# CONTEMPORARY RESEARCH ON BUSINESS AND MANAGEMENT

Edited by
Siska Noviaristanti



CRC Press
Taylor & Francis Group

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PROCEEDINGS OF THE INTERNATIONAL SEMINAR OF CONTEMPORARY RESEARCH ON BUSINESS AND MANAGEMENT (ISCRBM 2019), 27–29 NOVEMBER, 2019, JAKARTA, INDONESIA

# Contemporary Research on Business and Management

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CRC Press
Taylor & Francis Group
Boca Raton London New York

CRC Press is an imprint of the
Taylor & Francis Group, an **Informa** business

A BALKEMA BOOK

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*Typeset by Integra Software Services Pvt. Ltd., Pondicherry, India*



*Library of Congress Cataloging-in-Publication Data*

Applied for

Published by: CRC Press/Balkema
Schipholweg 107C, 2316XC Leiden, The Netherlands
e-mail: Pub.NL@taylorandfrancis.com
www.routledge.com – www.taylorandfrancis.com

ISBN: 978-0-367-47166-8 (Hbk)
ISBN: 978-1-003-03598-5 (eBook)
DOI: 10.1201/9781003035985
https://doi.org/10.1201/9781003035985

*Contemporary Research on Business and Management – Noviaristanti (ed.)*
*© 2021 Taylor & Francis Group, London, ISBN 978-0-367-47166-8*

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# Preface

We are pleased to introduce the proceedings of the Third International Seminar of Contemporary Research on Business and Management (ISCRBM). This is an annual event of the Indonesian Master of Management Program Alliance (APMMI), held in the Master of Management Program, Indonesia University, Jakarta on November 27-29, 2019. Building Indonesian Talent Management was the conference theme, and three distinguished speakers were invited from professional and academic circles to share their knowledge and experience. The major goal of this event is as an opportunity to meet and develop networking between APMMI's members also to increase the quality and quantity of research publication in the management and business area.

Over 136 papers were presented during the conference and 84 selected papers were published in these proceedings. Papers were mostly authored by APMMI students and faculty members on various topics in operation management, marketing management, human resource management, finance, strategic management, and entrepreneurship. Another 7 authors came from outside Indonesia: Malaysia, Taiwan, Timor Leste, The Netherlands, and Switzerland.

Finally, we would like to record our thanks to the conference committee for their work, APMMI members who actively contributed to this event, and the Master of Management Program Indonesia University that nicely hosted this year conference. Without their support, the conference could not have been the success that it was. We also acknowledge the authors for their contribution. Hopefully, the success of the conference will continue next year when it is to be held in Surabaya.

Rofikoh Rohim, Ph.D

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# The effect of corporate governance and financial factors on dividend payment

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ABSTRACT: This study aims to determine the factors that influence dividend payment policy. The study used data from all companies listed on the Indonesia Stock Exchange for five years and dividends for a minimum of three periods. This research used a panel data. The results showed that foreign ownership had a positive effect on dividend payment policy, domestic ownership, independent commissioners, while company growth had a negative effect on dividend payments. Meanwhile, the variables of board size, profitability, firm age, debt policy, and firm size did not affect dividends.

## 1 INTRODUCTION

Research on dividends shows two very different views of firm value. Baker and Weigand (2015) suggested that dividends are not relevant to firm value, and there is a possibility of value-destroying. Another perspective put forward by Baker and Weigand (2015) stated that dividends are an essential determinant in the value of a business entity. While Baker et al. (2011) said, "Despite a voluminous amount of research, we still do not have all the answers to the dividend puzzle".

Another theory by Najjar and Kilincarlsan (2016) said there is a positive effect of Corporate Governance on dividend payments. The theory indeed stated a positive relationship between the spread of ownership and dividend payments in developing countries. Najjar and Kilincarlsan's (2016) research results showed that foreign and state ownership have low involvement in dividend payments, while other ownership variables such as family involvement, domestic financial institutions, and minority shareholders do not affect the probability of dividend payments. Another study by Roy (2015) proposed that Corporate Governance variables, namely board size and the proportion of independent directors, have a significant impact on the dividend policy of business entities. The proportion of cash and cash equivalents to total assets used as a measure of business entity liquidity influences dividend policy and growth opportunities also have a positive effect on business dividend policy. Sigo and Selvam (2013) conducted a study to examine information on dividend policy from technology business entities listed on the Bombay Stock Exchange (BSE) with the result showed that factors of corporate governance and firm characteristics influence corporate business dividend policies. Firm size and profitability are the two factors that allow business entities to pay dividends.

Setiawan and Phua (2013), who conducted a study on Corporate Governance (CG) and dividend policy in Indonesia, proposed that the structure and procedures in the board of commissioners and the lack of disclosure practices have a negative influence on dividend policy. From the fundamental factor test, it was found that growth and profitability have a positive effect on dividend policy, while firm size did not. Meanwhile, Murhadi and Wijaya (2011), in their research, showed that only the life cycle stages of a business entity and profitability affected the dividend policy.

Based on the background as mentioned above, a research question was formulated: Is there any influence between board size, foreign ownership, domestic institutional ownership, independent commissioner, profitability, growth, debt policy, firm age, and firm size on dividend payments?

## 2 RESEARCH METHODS

This study used all business entities in all sectors listed on the Indonesia Stock Exchange (IDX). The dependent variable in this study is dividends measured by dividing dividends per share by the current stock price. The independent variable of Board size in this study was measured by the number of boards of commissioners in a business entity. Foreign ownership was measured by the percentage of shares of a business entity i owned by a foreign business entity, or a foreign financial institution, or a foreign citizen in t period. Domestic institutional ownership was measured using the amount of the percentage of shares of a business entity i owned by a legal entity or a financial institution in t period. Independent commissioners were measured by comparing the total number of independent commissioners to the total board of commissioners. Profitability was measured using Return On Assets (ROA). Growth was measured using total assets this year, minus total assets of the previous year divided by total assets of the previous year. Debt policy was measured using a debt ratio (DR). Firm age is the length of a business entity standing until the time of research. Firm size was measured using the logarithm of total assets.

## 3 RESULTS AND DISCUSSION

After carrying out the classical assumption test and the Chow test as well as the Haussmann test, the research model to be analyzed using the fixed-effect model is shown in Table 1.

In Table 1, it can be seen that the coefficient of the board size variable shows insignificant negative results, while the initial hypothesis was that the board size has a positive effect on dividend payments. The effect is insignificant because the board size in this study was measured using the number of commissioners, where the function of the commissioner is as a supervisor of a business entity. Those responsible for determining the amount of the dividend are directors related to the Residual Dividend Theory, a theory that states dividends are paid if there are residual earnings after the business entity meets its investment needs. This insignificant negative result is consistent with the results of Roy's study (2015), which stated that a negative board size is not significant to the Dividend Yield Ratio (DYR).

The foreign ownership variable is significantly positive; while the initial hypothesis was that the foreign ownership variable has a negative effect on dividend payments. The positive influence of foreign ownership variable on dividend payments can be explained through research

Table 1. Results.

| Dependent Variable: Dividend Yield | | | |
|---|---|---|---|
| Independent Variables | Coefficient | Probability | Hypothesis |
| Board Size (BS) | -0.0036 | 0.1113 | Positive |
| Foreign Ownership (Foreign) | 0.0256** | 0.0497 | Negative |
| Domestic Institutional Ownership (Dom) | -0.0248* | 0.0656 | Positive |
| Independent Commissioner (Ind) | -0.1005*** | 0.0000 | Negative |
| Profitability (Prof) | -0.0429 | 0.1538 | Positive |
| Growth (Gwth) | -0.0014* | 0.0601 | Negative |
| Debt Policy (Debt) | 0.0272 | 0.1115 | Negative |
| Firm Age (Age) | -0.0004 | 0.7927 | Positive |
| Firm Size (Size) | -0.0083 | 0.6292 | Positive |

Note: *: significant at 10%, **: significant at 5%, ***: significant at 1%

by Wiranata and Nugrahanti (2013), which stated that the increasing number of foreign parties investing their shares in a business entity would improve the performance of the business entity invested in its shares. This happens because foreign parties that invest their shares have a good management system, technology and innovation, expertise, and marketing that can bring positive influence to business entities. In a business entity with higher foreign ownership, the foreign party as the majority shareholder will commonly appoint foreigners to serve as the board of commissioners or the board of directors; thus the alignment between the objectives to maximize the performance of the business entity will be achieved because of similar principle between foreign shareholders and management that is also occupied by the foreigners as part of the management of a business entity. Thus, the better performance of business entities will have a positive influence on the amount of dividends paid.

The domestic institutional ownership variable is significantly negative; while the initial hypothesis was that the variable of domestic institutional ownership has a positive effect on dividend payments. The negative influence of domestic institutional ownership variable on dividend payments is related to the Tax Preference Theory, a theory that states dividends received by shareholders will be taxed higher than the tax on capital gains; thus, this can make investors prefer profits earned by business entities retained for investments that will produce capital gains in the future rather than paid in the form of dividends for tax reasons. This theory indeed states that a low dividend payout will maximize the value of a business entity, and shareholders prefer this. This study is consistent with Abdesalam's (2008) and Ginting (2015) research, which scrutinized that domestic institutional ownership investors prefer capital gains if the current tax on dividend payments is higher than the tax for capital gains. Furthermore, taxes on dividend income are paid when dividends are received, while tax payments on capital gains are postponed until the shares are sold. Therefore, the effective tax rate on dividend income is greater than the tax on capital gains. This causes investors to prefer retained earnings used for investment. Moreover, it can be concluded that the higher the level of domestic institutional ownership, the lower the dividends paid to shareholders will be. Domestic institutional ownership variable that shows significant negative results is consistent with the results of research by Najjar and Kilincarslan (2016), which proposed that domestic institutional ownership is significantly negative for the DPR and DYIELD.

The independent commissioner variable, which shows a significant negative result, is in line with the initial hypothesis. The negative influence of the independent commissioner variable is in accordance with the results of Murhadi and Wijaya's (2011) research, which showed that the board of commissioners from independent parties could be more effective in conducting supervision. Thus, the dividend function as a signal will decrease. As a result, dividends will also decline.

The negative profitability variable is not significant; while the initial hypothesis was that the profitability variable has a positive effect on dividend payments. The insignificant influence can be explained by scientific research and Asandimitra (2014), which showed that most business entities on the Stock Exchange have long been established and are in the maturity stage so that profitability is not considered in decision making in dividend payments. Business entities tend to prioritize the source of funds obtained used for the development of business entities so that business entities do not pay attention to dividend payments. This result is consistent with the research of Lopolusi (2013) explaining that profitability does not always affect dividend payments, especially in business entities that have long been established and are in the maturity stage, these business entities already have many profit reserves that can be used either for reinvested or distributed as dividends. This causes profitability not to affect dividend payments.

The growth variable, which shows a significant negative result, is in accordance with the initial hypothesis expectation. The negative effect of the growth variable is consistent with the results of Murhadi and Wijaya's (2011) research that said business entities with higher growth would require a significant source of funding in order to finance their activities. Thus, the business entity tends to hold its profits to finance the development of the business entity's activities rather than distribute them in the form of dividends.

The positive debt policy variable is not significant. The insignificant influence can be explained by using the Pecking Order Theory, where this theory states that in order to cover the investment needs, internal funding is a priority, so the size of the debt does not affect the amount of dividends because the business entity prioritizes internal. This result is consistent with the results of Saptari's research (2016), which stated that a business entity should not use too much debt because it will affect the capital structure of the business entity.

The firm age variable has no effect on dividend payment. The effect is not significant because the performance of a business entity does not depend on how long the business entity has been established. Newly established business entities can adapt and learn from the experience of long-standing business entities in both financial and operational strategies. Long-standing business entities may prefer to stay in the safe phase and continue to develop their business in terms of research and development. Therefore, it can be concluded that the age of the business entity does not affect the performance of the business entity.

The firm size variable does not affect dividend payment. The effect is not significant because a business entity that has an enormous asset may not necessarily have an excellent performance, as explained in research by Nuringsih (2005) that said a business entity with a significant asset tends to use debt or shares when doing expansion. Under these conditions, the business entity requires a high cost in financing its activities so that if the business entity pays a dividend, it will certainly add to its obligations. Therefore, it can be concluded that in determining the dividend payment, the business entity does not pay too much attention to its total assets.

## 4 CONCLUSION

Based on the test results, it was obtained that domestic institutional ownership and growth variables have a significant effect on the direction of the negative relationship to dividend payments. While the foreign ownership variable has a significant effect on the direction of a positive relationship, and the independent commissioner variable has a significant effect on the direction of a negative relationship. Additionally, variables of board size, profitability, firm age, debt policy, and firm size do not affect dividends.

This research can be used as a recommendation for further research. This study has limitations, namely the number of observations that are only on the Indonesia Stock Exchange, and variables that do not cover all. For further research, it is expected to examine a broader scope such as all business entities in ASEAN as well as add other business entity factors that have not been examined in this study, such as audit committee, family ownership, audit type, and state ownership.



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