The Influence of Corporate Governance and Firm Age on the Dividend Payment Policy of Indonesian Banking Companies

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Abstract. There hasn't been a lot of GCG research on dividend policies in Indonesian financial organisations, hence the purpose of this study is to examine how corporate governance and company age affect dividend payment practices in these companies. This study's analytical technique is multiple regression hypothesis testing applied to Indonesian banking companies. The study's findings indicate that the size of the audit committee and the firm's age positively impact the dividend-paying policies of the corporation. In the meantime, company policy on dividend payments is not significantly impacted by board independence or meetings. Managerial implications: in order to increase the frequency with which banking companies distribute dividends, it is hoped that they will augment the number of relevant audit committees in the internal dividend policy monitoring system. Long-standing companies also have the advantage of low growth, which tends to fund fewer investments, allowing the company to distribute dividends in greater amounts.

Keywords: Board Independence, Board Meeting, Audit Committee Size, Dividend Policy.

1 Introduction

Research on dividend policy in Indonesia by GCG has been scarce. One of the most hotly contested subjects in corporate finance is this research. This has indeed inspired many empirical investigations from researchers in the field of finance. One of the rights of investors investing their capital in a company is to receive dividends. Agency theory states that in managing a company, management tends to prioritize themselves. This action will be detrimental to share owners. There is a conflict of interest between owners and management. Asian countries or countries that have a concentrated company ownership structure, a company is usually controlled by a majority shareholder which is usually a family company, then the conflict of interest that occurs is a conflict between majority shareholders and minority shareholders. The majority shareholder has the authority to choose the CEO and members of the board of directors and commissioners, among other strategic choices. Minority shareholders' interests are frequently

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exploited by majority shareholders' actions. Stated differently, majority owners engage in behaviour that serves their own interests at the expense of minority shareholders (a practice known as expropriation of minority shareholders).To protect the rights of minority shareholders, for example: dividends, the role of corporate governance mechanisms is very important [1].

Studies by [2] & [3] demonstrate that corporate governance practices have a favourable impact on dividend distribution. Their research's findings are consistent with outcome theory, which holds that firms with sound corporate governance practices would pay dividends to their shareholders and that strong corporate governance practices will safeguard investors well. In this instance, dividend policy benefits from corporate governance procedures. There is a negative correlation between dividend policy and corporate governance, as demonstrated by research [4]. Substitution theory, on the other hand, predicts that investors will get dividend payments from businesses with subpar corporate governance practices. The goal is to enhance the company's reputation. This study adds to the body of research examining whether corporate governance in developing nations—which includes board independence, board meetings, the size of the audit committee, and firm age—influences banking companies' dividend payout policy [5]

2 Theoretical Background

2.1 Dividend Policy

Dividend policy plays an important role in projecting a company's business prospects and greatly influences share prices [6]. Dividend policy also supports companies to achieve their goals by maximizing shareholder welfare. Companies that regularly pay a high proportion of dividends will have their share prices in the market increase, which ultimately attracts investors to invest [7]. Likewise, companies that set a relatively stable dividend distribution policy will be more attractive to investors. Investors' confidence in the Company is influenced by dividend stability thereby avoiding investment uncertainty [8]. A part of profits that are given to shareholders as dividends are decided upon at the general meeting of shareholders (GMS) [9]. The number of current profits that will be distributed as dividends as opposed to being kept for company reinvestment is determined by the dividend policy [10]. In general, banking organizations distribute dividends in a number of ways, such as cash dividends and share dividends [6]. Dividends per share (DPS) are used in this study to gauge dividend policy [5].

2.2 Corporate Governance

The idea of corporate governance was put forth with the intention of enhancing business performance through stakeholder responsibility and performance monitoring of management. For the benefit of all readers of financial reports, corporate governance is a concept that is utilized to promote more transparent business management [11]. defines corporate governance as the interaction between different stakeholders involved in deciding the company's performance and direction. Long-term shareholder prosperity is

the goal of corpo-rate governance, which also takes other stakeholders' interests into consideration. Ensuring that management behaves in the best interests of stakeholders can be accomplished through corporate governance. Strong protection of shareholders' rights, particularly those of minority shareholders, is necessary for the execution of corporate governance. Corporate governance guidelines state that all stakeholders in the organization, including the community, be protected in addition to shareholders [12]. A number of relationships between the board of directors, shareholders, management of the company, and other stakeholders are included in corporate governance [13]. In this research, corporate governance consists of Board Independence, Board Meetings, and Audit Committee Size [5].

2.3 Board Independence

Aside from shareholders, the board of directors and the board of independence are the primary participants in the corporate governance framework [5]. Monitoring the performance of the business that the directors manage is one of the goals of board independence. By doing this, agency conflicts that result from directors putting their personal lives ahead of the interests of shareholders are avoided. In order to reduce agency costs between minority shareholders and the board of directors, board independence plays the role of keeping an eye on the board's performance [14]. A company's independence board is crucial since it has the power to affect the board of commissioners' choices. Apart from that, with the existence of an independence board, supervision and control will be created from both internal and external parties in decision making. Supervision carried out by external parties is of course more objective than supervision carried out by internal parties because they are not directly involved in the company's operational activities, so they can reduce managerial fraud in decision making [15]. Research conducted by [14] explains that board independence will increase supervision of managers so that managers act in the interests of shareholders.

Research [16] demonstrates that the dividend distribution of a corporation is positively impacted by board independence. The findings were also reported by [17] where the existence of board independence was considered to improve company performance and also encouraged company dividend payments. This shows that increasing board independence will encourage investees to pay larger dividends. This is based on increasing board independence, which will increase good corporate governance practices, so dividend policy will increase. Based on substitute theory, bad corporate governance is characterized by the absence of board independence, this will encourage companies to distribute dividends. A similar topic was carried out [18] which also concluded that board independence had a significant negative effect on dividend distribution patterns. To avoid agency problems, companies increase the existence of board independence thereby reducing the need for dividend distribution.

2.4 Board Meeting

[15] demonstrated that the number of board meetings had a major positive impact on dividend distribution. The regularity of meetings indicates how involved the board of

directors' members are. According to [13] & [3], meetings focus on finding a solution when there is a crisis. Meeting frequency has a major beneficial impact on dividend distribution during times of crisis because involved board members enhance the standard of corporate governance implementation, which creates more chances for dividend distribution. Thus, all company decisions can be taken appropriately which will help improve company performance. However, this explanation has a different opinion from research [19] which states that according to directors, it is recommended that they rarely hold meetings to avoid disagreements that lead to conflict. Without any conflict, the company will also reduce the need for dividend distribution. Meanwhile, research conducted [20] states that Board Meetings do not significantly influence dividend policy.

2.5 Audit Committee Size

The Audit Committee is a constituent of sound corporate governance, serving to guarantee that the company's policies are followed on a day-to-day basis and that the financial reports it presents comply with Indonesia's widely recognized financial accounting standards. It is believed that by having an audit committee, the business will be able to enhance internal oversight and give shareholders more consideration. One of the board of commissioners' supporting committees is the audit committee. Stated differently, the audit committee is in charge of monitoring the company's internal control system, external audits, and financial reporting. The audit committee is an impartial panel with no stake in the operation of the organisation. Regarding accounting and issues pertaining to the internal monitoring system, the audit committee must have an opinion on dividend policy [21]. According to research [22], the Audit Committee has a major favourable impact. In the meantime, studies on the subject of the Audit Committee and dividend policy [16] came to the conclusion that the two had no meaningful connection.

2.6 Firm Age

A company's age is the amount of time that has passed since its founding till it can continue to operate limitlessly in the present or the future. Because they have previously put in a lot of labour hours, organisations that are older typically have more knowledge and expertise in operating their business than those that are just a few years old [23]. The company's age indicates that it is still operating and capable of competing [24]. According to the Maturity Hypothesis idea, long-standing businesses have few chances for expansion and less capital available for investments, which allows them to pay out dividends more frequently. This is according to [25]. Firms with a lengthy history of establishment are often in the maturity stage, whereas newly founded enterprises are in the growth stage. A company's age is determined by subtracting the year of research from the year of founding, and the duration of its establishment reflects the state of the business at the beginning of its operations [26]. Firm age has a strong favourable effect on dividend policy, according to research by [27] & [28]. This means that the longer a firm has been in business, the more established it is and, consequently, the management is seen as more experienced. whose influence can boost capacities (Fig. 1).

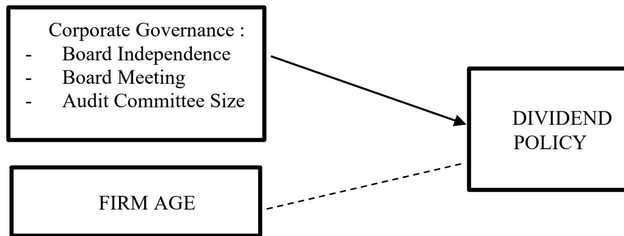

Fig. 1. Conceptual Framework

Hypothesis Formulation

H_1: Board Independence has a positive effect on dividend policy
H_2: Board meetings have a positive effect on dividend policy
H_3: Audit Committee has a positive influence on dividend policy
H_4: Firm Age has a positive effect on dividend policy

3 METHODOLOGY

In order to determine the impact of firm age and corporate governance on the dividend payment policies of Indonesian banking companies listed on the Indonesian Stock Exchange, this study methodology employs hypothesis testing. A 5-year study period was conducted with Multiple Regression Analysis. The secondary data used in this study was gathered from banking business annual reports that were accessed through the www.idx.co.id website of the Indonesian Stock Exchange. Panel data regression is the analytical technique employed (Table 1).

Table 1. Variables and Measurement

Variables	Measurements	Literature
Dependent Variable:		
Dividend Policy	Dividen Per Share	[5]
Independent Variables:		
Board Independence (BIND)	$\frac{\text{Number of Independence Boards}}{\text{board of commissioners}} \times 100\%$ (1)	
Board Meeting (BMET)	Number of Meetings the Board Holds Each Year	
Audit Committee Size (ACSIZE)	Number of Audit Committees in each company	
Firm Age	Company Age	

The analysis method uses multiple regression analysis as follows :

DIVit = α + β1BINDit + β3BMETit + β4ACSIZEit + β5AGEit + εit	(2)

Note:

DIV	= Dividen Policy
BIND	= Board Indipendence
BMET	= Board Meeting
ACSIZE	= Audit Committee SizeAge = Firm Age
α	= Constant
β	= Coefficient
ε	= Residual (Error)

4 Result and Analysis

In order to determine whether the developed model adequately explains the data, model fit testing was done using the Hosner and Lemeshow Test. With an alpha of 1%, the test results showed a p-value (sig) from chisquare of 0.025>0.01, indicating that the resulting model could adequately describe the data (Table 2).

Table 2. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	17.173	8	.028

The dependent variable, the likelihood that the business will implement the policy, can be explained by variations in the independent variables, namely governance (Board Independence, Board Meeting and Audit Committee Size) and Firm Age, according to the Nagelkerke R Square test (coefficient of determination) result of 0.237. a 23.7% dividend. and fluctuations from other independent factors that affect the company's dividend policy but are left out of the model account for the remaining 76.3% (Table 3).

Table 3. Model Fit

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	229.960[a]	.175	.237

A p value (value) of 0.000 < 0.05 from the chisquare model indicates that the Global test results, which demonstrate that at least one independent variable has a significant effect on the dependent variable, are rejected and accepted, respectively. This suggests that at least one independent variable significantly influences the dependent variable (Table 4).

Table 4. Global Test

Step 1	Chi-square	df	Sig.

Step	38.413	4	.000
Block	38.413	4	.000
Model	38.413	4	.000

Table 5. Results Test

Variable	coefficient	T_{stat}	p-value	Result
BIND	-0.904	0.425	0,2025	Hypothesis not supported
BMET	-0.020	6.799	0,0045	Hypothesis not supported
ACSIZE	0.266	2.821	0,046*	The hypothesis is supported
AGE	0.033	15.516	0,000*	The hypothesis is supported

The number of independent directors does not appear to have a demonstrable impact on the company's dividend policy, according to the analysis of the hypothesis test, which yields a p-value of 0.2025 > 0.05 for the Independent Board variable. Research [3] provides support for this study. In the meanwhile, these findings contradict studies [16] & [15], which claim that board independence has a major beneficial impact. In contrast, the Board Meeting variable shows that the number of board meetings has a negative impact on the company's dividend policy, as evidenced by the processed results with an estimated coefficient value of -0.020 and a p-value of 0.000 < 0.05. This finding contradicts the hypothesis that the influence of board meetings has a positive impact on dividend policy. Research [19] & [20], which claim that board meetings have no bearing on dividend policy (Table 5), corroborate this study.

The results of the test measuring the impact of the audit committee's size on the dividend policy of the company showed an estimated coefficient value of 0.266 and a p-value of 0.046 < 0.05. This suggests that the audit committee's size positively influences the dividend policy of the company. The findings of this study are corroborated by research by [22] & [21], which indicates that the size of the audit committee positively affects dividend policy.

When examining the impact of firm age on dividend policy, a p-value of 0.000 < 0.05 corresponds to an estimated coefficient value of 0.033. This test establishes the beneficial relationship between firm age and dividend policy. Research by [23], [27], and [28] demonstrates that firm age positively affects dividend policy, which lends credence to this study.

5 Conclusion, Implication and Suggestion for Future Research

The only aspect of corporate governance that has a positive impact on dividend policy is audit committee size, according to research on the relationship between corporate governance and firm age and the dividend payment policies of Indonesian banking

companies listed on the Indonesia Stock Exchange over a five-year period. This demonstrates that the audit committee's growing membership can exert control on the company's dividend distribution policy. In addition, the age of the business positively affects dividend policy; that is, the longer the business has been in operation, the better the chances are that it will continue to pay dividends.

It is hoped that additional research will clarify the relationship between corporate governance and dividend policy by taking into account variables related to directors and commissioners, such as the presence of female directors and commissioners, and by including the variable of earnings quality as a mediating variable [22].

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