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CORPORATE GOVERNANCE AND DIVIDEND STRATEGIES: THE CASE OF NON FINANCIAL FIRMS IN INDONESIA

Maya Davita Athalia[1], Adwin Surja Atmadja[2]

[1]*Department of Financial Management, Petra Christian University, Indonesia*

m37415095@john.petra.ac.id

[2]*Department of Financial Management, Petra Christian University, Indonesia*

aplin@petra.ac.id

ABSTRACT

The purpose of this research is to empirically investigate the impact of corporate governance on dividend payout (DP) in Indonesia in the period 2012-2016. The samples of this research are all firms listed in Indonesia Stock Exchange during 2012-2016 exclude the financial firms and firms that do not match the criteria of the samples. This research use corporate governance perception index from The Indonesia Insititute for Corporate Governance (IICG) to measure the corporate governance and dividend payout ratio to measure the DP and controlled by firm size, growth opportunity, financial distress, and dividend-track. The method that used in this research is OLS regression. The findings of this research are corporate governance does not impact dividend payout of a firm, growth opportunity and CGPI do not impact dividend payout of firms either. Firm size and dividend-track significantly impact dividend payout of a firm. The conclusions of this research are firm GCG has no conflict between manager and shareholder which means firm has no agency cost so that the firm does not have to pay dividend to shareholders to reduce agency cost.

Keywords: *Corporate Governance, Dividend Policy, Firm Characteristics*

1. Introduction

Corporate governance is the main pillar of the foundation for corporation to grow and thrive in global rivalry era, as well as prerequisite for effective function of corporate governance (Abeng, 2003). The development of corporate governance is getting more attention after the bankruptcy scandal of the big corporation in the world Enron in end of 2001 because of poor corporate governance that led the director to manipulate the financial report cooperate with the auditor. Good corporate governance (GCG) is one of the key to the success of a firm in a long-term period and fail to apply GCG is believed as one of the cause of economic crisis occurance. According to the survey result of Asian Corporate Governance Association (ACGA), in accordance with international standard, firm with GCG should have 80% score, Indonesia is one of the country with the lowest GCG with 37% score in South East Asia (ACGA, 2012).

Until now, GCG regulation has been being developed by Indonesia government for making Indonesia companies stronger in global business environment. Theorytically, GCG might boost firms values by improving financial performance, reducing the fraud risk committed by board of directors for their own benefits (Tjager, Alijoyo, Djemat, & Soembodo, 2003). GCG also might lessen agency conflict between managers and shareholders, so that might minimize agency cost borne by the firm. As an alternative, reducing agency cost might be done by dividend payment. This is because paying dividend might reduce firm's cash and then might lower the potential of agency conflict.

Dividend policy is one of the most important policy of a firm because manager failure in making decision about dividend will decrease firm ability to obtain fund from ivestor which can endanger firm's operational in the future. One of the dividend phenomenon which was found by Fama and French (2001) is disapperaing dividend or decreasing divident payment such as in Indonesia Stock Exchange 2001-2008, in New York Stock Exchange 1994-2002 and in many more developed country 1994-2002. Some companies make high profit every year but never pay dividend. Fama and French (2001) found that the cause of disappearing dividend was because there were changes in firm characteristics. The purpose of this research is to examine the impact of corporate governance on dividend payment decision.

2. Literature Review

According to agency theory (Jensen & Meckling, 1976), managers represent shareholders in certain business transaction and is hoping to represent best interests of shareholders without pay attention to personal interests. There are five GCG principles: transparency, accountability, responsibility, independency and fairness. GCG might lessen agency problem of firms. Therefore, corporate governance of firms are reflected on managers responsibility to shareholders. One of the responsibility that was given by managers to shareholders is dividend payment. Firm with GCG will consider their investors.

According to Jensen and Meckling (1976) there are three agency costs caused by conflict between managers and shareholders are : (1) monitoring costs, is the cost to limit managers activity deviant from shareholders, (2) bonding costs, is the cost to convince shareholders that managers will not take certain action that will harm shareholders or to convince shareholders will be compensated if managers take certain action, (3) residual loss, is the cost caused by weaken of money value because managers and shareholders have different interests.

According to Smith (1992) and Farinha (2002) researches, corporate governance has a positive significant impact to dividend payment because firm with strong corporate governance is better at monitoring manager's activity so it might decrease the possibility of manager to make use of the cash for their personal interests and as result firms will pay more dividend. But Setiawan and Phua (2013) research said that corporate governance does not impact dividend payment because firm with GCG will not have agency conflict so that firm will not have to pay dividend. So the hypothesis of this study is:

H_1 : Corporate governance affect firm's dividend strategies

3. Model and Sample Description

This study use the population of non financial firm listed in Indonesia Stock Exchange (IDX) in 2012-2016. The sampling method that is used in this study is purposive sampling technique with the sampling criteria as shown below:

- Non financial firm that is listed in Indonesia Institute of Corporate Governance (IICG) in 2012-2016
- Non financial firm that IPO in IDX before or in 2011

This study use the data from Bloomberg Terminal (total assets, net income, DPR) and IICG (CGPI).

This study used OLS Regression and classical assumption test, using Kolmogorov Smirnov test for normality test, Tolerance and Variance Inflactor Factor (VIF) for multicolinearity test, Durbin Watson test for autocorrelation test and Glejser test for heteroskedasticity test. The estimation model of this study is:

$$DP_{it} = \alpha + \beta_1(CG) + \beta_2(Size) + \beta_3(Growth) + \beta_4(CCGPI) + \beta_5(DT) + \varepsilon_{it}$$

where DP_{it} is dividend payment calculated with dividend payout ratio (DPR) as dependent variable, CG is corporate governance as independent variable proxied with corporate governance perception index (CGPI), size is firm size calculated with total asset of the firm, growth is growth opportunity calculated with market-to-book ratio, CCGPI is the changes components of CGPI is a dummy variable, equal to 1 if there are changes in the index components and 0 otherwise and DT is dividend-track is a dummy variable equal to 1 if firm paid dividend in the previous year and 0 otherwise as control variables.

4. Regression Results and Findings

Classical Linear Regression

The result shows that the normality test using Kolmogorov Smirnov indicates that the data is normal with Kolomogorov Smirnov Z score greater than 5%. Furthermore, the result of multicolinearity test using Tolerance and VIF indicates that the data have no multicolinearity with VIF score smaller than 10. Moreover, the result of autocorrelation test using Durbin Watson indicates that the data have no autocorrelation with Durbin Watson score around du < DW < 4-du. Last, the result of heteroskedasticity test using Glejser indicates the data have no heteroskedasticity with the significance greater than 5%.

Regression Results

Table I shows the result of the OLS Regression

Table I

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
CGPI	1.107 (0.0635)	-	-0.157 (0.824)	-	-0.452 (0.4512)
Size	-	1.27 (0.0007)	2.32 (0.012)	-	1.68 (0.0003)
Growth	-	-3.512 (0.1354)	0.846 (0.751)	-	-1.656 (0.5158)
DT	-	-	-	9.506 (0.1898)	17.188 (0.0076)
CCGPI	-	-	-	-1.884 (0.7720)	-9.076 (0.1667)

In Model 1, CGPI regression result shows the significance level is at 6.35% which is greater than 10% it means CGPI has positive significant effect on firms dividend payment decision and in Model 2 firm characteristics regression result shows that firm size is positive significant with significance level at 0.0007% and growth opportunity result shows significance level at 13.54% which means growth opportunity negative no significant effect on firms dividend strategies.

And in Model 3, CGPI regression result is at 82.4% significance level which is greater than the 5% therefore CGPI has negative no significant effect on firms dividend strategies, firm size with significance level at 1.2% which is smaller than 5% which means the result is the as same as in Model 2 and growth opportunity significance level is at 75.1% which is greater than 5% it means the result is the same as in Model 2. In Model 4, DT regression result shows significance level at 18.98% which is greater than 5% it means that DT has positive no significant effect on firms dividend strategies and CCGPI significance level at 77.20% which is greater than 5% therefore CCGPI has negative no significant effect on firms dividend strategies.

In Model 5, dividend strategies is regressed on all control variables and the result is CGPI regression shows the significance level is at 45.12% which is the as same Model 3 it means corporate governance has negative no significant impact on a firm dividend strategies, this study agrees with Setiawan and Phua (2013) research that said firm with GCG does not have to pay dividend because firm does not have agency conflict, so this study reject H_1.

Furthermore, firm size regression shows the significance level is at 0.0003% which is smaller than 5% which is the same result as Model 2 and Model 3, this study agrees with Parmitasari and Hasrianto (2015) research that said firm size do impact firms dividend strategies because large firm can easily access to capital market to obatain fund, therefore the fund obtained can be used to pay dividend. Moreover, growth opportunity regression shows growth opportunity significance level is at 51.58% which is greater than 5% which is the same as Model 2 and Model 3, this study agrees with Puteri, Sudarto and Sulistyandari (2016) research that said growth opportunity does not impact firms dividend strategies because the fund that used for investment is purely from firm's policy that taken from retained earnings,

However, dividend-track regression shows that the significance level is at 0.0076% which is smaller than 5% it means dividend-track has positive significant impact on a firm dividend strategies this study agrees with Bhat and Pandey (1993) and Baker and Powell (2012) researches said that historical dividend payment is the second important factor according to firm's manager in dividend payment decision-making. Last, CCGPI shows the significance level is at 16.67% which is greater than 5% which is the same result as Model 4 it means that CCGPI has negative no significant impact firms dividend strategies.

5. Conclusions

The purpose of this study is to examine the impact of corporate governance on a firm dividend payment decision. The result of this study shows that corporate governance has no impact on a firm decision making because firm GCG has no conflict between manager and shareholder which means firm has no agency cost so that the firm does not have to pay dividend to shareholders to reduce agency cost but firms with weak corporate governance tend to pay dividend to compensate firm shareholders and to reduce agency conflicts. This study also found that growth opportunity and CCGPI do not impact firm dividend payment decision because firm with low growth opportunity does not certain to pay dividend because firm can use fund from retained earnings for investment. However, this study also found that dividend-track and firm size do impact dividend payment decision of a firm because large firms can easily access to capital market to obtain fund and dividend-track is the second important factor that impact a firm dividend payment decision-making according to the manager.

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