Jurnal Ekonomi Modernisasi
http://ejournal.unikama.ac.id/index.php/JEKO

Corporate governance, capital structure and dividend policy

Ronny Malavia Mardani
Fakultas Ekonomi dan Bisnis, Universitas Islam Malang, Indonesia

Abstract

Corporate governance, capital structure and dividend policy are currently widely debated in finance. This research examines the influence of corporate governance and capital structure on dividend policy. This research also includes growth, profitability and firm size as independent variables. The samples in this research were manufacturing companies on the Indonesia Stock Exchange from 2012 to 2022. Based on the established criteria, a total of 38 companies were obtained. The data analysis technique was carried out using multiple linear regression. The results of the analysis show that corporate governance and profitability have a significant positive effect on dividend payout, which indicates that companies with good governance and profitable companies will prefer options to increase shareholder value so that investor trust in the company will increase and, in turn, this can lead to increased demand for company shares and pushed up share prices and dividends. On the other hand, firm size has a significant negative effect on dividend payout, which indicates that large companies prefer projects that can produce a high rate of return, so the company allocates funds to these projects rather than paying dividends to shareholders

Keywords: corporate governance, capital structure, growth, profitability, firm size and dividend payout

Abstrak

Corporate governance, capital structure dan dividend policy sampai saat ini banyak diperdebatkan dibidang finance. Penelitian ini menguji pengaruh corporate governance dan capital structure pada dividend policy. Penelitian ini juga memasukkan pertumbuhan, profitabilitas dan firm size sebagai variabel independen. Sampel dalam penelitian ini merupakan perusahaan manufaktur di Bursa Efek Indonesia dari tahun 2012 sampai dengan 2022. Berdasarkan kriteria yang telah ditetapkan, diperoleh sejumlah 38 perusahaan. Teknik analisis data dilakukan dengan menggunakan regresi linier berganda. Hasil analisis menunjukkan bahwa bahwa corporate governance dan profitabilitas berpengaruh positif signifikan pada dividen payout yang mengindikasikan bahwa perusahaan dengan tata kelola yang baik dan perusahaan yang profitable akan lebih memilih opsi untuk meningkatkan nilai pemegang saham, sehingga kepercayaan investor terhadap perusahaan akan meningkat dan pada gilirannya dapat menyebabkan peningkatan permintaan atas saham perusahaan dan mendorong kenaikan harga saham serta dividen. Disisi lain, firm size berpengaruh negatif signifikan pada dividen payout yang mengindikasikan bahwa perusahaan besar lebih memilih proyek-proyek yang dapat menghasilkan tingkat pengembalian yang tinggi, sehingga perusahaan mengalokasikan dana ke dalam proyek-proyek tersebut daripada membayar dividen kepada pemegang saham..

Kata kunci: corporate governance, capital structure, growth, profitability, firm size and dividend payout

Permalink/DOI : https://doi.org/10.21067/jem.v19i3.9830

How to cite : Mardani, R. M. (2024). Corporate governance, capital structure and dividend policy. *Jurnal Ekonomi Modernisasi*, *19*(3). 191-205

Article info : Received: Feb 2024; Revised: March 2024; Accepted: March 2024

*Corresponding Author:
Universitas Islam Malang, Indonesia
Email: ronnymalavia_fe@unisma.ac.id

ISSN 0216-373X (print)
ISSN 2502-4078 (online)

Introduction

Corporate governance refers to the framework used to organize and manage a company (Rouf, 2011) and includes ownership structure, roles and responsibilities of the board of directors, transparency in financial reporting, and internal control systems. Good corporate governance is essential to ensure that the company is run efficiently, ethically, and in the interests of shareholders and other stakeholders. Good corporate governance practices can increase investor confidence (Shahid & Abbas, 2019; Singh & Pillai, 2022), reduce the risk of company failure (Faleye & Krishnan, 2017; Saraswati & Agustina, 2022), and increase company value in the long term (Kurniati, 2019; Wandroski Peris et al., 2017). In 1929, the United States experienced a market crash that resulted in the Great Depression, which was one of the worst economic crises in modern history. The market crash was directly attributed to several factors, including weaknesses in the corporate governance system at the time. This incident became a practical experience of how important the implementation of corporate governance is for modern companies. Likewise, in Indonesia, the political and economic crisis that occurred in 1997, often referred to as the Asian Monetary Crisis, had many complex causes, including poor corporate governance. However, up to now, companies in Indonesia still need to be more decisive in implementing corporate governance. Indonesia is still ranked low in the placement of companies that have received the ASEAN Corporate Governance Awards compared to other ASEAN countries. According to the ACGA, Budiman & Krisnawati, (2021) noted that in 2018, Indonesia's corporate governance score was among the lowest 34% of twelve countries, falling behind nations like the Philippines, Thailand, Malaysia, and Singapore. Although Indonesia's ranking rose from 20th to 12th in 2023, it remains near the bottom of the ACGA table alongside the Philippines (Asian Corporate Governance Association, 2023). Several factors contribute to this issue. The regulatory framework in Indonesia is less rigorous and inconsistently applied, resulting in weaker corporate governance (Chandranegara & Ali, 2020; Wijayati et al., 2016). Transparency and disclosure are limited due to ineffective enforcement mechanisms (Frantz et al., 2013; Hoi et al., 2019). Boards of Indonesian companies often lack truly independent directors, which weakens their oversight capabilities (Annuar & Abdul Rashid, 2015). Additionally, cultural factors, such as the strong influence of family ties on business decisions, also contribute to lower corporate governance ratings (Tanjung, 2020).

Capital structure refers to the composition of a company's funding sources in the form of equity and debt (Brigham & Ehrhardt, 2020). Decisions about how a company should fund its operations significantly impact a company's financial performance, risk, and value. Companies must consider factors such as cost of capital, bankruptcy risk, financial flexibility, and shareholder expectations in determining the optimal capital structure. The company's financial behavior regarding capital structure policies needs to be considered more straightforwardly. According to Opinion (Myers & Majluf, 1984) in The Capital Structure Puzzle, "the capital structure puzzle is tougher than the dividend one. We know very little about capital structure. We do not know how firms choose the debt, equity or hybrid securities they issue. We do not understand corporate financing behavior and how that behavior affects security returns".

A dividend policy is a company policy in distributing profits to shareholders. Decisions about whether a company will pay dividends, how much, and when they will be spent have significant implications for market

perception, share price, and the availability of funds for investment in the company's growth. The dividend policy also reflects the company's financial condition, capital requirements and shareholder preferences. Paying higher dividends can lower agency costs of equity because it will impact the opportunity to increase external equity capital (Burns et al., 2015). La Porta et al., (2000) stated that the theory that explains the relationship between corporate governance and dividend policy is outcome and substitution. Outcome theory implies a positive relationship between corporate governance and dividend policy (Boshnak, 2023; Setiawan & Phua, 2013), while substitution theory states the opposite (Renneboog & Szilagyi, 2006). Previous studies have mainly focused on developed countries like the US, the UK, and Germany (Setiawan & Phua, 2013), often neglecting analysis of developing countries. This contrasts with Claessens & Yurtoglu, (2013), who argue that individual country analysis is crucial, as contextual settings can significantly influence the effect of corporate governance on dividend policy. This research aims to fill that gap by focusing on the implementation of good corporate governance in Indonesia. Indonesia is particularly interesting to study because, despite its growing economy and significant market potential, its ASAG ratings are the lowest compared to other ASEAN countries (Asian Corporate Governance Association, 2023). Additionally, this research includes growth, profitability, and firm size as independent variables, considering that these factors have been identified as key determinants of dividend payout in many previous studies.

Corporate Governance and Dividend Policy

Corporate governance and dividend policy are two critical aspects of how a company is managed and distributes its profits to shareholders. While they may seem distinct, there are significant interrelations between the two: a) Effective corporate governance ensures that the interests of management align with those of shareholders. When governance mechanisms are strong, managers are more likely to make decisions that enhance shareholder value, including decisions related to dividend policy. Shareholders often expect a fair return on their investments, and dividend policy is one way to deliver this return (Huong, 2023); b) Good corporate governance practices often involve transparency and disclosure requirements. A company with strong governance practices is more likely to provide clear and timely information about its financial health, performance, and prospects, including its dividend policy. Shareholders can make informed decisions about their investment based on this information (Fung, 2014); c) Effective corporate governance contributes to a company's long-term stability and sustainability. Companies with stable and sustainable operations are likelier to have consistent dividend policies. Shareholders, especially income-oriented investors, rely on dividends as a source of regular income and prefer companies with predictable dividend policies (Boeva, 2017); d) Corporate boards play a crucial role in overseeing the company's management and strategic decisions, including those related to dividend policy. Boards often review and approve dividend policies based on cash flow, profitability, capital requirements, and the company's overall financial health. Strong corporate governance structures ensure that boards act in the best interests of shareholders when making dividend decisions (Mardani et al., 2018); e) Corporate governance frameworks often address shareholder rights, including the right to receive dividends. Shareholders expect fair treatment and equitable distribution of profits. Companies with effective governance structures are more likely to respect shareholder rights and adopt

dividend policies reflecting shareholder interests (Roy, 2015).

Empirically, many previous researchers have carried out the relationship between corporate governance and dividend policy. La Porta et al. (2000) stated that dividends are preferred by minority shareholders more than reinvestment. Furthermore, it is also noted that outcome and substitution theory underlies the relationship between corporate governance and dividend policy. Outcome theory shows that corporate governance and dividend policy are positively correlated (Boshnak, 2023; Setiawan & Kee Phua, 2013), and conversely, substitution theory states that it is negatively correlated. The substitution theory states that the need for paying dividends is reduced in the presence of strong corporate governance. Hamdan (2018) added that firms with weak corporate governance use higher dividends as a substitute to gain investor confidence and compensate for their lack of effective oversight. This approach is influenced by the sticky nature of dividend policy, as firms are generally reluctant to cut dividends once they have been established (Wang et al., 2021).

Furthermore, Bokpin (2011) proves that the higher the independent board composition and board size, the higher the dividend performance. Likewise, Roy (2015) also states that the larger the independent board and board size, the more the dividend payout will increase. Still, in line with previous empirical evidence, Al-Najjar & Kilincarslan (2016) also obtained evidence that board size positively influences dividend payments. However, it differs from earlier findings by Mardani et al. (2018) and Setiawan & Kee Phua (2013), which state that the larger board size will reduce the dividend payment. On the other hand, Reddy (2015) stated that dividends and good governance are complementary and are not substitutes. Good governance ensures that companies pay dividends from the profits generated to reduce the free cash flow available to the firm, which suggests the positive influence of corporate governance on dividend payments. Based on the results of previous research, hypothesis 1 can be formulated as follows:

H_1: Implementation of Corporate Governance will increase dividend payout.

Capital Structure and Dividend Policy

The relationship between capital structure and dividend policy refers to how a company's decisions regarding the funding sources it chooses affect the dividend policy it adopts, especially concerning: a) Companies with a capital structure that is more debt-heavy must allocate the majority of cash flow to interest and principal payments on debt so that it can limit the availability of funds for dividend payments (Myers, 2001); b) Companies with a capital structure higher in equity have a higher cost of capital because investors demand a higher rate of return for taking on equity risk. As a result, the company may be more inclined to pay lower dividends to maintain sufficient cash flow for investment activities and minimise its capital cost (Myers, 2001); c) Shareholders have more confidence in companies that have a balanced and conservative capital structure, which can increase their confidence in the company's dividend policy (Khan et al., 2016); d) Companies with a more conservative capital structure tend to have a stable and consistent dividend policy because they have easier access to internal sources of funds to pay dividends (Brealey et al., 2001; Xie & Zhao, 2020).

Empirically, many studies have examined the relationship between capital structure and dividend policy. Rozeff (1982) stated that companies that pay high dividends appear to reduce their agency problems. Leverage decisions to increase debt financing were consistent with decreasing agency costs (Friend & Lang, 1988; Kim & Sorensen, 1986; Long &

Malitz, 1985). Therefore, based on the agency theory framework, increasing debt in the capital structure and dividend policy are used to reduce agency problems. On the other hand, empirically, Bokpin (2011), Chen et al. (1998), Crutchley et al. (1999), Roy 2015) each found that company leverage is negatively related to dividend policy.

H_2: an increase in debt in the composition of the capital structure will reduce dividend policy.

Growth and Dividend Policy

Companies that experience stable and consistent sales growth will have sufficient cash flow to support dividend payments without reducing investment in business growth, so management is more inclined to implement a stable dividend policy or even increase dividends slowly. Additionally, suppose a company experiences rapid sales growth and requires additional capital to finance expansion, research and development, or other investments. In that case, management will limit dividend payments or even redirect a portion of profits back into the company. In such a scenario, dividend policies will become more flexible, with companies more likely to prioritize reinvestment into the business to support long-term growth (Dempsey & Gunasekarage, 2019).

However, when sales growth is hampered, or the company is experiencing financial stress, management may be inclined to reduce or even eliminate dividends. Reducing or withholding dividend payments can give a company more flexibility in using its cash flow to overcome its challenges or support recovery strategies (Reyna, 2017). Empirically, Reddy (2015), Brown & Roberts (2016), Mitton (2004), Setiawan & Kee Phua, (2013) can prove that growth has a negative effect on dividend policy. Therefore, hypothesis 3 is set as follows:

H_3: Growing companies will reduce their dividend policy,

Profitability and Dividend Policy

Company profitability is generally an important factor in determining whether a company has the financial ability to pay dividends. More profitable companies tend to have more cash flow available to pay dividends to shareholders (Mitton, 2004). On the other hand, if companies believe that paying dividends can increase investor confidence, attract new investors, or strengthen the company's reputation, they are likely to pay dividends even if profitability is relatively low (Yarram, 2015).

Empirically, Khan et al. (2016) and Reddy (2015) can prove that profitability has a negative effect on dividend policy, but on the other hand, Brown & Roberts (2016), Mitton (2004), Setiawan & Kee Phua, (2013) can prove the opposite. Therefore, hypothesis 4 can be stated as follows:

H_4: profitability has a significant effect on dividend policy.

Firm Size and Dividend Policy

Large companies usually have easier access to the financial resources to pay dividends. They often have a more extensive asset base, stable cash flow, and better access to capital markets (Brown & Roberts, 2016). Therefore, large companies pay higher dividends than small or medium companies. On the other hand, small companies or startups will choose to retain most of their cash flow for growth, research or business expansion needs. Therefore, they may be more inclined to pay lower dividends or even not pay dividends at all (Yarram, 2015).

Empirically, most researchers can prove that Firm Size has a positive effect on dividend policy (Brown & Roberts, 2016; Khan et al., 2016; Setiawan & Phua, 2013; Yarram, 2015), on the other hand, Mitton (2004) obtained the opposite evidence.

H_5: Firm size has a significant effect on dividend policy

Method

This type of research is explanatory research with a quantitative approach. Sampling was carried out using the judgment sampling method. We used manufacturing companies listed on the Indonesian Stock Exchange and announced dividends consistently from the 2012-2022 period, a total of 38 companies with 418 firm-year observations. To examine the association between corporate governance, capital structure and dividends:

DPR = a + b1 CG + b2 DER + b3 Growth + b4 Prof + b5 Size + e.

The dependent variable in the current study is dividend policy, which is measured by the proxy variable Dividend Payout Ratio (DPR). The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the company's net income. It is the percentage of earnings paid to shareholders in dividends. The dividend payout ratio indicates how much money a company returns to shareholders versus how much it keeps on hand to reinvest in growth, pay off debt, or add to cash reserves (retained earnings). In this study, we used 5 independent variables. Table 1 shows the definition of current study variables .

Result

Descriptive Statistics

As mentioned in Table 2, For the Corporate Governance (CG) variable, the minimum value was 0.6630, the maximum value was 0.9000 with an average of 0.814522 and a standard deviation of 0.0557748. A standard deviation value smaller than the average indicates that the variability of the sample companies can be low when viewed from their Corporate Governance, meaning that the governance policies of the sample companies are relatively the same. Most sample companies have below-average CG (54.7%), and the remaining 45.3% have

Table 1. The definition and measurement of variables

Variable	Definition	Measurement
CG	Corporate Governance	Corporate governance is measured using the Corporate Governance Index (CGI) score developed from the Corporate Governance checklists by the Indonesian Institute for Corporate Director (Siagian et al., 2013).
DER	Capital structure	$\frac{\text{Total Debt}}{\text{Total Equity}}$ (Garay & González, 2008)
Growth	The company's ability to grow	$\frac{\text{Sales}_{(t)} - \text{Sales}_{(t-1)}}{\text{Sales}_{(t-1)}}$ (Czerwonka & Jaworski, 2021; Khan et al., 2016)
Prof	The company's ability to earn profits	$\frac{\text{Net Earning}}{\text{Total Asset}} \text{x} 100\%$ (Setiawan & Phua, 2013)
Size	The company's scale is seen from the size of its total assets at the year's end.	Ln TA (Mohsin, 2016; Roy, 2015)

Source: own elaboration (2023)

Table 2. Descriptive statistics for regression variables

	n	Minimum	Maximum	Mean	Std. Dev.
CG	418	0,6630	0,9000	0,814522	0,0557748
DER	418	0,0004	7,3964	0,926683	0,8059254
Growth	418	-0,9989	3,1533	0,124844	0,3748966
Prof	418	-0,0583	0,9210	0,092955	0,1057474
Size	418	22,24	33,66	29,6545	1,69799
DPR	418	0,0206	2,4587	0,509100	0,5057797

Notes: DPR= Dividend Payout Ratio; CG = Corporate Governance; DER = Capital Structure; Growth = Sales Growth; Prof = Profitability; Size = Firm Size.
Source: Data analysis (2023)

above-average CG. If we look further, it also appears that 5.1% of the sample companies fall into the "fairly trustworthy" category with "low" CG implementation, 77.1% of the sample companies fall into the "trusted" category with "high" CG implementation, and 17.8% of sample companies fall into the "very trusted" category with "very high" CG implementation. These results indicate that most of the samples are trustworthy because they implement CG practices well.

Regarding capital structure (DER), the minimum value is 0.0004, and the maximum value is 7.3964, with an average of 0.926683 and a standard deviation of 0.8059254. A standard deviation value smaller than the average indicates that the sample company's variability can be low when viewed from its Capital Structure, meaning that the proportion of debt in its capital structure is relatively the same statistically. If we look closely, it appears that the majority of sample companies have capital structures above average (50.9%), and the rest are below average (49.1%); when compared with the rule of thumb debt ratio of 50%, it appears that 42.6% of companies have a higher level of risk (>50%) and the remaining 57.4% have a lower level of risk (<50%). These results indicate that most of the samples have a low debt composition in their capital structure, therefore most of the samples have low risk.

Growth has a minimum value of -0.9989, a maximum value of 3.1533 with an average of 0.124844 and a standard deviation of 0.3748966. A standard deviation value that is greater than the average indicates that the variability of the sample company can be said to be high when viewed from its growth, meaning that the growth rate of the sample company in the research period varied greatly depending on the level of sales achieved by the company.

Profitability (Prof) obtained a minimum value of -0.0583, a maximum value of 0.9210 with an average of 0.092955 and a standard deviation of 0.1057474. A standard deviation value greater than the average indicates that the sample company's variability can be considered high when viewed from its profitability, meaning that the level of profitability achieved by the sample company in the research period varies between companies.

Regarding firm size, the minimum value is 22.24, and the maximum is 33.66, with an average of 29.6545 and a standard deviation of 1.69799. A standard deviation value that is smaller than the average indicates that the variability of the sample companies can be low when viewed from the size of the companies, or in other words, overall, the sample companies have relatively even company sizes. In addition,

Table 3. Regression Result

Variable	Coefficient	T_{Value}	VIF
CG	2,667	6,190**	1,023
DER	0,034	1,125	1,023
Growth	-,036	-,576	1,040
Prof	,787	3,480**	1,069
Size	-,043	-3,008**	1,115
Adjusted R^2 = 12,7%			

Notes : * Significant 1 per cent; ** Significant at 5 per cent; *n* = 418; Independent Variables: CG = Corporate Governance; DER = Capital Structure; Growth = Sales Growth; Prof = Profitability; Size = Firm Size, Dependent variable: DPR = Dividend Payout Ratio.
Source: Data analysis (2023)

the average value is more inclined towards the minimum value, indicating that most sample companies have company sizes below the average (58.6%).

The dividend policy variable (DPR) obtained a minimum value of 0.0206, a maximum value of 2.4587 with an average of 0.509100 and a standard deviation of 0.5057797. A standard deviation value smaller than the average indicates that the sample company's variability can be low when viewed from its dividend policy, meaning that its dividend policy is relatively similar statistically.

Next, we tested multicollinearity (table 3) using the correlation coefficient and variance inflation factor (VIF). According to Groebner et al. (2014), if the VIF < 5 for a particular independent variable, multicollinearity is not considered a problem. VIF values ≥ 5 imply that the correlation between the independent variables is too extreme and should be addressed by dropping variables from the model. In this study, the VIF of all independent variables < 5 confirms our conclusion that there is no multicollinearity in the current study. We have also carried out a heteroscedasticity test, showing no heteroskedastic problem in the recent research.

The regression analysis results (table 3) indicate several key findings about the relationship between the independent variables and the dividend payout ratio (DPR). Firstly, corporate governance (CG) has a positive and significant effect on dividend payouts, as evidenced by a coefficient of 2.667 and a T-value of 6.190, supporting the hypothesis that better corporate governance leads to higher dividends. Profitability (Prof) also shows a positive and significant impact, with a coefficient of 0.787 and a T-value of 3.480, indicating that more profitable firms are likely to pay higher dividends. In contrast, firm size (Size) has a negative and significant effect on dividend payouts, with a coefficient of -0.043 and a T-value of -3.008, suggesting that larger firms tend to distribute lower dividends. However, capital structure (DER) and sales growth (Growth) do not have significant effects on dividend payouts, as their coefficients are 0.034 and -0.036, respectively, with T-values of 1.125 and -0.576. These findings lead to the rejection of hypotheses 2 and 3, which proposed that higher debt and growth would reduce dividend payouts. Overall, the adjusted R2 value of 12.7% indicates that the model explains a moderate proportion of the variability in the dividend payout ratio, highlighting the significant roles of corporate governance, profitability, and firm size in determining dividend policies.

Discussion

The regression results show that CG has a positive and significant effect on dividend payout. These results reflect that improving governance implementation will ideally increase dividend payments. These results support the findings of Brown & Roberts (2016), Mardani et al. (2018), Mitton (2004), and Setiawan & Kee Phua (2013), who also obtained evidence of a positive relationship between CG and dividend policy. So, hypothesis 1 in this study is accepted. The results of this research also prove that effective corporate governance ensures that the interests of management align with those of shareholders. When governance mechanisms are strong, managers are more likely to make decisions that enhance shareholder value, including decisions related to dividend policy. Shareholders often expect a fair return on their investments; a dividend policy is one way to deliver this return. Strong corporate governance can also increase investor confidence in the company. Investors tend to be more interested in investing in obtained with reliable governance company policies, which can lead to increased demand for company shares, share prices, and dividends.

Furthermore, capital structure and growth have no significant effect on dividend payout. There are several potential reasons why higher debt (capital structure) and growth may not reduce dividend payouts. Firstly, companies might continue to pay high dividends despite high debt or rapid growth to signal financial health and stability to investors, as maintaining or increasing dividend payouts can be a way for management to convey confidence in the company's future earnings and cash flow (Reis & Pinho, 2020; Wu et al., 2021). Additionally, companies may feel pressured to meet market expectations regarding dividend payments since investors often view consistent or increasing dividends as a sign of a strong and stable company (Athari, 2022; Nuriansyah & Juniar, 2017). Consequently, companies might prioritize maintaining dividends even when faced with higher debt or growth-related expenses .

Paying dividends can also reduce agency costs by limiting the free cash flow available to managers, thereby reducing the potential for over-investment or other activities not aligned with shareholder interests. Even with higher debt, companies might maintain dividends to mitigate these agency costs. Firms with strong corporate governance might balance debt and growth with dividend payments effectively, ensuring that decisions around dividends consider the long-term interests of shareholders and maintaining dividends even when debt levels are high or the company is growing.

Other results show that profitability (ROA) positively affects dividend payout. The results of this research support most previous researchers (Salvatori et al., 2020; Tao et al., 2022; Yahya & Ghazali, 2017) who can also prove that profitability (ROA) positively affects dividend payout. These results indicate that company profitability is an essential factor in determining whether a company has the financial ability to pay dividends. More profitable companies tend to have more cash flow available to pay dividends to shareholders. High profits indicate that a company has sufficient cash flow to pay dividends without taking out loans or diverting internal investments needed for growth. The market will consider large or increasing dividend payments a positive sign regarding company performance, attracting new investors' interest and increasing the confidence of existing investors. These results also support the opinion of Ham et al. (2020), Mulchandani et al. (2020), and Xu & Huang (2021) which state that firms generating more earnings pay higher dividends. With these results, hypothesis 4 can be accepted.

Firm Size (Size) has a negative effect on dividend payout. These results indicate that large companies have more opportunities for profitable investments internally. They prefer projects that can generate high rates of return, so companies allocate funds to these projects rather than paying dividends to shareholders. In addition, companies must also allocate more funds for development, research and development, acquisitions, or international expansion. Therefore, large companies tend to keep more retained earnings than pay dividends. The results of this research support the findings of Mitton (2004), which can also prove that Firm Size (Size) has a negative effect on dividend payout. With these results, hypothesis 5 can be accepted.

Overall, our findings suggest that while corporate governance and profitability positively influence dividend payouts, firm size negatively impacts them. Interestingly, capital structure (debt) and growth do not significantly affect dividend payouts. The lack of a significant effect of debt and growth on dividend payouts challenges the substitution theory, which posits that firms with weaker governance (potentially reflected in higher debt) would use dividends to gain investor confidence. It also contradicts the idea that growing firms would reduce dividends to fund expansion. Companies may need to reassess their capital structure and growth strategies in relation to their dividend policies. The findings suggest that firms can maintain dividend payments regardless of their debt levels or growth rates, provided they manage their finances effectively.

Conclusion

Based on the results of the analysis, it can be seen that capital structure and growth have no significant effect on dividend payout, but from the direction of the coefficient, both capital structure and growth are by existing theoretical concepts. Companies with a more conservative capital structure tend to have a stable and consistent dividend policy because they have easier access to internal sources of funds to pay dividends. Meanwhile, companies with higher growth opportunities prioritize using funds for reinvestment and pay lower dividends.

On the other hand, corporate governance, profitability and firm size significantly affect dividend payout. These results indicate that companies with good governance and profitable companies will prefer options to enhance shareholder value so that investor confidence in the company will increase, and in turn, this can lead to increased demand for company shares and encourage an increase in share prices and dividends. However, on the other hand, large companies prefer projects that can generate a high rate of return, so the company allocates funds to these projects rather than paying dividends to shareholders.

While our study provides valuable insights into the relationship between corporate governance, profitability, firm size, and dividend policy, it also has several limitations that should be acknowledged. Firstly, the study is limited to a sample of firms within Indonesia, which may not be generalizable to other countries or regions with different economic conditions, regulatory environments, and corporate governance practices. Future research could expand the scope to include firms from other developing and developed countries for a more comprehensive analysis. Secondly, while we included several key determinants of dividend policy, there might be other significant factors not captured in this study, such as market conditions, investor sentiment, and macroeconomic variables. Including these factors in future research could provide a more holistic understanding of dividend policy determinants. Thirdly, the proxies used for corporate governance, profitability, firm size, and other variables might not fully capture the nuances of

these constructs. For example, corporate governance quality can be measured through various metrics, and the chosen proxy may not encompass all aspects of governance practices. Future studies could explore alternative measurement methods to better capture these variables. Lastly, this research focuses on manufacturing companies that consistently paid dividends from 2012-2022. For a clearer picture of company policies, future studies should divide the sample into different industrial sectors .

References

Al-Najjar, B., & Kilincarslan, E. (2016). The effect of ownership structure on dividend policy: evidence from Turkey. *Corporate Governance: The International Journal of Business in Society*, *16*(1), 135–161. https://doi.org/10.1108/CG-09-2015-0129

Al-Najjar, B., & Kilincarslan, E. (2016). The effect of ownership structure on dividend policy: evidence from Turkey. *Corporate Governance: The International Journal of Business in Society*, *16*(1), 135–161. https://doi.org/10.1108/CG-09-2015-0129

Annuar, H. A., & Abdul Rashid, H. M. (2015). An investigation of the control role and effectiveness of independent non-executive directors in Malaysian public listed companies. *Managerial Auditing Journal*, *30*(6/7), 582–609. https://doi.org/10.1108/MAJ-09-2013-0936

Asian Corporate Governance Association. (2023). *CG Watch 2023: Spectrum of standards (Asean Chapter)*.

Athari, S. A. (2022). Does investor protection affect corporate dividend policy? Evidence from Asian markets. *Bulletin of Economic Research*, *74*(2), 579–598. https://doi.org/10.1111/boer.12310

Boeva, P. B. (2017). *Corporate Governance and the Sustainable Development*. *9571*(April), 17–24.

Bokpin, G. A. (2011). Ownership structure, corporate governance and dividend performance on the Ghana Stock Exchange. *Journal of Applied Accounting Research*, *12*(1), 61–73. https://doi.org/doi:10.1108/09675421111130612

Boshnak, H. A. (2023). The impact of board composition and ownership structure on dividend payout policy: evidence from Saudi Arabia. *International Journal of Emerging Markets*, *18*(9), 3178–3200. https://doi.org/10.1108/IJOEM-05-2021-0791

Brealey, R. A., Myers, S. C., Marcus, A. J., & Sabran, B. (2001). *Fundamentals of Corporate Finance* (5th ed., Vol. 2).

Brigham, E. F., & Ehrhardt, M. C. (2020). Financial Management: Theory and Practice. In *USA* (16th ed.). Cengage Learning, Inc.

Brown, T., & Roberts, H. (2016). *Agency Theory, Corporate Governance and Dividend Payout in New Zealand*.

Budiman, M. F. M., & Krisnawati, A. (2021). Can Good Corporate Governance Influence the Firm Performance? Empirical Study from Indonesia Transportation Firms. *AFRE (Accounting and Financial Review)*, *4*(1), 119–128. https://doi.org/10.26905/afr.v4i1.6017

Burns, N., Mctier, B. C., & Minnick, K. (2015). Equity-incentive compensation and payout policy in Europe. *Journal of Corporate Finance*, *30*, 85–97. https://doi.org/10.1016/j.jcorpfin.2014.10.019

Chandranegara, I. S., & Ali, M. (2020). Policies on Regulatory Reform in Indonesia: Some Proposals. *Jurnal*

Media Hukum, *27*(1). https://doi.org/10.18196/jmh.20200142

Chen, C. R., Steiner, T. L., & Whyte, A. M. (1998). Risk-Taking Behavior and Management Ownership in Depository Institutions. *Journal of Financial Research*, *21*(1), 1–16. https://doi.org/10.1111/j.1475-6803.1998.tb00266.x

Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, *15*, 1–33. https://doi.org/https://doi.org/10.1016/j.ememar.2012.03.002

Crutchley, C. E., Jensen, M. R. H., Jahera Jr, J. S., & Raymond, J. E. (1999). Agency problems and the simultaneity of financial decision making: The role of institutional ownership. *International Review of Financial Analysis*, *8*(2), 177–197. https://doi.org/http://dx.doi.org/10.1016/S1057-5219(99)00011-3

Czerwonka, L., & Jaworski, J. (2021). Capital structure determinants of small and medium-sized enterprises: evidence from Central and Eastern Europe. *Journal of Small Business and Enterprise Development*, *28*(2), 277–297. https://doi.org/10.1108/JSBED-09-2020-0326

Dempsey, M., & Gunasekarage, A. (2019). *The association between dividend payout and firm growth : Australian evidence*. *59*, 2345–2376. https://doi.org/10.1111/acfi.12361

Faleye, O., & Krishnan, K. (2017). Risky lending: Does bank corporate governance matter? *Journal of Banking & Finance*, *83*, 57–69. https://doi.org/10.1016/j.jbankfin.2017.06.011

Frantz, P., Instefjord, N., & Walker, M. (2013). Executive Compensation: A Model of Disclosure Choice. *Journal of Business Finance & Accounting*, *40*(9–10), 1184–1220. https://doi.org/10.1111/jbfa.12041

Friend, I., & Lang, L. H. P. (1988). An Empirical Test of the Impact of Managerial Self-Interest on Corporate Capital Structure. *The Journal of Finance*, *43*(2), 271–281. https://doi.org/10.2307/2328459

Fung, B. (2014). *The Demand and Need for Transparency and Disclosure in Corporate Governance*. *2*(2), 72–80. https://doi.org/10.13189/ujm.2014.020203

Garay, U., & González, M. (2008). Corporate Governance and Firm Value: The Case of Venezuela. *Corporate Governance: An International Review*, *16*(3), 194–209. https://doi.org/10.1111/j.1467-8683.2008.00680.x

Ham, C. G., Kaplan, Z. R., & Leary, M. T. (2020). Do dividends convey information about future earnings? *Journal of Financial Economics*, *136*(2), 547–570. https://doi.org/10.1016/j.jfineco.2019.10.006

Hamdan, A. M. (2018). Dividend policy, agency costs and board independence. *International Journal of Critical Accounting*, *10*(1), 42. https://doi.org/10.1504/IJCA.2018.091180

Hoi, C. K., Wu, Q., & Zhang, H. (2019). Does social capital mitigate agency problems? Evidence from Chief Executive Officer (CEO) compensation. *Journal of Financial Economics*, *133*(2), 498–519. https://doi.org/10.1016/j.jfineco.2019.02.009

Huong, H. D. (2023). Effect of capital structure on the profitability of plastic and packaging companies listed in Vietnam. *International Journal of Professional Business Review*, *8*(1), 1–13.

Khan, J. S., Ahsan, S. M., & Malik, H. A. (2016). *Impact of Ownership Structure on Dividend Policy and Capital Structure :*

Evidence from Non-Financial Sector of Pakistan .

Kim, W. S., & Sorensen, E. H. (1986). Evidence on the Impact of the Agency Costs of Debt on Corporate Debt Policy. *The Journal of Financial and Quantitative Analysis*, *21*(2), 131–144. https://doi.org/10.2307/2330733

Kurniati, S. (2019). Stock returns and financial performance as mediation variables in the influence of good corporate governance on corporate value. *Corporate Governance: The International Journal of Business in Society*, *19*(6), 1289–1309. https://doi.org/10.1108/CG-10-2018-0308

La Porta, R., Florencio, L.-S., Shleifer, A., & Vishny, R. W. (2000). Agency Problems and Dividend Policies around the World. *The Journal of Finance*, *55*(1), 1–33.

Long, M. S., & Malitz, I. B. (1985). Investment patterns and financial leverage. In *Corporate capital structures in the United States* (pp. 325–352). University of Chicago Press.

Mardani, R. M., Moeljadi, Sumiyati, & Indrawati, N. K. (2018). Ownership Structure, Corporate Governance and Dividend Policy: Evidence from Indonesia. *KnE Social Sciences*.

Mitton, T. (2004). Corporate governance and dividend policy in emerging markets. *Emerging Markets Review*, *5*(4), 409–426. https://doi.org/https://doi.org/10.1016/j.ememar.2004.05.003

Mohsin, A. (2016). *Capital Structure Determinants-Capital structure determinants for large listed Norwegian and foreign public firms*. Oslo and Akershus University College of Applied Sciences.

Mulchandani, K., Mulchandani, K., & Wasan, P. (2020). Dividends and earnings quality: Evidence from India. *IIMB Management Review*, *32*(2), 166–176. https://doi.org/10.1016/j.iimb.2019.10.001

Myers, S. C. (2001). Capital structure. *Journal of Economic Perspectives*, *15*(2), 81–102.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have informationthat investors do not have. In *Journal of Financial Economics* (Vol. 13, Issue 2). National Bureau of Economic Research.

Nuriansyah, S., & Juniar, A. (2017). Factors Affecting Dividend Payout Ratio of Food and Beverage Manufacturing Companies in Indonesia. *International Journal of Business and Administrative Studies*, *3*(6). https://doi.org/10.20469/ijbas.3.10004-6

Reis, P. M. N., & Pinho, C. (2020). A new European investor sentiment index (EURsent) and its return and volatility predictability. *Journal of Behavioral and Experimental Finance*, *27*, 100373. https://doi.org/10.1016/j.jbef.2020.100373

Renneboog, L., & Szilagyi, P. G. (2006). How relevant is dividend policy under low shareholder protection? *Journal of International Financial Markets, Institutions and Money*.

Reyna, J. M. S. M. (2017). Ownership structure and its effect on dividend policy in the Mexican context. *Contaduría y Administración*, *62*(4), 1199–1213.

Rouf, D. (2011). *The relationship between corporate governance and value of the firm in developing countries: Evidence from Bangladesh*.

Roy, A. (2015). Dividend policy, ownership structure and corporate governance: An empirical analysis of Indian firms. *Indian Journal of Corporate Governance*, *8* (1), 1–33.

Rozeff, M. S. (1982). Growth, beta and agency costs as determinants of dividend payout ratios. *Journal of Financial Research*, *5*(3), 249. https://doi.org/10.1111/j.1475-6803.1982.tb00299.x

Salvatori, E. G., Robiyanto, R., & Harijono, H. (2020). An analysis of the relationship between earnings and corporate taxes on dividend policy of companies in Sri-Kehati index. *Journal of Management and Entrepreneurship Research*, *1*(1), 1–12.

Saraswati, E., & Agustina, I. (2022). Does Bank Governance Reduce Financial Statement Fraud? The Moderating Role of Operational Risk. *Jurnal Keuangan Dan Perbankan*, *26*(1), 91–110. https://doi.org/10.26905/jkdp.v26i1.6611

Setiawan, D., & Phua, L. K. (2013). Corporate governance and dividend policy in Indonesia. *Business Strategy Series*, *14*(5–6), 135–143. https://doi.org/10.1108/BSS-01-2013-0003

Shahid, M. S., & Abbas, M. (2019). Does corporate governance play any role in investor confidence, corporate investment decisions relationship? Evidence from Pakistan and India. *Journal of Economics and Business*, *105*, 105839. https://doi.org/10.1016/j.jeconbus.2019.03.003

Siagian, F., Siregar, S. V, & Rahadian, Y. (2013). Corporate governance, reporting quality, and firm value: evidence from Indonesia. *Journal of Accounting in Emerging Economies*, *3*(1), 4–20. https://doi.org/http://dx.doi.org/10.1108/20440831311287673

Singh, K., & Pillai, D. (2022). Corporate governance in small and medium enterprises: a review. *Corporate Governance: The International Journal of Business in Society*, *22*(1), 23–41. https://doi.org/10.1108/CG-10-2020-0470

Tanjung, M. (2020). A cross-firm analysis of corporate governance compliance and performance in Indonesia. *Managerial Auditing Journal*, *35*(5), 621–643. https://doi.org/10.1108/MAJ-06-2019-2328

Tao, Q., Wei, K. C. J., Xiang, X., & Yi, B. (2022). Board directors' foreign experience and firm dividend payouts. *Journal of Corporate Finance*, *75*, 102237. https://doi.org/10.1016/j.jcorpfin.2022.102237

Wandroski Peris, R., Contani, E., Ferreira Savoia, J. R., & Reed Bergmann, D. (2017). Does better corporate governance increase operational performance? *Corporate Governance: The International Journal of Business in Society*, *17*(3), 524–537. https://doi.org/10.1108/CG-03-2016-0063

Wang, Z., Yin, Q. E., & Yu, L. (2021). Real effects of share repurchases legalization on corporate behaviors. *Journal of Financial Economics*, *140*(1), 197–219. https://doi.org/10.1016/j.jfineco.2020.10.008

Wijayati, N., Hermes, N., & Holzhacker, R. (2016). Corporate Governance and Corruption: A Comparative Study of Southeast Asia. In *Decentralization and Governance in Indonesia* (pp. 259–292). Springer International Publishing. https://doi.org/10.1007/978-3-319-22434-3_10

Wu, M., Ohk, K., & Ko, K. (2021). Does cash-flow news play a better role than discount-rate news? Evidence from global regional stock markets. *Journal of International Money and Finance*, *110*, 102267. https://doi.org/10.1016/j.jimonfin.2020.102267

Xie, X., & Zhao, J. (2020). Analysis of the Influence of Financial Flexibility on Enterprises. *Open Journal of Business and Management*, *2014*, 1917–1922. https://doi.org/10.4236/ojbm.2020.84117

Xu, J., & Huang, H. (2021). Pay more or pay less? The impact of controlling shareholders' share pledging on firms' dividend payouts. *Pacific-Basin Finance Journal*, *65*, 101493. https://doi.org/10.1016/j.pacfin.2020.101493

Yahya, F., & Ghazali, Z. B. (2017). Effectiveness of board governance and dividend policy as alignment mechanisms to firm performance and CEO compensation. *Cogent Business & Management*, *4*(1), 1398124. https://doi.org/10.1080/23311975.2017.1398124

Yarram, S. R. (2015). Corporate governance ratings and the dividend payout decisions of Australian corporate firms. *International Journal of Managerial Finance*, *11*(2), 162–178. https://doi.org/10.1108/IJMF-01-2013-0012