mature stage, the company's opportunity to grow is small, so retained earnings will also be small. Companies tend to pay dividends at the mature stage. Profitability as measured by return on assets (ROA) has a negative significant effect on dividend policy. This is contrary to the theory which stated that Return on Assets (ROA) has a significant positive effect on dividend policy. Institutional ownership has a significant positive effect on dividend policy.

The control variables firm age and firm size have a significant negative effect on dividend policy while asset growth has no effect on dividend policy. The practical benefit of this research is as input for companies and investors in making decisions regarding dividend policy. Companies should pay attention to the company's life cycle so that it becomes a material consideration for determining the proportion of retained earnings and the level of dividends distributed. For the development of science, our finding of research can become a material for further research by adding other factors that influence dividend policy and increasing the research period.

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