

THE EFFECT OF FREE FLOAT ON DIVIDEND PAYOUT RATIO

Stanley Susilo^{1*}, Jesslyn Wencyl Viona², Rosalia Anggi Pratiwi Siregar³, Adrian Teja⁴, Arfan Wiraguna⁵

¹ School of Business and Economics, Universitas Prasetiya Mulya, Indonesia

² School of Business and Economics, Universitas Prasetiya Mulya, Indonesia

³ School of Business and Economics, Universitas Prasetiya Mulya, Indonesia

⁴ School of Business and Economics, Universitas Prasetiya Mulya, Indonesia

⁵ School of Business and Economics, Universitas Prasetiya Mulya, Indonesia

*Email corresponding author: stanleysusilo.stan@gmail.com

Abstract

This study aims to examine the effect of free float on the Dividend Payout Ratio (DPR) of publicly listed companies on the Indonesia Stock Exchange, within the framework of Clientele Effect Theory. This study employs the Autoregressive Distributed Lag (ARDL) method with a Pooled Mean Group (PMG) estimator, using a sample of 58 non-financial companies listed on the Indonesia Stock Exchange over the period 2010–2019. The results indicate that free float has a significant negative effect on the Dividend Payout Ratio in the long run, suggesting that an increase in the proportion of public ownership does not drive companies to distribute higher dividends, but rather the contrary. This finding is consistent with Clientele Effect Theory, whereby public investors dominating free float in Indonesia tend to be growth-oriented and prioritize capital gains over dividend income. Furthermore, firm size and profitability are found to have a significant positive effect, while revenue growth has a significant negative effect on DPR. The Price-to-Book Value variable does not show a significant effect. These findings imply that corporate management should consider the composition of its public investor clientele, particularly the dominance between short-term retail investors and long-term institutional investors, when formulating an optimal dividend policy.

Keywords: Free Float, Dividend Payout Ratio, Clientele Effect Theory, ARDL, Indonesia Stock Exchange.

Citation: Susilo, S., Viona, J. W., Siregar, R. A. P., Teja, A., & Wiraguna, A. (2026). The Effect of Free Float on Dividend Payout Ratio. *Jurnal Riset Akuntansi Soedirman (JRAS)*, 5(1): 111-125.

INTRODUCTION

The Indonesia Stock Exchange (IDX) has undergone substantial development in recent years, marked by a significant transformation in the number of retail investors and expansion of public ownership in listed companies. According to data released by the Indonesian Central Securities Depository (KSEI), the total number of capital market investors surpassed 20 million single investor identifications (SIDs) by end-2025, representing a more than sixfold increase over five years. This growth has not only altered shareholder composition but also increased the heterogeneity of public investor preferences. This condition makes the structure of public ownership, reflected through stock's free float level, an important factor in understanding how investor preferences can affect corporate financial policy. Unlike institutional investors in developed countries, who are generally oriented toward long-term dividend income (Kałdonski & Jewartowski, 2025), the growth of IDX investors has been dominated by younger generations who tend to favour short-term strategies, with the majority preferring capital gains over dividend-based returns (Kusumawardhani & Sapari, 2021).

When investing in stocks, investors generally expect returns from both capital gains and dividends (Kustina et al., 2019; Aladini & Nurulrahmatia, 2020). For companies, dividend policy is a strategic decision that balances profit distribution to shareholders with earnings retention for future growth (Samrotun, 2015). Dividends also serve as signals of a company's financial health and prospects (Muhayatsyah & Sjafrudin, 2018). Consequently, dividend decisions are influenced by the preferences of a company's dominant shareholders. This aligns with Clientele Effect Theory, which suggests that

different investor groups prefer different dividend policies. In Indonesia, retail investors tend to focus on capital gains, whereas institutional investors (fund managers, pension funds, and insurance companies), generally favor stable dividends as a source of predictable cash flow.

The role of free float is central to this framework. A high free float level signals broad public ownership, functioning as a form of investor recognition that attracts institutional attention (Ding et al., 2016). However, institutional investors do not accumulate shareholdings simultaneously but rather gradually, breaking up large purchases to minimise price impact (Keim & Madhavan, 1995). As they accumulate, free float gradually declines and institutional dominance grows, increasing pressure on management to pay higher and consistent dividends (Chang et al., 2016). Conversely, when free float remains high and is dominated by retail investors, the pressure is absent and management has greater flexibility to hold earnings for reinvestment. Indonesia's ownership structure remains highly concentrated, more than two-thirds of companies in East Asia are controlled by single shareholders or families (Claessens et al., 2000), meaning any shift in free float represents a significant change in clientele composition with direct implications for dividend policy.

Prior studies on the relationship between ownership structure and dividend policy have produced mixed results. González (2017) found that higher free float was associated with lower dividend payout ratios (DPR), as dispersed public ownership weakened shareholder pressure for dividends. Conversely, Barros et al. (2020) reported a positive relationship, arguing that higher public ownership encouraged dividend payments to mitigate agency conflicts. These contrasting findings suggest that the effect of free float on dividends is context-dependent across markets (Booth & Zhou, 2017). Moreover, existing studies largely focus on institutional ownership or ownership concentration, while limited attention has been given to free float as a proxy for investor clientele. This study addresses that gap by examining the relationship within the Indonesian market using Clientele Effect Theory as the primary framework.

Since the influence of free float on DPR is gradual rather than instantaneous, the methodological approach must capture the temporal dimension of this adjustment. This study therefore applies the Autoregressive Distributed Lag (ARDL) method with the Pooled Mean Group (PMG) estimator. ARDL accommodates mixed $I(0)$ and $I(1)$ variables without strict pre-testing, captures both short-run dynamics and long-run equilibrium relationships through an error correction mechanism, and is naturally consistent with Lintner's (1956) partial adjustment model of dividend behaviour. The PMG estimator assumes homogeneous long-run coefficients but allows short-run heterogeneity across firms, making it suitable for analyzing dividend behavior among IDX companies. Control variables include profitability (ROA), firm size ($\ln_TA$), revenue growth, and Price-to-Book Value (PBV).

This study utilises historical data from companies listed on IDX covering the period from 2010 to 2019, sourced from Capital IQ, involving free float, DPR, ROA, Revenue Growth, PBV, and Total Assets (TA) for all IDX issuers that met the sample qualifications during the research period. The study is limited to IDX issuers, meaning the findings cannot be directly generalised to other countries' capital markets. The observation period ending in 2019 does not cover crisis conditions such as the COVID-19 pandemic, so the dynamics of the free float–DPR relationship under economic instability cannot be addressed. Additionally, this study does not incorporate qualitative variables such as corporate governance quality, board characteristics, tax clientele effects, and market sentiment due to limitations in research scope; these aspects may serve as opportunities for future research.

This paper therefore examines whether and how free float affects the Dividend Payout Ratio (DPR) of companies listed on the Indonesia Stock Exchange, within the perspective of Clientele Effect Theory. Its contribution lies in providing empirical evidence regarding the relevance of Clientele Effect Theory in the Indonesian capital market, particularly in explaining the relationship between public ownership structure and dividend policy. The findings are expected to help investors, corporate management, and regulators understand how public ownership structure influences corporate dividend distribution patterns in Indonesia, filling a gap in the literature that has largely overlooked this specific mechanism in an emerging market context.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Grand Theory and Concepts

Clientèle Effect Theory was empirically introduced by Elton and Gruber (1970) through research on the relationship between investor preferences and corporate dividend policy. The theory holds that investors have different preferences toward dividends, shaped by income needs, investment goals, and tax considerations, and therefore tend to select stocks whose dividend policy aligns with their characteristics. Companies consequently attract the investor clientele aligned with their needs. When dividend policy changes significantly, investor composition shifts: some investors migrate to more suitable companies while new investors with different preferences enter (Elton & Gruber, 1970). The literature distinguishes two key investor types. Long-term investors such as fund managers, pension funds, insurance companies, and other institutions that are generally income oriented, requiring relatively stable cash flows to meet financial obligations. These investors prefer companies that can maintain consistently high dividend payments. Short-term investors active retail traders are growth-oriented, seeking capital gains from share price appreciation and accepting a retained earnings policy when funds are reinvested for value creation.

Clientele formation is endogenous, corporate characteristics and investor characteristics mutually adjust over time. Companies with growth-oriented policies attract growth-oriented investors; companies that consistently pay high dividends attract income-oriented investors. In the Indonesian context, rising free float is predominantly driven by the expansion of domestic retail investors with short-term investment horizons. This reduces the relative weight of long-term institutional investors who have a strong preference for dividend income, shifting the company's clientele toward growth-oriented preferences. Management, facing weakened pressure to distribute earnings, retains greater flexibility to direct profits toward investment and expansion that are consistent with growth-oriented clientele preferences. This mechanism implies a negative relationship between free float and DPR in the Indonesian capital market.

Empirical support for the clientele effect comes from several studies. Graham & Kumar (2006) found that individual investors self-select into dividend-consistent stocks. Allen et al. (2000) explained that companies can use dividend policy to attract specific investor groups, resulting in natural market segmentation between dividend seekers and growth seekers. Widyaningsih (2019) specifically found a negative relationship between public ownership and dividend policy in Indonesia, reflecting the short-term trading orientation of the domestic retail investor base.

Effects of Free Float and Control Variables on Dividend Payout Ratio

The independent variable in this study is free float. Floating ownership, or free float, describes the percentage of shares publicly held relative to a company's total outstanding shares. From the Clientele Effect Theory perspective, high public ownership will form an investor structure with diverse preferences, such that the dominant investor composition can influence the company's dividend policy. In general, public investors consist of two main groups: long-term investors, such as fund managers, pension funds, and insurance companies, who tend to be income-oriented, and short-term investors, such as retail investors and day traders, who are more growth-oriented.

When a company's free float increases in the Indonesian capital market, that increase is generally accompanied by greater participation of domestic retail investors with short-term investment orientations. This causes the relative proportion of long-term institutional investors to decline. The reduced dominance of institutional investors weakens pressure on management to maintain a high and stable DPR. While an increase in free float can provide benefits such as greater trading liquidity and more efficient price discovery, such conditions may in fact encourage companies to lower the proportion of earnings distributed as dividends, which is the dependent variable in this study.

Several prior studies show that the characteristics of public investors can influence corporate dividend policy. Allen, Bernardo, and Welch (2000) explained that companies often use dividend policy to attract particular investor groups. Graham and Kumar (2006) found a tendency for investors to

select stocks according to their expected return preferences. Waenkaeo and Waroonkun (2023) found that public ownership can affect dividend policy through increased demands for corporate transparency, while Barros et al. (2020) demonstrated that free float has a significant effect on dividend payments in companies listed on Euronext. Therefore, based on Clientele Effect Theory and the dominance of growth-oriented investors in the Indonesian capital market, an increase in free float as the independent variable is expected to have a negative effect on the dividend payout ratio as the dependent variable.

Beyond free float, several firm-level variables serve as control variables in this study. The first control variable is profitability, commonly measured using Return on Assets (ROA), which indicates a firm's capacity to generate earnings from its assets. Companies with high profitability generally have greater latitude to distribute profits to shareholders without disrupting operations or long-term investment plans. Research by Widyawati & Indriani (2019) found that ROA has a significant positive effect on the dividend payout ratio of manufacturing companies in Indonesia from 2014 to 2017. This finding is consistent with the logic of Clientele Effect Theory: companies that are able and consistent in paying high dividends will attract income-oriented clienteles, while companies that retain more earnings for reinvestment will attract growth-oriented clienteles.

The second control variable is firm size, proxied in this study by the natural logarithm of total assets ($\ln_TA$), which reflects the scale of operations and resources held by a company. Larger companies generally have easier access to external funding, a credible reputation among investors, and a more stable capacity to generate earnings, and therefore tend to be better able to pay dividends consistently. Research by Farah Chintya and Andrianantenaina (2020) shows that firm size has a significant positive effect on dividend policy among manufacturing companies in Indonesia. Within the Clientele Effect Theory framework, large companies that consistently pay dividends tend to attract income-oriented clienteles, while large companies focused on expansion will attract growth-oriented clienteles.

The third control variable is revenue growth, which describes a company's capability to maximise its income over time. Companies that are growing typically need internal funds to support expansion and therefore tend to distribute lower dividends even when profitable. Widyawati & Indriani (2019) demonstrated that revenue growth has an inverse relationship with the dividend payout ratio. Bhattacharya, Chang, and Li (2020) emphasise that companies in the growth phase prefer to allocate revenues toward expansion, while dividends tend to be larger for companies that have entered the mature stage.

The fourth control variable is Price-to-Book Value (PBV), which reflects market expectations regarding a company's growth prospects and value. Companies with a high PBV are generally perceived as growth firms and therefore tend to retain earnings for reinvestment rather than distributing them as dividends. Research by Rozeff (1982) and Baker and Powell (2000) confirmed that growth opportunities reflected in the market-to-book value ratio are negatively associated with the dividend payout ratio.

Hypothesis Development

The relationship between free float and DPR can be comprehensively explained through Clientele Effect Theory. The theory states that companies will attract certain investor groups (clienteles) whose characteristics align with the dividend policy implemented by management. In the capital market landscape of a developing country such as Indonesia, an increase in free float is generally driven by the expansion of domestic retail investors with short-term investment horizons, who prioritise stock value appreciation over periodic dividend income. The growing dominance of retail investors shifts and reduces the proportion of long-term institutional investors, who are income-oriented. This shift in ownership composition resulting from increased free float has direct implications for investor bargaining power in the eyes of management. When the ownership of fund managers is eroded by the dominance of short-term retail investors, institutional pressure to pay large dividends automatically weakens. Management is more inclined to retain earnings to finance expansion and new

project reinvestment. Thus, this change in public ownership structure consistently pushes the corporate dividend payout ratio to a lower level.

This phenomenon is supported by Allen, Bernardo, and Welch (2000), who confirmed that companies utilize dividend policy as an instrument to attract certain investor clienteles. In the Indonesian capital market specifically, Widyaningtyas (2022) demonstrated that public ownership has a negative and significant relationship with dividend policy because of the characteristic of the Indonesian public market as being more oriented toward short-term trading than long-term investment returns.

Based on the above theoretical discussion and empirical findings, the research hypothesis is formulated as follows:

H1: Free float has a significant effect on the dividend payout ratio of public companies.

Research Framework

This study is grounded in Clientele Effect Theory empirically introduced by Elton and Gruber (1970), which suggests that investors exhibit different preferences for dividend policies based on their individual characteristics and circumstances. This study aims to analyse the effect of free float on dividend policy, proxied by the dividend payout ratio (DPR). Free float reflects the proportion of shares freely circulating in the public and freely tradeable in the capital market, and is therefore closely related to the characteristics of the clientele that dominates company ownership.

A high free float level indicates that share ownership is more dispersed among public investors, particularly retail investors who, in the Indonesian context, tend to have a capital-gain orientation and a trading-oriented profile. These investors represent the growth-oriented clientele within the Clientele Effect Theory framework, a group that does not demand a high dividend payout because they prioritise stock price appreciation as their primary return source. This implies that the higher the free float, the lower the pressure on management to increase the dividend payout ratio.

Conversely, companies with a low free float generally have an ownership structure more concentrated among controlling shareholders. These differences in clientele orientation and ownership structure suggest that free float has potential to influence the dividend payout ratio through a clientele effect mechanism. Therefore, the relationship between free float and dividend policy within the Clientele Effect Theory framework constitutes an important empirical issue to be tested in the context of the Indonesian capital market.

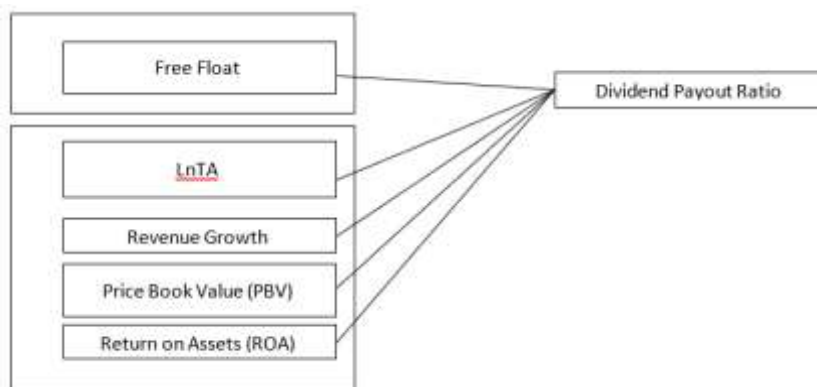


Figure 1. Research Framework (Source: Authors, 2025)

RESEARCH METHODOLOGY

Population and Sample

The population of this study comprises companies listed on the IDX from 2010 to 2019. This period was selected because it reflects relatively stable economic conditions following the international financial crisis of 2008, enabling a more consistent analysis of corporate behaviour in setting dividend policy without distortion from a major crisis. Furthermore, the use of the 2010–2019

period aims to obtain a medium-to-long-term picture of corporate policy dynamics, particularly under broadly normal economic conditions. The financial sector is excluded from the study population because it has significantly different characteristics from other sectors, including differences in financial structure, stricter regulation, and specific accounting and revenue recognition standards.

The criteria for company data used in this study are as follows:

1. Non-financial companies listed on the IDX during 2010–2019 to ensure the homogeneity of sample characteristics.
2. Companies that publish annual financial reports throughout the observation period. This ensures consistency and continuity of data so that statistical analysis is not disrupted by missing data.
3. Companies with complete data. Sample companies must have complete data including dividends, shares held, total assets, revenues, and other variables.
4. Companies whose total assets and free float are not constant throughout the study period. Companies with unchanging values are excluded as they do not provide the data variation required for regression analysis.
5. Companies that pay dividends relatively consistently during the observation period. This ensures that companies have a dividend policy that can be analysed on an ongoing basis.

Research Variables

The dependent variable in this study is the Dividend Payout Ratio, which is the ratio of total dividends distributed to the net profit generated by the company. The formula is:

$$DPR = (Total\ Dividends / Net\ Profit) \times 100\% \quad (1)$$

A higher ratio indicates that the company prioritises dividend distribution, while a lower ratio indicates preference for retaining earnings for future expansion. The main independent variable is free float (floating rate), defined as the percentage of shares publicly held relative to the company's total outstanding shares, calculated as:

$$Floating\ Rate = (Shares\ Held\ by\ Public / Total\ Outstanding\ Shares) \times 100\% \quad (2)$$

Floating rate is used as the main independent variable to examine whether minority investors have a significant impact on DPR. Firms with a high floating rate may be pressured to distribute larger dividends. Accordingly, this variable is examined to determine whether it has a significant effect on DPR.

This study also incorporates four control variables. The first control variable is profitability, measured using Return on Assets (ROA), which captures how well the company generates profit with its available capital:

$$ROA = Net\ Profit / Total\ Assets \quad (3)$$

The second control variable is firm size, proxied by the natural logarithm of total assets (Ln_TA). The natural logarithm transformation is applied to reduce data skewness and stabilise variance, given that total asset values across companies tend to differ greatly. The third control variable is growth, which represents the company's annual revenue growth, measured using the Revenue Growth indicator. Its purpose is to determine whether revenue performance can influence management's decision to distribute dividends. The fourth control variable is Price-to-Book Value (PBV), which reflects how the market values the company relative to its book value and captures investor expectations regarding the company's growth prospects. PBV is used as a control variable to capture the influence of growth opportunities on corporate dividend policy, with the aim of isolating the effect of corporate growth opportunities on the dividend payout ratio.

Analytical Method

This study employs a quantitative approach using panel data because the data covers many companies (cross-section) over multiple years (time-series). According to Gujarati and Porter (2012),

the use of panel data increases the number of observations, yielding more efficient estimates and greater degrees of freedom compared to pure cross-section or time-series data. Furthermore, the panel data approach can capture the dynamics of variable changes over time and across companies, while controlling for unobserved heterogeneity. The ARDL model specification is:

$$PAYOUT_i = a_0 + f_1 * PAYOUT_{i,-1} + b_1 * FLOAT_i + b_2 * LN_TA_i + b_3 * ROA_i + b_4 * REVGROW_i + b_5 * P_BVi + e_i \quad (4)$$

The ARDL model is applied to decompose the relationship between free float and the Dividend Payout Ratio dynamically, encompassing both short-run and long-run effects within a panel data framework. Three key methodological justifications support this choice. First, Pesaran, Shin, and Smith (2001) demonstrated that ARDL can accommodate variables with mixed orders of integration, $I(0)$ and $I(1)$, without requiring strict unit root pre-testing. Second, dividend policy is inherently dynamic and persistent, making the autoregressive structure in ARDL naturally suited to modelling dividend behaviour. Third, the use of the PMG estimator within the ARDL panel framework allows the assumption of homogeneity of long-run relationships across companies while permitting heterogeneity in short-run dynamics.

The long-run coefficients measure how much a permanent change in free float and control variables will affect the Dividend Payout Ratio under equilibrium. A negative long-run coefficient on the free float variable indicates that companies with a larger proportion of public ownership tend to maintain a lower dividend payout ratio in the long run, consistent with the dominance of growth-oriented clienteles on the IDX. Short-run effects describe the dynamic response of the dependent variable to changes in independent variables within one period, captured through first-difference coefficients in the error correction equation. The COINTEQ value of -0.431 indicates that alignment toward long-run equilibrium occurs gradually: approximately 43.1% of short-run deviations are corrected within one year. Within the ARDL-PMG framework, the gradual nature of dividend adjustment is explicitly captured through two mechanisms: the autoregressive component reflecting historical persistence of dividend policy, and the error correction term measuring the speed of correction when DPR deviates from its equilibrium path. This finding is consistent with the dividend smoothing literature (Fernau & Hirsch, 2019) and with Lintner's (1956) partial adjustment model.

Prior to estimation, a stationarity test is conducted to determine whether the data are stationary. Non-stationary data can cause regression results to be spurious or misleading (Gujarati & Porter, 2012). Methods used include the Augmented Dickey-Fuller (ADF) Test and the Phillips-Perron (PP) Test. The hypotheses are as follows: H_0 : data contains a unit root (non-stationary); H_1 : data does not contain a unit root (stationary). If $p\text{-value} < 0.05$, H_0 is rejected and the data is declared stationary. In the ARDL model context, this test confirms that variables are only integrated at order $I(0)$ or $I(1)$.

Additionally, a Hausman test is applied to examine the appropriateness of the PMG estimator by comparing it with the Mean Group (MG) estimator. The PMG approach, developed by Pesaran, Shin, and Smith (1999), assumes that long-run relationships between variables are homogeneous across all cross-section units, while short-run relationships may differ across units. The hypotheses are as follows: H_0 : PMG is more efficient and consistent (long-run homogeneity is satisfied); H_1 : MG is more appropriate (long-run homogeneity is not present). If $p\text{-value} > 0.05$, H_0 is not rejected and PMG can be used.

Through these stages of analysis, this study aims to produce a robust and statistically valid model. The use of panel data regression allows examination of changes in dividend policy behaviour across time and across companies with greater accuracy. By incorporating the main variable of floating rate together with control variables ROA, PBV, SIZE, and GROWTH, this study can comprehensively explain the aspects that affect corporate dividend payment policy in Indonesia. This approach is expected not only to strengthen the empirical validity of the research but also to provide practical contributions for corporate policymakers and investors.

Interpretation and Expected Analysis

Through these stages of analysis, this study aims to produce a robust and statistically valid model. The use of panel data regression allows examination of changes in dividend policy behaviour across time and across companies with greater accuracy. By incorporating the main variable of floating rate together with control variables ROA, PBV, SIZE, and GROWTH, this study can comprehensively explain the aspects that affect corporate dividend payment policy in Indonesia. This approach is expected not only to strengthen the empirical validity of the research but also to provide practical contributions for corporate policymakers and investors.

RESULTS AND DISCUSSION

Sample Selection Results

The population of this research involves data from public companies listed on IDX from 2010-2019. The selection was conducted by purposive sampling with several criterias utilizing S&P IQ platform and ended with 58 companies. As a result, the data contains 58 companies from 2010-2019 which altogether is 580 observations.

Table 1. Sample Selection Procedure

Sample Selection Criteria	Total Observations
Non-financial company listed in 2010–2019	2,550
Less: Companies with incomplete data during 2010–2019	(1,570)
Less: Data with constant values (not suitable for ARDL)	(400)
Total sample observations	580

Source: Authors, 2026

Descriptive Statistics

All data are assembled into descriptive statistics. There is 1 dependent variable (PAYOUT), 1 main independent variable (FLOAT), and 4 control variables: ROA, LN_TA, RevGrow_Percent, and P_BV.

Table 2. Descriptive Statistics

Variable	N	Min.	Max.	Mean	Median	Std. Dev.
Payout	580	0	86.1388	24.07823	20.1157	21.75236
Float	580	0	69.17174	22.33264	18.93605	17.58158
ROA	580	-6.6456	17.5907	6.285013	5.9918	4.266362
LN_TA	580	0.5570	7.3658	5.351525	5.425955	1.285154
P_BV	580	0.129	16.5	2.024171	1.285	2.116572
RevGrow_%	580	-51.131	110.677	11.599	7.104333	29.02543

Source: Authors, 2026

The dependent variable, Payout (Dividend Payout Ratio), has a mean of 24.07823, median of 20.1157, and standard deviation of 21.75236. The wide-ranging gap between the mean and median indicates a right-skewed distribution, meaning a few companies distribute dividends extravagantly while the majority are below the mean.

The main independent variable, Float (free float), has a mean of 22.33264, median of 18.93605, and standard deviation of 17.58158. The minimum value is 0, indicating some companies have concentrated ownership, while the maximum of 69.17174 indicates more dispersed public ownership. A standard deviation of 17.58158 reflects significant variation in ownership structures across sample companies.

ROA has a mean of 6.285013, median of 5.9918, and standard deviation of 4.266362. The slight difference between mean and median indicates nearly symmetric distribution. The maximum value of 17.5907 and minimum of -6.6456 shows variation in ability of generating profitability across the companies and period.

LN_TA has a mean of 5.351525, median of 5.425955, and standard deviation of 1.285154. The minimum value of 0.557035 and maximum of 7.365785 shows that this research includes small to large companies. The pretty tight median and mean value shows balanced distribution with little impact from outliers. The logarithm of total asset is implemented to normalize distribution compared to direct utilization of total asset value.

P_BV has a mean of 2.024171, median of 1.285, and standard deviation of 2.116572. The minimum value of 0.129 shows there are undervalued companies while maximum of 16.5 indicates overvalued firms. Higher value of standard deviation compared to mean indicates high variation in the data and possibility of outliers.

RevGrow_Percent has a mean of 11.599, median of 7.104333, and standard deviation of 29.02543. The maximum value of 110.6773 and minimum of -51.13089 shows pretty high variation and fluctuative growth across the firms during the period.

ARDL Model

Table 3. ARDL Model Results

Dependent Variable: PAYOUT

Method: PMG

Sample: 2011–2019

Cross-sections included: 58

Model: PMG (1,0,0,0,0)

N: 522

Variable	Coefficient	Std. Error	t-statistic	p-value
FLOAT	-0.103992	0.043567	-2.386938	0.0173**
LN_TA	8.884652	0.47034	18.88984	0.000***
REVGROW_PERCENT	-0.208449	0.033134	-6.291024	0.000***
ROA	1.14026	0.17327	6.580823	0.000***
P_BV	-0.116206	0.447262	-0.259816	0.7951
C	-25.11844	2.744284	-9.153003	0.000***
COINTEQ (Short Run)	-0.43121	0.046055	-9.363037	0.000

Note: ** significant at 5%; *** significant at 1%. Log-Likelihood: -1864.513.

Source: Authors using EViews, 2026.

This ARDL model utilizes lag 1 PAYOUT based on the Akaike Information Criterion recommendation while the independent variables don't use any lag. The FLOAT variable has a coefficient of -0.103992 with p-value 0.0173, significant at the 5% level. Every 1-point increase in FLOAT reduces PAYOUT by 0.104 points. Multiplied by the standard deviation of 17.58, this diminishes PAYOUT by 1.83 points, equivalent to 7.6% of PAYOUT mean value. LN_TA has a coefficient of 8.884652

($p=0.000$). Every 1-point increase in LN_TA surges PAYOUT by 8.885 points, or 11.42 points when compounded by its standard deviation of 1.285. REVGROW_PERCENT has a coefficient of -0.208449 ($p=0.000$). Every 1-point increase in revenue growth lowers PAYOUT by 0.208 points, or 6.04 points when compounded by its standard deviation of 29.025. ROA has a coefficient of 1.14026 ($p=0.000$). Every 1-point increase in ROA grows PAYOUT by 1.14 points, or 4.86 points when escalated by its standard deviation of 4.266. P_BV has a coefficient of -0.116206 with p -value 0.7951 — statistically insignificant. The standard error far exceeds the coefficient, indicating low estimation accuracy for this variable. The COINTEQ value of -0.43121 shows that 43.12% of deviations in dividend payment policy are corrected toward long-run equilibrium in one year. The PAYOUT requires approximately 2.3 years to return to long-run equilibrium, consistent with Lintner's (1956) theory that companies adjust dividend payments parallel with long-run objectives.

Unit Root Test

Stationarity testing is implemented to avoid spurious regression issues. Four methods are used: LLC, IPS, ADF, and PP. The LLC method assumes homogeneous cross-section unit roots, while the other three permit heterogeneity.

Table 4. Unit Root Test Results (p-values)

Variable	LLC Level	IPS Level	ADF Level	PP Level	LLC 1st diff.	IPS 1st diff.	ADF 1st diff.	PP 1st diff.
Float	0***	0***	0***	0***	0***	0***	0***	0***
Payout	0***	0***	0***	0***	0***	0***	0***	0***
RevGrow %	0***	0***	0***	0***	0***	0***	0***	0***
P_BV	0***	0***	0.0001***	0***	0***	0***	0***	0***
ROA	0***	0***	0***	0***	0***	0***	0***	0***
LN_TA	0***	0.1156	0.0021***	0***	0***	0***	0***	0***

Source: Authors using EViews, 2026

Most variables are stationary at level $I(0)$. The exception is LN_TA, which is non-stationary at the level under the IPS test ($p=0.1156$) but becomes stationary after first differencing, categorising it as $I(1)$. The presence of mixed $I(0)$ and $I(1)$ variables provides strong methodological justification for the ARDL model. No variable is integrated at order $I(2)$, fully satisfying the ARDL requirements.

The Float is stationary in all levels and methods, indicating that the data is quite stable during the sample period without drastic difference. This result is consistent with Demsetz and Lehn (1985) that states the structure ownership tends to be stable since regulations and industry rarely transform.

The RevGrow is stationary in all levels and methods, showing that revenue growth tends to return to balance after experiencing drastic growth or decline. It aligns with Life Cycle Theory that states a company's growth is different based on its life cycle from introduction to decline phase. As an effect, companies are not able to forever maintain high growth along with increasing competition. The ROA is also stationary with a similar factor, which is growing competition and supported by research from Mueller (1986).

The P_BV is stationary in all levels and methods indicating that market valuation tends to go to long-term balance, in which overvalued stocks will decline in price while undervalued stocks' price will grow. Fama and French (1988) stated stock's price tends to be in long-term historical price which causes PBV to be stable.

The only insignificant variable is LN_TA, which is not stationary in the level degree and IPS method. It is compatible with Evans (1987) that stated correlation between firm's age and total assets are proportional since companies tend to add assets despite declining growth.

Hausman Test (PMG vs. Mean Group)

Hypotheses:

H0: No significant difference between PMG and MG coefficients — PMG is more appropriate;

H1: Significant difference, MG is more appropriate.

Result: Statistic = 8.8263, Degrees of freedom = 6, P-value = 0.1836 → PMG is preferred over MG.

Table 5. Hausman Test Results

Variable	MG Coefficient	PMG Coefficient	Variance	p-value
FLOAT	-231.794	-0.103992	52,937.2	0.3139
LN_TA	8.669031	8.884652	350.455506	0.9908
ROA	0.437612	1.14026	0.594539	0.3622
REVGROW_%	0.038437	-0.208449	0.013859	0.036**
P_BV	-12.323251	-0.116206	204.034667	0.3928
C	781.862352	-25.118442	633,171.8	0.3105

Source: Authors using EViews, 2026

The Hausman test result shows a statistic of 8.826 with p-value 0.1836, exceeding the 0.05 significance level. H0 is not rejected, confirming that PMG is more efficient and consistent than MG. The assumption of long-run coefficient homogeneity across sample companies is statistically acceptable. It should be noted that while PMG is preferred, there is a difference in the direction of the REVGROW coefficient between MG (positive, 0.038) and PMG (negative, -0.208) that is statistically significant (p=0.036). This indicates heterogeneity in the connection between revenue growth and dividend policy at the company level. Based on the ARDL model, unit root test, and PMG similarity test, the ARDL regression equation is:

$$\Delta \text{PAYOUT}_i = -0.4310(\text{PAYOUT}_{i-1} + 0.1040*\text{FLOAT}_i - 8.8847*\text{LN_TA}_i - 1.1403*\text{ROA}_i + 0.2084*\text{REVGROW}_i + 0.1162*\text{P_BV}_i) + u_i + e_i \quad (5)$$

Research Results

The ARDL model estimation results show that free float has a significant and negative effect on the dividend payout ratio. This finding is consistent with the research hypothesis and theory from Elton and Gruber (1970) that the type of investor dominating the ownership structure of a company has different influences on dividend policy. In the focus of IDX-listed companies, rising free float is primarily caused by short-term investors prioritizing capital gains, reducing pressure on management to pay dividends.

On the other side, long-term institutional investors require cash flows in the form of dividends to meet client obligations including liquidity and stable return. They typically allocate funds to companies with high dividends, which reduces the free float and exert strong influence in pressuring management to pay high dividends. These institutions are not able to sell their stocks freely due to high impact cost, which causes stock's price declines before all portions of the stock are sold entirely. Amihud (2002) found that theoretical investment returns differ from realised returns, with a greater impact on less liquid stocks. Perold (1988) similarly showed the gap between theoretical and realised returns due to transaction costs, commissions, taxes, opportunity costs, and market impact, particularly for illiquid stocks. The results are also consistent with Kilincarslan & Ozdemir (2021), who found a positive relationship between long-term institutional ownership and dividend payments. Gaspar, Massa, and Matos (2005) emphasised that long-term investors tend to have greater power to engage in corporate decisions. These results are further supported by González et al. (2017), who showed that companies dominated by individual investors tend to pay lower dividends than those dominated by institutional investors or the government.

On the other hand, total assets have a significant and positive effect on PAYOUT, consistent with life cycle theory, larger companies or those in the mature stage pay larger dividends as growth opportunities diminish, accumulated net profits increase, and further strengthened by broader access to external financing due to established credibility. DeAngelo, DeAngelo, and Stulz (2006) found that companies with high dividends often have big retained earnings. Beyond sufficient scale, shares of large companies typically attract financial institutions due to stable track records, translating into good liquidity and stable dividend payments. The presence of these institutions creates pressure on management to pay higher dividends. Gompers and Metrick (2001) stated that financial institutions are attracted to big companies with liquid stocks. Ferreira and Matos (2008) wrote that financial institutions seek big companies with strong governance and are also supported by Mulyani et al. (2016).

Then, revenue growth has a negative and significant effect on the dividend payout ratio, consistent with pecking order theory: companies prioritise net earnings as their primary source of cash for company growth. From the investor perspective, companies with high revenue growth tend to attract short-term investors who profit from stock price appreciation and tend to negatively view companies with higher dividends since it signals limited growth opportunities. Fama & French (2001) found that companies with high growth potential tend to pay lower dividends or none at all. Baker & Wurgler (2004) also found that investors who believe a company can grow rapidly prefer the company does not pay dividends. This finding is also consistent with Setiawan et al. (2018).

ROA has a significant and positive effect on the dividend payout ratio, consistent with dividend signaling theory: companies pay dividends consistently in line with strong financial performance to demonstrate good performance to public investors. Strong financial performance attracts large institutions to invest because a high ROA is an indicator of good corporate fundamentals, their entry creates pressure on the company to pay higher dividends. Miller & Rock (1985) similarly concluded that dividend payments are an indicator of good corporate performance. The cost of this signal is high since it sacrifices available cash and only companies with high ROA can sustain it. These results are also consistent with Lintner (1956) and González et al. (2017).

PBV has a negative but insignificant effect on the dividend payout ratio, indicating that market perception of company value as reflected through PBV is not a significant determinant of dividend policy in the context of this sample. The insignificance of PBV may be attributable to several factors including market sentiment, macroeconomic conditions, and sample selections. There may be partial multicollinearity between PBV and LN_TA and this finding is consistent with several emerging market studies that PBV alone is not significant enough to measure dividend policy.

CONCLUSION

Conclusions

Based on panel data from 58 non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2010 to 2019, this study employed the Autoregressive Distributed Lag (ARDL) method with the Pooled Mean Group (PMG) estimator to examine the effect of free float on the Dividend Payout Ratio (DPR) within the framework of Clientele Effect Theory. The results indicate that free float has a significant negative effect on the dividend payout ratio in the long run, confirming that an increase in the proportion of public ownership does not drive companies to distribute higher dividends, but rather the contrary. This finding is consistent with Clientele Effect Theory as empirically introduced by Elton and Gruber (1970), whereby public investors dominating free float in Indonesia tend to be growth-oriented and prioritise capital gains over dividend income. As free float increases, the relative dominance of long-term institutional investors declines, weakening the pressure on management to maintain high and stable dividend payments and allowing greater flexibility to retain earnings for reinvestment and expansion.

Among the control variables, firm size and profitability are found to have a significant positive effect on the dividend payout ratio, while revenue growth has a significant negative effect. These findings are consistent with life cycle theory, dividend signaling theory, and pecking order theory

respectively. Larger and more profitable companies demonstrate a greater capacity to distribute dividends consistently, while companies in the growth phase tend to retain earnings to finance expansion. The Price-to-Book Value variable does not show a significant effect on dividend payout ratio in this sample, suggesting that market valuation perceptions alone are not a decisive determinant of dividend policy in the Indonesian context. The COINTEQ value of -0.431 further confirms that approximately 43.1% of short-run deviations are corrected toward long-run equilibrium within one year, consistent with Lintner's (1956) partial adjustment model of dividend behaviour. Overall, these findings imply that the composition of the public investor clientele, particularly the balance between short-term retail investors and long-term institutional investors, plays a central role in shaping corporate dividend policy in Indonesia.

Research Recommendations

Based on the above analysis, this study proposes the following recommendations.

First, corporate management should actively consider the composition of its public investor clientele when formulating dividend policy. Since free float in the Indonesian capital market is predominantly driven by growth-oriented retail investors with short-term horizons, management should not rely solely on dividend payments as a mechanism to satisfy shareholders. Instead, companies should communicate clearly to the market regarding their earnings retention strategy, ensuring that reinvestment decisions are transparently linked to value creation objectives. This approach will help align management decisions with the dominant clientele preferences while maintaining investor confidence.

Second, long-term institutional investors such as pension funds, insurance companies, and fund managers should be encouraged to increase their participation in IDX-listed companies. A higher proportion of institutional ownership relative to retail free float would shift clientele composition toward income-oriented investors, naturally creating stronger demand for stable and consistent dividend payments. Regulators and market authorities may consider developing incentive mechanisms or investment frameworks that attract greater institutional participation in the Indonesian capital market, thereby promoting a healthier balance between growth-oriented and income-oriented investor bases.

Third, investors should utilize free float information as a relevant indicator when assessing a company's dividend policy tendencies. Companies with high free float levels, particularly those dominated by retail investors, are more likely to maintain lower dividend payout ratios as management faces weaker institutional pressure to distribute earnings. Conversely, companies with lower free float and greater institutional concentration tend to exhibit higher and more consistent dividend payments. Incorporating free float analysis into investment decision-making can therefore improve the accuracy of dividend expectation assessments.

Fourth, future research may expand upon the findings of this study by incorporating qualitative variables such as corporate governance quality, board characteristics, tax clientele effects, and market sentiment, which were outside the scope of this study. Additionally, extending the observation period beyond 2019 to include crisis conditions such as the COVID-19 pandemic would allow for a more comprehensive understanding of how the free float–DPR relationship behaves under economic instability. Exploring this mechanism across different country contexts would further enrich the literature on dividend policy in emerging markets.

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