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The Influence Of Good Corporate Governance, Financial Performance And Company Business Strategy On Dividend Policy

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ABSTRACT
This study aims to investigate the impact of Good Corporate Governance, Financial Performance, and Business Strategy on a company's dividend policy. The subjects of this research encompass companies in the banking sector that are listed on the Indonesia Stock Exchange, covering the observation period from 2018 to 2022. The Good Corporate Governance variables are approximated using Independent Commissioners and Institutional Shareholders. Meanwhile, the Financial Performance variables are represented by NPL, ROA, and Tobin's Q. Alongside the Corporate Business Strategy variables, the proxies employed consist of Company Size and Debt to Asset Ratio. Dividend per share serves as the dependent variable proxy. Employing the method of multiple regression analysis, this study concludes that Tobin's Q, ROA, and Institutional Shareholders significantly impact the company's dividend policy.
Keywords : *Dividen policy; GCG; Financial Performance; Business Strategy*

1. Introduction

The dividend policy, considered one of the most pivotal decisions a company faces (Booth & Zhou, 2017), revolves around determining whether to distribute dividends to shareholders and deciding the magnitude of cash distribution over time (Priya & Mohanasundari, 2016). Numerous studies have delved into the factors influencing dividends, yet a universally accepted explanation remains elusive (Baker & Nofsinger, 2010). Consequently, additional endeavors are necessary to clarify the landscape and untangle the enigma known as the "dividend puzzle". Black, likened the dividend landscape to a perplexing puzzle, with interlocking pieces that defy pairing (Kaźmierska-Jóźwiak, 2015; Mehta, 2012). Multiple investigations have been undertaken to offer rational elucidations for companies' dividend disbursements and investors' affinity for them. In light of agency theory, firms' dividend payments function to regulate managers (agents) and curtail agency expenses. Furthermore, grounded in signaling theory, these payments represent managerial attempts to communicate affirmative signals or other pertinent company information (Connelly et al., 2011). From an investor's standpoint, choosing dividends proves advantageous for mitigating transaction costs associated with fund management, as investors can anticipate dividend returns sans necessitating transactions to secure capital gains. Lastly, corporations' dividend distributions possess the capacity to allure institutional investors, encouraging investments in said companies (Meer & Lodhi, 2017). Firm performance, dividend policy, firm value, and corporate governance remain pivotal elements, yet they continue to baffle scholars in the realm of corporate finance studies. Research outcomes within corporate finance frequently present divergent perspectives concerning the influence of financial performance and dividend policy choices on firm value (Santosa et al., 2020). Some sources suggest that firm value lacks a noteworthy connection with dividend policy, in contrast to profitability. Nonetheless, in an ideal financial market context, investors display limited interest in cash dividends or share value increments, unless they possess equitable access to financial insights. In reality, shareholders lack comprehensive information about transactional undertakings carried out by company executives and proprietors. This discrepancy between ownership and control, attributed to a dearth of information referred to as an agency problem, hinders the provision of such details. Dividend distribution serves as a strategy implemented to mitigate potential conflicts of interest among various stakeholders within the company—such as managers and shareholders, shareholders and bondholders, as well as other significant parties vis-à-vis fellow shareholders (Mamaro, 2019).

The financial field's experts are still endeavoring to unveil how dividend policy can be influenced by factors beyond profitability. Additionally, dividend policy serves as a lens to scrutinize its impact on other facets. Mariana conducted research integrating financial performance and dividend policy to assess company stock performance (Mariana, 2015). The findings revealed that financial performance indicators like price-earnings ratio, price-to-book ratio, and earnings per share exerted a positive influence on stock prices. Conversely, the debt-to-equity ratio, net profit margin, and dividend policy were found to lack impact on share prices. Furthermore, research into dividend policy also delves into how it can elucidate a company's financial performance. As previously elucidated, dividend policy is a conduit for companies to communicate signals to stakeholders. Beyond its relationship with a company's financial performance, dividend policy can also be shaped by other factors such as corporate governance and company strategy. Presently, a plethora of studies has been conducted to ascertain the impact of corporate governance on company performance and dividend policy alike. Theoretically, Good Corporate Governance is posited to address agency predicaments (Harris & Raviv, 2008). In another study, Klapper & Love discovered that more effective implementation of robust corporate governance is closely correlated with enhanced firm performance and market value (Klapper & Love, 2004). This research also concluded that corporate governance implementation at the company level exerts positive influence, particularly in countries with weaker legal frameworks. Observing the influence of effective corporate governance factors on both company performance and market value, financial researchers are also endeavoring to comprehend how a company's business strategy can shape performance, notably dividend policy. Liao adopt a business strategy typology to expound that diverse business strategies exist, encompassing prospector, defender, analyzer, and reactor approaches (Liao et al., 2022). The dividend policy is a reflection of the extent to which cash is allocated to shareholders. Shaping this policy involves careful consideration of two critical factors. The first entails the decision to distribute dividends to shareholders, while the second pertains to retaining a portion of profits for future reinvestment in projects. Companies bear the responsibility of striking a balance between maximizing the wealth of company stakeholders and earmarking adequate funds for fostering growth initiatives (Kanakriyah, 2020). This equilibrium significantly contributes to the management of potential unfavorable administrative actions.

Within the sphere of financial decisions, dividend policy assumes strategic significance, influenced by a plethora of intricate factors (Kanakriyah, 2020). Several theories endeavor to elucidate how investors respond to dividend policy. These theories diverge in their perspectives on the impact of dividend payout policy on a company's financial performance, with some asserting influence and others adopting a neutral stance. Prominent among these theories are the bird-in-the-hand theory, tax preference theory, signaling theory, and agency theory. Signaling Theory posits that managers employ dividend payments as a medium to convey pertinent information about the company's status to external investors and shareholders, thereby illustrating promising profit prospects and adept management. Consequently, larger dividend distributions convey a signal to investors that the company anticipates favorable future earnings. Conversely, when dividends are smaller in size but are distributed at a higher percentage, investors expect an escalation in firm value. On the flip side, if investors anticipate higher dividend percentages yet the company disburses them at a lower rate, this may lead to a drop in stock prices in the financial market. In Agency Theory, investors aim to amplify their cash returns through a greater allocation of profits. Conversely, company management tends to allocate a larger share of profits to ensure ample funds for future investments or expansions. This variance in preferences between investors and management introduces the potential for agency conflicts. The abundance of theories elucidating how companies employ dividend policy for varied objectives ultimately leaves business entities perplexed when implementing such policies. Furthermore, the numerous studies conducted on dividend policy reveal gaps, resulting in empirical deficiencies in this field of research. Cristea & Cristea investigated the factors influencing dividend policy in companies. Their findings indicated a positive correlation between profitability and dividend policy, as well as a negative relationship between leverage and dividend policy (Cristea & Cristea, 2017). Additionally, a negative correlation emerged between company growth, company size, and dividend policy. Kapoor undertook a study that noted a positive association between dividend payouts and profit and cash flow (Kapoor et al., 2010). However, these payouts exhibited an inverse correlation with Capital Expenditure, retained earnings, sales growth, stock price, beta, interest payments, and equity-to-debt ratio. Notably, the study's results also unveiled a positive correlation between the dividend payout ratio and long-term financial stability.

Based on the research background explained previously, researchers are interested in conducting research with the title "The Influence of Good Corporate Governance, Financial Performance and Company Business Strategy on Dividend Policy"

2. Research Methods

This study employs a quantitative descriptive approach, focusing on companies within the banking sector that are listed on the Indonesia Stock Exchange. The observation period spans five years, encompassing the years from 2018 to 2022. The data utilized for this investigation is derived from secondary sources, specifically the companies' annual reports, which are consistently published throughout the observation timeframe. These annual reports are accessed through the respective companies' official websites. The sampling method adopted for this study is purposive sampling. The criteria for selection include companies that have maintained their listing on the Indonesian Stock Exchange for a minimum of 10 years, consistently published annual reports during the observation period, and consistently distributed cash dividends throughout the same period. Following this sampling approach, a total of 11 banking companies were selected as the focal points of this research. These companies are as follows:Explaining research chronological, including research design, research procedure, how to test and data acquisitio. The description of the course of research should be supported references, so the explanation can be accepted scientifically.

Table 1 List of Companies

No	Companies Name	Code
1	Bank Rakyat Indonesia Agro Niaga Tbk	AGRO
2	Bank Central Asia Tbk	BBCA
3	Bank Negara Indonesia (Persero)Tbk	BBNI
4	Bank Rakyat Indonesia (Persero)Tbk	BBRI
5	Bank Tabungan Negara (Persero) Tbk	BBTN
6	Bank Danamon Indonesia Tbk	BDMN
7	Bank Mandiri (Persero) Tbk	BMRI
8	Bank CIMB Niaga Tbk	BNGA
9	Bank Maybank Indonesia Tbk	BNII
10	Bank Mega Tbk	MEGA
11	Bank Woori Saudara Indonesia 1906 Tbk	SDRA

The methodology for data analysis in this research employs panel data regression testing techniques utilizing the E-Views 10 platform. The initial phase of this analysis entails identifying the most suitable panel data regression model through the application of the Chow Test, Haustman Test, and Lagrange Multiplier (LM) Test. Once the optimal model is determined, the subsequent stage involves conducting a comprehensive assessment of data quality. This assessment encompasses the examination of factors such as data normality, multicollinearity, heteroscedasticity, and autocorrelation. Following the completion of the data quality assessment, the subsequent step involves hypothesis testing.

Table 2 Description of Variables

Variabel	Proxy	Deskripsi Variabel
Good Corporate Governance	Independent Commisioner	Percentage of the number of independent commissioners on the board of commissioners
	Institutional Shareholders	Percentage of total shares owned by institutions
Financial Performance	Non-Performing Loan	Percentage of loan amounts that are problematic
	Return on Assets	Rasio profitabilitas terhadap total aset
	Tobin’s Q	Nilai kapitalisasi market dibagi total aset
Business Strategy	Debt to Assets Ratio	Nilai total aset dibagi total utang
	Company’s Size	Nilai logaritma natural dari total aset
Dependent Variable	Dividen per Share	Dividen per Share yang dibayarkan perusahaan setiap tahunnya

3. Results and Discussions

This study employs panel data analysis techniques as it integrates both time series and cross-section data. In panel data analysis, researchers encounter three distinct analysis models. To ascertain the most optimal approach among the three equation models - namely, Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) - a dedicated testing process for each model is essential. In the pursuit of selecting the most suitable panel data regression model, analytical procedures encompass the application of testing tools such as the Chow Test, Haustman Test, and Lagrange Multiplier (LM) Test. After the implementation of the Chow Test and Hausman Test, it was established that the Random Effect Model best aligns with the requirements of this study. Consequently, the outcomes of the panel data analysis using the random effect model are as follows:In this section, it is explained the results of research and at the same time is given the comprehensive discussion. Results can be presented in figures, graphs, tables and others that make the reader understand easily.:The discussion can be made in several sub-chapters.

Table 3 Result of Data Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-789.247	553.598	-1.42567	0.16060
DAR	287.8458	484.4364	0.594187	0.55520
INDEP	151.658	197.3209	0.768586	0.44600
INST	754.3812	215.2662	3.504411	0.00100
NPL	-24.414	15.63275	-1.56172	0.12510
ROA	27.33948	8.456181	3.233076	0.00220
SIZE	-5.81089	16.15686	-0.35966	0.72070
TOBIN	283.3042	63.29098	4.476218	0.00000

From the results of the data processing above, the discussion can be determined as follows:

The influence of Debt to Asset Ratio on Dividend Policy

The outcomes of the data analysis indicate that the Debt to Asset Ratio yields a probability value of 0.55520, surpassing the significance level of 0.05. Consequently, the inference drawn is that the Debt to Asset Ratio does not exert a significant influence on the dividend policy. In this study, the Debt to Asset Ratio functions as a proxy for the Business Strategy variable. These findings do not align with the theory that asserts companies with a high Debt to Asset Ratio typically curtail dividend payments due to heightened debt levels, signifying elevated risk for the company. Within the realm of business strategy, augmenting the debt-to-assets ratio might be perceived as an avenue for fostering company growth or development. However, within the context of this study's results, such a premise remains unsubstantiated.

Influence of Independent Commissioners on Dividend Policy

The findings from the data analysis reveal that the Independent Commissioner proxy yields a probability value of 0.44600, surpassing the predetermined alpha value of 0.05. Hence, it can be deduced that the Independent Commissioner proxy lacks a noteworthy impact on the dividend policy. Within this study, the Independent Commissioner is encompassed as one of the proxies for the Good Corporate Governance variable. These results deviate from the theory positing that a larger proportion of Independent Commissioners correlates with heightened company performance, subsequently driving elevated dividend disbursements. Notably, within the context of this study, the Independent Commissioner proxy did not yield a significant influence on the dividend policy.

Influence of Institutional Shareholders on Dividend Policy

The findings from the data analysis indicate that Institutional Shareholders yield a probability value of 0.00100, which falls below the alpha value of 0.05. Consequently, it can be concluded that the Institutional Shareholders proxy exerts a significant influence on the dividend policy. In this study, Institutional Shareholders are represented as a proxy for the Good Corporate Governance variable. These results corroborate the theory that posits a positive relationship between the percentage of Institutional Shareholders within a company and the dividends it pays out. Institutional Shareholders hold the anticipation of receiving regular cash dividend payments. Thus, it's logical that companies with a substantial presence of institutional shareholders would consistently distribute dividends.

The Effect of Non-Performing Loans on Dividend Policy

The outcomes of data analysis reveal that Non-Performing Loans yield a probability value of 0.12510, exceeding the predetermined alpha value of 0.05. As a result, the inference can be drawn that the Non-Performing Loan proxy lacks a significant impact on dividend policy. In this study, Non-Performing Loans stand as a proxy for the Financial Performance variable. In theory, the influence of non-performing loans on dividend policy emerges when a bank's non-performing loans are at a minimal level. This implies that as the level of Non-Performing Loans decreases, the company's dividend payments tend to rise.

The influence of Return on Assets on Dividend Policy

The data analysis results indicate that Return on Assets yields a probability value of 0.00220, which is below the predetermined alpha value of 0.05. As a result, it can be deduced that the Return on Assets proxy exerts a significant influence on dividend policy. Within this study, Return on Assets is adopted as a proxy for the Financial Performance variable. These research findings align with established theory, affirming that an elevated Return on Assets correlates with increased dividend payments by the company.

The Influence of Company's Size on Dividend Policy

The outcomes of data analysis reveal that Company's Size yields a probability value of 0.72070, surpassing the predetermined alpha value of 0.05. Consequently, the conclusion can be drawn that Company's Size lacks a significant impact on dividend policy. In this study, Company's Size serves as one of the proxies for the Company's Size variable. These research findings diverge from the theory asserting that larger company size leads to more substantial dividend payments. This discrepancy can be explained by the notion that when a company attains a substantial size, it typically enters an established stage where there's lesser necessity to retain profits, thus facilitating more considerable dividend disbursements to shareholders.

The Influence of Tobin's Q on Dividend Policy

The data analysis results indicate that Tobin's Q yields a probability value of 0.00000, which falls below the predetermined alpha value of 0.05. Hence, it can be inferred that the Tobin's Q proxy significantly impacts the dividend policy. Within this study, Tobin's Q serves as a proxy for the Financial Performance variable. Tobin's Q is calculated by dividing the market capitalization value by the company's total assets. Consequently, it is reasonable to anticipate that as Tobin's Q value increases, so does the magnitude of dividends paid by the company.

4. Conclusion

This study concludes that Institutional Shareholders, Return on Assets, and Tobin's Q exert a significant influence on dividend policy. Conversely, the other proxies, namely Debt to Asset Ratio, Independent Commissioner, Non-Performing Loan, and Company's Size, do not possess a significant influence on dividend policy. These findings underscore that dividend policy, within the realm of Corporate Finance, remains a complex issue that cannot be fully expounded by a limited set of variables. Furthermore, the outcomes of this research underline the presence of an empirical gap between different studies, as well as a discrepancy between research results and existing theories. Hence, the expectation is that these research findings will stimulate further investigations to refine and expand upon the existing body of research.

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