

Good Corporate Governance and Dividen Policy of Consumer Non Cyclical Sector Companies on Indonesian Stock Market

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Abstract

Received: 16 July 2022

Revised: 20 July 2022

Accepted: 29 July 2022

This study aims to analyze the effect of good corporate governance (GCG) on dividend policy with the independent variables board size, board independent, institutional ownership on the dependent variable, namely dividend payout ratio (POUT) and dividend yield (YD). The data used in this study is secondary data sourced from the annual reports of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period. The research sample was selected using purposive sampling method in order to obtain 30 companies as samples. The data analysis used to test the hypothesis is multiple regression analysis using the Eviews 9 program. The results show that the independent board variable has a significant effect on dividend policy. This implies that a higher proportion of board independence cyclical consumer on the Indonesian stock exchange can encourage dividend policy. Meanwhile, the board size and institutional ownership variables have no significant effect on dividend policy.

Keywords: *good corporate governance; dividend policy; dividend payout ratio; dividend yields*

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How to Cite: Risal, M., & Lestari, H. (2022). Good Corporate Governance and Dividen Policy of Consumer Non Cyclical Sector Companies on Indonesian Stock Market. *International Journal of Education, Information Technology, and Others*, 5(4), 74-78. <https://doi.org/10.5281/zenodo.6972735>

INTRODUCTION

Dividend policy is an important decision that is always awaited by stakeholders. Dividend policy is often a signal about the implementation of *good corporate governance (GCG)*. (Al Farooque et al., 2021) in his research found a positive relationship between dividend policy and the *GCG*. In addition, dividend policy is an indicator of the effectiveness of the company's management. (Kaymaz et al., 2021) in his research found that the current dividend distribution of the company can describe the company's profitability in the future.

Dividend policy is closely related to the implementation of *good corporate governance (GCG)*. This indicates that the company's management structure and shareholders influence each other on dividend policy (Al Farooque et al., 2021). The implementation of *GCG* is expected to reduce risks arising from within the company so as to provide positive value for investors and all relevant stakeholders (Kusmayadi, 2015).

Its implementation is expected to improve *the performance* of the company so that all resources can be streamlined to generate dividends for the company and investors. Several studies have confirmed that the implementation of *GCG* is closely related to the growth potential and increase in corporate dividends (Kusmayadi et al., 2021)

Therefore, in this study an attempt will be made to explore variables related to GCG by looking at their effect on dividend policy. In a previous study (Al Farooque et al., 2021) on companies on the Australian stock exchange, found that the number of boards, independent boards, CEO duality, institutional ownership, foreign ownership and corporate audits (Big-4) have a significant relationship with dividend policy. This study explains that the number of boards is linear with the amount of dividends distributed, as well as the proportion of independence from the board, but CEO duality tends to be negatively correlated with temporary dividend policy in terms of ownership variables. positive with dividend policy. Furthermore, it was found that the variables of the meeting of the board of directors and the independent audit committee as well as government ownership were not supported.

RESEARCH METHOD

To facilitate the process of reviewing research results, the research design used is hypothesis testing, to examine the effect of the independent variables, namely the number of company boards (*Board Size*), independent boards (*Independent Boards*), institutional ownership (*Institutional Ownership*), and control variables namely, company size (Firm Size), company age (firm age) and profitability (ROA).) to the dependent variable, namely dividend policy. The data used in this study is panel data, which is a combination of *cross sectional* and *time series data* sector companies *non-cyclical consumer* listed on the Indonesia Stock Exchange (IDX) during the period 2017-2021. In this study, consisting of 3 (three) variables, namely the independent variable or independent variable, the dependent variable or the dependent variable, and the control variable.

RESEARCH RESULTS AND DISCUSSION

The t-test is used or aims to prove or find out whether the independent and control variables individually affect the dependent variable. The test criteria of the t-test if the significance of $t < 0.05$, then H_0 is rejected and if the significance of $t > 0.05$, then H_0 is accepted.

Table1. Results of Regression Model 1 (POUT)

| <i>Variables</i> | <i>Coefficient</i> | <i>Prob.</i> | <i>Conclusion</i> |
|--------------------------------|--------------------|--------------|--------------------|
| C | 3.778176 | 0.2800 | |
| <i>Board Size</i> | -0.025983 | 0.1452 | No Influential |
| <i>Board Independent</i> | 1.005760 | 0.0123 | Significant Effect |
| <i>Institutional Ownership</i> | 0.030401 | 0.6648 | No Influential |
| <i>Firm Size</i> | 0.005861 | 0.7241 | No Influential |
| <i>Firm Age</i> | -0.968973 | 0.0431 | Significant Effect |
| <i>Profitability</i> | -0.109645 | 0.3954 | No Influence |

Based on the results of model 1 regression in table 1 shows the effect of the independent variable on the dependent variable, namely the dividend payout ratio (POUT).variable *Board Size* has a prob value. of $0.1452 > 0.05$, then the *Board Size* has no effect on the *Dividend Payout Ratio*. H_a rejected.variable *The Board*

Independent has a prob value. of $0.0123 < 0.05$, then *Board Independent* has a significant effect on the *Dividend Payout Ratio*. H_a accepted. While *the Institutional Ownership* has a prob value. of $0.6648 > 0.05$, then *Institutional Ownership* has no effect on the *Dividend Payout Ratio*.

The results of the regression model 1 in table 1 show the effect of the control variable on the dependent variable, in this case the dividend payout ratio (POUT), Variable *Firm Size* has a prob value. of $0.7241 > 0.05$, then *Firm Size* has no effect on the *Dividend Payout Ratio*. H_a rejected. variable *Firm Age* has a prob value. of $0.0431 < 0.05$, then *Firm Age* has a significant effect on the *Dividend Payout Ratio*. H_a accepted. While *Profitability* has a prob value. of $0.3954 > 0.05$, then *Profitability* has no effect on the *Dividend Payout Ratio*.

Table 2. Results of Regression Model 2 (YD)

| <i>Variables</i> | <i>Coefficient</i> | <i>Prob.</i> | <i>Conclusion</i> |
|--------------------------------|--------------------|--------------|--------------------|
| C | -0.047769 | 0.4688 | |
| <i>Board Size</i> | -0.001974 | 0.3205 | No Influential |
| <i>Board Independent</i> | 0.050708 | 0.0327 | Significant Effect |
| <i>Institutional Ownership</i> | 0.007853 | 0.2508 | No Influential |
| <i>Firm Size</i> | 0.000877 | 0.3081 | No Influence |
| <i>Firm Age</i> | -0.029512 | 0.0645 | No Influence |
| <i>Profitability</i> | 0.002138 | 0.3942 | No Influence |

Based on the results of regression model 2 in table 9 shows the effect of the independent variable on the dependent variable in this case Dividend Yield (YD). variable *Board Size* has a prob value. of $0.3205 > 0.05$, then the *Board Size* has no effect on the *Dividend Yield*. H_a rejected. variable *The Board Independent* has a prob value. of $0.0327 < 0.05$, then *Board Independent* has a significant effect on *Dividend Yield*. H_a accepted. While *the Institutional Ownership* has a prob value. of $0.2508 > 0.05$, then *Institutional Ownership* has no effect on *Dividend Yield*.

The results of the regression model 2 in table 9 show the effect of the control variable on the dependent variable, in this case dividend yield (YD), Variable *Firm Size* has a prob value. of $0.3081 > 0.05$, then *Firm Size* has no effect on *Dividend Yield*. H_a rejected. variable *Firm Age* has a prob value. of $0.0645 > 0.05$, then *Firm Age* has no effect on *Dividend Yield*. H_a rejected. While *Profitability* has a prob value. of $0.3941 > 0.05$, then *Profitability* has no effect on *Dividend Yield*.

Good Corporate Governance and Dividen Policy

The results of the regression model 1 in table 1 show that the Variable *Board Size* has a prob value. of $0.1452 > 0.05$, then *Board Size* has no effect on the *Dividend Payout Ratio* and regression model 2 in table 2 Variable *Board Size* has a prob value. of $0.3205 > 0.05$, then the *Board Size* has no effect on the *Dividend Yield*. This study shows that *Board Size* has no effect on dividend policy. This is not in line with research conducted by (Al Farooque et al., 2021) that the number of company boards has a significant effect on the proportion of dividend distribution. This study is also not in line with the findings (Saliya & Dogukanli,

2022) that the greater the number of company boards, the greater the dividend payout ratio.

The regression results of model 1 in table 1 show that *Board Independent* has a prob value. of $0.0123 < 0.05$, then *Board Independent* has a significant effect on the *Dividend Payout Ratio* and regression model 2 in table 2 Variable *Board Independent* has a prob value. of $0.0327 < 0.05$, then *Board Independent* has a significant effect on *Dividend Yield*. The two models together show that the Independent Board has a significant effect on dividend policy.

This study is in line with the findings of (Al Farooque et al., 2021) and (Yakubu et al., 2022) which state that board independence (BIND) has a significant positive effect on dividend policy. This implies that a higher proportion of board independence *cyclical consumer* on the Indonesian stock exchange can encourage dividend policy. So we can conclude that more active involvement of the independent board will lead to greater protection of shareholder interests and thus yield dividends (Saliya & Dogukanli, 2022). Therefore, this study supports the hypothesis H2 that *cyclical consumer* on the Indonesia Stock Exchange (IDX) with a higher number of independent board companies tend to pay higher dividends.

The results of model 1 regression in table 8 show that *the Institutional Ownership* has a prob value. of $0.6648 > 0.05$, then *Institutional Ownership* has no effect on the *Dividend Payout Ratio*. And the regression model 2 in table 9 Variable *Institutional Ownership* has a prob value. of $0.2508 > 0.05$, then *Institutional Ownership* has no effect on *Dividend Yield*. The two models together show that variable *institutional ownership* has no effect on dividend policy.

This study is inconsistent with the findings by (Al Farooque et al., 2021) which states that there is a significant positive relationship between institutional ownership and dividend policy, which implies that firms with a higher percentage of shares held by institutional investors are more likely to pay dividends higher.

CONCLUSION

Based on the results of research that has been conducted to analyze the effect of *good corporate governance* on dividend policy, the following conclusions can be drawn:

1. *Board Size* does not significantly affect dividend policy of non-cyclical consumer sector companies on the Indonesian stock exchange
2. *The Independent Board* significantly influences the dividend policy of non-cyclical consumer sector companies on the Indonesia stock exchange.
3. *Institutional ownership* does not significantly affect the dividend policy of non-cyclical consumer sector companies on the Indonesia stock exchange.

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