

The influence of family ownership, family involvement, and founder generation on dividend policy: evidence from non-cyclical consumer family firms in Indonesia (2019–2023)

Matteo Firdaus

Faculty of Economics and Business, Universitas Padjadjaran

Dini Rosdini

Faculty of Economics and Business, Universitas Padjadjaran

Runita Arum Kanti

Faculty of Economics and Business, Universitas Padjadjaran

Abstract : *Family firms play a pivotal role in shaping Indonesia's economic landscape, with their unique governance structures influencing key financial decisions such as dividend distribution. This study provides an in-depth examination of how family ownership, family involvement, and the generational status of the founder shape dividend policy among 24 non-cyclical consumer family firms listed on the Indonesia Stock Exchange (IDX) over the period 2019–2023. Firm size and profitability are incorporated as control variables to ensure the robustness of the analysis. Employing panel data regression techniques, the study uncovers several notable findings. First, family ownership exerts a positive and statistically significant influence on dividend policy, suggesting that higher equity control by families encourages more generous dividend payouts to meet family income needs and signal financial health. Conversely, active family involvement in management and the continuation of leadership under the founder generation are both found to have negative and significant impacts, indicating a preference for profit retention to support internal growth and maintain control rather than distributing earnings. Among the control variables, profitability emerges as a strong positive determinant of dividend payouts, reflecting the firm's capacity to return earnings to shareholders. In contrast, firm size does not demonstrate a significant effect, implying that scale alone does not dictate dividend behaviour in this context. These findings align with agency theory and signaling theory, illustrating that dividend policy in Indonesian family firms is a complex interplay of family control motives, generational leadership strategies, and operational performance. The study highlights that while family ownership encourages dividend distribution, direct family involvement and founder-led governance tend to prioritise long-term stability and strategic reinvestment over short-term payouts.*

Keywords: *Family firms; Dividend policy; Family ownership; Family involvement; Founder generation; Corporate governance; Panel data analysis; Indonesia Stock Exchange (IDX); Agency theory; Signaling theory*

Introduction

Firms play a crucial and multifaceted role in driving economic development. They serve not only as producers of goods and services but also as vehicles for investment that propel national growth. By leveraging innovation and operational efficiency, firms enhance productivity across industries, generate employment opportunities, and raise household purchasing power, which in turn boosts national income. Beyond direct contributions, they establish economic ecosystems that integrate

capital, technology, and labor, creating sustainable outputs and fostering macroeconomic stability. The income that firms generate circulates domestically, energising capital markets, strengthening government revenues through taxes, and financing critical infrastructure and public services (OECD, 2020; Idris, 2024). In today's era of rapid technological change, the realities of climate risk, and shifting geopolitical landscapes, firms must demonstrate adaptability, strategic risk management, and resilience to sustain long-term competitiveness.

Dividend policy stands out as one of the most significant financial decisions a firm makes, as it determines how profits are distributed between reinvestment and shareholder returns. An effective dividend policy communicates the firm's financial prudence and stability, directly influencing investor confidence and market perception (Brigham & Houston, 2022). Balancing retained earnings with dividends reflects a firm's growth ambitions and its commitment to shareholder value. Moreover, dividends function as a signalling mechanism: consistent or increasing payouts indicate sustainable earnings and strong governance, which reduce perceived risk and attract long-term investors (Hama et al., 2020). For instance, PT Bank Negara Indonesia Tbk (BBNI) raised its dividend by 42.76% for the fiscal year 2023, a move interpreted as a sign of operational strength and management confidence (BNI, 2024). Similarly, PT Puradelta Lestari Tbk (DMAS) experienced a 14% stock price surge following the announcement of a dividend yielding 19%, demonstrating the market's positive response to shareholder-friendly policies (IPOT, 2025).

From an investor perspective, dividends are a critical driver of total returns. Historical data shows that since 1960, approximately 85% of the cumulative total returns in the S&P 500 have been derived from dividend payments and their reinvestment, with dividend income contributing an average of 34% between 1940 and 2024 (HartfordFunds, 2025). A well-structured dividend policy thus provides a reliable income stream while simultaneously supporting long-term value creation. Non-cyclical consumer firms, which provide essential goods such as food, beverages, and household products, often maintain stable revenues even during economic downturns, allowing them to implement consistent dividend policies (Investopedia, 2025). Their operational resilience enhances financial flexibility, enabling reinvestment for growth and reinforcing investor trust (Henry & Yahaya, 2024).

In Indonesia, family-owned enterprises dominate the corporate landscape, accounting for more than 95% of all businesses and contributing approximately 82% to the country's overall economic output (Bry, 2019;

DayaQarsa, 2022). These firms are typically defined by their focus on long-term sustainability, adherence to family values, and a strong emphasis on preserving harmony and business continuity. Dividend policy in family-controlled firms often reflects a delicate balance between reinvestment to support growth and the need for intergenerational wealth transfer (Kalm & Gomez-Mejia, 2016). Empirical studies suggest that family ownership can mitigate agency conflicts and align the interests of majority and minority shareholders, leading to stable or generous dividend distributions (Hasan et al., 2023). Nevertheless, when family members are heavily involved in management, they may opt to retain earnings rather than distribute dividends, prioritising control and funding for strategic, long-term investments (Kilincarslan, 2021).

Generational leadership transition adds another layer of complexity to dividend decision-making. Founders tend to favour reinvestment and capital preservation, focusing on building a financial buffer for future uncertainties. In contrast, successor generations may lean towards higher dividend payouts to signal the company's financial strength and to cultivate investor confidence (Belda-Ruiz et al., 2021). These generational differences underscore the importance of understanding how family ownership structures, managerial involvement, and leadership succession shape a firm's dividend policy. Given the prevalence of family-owned companies in Indonesia's non-cyclical consumer sector, analysing these dynamics provides valuable insights into corporate governance. It also offers practical guidance for owners, managers, and investors aiming to balance growth ambitions, shareholder returns, and the long-term sustainability of the business.

Literature review and hypothesis development

Agency theory

Agency theory, first conceptualized by Jensen and Meckling in 1976, provides a comprehensive framework for understanding the conflicts that may arise within the principal-agent relationship. This theory is particularly relevant in a corporate context where shareholders function as the principals. They

delegate the day-to-day operational control of the firm to managers, who act as their agents. Such arrangements inherently carry the risk of goal misalignment because the interests of principals and agents do not always coincide. For instance, while shareholders typically focus on maximizing long-term firm value and returns, managers may prioritize personal benefits, such as career advancement, prestige, or short-term performance metrics. This divergence in objectives can lead to conflicts, as managers might make decisions that benefit themselves at the expense of the shareholders' long-term interests.

Information asymmetry further amplifies this conflict because managers usually have superior knowledge about the company's internal operations and future prospects, which shareholders lack. This imbalance allows managers the opportunity to engage in self-serving behaviors, potentially leading to inefficiencies, suboptimal decision-making, and a decline in the firm's overall value. For example, managers might withhold critical information about the company's financial health or future projects to maintain control or secure personal benefits. This lack of transparency can erode trust between the principals and agents, exacerbating the agency problem and potentially resulting in financial losses for the shareholders.

In the context of family-controlled firms, agency theory takes on a unique dimension. High levels of family ownership and involvement often reduce agency conflicts since the family, as both principal and agent, has a unified interest in preserving and enhancing firm value. This alignment of managerial decisions with controlling family interests tends to lower agency costs, as noted by Hasan et al. (2020). The family's vested interest in the firm's success often leads to more careful and strategic decision-making, as they are directly affected by the firm's performance. However, minority shareholders may still face risks if the controlling family acts in ways that prioritize its own benefits over theirs. For instance, the family might make decisions that favor their personal financial interests, such as excessive compensation or preferential treatment in business dealings, at the expense of minority shareholders.

Dividend policy also functions as a critical governance mechanism within the agency framework. By committing a portion of free cash flow to dividend payments, firms limit managerial discretion over excess funds, discouraging wasteful or self-interested spending. This practice not only disciplines management but also reassures minority shareholders that their interests are being protected, as cash is returned to them instead of being retained for potentially inefficient managerial use. Dividend payments can serve as a signal to the market that the firm is generating sufficient profits and is committed to returning value to its shareholders. This can enhance investor confidence and lead to a more favorable valuation of the firm's stock.

Agency theory underscores the critical importance of implementing mechanisms like family ownership structures and well-designed dividend policies to effectively address conflicts of interest between principals and agents, thereby minimizing agency costs and protecting the long-term value of the firm. These governance tools operate by aligning managerial incentives with shareholder interests, ensuring that all strategic and operational decisions are taken to maximize shareholder wealth. By fostering a structure that promotes transparency, accountability, and operational efficiency, such mechanisms not only strengthen the trust between stakeholders but also create a solid foundation for sustainable growth and consistent profitability over time, reinforcing the overall stability and success of the organization.

Signaling theory

Signaling theory, first introduced by Bhattacharya in 1979, emphasises that a company's dividend policy functions as a strategic communication mechanism to convey private information about its financial health and future performance to external stakeholders. This theory suggests that dividends are not merely a means of distributing profits but also an intentional signal to the market. When a firm maintains stable or gradually increasing dividend payments, it sends a message to investors that its earnings are sustainable and that management has confidence in the firm's future cash flows. Such

signals help reduce information asymmetry between company insiders and market participants, thereby fostering stronger market confidence and potentially enhancing the firm's valuation.

The implications of signaling theory are particularly significant for family-owned firms. Consistent dividend distributions in these firms not only improve their market reputation but also demonstrate a commitment to transparent, disciplined, and effective governance. By adhering to a clear dividend policy, family firms can reassure investors and other stakeholders that they are managing the business responsibly, balancing both family interests and shareholder value. As highlighted by Ayu and Viverita in 2020, this approach reinforces trust and credibility, which are critical elements for sustaining long-term investor relationships. Ultimately, by leveraging dividend policies as a signaling mechanism, family firms can strengthen their position in the market and secure long-term organisational success.

Family ownership and dividend policy

Family ownership refers to the proportion of a company's equity that is held by members of the founding family or by parties closely related to them, such as relatives or family-owned entities. This structure often grants the family significant influence over strategic and operational decision-making processes. A high level of family ownership typically results in stronger managerial oversight because family members, as major stakeholders, are highly invested in the long-term sustainability and profitability of the firm. Their financial and reputational interests are closely tied to the company's performance, which helps align the goals of controlling shareholders with those of minority investors.

In terms of corporate governance, family ownership can play a dual role. On one hand, it mitigates agency conflicts between management and shareholders by reducing opportunistic behaviours and emphasizing stewardship. On the other hand, it can raise concerns about expropriation of minority investors if not monitored effectively. One widely recognized mechanism to address these agency concerns is the distribution of dividends. Dividends signal the firm's commitment to

sharing profits with all shareholders, thereby reducing potential conflicts and enhancing investor confidence.

Empirical studies support this relationship. Hasan et al. (2020), in their study of firms listed on the Dhaka Stock Exchange, identified a strong positive correlation between family ownership and dividend payouts, suggesting that family-controlled firms are more inclined to distribute profits to maintain trust and credibility with outside investors. Similarly, Briano-Turrent et al. (2020) observed comparable findings in Brazil and Chile, emphasizing that dividends serve as an effective governance tool for mitigating agency conflicts in family-owned businesses. Based on these insights, the following hypothesis is proposed:

Hypothesis 1: Family ownership has a significant and positive influence on a firm's dividend policy, as higher family equity stakes encourage dividend distributions to align the interests of controlling and minority shareholders.

Family involvement and dividend policy

Family involvement in a business refers to the active participation of family members in managerial or governance roles, including positions such as executives, directors, or board members. This involvement often shapes the firm's strategic and financial decisions. Drawing from agency theory, family-controlled firms frequently prioritise the preservation of long-term control and the pursuit of non-financial family goals over immediate shareholder returns. As a consequence, these firms are more inclined to retain earnings for reinvestment in operations and sustainable growth rather than distribute them as dividends. Empirical evidence supports this tendency. Belda-Ruiz et al. (2021), in their study of Spanish family firms, observed a negative correlation between family involvement and dividend payouts. They explained that earnings in such firms were often redirected toward maintaining operations and achieving broader family-oriented objectives. This finding aligns with the work of Miller et al. (2022), who reported similar patterns in Italian family businesses, where high levels of family participation in management led to lower

dividend distributions. Based on this theoretical and empirical foundation, the following hypothesis is proposed:

Hypothesis 2: Family involvement exerts a significant negative influence on a firm's dividend policy.

Founder generation and dividend policy

The founder generation plays a crucial role in the initial leadership phase of a family business. Typically, founders are conservative in their financial approach, preferring to retain earnings to strengthen capital and support long-term business objectives. This contrasts with successor generations, who may opt to distribute higher dividends as a way to showcase financial stability and build trust within the market. Research by Miller et al. (2022) highlights that family firms led by founders generally pay lower dividends, aligning with the founders' focus on reinvestment. Similarly, Belda-Ruiz et al. (2021) confirmed that first-generation leaders prioritize reinvestment over dividend distribution. However, Ren and Liu (2024) found that in China, founder generations sometimes distribute higher dividends to boost investor confidence, particularly in markets where investor protection is limited. This suggests that the influence of the founder generation on dividend policy can vary depending on the economic and regulatory environment.

Hypothesis 3: The founder generation has a significant impact on dividend policy.

Research method

Data collection

This research centres on family-owned firms operating within Indonesia's non-cyclical consumer sector and listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period, employing secondary data sourced from audited annual reports and financial statements accessible via the IDX and official company websites. To ensure reliability and thoroughness, the study meticulously cross-verified each firm's family ownership structures, levels of managerial involvement,

and dividend payout information against detailed ownership disclosures and management composition records. This rigorous approach not only guarantees the accuracy and completeness of the data but also provides a solid foundation for analysing the unique characteristics and financial behaviours of family-owned enterprises in the Indonesian non-cyclical consumer market.

Population and sample

The study focuses on the population of family-owned firms within the IDX non-cyclical consumer sector over the period from 2019 to 2023. To ensure a representative sample, purposive sampling was employed, selecting firms that met specific criteria. These criteria included being consistently listed in the IDX non-cyclical consumer sector throughout the specified years, being identified as family-owned based on publicly disclosed ownership structures, and having complete data available on various aspects such as dividend policy, family ownership, family involvement, founder generation, firm size, and profitability. This rigorous selection process resulted in a final sample of 24 firms, which provided a comprehensive dataset of 120 firm-year observations for analysis.

Operational definition and variable measurement

To ensure conceptual clarity and empirical replicability, the study operationalises each construct using measures that are widely applied in the family business and dividend policy literature. Table 1 summarises the dependent variable, the focal explanatory variables, and the control variables, together with their definitions, measurement formulas, and measurement scales. Dividend policy is proxied by the dividend payout ratio, capturing the proportion of accounting earnings distributed to shareholders and reflecting the firm's distribution versus retention orientation. The three primary governance-related predictors are designed to distinguish ownership-based control from managerial influence and leadership stage. Family ownership is measured as the percentage of outstanding shares held by the founding family, representing the extent of equity control and the

family's cash-flow rights. Family involvement captures the intensity of family participation in governance and management, operationalised as the proportion of family members serving in board and or executive roles. Founder generation is measured as a binary indicator that differentiates founder-led firms from successor-led firms, thereby reflecting intergenerational variation in governance priorities and strategic horizons.

To account for firm-level heterogeneity that may confound the relationship between family governance and payout decisions, the

analysis incorporates two standard controls. Firm size is measured as the natural logarithm of total assets, representing scale and resource capacity, while profitability is proxied by return on assets, capturing operating performance relative to the firm's asset base. Collectively, these operational definitions provide a coherent measurement framework aligned with agency-based and signaling-based explanations of dividend behaviour, and they facilitate consistent estimation within the panel regression setting.

Table 1. Variables operationalization

Variable	Description	Measurement
Dividend Policy (Dependent variable -Y)		Dividend Payout Ratio (DPR) = Dividend / Net Income × 100%
Family Ownership (Independent variable - X1)	Percentage of shares held by founding family members.	Family shares / Total outstanding shares × 100%
Family Involvement (Independent variable - X2)	Extent of family participation in management or board positions.	Proportion of family members in board or executive roles (%)
Founder Generation (Independent variable - X3)	Founder generation stage of leadership.	Dummy variable: 1 = founder generation; 0 = successor generation
Firm Size (control variable - C1)	Scale of company operations.	Natural log of total assets
Profitability (Control variable - C2)	Firm's ability to generate profit relative to assets.	Return on Assets (ROA) = Net Income / Total Assets × 100%

Data Analysis Technique

Panel data regression was employed to analyze the dataset, effectively integrating both cross-sectional and time-series dimensions. This approach was chosen to address the heterogeneity that exists across different firms and over time, providing a more comprehensive understanding of the data. To determine the most suitable estimation model, three models were evaluated: the Common Effect Model, the Fixed Effect Model, and the Random Effect Model. The selection process involved conducting Chow, Hausman, and Lagrange Multiplier (LM) tests, which are statistical tests used to compare the models and assess their appropriateness. Based on the results of these tests, the Random Effect Model was deemed the most suitable for the dataset, indicating that it best captures the variability and relationships within the data.. The regression equation is: $Y = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 C1 + \beta_5 C2 + \varepsilon$

Where;

Y = Dividend Policy

X1 = Family Ownership

X2 = Family Involvement

X3 = Founder Generation

C1 = Firm Size

C2 = Profitability

ε = Error term

Results

Table 2 reports the estimated random-effects panel regression (pooled EGLS with cross-section random effects) for dividend policy using a balanced panel of 24 non-cyclical consumer family firms observed over 2019–2023 (120 firm-year observations). Based on the panel model selection procedure applied in this study, the random-effect specification is identified as the most appropriate model relative to the common (pooled) and fixed-effect alternatives. The model is jointly significant (F-statistic = 17.605; Prob(F) = 0.0000), indicating that the explanatory variables, taken together, provide statistically

meaningful explanatory power for variation in dividend policy. The goodness-of-fit statistics show a weighted R-squared of 0.4357 (adjusted R-squared = 0.4110), implying that approximately 41–44% of the variation in dividend policy is explained by the included governance and firm-level characteristics. The

variance decomposition further indicates that firm-specific unobserved heterogeneity is substantively relevant in this setting, with the cross-section component accounting for a considerable share of the residual variance ($\rho = 0.5078$).

Table 2. Panel data regression – Random effect.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.427360	0.424934	1.005709	0.3167
X1	0.593118	0.104331	5.684994	0.0000
X2	-0.278338	0.112144	-2.481958	0.0145
X3	-0.155601	0.060577	-2.568639	0.0115
C1	-0.015177	0.013458	-1.127663	0.2618
C2	1.050170	0.322739	3.253925	0.0015
Effects Specification			S.D.	Rho
Cross-section random			0.132267	0.5078
Idiosyncratic random			0.130222	0.4922
Weighted Statistics				
R-squared	0.435719	Mean dependent var	0.127164	
Adjusted R-squared	0.410969	S.D. dependent var	0.172611	
S.E. of regression	0.132476	Sum squared resid	2.000685	
F-statistic	17.60537	Durbin-Watson stat	1.811628	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.323962	Mean dependent var	0.315571	
Sum squared resid	4.105674	Durbin-Watson stat	0.882802	

With respect to the individual coefficients, family ownership (X1) exhibits a positive and highly significant association with dividend policy ($\beta = 0.5931$; $t = 5.6850$; $p = 0.0000$). This finding indicates that higher equity control by families is systematically linked to higher dividend payout decisions, holding other factors constant. In contrast, family involvement (X2) shows a negative and statistically significant relationship with dividend policy ($\beta = -0.2783$; $t = -2.4820$; $p = 0.0145$), suggesting that greater family participation in managerial and/or governance roles is associated with lower

dividend payouts, consistent with a stronger preference for earnings retention. Likewise, founder generation (X3) is negative and significant ($\beta = -0.1556$; $t = -2.5686$; $p = 0.0115$), implying that founder-led firms tend to distribute lower dividends than successor-led firms, *ceteris paribus*. Among the control variables, profitability (C2) has a positive and significant effect ($\beta = 1.0502$; $t = 3.2539$; $p = 0.0015$), indicating that more profitable firms are more likely to pay higher dividends. Conversely, firm size (C1) is negative but not statistically significant ($\beta = -0.0152$; $t =$

-1.1277; $p = 0.2618$), implying that firm scale does not independently explain dividend policy differences within this sample once governance attributes and profitability are controlled. The intercept is also not statistically significant ($p = 0.3167$), indicating no meaningful baseline effect in the absence of explanatory variables.

Discussion

Family ownership as a governance and credibility mechanism

The results show that family ownership is positively and significantly associated with dividend policy, supporting agency-based and signaling-based interpretations. In agency theory terms, concentrated family ownership may reduce classical owner–manager conflicts because controlling families possess both the incentives and the ability to monitor managerial actions. This alignment can strengthen the willingness to distribute cash through dividends as a disciplinary mechanism that limits discretionary free cash flow and curbs opportunistic spending. Importantly, in public family firms, a generous dividend policy may also serve to mitigate principal–principal concerns (i.e., controlling shareholder vs minority shareholder conflicts) by reassuring minority investors that controlling families share firm value through formal payout channels rather than extracting private benefits. This interpretation is consistent with evidence that dividends can be used as a governance device to reduce perceived agency risk and protect outside shareholders (Hasan et al., 2020; Briano-Turrent et al., 2020; Ayu & Viverita, 2020).

From the perspective of signaling theory, higher dividends under stronger family ownership can be interpreted as an intentional signal of financial strength and confidence in future cash flows, particularly in environments where information asymmetry may be substantial. For family owners whose reputational capital is often closely tied to the firm, dividend commitments can become a visible, market-facing instrument to cultivate credibility and investor trust. Taken together, the evidence suggests that when families exercise influence primarily through equity control, dividend distribution may be strategically used to communicate stability and

to reinforce legitimacy in the eyes of public investors (Hasan et al., 2020; Briano-Turrent et al., 2020; Ayu & Viverita, 2020).

Family involvement and the preference for retention, control, and socioemotional wealth

In contrast, the study finds that greater family involvement in management is associated with lower dividend payouts. This pattern highlights that family influence is not monolithic: ownership concentration and managerial involvement can generate different incentives and thus different financial policies. Where family members occupy executive and governance positions, dividend restraint may reflect a strategic emphasis on long-term investment, the use of internal financing, and the preservation of decision autonomy. This is consistent with arguments that actively involved families tend to prioritise long-term continuity, control preservation, and socioemotional wealth considerations, which can lead to a stronger preference for earnings retention over cash distribution (Belda-Ruiz et al., 2021; Miller et al., 2022; Kilincarslan, 2021).

This result also aligns with an agency-theoretic extension: when the family is not only the controlling owner but also the central managerial actor, the firm may become less reliant on dividends as a monitoring tool because the monitoring function is internalised. At the same time, the feasibility of retaining profits increases, as families with high managerial involvement possess greater capacity to enact reinvestment-oriented strategies. In practical terms, lower dividends under high family involvement can be interpreted as reflecting an internal capital allocation logic, retaining resources to finance growth, maintain resilience, or support long-horizon strategic initiatives, particularly relevant in consumer sectors where competitive positioning depends on branding, distribution capabilities, and operational scaling.

Accordingly, the evidence reinforces the view that dividend policy in family firms reflects a balancing act between external credibility needs (which may encourage dividends) and internal strategic priorities (which may encourage retention). When families are deeply embedded in

management, the balance appears to tilt toward retention, consistent with prior findings (Belda-Ruiz et al., 2021; Miller et al., 2022; Kilincarslan, 2021).

Founder generation leadership and generational differences in payout orientation

The negative relationship between founder generation leadership and dividend policy further strengthens the conclusion that governance and leadership stage shape payout decisions. Founder-led firms are often characterised by conservative financial policies and a strong orientation toward capital preservation. Lower dividends in founder-led firms may therefore reflect the founder's inclination to retain earnings to build buffers, maintain strategic flexibility, and protect the firm's continuity, particularly salient in periods of macroeconomic uncertainty and in markets where external funding can be costly or dilutive.

In contrast, successor generations may be more inclined toward higher dividends as part of a reputational strategy, using dividend stability to signal governance maturity and to build market confidence. This generational logic is consistent with research suggesting that founders may prefer reinvestment and retention, while successors may adopt more shareholder-facing payout policies to strengthen investor relationships and reinforce the firm's market standing (Miller et al., 2022; Belda-Ruiz et al., 2021; Ren & Liu, 2024). Notably, the broader literature also indicates that founder effects can vary by institutional context; for example, in some environments founders may increase dividends to strengthen external trust (Ren & Liu, 2024). In this study's setting, however, the evidence is more consistent with a continuity- and control-oriented founder posture, where retained earnings support long-term stability rather than short-term distribution.

Collectively, the findings indicate that leadership stage is not simply a demographic descriptor but a governance attribute with financial policy implications: founder-led governance tends to be associated with dividend restraint, while successor leadership may be comparatively more aligned with the use of dividends as a public signal and shareholder commitment mechanism (Miller et al., 2022; Belda-Ruiz et al., 2021; Ren & Liu, 2024).

Profitability and firm size as firm-level conditions

Beyond family governance variables, the study identifies profitability as positively associated with dividend policy. This is consistent with the foundational dividend argument that the ability to distribute dividends depends on earnings capacity: firms with stronger performance are better positioned to provide shareholder distributions while maintaining operational needs. Profitability therefore functions as a key economic condition enabling dividend payout decisions, and it remains a central driver even in the presence of strong family governance dynamics.

By contrast, firm size does not exhibit a significant relationship with dividend policy in this setting. This result aligns with Hasan et al. (2023), suggesting that scale alone may not determine dividend behaviour once profitability and governance structures are accounted for. However, it contrasts with Herdianta and Ardiati (2020), implying that the role of size may be contingent upon sectoral characteristics, sampling frame, or how size interacts with other constraints and governance mechanisms. In the non-cyclical consumer sector, where revenue streams may be relatively stable and firm strategies may emphasise operational consistency, size may not meaningfully differentiate dividend policy once financial performance and family governance structures are incorporated.

Integrative interpretation: dividend policy as the outcome of multi-dimensional family influence

The study highlights that dividend decisions in family-controlled firms are shaped by the interplay of three distinct family dimensions. Firstly, ownership concentration plays a significant role in encouraging dividend payouts. This is seen as a governance tool and a credibility signal that aligns the interests of the family and enhances investor trust. Research by Hasan et al. (2020), Briano-Turrent et al. (2020), and Ayu & Viverita (2020) supports this view, suggesting that concentrated ownership can lead to more frequent and substantial dividend distributions.

Secondly, managerial involvement influences the tendency to retain earnings. This

is driven by long-term investment priorities, the desire to preserve control within the family, and considerations of socioemotional wealth. Studies by Belda-Ruiz et al. (2021), Miller et al. (2022), and Kilincarslan (2021) indicate that when family members are actively involved in management, there is a preference for retaining earnings to support future growth and maintain family influence over the firm.

Thirdly, generational leadership affects dividend policy. Founder leaders often prioritize earnings retention to ensure the continuity and stability of the firm they have built. In contrast, successor generations may be more inclined to distribute dividends as a strategy to build market reputation and attract new investors. This shift in approach is noted in research by Miller et al. (2022), Belda-Ruiz et al. (2021), and Ren & Liu (2024).

Importantly, profitability serves as the enabling economic foundation for dividend payouts. It provides the necessary financial resources for distributing dividends to shareholders. While firm size is often considered a factor in dividend decisions, the study suggests that its impact is less significant once governance structures and firm performance are taken into account. This combined pattern reinforces the argument that dividend policy in family firms cannot be understood solely through financial capacity. It is equally influenced by governance structures and the long-term strategies of the family, which reflect their unique values and priorities.

Implications for investors and governance practice

These findings have several important implications for various stakeholders involved with family firms. For investors, it is crucial to recognize that the term “family firm” encompasses a wide range of structures and dynamics, and should not be considered a homogeneous category. Investors need to adjust their dividend expectations based on the specific nature of family influence within the firm. This influence can manifest in different ways, such as through significant equity ownership, which may prioritize long-term stability and growth, or through active managerial involvement, which might focus on more immediate operational goals.

Additionally, the distinction between founder-led and successor-led firms is significant, as founder-led firms may have different strategic priorities compared to those led by successors, who might bring new perspectives and approaches.

For boards of directors and the controlling families of these firms, the findings suggest that dividend policy can be strategically utilized as a governance tool. By implementing higher dividend payouts, firms can enhance their external credibility and provide reassurance to minority shareholders, thereby fostering trust and confidence in the firm’s management and financial health. On the other hand, if a firm is facing substantial investment demands or aims to maintain strategic autonomy, a retention-oriented dividend policy, which prioritizes reinvesting profits back into the business, may be more appropriate. In this context, dividend policy serves as a visible and measurable interface that reflects the balance between the internal priorities of the family and the external expectations of the market. This interplay highlights the strategic importance of dividend decisions in aligning family interests with broader market dynamics.

Conclusion

This study aimed to provide an in-depth explanation of how the core dimensions of family governance affect dividend policy in Indonesian non-cyclical consumer family firms. By employing panel-data estimation techniques and applying a careful model selection procedure, the analysis finds that the random-effects model represents the most reliable framework for drawing conclusions in this context. This indicates that firm-specific traits, those that remain constant over time yet are not directly captured by the model, play a critical role in shaping dividend decisions.

The results highlight that “family influence” does not operate as a single, uniform factor in determining payout behaviour. Family ownership appears to encourage higher dividend distributions, aligning with the argument that concentrated ownership strengthens monitoring, enhances managerial accountability, and signals a commitment to shareholder returns, thereby sustaining market confidence. In contrast, family involvement in

governance and day-to-day management tends to foster a preference for lower dividends. This suggests that when family members actively participate in running the firm, they often favour reinvesting earnings to maintain control, ensure strategic flexibility, and secure internal financing. Furthermore, firms directed by the founder generation adopt a more conservative approach to payouts compared to successor-led firms, implying that founders often prioritise reinvestment and long-term stability over immediate shareholder distribution.

Regarding firm-level characteristics, profitability emerges as a key enabling factor for paying dividends, underscoring the foundational role of operational performance in supporting payout decisions. However, firm size does not exert a significant effect once governance structures and performance measures are considered. This suggests that dividend behaviour in these family firms is driven more by ownership structure, management involvement, and leadership generation than by scale alone.

Overall, the study contributes to the literature by illustrating that dividend policy in Indonesian family firms is shaped by the interaction of ownership incentives, managerial control dynamics, and generational leadership preferences. This supports agency-based and signalling interpretations of dividend decisions. From a practical perspective, the findings suggest that investors and boards should carefully assess who holds ownership, who manages operations, and which generation leads the firm, as these factors carry distinct implications for whether profits are retained or distributed.

Looking ahead, future studies could broaden these insights by covering a wider range of industries, integrating additional financial and governance variables, such as leverage, liquidity, growth opportunities, and board independence, and adopting modelling frameworks that address potential endogeneity and the dynamic nature of dividend adjustments. Complementary qualitative research would also enrich understanding by exploring how family stakeholders negotiate the balance between reinvestment priorities, control preservation, and the expectations of shareholder returns.

Integrated interpretation and theoretical implications

Taken together, the results point to a nuanced governance–payout relationship: family ownership increases dividends, whereas family managerial involvement and founder leadership reduce dividends. This configuration underscores that “family influence” is not a single-dimensional construct. Equity ownership appears to be associated with dividend-enhancing incentives (monitoring, credibility, minority shareholder reassurance, and possibly family liquidity needs), while managerial involvement and founder-stage leadership appear to strengthen preferences for retention (control preservation, reinvestment priorities, and strategic discretion). Therefore, the evidence supports the argument that dividend policy in family firms reflects an interplay between (i) governance mechanisms that promote credibility and alignment, and (ii) governance mechanisms that enable retention and internal financing.

Practical implications

Firstly, investors need to differentiate between family firms based on the nature of their family involvement. Companies where family members hold significant ownership stakes are generally more inclined to offer higher payouts to shareholders. In contrast, firms with high levels of family managerial involvement tend to focus on retaining earnings to support long-term growth and stability. Additionally, when a company is founder-led, this often signals a stronger preference for earnings retention, reinforcing a more conservative approach to dividend distribution.

Secondly, family owners and boards can leverage these insights to develop formal dividend policies that strike a careful balance. They must consider the organisation’s need for reinvestment alongside the expectations of the market and minority shareholders. This is particularly crucial in firms where family members play an active role in management, as clear frameworks can enhance transparency, maintain market credibility, and reduce potential conflicts with other investors.

Finally, regulators and corporate governance advocates may interpret dividend policies as an effective signal of how

controlling families intend to uphold minority shareholder value. In markets where concerns about investor protection are prevalent, observing dividend behaviour offers a tangible way to assess the commitment of family firms to equitable treatment of all shareholders. By monitoring how dividends are declared and distributed, stakeholders can better understand whether family-controlled enterprises are fostering trust and aligning with broader governance standards..

Limitations and directions for future research

Although the results are statistically robust within the study design, several limitations suggest avenues for future research. First, the sample is limited to 24 firms in a single sector, which may constrain generalisability to other industries. Second, dividend policy may be influenced by additional firm characteristics not included in the present specification (e.g., leverage, liquidity, growth opportunities, cash holdings, and investment intensity). Third, potential endogeneity between governance structures and payout decisions may warrant alternative estimators (e.g., dynamic panel approaches) in subsequent work. Extending the timeframe, broadening sector coverage, and incorporating richer governance indicators could deepen understanding of how family control mechanisms translate into financial distribution choices in emerging-market settings

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