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Diterminants of Dividend Policy: The role of Corporate Governance as Moderating Variable

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ABSTRACT: This research aims to investigate the influence of important factors including; profitability, liquidity, leverage and size that effect dividend policy with corporate governance as moderating variables. The research method uses a quantitative causality approach through the formulation of hypotheses, to analysis the influence of independent on the dependent variables using Moderating Regression Analysis (MRA) with SPSS software. The research sample was 14 manufacturing companies in the basic chemical industry sector which were observed during the 5 year period 2018 - 2022, obtaining a sample N of 70 observations. The research results show that before being moderated by institutional ownership, the variables that influence dividend policy are ROA, and Leverage has a negative influence on dividend policy, and Size has a positive influence. When the moderating variable Institutional Ownership is included, it is able to show the role of Institutional Ownership in moderating the influence of ROA, Current Ratio, and Leverage which negatively influences dividend policy, and Size influences positively. These findings provide the implication that institutional ownership is able to support the upholding of corporate governance values for companies, supports stakeholder theory and agency theory.

KEY WORDS: Dividend Policy, Corporate Governance, Profitability, Liquidity, leverage, Size
Gel Classification: M21, M5.

1. INTRODUCTION

Dividend policy is an important decision for a company in terms of the company goal of maximizing the owners wealth, by distributing a portion of its net profit to shareholders. Dividend policy can empirically influence company value and shareholder welfare (Anandita and Septiani, 2023; Mardani, 2022; Rahmawati *et al.*, 2021). Studying a company dividend policy requires an in-depth understanding of a number of interacting factors. Internal company factors, profitability, liquidity, leverage, and company size can certainly be a consideration in determining dividend allocation which will affect company value (Salsabillah, 2023; Aprilyani, Widyarti and Hamida, 2021). Financial performance and growth are the main basis for management consideration for dividend policies that can be managed to achieve long-term goals. The complexity of dividend policy is also influenced by external company factors, such as interest rates, inflation rates, and government policies, which can have a significant impact on dividend policy.

On the other hand, Corporate Governance also plays an important role in determining dividend policy. Corporate governance is a set of rules, mechanisms and processes designed to direct and supervise the company. Corporate governance aims to protect the interests of shareholders, creditors and other stakeholders (Nanda and Damayanti, 2021; Bonacchi *et al.*, 2023; Steens, de Bont and Roozen, 2020).

Based on the research motivation, namely wanting to investigate the role of corporate governance variables in moderating the influence of profitability ROA, Current ratio, Leverage, and Size on determining dividend policy, manufacturing companies in the basic industrial and chemical sectors listed on the Indonesia Stock Exchange (BEI) for the 2018-2022 period, then, The stages of discussing this research can be done chronologically

arkan: (1) background; (2) literature review and hypothesis development, (3) research methods, (4) results and discussion of research results, and (5) conclusions and policy suggestions.

2. LITERATUR REVIEW AND HYPHOTHESES

2.1. Dividen Policy

According to (Darmawan, 2022) dividend policy is a policy to compare profits distributed to shareholders in the form of cash dividends, share dividends, stock splits, smoothing dividends distributed, as well as withdrawals of outstanding shares carried out by financial management. The dividend distribution policy aims to increase wealth maximization for owners, with the hope that investors will be interested in increasing their share investment in the company, apart from capital gains, when the company performance is good, the opportunity for share transactions to obtain capital gains. Thus, the dividend policy strategy for increasing company capital which is balanced with good performance will be able to increase the company value (Budianto *et al.*, 2022; Rahmawati *et al.*, 2021; Salsabillah, 2023).

2.2. Profitability and Dividend Policy Moderated by Corporate Governance

Profitability (ROA) is a measure of a company ability to earn profits based on the investment of all company assets. Profitability contains elements of effectiveness and efficiency values, in this case effectiveness can be observed based on effectiveness ratios including Total Assets Turnover (TATO), Inventory Turnover (ITO), Account Receivable Turnover (ARTO) and other activity ratios, from the efficiency side it can be seen based on the Gross ratio Profit Margin (GPM), Operating Profit Margin (OPM), and Net Profit Margin (NPM) all of which can indicate the level of efficiency of a company operation (Harmono *et al.*, 2023). Referring to several previous research results, company profitability can influence the determination of dividend policy (Budianto *et al.*, 2022; Tamrin *et al.*, 2017; MYERS, 1984; Kusuma and Semuel, 2019).

On the other hand, Corporate Governance, which describes transparent and accountable of managerial processes, is generally carried out and supervised through the General Meeting of Shareholders to determine the company strategic policies, will be supervised and controlled by the structure of the Share Ownership Board, including Institutional Ownership, Managerial Ownership, Audit Committee, Board of Independent Commissioners, through the GMS mechanism will obtain corporate governance values that can advance the company. Therefore, the achievement of company performance is conceptually influenced by the company ownership structure, and ultimately also influences dividend policy and leverage funding policy, or other policies within the company (Harmono *et al.*, 2023; Choi, Lee and Park, 2013; Nguyen and Nguyen, 2020). Based on a review of previous research, the following research hypothesis can be formulated:

H_a1: Profitability Affects Dividend Policy

H_a2: Institutional share ownership is able to moderate the influence of profitability on dividend policy.

2.3. Liquidity and Dividend Policy Moderated by Corporate Governance

Conceptually, company liquidity is the ability of a company with its current assets to be able to pay off the company current debts in a period of less than one year. Indicators for measuring the level of company liquidity generally use the Current Ratio, Quick Ratio, and Net Working Capital to total Assets Ratio (Harmono 2023). This research wants to test liquidity influence on dividend payment policy (Budianto *et al.*, 2022; Salsabillah, 2023).

On the other hand, Corporate Governance, represented by Institutional Ownership, will participate in supervising the company managerial processes, including determining dividend policy. Empirically, companies that are in a growing condition want to add as much capital as possible in order to support increased production capacity to achieve production innovation and sales targets, of course they will tend to retain earnings rather than distribute them as dividends, or in other words apply the pecking order theory which will influence company capital structure (Mazur, 2007; Adair and Adaskou, 2015; Thomas, Kiptanui, Chenuos and Biwott, 2014). Referring to the proposition of previous research, a research hypothesis can be formulated, namely:

H_a3: Liquidity Affects Dividend Policy

H_a4: Institutional ownership is able to moderate the influence of liquidity on dividend policy

2.4. Leverage and Dividend Policy Moderated by Corporate Governance

The phenomenon of pecking order theory and optimal capital structure theory continues to be debated today. The pecking order theory states that the management style tends to increase capital by retained earnings. On the other hand, in optimal capital structure, many studies show that managers who want to aggressively achieve sales targets and innovate production tend to utilize leverage through debt funding (Chen and Chou, 2015; Liu and Wong, 2011; Thomas, Kiptanui, Chenuos and Biwott, 2014;Adair and Adaskou, 2015; Haron *et al.*, 2021)

Therefore, determining dividend policy gives rise to its own phenomenon, namely, when management is actively raising capital in order to achieve strategic targets to increase company sales and profits, it is not necessarily the case that a company which is in a condition of high profits and has a high debt capital structure will do so. dividend payments.

On the other hand, the role of share ownership structure in the General Meeting of Shareholders (GMS) mechanism also determines the direction of dividend policy. Based on company performance variables, company liquidity conditions, capital structure, and company assets growth conditions, whether they can support the managerial process towards the value of good corporate governance. Referring to the phenomena and results of previous research, it is necessary to formulate a research hypothesis, namely:

H_a5: Leverage Affects Dividend Policy

H_a6: Institutional ownership is

2.5. Dividend Size and Policy Moderated by Corporate Governance

An interesting phenomenon that needs to be studied in depth is related to company size. In general, large companies are mature, have organizational maturity, and have good corporate governance. Therefore, referring to several previous research models, this research will analyze the influence of Size on determining dividend policy which is moderated by the company ownership structure which is represented by Institutional Share Ownership which is an independent party that can uphold corporate governance values towards a transparent and accountable managerial process. Dealing with determining dividend policy, managers are always faced with increasing capital through retained earnings or through the use of leverage towards an optimal capital structure in carrying out the company development strategy towards the company maturity and sustainability (Adair and Adaskou, 2015; Haron *et al.*, 2021; Mazur, 2007; Li-Ju Chen, 2011; Awais *et al.*, 2016).

Viewed from a corporate governance perspective, various management efforts in carrying out company operations always involve and are supervised by interested parties, one of which is parties in the company ownership structure. Therefore, the role of ownership structure can also influence company performance, not only in terms of determining dividend policy (Kurniati, 2019; Goto, 2009; Worokinasih and Zaini, 2020; Tanjung, 2020; Choi, Lee and Park, 2013).

Based on a review of previous research, a hypothesis can be formulated:

H_a7: Size affects dividend policy

H_a8: Institutional ownership is able to moderate the influence of size on dividend policy

2.6. Research Model

Based on a review of the theoretical and results of previous research, it can be outlined in an integrated research model, which can be shown in Figure 1.

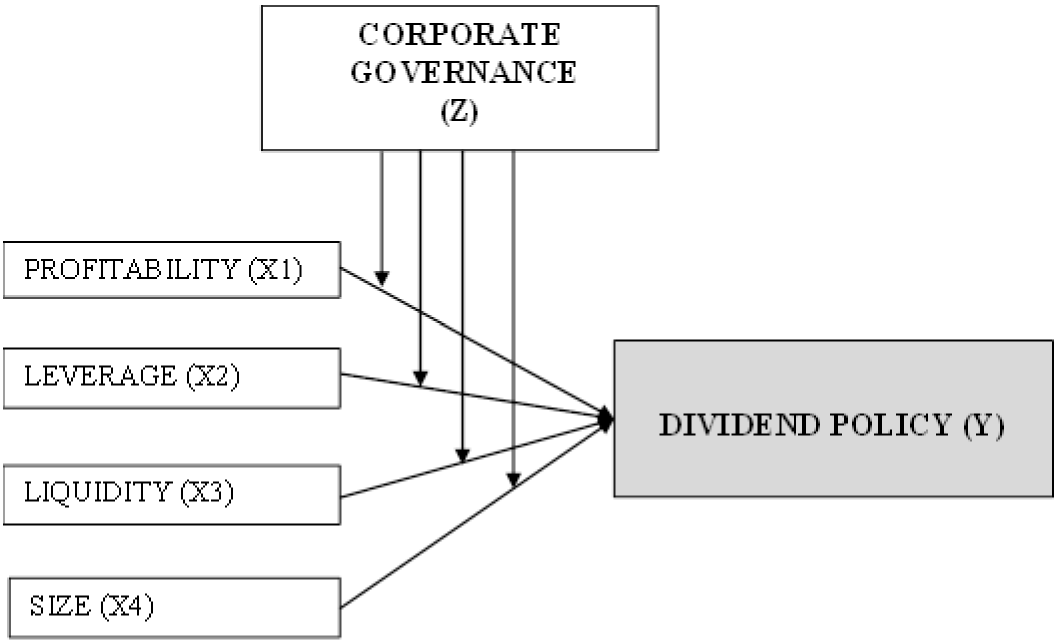

Figure 1: Integrated Research Model (Developed by the author, 2023)

3. RESEARCH MOTHOD

This research uses a quantitative approach with an explanatory research that analyzes the causal relationship between the dependent variable, in this case dividend policy and independent variables including Profitability (ROA), Liquidity (CR), Leverage (DER), and Size (ln_Assets) with the Corporate Governance moderating variable using Institutional Ownership measurements. The population of this research is the financial reports of manufacturing companies in the basic industrial and chemical sectors listed on the Indonesia Stock Exchange for the 2018-2022 period. Using the census method, all 14 manufacturing industry companies were observed for 5 years and obtained N 70 observation samples. Using moderated regression analysis techniques using SPSS statistical software. The analysis technique formula can be described as follows:

$$Y = \beta_0 + \beta_1 ROA + \beta_2 Liqwidity + \beta_3 Leverage + \beta_4 Size + \Sigma ei \qquad \text{Equation (1)}$$

$$Y = \beta_0 + + \beta_1 ROA.IO + \beta_2 Liqwidity.IO + \beta_4 Leverage.IO + \beta_4 Size.IO + \Sigma ei \qquad \text{Equation (2)}$$

Description:

Y	= Kebijakan Dividend
ROA	= Profitabilitas (Return on Assets)
Leverage	= Debt to Equity Ratio
Size	= Log Assets
IO	= Institutional Ownership

4. RESULT

4.1. Despriptive Statistic

Table: 1

Variable	Variable Definition	N	Mean	Minimum	Maximum	Std. Deviation
ROA (X1)	Return on Assets	70	.085	.009	.364	.066
CR (X2)	Current Ratio	70	2.929	1.003	9.283	2.029
LEVERAGE (X3)	Debt to Equity Ratio	70	.738	.105	1.987	.538
Size (X4)	Assets Total	70	29.066	26.486	32.049	1.577
IO	Institusional ownership	70	.683	.433	3.941	.449
IO . X1	IO X ROA	70	.066	.0056	1.015	.124
IO . X2	IO X Current Ratio	70	2.288	.548	11.765	2.288
IO . X3	IO X Leverage	70	.506	.065	2.381	.485
IO . X4	IO X Size	70	19.572	12.552	104.382	11.826
DP (Y)	Dividend Policy	70	.425	.013	2.249	.363
Valid N (listwise)		70				

Based on Table 1, the data that has the highest variation before including the institutional ownership moderating variable as a variable that represents corporate governance as a supervisor and controller of the company managerial processes is the current ratio variable with an average value of 2,929 and a standard deviation of 2,029. Next, the variables size, leverage and profitability each have an average value of 29.066, 0.738 and 0.085. with a standard deviation of 1.577, 0.538, and a ROA standard deviation of 0.066.

The results of the data description after entering the moderating variable show relatively different data variations, namely: the data that has the highest variation is the size variable with an average value of 19.572, next is the current ratio of 2.288, leverage of 0.506, and ROA profitability with an average value of 0.066, with The standard deviation value for each size is 11.826, liquidity 2.288, leverage 0.485, ROA profitability standard deviation 0.124. Further explanation regarding the relationship between variables related to dividend policy in detail can be seen in Table 2.

4.2. Correlation Between Vaiables

Table: 2

	ROA (X1)	CR (X2)	LEVERAGE (X3)	Size (X4)	IO (Z)	IO.ROA (X1z)	IO.CR (X2Z)	IO.LEV X3 (Z)	IO.Size. X4 (Z)	DP (Y)
ROA (X1)	1									
CR (X2)	.016	1								
LEVERAGE (X3)	**-.400***	**-.651***	1							

Size (X4)	**-.306****	**-.450*****	**.324*****	1						
IO (Z)	**.244****	-.048	.009	**-.360*****	1					
IO.ROA (X1z)	**.626*****	-.021	-.209	**-.319*****	**.848*****	1				
IO.CR. (X2z)	.089	**.607*****	**-.483*****	**-.562*****	**.420*****	**.350*****	1			
IO.**LEV (X3Z)**	**-.273****	**-.527*****	**.795*****	.037	**.484*****	.109	-.197	1		
IO.Size (X4Z)	**.218***	-.085	.044	**-.305****	**.998*****	**.830*****	**.387*****	**.518*****	1	
DP (Y)	-.191	.053	**-.284***	**.354*****	-.176	-.170	-.110	**-.267****	-.157	1

The description of the relationship between variables based on Table 2 shows the variables before including the moderating variable which have a close relationship with determining dividend policy. Firstly, size has a significant relationship in determining policy with a relationship coefficient of 0.354 (p=0.003), this phenomenon can be interpreted The larger the company size, the greater the opportunity to distribute dividends.

On the other hand, leverage with a negative coefficient value of -0.284 (p=0.017), which reflects the increasing debt, will actually reduce dividend payments. This means that if it is linked to the implementation of corporate governance values, when the institutional ownership moderating variable is included, it turns out to further strengthen the fact that in conditions of large company debt, companies are not allowed to distribute dividends. Meanwhile, the variables liquidity, size and profitability are not related to the process of determining dividend policy, but have a close relationship with profitability as a potential source of dividend distribution, respectively with a relationship coefficient of Leverage 0.400 (p=0.016), Size -0.306 (p=0.010) , and Institutional ownership has a relationship with ROA profitability of 0.244 (p=0.041). This phenomenon can be seen in detail in Table 2. Next, hypothesis testing is discussed in Table 3.

4.3. Discussion

Table: 3

Variables	**Dividend Policy (Y1.a) Model 1**	**Dividend Policy (Y1.b) Model 2**	**Description of Hypothesis**
Before Moderating Variables			
ROA (X1)	**-0.350 (0.005)*****	-	**H$_a$1: Accepted**
CR (X2)	-0.223 (0.149)	-	H$_a$2: Rejected
LEVERAGE (X3)	**-0.689 (0.000)*****	-	**H$_a$3: Accepted**
Size (X4)	**0.370 (0.002)*****	-	**H$_a$4: Accepted**
After Enter Moderating variables			
IO X ROA	-	**-1.130 (0.000)*****	**Accepted, Institutional Ownership as moderating variable**
IO X Current Ratio	-	**-0.494 (0.001)*****	**Accepted, Institutional Ownership as pure or fully moderating variable**
IO X Leverage	-	**-1.018 (0.000)*****	**Accepted, Institutional Ownership as moderating variable**
IO X Size	-	**1.500 (0.000)*****	**Accepted, Institutional Ownership as moderating variable**
(Constant)	-1.420 (0.107)	**0.306 (0.004)*****	
Adj R-Square	**0.344 (0.000)*****	**0.238 (0.000)*****	Model Fit
R	**0.531^{a}**	**.531^{a}**	Model Fit

	(0.000)* **	**(0.000)*** **

***, **, ***, level of significance: 10%, 5%, 1%**

4.3.1. Profitability and Dividend Policy are moderated by Corporate Governance

The results of the analysis in model 1 before including the moderating variable Institutional Ownership, the variable that influences the determination of dividend policy is profitability. ROA significantly negatively influences dividend policy with a regression coefficient of -0.350 (p=0.005), meaning that management behavior with the amount of profit earned tends to retain earnings, as an additional source of business capital, and tends not to be distributed as dividends, the results of this research are inconsistent, indicating that company profitability positively influences the determination of dividend policy (Kusuma and Semuel, 2019; Budianto *et al.*, 2022; Salsabillah, 2023) bu consistent with (Tamrin *et al.*, 2017). This means that managers of manufacturing companies in Indonesia tend to apply the pecking order theory, namely raising capital by increasing retained earnings, when the company is still in a state of growth to pursue opportunities to achieve sales and profit targets (Adair and Adaskou, 2015; Li-Ju Chen, 2011).

4.3.1. Liquidity and Dividend Policy are moderated by Corporate Governance

The next discussion tests the influence of liquidity using the current ratio measurement before including the moderating variable institutional ownership, which does not influence the determination of dividend policy. This condition can be interpreted as meaning that managers, in conditions of smooth liquidity, are still not motivated to distribute dividends.

However, when the influence of liquidity on dividend distribution decisions is moderated by institutional ownership which oversees the managerial process, then the moderating variable of institutional ownership is purely able to strengthen the determination of dividend distribution policy. This phenomenon illustrates the importance of corporate governance in upholding the values of good governance, so that management behavior will act professionally. In this case, the behavioral attitude of institutional ownership can strengthen management decisions when the company liquidity is in a liquid condition, actually influencing not to distribute dividends, considering the relatively low operating profit to retain profits in order to increase the company wealth, until the company is truly worthy of distributing dividends, when the company is large it has good and stable performance.

4.3.3. Leverage and Dividend Policy are moderated by Corporate Governance

The leverage variable directly negatively influences dividend policy. In this case, the higher the debt to equity ratio will reduce the decision to distribute dividends with a regression coefficient of -0.689 (p=0.000), this decision is strengthened when there is an institutional share ownership board. The regression coefficient increases to -1.018 (p=0.000), this condition is appropriate with the concept of optimal capital structure. In this case, the company aims to increase production capacity to meet sales targets, by borrowing to increase fixed asset investment to increase production capacity. In this way, there will be leverage to achieve sales targets and increase profits (Modigliani F. and Miller M., 1963).

4.3.1. Size and Dividend Policy are moderated by Corporate Governance

An interesting finding, when a company has large assets, there is a positive tendency for management to distribute dividends, and this is strengthened by institutional share ownership which encourages them to distribute dividends. When the company is truly in a healthy condition, the company assets grow and are large, appropriate to distribute dividends to shareholders. And while it is still in the process of achieving sales growth by utilizing leverage. Thus, it can be concluded that the condition of the manufacturing industry in Indonesia shows good and professional corporate governance. In this case it is proven that size influences dividend policy which is moderated by institutional ownership with a regression coefficient of 0.370 *(p=0.002)* when moderated by institutional ownership the regression coefficient becomes 1.500 *(p=0.000)* in line with (Kusuma and Semuel, 2019; Budianto *et al.*, 2022; Salsabillah, 2023; Tamrin *et al.*, 2017; Aprilyani, Widyarti and Hamida, 2021).

5. CONCLUSION AND IMPLICATION

5.1. Conclusion

The results of the discussion of model 1 before including the moderating variable institutional ownership show that profitability and leverage negatively influence the determination of dividend policy, while the current ratio does not influence the determination of dividend policy. This phenomenon describes the condition of manufacturing companies in the basic chemical industry sector, which are currently raising capital through retained earnings or through debt funding. When the company profits are large and the company also has sources of debt, the company does not distribute dividends.

When the Corporate Governance variable uses institutional ownership as a measurement, the condition is that institutional ownership strengthens management policy not to distribute dividends. In fact, when liquidity conditions are good, managerial ownership encourages not to distribute first, before the company is truly healthy, running smoothly and has large assets.

The next conclusion is that when the company size has grown and is large, it is an important variable that encourages management to determine dividend policy patterns. The phenomenon that occurs in manufacturing companies in the basic chemical industry sector shows an interesting phenomenon, when the company is growing, funds require large investments in order to reach market segments and increase profitability. In such conditions, management has a tendency to apply the pecking order theory, which tend to retain profits.

On the other hand, when the company is stable on a large company scale, which is likely to be a cash cow, then managers tend to distribute dividends.

5.2. Implications

Implications of research results for corporate management practitioners. The findings of this research are able to show a unique phenomenon, when funds are needed for production expansion and profit targets, companies should retain profits and use leverage funding to support operational and investment activities. And when the company is stable and large, dividend distributions are immediately given to shareholders.

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