International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2025, 15(6), 194-199.

Is the Implementation of the Taxation Omnibus Law Important for Dividend Policy?

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Received: 01 May 2025 **Accepted:** 13 September 2025 **DOI:** https://doi.org/10.32479/ijefi.20647

ABSTRACT

This study investigates the impact of the implementation of Indonesia's Taxation Omnibus Law on corporate dividend policy, with a particular focus on the moderating role of institutional ownership. Utilizing panel data regression with a Random Effects Model approach, the analysis is conducted on 37 companies listed in the LQ-45 index over the period 2017-2024. The empirical findings reveal that the tax reform positively influences dividend yield yet has no significant effect on dividend per share (DPS). Moreover, the interaction between institutional ownership and tax reform weakens the impact of the reform on DPS. Theoretically, these results highlight that the effectiveness of tax policy reforms is contingent upon a firm's ownership structure. From a policy perspective, the findings underscore the need for targeted tax incentives that align with corporate governance characteristics to effectively influence dividend distribution decisions. The novelty of this research lies in its focus on the Taxation Omnibus Law and its implications for dividend payout behavior, while incorporating institutional ownership as a moderating variable—an area that has received limited attention in prior studies on tax reform and corporate financial policy.

Keywords: Tax Reform, Omnibus Law, Dividend Policy, Institutional Ownership
JEL Classifications: K2, L1, M2, M4

1. INTRODUCTION

In the field of financial accounting, dividend policy is an important indicator in financial reporting as it signals a company's profitability and prospects to stakeholders. Dividend payments can enhance firm value (Mubyarto and Khairiyani, 2019; Seth and Mahenthiran, 2022; Sholikhah, 2018). Changes in fiscal policy, particularly in the form of tax reforms, can influence dividend policy in terms of both value and timing of distribution. The tax reform introduced through the Job Creation Law (Omnibus Law) in 2020 has become a significant phenomenon. In this context, various factors can affect a company's dividend policy, including changes in tax regulations (Chay et al., 2023). The Job Creation Law eliminated the tax obligation on dividends for domestic corporate entities and set reinvestment conditions for individuals to benefit from tax exemption. The direct implication of this change is the reduction of double taxation on dividends, which theoretically could encourage companies to increase dividend distribution. However, the actual impact of this policy on dividend practices remains debated in the literature, especially in the context of developing countries such as Indonesia. Lubis and Dinarjito, (2025) explained that the dividend tax reform under the Job Creation Law aims to increase corporate dividends by reducing the burden of double taxation. This change is expected to encourage companies to increase dividend payouts to shareholders, ultimately enhancing the attractiveness of investment in Indonesia's capital market. One major and significant change is that shareholders in the form of Limited Liability Companies (Perseroan Terbatas or PT) are no longer subject to tax on received dividends. Previously, a PT shareholder would only be exempt from tax if it held at least 25% of the shares; otherwise, the dividend would be taxed and subject to a 15% withholding tax under Article 23 of the Income Tax Law. The enactment of this law has also faced criticism due to the perceived lack of adequate academic underpinning (Sudarma and Darmayasa, 2021).

This study aims to analyze the impact of the Omnibus Law implementation on the dividend policy of companies listed on the LQ-45 Index, taking into account the moderating effect of institutional ownership. Using data from the 2017 to 2024 period, this research seeks to provide valuable insights into how changes in tax policy influence dividend payment decisions and how this relationship is moderated by the institutional ownership structure of firms.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The clientele dividend theory posits that investors have systematic preferences when planning their dividend portfolios, influenced by taxation and transaction costs (Ismail et al., 2018). The tax preference theory was first introduced by (Elton and Gruber, 1970) and later refined by (Litzenberger and Ramaswamy, 1979). This theory suggests that investors tend to group themselves based on their tax preferences toward dividends. Their analysis gave rise to the idea that, since dividends are taxed more heavily than capital gains, high-tax-bracket investors will tend to prefer non-dividend-paying stocks. Changes in tax policy, such as the Omnibus Law, can alter investor preferences and, in turn, influence corporate decisions regarding dividend policy. Previous studies have shown that dividend tax reforms can significantly affect firms' dividend payout behavior. For instance, Chay et al., (2023) found that the dividend tax cut in the United States in 2003 significantly improved firms' investment efficiency, although it did not increase overall investment levels. The reduction of dividend tax rates can also be associated with agency theory (Meckling and Jensen, 1976) where lower tax rates reduce the cost of dividends for shareholders, thereby possibly encouraging them to push firms to pay higher dividends as a form of managerial control. In Indonesia, studies on dividend policy have revealed various interesting findings. Rahayu and Rusliati, (2019) analyzed the role of institutional investors in dividend policy in Indonesia and found a significant positive influence in the consumer goods sector during the 2008-2017 period. Meanwhile, (Duygun et al., 2018) examined the dividend policies of Indonesian listed companies, taking into account the role of family and state ownership as institutional investors. Their findings highlight the important role of ownership structure in dividend payment decisions.

Ownership structure also plays a critical role in dividend decisions. Institutional owners tend to have stronger monitoring interests over management and can influence profit allocation. Nurkhin et al. (2017) found that institutional ownership has a positive effect on profitability. However, studies examining the relationship between ownership structure and dividend policy in Indonesia remain limited, particularly those that address recent changes in tax policy. Institutional ownership as a moderating variable in the context of dividend policy has received growing attention in corporate finance literature. Balachandran et al. (2019) showed that insider ownership has a significant impact on dividend policy in an imputation tax environment. Institutional investors, due to their substantial shareholdings, can influence management decisions regarding dividend policy (Bataineh, 2021). In the context of tax reform, institutional ownership may either strengthen or weaken the effect of tax changes on dividend policy.

Puspaningsih and Pratiwi (2017) conducted a study on the mediating role of good corporate governance in the relationship between profitability, liquidity, leverage, and growth on dividend policy. Another researcher, Nuritomo et al. (2020) also examined the relationship between family ownership and tax avoidance by analyzing foreign related-party transactions and dividend payments in Indonesia. These studies highlight the complexity of interactions among ownership structure, taxation, and dividend policy in the Indonesian context. In the global context, (DeYoung and Jang, 2023) tested dividend tax theory by accounting for firm and industry heterogeneity, finding that responses to dividend tax cuts vary based on firm characteristics. Berzins et al. (2019) emphasized the role of agency conflicts in moderating the relationship between dividends and taxation, suggesting that ownership structures such as institutional ownership can influence the effect of tax changes on dividend policy. A limitation of previous studies using Indonesian firms as research objects is that they have not considered the impact of the elimination of income tax (PPh) on dividends received by investee companies.

Dividend taxation is one of the key factors influencing a company's dividend policy. Dividend tax theory explains how changes in tax policy can affect corporate decisions regarding dividend payments and ultimately impact firm value. There are two main perspectives within dividend tax theory: the old view and the new view (Lee and Park, 2023). The old view argues that dividend taxes reduce firm value and hinder investment, while the new view contends that dividend taxes affect the timing of dividend payments but do not influence firms' investment decisions. According to DeYoung and Jang (2023), corporate responses to dividend tax cuts vary depending on firm and industry characteristics. Their study found that loan growth was highest among publicly traded banks with relatively illiquid balance sheets and increased the least (or not at all) among non-publicly traded banks with relatively liquid balance sheets.

Ismail et al. (2018) examined the impact of dividend tax reform on dividend behavior in Malaysia. They found that during the transition period, both regular and special dividends increased significantly, consistent with the clientele theory. Firms with the best performance in terms of return on equity significantly increased regular dividends, while moderately performing firms significantly increased special dividends. Dividend tax reform can also influence a firm's investment efficiency. Chay et al. (2023) analyzed the impact of a major dividend tax cut on corporate investment efficiency by leveraging the 2003 U.S. personal tax reform. They found that the 2003 dividend tax cut significantly improved the investment efficiency of U.S.-listed firms, although it did not lead to an increase in the overall level of investment. Indonesia implemented the Job Creation Law (Law No. 11 (2020)) on November 2, 2020, which introduced significant changes to tax regulations, including dividend taxation. Lubis and Dinarjito (2025) conducted a study on dividend tax reform and corporate dividend behavior in Indonesia, finding that the dividend tax reform introduced by the Omnibus Law aims to increase corporate dividend payments. The reform includes the exemption of domestic dividends from income tax for domestic taxpayers, as well as a reduction in dividend tax rates for foreign taxpayers. A key aspect of this reform is that corporate shareholders (e.g., limited liability companies, foundations, cooperatives) are automatically exempt from income tax on dividends. However, for individual domestic shareholders, dividends must be reinvested for a minimum of three years to qualify for tax exemption; otherwise, they remain subject to a final income tax of 10% (Regulation of the Republic of Indonesia No.9, 2021).

Corporate dividend policy can be measured using various metrics, two of the most common being Dividend Per Share (DPS) and Dividend Yield. DPS measures the amount of dividends paid per outstanding share, while Dividend Yield reflects the percentage of dividends relative to the stock price. Ramachandran et al. (2024) investigated the impact of corporate income tax on two major financial decisions—dividend policy and capital structure. They found that taxes influence dividend payment decisions, with notable differences in dividend policies and DPS between Shariah-compliant and non-Shariah-compliant firms. Douidar and Sutton (2024) examined the impact of the repatriation tax provisions under the Tax Cuts and Jobs Act (TCJA) on corporate dividend policy, with a specific focus on Dividend Per Share (DPS). Their study indicated that changes in tax policy can influence corporate decisions regarding the amount of dividends paid per share. Regarding dividend yield, Baker et al. (2020) found in their research that domestic institutional investors prefer to invest in companies with high dividend yields, based on data from firms listed on the Shanghai Stock Exchange between 2000 and 2016.

Dividend tax reforms that lower dividend tax rates can theoretically increase dividend payouts by reducing the double taxation burden on dividends. In the current context, dividend income received by domestic institutional investors is entirely tax-exempt, providing greater motivation for majority shareholders—who are typically institutional investors—to initiate or increase dividend payouts. Ismail et al. (2018) found that dividend tax reform in Malaysia significantly increased dividend payments during the transition period. In Indonesia, the implementation of the Omnibus Law has altered the tax treatment of dividends, which is expected to increase the amount of dividends distributed. Lubis and Dinarjito (2025) found that the dividend tax reform introduced under the Job Creation Law was aimed at increasing corporate dividend payouts. Based on the theory and empirical evidence, the following hypotheses are proposed:

H_1: The implementation of the omnibus tax law has an effect on Dividend Per Share (DPS).

H_2: The implementation of the omnibus tax law has an effect on Dividend Yield.

Institutional ownership refers to the ownership of shares by institutional investors such as banks, insurance companies, pension funds, and other financial institutions. Institutional investors, with significant shareholdings and stronger monitoring capabilities, can influence corporate policies, including dividend policy. Institutional ownership is generally held by majority shareholders (Trafalgar and Africa, 2019). Previous studies have found the influence of institutional ownership on key business decisions, such as earnings management (Potharla et al., 2021), tax avoidance policy (Jiang et al., 2021), and corporate bankruptcy risk (Tarighi et al., 2022). With better monitoring capacity and substantial equity stakes, institutional investors can influence how firms respond to changes in tax policy. Baker et al. (2020) investigated the relationship between dividend payments and institutional ownership, considering dividend yield as one of the key measures of dividend policy. Based on the theory and empirical evidence, the following hypotheses are proposed:

H_3: Institutional ownership moderates the effect of the omnibus law on Dividend Per Share (DPS).

H_4: Institutional ownership moderates the effect of the omnibus law on Dividend Yield.

3. METHODOLOGY AND DATA

This study employs a quantitative method with a panel data approach. The population includes all companies listed in the LQ-45 index during the 2017-2024 period. Using purposive sampling a total of 37 companies were selected as the sample, based on the criteria of listing period and data availability. The unit of analysis is annual company observations, resulting in 296 observations. The rationale for selecting the LQ-45 Index is that it comprises 45 stocks with high liquidity and large market capitalization on the Indonesia Stock Exchange, making it an attractive research object to observe the impact of the Omnibus Law on dividend policy. Companies in this index generally have strong financial performance and relatively stable dividend payouts, allowing for clearer observation of changes in dividend policy following the implementation of the Omnibus Law. The LQ-45 Index has been launched since February 1997 and serves as a benchmark for investors in the Indonesian capital market. The use of LQ-45 has also been adopted by several researchers, including (Bassasan et al., 2024; Mahirun et al., 2024). The main analytical tool used is panel data regression with a random effects model approach. An interaction model is employed to evaluate the moderating role of institutional ownership. The best model selection is determined through the Chow test, Hausman test, and Lagrange Multiplier test. The regression equation is as follows:

$$DPS = \alpha_0 + \beta_1 POML_{it} + \beta_2 Ki_{it} + \beta_3 NPM_{it} + \beta_4 ROE_{it} + \beta_5 SIZE_{it} + e_{it} \quad (1)$$

$$DPS = \alpha_0 + \beta_1 POML_{it} + \beta_2 Ki_{it} + \beta_3 POML{*}Ki_{it} + \beta_4 NPM_{it} + \beta_5 ROE + \beta_6 SIZE_{it}\ ite_{it} \quad (2)$$

$$DY = \alpha_0 + \beta_1 POML_{it} + \beta_2 Ki_{it} + \beta_3 NPM_{it} + \beta_4 ROE_{it} + \beta_5 SIZE_{it} + e_{it} \quad (3)$$

$$DY = \alpha_0 + \beta_1 POML_{it} + \beta_2 Ki_{it} + \beta_3 POML{*}Ki_{it} + \beta_4 NPM_{it} + \beta_5 ROE + \beta_6 SIZE_{it}\ ite_{it} \quad (4)$$

The dependent variables are Dividend Per Share (DPS) and Dividend Yield (DY). The DPS variable is measured by dividing the total dividends distributed by the number of outstanding shares. Dividend yield is calculated by dividing the dividend per share by the stock price. The dividend yield ratio reflects the amount

Table 1: Descriptive Statistics and Correlation Matrix

Variable	Min	Max	Mean	S.D.	1	2	3	4	5	6	7
1 DPS	0.00	9076.00	288.13	874.74	1.00						
2 DY	0.00	0.72	0.03	0.06	0.58	1.00					
3 POML	0.00	1.00	0.50	0.50	0.08	0.17	1.00				
4 KI	0.04	0.99	0.52	0.27	-0.16	-0.08	0.02	1.00			
5 NPM	-2.31	0.86	0.12	0.23	0.11	0.25	0.17	-0.10	1.00		
6 ROE	-0.21	1.56	0.16	0.23	0.18	0.18	0.10	-0.24	0.26	1.00	
7 SIZE	27.22	35.42	31.80	1.52	0.02	0.06	0.14	-0.22	0.35	-0.09	1.00

of dividend received relative to the share price. The independent variable is the implementation of dividend tax reform, coded as a dummy variable (0 for the period 2017-2020 and 1 for 2021-2024). The moderating variable is institutional ownership, measured as the percentage of shares owned by institutions relative to total shares. Control variables include net profit margin, return on equity, and firm size (log of total assets). Net profit margin is calculated as net income after tax divided by sales. ROE is calculated as net income after tax divided by equity. The final control variable, firm size, is calculated using the natural logarithm of total assets.

4. RESULTS

Table 1 presents the descriptive statistics and correlation among variables. The average Dividend Per Share (DPS) is IDR 288.13 with a high standard deviation (SD = 874.74), while the average Dividend Yield (DY) is 3%. The Omnibus Law variable (POML) is positively correlated with DY (0.17). DPS and DY show a strong correlation (0.58). Institutional Ownership (IO) is negatively correlated with DPS (−0.16) and DY (−0.08). Return on Equity (ROE) and Net Profit Margin (NPM) are positively correlated with DY (0.18 and 0.25, respectively), while Firm Size (SIZE) shows weak correlation with the other variables. To determine the most appropriate model, the results of the Chow test, Hausman test, and Lagrange Multiplier (LM) test are presented in Table 2 below:

Table 2: Regression Model Testing

Type of Test	Model			
	(1a)	(1b)	(2a)	(2b)
Chow test	0.0000	0.0000	0.0000	0.0000
Hausman test	1.000	0.3149	0.2444	1.000
LM test	0.000	0.000	0.000	0.000
Result	REM	REM	REM	REM

Table 3: Regression Test Results

Variable	Model 1a	Model 1b	Model 2a	Model 2b
Constant	-1876.8180	-2106.0870	0.0588	0.05486
POML	63.7619	304.1935*	0.0174***	0.0282**
	0.4042	0.0543	0.0082	0.0441
KI	-181.3580	53.6730	-0.0039	0.0067
	0.4295	0.8398	0.8264	0.7593
NPM	-26.3295	36.0018	0.0362**	0.0386**
	0.9015	0.8671	0.0466	0.0373
ROE	1257.4950***	1304.1490***	0.0583**	0.0594**
	0.0006	0.0004	0.0253	0.0241
SIZE	63.6034	66.6207	-0.0013	-0.0013
	0.3339	0.3158	0.7588	0.7510
POML*KI	-	-471.9500*	-	-0.0209
		0.0805		0.3819
Observation	296	296	296	296
Selected Model	REM	REM	REM	REM
F Test	0.0021	0.0012	0.0000	0.0001
R Square	0.0621	0.0723	0.0849	0.0873
Adj R Square	0.0460	0.0531	0.0691	0.0684

Based on the testing of the four models conducted, the best-selected model is the Random Effects Model (REM). To test the hypotheses, the analysis will be carried out according to the best model for each case. In Model 1a, the Chow test result shows a significance value of 0.0000 or ≤ 0.05, indicating that the Fixed Effects Model (FEM) is initially selected. However, further testing using the Hausman test to determine the better model between FEM and REM yields a significance value of 1.0000 or > 0.05, leading to the selection of the REM. Subsequently, the Lagrange Multiplier (LM) test confirms the REM as the appropriate model with a significance value of 0.0000 or ≤ 0.05. Table 3 shows the regression test results. Based on Table 3, the resulting regression equation model is:

$$DPS = -1876.81 + 63.76POML - 181.35KI - 26.32NPM + 1257.49ROE + 63.60SIZE \quad (1a)$$

$$DPS = -2106.08 + 304.19POML + 53.67KI - 471.95POML*KI + 36.00NPM + 1304.14ROE + 66.62SIZE \quad (1b)$$

$$DY = 0.0588 + 0.0174POML - 0.0039KI - 0.0362NPM + 0.0583ROE + 0.0013SIZE \quad (2a)$$

$$DY = 0.0548 + 0.0282POML + 0.0067KI - 0.0209POML*KI + 0.0386NPM + 0.0594ROE - 0.0013SIZE \quad (2b)$$

All four regression equations show that the implementation of the Omnibus Law (POML) has a significant positive effect on Dividend Yield (DY) in Model 2a (coefficient 0.0174; sig 0.0062). However, POML does not significantly affect Dividend Per Share (DPS) in Model 1a (63.76; sig 0.4042). The interaction of POML*Institutional Ownership (KI) in Model 1b has a negative coefficient (−471.95; sig 0.0805), indicating that institutional ownership weakens the positive impact of the Omnibus Law on DPS. All models pass the F-test, indicating that all models used in this research are suitable for testing. The absence of an effect from the reduction or exemption of dividend tax contrasts with the findings of several previous studies. Jacob and Michaely, (2017) found that overall, taxes have a direct impact on dividend payment policies, but agency problems and shareholder conflicts significantly weaken this influence. Their study examined companies in Sweden from 2000 to 2009.

Another study by, Zagonel et al., (2018) which analyzed 30,134 observations in Brazil during the years 1986-2011, found that changes in tax regulations had a significant effect on dividend payments. Furthermore, companies did not follow a targeted dividend payout ratio; instead, dividend payments were strongly influenced by past dividend payments. On the other hand, the absence of an effect of tax policy on dividend policy is consistent with the findings of (Khan et al., 2017), n their study conducted in Pakistan, capital gains were previously not taxed, and a capital gains tax was introduced for the first time in July 2010. The researchers used both static and dynamic panel data models (modified moment method or generalized methods of moments) to analyze dividend payment behavior in a sample of 284 non-financial firms listed on the PSX during the period 2006-2014. The regression results showed that the capital gains tax had no effect on dividend payments.

Institutional ownership in this study does not have a partial effect on dividend policy in any of the models. The absence of an influence from institutional ownership is inconsistent with several previous findings.Balachandran et al., (2019b) ound that companies with higher foreign institutional ownership are less likely to pay dividends and tend to have lower payout ratios. This study highlights the importance of the imputation tax system on dividend policy. It used a dataset of 6,544 observations over the period 2002-2013. Another study by Mehdi et al., (2017) conducted on a sample of 362 non-financial companies listed in East Asian countries and Gulf Cooperation Council member countries, found a positive effect of institutional ownership on dividend policy (measured by dividend yield). ROE has a strong positive effect on both DPS and DY across all models, indicating that profitability drives dividend payments. The positive influence of profitability aligns with the findings of (Ningrum, 2017), who studied companies listed in the Indonesian Sharia Stock Index (ISSI) during 2013-2016. Further supporting evidence comes from (Dewasiri et al., 2019). Further supporting evidence comes from Dewasiri et al., (2019) who conducted a quantitative study using a sample of 191 companies in Sri Lanka with 1,337 observations. They applied a binary logistic regression model and found that past dividend payments, ROE, and investment opportunities are a set of common factors influencing both the likelihood and magnitude of dividend payments. However, this study contrasts with the findings of (Wahjudi, 2019) whose research on 90 manufacturing companies listed on the Indonesia Stock Exchange from 2011 to 2015 found that return on assets did not affect dividend policy. NPM is significantly positive only for DY (0.0362; sig 0.0466) and is not significant when dividend policy is measured using the Dividend Payout Ratio (DPR). The effect of NPM on dividend policy is consistent with the findings of (Abdul Karim et al., 2025) who found a positive effect of profitability on dividend policy in a study of 63 infrastructure sector companies between 2017 and 2023. Firm size (SIZE) is found to be insignificant. The absence of a firm size effect is supported by the findings of (Mehdi et al., 2017), but contradicts the results of (Rahayu and Rusliati, 2019). Other researchers, such as (Naibaho and Naurah, 2023). have found that firm size does have an influence on dividend policy. The lack of influence from SIZE may suggest that a company's size does not necessarily reflect the amount of dividends distributed to shareholders. In this study, institutional ownership (KI) acts as a pure moderator, meaning that it is not significant when examined independently, but becomes significant when interacted with the independent variable.

5. CONCLUSION

The results of the hypothesis testing show that the implementation of the Omnibus Law (POML) has a significant positive effect on Dividend Yield (coefficient 0.0174; sig 0.0082) but does not have a significant effect on Dividend Per Share (DPS) (coefficient 63.76; sig 0.4042). Institutional ownership is proven to moderate the effect of POML on dividend payments, both when measured by DPS and by dividend yield, thus hypotheses two and three are supported.

This research has important implications for regulators, company management, and investors. First, tax reform through the Omnibus Law has been proven effective in increasing dividend yield, indicating that the government should maintain dividend tax incentives to attract long-term investments. Second, the finding that institutional ownership weakens the positive impact of the Omnibus Law on dividend per share (DPS) indicates a need for regulations that promote transparency in dividend policy, especially for companies with dominant institutional ownership. Institutional investors are advised to balance their dividend preferences with reinvestment strategies to maximize shareholder value. Theoretically, this study enriches the dividend clientele theory by demonstrating that institutional ownership structure can alter corporate responses to tax policy changes. These implications are relevant to the development of dividend policy models in emerging markets such as Indonesia.

This study has several limitations that must be acknowledged. First, the relatively short analysis period (2017-2024) limits the understanding of the long-term effects of the Omnibus Law, considering that the tax reform has only been in effect since late 2020. Second, the study focuses only on companies in the LQ-45 Index, which may reduce the representativeness of the findings for companies with lower liquidity or market capitalization outside the index. Third, control variables such as NPM, ROE, and firm size do not include external factors (e.g., inflation or interest rates) that may influence dividend policy. Finally, institutional ownership is not differentiated by type (foreign vs. domestic), so the specific impact of each category has not been identified.

For future research, it is recommended to: (1) extend the analysis period to evaluate the long-term stability of the Omnibus Law's effects; (2) diversify the sample by including companies outside the LQ-45 Index to enhance external validity; (3) integrate macroeconomic variables or internal corporate policies (such as debt structure) as additional control variables to enrich the analysis; and (4) conduct an in-depth analysis of institutional ownership types (e.g., foreign, domestic, or pension funds) to understand the variation in their effects. These recommendations are expected to broaden insights into the interaction between tax policy, ownership structure, and dividend dynamics in Indonesia.

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