

DIVIDEND POLICY, CORPORATE GOVERNANCE MECHANISM, PROFITABILITY, SYSTEMATIC RISK, AND FIRM SIZE: A PANEL DATA ANALYSIS

Gusni

Faculty of Business and Management, Universitas Widyatama
(gusni.tanjung@widyatama.ac.id)

ABSTRACT

This study examines the impact of corporate governance mechanism (CGM), profitability, systematic risk (beta) and firm size on the dividend policy in the financial industry, and determines which of those variables having powerful effects to the dividend policy. The study also interested to show the variables that investors rely on to take their investment decisions related to gain from dividends paid by the company. Those variables proposed to develop this research model were formed by a survey of literatures.

To achieve the objectives of this study, a total of 18 listed firms of financial industry in Indonesia Stock Exchange was selected using purposive sampling technique from the period of 2009 to 2013. A panel data analysis method has been conducted to explain the impact of corporate governance mechanism (board of director, and institutional ownership), profitability, systematic risk and firm size on the dividend policy. The result shows that systematic risk and board of director have a positive and significant impact on the dividend policy. Firm size has a negative and significant impact on the dividend policy. Meanwhile, profitability and institutional ownership not significantly impact on the dividend policy which is contrary to the theory.

Keywords: *dividend, corporate governance mechanism, profitability, beta, firm size*

INTRODUCTION

Dividend policy is one of very important factor that should be considered by management in managing the company, because the dividend policy influence both of internal companies (corporate financing decisions) and external companies (shareholders and creditors). High dividend distribution can lead to the reduction of internal financing source to carry out investment projects. On the other hand shareholders expect the company to pay cash dividends, especially investors who hold shares for a long time period with the aim to obtain capital gains and dividend yield (Salehi and Biglar, 2009). Therefore, the company's managers should be able to balance the different interests between the

shareholders, so managers can utilize the investment opportunities that are profitable for the company's and pay cash dividends requested by a number of shareholders.

Dividend policy is a sensitive issue and also very important for the company. Dividend policy is often debated in the literature of corporate finance and still controversial. Determinant of dividend policy was proposed by Lintner (1956), which suggests that the company should increase the dividend payment only if the manager believes that a high dividend payment are able to be maintained in the future. There are two important points from the results of the research by Lintner; (1) the company's should emphasize the stable dividend payments, and (2) the company

earning is the main determinant factor in the company's dividend policy (Murhadi, 2008). Lintner's research was followed by Miller and Modigliani (1961) which suggests that the managers do not need to concern themselves with the payment of dividends, the most important things are providing that all of investment projects have a positive NPV, when discounted at the cost of capital, the shareholder wealth can be maximized and any remaining funds should be paid to shareholders as dividends (McLaney, 2009). Lintner research was continued by Fama and Babiak (1968), and their research result supports his developed model (Murhadi, 2008).

Bhattacharyya (1979), Miller and Rock (1985), John and Williams (1985), John and Lang (1991) in Ahmad and Wardani (2014), argued that dividends can be used as an information from managers who are well-informed to the shareholders that poorly-informed or called as "dividend signaling theory".

Meggison (1997) in Arifin (2007), summarizes the pattern of dividend policy in different countries and found it was different for every country that is influenced by various factors such as the company's dependence on the sources of funds (capital markets or banks), the corporate governance mechanism, company profitable, firm size, industry growth, company growth, investment fund, ownership structure, taxes, and so forth. In addition, the dividend policy can also affected by systematic risk, agency cost and company investment opportunities (Martono and Harjito, 2005).

The corporate governance mechanism is one of the determining factors of corporate dividend policy that is widely discussed by many parties, because it can help to create a conducive relationship and can be accountable among elements within the company (board of directors, board of commissioners, and shareholders) and generally, provide benefits for the companies, investors and public (Sam'ani, 2008).

Shleifer and Vishny (1997), argued that the main purpose of corporate governance is to ensure that investors who invest their money in the company received fair returns of their investment. Furthermore, Kim and Chae Lee (2009), also said that companies with better corporate governance will pay higher dividends if they are not restricted to the external funding. Kowalewski, 2007 found that corporate governance practices are statistically has significant influence in increase the dividend-to-cash-flow ratio. Aydin and Cavdar (2015), show that corporate governance has a relationship with the dividend policy. However, Thanatawee (2014) research results, found that corporate governance (institutional ownership) has a negative correlation with dividend policy. Abdelsalam et. al. (2008) find that corporate governance (board size) does not affect the dividend policy. Yulianto (2014), also find that corporate governances (institutional ownership and board composition) have no effect on the dividend policy.

The company profitability also has relationship with the corporate dividend policy as presented by Lintner (1956). Higgins (1972) in Elston (1996), state that profitability has a positive relationship with the company earning. Furthermore, DeAngelo et.al. (2004), Amidu and Abor (2006), Dennis and Osobov (2008), Moradi et. al. (2010), Ahmad and Wardani (2014), Aydin and Cavdar (2015), and Kajola et al, (2015), found that there is a very close relationship between the company's decisions to pay dividends with the level of a company's profitability. Elmi and Muturi (2016), found different research results and argues that dividend policy is not affected by the company profitability. Systematic risk and firm size also believed to have a relationship with the dividend policy. Generally, found that companies with a higher level of systematic risk tend to pay lower dividends than the companies with a lower level of systematic risk as proposed by Naceur et. al, 2006. Moradi et.all. (2010) and Cheryta, et.al. (2015), found that systematic risk has a negative and

significant relationship with the dividend policy.

Firm size widely discussed as one of the factors that affect company's dividend policy in various countries. According to Megginson (1997), large companies tend to pay greater dividends than small firms (Arifin, 2007). Eriotis (2005), Dennis and Osobov (2008), Ahmad and Wardani (2014), Aydin and Cavdar (2015), Kajola et al, (2015), states that firm size have a relationship with the dividend policy. This opinion is contrary to the results of Moradi et.al. (2010) research who found that firm size does not affect the company's dividend policy.

Based on the above explanation, we conclude that the dividend policy in different industries and countries is very different and the factors that influence dividend policy in each country also differently. Although research on dividend policy has long and widely discussed, but the results still mixed, therefore it is still interesting to discuss the relationship between corporate governance mechanism (CGM), profitability, systematic risk and firm size with dividend policy. This research can contribute to the company and the investor as capital market players that have an interest with the company's dividend policy.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Dividend Policy

Dividends paid by the company are derived from revenues or profits and distributed in the form of cash dividends and stock dividends to the shareholders (McLaney, 2009). Dividend policy related to the mixed decisions and faced with various options, such as, whether to pay shareholders with cash dividend or capital gain through a share repurchase, how much cash dividends to be distributed, and how frequently it should be distributed in one year (Smart, et .al., 2004)

Lintner (1956) said that dividend depends on the income earned by the company at the current time and part of dividend in the previous year. He found that the primary change in the revenue with the existing dividend level is an important determinant factor in the corporate dividend policy. He also found that companies tend to make adjustments to the dividend payments target periodically rather than the dramatic changes. Fama and Babiak (1968), support Lintner model and argue that managers can increase the dividend to a new level when they confident able to maintain permanently (Moradi, et. al., 2009).

Black (1976), states that the dividend policy is like a puzzle in the corporate finance literature. He argues that dividend concept has primarily relied to the agency cost and signaling theory. Agency cost increase when the interests of managers and the interests of shareholders differ. Shareholders prefer the dividends and they tend to appreciate managers who pay regular increasing dividends. Mohanty (1999), said that company adopted dividend policy and bonus depend on the availability of profitability and tend to use a constant dividend payment per share.

Corporate Governance Mechanism

Corporate governance is a process and framework used by the company structure (shareholders or owners of capital, commissioners or board of supervisors, and directors) to increase to increase business success and corporate accountability by taking pay attention to the interests of other stakeholders, based on legislation and ethical values (Sutedi, 2012). Shleifer and Vishny (1997), said that the primary purpose of corporate governance is to ensure that investors supply money to the company and receive a fair rate of return on their investment.

Evidence of an interaction between the dividend policy and governance structures derived from cross-country analysis in which some researcher tries to document

that institutional and legal environment affect dividend policy. Mitton (2004), argues that there is a positive relationship between firm-level corporate governance and dividend payment, especially in the countries that offer strong protection to the shareholder. Adjaoud and Ben-Amar (2010), and Jirapon et. al. (2011), said that companies with strong corporate governance would pay higher dividends. Components of corporate governance mechanism quite a lot and used in this study only board of directors and institutional ownership.

Board of Directors

One of the important mechanisms of corporate governance system is the role of the board of directors. Because the board is seen as the party who runs the primary functions of the company represents the interests of shareholders to carry out control of the top management (John and Senbet, 1998). The board of directors has a duty to determine the overall strategy of the company, and ensure that proper oversight has been implemented to protect the interests of shareholders (Keenan, 2004).

The board of directors is the company organ who is in charge of determining policies and strategies adopted by the company (Rachman, 2015). The boards of directors also have other responsibilities such as financing decisions, investments, and dividends, although in practice the responsibilities delegated to the top management. One of the principles that must be met in the implementation of directors' duties effectively is the composition of the board of directors should be complying with the needs, thereby enabling effective, precise, and fast decision making, and also able to act independently. In accordance to agency theory, the board of directors should be able to perform the duties of the owner and increase the wealth of the owners, one of through the distribution of dividends.

The board of directors has an influence on the company's dividend policy, as stated by Adjaoud and Amar (2010). A similar

argument also presented by Schellenger et. al. (1989), Abor and Fiador (2013), and Roy (2015), has found that the boards of directors affect the dividend policy. Based on the above explanation and theory, the first hypothesis can be formulated as follows:

H1: The Board of Directors has a positive effect on the dividend policy

Institutional Ownership

The empirical evidence on the relationship between dividend payout and corporate ownership structure has been widely discussed in the financial literature by looking for the relationship between ownership structures with the company's dividend policy. Institutional ownership is shares owned by the institution or organization and not individual shares (Yulianto, 2014). The structure of ownership in a company can be divided into two, namely the ownership structure is concentrated and dispersed ownership structure (Saif, et. al., 2013). Each company has diverse ownership structures. Institutional shareholders with a large number of shares have a stronger control of the decisions related to the dividend payout policy. Institutional ownership has an important role in the company corporate governance, especially related to its ability to conduct supervision, gather information, and the impact on the company policies and performance. Based on the theory presented by Allen, Bernardo and Welch in 2000, dividends paid by the company to attract tax, preferred by institutional investors, which gave the signals that the quality of the company good and or efficient (Bichara, 2008).

Kumar (2006), argues that the ownership structure in large numbers has a positive influence on the company's dividend payout policy. Mehrani, et. al., 2011, explains that there is a positive relationship between dividend payments with the institutional ownership concentrated. Triwulan and Wahidahwati (2012), and Saif et. al., 2013

found that institutional ownership has a positive and significant effect on the dividend policy. Different opinion was delivered by Kouki and Guizani (2009), state that there is a significant negative effect of institutional ownership on the dividend policy. Yulianto (2014) suggests that institutional ownership has no effect on the dividend policy. Based on the description above, second hypothesis can be formulated as follows:

H2: Institutional ownership has a positive effect on the dividend policy

Profitability

Company profitability determines firm decision to distribute dividend as proposed by Lintner (1956). Generally, companies with high profit and maturity paid dividends. But it is not mean companies that do not pay dividends is a company that does not make a profit. If the manager believes that the growth opportunities the company is better than the investment opportunities available to the shareholders, the company should keep the profits and reinvesting in profitable business, so it can maximize shareholder value through the distribution of the remaining funds in the form of dividends as proposed by Miller and Modigliani (1961). Companies that manage their cash flow effectively tend to maintain and increase dividend payout over time. Higher earnings growth is usually paid to investors in the form of higher stock prices (Ahmed, 2013).

Fama and French (2001), Booth and Clearly (2001), conduct an empirical analysis and found that the dividend policy of the company is affected by the level of company profits (Ahmed, 2013). Beabczuk 2004 in Morandi et. al. (2010), investigate the dividend policy in Argentina and found that large companies with a large profit level without having a good investment opportunities tend to pay higher dividends. Kania (2005), mentions that the dividend payout ratio is influenced by the level of company profits as measured by return on equity (ROE). Kajola et. al. (2015) found

that the companies dividends policy in Nigeria are influenced by the company profitability. Morandi (2010), found that the corporate dividend policy in Iran has a direct relationship to profitability.

Chhaoti (2015) argues that company's dividend decision in the iron and steel industry in India is greatly influenced by the company's profitability. Biza-Khupe, and Themba (2016) also found that there is a positive relationship between dividend policy and company profits in Botswana. Different opinion proposed by Aydin and Cavdar (2015), found that there was negative and significant relationship between profitability (ROE) and company dividend policy in Istanbul. Elmi and Muturi (2016), also found that profitability was not significant in determining company dividend policy in Nairobi Securities Exchange. Based on the above explanation and theory, the third hypothesis can be formulated as follows:

H3: Profitability has a positive effect on the dividend policy

Systematic Risk

Risk is the differences between the actual return earned with expected return by investors (Tendelilin, 2001). High levels of risk indicate that current and future benefits become less certain. The concept of risk and return explain that if investors faced higher risk, then the return demanded by investors also be higher.

Jogianto (2009), said that the beta is a systematic risk measurement of a security or a portfolio relative to the market returns. Meanwhile, according to Gitman, 2009, beta is a relative risk measurement of non diversifiable index of the return on asset movement in response changes in the market returns. A historical return of assets can be used to find the asset beta coefficient.

The higher of company systematic risk, then the higher of the company's securities return sensitivity to market return change which may result lower company

opportunity getting an external source of funds, so the company should be able to financing need funds through internal sources, consequently, the company will increase retained earnings and reducing the amount of the dividend. This indicates that the higher of company systematic risk, then the lower of company's dividend policy (Tendelilin, 2001).

Amidu and Abor (2006), found that the systematic risk has a negative significant effect on the company's dividend policy in Ghana. Moradi, et. al. (2010), also found an inverse relationship between systematic risk and corporate dividend policy in Iran. Adjaoud and Ben-Amar (2010), state that firm risk is negatively related to the firm's dividend payout policy in Canada. Cheryta et.al. (2015), found that systematic risk has a negative effect on the dividend policy in Indonesia. Based on the above explanation and theory, the fourth hypothesis can be formulated as follows:

H4: Systematic risk has a negative effect on the dividend policy

Firm Size

Company's size describes the size of a company which valued from the total assets owned, average assets, growth of sales, and the average of total sales. Empirical evidence indicates that company size has a positive relationship with the company dividend policy. The largest size of a company indicates the higher company's ability to maximize company profitability and dividend payout (Arifin, 2007).

Reddy and Rath (2006) in Ahmad and Wardani (2014), found that companies paid dividends in the Indian, is a company that has a large size. Adjaoud and Ben-Amar (2010) also found that company's size has a positive influence on company's dividend policy in Canada. Ahmad and Wardani (2014), states that the company's size has a positive and significant effect on the company's dividend policy in the Indonesia Stock Exchange. Roy (2015), also found that

there is a positive relationship between firm size and company's dividend policy in India. Based on the above explanation and theory, the fifth hypothesis can be formulated as follows:

H5: Firm size has a positive effect on the dividend policy

RESEARCH METHOD

Population and Sample

This research used companies in the financial industry listed in Indonesia stock exchange for the period of 2009 – 2013 consist of 79 companies and the companies divide under the categories of bank, financial institution, securities company, insurance, investment fund/mutual fund, and others as population. The samples were taken from 18 companies by using a purposive sampling technique. The criteria used to select the sample were; (1) Companies in Financial Industry listed in Indonesia Stock Exchange for the period 2009 – 2013, (2) Companies paid dividends during the study period, (3) Companies do not perform a stock split during the study period, (4) The companies have the institutional ownership over the study period.

Data and Variable

This study is explanatory research with a quantitative approach and use secondary data. Secondary data is data that is published or utilized by the other organization, not by the user. Secondary data used in this research in the form of documents on financial statements and other related information such as company annual report, and share statistic report. The data were gathered from the official website of Indonesia stock Exchange (www.idx.co.id) and company annual report. For additional information, the researcher also takes information which has already existed, like articles, journals, text books, and etc. The data used in this research is the combination of time series data and cross section data,

which is known as pooling data/panel data. Panel data give more informative data, more variability, less co-linearity among the variables, more degrees of freedom and more efficiency (Zhao, 2013).

This study analyzed the impact of corporate governance mechanism (CGM), profitability, systematic risk and firm size on the dividend policy (DPR).

The variables observed in this research consist of dividend policy measure by using dividend payout ratio as dependent variable. CGM by using board of directors (BOD) and institutional ownership (IO), profitability by using return on investment (ROI), systematic risk by using beta coefficient (beta), and firm size (size) by using total asset as independent variables. All the variables used in this research and measurements are shown in the table 1 below:

Table 1. Research Variables and Measurement

Variables	Definition
Independent Variables	
BOD	Ln total board of directors
IO	Share owned by institutional/ number of share outstanding
ROI	Earnings after tax/total assets
Beta	Cov. of share return & market return/var. of market return
Size	Ln total assets
Dependent Variable	
DPR	Dividend per share/earnings per share

Research Model and Data Analysis Method

On the way to test the hypothesis in this research used the panel data regression model as used by Kajola et. al. (2015). The regression equation model is presented below:

$$DPR = a + \beta_1 BOD + \beta_2 IO + \beta_3 ROI + \beta_4 BETA + \beta_5 SIZE + e$$

Where a was constant, $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ were regression coefficients, and the variables already being defined in the table 1 above.

The researcher will use eviews version 9 for to run the statistic data and analyze the results. The primary step in conducting panel data regression model is conducted several classical assumption tests. The tests consist of normality, multicollinearity, autocorrelation, and heteroscedasticity test. Normality test is used to test whether the residual is distributed normally in a regression model. There are two ways to find if the residual is distributed normally or not, first by using graphic analysis and second by using statistic test. Normality test used in this research is normality test using Jarque-Bera test.

Multicollinearity test is used in order to find the correlation among the independent variables in a regression model. If the variables are perfectly correlated, then it can be said as perfect multicollinearity. To detect if the regression model is experiencing multicollinearity, it uses matrix correlation. If the value in the correlation matrix is below 0.8, then there is no multicollinearity among the independent variables, so that it can be used in the analysis.

Autocorrelation test is used to test if the linier regression has a correlation between the errors in the t period with $t-1$ period. If the correlation occurs, then autocorrelation problem exist. Generally, test that is used in detecting autocorrelation is Durbin-Watson statistic test which developed by J. Durbin and G. Watson in 1951. The Durbin-Watson statistic test or d-statistic can be calculated using this formula (Gujarati, 2004):

$$d = \frac{\sum_{t=2}^{t=n} (\hat{u}_t - \hat{u}_{t-1})^2}{\sum_{t=1}^{t=n} \hat{u}_t^2}$$

Where:

D = Durbin-Watson calculation

U = Error Term

Heteroscedasticity test is used in order to test if there is a difference in variance from the residual form one observation to another observation [20]. According to [19], to detect the heteroskedasticity problem, it can use formal and informal method. Formal method can be done by statistical test including Park Test, White Test, Glejser Test and Breusch Pagan Godfrey (BPG) test. In this research, the research will use the BPG test in detecting the heteroskedasticity problem. The hypothesis used in perform heteroskedasticity test are:

H0: there is no heteroskedasticity
H1: there is heteroskedasticity

With the criteria of the test:

P-value obs* square $< \alpha$, then H0 rejected
P-value obs* square $> \alpha$, then H₀ accepted

Next step was test of the accuracy of the regression model in predicting the value of the dependent variable is determined by the goodness-of-fit (Ghozali, 2013). In measuring the goodness-of-fit, a panel data regression model can be analyzed through F-test. F test is known as Anova test is used to find the relationship between independent variables and dependent variable or to test if the model used is fix or not.

Furthermore, R2 test which is coefficient of determination test to measure the ability of the independent variables used to define changes on the dependent variable. The coefficient determination value is between 0 until 1. Small value R² indicates the limitation of the model's ability or the independent variables used in defining dependent variable. If the value of R² is close to 1, then it means the independent variables able to define the dependent variable in perfect way or good model's ability.

The last test is t-test or hypothesis test. T-test used to analyze the impact of each independent variable individually toward the dependent variable or to answer all the hypothesis proposed in this research. if $t_{\text{calculated}} > t_{\text{table}}$, dan $\alpha_{\text{calculated}} < 0.05$, then it means there is a significant impact of

independent variable individually toward dependent variable or hypothesis is received. if $t_{\text{calculated}} < t_{\text{table}}$, dan $\alpha_{\text{calculated}} > 0.05$, then it means the impact of independent variable individually toward the dependent variable is negative and not significant or hypothesis is rejected.

ANALYSIS AND DISCUSSION

The result of normality test using Jarque-Bera test show that Jarque-Bera probability value is $0.068 > \alpha$ ($\alpha = 0.05$), it can be said that the data are normally distributed. Furthermore, multicollinearity test using correlation matrix for each independent variable resulted through the data processing shows that coefficient correlation are below 0.8, which mean there were no problems with multicollinearity in the model of the study. Autocorrelation test result using Durbin-Watson test shows that the value calculated is 1.6862 and Durbin-Watson table is $d_L=1,5420$, and $d_U= 1,7758$, it is not showing a certain result because the Durbin-Watson value calculated is between d_L and d_U . However, it can be concluded that there is no autocorrelation because the Durbin-Watson calculated is close to 2.

The result of heteroskedasticity using the Breusch Pagan Godfrey (BPG) test resulted in p value-obs*-square $0.2397 > 0,05$, which mean there is no heteroskedasticity among the residuals in the regression model or the variance of the residuals keep staying the same across different observation or different values of independent variables.

The panel data regression results show the coefficient of independent variable, standard error, coefficient of determination, and F test as shown in table 2 below.

Table 2. Panel Data Regression Results

Variables	Coefficient	Std. Error
BOD	0.184952	0.058160
IO	0.135588	0.074920
ROI	0.118230	0.461859
Beta	0.049174	0.019508
Size	-0.037691	0.012727

C	0.972983	0.318397
R-squared	0.208234	
F-statistic	4.418400	
Prob(Fstatistic)	0.001275	

Source: The processed using eviews 9

The regression analysis resulted showed that the coefficient of variation (β) which explains the direction of variability is positive for BOD, IO, ROI and Beta, which mean if BOD, IO, ROI and Beta increase in one unit, then DPR will increase in the amount of coefficient of variation (β). Meanwhile Size is negative, it's mean, if Size increase in one unit, then DPR will decrease in the amount of coefficient of variation (β) Size.

F-test results show that $F_{\text{calculated}}$ is 4.418 with $\alpha_{\text{calculated}}$ is 0.001, meanwhile F_{table} equal to 2.48 with $\alpha = 0.05$. It shows that $F_{\text{calculated}} > F_{\text{table}}$, and $\alpha_{\text{calculated}} < 0.05$. Meaning that independent variables used in this research are able to define dependent variable in a good way or the regression model is fixing.

The model developed for dividend policy is weak, because the coefficient of determination (R^2) as shown in table 2 above is 0.2082. It can be said that the variation in the dividend policy in the financial industry listed in Indonesia Stock Exchange can be explained by the variation in BOD, IO, ROI, Beta, and Size by 20.82%, taking into account the sample size and number of independent variables, while the remaining of 79.18% is explained by the variation of other variables outside of the regression model.

Table 3. The Result of Hypotheses Test

Variables	t-calculated	α - calculated	t-table	α - table
BOD*	3.1801	0.0021	1,6632	0,05
IO	1.8097	0.0739	1,6632	0,05
ROI	0.2560	0.7986	1,6632	0,05
BETA*	2.5207	0.0136	1,6632	0,05
SIZE*	-2.9615	0.0030	-1,6632	0,05

*significant at the 0.05 level

Source: The processed using eviews 9

The first hypothesis is the board of directors (BOD) has a positive effect on the dividend policy. The statistical test shows that the variable has a positive and significant effect to the company dividend policy in the financial industry listed in Indonesia Stock Exchange. Therefore, the first hypothesis is received.

This finding is interesting, because the result indicate that when board of directors of the company's increase, then dividend payout also increase. It does indicate their commitment and responsibilities to increase shareholders wealth through increasing their control, policy and strategy to gather more earning and distribute to the shareholder in the form of cash dividend. This research result align with agency theory that said, the board of directors should be able to perform the duties of the owner and increase the wealth of the owners, one of through the distribution of dividends

Commitment of the board of directors of course will be greeted with delight by shareholders. Shareholders prefer the dividends and they tend to appreciate managers who pay regular increasing dividends as states by Black (1976).

This research finding suitable with the research conducted by Adjaoud and Amar (2010), Schellenger et. al. (1989), Abor and Fiador (2013), and Roy (2015), argue that the boards of directors affect the dividend policy. And contrary with research conducted by Abdelsalam et. al. (2008), and Yulianto (2014) taht found board size does not affect the dividend policy.

Based on data processing result as shown in the table 3 above, the second hypothesis is that Institutional ownership has a positive effect on the dividend policy was rejected. The result indicates that institutional ownership have positive and does not significant effect to the dividend policy. This finding contrary with the agency theory that state institutional ownership has an important role in the company corporate governance, especially related to its ability

to conduct supervision, gather information, and the impact on the company policies and performance.

This research also contrary to the signaling theory, refer to the theory, institutional investors believed able to gave the signals that the quality of the company good and or efficient as state by Bernardo and Welch (2000) in Bichara (2008).

This research finding suitable with research conducted by Kouki and Guizani (2009), state that there is a significant negative effect of institutional ownership on the dividend policy, and Yulianto (2014) who suggests that institutional ownership has no effect on the dividend policy. This research contrary with research conducted by Kumar (2006), Mehrani, et. al., 2011, Triwulan and Wahidahwati (2012), and Saif et. al. (2013), found that institutional ownership has a positive and significant effect on the dividend policy.

The third hypothesis is that Profitability has a positive effect on the dividend policy. The statistical test shows that the variable has a negative and does not significant effect to the dividend policy in the financial industry listed in Indonesia Stock Exchange. This finding indicates that high and low levels of corporate profits not influence the company decision in paid dividend to the shareholders.

This study finding contradictory with the theory proposed by Lintner (1956), state that the company's profitability is the determining factor firm decision to paid dividend. Lintner statement also support by Fama and Babiak (1968). Ahmed (2013), also states that company's which manage their cash flow effectively tend to maintain and increase dividend payout over time. This research result suitable with research conducted by Elmi and Muturi (2016) that found profitability does not significantly determining the company dividend policy in Nairobi Securities Exchange.

The research finding contrary with the research conducted by Fama and French

(2001), Booth and Clearly (2001), Beabczuk (2004), Kania (2005), Morandi (2010), Kajola et. al. (2015), Chhaoti (2015), and Biza-Khupe, and Themba (2016) argue that company's dividend policy influenced by the company's profitability level.

The fourth hypothesis is that systematic risk has a negative effect on the dividend policy. The statistical test shows that the variable has a positive and significant effect to the company's dividend policy in the financial industry listed in Indonesia Stock Exchange. This result indicates that when company's has a higher of beta, then company's decision to paid dividend higher than companies with lower beta coefficient.

This research result contrary with theory proposed by Tendelilin (2001), said that the higher of company systematic risk will be make the higher of the company's securities return sensitivity to market return change which may result lower company opportunities getting an external source of funds, so the company should be able to financing it's self through internal sources of funds, consequently, the company will increase retained earnings and reducing the amount of the dividend. This indicates that the higher of company systematic risk, then the lower of company's dividend policy.

This study finding contrary with research conducted by Amidu and Abor (2006), Moradi, et. al. (2010), Adjaoud and Ben-Amar (2010), and Cheryta et.al. (2015), found that systematic risk has a negative effect on the company's dividend policy.

The fifth hypothesis is firm size has a positive effect on the dividend policy. The statistical test shows that the variable has a negative and significant effect to the firm dividend policy in the financial industry listed in Indonesia Stock Exchange. This result indicate that the largest size of a company will paid lower dividend compared to smallest company which will paid higher dividend.

This research finding contrary with a number of theories and research as state by

Arifin (2007), argue that empirical evidence show that company size has a positive relationship with the company dividend policy. The largest size of a company indicates the higher company's ability to maximize company profitability and dividend payout. This condition occurs because the company observed is financial institutions where the majority of its assets owned by the public are diverse with other industries listed in Indonesia Stock Exchange. Difference in the results of this study can be caused by the limitation number of samples used, and short period of the study.

This study result contrary with research conducted by Reddy and Rath (2006), Adjaoud and Ben-Amar (2010), Ahmad and Wardani (2014), Roy (2015), argues that company's size has a positive influence on the company's dividend policy.

CONCLUSION

The aim of this study was to indentify effect of corporate governance mechanism, profitability, systematic risk and firm size on the company's dividend policy, and define which of the most important variables that indicate having powerful effect on the firm dividend policy. The data used for this research was secondary data in the form of documents on financial statements and other related information such as company annual report, and share statistic report, and gather from the official website of Indonesia stock Exchange (www.ix.co.id) and company annual report.

This research used companies in the financial industry listed in Indonesia stock exchange for the period of 2009 – 2013 which sample were taken from 18 companies based on purposive sampling technique. A panel data regression method has been conducted to explain relationship between dividend policy and board of directors, institutional ownership, return on investment, systematic risk, and firm size variables.

The regression model used in this research has passed from classical assumption tests and the empirical result show that the independent variables used able to describe the dependent variable in a good way and the estimation model is fixing.

Adjusted r square (R^2) indicates that 20.82% of independent variables are able to explain the percentage of variation in the dependent variable, while the remaining 79.18% is explained by the variation of other variables outside of the regression model.

Hypothesis test as statistically found there are positive and significant relationship between board of directors and beta with firm dividend policy in the financial industry listed in Indonesia Stock Exchange, and firm size has a negative and significant effect on the firm dividend policy. Meanwhile, institutional ownership and return on investment have a negative and do not significant effect on the dividend firm policy in the financial industry listed in Indonesia Stock Exchange.

There have been several limitations of this research which may affect the research results. First, limitation number of research samples used. In this research, sample used only 18 companies listed in the financial industry that fulfill the criteria which are observed to identify variables that affecting company dividend policy. Thus, the researcher suggest that the future research will use a wider research sample, like more than one industry and longer period of time, so the number of observation is bigger and more accurate.

The second, limited of independent variables used in this research that is only 5 variables. Based on the result of panel data regression methods specifically the adjusted r square (R^2), the variation in the independent variables determined 20.82% of the variation in the firm dividend policy, meaning that there are other variables influencing the firm dividend policy, which are not examined in this research. Thus, the researcher suggests that the future research

will add more independent variables by collaborate with more theories.

REFERENCES

- Abdelsalam, Omneya, El-Masry, A., and Elsegini, S. 2008. Board composition, ownership structure and dividend policies in an emerging market Further evidence from CASE 50. *Managerial Finance*, Vol. 34, No. 12: 953 – 964.
- Abor, J., and Fiador, V. 2013. Does corporate governance explain dividend policy in Sub-Saharan Africa? *International Journal of Law and Management*, Vol. 55, No. 3: 201 – 225
- Adjaoud, F., and Ben-Amar, W. 2010. Corporate Governance and Dividend Policy: Shareholders' Protection or Expropriation? *Journal of Business Finance & Accounting*, 37(5) & (6): 648 – 667.
- Ahmad N. Gatot, and Wardani V. K. 2014. The Effect of Fundamental Factor to Dividend Policy: Evidence in Indonesia Stock Exchange. *International Journal of Business and Commerce*, Vol. 4, No. 02: 14 – 25.
- Ahmed, Ibrahim E. 2013. Factors Determining the Selection of Capital Budgeting Techniques. *Journal of Finance and Investment Analysis*, Vol. 2, No.2: 77 – 88.
- Amidu, Mohammed and Abor, Joshua. 2006. Determinants of Dividend Payout Ratios in Ghana. *The Journal of Risk Finance*, vol 7, no 2: 136-145.
- Arifin Z. 200. *Teori keuangan dan Pasar Modal* [Financial Theory and Capital Markets]. 2nd Edition. Yogyakarta: Ekonisia.
- Aydin A.D., and Cavdar S. C. 2015. Corporate Governance and Dividend Policy: An Empirical Analysis from Borsa Istanbul Corporate Governance Index (XKURY). *Accounting and Finance Research*, Vol. 4, No. 3: 66 – 76.
- Bichara, Lina, Z. 2008. Institutional Ownership And Dividend Policy: A Framework Based On Tax Clientele, Information Signaling And Agency Costs. Dissertation, Doctor of Philosophy, University of North Texas.
- Biza-Khupe, S., and Themba, A. 2016. The Relationship between Dividend Payout and Firm Financial Performance: A Study of Botswana Listed Companies. *Archives of Business Research – Vol.3, No.4*: 33 – 40.
- Black, F. 1976. The dividend puzzle. *Journal of Portfolio Management*, 2 (2): 5 – 8.
- Chae, J. Kim, S., & Lee, E. (2009). How Corporate Governance Affects Payout Policy Under Agency Problems and External Financing Constraints. *Journal of Banking and Finance* 33: 2093-2101.
- Chhatoi, B.P. 2015. A Study on Relationship between Profitability and Dividend Payment in Iron & Steel Industries in India. *Pacific Business Review International*, Volume 8, Issue 1: 70 – 78.
- DeAngelo, Harry, DeAngelo, Linda., and Stulz, Rene M. 2004. Dividend Policy, Agency Costs, and Earned Equity. National Bureau of Economic Research, Working Paper 10599. Cambridge.
- Denis D. J., and Osobov I. 2008. Why do Firms Pay Dividends? International evidence on the determinants of dividend policy. *Journal of Financial Economics* 89: 62 – 82.
- Ehikioya, Benjamin I. 2009. Corporate governance structure and firm performance in developing economies: evidence from Nigeria. *Corporate Governance: The international journal of business in society* Vol. 9, Iss. 3: 231 – 243.
- Elmi, M.A., and Muturi, W.M. 2016. Effects Of Profitability On Dividend Payout By

- Commercial And Services Firms Listed In The Nairobi Securities Exchange. *European Journal of Business and Social Sciences*, Vol. 5, No. 02: 160 – 167.
- Elston, J.A. 1996. Dividend Policy and Investment: Theory and Evidence from US Panel Data. *Managerial and Decision Economics*, Vol. 17: 267 – 275.
- Eriotis, J. 2005. The Effect of Distributed Earnings and Size of the Firm to Its Dividend Policy: Some Greek Data. *International Business & Economics Journal*, Volume 4, No. 1: 67 – 74.
- Ghozali, M. A. 2013. *Aplikasi Analisis Multivariat dengan SPSS* [Application of Multivariate Analysis with SPSS]. Vol. VII, Semarang, Jawa Tengah, Indonesia: Badan Penerbit Universitas Diponegoro.
- Gitman, Lawrence, J. 2009. *Principles of Managerial Finance*. 12th Edition, Boston: Pearson
- Gujarati, Damodar N. 2004. *Basic Econometrics: Student Solution Manual for Use with Basic Econometrics*, New York: McGraw-Hill.
- Jiraporn, P., and Ning. 2011. Dividend Payouts and Corporate Governance Quality: An Empirical Investigation. *The Financial Review* 46: 251–279.
- Jiraporn, P., Kim, Young. S., Kim, .J. C. 2011. Dividend Policy and Corporate Governance Quality: Evidence from ISS. *Journal of the Financial Review*, Vol. 46: 251 – 279.
- Jogiyanto, Hartono. 2009. *Teori Portofolio dan Analisis Sekuritas*. Edisi Keenam. Yogyakarta: BPFE UGM
- John, K. and Senbet, L.W. 1998. Corporate Governance and Board Effectiveness. *Journal of Banking & Finance*, Vol. 22: 371- 403.
- Kajola, S.O., Desu, A.A., and Agbanike, T.F. 2015. Factors Influencing Dividend Payout Policy Decisions of Nigerian Listed Firms. *International Journal of Economics, Commerce and Management*, Vol. III, Issue 6: 539 – 557.
- Kania, S.L. 2005. What Factors Motivate The Corporate Dividend Decision?. Theses, Dissertations & Honors Papers, Longwood University, paper 195.
- Keenan, J. (2004), “Corporate governance in UK/USA boardrooms”, *Corporate Governance: An International Review*, Vol. 12: 172-176.
- Kumar, J. (2006). Ownership structure and dividend payout policy in India. *Journal of Emerging Market Finance*, Vol. 5, No. 1: 15 – 58.
- Komite Nasional Kebijakan Governance. 2006. *Pedoman Umum Good Corporate Governance Indonesia*. Diakses dari <http://knkgindonesia.com/home/component/weblinks/43-pedoman-knkg.html>.
- Kouki. M., and M. Guizain (2009). Ownership structure and dividend policy. *Journal of Scientific research*, 25 (1): 42 – 53.
- Martono dan Harjito. 2005. *Manajemen Keuangan* [Financial Management]. Yogyakarta: Ekonisia.
- McLaney, Eddie. *Business Finance: Theory and Practice*. Eighth Edition. London: Pearson Education Limited.
- Mehrani, Moradi., and Eskandar. 2011. Ownership Structure and Dividend Policy: Evidence from Iran. *African Journal of Business Management* Vol. 5(17): 7516 – 7525.
- Mitton, Todd. 2004. Corporate Governance and Dividend Policy in Emerging Markets. *Emerging Markets Review* 5: 409 – 426.
- Moradi M., Salehi M., and Honarmand S. 2010. Factors Affecting Dividend Policy: Empirical Evidence of Iran. *Poslovna Izvrnost Zagreb, God. IV: 45 – 62*.

- Murhadi, Werner R. 2008. *Studi Kebijakan Deviden: Anteseden dan Dampaknya Terhadap Harga Saham* [Dividend Policy Studies: Antecedents and Impact on Stock Price]. *Jurnal Manajemen dan Kewirausahaan*, Vol.10, No. 1: 1 – 17.
- Naceur, Samy B., Mohamed G., and Amel Belanes. 2005. A Re-examination of Dividend Policy: A Dynamic Panel Data Analysis. *International Review of Finance*, Blackwell.
- Rachman, et al. 2015. *Pengaruh Good Corporate Governance dan Financial Leverage terhadap Kinerja Keuangan dan Nilai Perusahaan* [Effect of Good Corporate Governance and Financial Leverage on the Financial Performance and Value]. *Jurnal Administrasi Bisnis* Vol. 27 No. 1. Universitas Brawijaya.
- Ross, Andrew and Crossan, Kenny. 2012. A review of the influence of Corporate Governance on the banking crises in the United Kingdom and Germany, *Corporate Governance. The international journal of business in society*, Vol. 12. Issue 2: 215 – 225.
- Roy, Amitava. 2015. Dividend Policy, Ownership Structure and Corporate Governance: An Empirical Analysis of Indian Firms. *Indian Journal of Corporate Governance* 8 (1): 1 – 33.
- Saif, N., et.all. 2013. Institutional Ownership and Dividend per Share: Case of Pakistan. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, Vo. 3, No. 1: 90 – 104
- Salehi M. and K. Biglar (2009). Study of the Relationship between Capital Structure Measures and Performance: Evidence from Iran, *International Journal of Business and Management*, Vol. 4, No. 1: 97 – 103.
- Sam'ani. 2008. *Pengaruh good Corporate Governance dan Leverage terhadap Kinerja Keuangan pada Perbankan yang Terdaftar di Bursa Efek Indonesia tahun 2004-2007* [The effect of Good Corporate Governance and Leverage to the financial performance of Banking Industry Listed in Indonesia Stock Exchange for the Period of 2004 – 2007]. Unpublished Thesis, Post Graduate Program. Semarang: Universitas Diponegoro.
- Schellenger, M.H., Wood D.D., and Tashakori, A. 1989. Board of Director Composition, Shareholder Wealth, and Dividend Policy. *Journal of Management*, Vol 15, No. 3: 457 – 467
- Shleifer, A. & Vishny, R.W. 2000. A Survey of Corporate Governance. *Journal of Finance* 52: 737-783.
- Sutedi, Adrian. 2012. *Good Corporate Governance*. Edisi Pertama. Jakarta: Sinar Grafika.
- Tendelilin, E. 2001. *Analisa Investasi dan Manajemen Portofolio*. Yogyakarta: BPFU UGM.
- Thanatawee, Yordying. 2014. Ownership Structure and Dividend Policy: Evidence from China. *International Journal of Economics and Finance*; Vol. 6, No. 8: 197 – 204.
- Triwulan, H., dan Wahidahwati. 2012. *Pengaruh Struktur Corporate Governance Dan Keputusan Keuangan Terhadap Kebijakan Deviden Dan Nilai Perusahaan* [The Effect of Corporate Governance Structure and Financial Decisions of Dividend Policy and Firm Value]. *Jurnal Ilmu & Riset Akuntansi* Vol. 1 No. 12: 1 – 18.
- Yulianto, Arief. 2014. The Corporate Governance Mechanisms Towards Dividend Policy in Indonesian Stock Exchange. *Journal of Basic and Applied Scientific Research* 4 (3): 85 – 91.
- Zhao, Y. 2013. The Relationship between Share Price Gains, Corporate Performance and Risk, *iBusiness Journal*, ib.2013.53B023, China: 110-112.