ANALYSIS OF DETERMINANT FACTORS TOWARDS DIVIDEND AT MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

Desmiza, Universitas Nasional Pasim
Sulaeman Rahman Nidar, Universitas Padjadjaran
Dian Masyita, Universitas Padjadjaran
Mokhamad Anwar, Universitas Padjadjaran

ABSTRACT

Dividends are part of the profits distributed to investors. Many factors influence dividend policy, including corporate governance. The purpose of this study was to determine the effect of corporate governance proxied by Institutional Ownership, Board of Independent and Board Size and the proxied dividend policy with Dividend Payout Ratio. The data used in this research are secondary data, namely data that have been collected by other parties, including the Indonesian Capital Market Directory and the Annual Report issued and published by the Indonesia Stock Exchange. The method used is descriptive and verification method with multiple panel data regression test tools. While the sample used in this study is a manufacturing company listing on the Indonesia Stock Exchange 2009-2016 period as many as 189 units of observation. The results showed that Institutional Ownership and Board of Independent had a positive and significant effect on the Dividend Payout Ratio, while the Board of Size had a negative but insignificant effect on the Dividend Payout Ratio.

Keywords: Dividend Payout Ratio, Institutional Ownership, Board of Independent, Board of Size.

INTRODUCTION

In order to meet the operational needs of companies, companies can obtain funds through money markets and capital markets. Through the capital market the company can obtain funds by selling shares and bonds. For investors, capital market is a means to invest in the hope of getting a profit. Gitman (2015), states that investment in the form of shares will provide benefits in the form of dividends and capital gains. Information that is relevant to the conditions of the capital market is something that capital market players need to look for in an effort to make investment decisions. One of the information needed in the capital market is dividend policy. Announcement of dividends contains information on company profits in the future. For managers, dividends can be used as a positive signal to the company's prospects to the market, while for investors; dividends are one of the expected returns.

In this research period, the number of manufacturing companies listing on the Indonesia Stock Exchange was approximately 145 companies, out of which there were average profits of 120 companies. Among a number of companies that make a profit, only 33% of them distribute dividends, while the remaining 67% earn profits not to distribute dividends.

Effective corporate supervision mechanisms in an effort to make managers act in the interests of shareholders are the most important concern in the corporate governance area (Allen & Gale, 2001)**.** The corporate governance structure is expected to be able to overcome information asymmetry in order to balance interests between shareholders and managers. Corporate Governance is a control mechanism to regulate and manage a company that aims to

improve the prosperity and accountability of the company, which in the end will realize shareholders value (Monks & Minow, 2001).

Various issues related to corporate governance became popular in Indonesia at the end of the 20th century, following the economic crisis in mid-1997. Global corporate governance issues revived after the collapse of several world business giants, such as Enron and WorldCom in the US, and the tragedy of the fall of HIH and One - Tel in Australia at the beginning of the 21st century. In its development, the issue of governance was increasingly popular after multilateral financial institutions, such as the World Bank and the Asian Development Bank (ADB), revealed that the financial crisis that hit various countries in Asia was partly due to the poor implementation of corporate governance. Indonesia was claimed to be the country that suffered the most and at the latest rose from the impact caused by the crisis (ADB, 2000).

In Indonesia, especially for the first decade of the 21st century, the implementation of corporate governance has not shown significant progress. This is reflected in the results of an annual survey conducted by Credit Lyonnais Securities Asia (CLSA) related to the evaluation of the implementation of corporate governance in various countries in the Asia Pacific. The Asian Corporate Governance Association/ACGA (2015), stated that among the 11 Asia Pacific countries, Indonesia's position in implementing corporate governance based on the "*CG Watch Market Score*" indicator in 2014 was in the last position. Only in 2010 Indonesia's position was ranked one higher than the Philippines, but experienced a significant decline in the 2012 and 2014 survey periods. Although in 2014 there was a two-point increase compared to the 2012 survey, Indonesia's position remained unchanged. Although there are three other countries experiencing a decrease in scores, and two countries have a fixed score, but the position of various countries is still better than Indonesia.

Many theories put forward by experts can explain the factors that encourage companies to distribute dividends, one of the theories that can explain dividend policy is agency theory. This theory emphasizes the importance of mechanisms that are able to balance the interests of management and shareholders. The application of corporate governance structures is the right step to realize this balance and is believed to be able to reduce agency costs so as to increase returns on investment in the form of dividends (Al Shabibi et al., 2011).

Abdelsalam et al. (2008) conducted a study on the effect of corporate governance on dividend policy. The results showed that corporate governance proxied by institutional ownership had a positive effect on dividend policy, while the composition of the board of commissioners both the size and independence of the board of commissioners did not affect dividend policy.

The study conducted by Obradovich & Gill (2013), also stated that the number of board of commissioners, and CEO duality, had a positive effect, while institutional ownership had a negative influence on dividend policy. Another study examined the relationship between corporate governance and dividend policies in South Africa, Kenya, Ghana, and Nigeria. In Kenya and Ghana, the results showed that the size of the board of commissioners and the composition of the board of commissioners had a positive effect on dividend policy. While in South Africa and Kenya, institutional ownership had a positive effect on dividend policy, but in Nigeria corporate governance practiced negative effect on dividend policy (Abor & Fiador, 2013). Elmagrhi et al. (2017) conducted a study and found that the board size had a positive and significant effect on the dividend pay-out ratio. On the contrary, the board of independent did not have a significant effect on dividend pay-out ratio.

Due to empirical gap that in Indonesia, many companies receive profit yet do not share dividend, and that leads to last position between eleven of Asia Pacific countries in terms of corporate governance application. Also because of lack of researches about corporate governance impact to dividend policy and no empirical research about institutional ownership,

board of independent, and board of size in one paper. Thus we do the research to cover the gap.

This study aims to examine the structure of corporate governance especially with regard to its function in influencing dividend policy. In this study, the proxy used for corporate governance variables is institutional ownership (INSOWN), board of independent (BOIND), and board of size (BOS), while dividend policy is proxied by dividend pay-out ratio (DPR). Therefore, the formulation of the problem in this study is as follows:

1. Does institutional ownership affect the dividend pay-out ratio?

2. Does the board of independent affect the dividend pay-out ratio?

3. Does the board of size affect the dividend pay-out ratio?

LITERATURE REVIEW

Manufacturing Industry

Hendy (2016) reveals that the development of the manufacturing industry in a country can be used as a parameter of industrial development nationally; therefore, it needs clear direction and policies to develop the industry. This is because the manufacturing industry plays a key role in economic development as an engine of development and has several advantages over other sectors, such as a very large capital capitalization value, capable of absorbing large workforce, as well as the ability to create added value from each processed input.

Dividend Pay-out Ratio

Dividend policy is an inseparable part of the funding decision. The company's financial management involves solving important decisions that must be taken, including investment decisions, funding, and dividend policies (Gitman, 2015). So dividend policy is a management decision to determine whether to pay returns to shareholders or to save them into retained earnings taking into account the interests of investors in the current dividends and growth of the company in the future. Researchers such as Jiraporn & Ning (2006), Kowalewski et al. (2007), use Dividend Pay-out Ratio and Dividend Yield to measure dividend policy.

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Institutional Ownership

Institutional ownership is the percentage of the number of shares held by the institution of all company shares (Nuryaman, 2013). Jensen & Meckling (1976) argued that institutional ownership had a very important role in minimizing the agency conflict between managers and shareholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in any decision taken by the manager. This is due to institutional investors involved in strategic decision making, so it is not easy to believe the actions of earnings manipulation.

Board of Independent

Council independent commissioners are commissioners who come from outside the company that does not depend on the manager, are not a member of management and majority shareholders, officers or persons associated directly or indirectly with the majority shareholder. Their job is to oversee the management of the company to protect the minority shareholders (Chen & Zhang, 2012). Independent commissioners who come from outside the company are expected to be neutral to any policy made by the directors.

Board of Size

Jensen (1993), is the first to conclude that the Board of Size is part of corporate governance and explains that board of commissioners is an important corporate governance mechanism. Mizruchi (1983) explained that the board of commissioners is the controller in the company and is responsible for determining the success of the company. In the resources perspective, dependence on the number of large board of commissioners benefits the company (Alexander et al., 1993). The higher the company's relationship with external parties, the higher the need for the Board of Size. Ntim et al. (2015) state that a larger board of size has a lot of expertise and experience, so it can minimize agency problems and improve company performance including dividend payments.

THEORETICAL FRAMEWORK

Relationship between Institutional Ownership and Dividend Pay-out Ratio

Institutional ownership has an effect on dividend payments, because the higher institutional ownership, the stronger the external control of the company, so that it can encourage managers to increase dividend payments. Thus, it will encourage institutional investors to increase their ownership in order to obtain higher dividends in the next period (Shleifer & Vishny, 1986). Allen et al. (1999), state that institutional investors prefer stocks that pay dividends regularly.

Han et al. (1999); Crutchley & Hansen (1989), conducted a study to examine the relationship between institutional ownership and dividend policy. They concluded that there was a positive relationship between dividend payments and institutional ownership. The study conducted by Imam & Malik (2007), also found evidence that companies with high institutional ownership and concentrated ownership paid a high dividend pay-out. The same results were also stated by Abdelsalam et al. (2008), Abor & Fiador (2013); Amba (2013), that institutional ownership had a positive effect on the dividend pay-out ratio.

Relationship between Board of Independent and Dividend Pay-out Ratio

Fama & Jensen (1983) state that non-executive directors (board of independent) are able to act as mediators in disputes that occur between managers, oversee policies, and provide advice to management. The independent board is a monitoring function in order to create a company that is good corporate governance. Jiraporn & Ning (2006) state that the strength of the board of commissioners is more indicated by the composition of the board of commissioners who are independent.

Researchers conducted by Shleifer & Vishny (1986); Mehar (2006); Kowalewski, et al. (2007), provide evidence that companies which practice corporate governance-is high then the rights of shareholders is strong so as dividend pay-out is higher. Data state that there is a positive relationship between the board of independent and board of size with dividend pay-

out. Other studies also reveal the same thing that the board of independent can influence dividend payments positively (Obradovich & Gill, 2013; Abor & Fiador, 2013).

Relationship between Board of Size and Dividend Pay-out Ratio

Agency theory states that the board size, which is one of the variables that predicts if corporate governance can prevent the tendency of managers to behave in an opportunistic, by distributing free cash flow to shareholders as cash dividends (Eisenhardt, 1989).

Research conducted by Abor & Fiador (2013) using 22 listing companies in Ghana showed that the size and composition of the board of commissioners had a positive effect on dividend policy. The same results were also found by Obradovich & Gill (2013).

Research Model
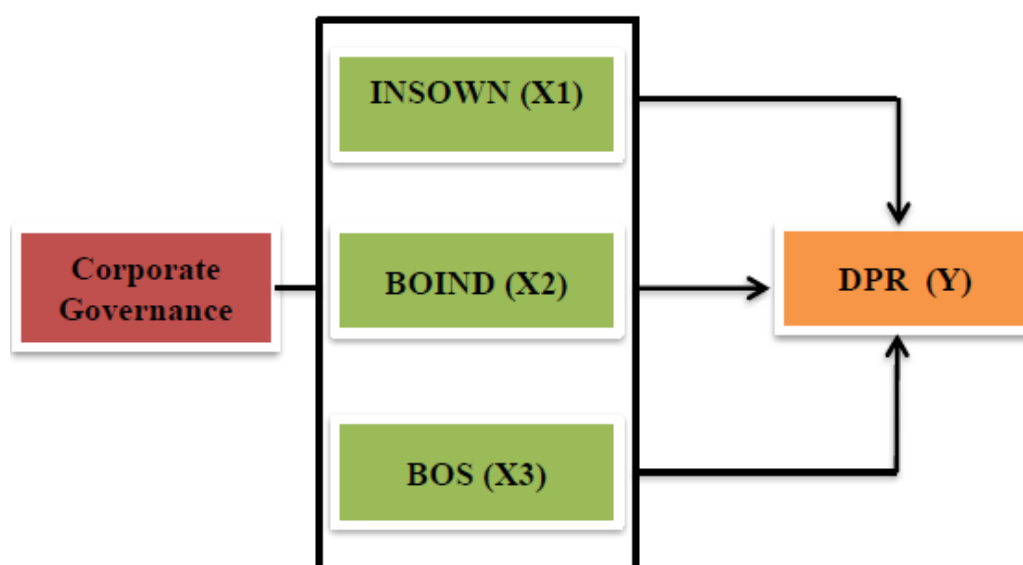
Source: *Adjusted by Researchers, 2018*

FIGURE 1
RESEARCH MODEL

The figure above shows that Institutional Ownership (INSOWN) as X_1, Board of Indent (BOIND) as X_2, and Board of size (BOS) as X_3, which is an independent variable. While Y is the Dividend Payout Ratio (DPR) which is the dependent variable.

Hypothesis

According to Sekaran & Bogie (2013), hypothesis is a temporary answer from the problem statement. It is said temporarily because the answers given are only based on relevant theories. With this research, it is expected to solve the problem of dividend policy which is an expectation for investors. Based on the description above, there are 3 hypotheses.

H1: There is a positive influence of institutional ownership on predicting dividend payout ratio.

H2: There is a positive influence of board of independent on predicting dividend payout ratio.

H3: There is a positive influence of board of size on predicting dividend payout ratio.

RESEARCH DESIGN

Research Methods

This research is descriptive and verification. Descriptive research is a study conducted to determine the independent variables, which aims to obtain an overview and information on the influence of independent variables on the dependent variable. While verification research is research that aims to find out the relationship between variables with one another through testing hypotheses using statistical calculations (Zikmund, 2010). Data analysis is quantitative/statistical in order to test the hypotheses that have been determined (Sekaran & Bogie, 2013). The data used are secondary data, namely data that have been collected by other parties, namely the Indonesian Capital Market Directory and the Annual Report issued and published by the Indonesia Stock Exchange.

Population and Sample

Population is a generalization area consisting of objects/subjects that have certain qualities and characteristics. The sample is part of the number and characteristics of the population. While the sampling technique used is non-probability sampling, namely purposive sampling (Sekaran & Bogie, 2013). The population in this study are all manufacturing companies that meet the criteria in sample selection. The research sample is companies that distribute dividends, have institutional ownership data, board of independent and board of size starting from the period 2009-2016 which consists of 94 companies and 189 observation units.

Multiple Regression Analysis

The design of the analysis in this study is to combine time series and cross section data called pooled data. The analytical technique used to test the research hypothesis is multiple regression analysis, because this technique can be used as a prediction model for one variable dependent on several independent variables. The results of this analysis are in the form of coefficients for each independent variable; this coefficient is obtained by predicting the value of the dependent variable with an equation. To see the relationship between independent and dependent variables can be explained through the following research model:

$$Yit = \alpha + \beta_1 INSOWNit + \beta_2 BOINDit + \beta_3 BOSit + \varepsilon it$$

RESULTS AND DISCUSSION

Descriptive Statistics

The purpose of descriptive statistical analysis is to describe the variables involved in the study. The sample of this research is manufacturing companies listed on the Indonesia Stock Exchange that meet the sample criteria to be studied as many as 189 observation units, with an observation period of 8 years starting from 2009 to 2016. While the objects of this study are INSOWN, BOIND, BOS that can predict the DPR.

Table 1 DESCRIPTIVE STATISTICS					
Variable	N	Minimum	Maximum	Mean	Std. Deviation
INSOWN	189	12.32000	98.24000	70.04651	17.54660
BOIND	189	1.000000	5.000000	2.063492	0.931820
BOS	189	2.000000	13.00000	5.052910	2.148071
DPR	189	3.240000	94.37000	32.18206	19.14940

Source: Data processed.

Table 1 depicts the mean value or the average, maximum, minimum, and also the value of the standard deviation of the distribution data. Standard Deviation (SD) explains how well the mean in representing data is. The smaller the SD indicates the closeness of the data with the mean, and the greater the SD indicates the data is far from the mean. Based on Table 1 above, it can be seen that the average value of the DPR as the dependent variable is 32.18206%, the maximum value is 94.37000%, and the minimum value is 3.240000% with a standard deviation level of 19.14940. The average company that distributes dividends is 32.18206%, the remaining 67.81794% as retained earnings. For the first independent variable, INSOWN has an average of 70.04651%, the maximum value is 98.24000, and minimum value of 12.32000 with a standard deviation rate of 17.54660%. In Indonesia, share ownership is dominated by INSOWN rather than individual investors. The second independent variable BOIND has an average of 2.063492 (2 persons), a maximum value of 5.000000 (5 persons), and a minimum value of 1.000000 (1 person) with a standard deviation level of 0.931820. The number of INSOWN for companies that are samples has met the requirements of the Indonesia Stock Exchange, where the number of INSOWN is at least 30% of BOS. While the independent variables for the three BOS have an average of 5.052910 (5 persons) with a maximum value of 13.00000 (13 persons), and a minimum value of 2.0000 (2 persons) with a standard deviation level of 2.148071. The average value of 5 persons is relatively less than Grag's suggestion (2007) that the ideal number of BOS is 6 persons.

Multiple Regression Analysis

This research was conducted to examine several variables that can predict the DPR. This study used regression analysis to find the effect of independent variables on the dependent variable. While multiple regression analysis is used because we use more than one independent variable.

Table 2 RESULTS OF THE REGRESSION MODEL				
Dependent Variables: DPR				
Method: Least Squares				
Included observation: 189				
Variable	Coefficient	Std.Error	t-Statistic	Prob
C	14.39433	6.425733	2.240107	0.0263
INSOWN	0.214765	0.077729	2.762976	0.0063
BOIND	5.644104	2.458789	2.295481	0.0228
BOS	-1.761826	1.064267	-1.655436	0.0995
Prob (F-statistic)	0.002786			

Source: Data processed

Based on the Table 2 above, the results of the regression equation are as follows:

$$DPR=14.394+0.215 \text{ INSOWN}+5.644 \text{ BOIND} -1.762 \text{ BOS}$$

From the analysis and tables the results of the regression model and regression equation above, it can be explained as follows:

1. First result of the equation above is the beta INSOWN coefficient of positive value which means that there is a positive effect on the DPR. If there is an increase in INSOWN, the DPR will also increase.

2. The second value comes from BOIND with a coefficient that has a positive direction, meaning that if there is an increase in BOIND, the DPR will also increase. This variable has the largest coefficient that affects the DPR.

3. The last variable is BOS with a coefficient marked negative, where negative coefficient shows a negative effect on the DPR. This means that if there is an increase in BOS, the DPR will go down.

INTERPRETATION OF RESULTS

1. **Institutional ownership effect on dividend pay-out ratio:** The results of multiple regression analysis in Table 2 show the value of t-statistic institutional ownership is 2.763 with a significance of 0.006 and the regression coefficient (β) is 0.215. Institutional ownership has a positive value with a significance value of less than α (0.05), meaning that the variable has a significant influence on the predictions of the dividend pay-out ratio. This shows that institutional ownership is effective on implementing control of the company, so it can encourage managers to increase dividends. This result is supported by study conducted by Imam & Malik (2007), and Abor & Fiador (2013) which state that companies with high institutional ownership are able to show a high increase in dividend pay-out ratio.

2. **Effect of board of independent on dividend pay-out ratio:** The results show that the board of independent variable has a t-statistic of 2.295 with a significance value of 0.022 and a coefficient (β) of 5.644. This shows that there are more outsiders who control the company, so that the company can provide good performance which can ultimately improve dividend pay-out. The results of this study are supported by Kowalewski et al. (2007), Obradovich & Gill (2013), and Abor & Fiador (2013) which state that BOIND can influence dividend payments positively.

3. **Effect of board of size on dividend pay-out ratio**: The results of the analysis in Table 2 show that the BOS variable has a value of t-statistic-1.655 with a significance value of 0.099 and a regression coefficient (β) of - 1.761. The value of t is absolute and the negative value indicates that the value has the opposite effect of the dependent variable. Significance value above α (0.05), and it can be concluded that BOS has a negative effect on the DPR but is not significant in predicting the DPR. This is not in accordance with the hypothesis which states that BOS has a positive effect on the DPR. This is because the board of size is less effective in supervising the executive.

4. **Effect of INSOWN, BOIND, and BOS simultaneously on the DPR:** Based on the data from the results of multiple regression statistics, the probability value (F-statistic) shows a result of 0.002 lower than α (0.05), which means that the three independent variables simultaneously influence the DPR significantly.

CONCLUSION

1. Institutional ownership partially has a positive and significant influence in predicting the dividend pay-out ratio with a significance value of less than 0.05 and has a positive beta coefficient. This means that the higher institutional ownership, the stronger the external control of the company can encourage managers to increase dividend payments.

2. Board of independent partially has a positive and significant influence in predicting dividend pay-out ratio with a significance value of less than 0.05. If the board of commissioners comes from outside the company that does not depend on the manager, supervision of the manager will have a positive influence, so that it can increase dividend payments.

3. Board of size partially has a negative influence on the dividend pay-out ratio, but it is not significant with a significance value above 0.05 and has a negative beta coefficient. This is because the greater the board of size will result in more difficult control among the members of the board of commissioners. This result is not in accordance with the predetermined hypothesis.

4. Based on the results of the F test, it is evident that all proxies used as corporate governance variables together have a significant influence on the dividend pay-out ratio as the dependent variable. With the increase in the dividend pay-out ratio, it

gave a positive signal to investors, which in turn affected investors' interest in investing in the company's shares.

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