

Impacting Factors of Dividend Policy in Indonesian Banking Sector

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Article Info	Abstract
<p>Article history: Article Accepted: May 19 2021 Publication : July 04 2021</p>	<p><i>Further research is needed on the implementation of dividend policy in emerging market. This phenomenon exists as there is no “one-size-fits-all” dividend policy evaluation factor that is applicable in every business sector. This study explores firms’ specific factors with the variables of corporate governance, firm size, and firm profitability along with economical phenomenon factor with the variable of inflation towards dividend policy at once. The data documentation techniques is secondary data collection from The Indonesia Stock Exchange, Bank Indonesia, journals, articles, and scientific papers. The data collected was coded and analyzed using SPSS (Statistical Package for Social Sciences). The result shows that dividend policy is affected by both internal (firm-specific factor) and external (economical phenomenon) stimuli. However, it is deduced from the tests results that there is a stronger impact arise from the internal factor; in comparison to the otherwise.</i></p>
<p>Keywords: Inflation, Corporate Governance, Firm Size, Firm Profitability, and Dividend Policy</p>	

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1. INTRODUCTION

According to The World Bank (2011), Indonesia will be among six major emerging economies country (Brazil, China, India, South Korea, and Russia) to account for more than half of all global growth; as Indonesia is one of the largest economy countries in Southeast Asia and with purchasing power parity at the world’s 10th largest economy. Indonesia has an economic planning of a 20-year development plan scheduled from 2005 to 2025. It focuses on infrastructure, education, and health care development. This favor a revolutionary over the energy subsidies program that has been implemented for so long and create possibilities for more investment in these programs (The World Bank, 2020). The World Bank (2011) also stated that presently the economic growth midpoint is scattered in developed and developing countries.

Alike with Indonesia, India is also a developing country. Pinto and Rastogi (2019) found that despite the fact that most dividend policy theories are originally based on developed markets, it can also be implemented to emerging market such as India. This is by reason of both markets’ consistency in the determining important characteristics of dividend policies. However, it was also stated in the research paper that there is further research needed in exploring other firm-specific characteristics such as corporate governance policies (CGP).

In the other hand also, Ikunda et al. (2016) discovered that there is a strong relationship between CGP and dividend payout (DP); while CGP is defined by factors such as board size, board composition, CEO tenure, firm size, firm profitability, and management equity holding. Macroeconomics variables such as inflation and real growth may fluctuate DP (Basse and Reddemann, 2011). While inflation rate has an asymmetric effect on the decision of DP makers, it also has a significant contribution to the DP makers adjustment of the dividends; subsequently

to the companies' status of profit or loss (Mirbagherijam, 2014). Inflation rates altogether with real stock returns has a large influence on optimal asset allocation; whereas stock returns are defined as the number of dividends $(Dt + 1 / Pt)$ and capital gains $((Pt + 1 - Pt) / Pt)$ (Katzur and Spierdijk, 2010).

The previous research by Pinto and Rastogi (2019) also discovered that there is no exactly similar factor that is influencing DP in every business sector, despite the research suggested that DP is typically sensitive with size, debt, and profitability; there is no "one-size-fits-all" evaluation factor that can be applied in every business sector. Banking is a fundamental sector in sustaining the economic and business activity in a country. A systemically important banks have a material possibility of impacting the financial sector as a whole and/or the wider economy; hence why it is important for Reserve Banks to overlook upon them (Hawkins and Mihaljek, 2001). Thus, this research is concentrating in Indonesian public banking with core equity capital above Rp 30 trillion (also known as Bank BUKU IV) listed in BEI. There are 7 Indonesian banks (BNI, BRI, Mandiri, BCA, CIMB Niaga, Panin Bank, Danamon Bank) that is categorized by the Central Bank of Indonesia (Bank Indonesia) and The Indonesia Financial Services Authority (OJK) based on their business activities defined by the amount of core equity capital owned.

Forasmuch the information mentioned above, this paper is contributing in exploring both firm specific factor with the variable of CGP (defined by board size, board composition, CEO tenure, and management equity holding), firm size, and firm profitability along with economical phenomenon (macroeconomy) factor with the variable of inflation towards DP at once; specifically, in Indonesia.

2. LITERATURE REVIEW

2.1. Inflation

According to Ahmad (1984) in economics, inflation is a persistent and relatively large escalation in the general price level of goods and services. Its opposite is deflation, a process of generally declining prices. Chen (2020) and Zucchi (2020) defined inflation as a quantitative measure in which there is an increase in the average price level of a basket of selected goods and services in an economy over some time. An increase in the price of inflation can be related to various factors which are classified into three types such as pull-demand inflation that occurs when the overall demand for goods and services in an economy increases rapidly rather than the economy's production capacity, cost-push inflation that occurs when production cost increase prices, and built-in inflation that occurs when wage is rising following the rising of price in order to maintain living cost. Most commonly there are methods to calculate inflation like consumer price index (CPI), a price index that represents the average price of basket of goods over time and wholesale price index (WPI), an indicator of price in the wholesale market (Singh, 2020).

2.2. Corporate Governance Policy

Corporate governance is defined as a process of ensuring the effectivity of firms function for the benefit of shareholders that combine both investors' and firms' management interest (Mayer, 1997; Rezaee, 2009). From the investors' perspective, corporate governance can be defined as the commitment of the firm to repay a fair return on invested capital and operating the firm effectively with the given investments (Gompers et al., 2003; Ikunda et al., 2016). According to La Porta et al. (2000), the existence of corporate governance will determine how well the legal law administer the investor protection of the minority shareholders and creditors from the expropriation of the firm's management and controlling majority shareholder. The primary aim of corporate governance is to find solutions when conflicts arise among investors and the firm's management-controlling shareholder (Ikunda et al., 2016). Setiawan and Phua (2013) stated that good corporate governance mechanism is important to protect the investors' right, i.e. dividend.

2.3. Firm Size

Dang et al. (2018) stated firm size is generally used as an important characteristic in empirical corporate finance. Firms' total assets, sales, and market capitalization can be used to express the firm size (Ahmad and Wardani, 2014). Assets play an important role in firm size since

the firm business operation coming from the use of assets to generate income. A study from Lumapow and Tumiwa (2017) stated that the firm size can be assessed from the firms' total assets. As the value of the firms' assets will change due to the firms' strategy implementation, Ikunda et al. (2016) stated the consideration of assets value movement needs to be considered. Hence, the average of the assets' movement will be implied. The firm size will also indicate the growth of the company since it will determine profitability and dividend policy (Weston and Copeland, 1992; Ikunda et al., 2016).

2.4.Firm Profitability

Fama and French (2006) stated profitability as a measure of firm financial performance, which indicates the income generated from the firms' business process. Further, Ikunda et al. (2016) determined firm profitability as a ratio of the firms' ability to generate profit from revenue. Regarding profit distribution, a firm may retain a portion of profits to support its business process or distribute dividends to the shareholders. Higher profitability will stimulate the firm to pay higher dividends (Chang, 2009; Abor and Bokpin, 2010) which might lead to the tendency for the firm in raising equity or debt in the future. The raising of equity or debt will increase the firms' assets and support the firms' business process to generate more income (Ikunda et al., 2016)

2.5.Dividend Policy

Just as companies try to generate profits, so do shareholders expect profits in the form of dividends and capital gains. Dividend policy is the decision whether the profits obtained by the company at the end of the year will be distributed to shareholders in the form of dividends or will be retained to increase capital for investment financing in the future (Arum, 2013). Dividend payout ratio is a comparison between dividend per share (DPS) and Earning Per Share (EPS). Agency theory predicted that public shareholders outside of the company prefer higher dividend payments because dividends reduce the inefficiency of managerial investments (Dutta & Saadi, 2011). The development of dividend payments to shareholders has been tied up with the development of the corporate form itself. Corporate managers realized the importance of dividend payments in satisfying shareholders' expectations because dividends can be used as a tool to signal information to the market. Moreover, dividend policy is believed to have an impact on stock prices that can encourage the evolving state of financial markets (Al-Malkawi et al., 2010).

2.6.Hypothesis Development

(Basse and Reddemann, 2011; Landesbank, 2009; Pourheydari, 2009) examine theoretically and empirically about dividend policy from a macroeconomic perspective. That there is an influence between inflation on dividend policy. This is done by applying cointegration techniques and finding a positive relationship between inflation and dividend payments that have an impact on dividend growth and dividend policy (has been studied in the US, Australia and Iranian). Therefore, this study tests the following hypotheses:

H1: Inflation has positive effect on Dividend Policy

According to La Porta et al. (2000), there are two theories that explaining the relationship between corporate governance and dividend policy, i.e. outcome and substitution. Outcome theory explained that corporate governance has a positive effect on dividend policy, while substitution theory showed a negative effect. Earlier studies on corporate governance have showed that this variable has a positive effect on dividend policy (La Porta et al., 2000; Mitton, 2004). Therefore, this study tests the following hypotheses:

H2: Corporate Governance has positive effect on Dividend Policy

A study from Sari (2009) showed that firm size has a significant effect on dividend policy. Also, several studies on companies listed in Indonesia Stock Exchange have shown that Firm Size has a positive effect on dividend policy (Lestanti, 2007; Rizqia et al., 2013; Ahmad and Wardani, 2014). Therefore, this study tests the following hypotheses:

H3: Firm Size has a positive effect on Dividend Policy

Ajanthan (2013) showed that there is a significant relationship between firm profitability and dividend policy. Franc-Dąbrowska et al. (2019) mentioned that profitability is a determining factor in dividend policy. Several studies showed that Firm Profitability has a positive effect on Dividend Policy (Rizqia et al., 2013; Ahmad and Wardani, 2014; Gunawan and Tobing, 2018). Therefore, this study tests the following hypotheses:

H4: Firm Profitability has a positive effect on Dividend Policy

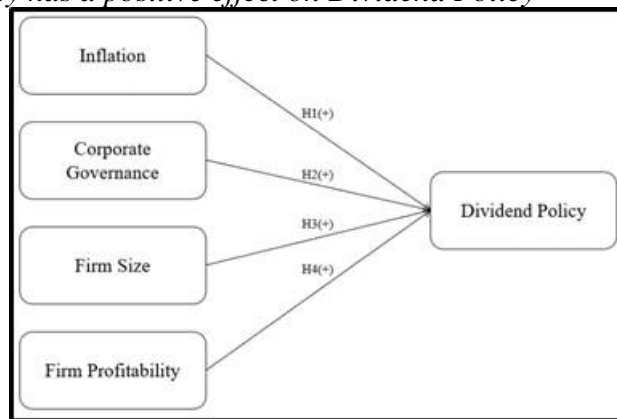


Figure 1. The Research Model

3. RESEARCH METHOD

3.1. Research Design and Target Population

This study used ex post facto design wherein to examine events that occurred in the past to determine the factors that caused these events. With a quantitative and associative causal research approach to determine the relationship or effect of cause and effect between two or more variables. The population in this study was made up of top seven public listed banking companies base on BUKU IV (Ellen May Institute, 2020; Sidik, 2020) at the Indonesia Stock Exchange such as BRI, BNI, MANDIRI, BCA, CIMB Niaga, Panin Bank, and Danamon Bank from 2015-2019.

3.2. Data Collection and Data Analysis

Secondary data sourced from the annual reports of the companies’ that have been audited and published for 5 years, 2015-2019, with documentation techniques in data collection from PT. The Indonesia Stock Exchange, Bank Indonesia, journals, articles and scientific papers. The data collected was coded and analyzed using SPSS (Statistical Package for Social Sciences). Correlation analysis is used to determine the relationship and the level of relationship between two or more variables without any effort to influence these variables so that there is no manipulation of variables (Fraenkel and Wallen, 2008). Regression analysis is used to determine the pattern of relationships between two or more variables as a mathematical model. Regression analysis uses the basic concept of correlation but provides more information by showing a linear relationship between two variables in the form of an equation (Lind et al., 2018). Therefore, the structural equation of regression model is

$$Y = \beta_0 + \beta_1 INF + \beta_2 CGC + \beta_3 FS + \beta_4 FP + e_1$$

Where:

Y - Dividend Policy, β_0 - Y-intercept, INF - Inflation, CGC - Corporate Governance Policy, FS - Firm Size, FP - Firm Profitability, e_1 - error term which account for other possible factors that could influence Y that are not captured in the model.

4. RESULTS

4.1. Correlation Analysis

Table 1. Correlation analysis and test of significance

		Correlations				
		INF	CGP	FS	FP	DP
INF	Pearson Correlation	1	-0,499**	-0,15	-0,231	-0,092
	Sig. (1-tailed)		0,002	0,388	0,182	0,599
CGP	Pearson Correlation		1	0,462**	0,491**	0,552**
	Sig. (1-tailed)			0,005	0,003	0,001
FS	Pearson Correlation			1	0,704**	0,889**
	Sig. (1-tailed)				0	0
FP	Pearson Correlation				1	0,822**
	Sig. (1-tailed)					0
DP	Pearson Correlation					1
	Sig. (1-tailed)					

** . Correlation is significant at the 0.01 (1-tailed)

The results in table 1 show that inflation and dividend policy have a weak negative relationship as evidenced by the low Pearson’s value of -0.092. The one tailed significant value was 0.350 and this shows that board composition has no statistically significant impact on dividend policy because $0.350 > 0.05$. Therefore, the study rejects the first hypothesis and concludes that inflation has not a statistically significant impact on dividend policy (Mirbagherijam, 2014). On the other hand, the corporate governance policy, firm size and firm profitability each has a strong positive relationship on dividend policy, based on the correlation coefficient value of 0,552 (CGP); 0,889 (FS); 0,822 (FP). This suggests that an increase in corporate governance policy, firm size and firm profitability each will increase the dividend policy. The one tailed significant value of each variables implies that had statistically significant impact on dividend policy of the manufacturing firms that were studied.

4.2. Regression Analysis

Table 2. Multiple Regression analysis

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,948	0,898	0,885	2,62747	1,853

Dependent Variable: DP

Predictors: (Constant), FP, INF, CGP, FS

According to table 2 above, dividend policy is 88,5% explained by inflation, corporate governance policy, firm size, and firm profitability as shown by the coefficient of determination value (Adjusted R²) of 0,885. The Durbin-Watson measure of autocorrelation in this analysis was 1,853. This signifies that there was no autocorrelation among the independent variables due to the fact that it was within the acceptable levels of 1.5 to 2.5 (Ikunda et al., 2016).

4.3. Test of Hypothesis

Table 3. ANOVA test

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1829,264	4	457,316	66,243	0
	Residual	207,108	30	6,904		
	Total	2036,372	34			

Dependent Variable: DP

Predictors: (Constant), FP, INF, CGP, FS

Based on table 3, the overall significance of the model was 0.000 with an F value of 66,243. The level of significance was lower than 0.05 and F value higher than F table 2,69. So this means that inflation, corporate governance policy, firm size, and firm profitability practices have a simultaneous and significant impact on dividend policy of public listed banking company in Indonesia Stock Exchange for the period 2015-2019.

Table 4. Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-44,131	9,6		-4,597	0
1 INF	4,747	1,816	0,177	2,614	0,014
CGP	12,018	4,64	0,199	2,59	0,015
FS	0,001	0	0,567	6,747	0
FP	23,549	5,476	0,366	4,3	0

Dependent Variable: DP

Looking at the table 4 shows that the results of the H1, H2, H3, and H4 research hypotheses were accepted as their sig. was smaller than the alpha (0.05) which was then supported by positive beta value and greater T-test value than 1.96. This indicates that inflation, corporate governance, firm size, and firm profitability have statistically significant impact on dividend policy.

5. SUMMARY

Dividend policy is affected by both internal (firm-specific factor) and external (economical phenomenon) stimuli. However, it is deduced from the tests results that there is a stronger impact arise from the internal factor; in comparison to the otherwise. Referring to the research results, we determine that there is a positive effect between inflation and dividend policy (Basse and Reddemann, 2011). This explains macroeconomically, inflation may affected the capital market and important financial variables in companies, where it has an impact on dividend payments. Therefore, it can be concluded that dividend policy should consider the effects of inflation (Adaoglu, 2000; Aivazian et al., 2003). Our findings showed that corporate governance has a positive effect on dividend policy, which is in-line with the banking sector situation in Indonesia. The corporate governance policy of Indonesian Commercial Banks is regulated by the central bank of Indonesia (Bank Indonesia). It is mentioned in the policy of Bank Indonesia regulation number 8/4/PBI/2006 for commercial banks obliged to implement good corporate governance towards the firms’ stakeholders (including shareholders) and policies on running the business. This situation is also in-line with the outcome theory mentioned in La Porta et al. (2000) study. Additionally, corporate governance is related to firm size and firm profitability as the policies will depend on the firms’ financial conditions. The size of the firm (total assets) expresses the firms’ resources to run their business. The more resources owned by the firm, the more it’s likely for increase on the firms’ income. Following by the increase of income, firms' profitability will also increase. Therefore, it can be stated that both firm size and firm profitability have a positive effect on dividend policy.

6. LIMITATION AND SUGGESTION FOR FUTURE RESEARCH

There are several limitations to this study. This study is focused on the Indonesian banking sector. As stated before, our sample can only be applied to BUKU IV banks. The determining factors of corporate governance were still limited since not all firms stated the same information.

Therefore, not all corporate governance factors can be implied to determine the factors in Indonesian banking firms.

As we encounter several limitations in this study, we would like to suggest several suggestions for future research. First, we suggest using other external factors to find out if any other factors affect the banking sector dividend policy. Second, we suggest that future studies can create dividend payout formula based on the firm/business sector internal and external factors. Lastly, we suggest exploring more regarding factors that may affect dividend policy within the same business sector, cross-sector, or generally overlooked which can be applied in any business sector.

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