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# Determination of Factors Influencing Dividend Policy: A Case Study of a Manufacturing Company in Indonesia

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**Abstract**

*This study aims to analyze the influence of the board of directors, independent board of commissioners, managerial ownership, institutional ownership, profitability, and leverage on dividend policy. This study uses a quantitative research approach and the data used in this study are secondary data obtained from the financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2022 period. The sample of this study is a manufacturing company listed on the Indonesia Stock Exchange in 2019-2022 which was selected by the purposive sampling method so that 66 sample data were obtained. Data analysis techniques are performed using descriptive statistics, classical assumption tests, multiple linear regression analysis, and hypothesis testing. The results showed that independent board of commissioners and managerial ownership have a positive effect on dividend policy, while profitability and leverage have a negative effect on dividend policy. However, the board of directors and institutional ownership have no effect on dividend policy.*

**Keywords: Dividend Policy, Board of Directors, Independent Board of Commissioners, Managerial Ownership, Institutional Ownership, Profitability, Leverage**

## 1. INTRODUCTION

Dividend payment policy is a crucial element in a company's dividend strategy. Proper dividend payments can repay shareholders' investments and bear business risks (Bataineh, 2021). However, the balance between company growth and dividend payments becomes important, due to its effect on company value (Reyna, 2017). Dividend payments

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depend on dividend policy, which governs the distribution of corporate profits between dividends and retained earnings (Tahir et al., 2014). In this context, the agency relationship between company owners and managers becomes relevant (Handini, 2023).

Based on data from the Indonesia Stock Exchange (IDX) and KSEI (Indonesian Central Securities Depository), it can be seen that the comparison of companies that distribute dividends and do not distribute dividends in the period 2018 – 2022 is as follows.

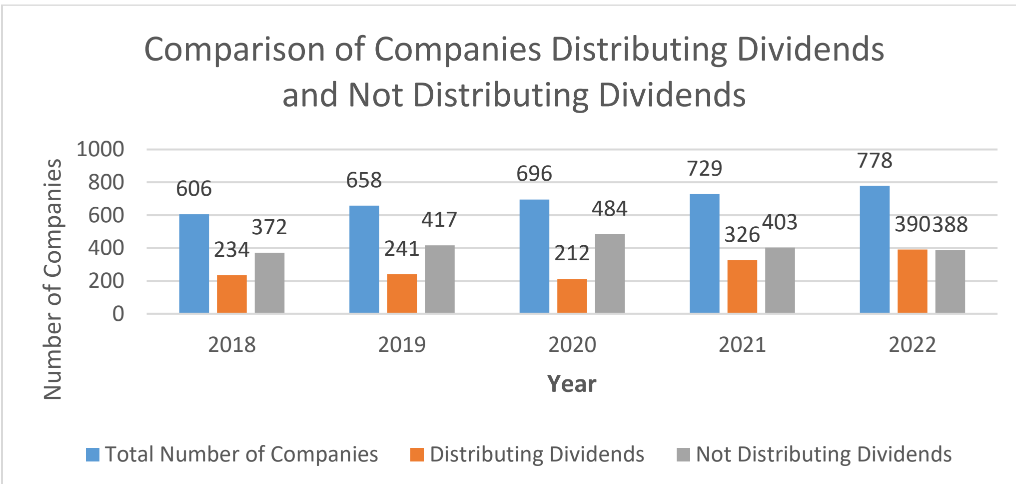


Figure 1. Graph Comparing Companies Distributing Dividends and Companies Not Distributing Dividends

Based on figure 1, it can be seen that the growth of companies listed on the IDX from 2018-2022 continues to increase every year. Nevertheless, dividend payments by companies tend to fluctuate from year to year. Interestingly, although the number of companies continues to grow, the percentage of companies that pay dividends is smaller or less compared to those that do not pay dividends. The increase in the number of companies should be directly proportional to the company's policy to distribute larger dividends (Anggoro & Yulianto, 2019). However, in reality, the percentage of companies that distribute dividends between 2018-2022 is smaller or less, only about 40.11% or about 1,403 companies out of a total of 3,467 listed companies. This shows that companies listed on the Indonesia Stock Exchange in the 2018-2022 period have not been optimal in making decisions to distribute dividends to shareholders.

There are various factors that can affect dividend policy, one of which is the board of directors. The board of directors plays a role in the implementation of the company's strategy and provides oversight to management to reduce agency conflicts, so that the company can distribute large dividends (Ardelia & Lukman, 2023). The next factor that affects dividend policy is the independent board of commissioners. With an independent board of commissioners, the supervisory function runs effectively which can reduce agency conflicts so that the dividends distributed are greate(Chandra & Junita, 2021).

Dividend policy can also be influenced by managerial ownership and institutional ownership. With high managerial ownership, managerial parties try to get a return on opportunity cost in the form of greater dividend payments (Johanes et al., 2021). With the increasing percentage of institutional ownership, the company's interest in paying dividends is decreasing (Mardani, 2022). Profitability and leverage also play a role in dividend decisions, with high levels of profitability supporting larger dividend payments (Bakri et al., 2021), while companies with high leverage tend to limit dividend payments (Serly & Susanti, 2021).

Based on the phenomena and differences in results from previous studies, this study intends to examine factors that can affect dividend policy. However, most researchers have taken and proven some of the determinants of dividend policy of companies in Indonesia separately. This study aims to analyze the influence of the board of directors, independent board of commissioners, managerial ownership, institutional ownership, profitability, and leverage on dividend policy into a single entit.

## 2. LITERATURE REVIEW

### 2.1 Agency Theory

Agency theory is caused by differences in interests between agents (managers) and principals (shareholders). This agency relationship between the principal and the agent arises because of a contractual agreement in which the principal entrusts his funds to be managed to the agent, with the aim of achieving company performance that can provide benefits to the principal (Jensen & Meckling, 1976). Principals (shareholders) want to optimize returns in connection with the investment invested, however, this desire is contrary to agents (managers) who need more funds to protect liquidity and anticipate to face company risks (Serly & Susanti, 2021). Agency conflicts between principals and agents can ultimately influence decisions in a company's dividend policy process, including whether or not to distribute cash dividends (Handini, 2023).

## 2.2 Dividend Policy

Dividend policy is a condition for the company to decide the amount of profit to be distributed to shareholders and the amount of retained earnings (Damayanti et al., 2017). If the company decides to distribute dividends to shareholders, it will result in reduced retained earnings so that internal funding will decrease. If the company determines that profits are retained, the company's ability to obtain internal funds will increase (Johanes et al., 2021). With the distribution of dividends, the cash flow available in the company will decrease, thus helping in reducing agency problems in the company (Kumar et al., 2023). Thus, company managers in relation to increasing shareholder wealth must pay attention to the balance between shareholder wishes with funding that can increase company profit(Heidary & Jalilian, 2016).

## 2.3 Board of Directors

The board of directors is a board responsible for implementing the vision, mission, corporate strategy, and corporate budget achieved in line with the principles of corporate governance (Serly & Susanti, 2021). With more board of directors, companies can be more efficient, reduce agency problems, and increase dividend distribution (Dissanayake & Dissabandara, 2021). In line with research (Duygun et al., 2018) which shows that the board of directors has a positive effect on dividend payments where the existence of a large board of directors will improve management performance so as to avoid taking personal interests.
H1 : The board of directors has a positive effect on dividend policy.

## 2.4 Independent Bard of Commissioners

The existence of an independent board of commissioners can ensure that the supervisory function runs well and in accordance with laws and regulations (KNKG, 2006). In connection with this supervisory function, it can minimize agency conflicts so that the more members of the independent board of commissioners, the higher the value of independence and effectiveness which will lead to more dividend payments (Chandra & Junita, 2021). In accordance with research (Mardani et al., 2018) which shows that an independent board of commissioners has a positive effect on dividend policy, which means that with an independent board of commissioners, it can urge companies to distribute large dividends.
H2 : The independent board of commissioners has a positive effect on dividend policy.

## 2.5 Managerial Ownership

Managerial ownership shows the large proportion of shares owned by management, namely the board of directors and board of commissioners and participates in company decision making (Mangasih et al., 2021). With high managerial ownership, it will cause asset allocation to be not optimal so that managerial parties try to obtain return on opportunity costs in the form of greater dividend payments (Johanes et al., 2021). This is in line with research (Sumartha, 2016) which shows that managerial ownership has a positive effect on dividend policy where with the greater proportion of managerial ownership in the company, the dividends paid to shareholders are also greater due to the equality of interests between managerial parties and other shareholders in the company.
H3: Managerial ownership has a positive effect on dividend policy.

## 2.6 Institutional Ownership

Institutional ownership refers to the ownership of a company by the non-bank institution or financial institution that manages the funds. Institutional ownership is institutional investors who generally do not like high dividend payout ratios and prefer capital gains that are much lower taxes, because institutional investors are institutions with higher taxes (Dhuhri & Diantimala, 2018). In accordance with research (Mardani, 2022) which shows that institutional ownership negatively affects dividend policy, this means that the greater the percentage of institutional ownership, the company's interest in paying dividends decreases.
H4: Institutional ownership negatively affects dividend policy.

## 2.7 Profitability

Profitability is a major factor determining dividend policy (Baker & Jabbouri, 2016). Companies that have high profitability affirm company performance and the implementation of good corporate governance so that dividends distributed are also high (Yarram & Dollery, 2015). The more profitable the company has been in the past or the more consistent its net income is, the more willing managers will be to pay dividends (Nguyen et al., 2021). In accordance with research (Chandra & Junita, 2021) which shows that profitability has a positive effect on dividend policy where the higher the percentage of profitability, the higher the dividends distributed by the company considering the company's ability to generate high profits in the form of dividends will be distributed to shareholders which aims to attract the attention of shareholders.

H5: Profitability has a positive effect on dividend policy..

## 2.8 Leverage

Leverage is a ratio used to measure the percentage of a company's long-term debt (Serly & Susanti, 2021). Companies with high leverage experience bankruptcy risk so that management prioritizes solving the company's crisis conditions compared to the interests of shareholders (Mahdzan et al., 2016). Companies must make wise decisions regarding dividend policy because the ability to pay dividends from highly leveraged companies can decrease due to interest payments and fixed principal amounts (Boanyah et al., 2013). In accordance with research (Nguyen et al., 2021) which shows that leverage negatively affects dividend policy where the higher the leverage percentage, the company will reduce dividend payments.
H6: Leverage negatively affects dividend poli.

# 3. METHOD

This study used a quantitative research approach. This research is based on theoretical testing which includes variables measured with numbers, then analyzed with statistical procedures (Ali et al., 2022). The data collection technique used is a documentation technique. The type of data used in this study is secondary data. Secondary data is obtained from the financial statements and annual reports of manufacturing companies listed on the IDX for the 2019-2022 period accessed through the IDX website (https://www.idx.co.id/id).

The population in this study is all manufacturing companies listed on the IDX in 2019-2022. The sampling method uses purposive sampling techniques with criteria, namely: (1) manufacturing companies listed on the IDX during the 2019-2022 period, (2) manufacturing companies that distribute dividends during the 2019-2022 period, (3) manufacturing companies that earn profits during the 2019-2022 period, (4) manufacturing companies that have managerial ownership and institutional ownership during the 2019-2022 period, so that 66 sample data are obtained.

**Table 1. Sampling**

| Criteria | The Total Number |
|---|---|
| Manufacturing companies listed on the Indonesia Stock Exchange (IDX) | 226 |

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| Criteria | The Total Number |
|---|---|
| Companies that do not meet *purposive sampling*: | |
| Manufacturing companies not listed on the Indonesia Stock Exchange (IDX) from the year 2019-2022 | (44) |
| Manufacturing companies that did not pay dividends consecutively in 2019-2022 | (131) |
| Manufacturing companies that did not earn consecutive profits in 2019-2022 | (9) |
| Manufacturing companies that do not have managerial ownership and institutional ownership in 2019-2022 | (21) |
| **Number of companies meeting sample criteria** | **21** |
| **Data sample (21 x 4 years)** | **84** |
| **Outlier Data** | **(18)** |
| **Research sample** | **66** |
| Source: Processed Data (2024) | |

The variables in this study consist of dependent variables, namely dividend policy, and independent variables, namely the board of directors, independent board of commissioners, managerial ownership, institutional ownership, profitability, and leverage. The measurement of each variable is as follows.

**Table 2. Variable Measurement**

| Variable | Measurement |
|---|---|
| Dividend Policy (Y) | $Dividend\ Payout\ Ratio = \frac{Dividend\ Per\ Share}{Earning\ Per\ Share}$ |
| Board of Directors ($\mathbf{X_1}$) | Number of members of the board of directors |
| Independent Board of Commissioners ($\mathbf{X_2}$) | $\frac{\text{Number of members of the Independent Board of Commissioners}}{\text{Number of members of the board of commissioners}}$ |

| | |
|---|---|
| Managerial Ownership ($\mathbf{X_3}$) | $\frac{\text{The number of shares owned by the Board of Directors and Commissione}}{\text{Number of outstanding shares}}$ |
| Institutional Ownership ($\mathbf{X_4}$) | $\frac{\text{number of shares held by institutions}}{\textit{Outstanding Shares}}$ |
| Profitability($\mathbf{X_5}$ ) | ROA = $\frac{\textit{Net Income}}{\text{Total assets}}$ |
| Leverage ($\mathbf{X_6}$) | DAR = $\frac{\text{Total Liabilities}}{\text{Total aset}}$ |

*Source: (Chandra & Junita, 2021), (Handini, 2023), (Yoewono, 2023), (Johanes et al., 2021), (Mardani, 2022), (Atikah, 2018), (Serly & Susanti, 2021)*

This study analyzed the data using descriptive statistics. Hypothesis testing uses multiple linear regression analysis which includes t-test (partial test) and coefficient of determination (). Before conducting multiple linear regression analysis, classical assumption tests will be carried out first. The classical assumption test consists of the normality test, multicollinarity test, heterokedasticity test, and autocorrelation test.$R^2$

## 4. RESULTS

### 4.1 Descriptive Statistical Analysis

**Table 3. Descriptive Stastical Results**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| X1 | 66 | 3 | 10 | 5.41 | 1.953 |
| X2 | 66 | .25 | .67 | .3918 | .08460 |
| X3 | 66 | .00 | .25 | .0486 | .06593 |
| X4 | 66 | .38 | .90 | .6656 | .13736 |
| X5 | 66 | .01 | .21 | .0803 | .05102 |
| X6 | 66 | .09 | .66 | .3948 | .13754 |
| Y | 66 | .11 | .83 | .3169 | .16213 |

*Source: Processed Data (2024)*

Based on table 3, 66 observational data were obtained used in the study. The number of boards of directors in the company ranges from 3 to 10 people with an average of 5 people. This shows that the company has complied with the provisions in the Financial Services Authority regulations that a company must have at least 2 directors. The average of independent board of commissioners in the company is 0.3918 with a minimum value of 0.25 and a maximum value of 0.67. This average score corresponds to the minimum requirement of 30% for the proportion of independent commissioners. However, the minimum value of independent commissioners of 0.25 indicates that there are some companies that do not comply with IDX regulations regarding the proportion of independent commissioners.

The shareholding structure in manufacturing companies shows that institutional ownership is higher than managerial ownership. Managerial ownership has an average value of 0.0486 with a minimum value of 0.00 and a maximum value of 0.25. While institutional ownership has an average value of 0.6656 with a minimum value of 0.38 and a maximum value of 0.90. This means that most of the company's capital comes from institutions, so the company must guarantee the distribution of returns in the form of dividends.

Profitability (ROA) has an average value of 0.0803 with a minimum value of 0.01 and a maximum value of 0.21. Leverage (DER) has an average value of 0.3948 with a minimum value of 0.09 and a maximum value of 0.66. The dividend policy (DPR) has an average value of 0.3169 with a minimum value of 0.11 and a maximum value of 0.83. This means that on average, the company distributes dividends of 31% and the remaining 69% is included in retained earnings.

## 4.2 Classical Assumption Test

### 4.2.1 Normality Test

**Table 4. Normality Test Results**

| One-Sample Kolmogorov-Smirnov Test | |
|---|---|
| | **Unstandardized Residual** |
| N | 66 |
| Test Statistic | .098 |
| Asymp. Sig. (2-tailed)[c] | .195 |

*Source: Processed Data (2024)*

Based on table 4 can be seen the results of the Kolmogorov-Smirnov test which shows that the value of Asymp. Sig (2-tailed) of 0.195. The significance value is greater than the value of 0.05 which indicates that the data is normally distributed.

### 4.2.2 Multicollinearity Test

**Table 5. Multicollinearity Test Results**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | X1 | .888 | 1.126 |
| | X2 | .817 | 1.224 |
| | X3 | .815 | 1.227 |
| | X4 | .801 | 1.248 |
| | X5 | .566 | 1.768 |
| | X6 | .588 | 1.701 |

*Source: Processed Data (2024)*

Based on the test results in table 5, it can be concluded that each independent variable has a tolerance value greater than 0.10 and a VIF value smaller than 10.00 which indicates that there is no multicollinearity problem.

### 4.2.3 Heteroscedasticity Test

**Table 6. Heteroskedasticity Test Results**

| | | | Unstandardized Residual |
|---|---|---|---|
| Spearman's rho | X1 | Sig. (2-tailed) | .809 |
| | X2 | Sig. (2-tailed) | .611 |
| | X3 | Sig. (2-tailed) | .854 |
| | X4 | Sig. (2-tailed) | .508 |
| | X5 | Sig. (2-tailed) | .896 |
| | X6 | Sig. (2-tailed) | .814 |

*Source: Processed Data (2024)*

Based on table 6, it can be seen the results of the heteroscedacity test using spearman's rho which shows that each independent variable has a significance value greater than 0.05 so that heteroscedacity symptoms do not occur.

### 4.2.4 The Automobile

**Table 7. Autocorrelation Test Results**

| Model | Durbin-Watson |
|---|---|
| 1 | 1.862 |

*Source: Processed Data (2024)*

Based on table 7, it can be known that the Durbin-Watson (DW) value is 1.862. Based on the Durbin-Watson table (DW) with a significance value of 5%, the number of independent variables (k) is 6 and the number of samples (n) is 66, a du value of 1.8041 is obtained. So it can be concluded that du < dw < 4-du which is 1.8041 < 1.862 < 2.1959 which means that the regression model of this study is free from autocorrelation.

### 4.3 Multiple Linear Regression Analysis

**Table 8. Results of Multiple Linear Regression Analysis**

| Model | | Unstandardized Coefficients | |
|---|---|---|---|
| | | B | Std. Error |
| 1 | (Constant) | .561 | .163 |
| | X1 | .000 | .009 |
| | X2 | .473 | .228 |
| | X3 | .926 | .293 |
| | X4 | -.228 | .142 |
| | X5 | -1.056 | .455 |
| | X6 | -.596 | .165 |

*Source: Processed Data (2024)*

Based on table 8, the multiple linear regression equation is as follows:

$Y = 0{,}561 + 0{,}000\ X_1 + 0{,}473\ X_2 + 0{,}926\ X_3 - 0{,}228\ X_4 - 1{,}056\ X_5 - 0{,}596\ X_6 + e$

### 4.4 Pengujian Hipotesis

#### 4.4.1 Test t

**Tabel 9. t-Test Results**

| Model | | Unstandardized Coefficients | | Sig. |
|---|---|---|---|---|
| | | B | Std. Error | |
| 1 | (Constant) | .561 | .163 | .001 |
| | X1 | .000 | .009 | .963 |
| | X2 | .473 | .228 | .043 |
| | X3 | .926 | .293 | .003 |
| | X4 | -.228 | .142 | .114 |
| | X5 | -1.056 | .455 | .024 |
| | X6 | -.596 | .165 | .001 |

*Source: Processed Data (2024)*

Based on table 9, the t-test results on the board of directors variable show a significance value of 0.963 with a positive coefficient value. The significance value is greater than 0.05. So it can be concluded that the board of directors has no effect on dividend policy, so the first hypothesis (H1) is rejected. The results of the t test on the independent board of commissioners variable showed a significance value of 0.043 with a positive coefficient value. The significance value is less than 0.05. So it can be concluded that the independent board of commissioners has a positive effect on dividend policy, so the second hypothesis (H2) is accepted. The results of the t test on the managerial ownership variable showed a significance value of 0.003 with a positive coefficient value. The significance value is less than 0.05. So it can be concluded that managerial ownership has a positive effect on dividend policy, so the third hypothesis (H3) is accepted.

The results of the t test on the institutional ownership variable showed a significance value of 0.114 with a negative coefficient value. The significance value is greater than 0.05. So it can be concluded that institutional ownership has no effect on dividend policy, so the fourth hypothesis (H4) is rejected. The results of the t test on the profitability variable showed a significance value of 0.024 with a negative coefficient value. The significance value is less than 0.05. So it can be concluded that profitability negatively affects dividend policy, so the fifth hypothesis (H5) is rejected because the direction of the research results is different from the hypothesis. The results of the t test on the leverage variable show a significance value of 0.001 with a negative coefficient value. The significance value is less than 0.05. Then it can be concluded that leverage negatively affects dividend policy, so the sixth hypothesis (H6) is accepted.

### 4.4.2 Test Coefficient of Determination ($R^2$)

**Table 10. Coefficient of Determination ($R^2$) Test Results**

| Model | Adjusted R Square |
|---|---|
| 1 | .247 |

*Source: Processed Data (2024)*

*Based on table 10, the Adjusted R Square value is 0.247. This means that 24.7% of dividend policy variables can be explained by the board of directors, independent board of directors, managerial ownership, institutional ownership, profitability, and leverage. While the remaining 75.3% was explained by other variables outside this study.*.

## 5. DISCUSSION

### 5.1 Influence of the Board f Directrs on Dividend Policy

The test results show that the board of directors has no effect on dividend policy. This is because the board of directors has an important role to formulate corporate strategy and make decisions under the supervision of company owners and the board of commissioners. This party does not have full authority in making decisions, including determining dividends (Ardelia & Lukman, 2023). Therefore, the board of directors does not mind the large ratio of dividend payments paid by the company to shareholders. The results of this study are in line with research (Hartono et al., 2023) which shows that the board of directors has no effect on dividend policy, so the first hypothesis (H1) is rejected..

### 5.2 Influence of Independent Board of Commissioners on Dividend Policy

The test results show that the independent board of commissioners has a positive effect on dividend policy. This is because the independent board of commissioners plays an important role in dividend distribution. As the number of independent boards of commissioners increases, so does the number of supervisory activities. This causes the company's effectiveness to increase so that it can improve company performance which will ultimately increase dividend payments (Hermawan et al., 2022). The results of this study are in line with research (Mardani et al., 2018) which shows that the independent board of commissioners has a positive effect on dividend policy, so the second hypothesis (H2) is accepted.

### 5.3 Effect of Managerial Ownership on Dividend Policy

The test results show that managerial ownership has a positive effect on dividend policy. This shows that the greater the ratio of management ownership in the company, the management will try to be more active for the benefit of shareholders, namely themselves (Prihatini & Susanti, 2018). Therefore, the greater the shares owned by the manager, the dividends distributed to investors will be greater and the manager's position will be stronger because he has a large stake in the company. So the amount of managerial ownership will increase dividend payments on the company. The results of this study are in line with research (Kartana et al., 2022) which shows that managerial ownership has a positive effect on dividend policy, so the third hypothesis (H3) is accepted.

### 5.4 Effect of Institutional Ownership on Devidend Policy

The test results show that institutional ownership has no effect on dividend policy. This is because the main motivation of institutional shareholders is to monitor and supervise management performance and has nothing to do with dividend payment policy. This is related to agency theory which shows the importance of company owners (shareholders) to delegate management to managers so that when institutional ownership increases or decreases, it does not affect dividend payment policies (Atikah, 2018). The results of this study are in line with research (Johanes et al., 2021) which shows that institutional ownership has no effect on dividend policy, so the fourth hypothesis (H4) is rejected.

### 5.5 The Effect of Profitability on Dividend Policy

The test results show that profitability negatively affects the dividend policy. This is because not all companies that experience increased profits cause a positive impact on dividend payments. A company must be able to manage its profits effectively, be it retained earnings or distributed as dividends. Increasing profits will encourage companies to allocate these profits into retained earnings used for company operations or to fund investments so as to reduce dividend payments (Atmoko et al., 2017). The results of this study are in line with research (Putri & Rokhim, 2016) which shows that profitability negatively affects dividend policy, so the fifth hypothesis (H5) is rejected.

### 5.6 The Effect of Leverage on Dividend Policy

The test results show that leverage negatively affects dividend policy. The amount of leverage is a consideration for investors to invest in the company. This is because most companies that have larger debts will be at risk of failure or decreased dividends received by investors. An increase in debt within a company will affect the level of net income available to shareholders, which means that a high level of leverage will further reduce the company's ability to pay dividends (Permana & Hidayati, 2016). The results of this study are in line with research (Kumar et al., 2023) which shows that leverage negatively affects dividend policy, so the sixth hypothesis (H6) is accepted.

## 6. CONCLUSION

This study aims to analyze the influence of the board of directors, independent board of commissioners, managerial ownership, institutional ownership, profitability, and leverage on dividend policy. The results showed that independent board of commissioners and managerial ownership have a positive effect on dividend policy, while profitability and leverage have a negative effect on dividend policy. However, the board of directors and institutional ownership have no effect on dividend policy.

The implication of this study is that companies should increase the number of independent board of commissioners and increase the number of managerial ownership, because based on the results of this study the number of independent commissioners and managerial ownership can increase dividend payments and shareholders are entitled to receive returns in the form of dividends. This research can be used as a consideration for investors in deciding to invest in a company by paying attention to the factors that affect dividend payment policies.

This study has several limitations, namely this study only uses six independent variables while there are still other independent variables that are not used in this study that can affect dividend policy and the research year is too short from 2019-2022, so it has not been able to detect long-term influences.

To overcome the limitations in this study, there are recommendations for future research, namely adding other independent variables that can affect dividend policies such as board meetings, audit committees, company size, or others and extending the research period to more than four years or using the latest research year so that the research results obtained can reflect the influence in the long run.

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