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CORPORATE GOVERNANCE AND DIVIDEND POLICY: THE RELIGIOUS CELEBRATION EFFECT

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Abstract. The purpose of this study is to determine the effect of corporate governance towards dividend policy on religious celebrations in Indonesia. Previous research states that corporate governance has a positive effect on dividend policy. One paper explains that the low corporate governance in Indonesia causes companies to pay higher dividends to shareholders to keep investing in the company. Indonesia is known as a country that has strong religious followers. Islam, Christian, and Catholic are 3 religions that have most followers spread across Indonesia. Therefore, the authors want to know whether the biggest religious celebration of the 3 religions, namely Eid al-Fitr and Christmas affect corporate governance to pay dividends for companies. The sample used in this study was a company registered with Kompas 100 and conducted corporate governance in 2013-2017. The results of this study indicate that the board size and independent managerial have positive significant effect towards dividend policy on Eid and Christmas. In addition, this study also found that leverage and firm age also have an effect on dividend payments during religious celebrations in Indonesia.

Keywords : Corporate Governance, Payout Policy, Religious Celebrations, Eid Al-Fitr, Christmas

INTRODUCTION

Corporation is seen as a contract between the manager (agent) and shareholders (principal) which is hereinafter referred to as the agency relationship (Jensen & Meckling, 1976). In the process of work, there are often differences of opinion and goals between the agent and the principal. Therefore, corporate governance is present to ensure the implementation of the interests of all parties so as to attract interest in international, regional and local organizations (Safdar, Sara, Irtaza, & Komal, 2015). Corporate Governance is policies or regulations that control relationships with stakeholders, which are protected by the board of directors. Payout policy is company policy to find out how much they must be paid to shareholders (Safdar, Sara, Irtaza, & Komal, 2015).

Based on Rozeff (1982), a high rate of dividend payments can minimize agency problems and helps outside financing at lower stage. Chae, Kim, & Lee (2009) use US data and state that the companies that have high restrictions on external financing, when they have the opportunity to improve corporate governance will tend to reduce their payout ratio. Baker & Powell (2012) find that dividends hold an important role on Indonesian companies because they believe that dividends have a good influence on firm value. Sawicki (2009) investigates the impact of corporate governance on payout policy among South-East Asian countries and find that before the monetary crisis during 1997-1998, poor corporate governance companies tend to pay high dividend but it changed right after that. After the monetary crisis, the company having good corporate governance pay higher dividend than who have poor corporate governance.

In addition, dividends can also be used as a signal that the company has positive profits so investors want to continue to invest in the company. Brickley (1982,3983) conducts research on companies that cannot avoid dividend signaling, whose managers make both payments, regular dividends and occasional special dividends (extras, specials, year-ends, etc.,). This study finds that there is a difference between regular dividends and special dividends which warn shareholders that special dividends are not possible to be repeated as the “regular” payout. Evidence provided by Brickley shows that investors see special dividends as a hedge of the value of managerial signals about the possibility of the future, in the case of unexpected specials related to a weaker stock market reaction than regular dividends increasing in comparable size.

Formerly special dividends were usually paid by the NYSE but gradually began to disappear and is now a rare phenomenon. In Indonesia, in 2018 a number of state-owned banks distributed special dividends from their net profit. The amount given is not half-hearted reaching, they distributed on average 10-15% of total net income. This special dividend is a medium used by companies to distribute profits directly to shareholders after earning large profits.

Eid al-Fitr and Christmas are big days of two major religions in Indonesia. The day could be a day used by companies to distribute their special dividends in order to respect their company's shareholders in religious matters. A week before the Eid Al-Fitr 2019, issuers at the Indonesia Stock Exchange are busy distributing dividends to shareholders for the profit of the 2018 fiscal year. In addition to dividends, investors also get 'THR' from capital gains, an increase in stock prices.Referring to the Indonesia Stock

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Exchange (IDX) data, news compilation, and data from the Indonesian Central Securities Depository, there were 13 issuers paying dividends, with a dividend value which, if accumulated, reached Rp 21.44 trillion.

In addition, in the early year of 2019, PT Adaro Energy Tbk (ADRO) also gave a Christmas gift in the form of interim dividends to its shareholders. The company distributed interim dividends worth Rp 1.08 trillion from the company's net profit. The company distributed dividends to 31.98 billion shares, each of which has an interim dividend worth Rp 34 / share.Based on these data it can be ascertained that several companies make dividend payments as a form of "THR" and christmas gift to their shareholders. Do the companies always pay the special dividends on the Eid al-Fitr and Christmas? What makes them decide to pay the special dividends and not? Do they pay higher for special dividends than regular dividends? The data used for this study is Indonesia companies that listed in Kompas 100 over period 2013-2017. This study only gathered the companies that conduct corporate actions during 2013-2017, so from the data that avail at Indonesia Stock Exchange (IDX), it checked which companies meet the criteria and which do not.

LITERATURE REVIEW

Dividend

Dividend is one of forms used by companies to distribute their income to shareholders in the form of cash, shares, or even other property. Net income contained in the company's income statement can be used for dividends or retained earnings. If the company chooses dividends, this profit will be distributed to shareholders, while retained earnings are used for company operations or can also be used for company investment.

Special Dividend

Special dividends have prominent characteristics which make it a better choice in distributing excess cash compared to regular dividends and cash repurchases. Special dividend payments reduce the problem of free cash flow that has the potential to be squandered by managers in terms of excess cash both on executive allowances or negative net present value projects (Jensen, 1986). The use of this special dividend can be used as a means of delivering positive news and thereby increasing stock prices.

Dividend Payout Policy

In dividend distribution, management has their own considerations and rules. For example, companies will definitely invest or expand rather than pay dividends, if they feel there is definitely something to do with income. Companies tend to prioritize revenue allocation for internal activities first and then the remaining income will be shared with shareholders as dividends. This method is called the residual dividend policy.

Corporate Governance

According to the Corporate Governance Forum in Indonesia (FCGI), corporate governance is a set of regulations that establish the relation between shareholders, stakeholders, creditors, governments, employees, as well as internal and external stakeholders in accordance with their rights and obligations to regulate and control company. The main objective of implementing good corporate governance is to maximize value for shareholders and stakeholders in the long term.

Corporate Governance and Dividend Policy

Knyazeva (2007) examines the impact of corporate governance on the behavior of corporate dividend payments and provides results that investors will push harder on companies that have poor corporate governance to pay dividends. Companies with a lower corporate governance score index pay higher dividends to investors than companies with a higher corporate governance score index. These results indicate a negative relationship between corporate governance and dividend policy. On the other hand, several studies such as Kowalewski et al. (2008), La Porta et al. (2000), Mitton (2004), and Sawicki (2009) shows a positive relationship between corporate governance and dividends Policy. La Porta et al. (2000), Mitton (2004) and Sawicki (2009) used cross-country research sample; La Porta et al. (2000) examine developed countries, while Mitton (2004) and Sawicki (2009) examines developing countries. The results of this study indicate that companies with better corporate governance practices provide higher dividends to investor. Kowalewski et al. (2008) investigate the relationship between companies governance practices and dividend policies in Poland and using transparency and disclosure indices (TDI) as proxy for corporate governance, the results of this study indicate that improved corporate governance the score is associated with an increase in dividend payments by the company. Dyreng et al (2012), McGuire et al (2012) and Kanagaretnam et al (2015) investigated the influence of western religions such as Christianity and Islam and their relation to the general principles of ethics and moral guidance of religiosity on executive behavior from company. On this basis, Chao et al (2016) conducted a study on the influence of Buddhism and Taoism on companies that are in the high area of the religion in relation to dividend distribution in China. The results of this study explain that companies located in areas of Buddhism and Taoism with high levels of religiosity tend to distribute dividends higher than those located in areas that have low levels of religiosity. In addition, Chao et al (2016) also found that SOEs have a significant weak relationship between religion and payment of dividends, this is evidenced by the results of research that show that regions with strong formal institutions have a weak influence from religion on dividend policies. From this study, it can be concluded that the religiosity of Buddhism and Taoism in China can replace formal institutions in modifying the company's dividend policy.

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Armed with some of these studies, the author wants to examine the impact of religious celebrations on dividend policy in Indonesia. Indonesia has six major religions, namely Islam, Christian, Catholic, Buddhists, Hindus and Kong Hu cu. But in this study, the author only took 3 religions, namely Islam, Christian and Catholic because the three religions were the most widely practiced religions in Indonesia. In addition, religious celebrations taken only the biggest celebration of the 3 religions, namely Eid Al-Fitr and Christmas. The author assumes that the corporate governance will affect dividend policy positively to attract shareholder sympathy. Better corporate governance will lead to give higher dividend than the bad one because they want to attract shareholder and make shareholder assume that they care about the shareholder.

H. Corporate Governance positively affects dividend policy on the Religious Celebration in Indonesia

METHODOLOGY

Our empirical approach consists of a panel regression model to test the relationship between dividend policy and Corporate Governance toward Religious Celebration effect.

Model 1:

$$\mathrm{CDY} = \alpha_0 + \alpha_1 Corporate\ Goverance + \sum \alpha_j Control + \varepsilon$$

Model 2 :

$$\mathrm{CDE} = \beta_0 + \beta_1 Corporate\ Governance + \beta_2 Eid + \sum \beta_j Control + \varphi$$

Model 3 :

$$\mathrm{CDC} = \gamma_0 + \gamma_1 Corporate\ Goverance + \gamma_2 Christmas + \sum \gamma_j Control + \tau$$

Model 4:

$$\mathrm{CDY} = \zeta_0 + \zeta_1 Corporate\ Goverance + \zeta_2 Eid + \zeta_3 Christmas \sum \delta_j Control + \theta$$

Table I. List of Variables

Variable	Definition of Variable	Formula
Payout Policy	A decision about how company processes its payout to pay regular dividends and special dividends at religious celebrations	
Corporate Governance	The management of the company that explains the relationships of the parties that determine the direction and performance of the company (Monks & Minow, 2002)	
Religious Celebration	In this research, the religious celebrations that used are Eid al-Fitr and Christmas	
Financial Leverage	Financial leverage refers to the company's decision to use debt to obtain additional assets	$Leverage = \frac{Total\ Debt}{Total\ Equity}$
Firm Size	This research measures firm size by using total asset value of firms as market capitalization is not applicable for dividend payout calculation (Dang&Li,2015;Ramachandra&Packkirisamy,2010)	
Firm Age	Defined as how long the company has been run, starting from the time of establishment until the research period (2016)	
Sales Growth	Increase in number of sales from year to year. Obtained from dividing the latest average annual sales from the previous period's annual sales.	

The sample of this research consists of Indonesia companies that listed in Kompas 100 over period 2013-2017. This study only gathered the companies that conduct corporate actions during 2013-2017, so from the data that avail at Indonesia Stock Exchange (IDX), it checked which companies meet the criteria and which do not. The corporate governance's data obtained from annual report of the companies that already selected before. These reports are used to look at corporate governance and the actions they took on religious celebrations during the 2013-2017 time frame. For control variables, it used ROIC, financial leverage, firm size, firm age and sales growth that also can be gotten from the annual report.

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FINDINGS AND ARGUMENT

Table II. Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max
Dividend	145.1007	374.0708	0	2795
Eid Dividend	49.6778	224.4185	0	2600
Christmas Dividend	17.6853	120.6482	0	1300
Local Shareholder	0.666	0.258	0.06	0.98
Foreign Shareholder	0.328	0.258	0.02	0.94
Managerial Shareholder	0.014	0.060	0	0.43
Board Size	1.0642	0.1055	0.778	1.362
Independent Managerial	0.240	0.084	0.017	0.5625
Audit Commitee	0.376	0.150	0.143	1
Firm Age	3.578	0.5392	1.386	4.8040
Firm Size	30.7192	1.5127	26.9141	35.594
Sales Growth	1.361	5.071	0.706	103
Leverage	1.848	2.729	-2.2	27.61
Dummy_eid	0.385	0.4872	0	1
Dummy_christmas	0.0814	0.2739	0	1

In this study, corporate governance was measured using 6 variables, namely ownership of local shareholders, ownership of foreign shareholders, board size, independent managerial and audit committees. Our finding state that ownership of managerial shareholders and leverage have a significantly negative effect on dividend policy made by companies. The ownership of managerial shareholder explains the proportion of shares held by the director and commissioner of the company. From the results of this study, the higher the share ownership of the manager, the lower dividends will be distributed. These results support the findings of Rozeff (1982), Jensen et al. (1993), Eckbo and Verma (1994) who also explained that ownership of managerial shareholders had a negative effect on dividend payout. High managerial ownership companies will tend to use their funds to expand and develop their companies rather than paying dividends to shareholders.

In addition there are other factors, namely sales growth, which also gives a significant negative effect on company dividends, which means that the higher the company's sales growth, the lower the company will pay dividends. The result supports the research of Ritha & Koestiyanto (2013) who explained that large companies with a high growth rate is not maximized in providing the dividend income for the shareholders, they use the available funds to increase the total assets for the benefit of the company's operations. Leverage also has significant negative effect to dividend. The result of this leverage supports the research of Jensen et al. (1992), Faccio, Lang and Young (2001) which state that there is a negative relationship between leverage and dividends. Companies that acquire debt will prioritize repairs to financial costs, interests and repayment of the perpetrators that will lead the company to liquidation. Companies will choose to maintain a good liquidity and cash flow position by paying low dividends.

Eid celebration in this study uses a dummy variable because there are companies that pay and do not pay dividends in Eid al-Fitr. Corporate governance used is still with 6 variables taken from previous research. The results of this study explain that there is a positive significance of board size and negative significance leverage towards dividend policy on Eid celebration. Board size is the total of the highest authority holders of the company or total numbers of directors and commissioners. The board size that has a significant positive effect on dividend policy explains that the more the number of directors and commissioners in the board size, the higher the dividend distributed by the company. The results and substitution hypothesis La Porta et al. (2000) can explain the board size relationship with dividends. La Porta et al (2000) stated that dividends are the result of good corporate governance practices so that it can be concluded that according to La Porta et al (2000) that good corporate governance will also pay a higher dividend. However, La Porta et al (2000) themselves doubt whether the reflect reflect size board is better monitoring because it is possible that a large board size will not produce high performance because it has too many people and is not effective. But the doubt was answered by research (Yarram & Dollery, 2015) which explains that companies with this type of board will pay higher dividend because a large board size will have more potential to see various views of shareholders (including minority shareholders) and trying to satisfy him. So it can be concluded that the board size can explain good corporate governance because it has various concentrations to shareholders and this result suppport our hypothesis. Besides board size, leverage has a significant negative effect on the results in this model. The company will prioritize ways to increase company liquidity so that dividend payments will be low.

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Similar with the case of eid celebration, for the Christmas celebration also uses a dummy variable to distinguish companies that pay and do not pay dividends during the Christmas celebration. The results of this model explain that board size and independent managerial have a significant positive effect towards dividend payout on Christmas celebration . As explained in the previous model a large board size will be better able to see perspective of all shareholders so that the decisions taken are not only considering the interests of the company, Independent managerials are independent directors and commissioners who have no connection with the company except for their directorship (Clifford & Evans, 1997). The results of this study support Abor and Fiador (2013), and Afzal and Sehrish (2011) who concluded that there was a significant and positive association of managerial independence and dividend payout on Christmas celebration. With the high level of independent managerial companies, more parties will not only side with the company, this party will be more neutral to make decisions so that they will pay attention to the interests of shareholders as well. These results support the hypothesis of this study which states that corporate governance will affect positively dividend payout.

This model combines the dummy variables from eid and the Christmas celebration to determine the effect on per year cash dividends from the company. The results of this model state that firm age affects dividend payout positively. The longer the company is established, the higher dividends will be distributed on Eid and Christmas.

CONCLUSIONS

There are many researchers have conducted research about corporate governance and dividend policy. For this study, author added a new variable namely religious celebration. Indonesia is a country that is known to has a population that holds strong religious teachings,. There are 6 religions in Indonesia and 3 of them are Islam, Protestant Christianity and Catholicism that have the most widely adhered. Eid al-Fitr and Christmas are the big celebrations of the 3 religions which are the most eagerly awaited. Therefore this study wants to find out whether this religious celebration has an effect on corporate governance in relation to dividend policy in Indonesia.

After analyzing the independent variables towards the dependent variable, it can be concluded that the hypothesis made has been accepted. Corporate governance will positively influence dividend payout during the religious celebration effect and better corporate governance will pay higher dividend. It was proven by the board size and independent managerial which had a significant positive influence on the dividend payout at the religious celebration effect. Another factor that affects companies to provide higher dividends on religious celebration is leverage and firm age. Leverage has a significant negative effect on dividend payout while firm age has a significant positive effect on dividend payout.

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