CHAPTER I
INTRODUCTION

1.1 Background

Facing the new era, the fast-paced development of the economy and the business world is marked by an increasingly fierce level of competition, demanding that people understand the future situation based on a systematic frame of mind. This systematic mindset drives people to make decisions to invest. The rise of the business world provides opportunities for investors to invest their funds in a business entity. Investors will certainly receive dividends from the company's profits that are distributed and received in the current period based on the shares owned. This dividend distribution will reduce retained earnings and cash available to the company, but the distribution of profits to the owners is the main objective in a business.

Problems that often arise in dividend distribution must be considered by investors and companies that will pay dividends. If investors expect dividends to improve their welfare, the company is also obliged to provide welfare to its shareholders. This is interesting to discuss when a dividend policy is used as an action that is expected to be able to meet the goals of its shareholders and on the other hand it is hoped that the dividend policy will not hamper the company's growth rate. As a potential investor, you must be familiar with the company's background and good corporate governance of the company that is the objective of its investment. Good business governance must include transparency, accountability, responsibility, independence and fairness. Corporate governance really needs to be considered because good corporate governance is able to avoid fraud in financial reports. The Enron case became a warning to companies to pay more attention to corporate governance. Prospective investors need to consider corporate governance for the sustainability of their investments in the future. If the company is able to manage its business well, the company will also be able to improve the welfare of its investors and shareholders.

The purpose of investors for buying shares is to earn profit, which is through capital gain and dividends. For shareholders, the profit is the increase in the company's stock price and the profit sharing which will be received in the form of dividends (Dvořák, T. 2005). Through the company's dividend payments can return profits to shareholders. Dividend policy is noteworthy because it is a key corporate action that brings the attention of every interested stakeholder in the company including shareholder and the market.

Based on the author's search regarding the results of previous studies, there has been no previous research that looks for the influence of the variables the writer wants to research. One study examined Good Corporate Governance (GCG) being used as an intervention variable on dividend policy, but did not clearly explain the pe model. There have been previous studies that examined the determinants of dividend policy (Swastyastu et al, 2014), but did not use audit quality variables and GCG which will be the focus of the research.

Good Corporate Governance (GCG) is a form of management that includes the correlation between stakeholders and company management in achieving common goals. The primary parties in GCG are shareholder, board of commissioner, and board of director including the management. The other parties are employees, suppliers, customers, banks, creditors, government and the environment. GCG is a form of good corporate governance that directs and controls the company with the aim of achieving continuity between the power of authority required by the company to ensure its continued existence and accountability to stakeholders (Surya & Yustivandana, 2008: 24).

Good Corporate Governance (GCG) mechanism is a system that regulates and manages the relationship between shareholders, managers, and other stakeholders to balance the rights and obligations of each stakeholder and to enhance firms' transparency in reporting their performance to their stakeholders. GCG facilitates firms to create conducive conditions that support their sustainable growth (Handriani and Robiyanto, 2018b, Handriani and Robiyanto, 2018a). Further, GCG enables firms to monitor the managers to ensure that they make effective decisions in accordance with their objectives and to provide balanced information between managers and other stakeholders (Adefemi et al., 2018).

Research on the effect of GCG on dividend policy has been carried out in various countries. Generally, research is conducted using a sample of companies between countries. Research abroad such as Abdelsalam et al. (2008) found that institutional ownership has a positive effect on company performance, dividend policy, and dividend payments. In addition, the research results indicate that board composition, both size and independence, has no effect on dividend policy.

In Indonesia, research on the effect of GCG on dividend policy was conducted by Santoso (2012) and Setiawan and Phua (2013). Santoso (2012) found that institutional ownership and size of the company has a positive and significant effect on dividend policy. The same study has found that dividend policy is affected negatively by GCG. Meanwhile, profitability and company growth have a positive effect on dividend policy while firm size does not have a significant effect.

The process of maintaining the viability of the company, often a conflict of interest between managers and shareholders (company owners) which is also often called the agency problem (the conflict of the Agency). Difference in aims and interests often occurs between the management company or manager that is contrary to the main objective of the company and also override the interests of the shareholders.

GCG is a key aspect in increasing the efficiency of economics, which would manage the relation between every parties internally and giving a flow of a good management structure and the connection to shareholder's interest. With the existence of a system of Corporate Governance shareholders and investors become convinced will get return upon his investment, because Corporate Governance can provide effective protection for shareholders and investors.

In research (Chen, C. X., Lu, H., & Sougiannis, T. 2012) GCG (Good Corporate Governance) is divided into two, namely external Good Corporate Governance and Internal Good Corporate Governance. Good Corporate Governance is the external application of good governance which is done by dividing the ownership of the company to external parties (investors).

External ownership increases oversight on performance management of the company. Good Corporate Governance is the internal application of the principles of Good Corporate Governance within the company, including the formation of the Board of Commissioners and the existence of independent Commissioners who are in charge to perform internal oversight of the company.

Advanced (Chen, C. X., Lu, H., & Sougiannis, T. 2012) one of the Good Corporate Governance mechanisms are particularly important in this regard is the role of the Board of Commissioners. The independent Commissioner is required by shareholders to ensure the correct fulfilment of the rights of those in decision-making by parties who have control of the company.

Based on some of the results of earlier research that has been done, there are inconsistent state results from these variables. So this research needs to be tested again. This research refers to research (Chen, C. X., Lu, H., & Sougiannis, T. 2012) are forecasting Corporate Governance became the number of Commissioners, CEO of independent, independent Commissioner percentage, proportion of institutional ownership and Board of Commissioners are independent, the Committee the audit) and research Noviawan and Septiani (2013) are institutional ownership, Board of Commissioners, Board of Directors, the audit committee and independent Commissioners. In this study of the indicators Corporate Governance will be peroxide by independent Commissioners, institutional ownership, and Board of Commissioner.

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The inconsistency and the limitation of the research results in various countries, and also in Indonesia, motivates the author to re-examined this research, to find out the truth that actually occurs in the market GCG and its effect on company dividend policy. Generally, the research conducted is looking at the effect of capital structure, profitability, and company size on dividend policy. Meanwhile, it needs to be realized that the dividend policy is decided by the General Meeting of Shareholders which of course is highly influenced by the board of commissioners and the majority shareholder.

Based on the background, then the writer is interested in conducting research with the title: "The Effect of Good Corporate Governance towards Dividend Policy (Studies on manufacturing company registered in Indonesia Stock Exchange period 2014-2018)". Dividend is a form of return of profits to shareholders. The dividend policy of each company also contains a kind of signal that is sent to the market and shareholders. This is closely related to dividend policy because dividends are used as a means of disseminating information to the public regarding the financial condition of a company. Therefore, there is a possibility of a correlation with dividend policy, because the high quality of information should also encourage the high quality perceived by shareholders, which is obtained through dividends. Then regarding GCG, there is also the possibility of a correlation between GCG and dividend policy because GCG should be a bridge so that the company is more qualified which will automatically be reflected in the benefits to shareholders in this case through dividends.

1.2 Research Problem

Accordingly on the explanation of the background above, therefore the main problem of this research are:

1.2.1 Does the number of board commissioners affect positively towards dividend policy?

1.2.2 Does the number of board directors affect positively towards dividend policy?

1.2.3 Does institutional ownership affect positively towards dividend policy?

1.3 Research Objectives

To answer the research problem that has been written above, the research objectives described as follows:

1.3.1 To prove that the numbers of board commissioners affect positively towards dividend policy.

1.3.2. To prove that the number of board directors affect positively towards dividend policy.

1.3.3 To prove that institutional ownership affect positively towards dividend policy.

1.4 Research Benefits

The study expected to provide benefits to the various parties. As for the benefits of the research are:

1.4.1 For Authors

This research can provide additional insights and knowledge in developing research about the influence of corporate governance against the dividend policy.

1.4.2 For Companies

This research can provide additional information and guidelines in an attempt to increase the added value for shareholders.

1.4.3 User Information

For shareholders, managers, creditors, employees, internal and external stakeholders. This research can provide understanding in decision-making on investment in a company.

1.4.4 For Academics

The results of this study are expected to provide additional literature information about corporate governance and dividend policy, and can also become reference material for further research.

1.4.5 For Investors

As additional information in the investment decision making process. The results of this study are expected to be taken into consideration for investors to assess whether or not they invest in shares in a company.

1.5 Problem Limitations

To further focus research on the subject matter and to prevent too broad a resulting discussion the occurrence of misinterpretation of the resulting conclusions, then in this case:

1. The sample company is a registered manufacturing company in the Indonesia Stock Exchange
2. The research period is 2014-2018.

3. The variables used are only related to data secondary originating from the company's financial statements, namely good corporate governance such as board of commissioner, institutional ownership, board of director, and dividend policy.

1.6 Systematic Discussion

CHAPTER 1 BACKGROUND

This section describes the background, research problems, research objectives, research benefits, problem limitations, to the systematic discussion

CHAPTER 2 THEORETICAL REVIEW

This section contains an assessment of the definition of basic concepts or theories as well as references that support this research study. The concept definition consists of an explanation of GCG and dividend policy. This chapter describes the theories underlying the research, the results of previous research, conceptual framework and hypothesis development.

CHAPTER 3 RESEARCH METHODOLOGY

This section contains research methods, populations, samples and research data. This chapter also discusses the approach method used, data collection techniques , empirical research models, definition of operational variables and data analysis techniques were carried out in this study.

CHAPTER 4 RESULTS AND DISCUSSION

This section describes the results of the research and further discussion of the results studies that have been carried out.

CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS

This section contains the conclusions, the application of the research results, the limitations that exist in the study and the suggestions given for further research.