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Dividend Payments of Politically Connected Companies: Evidence from the Indonesian Stock Market

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Abstract

Indonesia is one of the developing countries, but the condition of the stock market in Indonesia is quite promising with many investors making investments. One of the demands from investors is the payment of dividends by the company, but there are several factors that influence the payment of dividends including the busy board and political connections owned by the company. This study attempts to describe the ability of companies to pay dividends in Indonesia in terms of the level of activity of the board and whether or not there is political connection within the company. The population in this study are all manufacturing sector companies listed on the IDX for the 2017-2021 period, totaling 898 companies. Data tested with Moderated Regression Analysis (MRA). This research shows that corporate boards that are highly busy and have political positions tend to make it easier for companies to gain financial benefits and fulfill their obligations to investors. This research is limited to manufacturing companies, so deeper research is still open related to companies in other sectors. This research is expected to open up information to investors regarding the ability to pay dividends of companies with political connections in Indonesia. Several previous studies have examined the effect of busy boards on dividend payments, but there has been no research using politically connected companies as a moderating variable in this relationship, even though politically connected companies can influence the condition and performance of the company if there is a board holding a political position, so that politically Indirectly, this political connection is indicated to strengthen the influence of the busy board on dividend payments.

Keywords: *Politically Connected Firm, Busy Board, Dividend Payout.*

INTRODUCTION

Manufacturing companies are one of the sub-sectors of companies listed on the Indonesia Stock Exchange (IDX) and contribute quite high to the development of Indonesia's Gross Domestic Product (GDP). Quoted from Kemenperin.go.id, (2022) industry in the manufacturing sector has contributed to the development of the Gross Domestic Product (GDP) where this sector shows an increase in GDP every year. Since 2010, the contribution made by the industrial sector to the development of national GDP has been the largest, this high contribution has also occurred despite the pandemic in 2020-2021.

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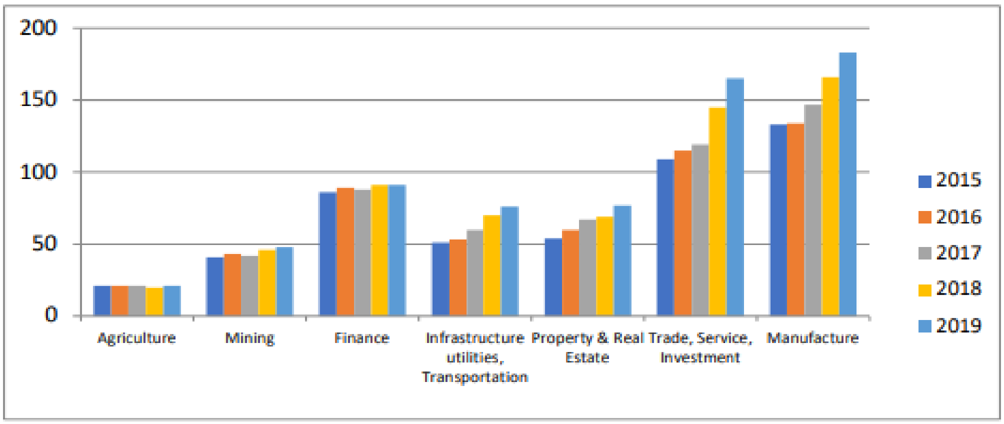
2021 was one of the toughest years due to the pandemic, but the manufacturing sector contributed to GDP of Rp. 2,946.9 trillion, this amount has increased from 2020 which amounted to Rp. 2,760.43 trillion. The manufacturing sector is a sector whose productivity drives several components such as machinery, a workforce with certain skills, and the use of sophisticated technology (Kahfi, 2022, Ahmad *et al.*, 2017). The manufacturing sector industry shows quite rapid growth in the capital market every year, this condition confirms how the manufacturing sector has a fairly good performance. This can be seen from the list of companies listed on the IDX in 2015-2019 which were dominated by manufacturing companies.



Figures 1. Listed Company on IDX in 2015-2019

Source: Indonesia Stock Exchange (2020)

Based on the information shown in Figure 1 above, the information in the figure shows how fast the growth of the manufacturing sector is, which is higher than the growth of other sectors. This information shows conditions where the manufacturing sector does have a high opportunity to continue to grow, especially opportunities to obtain additional capital from investors. However, the performance of the manufacturing sector actually showed a decline, in 2021 in the third quarter, the performance of the manufacturing sector declined as indicated by Bank Indonesia's Prompt Manufacturing Index (PMI) of 48.75%, which percentage was lower than the previous period. 51.45 percent (Primadhyta, 2021). It is indicated that this decrease occurred due to mobility restrictions set by the government to deal with problems caused by Covid-19. Comparison of the manufacturing sector with other sectors, quoted from Puspitasari dan Perwitasari (2022) in kontan.co.id, the technology, transportation and logistics, energy and non-primary consumer sectors have actually experienced an increase in growth in 2021 despite being hit by a pandemic.

It is indicated that the decline in the performance of the manufacturing sector may affect the company's ability to provide dividends to investors. Dividend payout itself is the company's ability to provide returns to investors in the form of financial benefits within a certain period of time (López-Iturriaga dan Martín, 2019, Naburi *et al.*, 2019, Chang *et al.*, 2019, Chen *et al.*, 2019). Investors certainly expect a reciprocity or return from the investment activities they carry out, therefore, when receiving investors, companies must also be prepared to provide returns on these investments, one of which is in the form of dividends. Interest from investors will be even greater if the dividends given are also large. IDX as the capital market in Indonesia, issues a list of issuers listed on the stock exchange according to the level of profit earned. On 17/05/2018, the IDX launched the IDX High Dividend 20 index, which is the price of twenty stocks that have high dividend yields and have the ability to pay dividends to investors for three consecutive years. The manufacturing sector is a sector that is part of the IDX High Dividend 20 Index with the largest percentage of 35 percent. This also illustrates that the manufacturing sector is a sector that has great potential in providing high dividends to investors (Prastia dan Hasanah, 2022).

There are several factors that are indicated to affect dividend payout in a company (Apostolakis *et al.*, 2021). The company has various components that support its activities and its ability to provide dividends to investors. One of them is the busy board or the busyness of the board of directors (Trinh *et al.*, 2020). Busy boards in a company can indeed raise pros and cons, the high activity of company directors can cause a decrease in the focus point of directors on company problems (Mirza dan Malik, 2019). However, on the other hand the busy board is also considered to have a positive impact on the company, because with the busy directors at the company's work, the quality of work from the company will be maintained (Robin, 2021).

The pros and cons conditions need to be examined more deeply, especially the effect of the busy board on the company's ability to pay dividends. The results of research conducted by (Trinh *et al.*, 2020) shows that the busy board of the company actually has a positive effect on the ability to pay dividends at the company. This happens because the board is busy developing the company's interests, so that the company becomes even better and the company's ability to pay dividends becomes higher (Firmansyah *et al.*, 2022). However, research conducted by (Robin, 2021) shows the opposite, that a busy board actually weakens company dividend payments.

Previous studies have explained the effect of the busyness of the board on dividend payments by the company. Research by Trinh *et al.*, (2020) explains that the busyness of the company's board causes the dividend payment policy to become smoother. This research focuses on dividend payments by companies in developed countries that have quality human resources and culture, as well as very rapid industrial development, so that previous research has not been able to provide a more comprehensive picture regarding the capabilities of companies in developing countries, such as Indonesia. which is a country that has the label of a developing country certainly has different characteristics, both in terms of culture, politics, quality of human resources and so on.

Research conducted by Vu (2019), Naburi *et al.*, (2019) examined the effect of busy boards on dividend payout policies in banking companies, and found that busy boards cause dividend payments to increase because the company's finances become more stable. This research focuses on companies in the banking sector, but has not been able to provide an overview of dividend payments and their relation to the busyness of the board of companies in other sectors, especially in the non-financial sector. This is because companies in the non-financial sector have different board activities than companies in the financial sector.

Robin (2021), Khan (2021) found that a busy board causes a weakening of the company's financial condition and performance. The board's busyness in the company causes the compensation received by the board to increase but does not cause their performance to increase. Research conducted by Mirza dan Malik (2019), Dwaikat *et al.*, (2020) examines the composition of the company's board that influences the company's dividend policy. Research conducted by Tirtasaputra *et al.*, (2022), López-Iturriaga dan Martín (2019) shows that the company's ability to pay dividends is more due to company wealth. Previous studies have not examined much about the effect of board activity on company dividend payments, but have focused on other aspects of the company, so more in-depth research is needed regarding the effect of board activity on dividend payments.

For large companies listed on the stock exchange, political conditions in a country can certainly have an impact on company activities (Qin *et al.*, 2022, Hillier dan Loncan, 2019). Political policies often have an impact on the company's financial and bureaucratic conditions. Politically connected firms are companies that have connections with the world of politics and politicians (Alawattage *et al.*, 2022). These conditions can have a beneficial impact on the company, especially in the company's work activities which will be greatly influenced by government policies and regulations (Kusnadi, 2019). The characteristics of a politically connected company are companies with board members who are currently serving or have served in political seats, this is indirectly seen as providing political support in forming regulations that support company interests (Kusnadi, 2019).

According to Zainudin dan Khaw (2020) it was found that companies with political connections do not necessarily provide benefits to companies, because unstable political conditions can actually be detrimental to companies. This is supported by Hillier dan Loncan (2019) who explain that companies with political connections tend to lose money amid the unstable political situation in the country. Political conditions and situations that are still inconsistent in their influence on companies have led to the need for deeper research related to the role of political connections in strengthening company dividend payments, so that the moderating variable used is politically connected firms.

This study seeks to find the effect of the activities of the board, especially the activities of the main director of a manufacturing company listed on the IDX on the company's ability to pay dividends. Several previous studies have examined the effect of busy boards on dividend payments, but there has been no research using politically connected companies as a moderating variable in this relationship, even though politically connected companies can influence the condition and performance of the company if there is a board holding a political position, so that politically Indirectly, this political connection is indicated to strengthen the influence of the busy board on dividend payments.

Based on this relationship, politically connected firms tend to cause the company's board to be busy (Rochmatullah *et al.*, 2022). Research conducted by Modjaningrat (2017) shows that politically connected firms can moderate the effect of institutional ownership on dividend payout policies. Companies that have political connections are said to be able to strengthen the influence of institutional ownership on the company's dividend payout. The results of research conducted by Putri dan Leon (2018) show that politically connected firms cannot moderate the effect of earnings per share on the company's dividend payout. Furthermore, research conducted by Sianturi dan Dianawati (2018) shows that politically connected firms can moderate the effect of state ownership on dividend payout in dividend policy. The results of previous research have positioned politically connected firms as moderators with dividend payout as the dependent variable, this can be a bridge to examine the moderating role of politically connected firms on the effect of busy boards on dividend payout.

LITERATURE REVIEW

Effect of Busy Board on Dividend Payout

Busy boards or activities owned by the board within the company are shown by the number of company boards that have more than one position. This condition causes the board to have a higher workload than the board which only has one position (Wang *et al.*, 2021). The busyness of the board within the company tends to cause policy regulation and dividend payments to increase, because companies with busy boards will have sufficient funds to pay dividends (Adebayo *et al.*, 2021). This is consistent with agency theory, which explains that the relationship between agent and principal in a company can be proxied by the relationship between the company's board and investors or company owners, the higher the board's activity, the dividend payout will also increase (Dwaikat *et al.*, 2020).

The results of research conducted by Trinh *et al.*, (2020) show that the company's busy board actually has a positive effect on the company's dividend payout ability. This happens because the commissioners are busy developing the company's interests, so that the company becomes even better and the company's dividend payout ability becomes higher. Similar research results were conveyed by Vu (2019) which showed that the busy board had a positive influence on the company's ability to distribute dividends. Next, the results of research conducted by Naburi *et al.*, (2019) show that the composition and activity of the board has an influence on the company's ability to

distribute dividends. Based on this, the hypothesis can be formulated as follows:
H_1: Busy boards have a positive effect on dividend payout in manufacturing companies listed on the IDX in 2017-2020.

The Influence of the Busy Board on Dividend Payout with Politically Connected Firms as Moderators

Politically connected firms are companies that have board members with political positions or have previously held political positions. With a company board that has a political position, it will make the board busier so as to create a busy board. The busy board or the busyness of the board is said to have an effect on dividend payments. Several previous research results indicate that politically connected firms can moderate the effect of other variables on dividend payout, but no research has used politically connected firms as a moderator between busy boards on dividend payout. So it is important to conduct research related to the role of moderation, bearing in mind that companies that are connected to politics tend to make the company's board more busy as a result of holding political positions. So it can be indicated that the company's political connections can moderate the effect of the busy board on dividend payout (Qin *et al.*, 2022).

The results of research conducted by Sianturi dan Dianawati (2018) show that politically connected firms can strengthen the influence of state ownership on dividend payout. The results of another study conducted by Modjaningrat (2017) show that politically connected firms are able to strengthen the influence of institutional ownership on dividend payments. Furthermore, research conducted by Putri dan Leon (2018) also shows that politically connected firms are able to strengthen the effect of earnings per share on dividend payments. Based on this, it can be indicated that politically connected firms can be a moderating variable, so the hypothesis can be formulated as follows.
H_2: Politically connected firms are able to strengthen the influence of busy boards on dividend payout in manufacturing companies listed on the IDX in 2017-2020

METHOD

The research was conducted using quantitative descriptive analysis, which is a research method used to perform data analysis by describing or describing a data that has been collected as it is. The analysis used as an approach in this study is the Moderated Regression Analysis (MRA) model. This research used a population of all companies in the manufacturing sector listed on the IDX for the 2017-2021 period with a total of 898 companies. The technique used by researchers in selecting samples is purposive sampling or samples determined by selecting certain characteristics beforehand (Sujarweni, 2015). The sample with the criteria used refers to all Manufacturing sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period. Based on the information obtained on the IDX, it can be seen that the population and the total number of manufacturing sector companies listed in the 2017-2021 period are as follows:

Table 1. Research Sample Selection

No	Criteria	Number of Companies				
		2017	**2018**	**2019**	**2020**	**2021**
1	Manufacturing sector companies listed on the Indonesia Stock Exchange	172	172	176	182	196
2	Manufacturing sector companies that do not distribute dividends consecutively	(49)	(54)	(48)	(73)	(61)
3	Manufacturing sector companies that suffered losses	(41)	(38)	(48)	(59)	(40)
	Total	**82**	**80**	**80**	**50**	**95**
	Total Observations	**387**				

Source: data processed by researchers (2022)

Hypothesis testing in this study was used to test the formulated hypothesis, namely the t test. Independent Sample t-Test is a type of t-test used to test the hypothesis of this study. Hypothesis testing is carried out using a calculated t value with a comparison of the t-table value (Sarwono, 2018:347). The Moderated Regression Analysis (MRA) carried out aims to examine the moderator role of the variables specified in an interaction regression model, and the moderator variable is not a measure of the independent variable (Ghozali, 2016). Moderated Regression Analysis (MRA) was tested with the aim of knowing how politically connected firms are in terms of strengthening or weakening the effect of busy board variables on dividend payout. The model used consists of three equations which are described below (Sharma *et al.*, 1981):

Model 1 Regression Equation:

$DPR_{i,t} = \alpha_1 + \beta_1 BB_{i,t} + \varepsilon$..(1)

Model 2 Regression Equation:

$DPR_{i,t} = \alpha_2 + \beta_2 BB_{i,t} + \beta_3 PCF_{i,t} + \varepsilon$ ....(2)

Model 3 Regression Equation:

$DPR_{i,t} = \alpha_3 + \beta_4 BB_{i,t} + \beta_5 BB_{i,t} {*} PCF_{i,t} + \varepsilon$ .... (3)

Information:

α : constant
β : regression coefficient
DPR : Dividend Payout (Dependent variable)
BB : Busy Board (Independent Variable)
PCF : Politically connected firm (Moderation Variable)
ε : error coefficient

RESULT AND DISCUSSION

Results of Descriptive Statistics

Descriptive statistics describe, show, and summarize the basic features of a dataset found in a given study, presented in a summary that describes the data sample and its measurements. It helps analysts to understand the data better.

Table 2. Descriptive Analysis Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DPR	387	.0003	83.7048	.754587	4.2873605
BB	387	0	1	.21	.411
PCF	387	1	3	1.08	.324
Valid N (listwise)	387				

Source: Processed Secondary Data, 2022

The sample used had a total of 387, based on the data in Table 2, it was found that descriptive statistics for each variable in this study could be described or described by the minimum, maximum, average and standard deviation values as follows.

1. Dividend payout ratio (DPR) with a minimum value of 0.0003. Furthermore, the maximum value obtained is 83.7048 and the average is 0.754587. Next is the standard deviation obtained for the DPR variable, which is 4.2873605.
2. Busy board (BB) obtains a minimum value of 0. Furthermore, the acquisition of a maximum value of 1 and an average of 0.21 is the standard deviation obtained for the BB variable, namely 0.411.
3. Politically connected firm (PCF) obtains a minimum value of 1. Furthermore, the acquisition of a maximum value of 3 and an average of 1.08 next is the standard deviation obtained for the PCF variable which is 0.324.

Moderation Regression Analysis (MRA) Results

The results of Moderation Regression Analysis (MRA) Model 1 are presented in Table 3 below:

Table 3. Results of Moderation Regression Analysis (MRA) Model 1

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.304	.016		19.568	.000
	BB	.464	.029	.649	15.942	.000

a. Dependent Variable: DPR

Source: Processed Secondary Data, 2022

The results of Moderation Regression Analysis (MRA) Model 2 are presented in Table 4 below:

Table 4. Results of Moderation Regression Analysis (MRA) Model 2

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.107	.039		2.705	.007
	BB	.437	.028	.611	15.360	.000
	PCF	.186	.034	.215	5.402	.000

a. Dependent Variable: DPR

Source: Processed Secondary Data, 2022

The results of Moderation Regression Analysis (MRA) Model 3 are presented in Table 5 below:

Table 5. Results of Moderation Regression Analysis (MRA) Model 3

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.304	.015		20.691	.000
1	BB	.144	.057	.201	2.540	.012
	BB*PCF	.259	.040	.513	6.498	.000

a. Dependent Variable: DPR

Source: Processed Secondary Data, 2022

Hypothesis testing in this study was used to test the formulated hypothesis, namely the t test. Independent Sample t-Test is a type of t-test used to test the hypothesis of this study. Hypothesis testing is carried out using the calculated t value with a comparison of the t-table value (Sarwono, 2018:347).

Table 6. Statistical Test Results t

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.304	.015		20.691	.000
1	BB	.144	.057	.201	2.540	.012
	BB*PCF	.259	.040	.513	6.498	.000

a. Dependent Variable: DPR

Source: Processed Secondary Data, 2022

Effect of Busy Board on Dividend Payout

The busy board through testing in the research conducted shows that it has a positive effect on the dividend payout variable by proxy for the DPR. This influence explains that the situation on the board of a company that has a high level of activity tends to lead to an increase in the company's ability to distribute dividends to those who are entitled to these dividends. Conversely, the condition of the company's board that is minimally busy tends to show that they are unable to work optimally to fulfill the obligation to pay dividends to parties entitled to dividends.

Busy boards or activities owned by the board within the company are shown by the number of company boards that have more than one position. This condition causes the board to have a higher work activity than the board which only has one position. The busyness of the board in the company tends to cause regulation of policies and dividend payments to increase, because companies with busy boards will have enough funds to pay dividends. This is in accordance with agency theory, which explains that the relationship between agent and principal in a company can be proxied by the relationship between the company's board and investors or company owners, the higher the board's activity, the dividend payout will also increase (Dwaikat *et al.*, 2020).

This is consistent with research conducted by Trinh *et al.*, (2020) which shows that the busy board of a company actually has a positive effect on the company's dividend payout ability. This happens because the commissioners are busy developing the company's interests, so that the company becomes even better and the company's dividend payout ability becomes higher. Similar research results were conveyed by Vu (2019) which showed that the busy board had a positive influence on the company's ability to distribute dividends. Next, the results of research conducted by Naburi *et al.*, (2019) show that the composition and activity of the board has an influence on the company's ability to distribute dividends.

The Influence of the Busy Board on Dividend Payout with Politically Connected Firms as Moderators

Politically connected firms are in accordance with the results of the MRA test in this study, that PCF is able to be a moderator of the busy board's relationship to dividend payout. As a moderator, a politically connected firm shows a position as a variable that strengthens that relationship or influence. This condition indicates that a politically connected firm to the company as indicated by the presence of a board with political positions will strengthen the influence of the mother board of the company on the company's ability to distribute dividends to parties who are entitled to these dividends.

Politically connected firms are companies that have board members with political positions or have previously held political positions. With a company board that has a political position, it will make the board busier so as to create a busy board. The busy board or the busyness of the board is said to have an effect on dividend payments. Several previous research results indicate that politically connected firms can moderate the effect of other variables on dividend payout, but no research has used politically connected firms as a moderator between busy boards on dividend payout. So it is important to conduct research related to the role of moderation, bearing in mind that companies that are connected to politics tend to make the company's board more busy as a result of holding political positions. So it can be indicated that the company's political connections can moderate the effect of the busy board on dividend payout (Qin *et al.*, 2022).

This is consistent with research conducted by Sianturi dan Dianawati (2018) showing that politically connected firms can strengthen the influence of state ownership on dividend payout. The results of another study conducted by Modjaningrat (2017) show that politically connected firms are able to strengthen the influence of institutional ownership on dividend payments. Furthermore, research conducted by Putri dan Leon (2018) also shows that politically connected firms are able to strengthen the effect of earnings per share on dividend payments. Based on this, it can be indicated that politically connected firms can be a moderating variable.

CONLUSION

Busy boards can have a positive influence on the dividend payout of manufacturing companies listed on the IDX in 2017-2020. This influence explains that the situation on the board of a company that has a high level of activity tends to lead to an increase in the company's ability to distribute dividends to those who are entitled to these dividends. Politically connected firms can be a moderating variable and strengthen the effect of the busy board variable on dividend payout in manufacturing companies listed on the IDX in 2017-2020. This condition indicates that a politically connected firm to the company as indicated by the presence of a board with political positions will strengthen the influence of the mother board of the company on the company's ability to distribute dividends to parties who are entitled to these dividends.

It is hoped that this research can be refined in future research or by other researchers by expanding the sample, not only focusing on manufacturing companies but also using other sectors in determining the sample. The goal is that the results obtained can provide a deeper picture related to the variables studied. In addition, the variables in this study are still limited, while the company's ability to pay dividends is a variable that has various influencing factors, so there are many other variables that can be used as independent or moderating variables to obtain research results from different perspectives.

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