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Analyzing the Impact of Foreign Board and Foreign Ownership on Dividend Policy: Evidence from Indonesia

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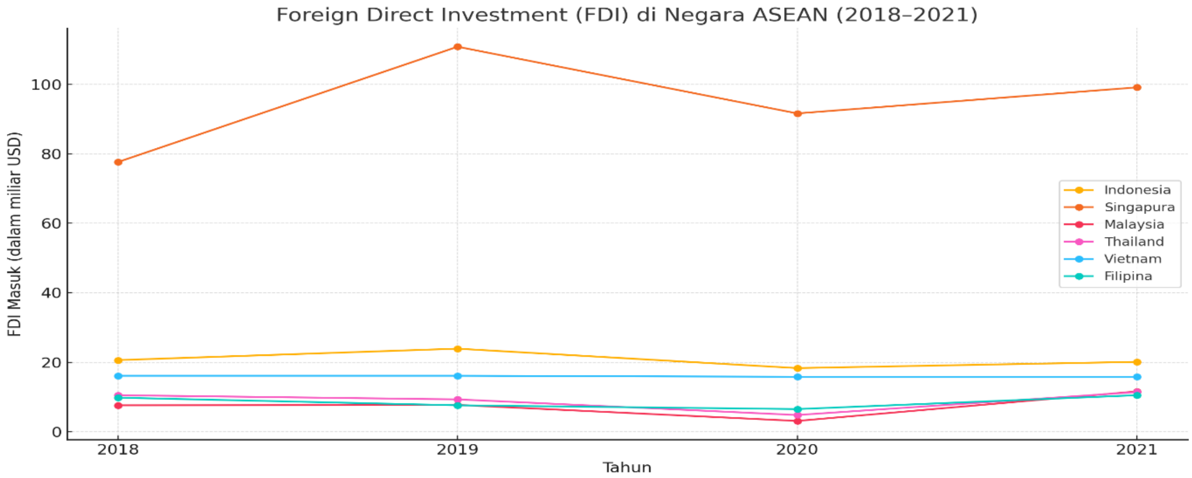
Abstract
This study was conducted to analyze the influence of foreign directors, foreign commissioners, and foreign ownership on dividend policy. The purpose of this study is to provide empirical evidence of the presence of foreign boards and ownership on existing dividend policies in Indonesia. With a sample of 543 companies that distributed dividends in the 2018-2021 period listed on the Indonesian stock exchange, using the Eviews 12 data processing tool, selected unbalanced panel data, and the random effect model method. The results of this study indicate that foreign directors have a significant and positive effect of 0.0496, foreign commissioners have a significant and positive effect of 0.0002, while foreign ownership has a significant and negative effect of 0.0168 on dividend policy in Indonesia.

INTRODUCTION

The sustainability of a country's capital market plays an important role in economic progress. Every company that sells its shares on the capital market contributes to this progress. Every day, the volume of shares traded by various companies continues to grow. This is because there are benefits for both parties, namely the company and the investor. Companies can profit from the sale of shares to obtain capital, which they will then use in their business operations. Investors can benefit from dividend distributions and capital gains from the sale of shares. Dividends are one of the crucial aspects of investing in the capital market and the most important right for shareholders (Setiawan & Phua, 2013). Increasing dividends from year to year signal to the market that the company is in good condition and will grow in the future (Yarram & Dollery, 2015). From the shareholders' perspective, the dividends received indicate that the company is earning good profits and is therefore able to provide returns in the form of dividends on shareholders' investments (Jarallah & Ullah, 2014)



Data obtained from the ASEAN Investment Report on foreign direct investment (FDI) in 2021 states that Indonesia is the country with the second highest amount of foreign investment in Southeast Asia, amounting to US$ 20.1 billion. As the COVID-19 pandemic subsided in Indonesia, economic activities that were previously filled with uncertainty began to show progress. This is evidenced by the increase in foreign investment in Indonesia. Based on Minister of Finance Regulation No. 153/PMK.010/2010 concerning share ownership and capitalization of securities companies. Foreign investors are foreign individuals or foreign legal entities. Foreign ownership is typically characterized as the portion of the total share capital that is owned by investors from other countries. (Pratiwi, 2019) argue that having foreign investors in a company's ownership structure is likely to enhance its performance by increasing pressure on management for better oversight, providing new capital, hiring skilled managers, and assisting local firms in gaining entry to international markets, which leads to reduced capital acquisition expenses. Most foreign investors are institutions with global experience and independence from company management. They are capable of overseeing and stopping any management behaviors that could obstruct the company's development while encouraging effective corporate governance. Prior research using data from multiple countries has noted the effect of foreign ownership and dividend policies in lessening profit manipulation by insiders (J. H. Lee, 2022) Empirical findings indicate that foreign investors have a distinct inclination towards firms that distribute high dividends. When these investors hold a significant portion of shares (specifically over 5% of total shares), they encourage firms to enhance their dividend payouts. This phenomenon is largely attributed to the nature of foreign investors in the Korean market, who are predominantly institutional investors with clients seeking dividends and a vested interest in monitoring (Jeon et al., 2011)

The literature review is consistent with agency theory, Agency relationships, according to (Jensen & Mackling, 1976), are defined as a contract entered into by a principal and an agent, where the principal delegates responsibility to the agent to perform work related to the principal's interests. The agency problem arises when shareholders cannot perfectly monitor managers (Read, 2014). This is because each principal has different interests. Corporate ownership is related to agency problems. (Jensen & Mackling, 1976) mention three agency costs that arise from agency conflicts: monitoring costs, residual losses, and bonding costs. Agency theory states that the difference between ownership and control in a company causes information asymmetry among the parties involved(Panda & Leepsa, 2017)(Benameur et al., 2025) (Elsayed & Hassanein, 2024). This occurs because company owners delegate authority to managers to act on their behalf. Although managers make day-to-day decisions related to company income, they may not consistently implement dividend policies that are in line with the interests of shareholders, as they may choose policies that maximize their profits. Previous research has substantially used agency theory to investigate the impact of dividend policy during conflicts of interest within companies (Triani & Tarmidi, 2019)(Tran, 2020)(E. J. Lee et al., 2022)(Boshnak, 2023)(Hasan et al., 2023)

Recent studies indicate that having foreign board members correlates with improved company performance and enhanced corporate governance (Iliev & Roth, 2018). Additionally, foreign directors are viewed as significant members of a board since they can offer valuable international insights and guidance to companies. In this context, (Masulis et al., 2012) propose that international directors offer region-specific knowledge that assists cross-border acquirers in assessing potential targets. These foreign directors can deliver valuable insights and support to companies, particularly those aiming to broaden their international presence. Prior findings (Masulis et al., 2012) indicate that foreign investors tend to exhibit greater efficiency concerning corporate governance. Additionally, (Pucheta-Martínez & López-Zamora, 2017) discovered that foreign directors have a preference for short-term performance as they prioritize high dividend payouts over reinvesting profits back into the company. (Masulis et al., 2012) argue that international commissioners are important board members as they offer companies significant global knowledge and guidance. International commissioners can offer significant knowledge and support to businesses, particularly those looking to grow their operations globally. As principals or investors with foreign status, they will appoint foreign commissioners and directors who can protect their interests (Choi et al., 2012). With the entry of foreign commissioners, it is expected that they will tend to favor foreign investors who prioritize large profits in order to obtain large returns. The presence of foreign commissioners can help reassure foreign investors that the company is managed professionally and represent a supervisory role for foreign investors in the company (Zakaria et al., 2021). Commissioners who have international experience can offer superior oversight compared to those lacking such experience. Foreign commissioners with experience in settings that offer better investor protection can adopt enhanced corporate governance practices and utilize substantial cash dividend distributions as a commitment mechanism (Tao et al., 2022).

Although previous studies have explored gender diversity on boards of directors and corporate decisions (Jiraporn, n.d.) (Gyapong et al., 2021) (Jeon et al., 2011) (García-Meca et al., 2022), research on international board diversity remains scarce. Foreign directors bring global expertise, improve governance, and increase investor confidence (Giannetti et al., 2015), but their impact on dividend policy in emerging capital markets remains under-explored. Existing research has largely focused on developed capital markets (Farag & Mallin, 2017)

There are two different corporate governance structures used in various countries around the world, namely the single-tier system and the two-tier system. The board structure in a single-tier system is characterized by a single board consisting of executive and non-executive directors. In contrast, a two-tier system clearly separates management (directors) and supervision (board of commissioners) (Putra & Setiawan, 2025). The board of directors is tasked with running the company's operations, assisted by several divisions, while the board of commissioners is tasked with overseeing the running of the company and providing advice to the directors by forming several committees. Therefore, in a two-tier system, there will be no chief executive officer (CEO) who also serves as a member of the board of commissioners, because the board of commissioners has its own chairperson, so there is a balance between the managers and supervisors of the company. According to Indonesian regulations, Indonesia has adopted a two-tier system consisting of two bodies, namely the board of directors (BOD) and the board of commissioners (BOC). The BOD is responsible for managing the company, while the BOC supervises the company's operations and provides advice to the BOD. Meanwhile, in a single-tier system, the board is the body that accommodates the executive director as the company manager, while the non-executive director is the company supervisor. Therefore, in a two-tier system, there will be no CEO who also serves as a BOC because the BOC has its own chairperson, thus creating a balance between the company's managers and supervisors (Putra et al., 2024). (Putra & Setiawan, 2025) stated that the BOC in Indonesia is more "active" in carrying out its supervisory function compared to three other countries in Asia (Malaysia, South Korea, and Thailand). This is our motivation for studying the corporate governance system in Indonesia. Many previous studies (Pucheta-Martínez & López-Zamora, 2017)(Eluyela, Dahunsi, et al., 2019) (Tao et al., 2022) have only focused on the single-tier system, even though the two-tier system is unique in that it separates the BOD and BOC.

Research on the impact foreign directors, foreign commissioners, and foreign ownership on dividend policy in Indonesia is still very rare. Therefore, this study contributes to providing new empirical evidence on how foreign directors, foreign commissioners, and foreign ownership influence dividend policy in Indonesia by using all companies listed on the Indonesia Stock Exchange from 2018 to 2021.

METHODS

The population in this study includes all companies listed on the Indonesia Stock Exchange. The period used in this study is 2018-2021. Sampling was conducted using purposive sampling, whereby samples were selected based on specific considerations tailored to the research objectives or research issues developed. The consideration for using purposive sampling in this study was to take samples without giving equal opportunity to each element or member of the population selected as a sample, where the researcher had specific objectives in selecting samples randomly. Based on the above criteria, 503 non-financial sector companies and 40 Companies from the financial sector were chosen as the sample for this research. Displayed in the table below:

Sampling Techniques

	Criteria	Total	Total Observations
1	Companies listed on the Indonesian stock exchange in the financial and non-financial sectors during 2018-2021	703	2812
2	Companies that were delisted between 2018 and 2021	40	320
3	Companies that did not distribute dividends from their 2018-2021 annual reports		1942
	Total Observation Data	**543**	

Variables and Their Measurements

Dividend Policy

Dividend policy dictates how profits are divided between dividends and retained earnings, meaning the earnings must be retained within the company. The dividend payout ratio is the percentage of profits paid out as dividends, or the ratio of profits available to shareholders. This variable is calculated ratio from dividends per share to profits per share at the end of the year. The dividend payout ratio (DPR) is a proxy for a company's dividend policy. (Frezha et al., 2025):

$$DPR = \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

Foreign Director

Directors are members of the board of directors and one of the organs of a limited liability company based on Law No. 40 of 2007 dated August 16, 2007 concerning Limited Liability Companies. In the composition of the board of directors of companies in Indonesia, there are directors who are foreign nationals, so they can be referred to as foreign directors. The position of director is a position that carries fiduciary responsibility and benefits the company's shareholders, as the role of director is established by the shareholders' general meeting. The existence of directors who are foreign nationals can represent the interests of foreign owners. According to research by (Setiawan et al., 2021), calculating the ratio of foreign directors to the total number of directors will represent the proportion of foreign directors. The formula for the proportion of foreign directors used in this study is:

$$\text{Proportion of foreign directors} = \frac{\text{Number of foreign directors}}{\text{Total directors}}$$

Foreign Commissioner

The board of commissioners is considered foreign if it is composed of commissioners who are foreign nationals. The presence of foreign commissioners in the composition of the company's board reflects the variety within the board of commissioners. This diversity occurs due to the influence of foreign ownership, which places board members to protect the interests of the company (Choi et al., 2012). The proportion of foreign commissioners is measured by the number of foreign commissioners in the company's management structure, consisting of foreign commissioners (foreign citizens or WNA) divided by the total board of commissioners (Setiawan et al., 2021). Referring to previous studies, the ratio of international board members in this research is determined by employing the subsequent formula:

$$\text{Proportion of international board members} = \frac{\text{Count of international board members}}{\text{Overall count of board members}}$$

Foreign Share Ownership

In Indonesia, foreign capital is defined as capital that is either partially or wholly possessed by foreign entities, foreign persons, or legal entities, as defined by Law Number 25 of 2007. The proportion of foreign share ownership can be measured as follows (Setiawan et al., n.d.):

$$\text{Foreign share ownership} = \frac{\text{Number of shares owned by foreigners}}{\text{Total shares outstanding}}$$

Control variables

Audit Firm Reputation

A public accounting firm's reputation is the public's perception and trust in the name of the firm they work for. Clients typically perceive auditors as coming from large accounting firms and associate them with higher-quality international accounting firms because they possess quality-related qualities, such as training, international recognition, and peer review. Firms using the services of accounting firms affiliated with the Big Four are assigned a dummy value of 1, and firms using services other than those affiliated with firms other than the Big Four are assigned a dummy value of 0 (Setiawan et al., 2019.)

This study employs panel data regression analysis conducted with Eviews 10. Panel data merges time series data with cross-sectional data. Panel data can be categorized into two types: balanced panel data and unbalanced panel data. Balanced panel data refers to a scenario in which cross-sectional units possess an equal quantity of time series observations. In the meantime, unbalanced panel data refers to a scenario in which cross-sectional units possess varying quantities of time series observations. To determine the effect between variables, a model is created as follows:

$$DPR_{i,t} : \alpha + \beta 1FORDIR_{i,t} + \beta 2FORCOM_{i,t} + \beta 3FOROWN_{i,t} + \beta 4KAP_{i,t} + \varepsilon_{i,t}$$

DPR : Dividend Policy
FORDIR : Foreign Directors
FORCOM : Foreign Commissioners
FOROWN : Foreign Ownership
KAP : Audit Firm Reputation

RESULTS AND DISCUSSION

Descriptive statistics

Variable	Obs	Minimum	Maximum	Median	Mean	Std. deviation
DPR	543	0.01	1.9	0.37	0.44	0.31
FORDIR	543	0	1	0	0.08	0.17
FORCOM	543	0	1	0	0.11	0.20
FOROWN	543	0	0.99	0.12	0.23	0.25
KAP	543	0	1	0	0.47	0.49

DPR : Dividend Policy, FORDIR : Foreign Directors, FORCOM : Foreign Commisioners, FOROWN : Foreign Ownership, KAP : Audit Firm Reputation

The findings from the table above indicate that the dependent variable, dividend policy (DPR), exhibits a maximum value of 1.94 and a minimum value of 0.01. In the meantime, the average dividend amount of 0.445 suggests that the firms in the study typically distribute dividends amounting to 0.4% of their earnings on average, with a median of 0.37 and a standard deviation of 0.31. The initial independent variable, foreign directors (FORDIR), has a maximum value of one and a minimum value of zero. indicating that in the observation, there are companies that have all foreign directors in their companies, while the average value of foreign directors is 0.08, the median is 0, and the standard deviation is 0.17. The second independent variable, foreign commissioners (FORCOM), has a maximum value of one and a minimum value of zero, the observation indicates firms with wholly foreign commissioners, with an average value of 0.11, a median of 0, and a standard deviation of 0.20. The third independent variable, foreign ownership (FOROWN), ranges from a minimum value of 0 to a maximum value of 0.99, indicating that there are companies in the observation that have more than 90% of their shares owned by foreigners. Meanwhile, the average value is 0.23, the median is 0.12, and the standard deviation is 0.25.

Descriptive statistics Audit Firm Reputation

Type Audit Firm	Frequency	Percentage
BIG 4	253	47%
Not BIG 4	290	53%
Total	543	100%

The results of the descriptive statistics for the dummy variable of Audit Firm Reputation during the observation period show that 253 companies used audit firms affiliated with the Big 4, while the other 290 companies used non Big 4 audit firms. Therefore, it can be concluded that out of all the observations in this study's observation period, only 47% of the companies used Big 4 audit firms.

Chow Test

Chow Test is a method for determining the best model from the Common Effect and Fixed Effect techniques. The Chow Test is used to calculate the probability value (Prob.) for cross-section F. If the probability value of cross-section F is larger than 0.05, the Common Effect model is used in the study. The Fixed Effect model is used when the probability value of cross-section F is less than 0.05. The outcomes of Chow test as follows:

	Statistic	d.f	Probabilty
Per. F	1.925784	(3.536)	0.1234

According to the Chow test results presented in the table above, the cross-section F probability value (Prob.) is 0.1234, exceeding the significance threshold of 0.05. Consequently, it can be determined that the optimal model chosen in this research is the Common Effect model. The results of the Chow test indicate that the Common Effect model is the more suitable choice for this study.

Legrange Multiplier Test

Because the Chow test findings show that the Common Effect model outperforms the Fixed Effect model, a Legrange Multiplier test is required to select the best model from the Random Effect models and Common Effect. This model is determined by examining the test results using the Bruesh-Pagan value. If the test result exceeds 0.05, the Common Effect model is chosen; otherwise, the Random Effect model is chosen.

Bruesh Pagan-Cross section	0.00000

According to the outcomes of the Legrange Multiplier test presented in the table above, the Bruesh-Pagan cross-section probability value is 0.0000, which falls below the significance threshold of 0.05. This shows that the optimal model is Random Effect.

Heteroscedasticity Test

Heteroscedasticity occurs when the OLS estimate of the confidence interval becomes invalid. According to Gujarati (1995), to determine whether heteroscedasticity is present, the Park test can be used by comparing Prob (F-Statistic) with α (0.05). If Prob (F-Statistic) >α (0.05), then there is no heteroscedasticity in the model. If Prob (F-Statistic) <α (0.05), then there is heteroscedasticity in the model.

Prob. (F-Statistik)	0.5619

According to the results presented in the table, the Prob. The F-Statistic value of 0.5619 exceeds α = 0.05. Consequently, it can be determined that the model examined in this research does not exhibit heteroscedasticity.

Hypothesis Testing

If the research model has passed the classical assumption test, the next step is to test the research hypothesis. This study uses panel data analysis techniques to test three hypotheses. The analysis in this study tests the effect of independent variables, namely Foreign Directors, Foreign Commissioners, and Foreign Ownership on Dividend Policy.

a. Determination coefficient test

The coefficient of determination quantifies how well the model can account for the changes in the dependent variable. The determination coefficient value in this study was obtained by regressing the main research model, then looking at the adjusted R-squared value from the regression results. This value ranges from 0 (zero) to 1 (one). A small adjusted R-squared value (near zero) indicates that the independent variables have a very limited capacity to explain the dependent variable. On the other hand, if the adjusted R-squared value is high (nearly one), it suggests that the independent variables contribute nearly all the information required to forecast the dependent variable. The model in this study has an adjusted R-squared value of 0.0408. This figure indicates that the independent and control variables account for 4.08% of the Dividend Payout Ratio, whereas the other 95.92% is attributed to factors not included in the analysis

b. Simultaneous Importance Examination (F-test)

The F-test is conducted to assess the simultaneous influence of independent variables on the dependent variable. This is accomplished by examining the likelihood of the F-statistic in the regression outputs generated with the EViews software. When the F-statistic's probability value is less than α = 0.05, it indicates that the independent variables significantly affect the dependent variable at the same time. According to Table 4.7, the value of Prob (F-statistic) is 0.0003, which is less than the significance level of 0.05. Consequently, it can be inferred that the independent variables in this research exert a notable simultaneous impact.

	Predicted Sign	Random Effect Model			
		1	2	3	4
C	+	0.1628	0.1553	0.0715	0.2075
FORDIR	+	0.0004***			0.0496**
		(0.335981)			(0.2124)
FORCOM	+		0.0000***		0.0002***
			(0.366147)		(0.3460)
FOROWN	-			0.6008	0.0168**
				(-0.03383)	(-0.1620)
KAP	+	0.0767*	0.0779*	0.0529*	0.0682*
		(0.001151)	(0.001414)	(0.001566)	(0.00148)
Adj R-Sq		0.0164	0.0304	-0.0069	0.0408
F-Stat		2.1460	3.1578	0.5277	3.3380
F-Prob		0.0301	0.0016	0.8358	0.0003
Durbin Wats		1.7	1.99	1.92	2.01

Observasi	543	543	543	543

Keterangan :
*,**,***=Signifikansi pada 10%, 5%, 1%
DPR : Dividend Policy, FORDIR : Foreign Directors, FORCOM : Foreign Commisioners, FOROWN : Foreign Ownership, KAP : Audit Firm Reputation

DISCUSSION

The Impact Foreign Director Of Dividend Policy

The results of testing the first hypothesis of panel data regression show that foreign directors influence dividend policy. This is indicated by a significance value of 0.0496, which is less than 0.05 This aligns with the studies conducted by (Pucheta-Martínez & López-Zamora, 2017) and (Eluyela, Adetula, et al., 2019), which indicate that foreign directors impact dividend policy.
Dividend payments are considered an effective mechanism for reducing agency conflicts within companies. Therefore, dividend policies are designed with the assumption that they can serve as a corporate governance tool. Agency theory suggests that the characteristics of the board of directors influence dividend payments. This theory assumes that when companies distribute dividends, insiders cannot use profits for their own benefit because those profits are returned to investors. Meanwhile, outside directors are more likely to support dividend payments to reduce agency conflicts between managers and shareholders (Yousef et al., 2025). The presence of foreign directors is considered to provide new and valuable experience as well as greater diversity, which local directors with different backgrounds and powers do not yet possess (Eluyela, Adetula, et al., 2019). (Pucheta-Martínez & López-Zamora, 2017) discovered that international directors favor short-term results as they require substantial dividend payouts instead of profits being reinvested in the company. It has also been noted that international directors positively influence dividend distributions due to their superior financial and technological resources and expertise compared to domestic investors (Pucheta-Martínez & López-Zamora, 2017)

The Impact Foreign Commissioner Of Dividend Policy

The results of testing the second hypothesis of panel data regression show that foreign commissioners do not influence dividend policy. This is indicated by a significance level of 0.0002, which exceeds 0.05. This aligns with the study of (Tao et al., 2022) and (Yousef et al., 2025), which states that the presence of foreign commissioners has an effect on dividend policy. Governance challenges such as conflicts of interest and information asymmetry influence financial decisions, including dividend distribution (Boshnak, 2023), and foreign Commisioner can help address these issues by promoting transparency and aligning practices with global standards (Iliev and Roth, 2018). From an agency cost perspective, foreign Commisioner may be more independent from established local networks, thereby promoting greater financial discipline. Their presence helps limit the withholding of free cash flow, aligning management actions with shareholder interests (Fama & French, 1998). Agency theory implies that board diversity can enhance independence and oversight, foreign commissioners can reduce information imbalance and agency expenses, elevate the financial flexibility of domestic companies by expanding the potential investors and financing opportunities, and broaden the cross-border flow of knowledge, experience, and technology from other countries (Fogel et al., 2013). Therefore, they will be better able to monitor and evaluate the strategic direction of the top management team. With foreign experience in an international environment capable of providing stronger investor Foreign commissioners can engage in superior corporate governance procedures and employ significant cash dividend distributions to demonstrate commitment. (Tao et al., 2022).

The Impact Foreign Ownership on Dividend Policy

The results of testing the third hypothesis of panel data regression show that foreign ownership has a significant and negative effect on dividend policy. This is indicated by a significance value of 0.0168, which is less than 0.05, and a negative t-statistic value of -2.3988. These results are in line with research conducted (Cao et al., 2017) and (Purba et al., 2022), which states that foreign ownership affects dividend policy.

The explanation between company ownership and dividend payments is based on agency conflicts that give rise to conflicts of interest between management and shareholders. Managers may invest in unprofitable projects whose costs are borne by shareholders if this enhances their own status and provides them with personal benefits (Jensen & Meckling 1976). Dividend payment policy is one area of corporate decision-making that addresses this issue. (Easterbrook, F. H. 1984) suggests that the solution to agency conflicts is to increase the level of payments because managers prefer to retain earnings to increase their personal interests or reduce risks to their capital. (Jensen & Meckling 1976) argues that dividend payments can discipline managers to return cash to shareholders rather than overinvest. Thus, proponents of the agency hypothesis agree that paying high dividends provides a cost-effective substitute for shareholder monitoring and therefore increases company value by reducing potential overinvestment problems. The existence of substantial foreign ownership is likely to reduce the potential for agency conflicts not only by encouraging or demanding companies to pay dividends but also by directing them to increase dividend rates (Jeon et al., 2011). (Purba et al., 2022) state that foreign investor ownership will have a significant effect only if the shares exceed 51%, whereas in this study, the average foreign ownership is 21%. Therefore, it can be concluded that the presence of foreign investors in a company can provide better supervision and governance for the company, that affects the company's earnings, allowing it to allocate dividends. Regrettably, the involvement of foreign investors cannot affect the company's dividend distribution

CONCLUSION

Based on the results of data analysis, foreign directors have a significant and positive influence on policy in Indonesia, foreign commissioners have a significant and positive influence on dividend policy in Indonesia, while foreign ownership has a significant and negative influence on dividend policy in Indonesia. This study offers several suggestions for further research. In future research, researchers could add more independent variables besides foreign top management, such as board diversity, board proportion, and company ownership structure. Furthermore, future researchers could expand the observation period to a longer period, for example, seven to ten years.

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