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FACTORS AFFECTING DIVIDEND POLICY ON LQ45 INDEX COMPANIES ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

Dividends are one of the considerations in stock investment. The purpose of this study is to analyze the effect of "Board Size, Board Independence, "Management Ownership", Institutional Ownership, and "Collateral Assets" on the "Dividend Policy". This study uses 17 samples of public companies that are part of the LQ45 Index with 84 data observation during 2016-2020. The sampling method used purposive sampling technique. data analysis using multiple regression analysis where data is processed using IBM SPP Statistic Version 25.0 software. The results show that "Management Ownership" and "Collateral Assets" have a positive and significant effect on "Dividend Policy". Meanwhile, "Board Size", "Board Independence", and "Institutional Ownership" have no significant effect on "Dividend Policy". The implication of this research is that there is a need for Institutional Ownership representatives on the company's "Board of Directors" in order to influence the companies' "Dividend Policy" and provide a good signal for investors.

Keywords: *Dividend Policy, Board Size, Board Independence, Ownership Structure, Collateral Assets*

1. INTRODUCTION

The capital market has an important role in the economy of a country because of its two functions, namely as a place for people to invest and as a tool for companies to get funds. Companies can obtain capital from the shareholders' investment. Investors invest in companies to get a return on their investment. Return on investment can be obtained in the form of dividends (dividend yield) or capital gains. In making investment decisions, investors will choose companies that are considered capable of meeting their investment goals. Investors are faced with uncertainty when making investment decisions, so investors need to look at the company's financial statements. Investors can estimate whether a company has good performance and future prospects, and is able to provide benefits for them in the form of dividend yield by analyzing the financial statements.

The corporate is deal with with two options. The first option is to reinvest the profits in retained earnings to fund future investments, while another option is to provide the company's profit to shareholders by paying dividends. The decision regarding the distribution of dividends is called the "dividend policy". management allocates the amount of net income for dividends. According to signaling theory, regular dividend payments by the company can give a "positive signal" to shareholders to prospects of company in the future. On the other hand, a decrease in dividends is a negative signal for investors. Companies in the LQ45 index category on the Indonesia Stock Exchange have good financial conditions and growth prospects. LQ45 companies are considered capable of distributing dividends regularly. In recent years, several LQ45 companies do not distribute dividends regularly even though the company is in a profit condition. Companies such as "PT Jasa Marga Tbk (JSMR)", "PT Bumi Serpong Damai Tbk (BSDE)", and "PT Perusahaan Gas Negara Tbk (PGAS)" chose to hold their profits for the company's working capital purposes. Another reason the company did not distribute dividends was also due to the Covid-19 pandemic which had an impact on its business.

The various factors can affect a company's “dividend policy”, such as corporate governance. Corporate governance manages the relationship between the board of directors, commissioners, shareholders, and other stakeholders [1]. “Corporate Governance” includes size of board and member independence in boards. Size of is the number of member of boards of directors in the company. The board of directors plays a role in running the company's strategy and monitoring management so that it can decline agency conflicts, as a result, the company will distribute dividends in larger amounts.

Related Work

This research is limited to variables of the “board size”, “board independence”, “management ownership”, “institutional ownership”, and “collateral assets” affect “dividend policy”. Previous researched conducted by [2] and [3] found significant effect and a positive direction of board size on “dividend policy”. Moreover, a negative and significant effect between “board size” and “dividend policy” was found by [4]. According to [5], “board size” has no significant effect on “dividend policy”.

Independent commissioners who are effective in monitoring management performance have reduced agency problems between managers and shareholders, according to research of [6] which found “board independence” has a significant and positive direction on “dividend policy”. Meanwhile, [4] and [3] found that “board independence” had a negative and significant effect on “dividend policy”. Meanwhile, research conducted by [2] did not find a significant effect of “board independence” on “dividend policy”.

Other factor of distribution of “dividend policy” is ownership structure that consists of “management ownership” and “institutional ownership”. Research [4] and [7] found that “management ownership” has a significant influence but negative direction on the “dividend policy”. Different results were found by [8] who found a significant and positive effect of “management ownership” on the “dividend policy”. Meanwhile, [9] found that there is no significant effect of “management ownership” on “dividend policy”. On the other hand, according to research by [4] and [10] “institutional ownership” was found to have a significant and positive influence on “dividend policy”. However, other studied resulted in negative and significant effect of “institutional ownership’ on “dividend policy” [5] and [7]. Research did by [11] and [12] discovered that there was no significant effect of “institutional ownership” on “dividend policy”.

The last factor that affects “dividend policy” is “collateral assets”. Research did by [13] discovered that “collateral assets” have a significant and positive effect on the “dividend policy”. Meanwhile, a negative relationship between “collateral assets” and “dividend policy” was found in [14] research. “Collateral assets” did not affect “dividend policy” significantly according to the results of research by [15] and [12].

Based on the explanation above, the objective of this study is to analyze (1) Does “board size” have an influence on “dividend policy”? (2) Does “board independence” have an effect on “dividend policy”? (3) Does “management ownership” have an influence on “dividend policy”? (4) Does “institutional ownership” have an influence on “dividend policy”? (5) Do “collateral assets” have an influence on “dividend policy”?

Our Contribution

This research is expected to contribute to the company in evaluating governance through the role of board size, independent commissioners, ownership structure and determining “dividend policy” as well as evaluating the role of “collateral assets” in “dividend policy”. In addition, this study will be able to find out which variables can provide signals for investors, so that companies can increase these variables to provide signals for investors.

Paper Structure

The composition of this paper is further divided into several sections. Section 2 presents the theoretical review and hypothesis development. Section 3 describes the methodology for this research. Finally, Section 4 discusses the test results, conclusion, and limitation.

2. THEORETICAL REVIEW AND DEVELOPMENT OF HYPOTHESIS

Theoretical Review

Agency Theory

Agency theory explains the relationship between the owner of capital, known as the principal, and the agent who provides services to the principal as an executive. Shareholders are principals who authorize company management as agents to make decisions related to the company [17] in [14]. Management is considered to know more about information inside the company and the prospect of company than the shareholders.

Agency conflict arises because the decisions made by managers often do not reflect the interests of the shareholders [17]. Shareholders want to get a high rate of return from their investments, but the actions taken by managers are against the interests of shareholders [14]. The costs of monitoring the manager's opportunistic behavior are called agency costs. Agency costs can be reduced by paying dividends to shareholders [14]. Dividend payments can reduce the company's free cash flow held by management so that there is no extra cash used by managers for projects that benefit their own interests.

Signaling Theory

Signals are used by companies to provide clues to shareholders about the company's prospects according to management's view [18]. The company can use dividends to provide a signal about its future earnings [18]. The signaling theory explains investors observe the changes in dividends policy as a signal indicating the earnings forecast by management. “Dividend policy” is used by investors as a signal to the company's prospects in the future because there is information asymmetry that occurs between management and investors. An increase in dividend payments can deliver a good signal or a positive signal to the investors as it indicates the company’s good financial condition and promising prospects [19]. On the other hand, a decrease in dividends is considered a negative signal by investors because the company is seen as in poor financial condition and prospects.

Corporate Governance

"Corporate governance" involves a series of relationships between the board of directors, management, shareholders and stakeholders [20]. The company consists of the "Shareholder General Meeting" (SGM), the board of directors, and the commissioners board that are the company organ. Furthermore, other supporting organs owned by the company are audit committee, a company secretary, and an Internal Supervisory Unit (SPU). A good corporate governance is a system which regulates relations between investors, creditors, company management, government, employees, and other stakeholders about their rights and obligations [1]. 'Good corporate governance' has five main principles, namely transparency, accountability, responsibility, independence, and equality.

Bird in the Hand Theory

Shareholders prefer dividends that are already in their hands compared to capital gains that are not certain in the future [21]. Dividends are preferred by investors because they are considered more certain and more predictable than capital gains which are difficult to predict and have uncertainty. Dividends are considered to have less risk than capital gains, because the value of capital gains tends to fluctuate due to changes in stock prices.

Dividend Policy

Dividends are part of the company's net profit which is distributed to shareholders based on the number of shares each shareholder owns [12]. The policy regarding dividend payments by the company is called "dividend policy". "dividend policy" is related to the process of deciding the amount of dividends to be distributed and the amount of retained earnings to be used for the company's needs [18].

Development of Hypothesis

Board size is the number of "boards of directors" in a company [22]. The "board of directors" is responsible for determining the overall company's strategy and is responsible for making decisions regarding financing, investment, and distribute dividends although this responsibility in practice is delegated to the management [20].

The larger size of the company's "board of directors", the more effective its ability to monitor and control the opportunistic behavior of management who utilize free cash flow for their own benefit. A large number of board of directors means that it has a lot of skill and experience and can help eliminate agency problems. It also can help improve the corporate performance and support the payment of bigger amounts of dividends to the shareholders [3].
H1: Board size has a positive and significant effect on the "dividend policy".

Members of board of commissioners who are not related or affiliated with other members, management, or shareholders is known as independent commissioners. They are free from any business relationships that can affect their ability to act independently for the sake of the company. Independent commissioners are needed as a company monitoring mechanism.

The greater the number of 'independent commissioners', the greater effectiveness in supervising the management's performance. Effective supervision can reduce agency problems that occur between management and shareholders, so the company can pay

dividends in greater amount. [6] found that board independence affects ‘dividend policy” positively and significantly because the independent commissioners make board decisions, including dividend decisions, become more effective and add value to the company.
H2: Board independence has a positive and significant effect on “dividend policy”.

Share ownership by firm management (directors or commissioners) who are actively involved in decision-making is known as “management ownership” [7]. The existence of “management ownership” enables supervision of the company to be more effective.

Management has two points of view in making decisions regarding corporate dividends, namely the short-term and long-term perspectives. Management as a shareholder has an interest in the dividends distributed by the company. Short-term oriented management wants the company to give greater dividends to earn a return on their short-term investment in dividends form.

In long-term points of view, management directs the payment of dividends in smaller amounts. Management chooses to maintain company profits for the company's internal funding sources and for its growth in the future. The higher level of “management ownership” in a company, the dividend shared by the company is carried out in lower amounts because managers retain profits for the company's internal funding purposes. This study uses a long-term management point of view in accordance with the research findings of [4] and [7] who found that “management ownership” has a significant and negative effect on “dividend policy”.
H3: “Management ownership” has a negative and significant effect on “dividend policy”.

The percentage of shares owned by institutional investors is referred as institutional ownership [10]. Institutional investors are institutions outside the company. Institutional ownership is considered capable of implementing a good supervisory mechanism as to mitigate the opportunistic behavior of managers. The amount of institutional ownership of a company can encourage companies to invest in profitable projects so that they can generate greater profits. This results in the company being able to distribute large dividends. Investors might receive positive and good signals about the company’s current condition from the payment of large dividends. In conclusion, the greater institutional ownership of the company, the greater amount of dividend paid by the company. The results of [4] and [10] studies show a positive influence of institutional ownership on the “dividend policy”.
H4: Institutional ownership has a positive and significant effect on “dividend policy”.

“Collateral assets” are fixed assets that belongs to the company are used as collateral in acquiring loans from creditors [23]. When creditors want to provide loans, they usually ask for collateral in the form of assets to guarantee the company will pay off its obligations. When the level of “collateral assets” of a company is low, the dividends distributed by the company are also low because creditors hinder the payment of large dividends. Creditors are concerned that the company might be unable to settle its obligations.
Conversely, when the assets pledged as collateral are high, the conflict of interest that occurs between shareholders and creditors is reduced. Creditors do not limit the distribution of large dividends by the company because of the assets that are used as collateral. The greater the company's “collateral assets”, the greater the dividends distributed by the company because the conflict of interest is reduced. This is following the research of [13] that showed a positive effect of “collateral assets” on “dividend policy”.
H5: “Collateral assets” have a positive and significant effect on “dividend policy”.

3. METHODOLOGY

The research design in this study is a descriptive quantitative approach. This research data uses secondary data. The data is obtained from the annual reports available on the Indonesia Stock Exchange website. The population of companies in this study are companies that are included in the LQ45 index during 2016 to 2020, so the sample method used is non-probability sampling method and a purposive sampling. The sample criteria are 1) listed consecutively in the LQ45 index on IDX during the study period, (2) present financial statement as of December 31, (3) successfully earn profits during the study period, and (4) distribute dividends consistently during the study period. Data processed using IBM SPSS Statistics Version 25.0. Multiple regression analysis was used in this study to examine the effect of independent variables on the dependent variables

The analysis used is multiple regression to analyze the effect of the independent variables on the dependent variable. The following is a multiple linear regression model in this study: DPR = $\alpha + \beta 1BS + \beta 2BI + \beta 3MO + \beta 4IO + \beta 5COLLAS + e$.

This study uses "dividend policy" with Dividend Payout Ratio proxy as the dependent variable. The independent variables used are Board Size, Board Independence, "management ownership", Institutional Ownership, and "collateral assets". Operationalization and measurement of research variables are described in Table 1.

Table 1 Operational and Measurement of Variables

No.	Variables	Refferences	Formula	Measurement
1.	Dividend Payout Ratio (DPR)	Wahjudi (2020)	$DPR = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$	Ratio
2	Board Size (BS)	Bangun dkk. (2017)	BS = Total Board of Directors	Ratio
3	Board Independend (BI)	Bangun dkk. (2017)	$BI = \frac{\text{Number of Independent Commisioners}}{\text{Number of Board Commisioners}}$	Ratio
4	Managerial Ownership (MO)	Johanes *et al.* (2021)	$MO = \frac{\text{Number Share of Managerial Ownership}}{\text{Number of Outstanding Share}}$	Ratio
5	Institutional Ownership (IO)	Gusni (2017)	$IO = \frac{\text{Number Share of Institutional Ownership}}{\text{Number of Board Directors}}$	Ratio
6	Collateral Assets (CA)	Mauris dan Rizal (2021)	$CA = \frac{\text{Total Fixed Assets}}{\text{Total Assets}}$	Ratio

Source: Compiled by Author

4. TEST RESULT, FINDINGS AND DISCUSSIONS, CONCLUSION AND LIMITATION

Test Result

Descriptive statistics are carried out to see the feasibility of the data collected. The results of the descriptive statistical analysis in this study are shown in Table 2 below.

Table 2 Descriptive Statistical Analysis Results

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
BS	85	5,00000	12,00000	8,6235294	2,05852739
BI	85	0,25000	0,83000	0,4464706	0,13839820
MO	85	0,00000	0,13328	0,0080442	0,02960711
IO	85	0,43911	0,98136	0,6309245	0,15413187
COLLAS	85	0,02038	0,71858	0,2834142	0,21208104
DPR	85	0,10000	1,76711	0,5952952	0,29692725

Source: SPPS V.25

Normality, autocorrelation, heteroscedasticity, and multicollinearity tests are carried out to test the classic assumption. The normality test used in this study is the One Sample Kolmogorov-Smirnov (K-S) Test. The data is normally distributed because it shows the Asymp value. Sig. (2-tailed) of 0.2 (bigger than 0.05) so that the data is normally distributed.

The multicollinearity test result shows that Board Size, Board Independence, "management ownership", Institutional Ownership, and "collateral assets" have value of VIF in respectively 1.297, 1.369, 1.229, 1.142, and 1.384 (less than 10), while the tolerance value obtained is 0.771. 0.730, 0.813, 0.875, and 0.723 (greater than 0.1) so this study has no multicollinearity problem.

The Glesjer test is used to test heteroscedasticity in this study. The results indicate significance values of Board Size, Board Independent, "management ownership", Institutional Ownership, and "collateral assets" are 0.158, 0.677, 0.206, 0.532, 0.995, and 0.635 (greater than 0.05). Finally, there is no heteroscedasticity in the data.

Meanwhile, the test to detect autocorrelation is conducted using Durbin-Watson (DW) test which shows a value of 1.889. This value is between 1.7732 (du value) and 2.2268 (4-du value). This regression model does not have any autocorrelation.

After performing the classical test on the data to be used, hypothesis testing is done. Simultaneous test (F test) shows a significance value of 0.005, less than 0.05. It means the independent variables in this study have a simultaneous influence on the dependent variable of "dividend policy". Adjusted R square test show a value of 0.191 indicating that the independent variables in this study are able to explain the dependent variable of "dividend policy" of 19.1%. The remaining 80.9% is explained by other variables outside of this study. The results of the t-test (partial test) are as follows:

Table 3 t-test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.000	,122		,050	,960
	BS	,026	,026	,012	,101	,920
	BI	,417	,221	,225	1,888	,063
	MO	,031	,014	,224	2,165	,033
	IO	-0,239	,291	,291	-,822	,414
	CA	,163	,075	,262	2,183	,032

Source: SPPS V.25

According to the test results above, the following regression equation is used in this study:

DPR = 0.006 + 0.026BS + 0.417BI + 0.031MO – 0.239IO + 0.163COLLAS + e.

Based on the results of the t-test in Table 3, board size (sig. 0.920) has no effect even though it has a positive direction. This result in line with [5] but not in line with the research of [2 [3] and [4].
For board independence, it has a significance value of 0.063, indicating this variable has no influence even though it has a positive direction. The findings of this study are aligned with the findings of [2], however they contradict the findings of [4], [3], and [6].

"Management ownership" has a significant value of 0.031, indicating there is a significant effect on "dividend policy" in a positive direction. The findings of this study are aligned to the findings of [8] but not aligned the findings of [4], [7], and [9].

Likewise, institutional ownership with a significant value of 0.414 also shows there is no significant effect on "dividend policy", and even has a negative direction (-0.239). The findings of this study are consistent with the findings of [9] and [12], however they contradict the findings of [4], [10], [7] and [5].

Finally, the test results show significant value of 0.032 for "collateral assets" variable which show this variable influence "dividend policy" in a positive direction. This research is consistent with the research of [13] but is not in line with the research of [14], [15], and [12].

Findings and Discussions

Based on the result of t test, board size with significance value of 0.920 (greater than 0.05) does not have a significant effect on "dividend policy". Therefore, the first hypothesis in this study is rejected. This finding is in line with [5], but not in line with research by [2], [3], and [4]. "Dividend policy" is not influenced by the size of the board of directors of a company because the decision to distribute dividends is at the General Meeting of Shareholders (GMS). The board of directors is not directly involved in decision in regarding dividend distribution.

Board independence has a significance value of 0.063 and does not have significant effect on "dividend policy". Thus, the second hypothesis is rejected. Because independent commissioners are not authorized to participate in the business's operational decisions, including deciding "dividend policy", the number of independent commissioners in a firm does not influence "dividend policy". The results are consistent with the research of [2], while contradict the research of [4], [3], and [6].

"Management ownership" variable in this study has a significant and positive effect on "dividend policy" with a significance value of 0.033. Therefore, the third hypothesis in this study is rejected. The higher the percentage of the company's shares owned by management, the higher the dividend paid. Directors and commissioners (management) also act as the shareholder thus they will work harder to put shareholders' interests first and direct greater dividend payments. When it comes to determining "dividend policy", LQ45's management has a short-term perspective. Agency conflict is reduced. According to signaling theory, the positive and strong influence of "management ownership" on "dividend policy" can convey a positive signal to investors. The result is in accordance with research held by [8], and not in accordance with research conducted by [4], [7], [9].

Institutional ownership with a significance value of 0.414 does not influence "dividend policy" significantly, so the fourth hypothesis in this study is rejected. The insignificant effect is due to the different focus between institutional investor and individual investors. Institutional investors focus on long-term investment, so they prefer the company to reinvest the profits earned rather than distribute dividends. In addition, the effect is not significant because institutional ownership is not represented on the company's board of directors, so it is unable to significantly influence "dividend policy". Agency conflicts occur because of differences in interests between institutional investors and directors. The insignificant effect might give a negative signal to investors. The results of this study are in accordance with the research conducted by [9] and [12], however contradict the research of [4], [10], [7], [5].

Finally, collateral asset with a significance value of 0.032 has a positive influence on "dividend policy". The fifth hypothesis of this study is accepted. The higher a company's "collateral assets", the higher the dividends paid to shareholders. "Collateral Assets" with a great value might provide some protection to creditors for the repayment of loan money. Creditors will allow the company to distribute dividends freely. The value of a company's "collateral assets" can help to resolve agency issues between creditors and shareholders. The amount of "collateral assets" owned by the company might send a positive signal to shareholders about the "dividend policy". The findings is consistent with the research of [13], however inconsistent with the research of [14], [15], [12]. Table 4 below shows the summary of hypothesis testing in this study:

Table 4 Summary of Hypothesis Testing Results

Hypothesis	Coefficient	Significance Value	Conclusion
H1: Board size has a positive and significant effect on the dividend policy.	0.026	0.920	H1 is rejected
H2: Board independence has a positive and significant effect on dividend policy.	0.417	0.063	H2 is rejected
H3: Managerial ownership has a negative and significant effect on dividend policy.	0.031	0.033	H3 is rejected
H4: Institutional ownership has a positive and significant effect on dividend policy.	-0.239	0.414	H4 is rejected
H5: Collateral assets have a positive and significant effect on dividend	0.163	0.032	H5 is accepted

Source: Compiled by Author

Conclusion

Based on the tests that have been carried out, it can be concluded that the "dividend policy" of the LQ45 companies are more influenced by the "Management Ownership" and Collateral Asset variables. "Management Ownership" has a significant effect on "Dividend Policy". The greater the proportion of "Management Ownership", the greater the dividend paid by the company, and vice versa. Management acts as a shareholder of the company and encourage to distribute dividends in larger amounts to maximize their profits as shareholders.

The greater the “Collateral Assets” of a company, the greater the dividends distributed to shareholders, and vice versa. Management can increase “Collateral Assets” to obtain additional debt for dividend payments. The large amount of the company's “Collateral Assets” can deliver a positive signal for shareholders regarding “Dividend Policy”.

Meanwhile, other variables such as board size, board independence, and institutional ownership do not influence “dividend policy” significantly. The size of the board has no impact on “dividend policy”, possibly because the GMS, not the board of directors, makes the decision to distribute shares. Independent commissioners are not involved in the company’s operational decision, and only supervise and provide advice to the board of directors. Decision regarding the distribute of dividends are at GMS, not with the board of directors or independent commissioners.

Institutional ownership does not affect “Dividend Policy” significantly because institutional investors have a focus on investing in the long term. Institutional investors encourage companies to reinvest company profits, rather than being distributed in the form of dividends. In addition, there is no representative of institutional ownership on the company's board of directors so that institutional ownership cannot influence “Dividend Policy”.

Limitation

From this study, it shows that board size, board independence, and institutional ownership do not affect “Dividend Policy”, only “Management Ownership” and “Collateral Assets” have effect. With large assets, the company can guarantee that the distribution or payment of dividends can be made, because with this collateral property, the company can obtain funds for dividend payments.

The limitation of this research is that this research use companies in LQ45 index as object. The companies in this index are companies with large market capitalization values from various industries. For further research, it can be done for companies in similar industries, and the addition of other independent variables such as free cash flow, cash predictions, and others. This research also does not process data using EViews software, so the results of the hypothesis test might be inaccurate. For the next researcher, data can be processed using EViews software if the data taken was panel data.

There are several suggestions that can be given: 1) The company considers providing representation of “institutional ownership” on the board of directors to be able to provide a positive signal for investors, 2) Investors who will invest in LQ45 companies should consider the company’s “Management Ownership” and “Collateral Assets” as a good signal regarding “Dividend Policy”.

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