Ownership Structure and Dividend Policy in Indonesia

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ABSTRACT
The purpose of this study is to examine how ownership structure affects dividend policy. Using 278 non-financial firms that have been listed on the Indonesia Stock Exchange for the past five years, this quantitative study examines the impact of ownership structure on dividend policy using multiple linear regression tests. The Signaling Theory and the Agency Theory are related theories. According to the findings, the dividend policy had a significant positive relationship with debt and profitability, a negative but negligible relationship with managerial ownership and company growth, and a negligible positive relationship with institutional ownership firm size. On the other hand, dividend policy and firm age were significantly correlated negatively.

Keywords: *Dividend Policy, Signalling Theory, Agency Theory, Ownership Structure.*

1. INTRODUCTION

The company's overall objective is to increase shareholder wealth. But because the two sides have distinct interests, it is not unusual for shareholders and corporate management to clash—a situation known as agency conflict. Agency disputes are more likely to occur when a company's operations are more complex. One way to lessen this agency conflict is to create a dividend policy. According to Jayanti and Puspitasari (2017), dividend policy is a critical decision for businesses and a key component of corporate spending decisions. It also helps them determine how to govern dividend policy in order to lower agency costs. Seven factors will be used in this study: business size, growth, leverage, profitability, management ownership, institutional ownership, and firm age. The gap identified in many studies was used to identify seven variables.

Several studies have produced quite varied findings regarding the impact of managerial ownership (henceforth referred to as managerial ownership) on dividend policy. According to Sutanto et al. (2017), dividend policy is negatively and negligibly impacted by managerial ownership. In the meantime, dividend policy is greatly impacted by managerial ownership, according to Moin et al. (2019). However, studies by Jatmiko and Kusumastuti (2017) demonstrate that a company's dividend policy is severely impacted by managerial ownership. These findings are consistent with recent research by Rahayu and Rusliati (2019), which demonstrates a negative and substantial link between dividend policy and managerial ownership. On the other hand, according to agency theory, the higher the management ownership in a company, the higher the dividend policy. Management will make a better effort to distribute dividends to shareholders who are themselves.

The institutional ownership variable, often known as institutional ownership, has a large beneficial impact on dividend policy, according to research by Sutanto et al. (2017). This is consistent with the findings of four other studies, including Jatmiko and Kusumastuti (2017) and Rahayu and Rusliati (2019), who found a substantial positive correlation between dividend policy and institutional ownership. According to Moin et al. (2019), there is a substantial negative correlation between dividend policy and institutional ownership. According to agency theory, a large percentage of institutional ownership will reduce agency costs, resulting in bigger dividend payments.

Then, Sutanto et al. (2017) found that dividend policy was significantly improved by profitability, which they translated as profitability. This claim is in line with study by Moin et al. (2019), which also identified a strong positive correlation between dividend policy and profitability. However, according to research findings on profitability determinants, there is a substantial negative correlation between dividend policy and profitability (Jatmiko and Kusumastuti, 2017). According to signaling theory, a company's strong profitability can encourage investors to put money into it since it is thought that the more profitable the company, the more capable it is of paying dividends.

Sutanto et al. (2017) indicated that the variable pertaining to company size has a notable negative impact on the policy regarding dividends. Conversely, the study conducted by Moin et al. (2019) revealed that company size has a significant positive influence on dividend policy. Comparable findings emerged in two additional investigations led by

Jatmiko and Kusumastuti (2017) and Rahayu and Rusliati (2019). The theoretical perspective suggests that as a company's size increases, so do the dividend distributions made to shareholders.

Sutanto et al. (2017) indicate that the variable related to growth, referred to as company growth, exhibits a notable negative connection with the policy of dividends. This assertion is corroborated by the research conducted by Moin et al. (2019), which also claims that growth has a considerable negative association with dividend policy. Elevated levels of company growth may discourage investors from putting their money into the firm, as the belief is that earnings generated by the company are more likely to be reinvested for growth purposes than to be paid out to shareholders in the form of dividends.

In addition to that, a study by Sutanto et al (2017) examined the leverage factor, referred to as debt in this context, and discovered that debt has a minimal positive impact on dividend strategy. Conversely, Moin et al. (2019) identified that debt plays a significant negative role in determining dividend policy. Additionally, Jatmiko and Kusumastuti in 2017 concluded that debt exerts an insignificant negative influence on dividend strategy. According to signaling theory, firms with higher levels of debt can indicate to shareholders that they may offer reduced dividends since the earnings generated are allocated to settle the company's financial obligations.

Research conducted by Moin et al. (2019) indicated that the variable of company age has a notable and favorable impact on corporate policy. This finding is consistent with the study by Jatmiko and Kusumastuti (2017), which demonstrated that company age significantly enhances dividend payouts. The rationale is that an older company is likely to yield greater returns on investments due to its established presence and accumulated expertise. Given the varied outcomes observed in the studies by Sutanto et al. (2017), Moin et al. (2019), Jatmiko and Kusumastuti (2017), and Rahayu and Rusliati (2019), it is crucial to further examine how ownership structure influences dividend policy.

Based on the explanation above, the following problems can be formulated: (1) Does managerial ownership positively affect dividend policy?; (2) Does institutional ownership have a positive effect on dividend policy; (3) Does profitability have a positive effect on dividend policy? (4) Does company size have a positive effect on dividend policy?; (5) Does company growth hurt dividend policy?; (6) Does debt hurt dividend policy?; (7) Does company age positively affect dividend policy?

2. RESEARCH METHODS

This research is all companies listed on the Indonesia Stock Exchange in the non-financial sector. The sample criteria are: (1) Listed as a non-financial sector company listed on the Indonesia Stock Exchange; (2) Publish financial statements with coinciding rupiah units with positive equity value and non-zero sales every year and have been audited; (3) Available data for all variables needed. Based on the sample criteria, 278 companies and 1,390 years of observation were obtained. The dependent variable in this study is dividends, while the independent variables are managerial and institutional ownership, profitability, company size, company growth, debt, and company age. The dividend policy is proxied by the Dividend Payout Ratio (DPR) with units of percent. Managerial ownership can be measured by the formula of the number of shares owned by the management team divided by the total number of shares outstanding. Institutional ownership is measured by the formula for the number of shares owned by the institution divided by the total number of shares outstanding. Profitability is measured using RoA. The logarithmic approach of total assets measures company size. At the same time, the arithmetic average of annual sales growth measures company growth. For debt, the debt ratio proxy is used, while the company's age is obtained from the research year minus the year of establishment. The research uses panel data so that the results that will be interpreted are the results that have passed the multicollinearity test, Chow test and Hausmann test.

3. RESULT AND DISCUSSIONS

Based on the test results, the model to be used is the fixed effect model, with the results presented in table 1.

Table 1. Data Processing Results

Variables	Coefficient	t-Statistic	Result
C	0.1389	2.0307	Rejected
Managerial Ownership	-0.0062	-0.4717	Rejected
Institutional Ownership	0.0145	2.0740	Rejected
RoA	0.0104	2.4472*	Accepted
Size	0.0042	1.7917	Rejected

Variables	Coefficient	t-Statistic	Result
Growth	-0.0013	-1.6498	Rejected
Debt ratio	0.0084	3.5572**	Rejected
Age	-0.0008	-9.3225***	Rejected
R-Square		0.8732	
Adj. R-Square		0.8406	
F-Statistics		26.8061***	

Note; *** Sig at 1%, ** Sig at 5%, * Sig at 10%

Based on the regression analysis results shown in Table 1, managerial ownership does not affect dividend policy. This result can be attributed to the fact that the sample of companies used in the study has small managerial ownership. From descriptive statistics, it is known that the average managerial ownership by the companies used in this study is minimal, namely 3.6%, so managerial ownership has no influence on the company's decision-making, including dividend policy by the company. The results that have been found are the results of research conducted by Septianawati et al. (2021) and Sutanto et al. (2017).

In Table 1, the regression analysis results show that the institutional ownership variable does not affect dividend policy. This result is because institutional investors are more concerned with synergy and control over the company as shareholders than with dividend payments by the company. This result is consistent with the findings of Ismiati and Yuniati (2017) and Afas et al. (2017).

Table 1 also shows that the profitability variable has a significant positive effect on dividend policy. This result can be explained by signaling theory, which states that companies with good profit growth will give good signals to investors regarding the company's future prospects and ability to distribute dividends. These findings are in line with the findings of Sutanto et al. (2017) and Moin et al. (2019)

The company size variable obtained results do not affect dividend policy. These findings indicate that not all large companies pay significant dividends; some small companies pay large dividends. For example, the company LION (2019), with a size of 27,257, has a Dividend Payout Ratio (DPR) of 5.6145, while the company ASII (2021) with a size of 33,537 has a Dividend Payout Ratio (DPR) of 0.2784. There is also a PGLI (2017) company, which is 25,117 and has a Dividend Payout Ratio (DPR) of 0.6609. These results support Widhianningrum's (2013) and Ariska (2018) findings.

The company growth variable does not affect dividend policy. A higher growth rate does not guarantee an increase in dividend distribution. According to Sutrisno (2008), one of the standard dividend policies carried out by a company is a constant dividend payout ratio policy in order to retain investors and attract potential investors. This statement indicates that company growth has no effect on dividend distribution by the company. This result aligns with the research results of Widhianningrum (2013) and Panggabean and Martin (2020).

The result of this study is that the debt variable found a type I error, which means that the researcher rejects H0, which should not be rejected. The hypothesis test results show a positive significant effect of debt on dividend policy, which means that the higher the company's debt, the higher the company's ability to pay dividends to shareholders. According to agency theory, companies with high debt make creditors participate in supervising the company through the bonding mechanism to reduce agency conflicts, which means that management will be more careful in managing the company to make the company's performance good. It increases company profits and dividend distribution to shareholders. This finding supports research conducted by Susanti et al. (2021).

The company age variable found a type I error, which means the researcher rejects H0, which should not be rejected. The results showed a negative effect of company age on dividend policy, which means that companies with high age will have reduced investment opportunities and dividend payments. Older companies enter the mature phase and have a good reputation for expansion and diversification. This condition makes the company reduce dividend payments to increase internal financing. Another explanation is that older companies also tend to go into the decline phase. To avoid this, the company needs to rejuvenate by doing product development, which requires funding so that the company will tend to increase retained earnings rather than making dividend payments. This result signals to investors that a small company can pay high dividends. This study's results align with Saputra et al. (2020) and Hartono et al. (2021).

In this study, it is known that the adjusted R2 value is 0.840673 (84.0673%). This result shows that all independent variables (managerial ownership, institutional ownership, profitability, company size, company growth, debt, and company age) influence 84.0673% of the dependent variable (dividend policy). In comparison, the remaining 15.9327% is explained by other variables outside the variables used in this study.

4. CONCLUSION

This study aims to analyze the relationship between corporate ownership structure and dividend policy in non-financial sector companies listed on the Indonesia Stock Exchange. The results show that the managerial ownership variable and company growth have an insignificant negative relationship with dividend policy, the institutional ownership variable and company size have an insignificant positive relationship with dividend policy, and the debt variable and profitability have a significant positive effect on dividend policy. In contrast, the company age variable significantly negatively affects dividend policy. These results mean that one accepted hypothesis is that profitability has a significant positive effect on dividend policy.

The theoretical implication of the results of this study is that the profitability variable has a significant positive effect on dividend policy. This result means that the greater the profitability obtained by the company, the greater the dividend payment. This study can prove the signalling theory, which means that dividends signal management's prospects in the future; in this case, investors view profitability as one aspect of assessing the company's performance in obtaining a rate of return in the form of dividends for shareholders. The debt variable has a significant positive relationship with dividend policy. This positive result means that the higher the company's debt, the higher the company distributes its dividends. This research can prove agency theory, which means that the principal authorizes the agent to manage resources and make good decisions for the principal. In this case, high debt can reduce agency conflicts, improve management performance, and increase principal dividend distribution. The company age variable has a significant negative relationship. This negative significance means that the higher the company's age, the lower it will be for the company to pay its dividends. This study proves the signalling theory, which means that the internal company releases information that is important for investors to make investment decisions. In this case, a small company age can signal to investors that the company pays high dividends.

This study still has limitations. Namely, observations were only made on all non-financial sector companies listed on the Indonesia Stock Exchange for five years. Therefore, future researchers are expected to extend the observation period and expand the scope of research objects. In addition, this research was conducted during the pandemic in Indonesia since 2020; it is hoped that future researchers can research to see how changes in economic conditions affect the company's dividend policy in the period before and after the pandemic.

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