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Law Politics and Society

The Unravelling of Malaysia and Indonesia Potentiality

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17.

Board Gender Diversity, Institutional Ownership, and Dividend Policy in Indonesia

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Tri Veny Putri[3], Mohamad Nur Kholiq[3]

1. INTRODUCTION

Considering that most of the board of commissioners in companies are male, there has been a change in which women also occupy the position of the board of commissioners in recent years (Torchia et al., 2011). The increasing gender diversity is influenced by the rules of several countries that accommodate guidelines or laws aiming to include women's roles in a company's board of commissioners (Reguera-Alvarado et al., 2017). Several regulations on various capital markets in the UK, Germany, and Australia even recommend it in the disclosure of their annual reports (Reguera-Alvarado et al., 2017).

Gender diversity in the board of commissioners is equality or fairness of opportunity and arguments for equality or fairness of representation for both men and women (Basundari & Arthana, 2013). The term gender relates to

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social traits and characteristics that refer to men and women. The traits and characteristics that are associated are not only based on biological differences, but also on cultural and social interpretations that refer to the understanding of men and women (Hendiana, 2011).

According to Jizi & Mustafa (2017) changing the nondiverse gender to a diverse gender company's board of commissioners can provide a broader perspective, attributes, and skills in the discussion of the board of commissioners. These things play a positive role in improving the performance of the board of commissioners. Gender differences in the board of commissioners also allow the board of commissioners to obtain different information for management to make better decisions, dividend policy for instance. Dividend policy can have a better chance of increasing if it adopts gender diversity in the seats of the board of commissioners, as this adds value to the board of commissioners.

Investors who invest their capital in a company have the main objective of obtaining income or return on investment, either in the form of dividends or income from capital gains (the difference between the selling price of the shares and the purchase price of the shares). Dividends are part of net income distributed to shareholders and are payments from the company to shareholders for the profits earned.

Dividend distribution management is one of the three main functions of financial management, namely the funding function, the investment function, and the dividend distribution function. Therefore, the dividend policy is one of the strategic policies of the company's finances that has an impact on the value of the company. Dividends are the main element of return or income expected by investors (shareholders) on their investments into company shares in addition to capital gains. Dividend policy affects stock prices and company value. Therefore, dividend policy making needs to be carried out carefully and rationally by the management so as not to have an impact on the decline in company

Total institutional ownership is the part of company shares owned by institutional investors. Institutional investors include private and government institutions, both domestic and foreign institutions. Different from previous studies discussing about board gender diversity in the board of commissioners and institutional ownership separately, this study combines a rarely studied board gender diversity in the board of commissioners, as well as institutional ownership in non-financial companies.

2. STATISTICAL RESULTS OF THE EFFECT OF THE BOARD OF GENDER DIVERSITY AND INSTITUTIONAL OWNERSHIP ON DIVIDEND POLICY

Table 1. Multiple Linear Regression Results

Variable	Dividend Payout Ratio (DPR)
WOMEN	0,110***
	0,007
INSOWN	0,047**
	0,30
N	1084
R^2	0,113

Source: Hasil Output SPSS 21

***, **, * Significance at 1%, 5%, 10% level

Table 1 with 1084 N shows that the board gender diversity (WOMEN) has a positive effect on the dividend payout ratio (DPR). The WOMEN regression coefficient value is 0.110 with a significance level of 1%, so H0.1 is rejected and H1.1 is accepted. These results indicate that the higher the board gender diversity in a company, the higher the dividend payout ratio. The institutional ownership (INSOWN) variable has a positive effect on the dividend payout ratio (DPR). The INSOWN regression coefficient value is 0.047 with a significance level of 5%, so H0.1 is rejected and H1.1 is accepted. These results indicate that the higher the institutional ownership in a company, the higher the dividend payout ratio. The R^2 value in model 1 is 0.113, this shows that the independent variable is only able to explain the dependent variable by 11.3%, the rest is explained by other variables that is not included in the model.

3. THE INFLUENCE OF THE BOARD GENDER DIVERSITY ON THE COMPANY'S DIVIDEND POLICY

The result of this study proves that the gender diversity of the board of commissioners has a significant effect on dividend policy. This is in accordance with the results found by (Adams & Ferreira, 2009) who found that shareholders emphasized the presence of women on the board of commissioners because of the assumption that women were able to understand shareholders well. Women in the board of commissioners can help make the right decisions with low risk. The presence of experienced women usually having strong relationships with more diverse community networks implies the advantage of easier access to resources (Hillman, 2000). Easy access to resources because women can build communication channels and harmony to external stakeholders to reduce agency costs and gain support and create legitimacy in the external environment (Adams & Ferreira, 2009). Ease of accessing capital can prevent commissioners from holding cash in times of crisis.

Investors will see that companies with diverse members of the board of commissioners reflect a form of good corporate governance and can potentially provide profits for shareholders in the form of dividends so that investors will invest their shares in the company. Theoretically, the results are consistent with the agency theory postulation that effective board oversight can reduce the level of managerial rent-seeking behavior (Jensen & Meckling, 1976). When the board of commissioners can work together effectively, the supervision of the performance of the board of directors will also be maximized in operating the company and prioritizing the interests of the shareholders in the form of dividend policy determined in the GMS. This finding is also consistent with previous studies in Spain (Pucheta-Martínez & Bel-Oms, 2016) and in the United States (Byoun et al., 2016; J. Chen et al., 2017) which showed that gender diversity of the board of directors can increase dividend policy.

4. THE EFFECT OF INSTITUTIONAL OWNERSHIP ON THE COMPANY'S DIVIDEND POLICY

Institutional ownership is categorized into domestic institutional ownership and foreign institutional ownership. Firth et al., (2016) examine the relationship in the case of developing economies found that total institutional ownership influences firms to pay higher dividends. They can influence a company's dividend policy with the implicit threat of selling their shares.

Institutional shareholders are considered to be effective monitors of corporate governance so that there is no opportunism carried out by managers and can protect the interests of shareholders or investors. Institutional shareholders will supervise the company by placing their trusted people on the board of commissioners and board of directors which will also affect dividend policy. Thus, greater institutional ownership will be able to improve dividend policy.

5. CONCLUSION

From the results of the research discussed previously, board gender diversity has a significant positive effect on dividend policy. Companies that have gender diversity on the board of commissioners have a higher dividend policy compared to companies that have less gender diversity on the board of commissioners. Institutional ownership has a positive influence on dividend policy. This shows that companies that have institutional ownership consisting of domestic and foreign institutional ownership have a higher dividend policy than companies that have only a few institutional ownership.

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