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The Impact of Corporate Governance on Dividend Pay-out Ratio Policy During the Covid-19 Era: The Study Case in the Basic Material Industry in Indonesia

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ABSTRACT

The purpose of this study is to analyze the impacts of Good Corporate Governance during the Covid -19 era on the dividend payout rasio policy in Indonesia. During Covid-19 era, the Basic Materials industry has faced big challenges due to lock down policy occured in many big areas which can lead to disruptive global economic supply chain. Increasing income in many Basic Material industry, can cause the percentage payment of dividends during the year of 2020 proposed by Director boards and Commissioner boards. In this research will show and compare the condition of Basic Material industry before and during Covid-19 pandemic. This reseach is categorized as quantitative research which the sample used is gathered from secondary data, financial report, from basic material industry for public listed company in the Stock Exchange of Indonesia during 2018 – 2020, with a total number of 43 companies. There are 4 independent variables are being researched, which are the Independent Commissioner, the Board of Directors, the Board of Commissioners and the Audit Committee, meanwhile the dependent variable is dividend payout ratio. The finding shows that Audit Committee (AC) is the only a significant variable that influence the Dividend Payout Ratio in the Basic Material Industry in Indonesia before COVID-19 pandemic, but it does not have a significant influence during COVID-19 pandemic.

Keywords: Governance, Audit Committee, Dividend Payout Ratio.

INTRODUCTION

In December 2019, SARS-CoV-2 Virus or as we known as Corona Virus began to appear in Wu Han, China. Due to this virus is very easily transmitted, the virus not affect only in China, but it spread all over the world, leading to widespread illness, death, and socioeconomic disruption. The effect is not only regionally, but spread into whole world, Covid-19 caused a pandemic. According to Liew, Liew, Lim, Lin, and Qonitah (2022) stated that the Covid-19 pandemic affected various sectors. The pandemic impacts on various aspect are not only on the Health Sector but it also impacts almost every sector in the world like the economy, education, and mental health. The outbreak of Corona Virus is a new thing, it has a various effect to human body even it can make human that are infected die because of this virus. Corona Virus is very contagious, therefore social distancing regulations is needed and applied in the world (Cucinotta & Vanelli, 2020). This social distancing regulation required everyone to minimize offline or on-site activities such as studying at home, working at home, prohibitions on dine-in at restaurants, and prohibitions on holding activities that invites crowds. This situation become very tense and everything leads to uncertainty. According to Al-Thaqeb, Algharabali, and Albdulgahfour (2020), uncertainty caused by pandemic have negative impacts one of the sectors is economics sector. Almost all businesses forced to close due to financial matters, avoidance to have contact among people. Millions of people losing their jobs. This uncertain condition can delay many decisions including financing and investing.

Regulations such as social distancing and lockdowns in some countries affected most of companies in their productivity. One of the primary impacts of the pandemic on business productivity is the implementation of remote work policies. With social distancing measures in place, business have shifted to remote work arrangements to ensure the safety of their employees. Companies' production capacity has been declining because of less on-site worker, work from home situation. The pandemic also led to supply chain disruptions, which this affects the production and distribution of goods and services. Global companies have problem in doing export and import because of lockdown policy. Many businesses have experienced delays in receiving raw materials and components, resulting in production delays and reduced output. In addition, unemployment also increasing because of this pandemic situation (Bose, Shams, Ali, & Mihret, 2022). Companies that usually sells their product and service in offline or onsite system, must shut down their business. Employees that used to work in the service area in offline or onsite system are being un-employed.

Several declining factors mentioned above lead to declining of the company's revenue and earnings. Those factors have led to a decline in stock prices and the valuation of many companies. According to Aritonang and Rahardja (2023), pandemic leads to decrease the firm values. The firm value is the ability and one of the key successes of the firms in the stock price market (Kusumawati & Rosady, 2018). Several public listed companies have declining share prices, revenues, and profit during this pandemic (Bapuji et al., 2020). Ji et. al. (2020) mentioned that the impacts on COVID-19 pandemic in financial sectors affected various financial market such as equity, bond, foreign exchange, and commodity market. The responses caused by factors such as government policy, investor sentiment, and updated condition about COVID-19 virus spreading. In this uncertain situation, investors tend to lower their level of risk acceptance or can be said become more risk-averse. Choosing lower risk investment become more favourable in the pandemic era, those low-risk investment are investing in assets such as gold and government bonds. However, not all of companies has declining in their business. Some sectors like health and technologies sectors have been more demanding at the pandemic era. People put some hopes in the health sectors to create vaccine and to cure the Covid-19 disease and are optimistic on technology to continue their basic activities like learning and education and work remotely at home because of the social distancing rules.

The Basic Material sectors includes companies involved in the processes of discovery and extraction the raw materials have both increasing and decreasing demands. According to Zanoletti, Cornelio, and Bontempi (2021) in the pandemic era, the needs of raw material is increasing. In the basic material sectors, raw materials used in industries like construction and automotive has declining, meanwhile for the materials used in health protocol needs such as personal protective equipment like mask and face shield, disinfectants, cleaning supplies, and medicine materials or chemicals are increasing.

In this situation, companies need renew their strategy to face changes in external factors. The uncertainty created by pandemic situation is part of the external risk that companies need to face. Companies need to create pivot strategy to face this different and unpredictable situations. Based on research conducted by Ruwanti, Chandrarin, and Assih (2019), good corporate governance is needed as a monitor the company to still be aligned with their objectives. According to study conducted by KPMG (2020), companies that apply good corporate governance and have strong practices have been more resilient during the pandemic. Companies with effective risk management processes, transparency with the shareholders, and strong board oversight to respond to the challenges posed by the pandemic. During the pandemic situation, companies need to perform well and keep their value and gain the trust of investors. Company's income and profitability are important things for investors to trust the company. Besides capital gain, Investors will also receive benefits from company's dividend. Therefore, Companies need to maintain their income and profitability by applying GCG.

The research problem is either the performance from the internal management such as Directors and Commissioners Boards, Audit Committee, and Independent Commissioneir have significant influenced on the dividend pay out rasio or not. Therefore, the research purpose is to find out the impacts of good corporate governance on dividend pay-out ratio for Basic Material Sector in Indonesia.

LITERATURE REVIEW

The underlying and supporting theories

In this paper will use signalling theory as an underlying theory, meanwhile the supporting theory is agency theory. The underlying theory used to describe the correlation between alll of independent and dependent variables in this paper. However, the agency theory is used only to describe the connection of stockholder performance and public information released before and during COVID-19.

Signalling Theory

The fundamental of using a signalling theory in this study is used as a signaller has greater inside information that have not been share publicly (Yasar, Martin, & Kiessling, 2020). When there is some asymmetric information in the market, to keep the investor's trust, the stakeholder or the boards in the company needs to do signalling. According to Morris (1987), the theory shows how this asymmetric information can be reduced with more information signalling it to others. The person that could give signalling must be insider that know much more than the market. It is similar concept with the seller must know better about the product and business rather than the buyers. These signalling examples could be including the appointing independent directors to the boards, disclose either financial or non-financial information beyond what is required. By doing this signalling, companies could get the stakeholders' trust and to make stakeholders believe that companies are committed to upholding high standards of corporate governance. Therefore, this can enhance the company's reputation and credibility.

Agency Theory

Agency Theory is aligned with the effort of company owner to minimize conflicts between controlling shareholders and minority shareholders (Ruwanti, Chandrarin, & Assih 2019). In agency theory, the owners of a company are referred to as principals, and the managers who execute and run the company are referred to as agents. The theory found out that most managers that are still the owner or relate to the owner might prioritize their own interest over those of the owners. These conditions and situation might not be good because of subjectivity over objectivity. GCG is one of way to implement the Agency Theory because it could mitigate problems and minimize the conflict of interest so that the investor and stakeholder can put more trust into the company. The use of agency is the company can handover the company management to professional staffs or agents thar are more expert in their fields. The decisions made by the agency or management could be more objective along with the company's goal. Therefore, this Agency theory also find some conflicts of interest between owners and managers, as managers might have different interest with those of the owners. However, the agent is still needed in good corporate governance systems. Companies needs to run the business objectively leads by the agents that are mastered in the business execution and not be subjective because of some owner's own interest.

Good Corporate Governance (GCG)

GCG is explained as a set of rules that control the correlation between external parties such as shareholders, creditors, governments, and internal parties such as employees, and interest holders relating to their rights and obligations (Maharani & Soewarno,2018). Moreover, GCG can explain the intercorrelation between various parties in the company that decide the direction and corporate performance (Ruwanti, Chandrarin, & Assih, 2019). Fairness, transparency, accountability, and independence are needed to gain the investors and stakeholder trust. When the corporate could gain the investor and stakeholder trust, it can enhance the firm value and could increase the share price. Corporate governance helps to protect the interest of stakeholders by ensuring the companies are well managed in a responsible and ethical manner. Ayunitha et al (2020), corporate needs to have process, habits, policies, and rules that implement by the company properly.

Baker and Dewasiri (2020) mentioned that having Independent Commissioner and Audit Committee is important in good corporate governance. By applying good corporate government, companies also become more accountable by ensuring that companies are managed in a transparent and accountable way. Gives clear and accurate information about all the management system of the companies, starts from its supply chain, operations, risk that might face and also the performance of the companies. Corporate will be more transparent, do best effort, also can minimize the conflict of interest if have Board of Independence and Audit Committee. With the existence of Board of Commissioner and Board of Directors also could affect the trust of the investor and stakeholders (Azmy, Anggreini, & Hamim, 2019). The Board of Commissioner and Board of Directors are the leader at the corporate that investor and stakeholder looking the most. With good leaders, the corporate can run well and could give value to the investor and stakeholder. According to a report by International Finance Corporation (2017) having good corporate governance is essential for creating sustainable economic development and for creating an environment that encourages long-term investment, innovation, and job creations.

Board of Directors (BD)

The BD has the responsibility to oversee the company management and make the important decisions that could affect the company and its stakeholders. Board of Director can be stated as an independent director which is not appointed by the CEO, and also it is not being a current or former management member (Palmberg, 2015). In a good corporate governance mentioned that there need for Board of Directors. In certain conditions, Board of Directors somehow does not get involved in the establishment of objectives, strategy, and policy and in the strategic planning. But somehow Board of Directors has role as decision maker in the planning step of the company (Henke, 1986). Board of Directors are expected to face and responsible with the situation as dropping profits, looses, and even loosing market and need to create strategy to fix the situations. Another role of the Boards of Directors is in the risk management area. The board is responsible for identifying and managing risks that could impact the company's operations, reputation, or financial performance. According to The Corporate Governance Code for Publicly Listed Companies in Indonesia mandates that Board of Directors should held an annual evaluation. The evaluation needs is to evaluate the companies own performance as well as the performance of its committees, individual directors and the chairman (Indonesia Stock Exchange, 2018).

Board of Commissioner (BC)
Commissioners board is defined as a group of individuals who are chosen by companies' shareholder with the role to oversee internal company's management and operations. Board of Commissioners also responsible to supervise the work of Board of Directors. The Indonesian Corporate Governance Manual by Otoritas Jasa Keuangan (OJK) stated that The Board of Commissioner should play an active role in ensuring that the company is well-managed in accordance with the principles of Good Corporate Governance (OJK, 2019). Based on the statement declared by OJK, Board of commissioner roles as supervisor to monitor the function through the committees to use efficient time and utilize the individual expertise of each director. The board of commissioners is trusted by stakeholders with the monitoring function for the management level at the highest level (Kusumaningtyas, Chariri, & Yuyetta,2019). With the role of board of Commissioner, the company could be managed and monitored well to perform aligned with the company's objectives.

Audit Committee (AC)
The Audit function is to be responsible to do evaluation of the effectiveness in management of risk, manage regulation and governance. Audit function also need to provides insight and recommendations to improve the company's performance. Audit committee can be defined as a constituted body which can give authorities and responsibilities to assess the company's financial report and show the findings to the top management to make a good decision (Khudhair, Al-Zubaidi, & Raji, 2019). According to Agyei-Mensah (2019) Audit committee also has role and function to serve as a major communication intermediary among many third parties in the company's financial report process. Audit Committee also role as external audit, which the Audit Committee is responsible for selecting and overseeing the external auditor, reviewing the auditor's work and make sure that the auditor is independent and objectives. The Audit Committee also needs to make sure and responsible that the companies already compile with applicable laws, regulations, and ethical standards. With good supervisor role, the company will perform the best, and deliver good value business. Therefore, investor will put more trust to the company.

Independent Commissioner (IC)
The definition of IC is a part of body in the organization which is usually works as an outside board of commissioners who has the job is to measure and assess the company's overall results (Abbas, Taqi, & Yazid, 2021). The role of an independent commissioner is to provide objective and unbiased oversight of the company's management and operations, also to represent the interet of all shareholders. According to Putra (2015) the more monitors, the better because it leads lower conflict and ultimately lowers agency costs. This explains that independent commissioners think more objectively than the board of commissioners and directors. Commissioners'

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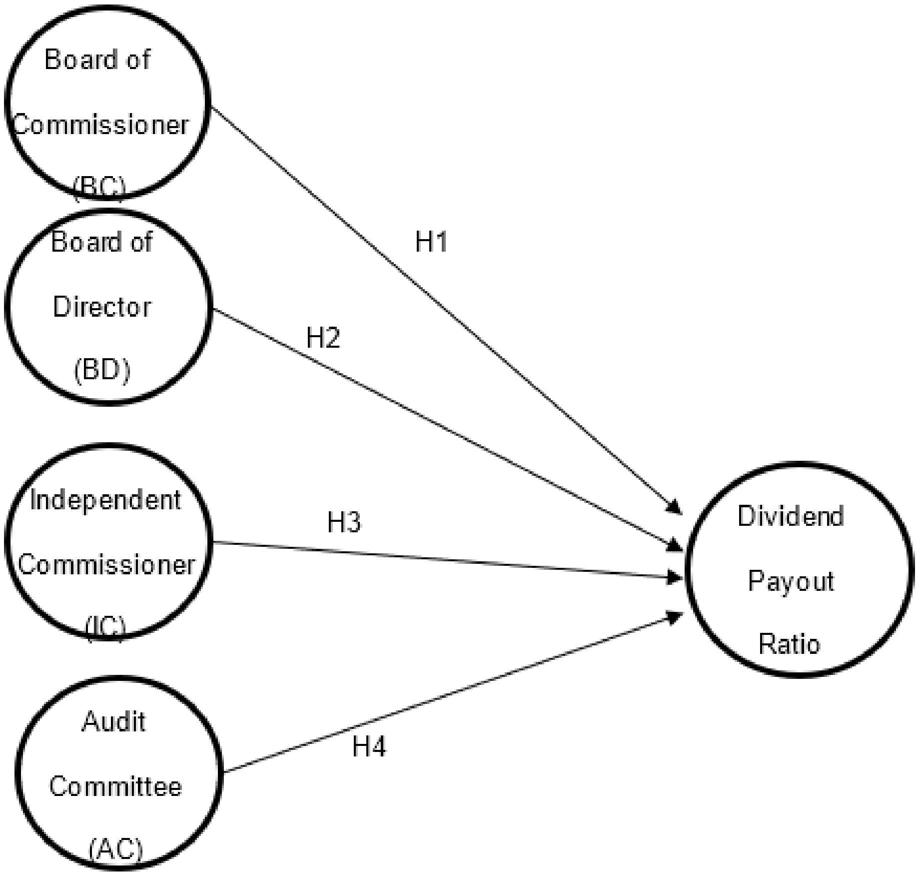
oversight of management is generally ineffective due to the undemocratic selection process of the commissioner board, and work frequently to be handpicked by management so that after being elected they dare not criticize management policies. The most important role held by Independent Commissioner is to avoid the conflict of interest. The good things having Independent Commissioner in the companies which are the members does not have any affiliation with the company other than as a commissioner, the independent commissioner could responsible to identifying and manage any potential conflicts of interest that may arise between the company's management and shareholders and aligned with good corporate governance principles.

CONCEPTUAL FRAMEWORK

Figure 1. Conceptual Framework



Based on the conceptual framework above, here is some hypothesis of this research:
H1: BC has a significant influence on Dividend Payout Ratio before and during COVID-19 pandemic.
H2: BD has a significant influence on Dividend Payout Ratio before and during COVID-19 pandemic
H3: IC has a significant influence on Dividend Payout Ratio before and during COVID-19 pandemic
H4: AC has a significant influence on Dividend Payout Ratio before and during COVID-19 pandemic

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RESEARCH METHOD

In this paper is a part of quantitative research whereas the researcher uses secondary data gathered from financial reports published in Indonesian Stock Exchange (IDX) in basic materials sector from the year 2018 to 2019 for the condition before COVID-19 pandemic, and from the year of 2020 until 2021 for the condition during COVID-19 pandemic, with total population is 156 companies. The technique method used in this research is purposive sampling method which use the sampling criteria to determine the number of samples. The criteria for selecting the sample is all of public listed company in the basic needs industries which have already disclosed the annual financial report (Sugiyono, 2018; Sanusi, 2017) .During four years, there are many financial reports do not declared yet by the basic needs industries, which are 86 public listed companies exclude in this research. Therefore, there are only 70 public listed companies are selected to be the samples in this research. Data collection method used is documentation technique, and literature study. Therefore, this study will use only by F-test, t-test, and hypothesis test (R-square and adjusted R-square).

F-test is used to test the relationship between all independent variables towards dependent variable comprehensively. Meanwhile the t-test is used to test the relationship between each independent variable towards dependent variable. Both two tests, will give answer to the result either independent variable has significant influence or not on dependent variable. The test for R-square and Adjusted R-square test are used to test the research model either the model design has been already in the good condition or fit to the research or not.

RESULTS

In this paper use the F-test, t-test, R-square, and adjusted R-square to determine the result of the research. There are two conditions discussed which are before and during COVID-19 pandemic. All of data proceed are reliable and valid. It is because the researcher took the data derive from the annual public financial report.

Table 1. F-TEST before COVID-19 pandemic

Model		F	Sig.
1	Regression	2.004	0.104[b]
	Residual		
	Total		

Source : data processed

Table 1 shows the F-test result about the influence of independent variable with dependent variable. Based on the result, the significant level score shown by 0.104 which is greater than alpha 0.1, 0.05, and 0.01.

Table 2. t-test before COVID-19 pandemic

Model		Standardized Coefficients	Sig.
		Beta	
1	(Constant)		0.062
	BC_before pandemic	0.078	0.634
	BD_before pandemic	-0.022	0.874
	IC_before pandemic	-0.239	0.101
	AC_before pandemic	0.254	0.036

Source : data processed

Table 2 shows the t-test result for the relationship between each independent variable and dependent variable before COVID-19 pandemic. The significant level score for each independent variable such as BC, BD, and IC have shown greater value if it is compared to alpha (0.1, 0.05, and 0.01), except AC has lower score by 0.036.

Table 3. R Square and Adjusted R Square before COVID-19 pandemic

Model	R	R^2	Adjusted R^2	Std. Error
1	0.331[a]	0.110	0.055	0.40695

Source : data processed

Table 3 shows the coefficient correlation (R) is 0.331, meanwhile the number of coefficient determination or R Square and adjusted R square value by 11% and 5.5% respectively. Both score are categorized small percentage and far from 100%. Those higher percentage of R and R^2 explain the relationship between all of independent variables and dependent variable. The number of adjusted R square is smaller than R square, but it has same meanings which is low relationship among variables.

Table 4. F-TEST during COVID-19 pandemic

Model		F	Sig.
1	Regression	0.403	0.805[b]
	Residual		
	Total		

Source : data processed

Table 4 shows the F-test result about the influence of independent variable with dependent variable. Based on the result, the significant level score shown by 0.805. That score is greater than alpha 0.1, 0.05, and 0.01.

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Table 5. t-test during COVID-19 pandemic

Model		t	Sig.
1	(Constant)	1.299	0.205
	BC_during pandemic	0.106	0.916
	BD_during pandemic	-0.634	0.531
	IC_during pandemic	0.814	0.423
	AC_during pandemic	0.247	0.806

Source : data processed

Table 5 shows the t-test result for the relationship among variables before COVID-19 pandemic. All of the significant level score for each independent variable such as BC, BD, and IC have shown greater value by 0.916, 0.531, 0.423, and 0.806 respectively if it is compared to alpha (0.1, 0.05, and 0.01).

Table 6. R Square and Adjusted R Square during COVID-19 pandemic

Model	R	R^2	Adjusted R^2	Std. Error
1	0.233[a]	0.054	0.081	0.46546

Source : data processed

Table 6 shows the R-square and adjusted R-square value by 5.4% and 8.1% respectively. Those scores are smaller if it is compared to the R-square and adjusted R-square before COVID-19 pandemic. However, it is quite normal for the financial research if both scores are low.

DISCUSSION

The corporate governance is really important for companies to maximize the value of the company, improve the working performance and contribution by the company, also keep sustaining the company for the long term. Internal managements need to develop and keep implementing the cultures and principles which have been selected and adopted by company. The ultimate goal of having good corporate governance is to maximize the company's profit which can increase the welfare of the internal and external parties, such as employees, shareholders, and investors. The welfare form of the investors is receiving a higher dividend pay out ratio compared to previous years.

Internal management such as Board of Commissioner (BC), Board of Directors (BD), Independent Commissioner (IC), and Audit Committee (AC) have difference of important roles in the organization. For instance, BC has a big duty to do scrutiny on policy arrangements, the implementation of the arrangement done by the Directors of the companies and giving some advice to the Directors on the running plan for short and long term goals of the company. Meanwhile, BD has the main role in the company is to lead and organize company company by determining policies which are appropriate to interests and company's goals. In additiion, IC has the obligation to protect and scrutiny external management parties, or become a mediator when there is a conflict between internal managers, and give advice to the management and scrutiny the policy made. The responsibility of AC is to do tasks as an evaluator of the financial report made by accounting department of the company before its released to the public or interest parties. Moreover, AC has a main role as well on financial report budget scrutiny, hence the internal management could run the budget on track as planned made. Those all are the responsilbilities or duties that have to be implemented by internal managements to achieve a good corporate governance which lead to maximize the profit of the organization.

Based on the result and hypotheses test, all of the hypotesis are rejected except H_4 which consist of independent variable, Audit Committe, has significant influence on dependent variable, Dividend Payout Ratio. Based on the F-test result above, both data before and during COVID-19 pandemic indicate that the significant level is greater than alpha, which means that there is no significant influence between all independent variables with dependent variable. The t-test result above in the two conditions which data before and during COVID-19 era shows almost all of the data have significant level are greater than alpha, it means that each individual variable have no significant influence to the dependent variable. There is only one IV (AC) has a significant influence on the dependent variable (Dividend Payout Rasio) when the condition is before COVID-19 era. The R-square and adjusted R-square score for both condition, are really low which is far from 100%. Those score indicate that the model research is far from good. In this research there are four independent variables which can help on determining the prediction of dependent variable (Dividend Pay Out ratio), however in this case it does not work.

As per explained in the literature review, the underlying theory for this research is a signaling theory meanhile agency theory is a supporting theory. Based on the result research, the signaling theory only relate in few part of this research especially to Audit Committee on Dividend Payout Ratio. In this part, the signaling theory has successfully explained the information made from Audit Committee to give signal to the company to arrange the number of DPR. In addition, Agency theory also support the result by explaining indirectly the urgence of management, Audit Committee on the amount of DPR of the company. In this research there is no detail explaination about how big percentage of the dividend payout rasio given to the investors.

The result of this research has small statistic number of independent variables that influence on dependent variables. The researcher finally relaize that it is crucial to add one or two more variables to get better result. The more independent variables or control variables have in the research, it will create better R, R^2 and adjusted R^2. Therefore the result of the research could be more connected and valid.

The implementation of the result is AC has a responsibility to oversee the process of financial reporting. Their activities including do reviewing the consistency, accuracy and completeness of the financial report before its published to the public. This committee may recommend the dividend payment, if the financial report has fulfill the level of satisfaction of the company. The recommendation will be based on the favorable or higher dividend payout rasio which is calculated from the proportion of earnings paid as dividend. Second, the AC has to ensure the dividend policy to the company’s sustainability for paying dividend in the future. AC can give suggestion a lower dividend payout rasio if the company’s financial report does not fulfil satisfaction level from stakeholders. Third, the AC is responsible to review the company dividend payout ratio is complied with appicable laws and regulation. Fourth, AC may use the dividend payout ratio as a metric to evaluate the company’s financial performance. Higher dividend payout ratio will show that company is generating strong cash flow as a returning value to the interest parties, and lower DPR will indicate that company is keeping the retained earnings for unpredictable future of the financial company situation by doing re-investment those profit to buy new assets for the company. Sixth, AC may concern about the company’s capital allocation strategy. For example, if the company has faced a huge debt, the AC can give suggestion to do not give higher Dividend Payout Rasio shared to the investors. AC will ensure the company has enough fund to meet this financial obligation. Finally, AC can give some reviews about the company's earnings quality, especially when the company's condition has to make bigger production capacity, AC can give advice to give lower annual dividend payout ratio.

Therefore, based on the explanation above, AC can give suggestion or recommendation to the internal management on making dividend pay out rasio policy based on current firm's financial performance. Before the year of COVID-19 era, AC has given significant influences on the proportion of dividend pay out rasio, which means that AC has a big role on giving some advice to the stakeholders on giving the dividend. Meanwhile, during the COVID-19 pandemic, the role of AC, it seems more likely, does not have any influences on giving recommendation for dividend payout ratio.

CONCLUSION

In conclusion, based on the report analysis and discussion, so the conclusion in this research are: first, there is no significant influence from Board of Commissioner (BC), Board of Director (BD), Independent Commissioner (IC) to Dividend Payout Ratio in the Basic Material Industry in Indonesia before and during COVID-19 pandemic. Meanwhile, there is a significant influence Audit Committee (AC) on Dividend Payout Ratio in the Basic Material Industry in Indonesia before COVID-19 pandemic, but it does not have a significant influence during COVID-19 pandemic.

LIMITATION

There are three limitation in this research. The first research limitation in this paper is the samples number are quite small when comparing two conditions which are before and during COVID-19 pandemic. Smaller number of samples will give potential effect to the result. The first suggestion for the next researcher is to add more industrial in order to get better result. Second limitation is the result do not have precisely direct relationship between independent variables and dependent variable, it is needed the mediating variable in the research, such as financial report. This mediating variable is design to help the connection for management to measure first, how much is the profit received by the company hence it can be used as a based or reason by management to determine DPR. The third limitation is there is no specific how big the dividend payout rasio are divided by internal management to the shareholders. Therefore, for the next researcher, to get more reliable and valid data, it is needed the number of percentage for DPR on giving clearer explaination or picture for the readers or shareholders before determining how much return had from dividend.

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DECLARATION OF CONFLICTING INTERESTS

The authors aknowledge that there are no potential conflicts of interest during completing and publishing this paper study.

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