EFFECT OF OWNERSHIP STRUCTURE TO DIVIDEND POLICY IN COMPANIES IN INDONESIA

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ABSTRACT

The purpose of this study is to analyze the effect of ownership structure on dividend payout policy in companies listed in Indonesia Stock Exchange. In this study, there are 4 kinds of ownership structures that will be discussed, namely private ownership structure, government ownership structure, foreign ownership structure and family ownership structure. Dividend payout policy uses Dividend Payout Ratio (DPR) indicator. Population of this study is all the companies listed in Indonesia Stock Exchange (IDX) 2009-2011. Total samples in this study are 85 companies listed in Indonesia Stock Exchange determined by purposive sampling. Based on the study results, from the four ownership structures, only the private ownership structure influence Parliament. Implication for investors in doing this research, the investor can choose the private ownership structure of companies. For financial managers this study provides information specifically on private companies that one way the companies reduce the agency problem could use dividend payout policy.

Keywords: Dividend pay out ratio, family ownership structure, foreign ownership structure, government ownership structure, private ownership structure
INTRODUCTION

Separation between ownership and management structures can lead to agency problems (Jensen and Meckling, 1976). In any literatures mentioned that the company's main goal is to increase the company's value through increased prosperity of the owners or the shareholders (Bathala, et. al., 1994), what happens is either the management or company's managers often have different objectives that may conflict with the primary purposes, so that it can cause conflict of interest between managers and shareholders of the companies (agency problems). This occurs because the managers have information about the company that are not owned by shareholders (asymmetry information) and use them to improve the utility, while each user not only management need information for making economic decisions (Jensen and Meckling, 1976). The owner can avoid information asymmetry by providing proper incentive level to managers and should be willing to pay supervision fee. That cost are referred to as agency cost. There are several approaches that can be taken to reduce agency cost, including the increase in Dividend Payout Ratio (DPR) or the Dividend to Earnings Ratio (Jensen and Meckling, 1976). Dividend payout policy of the company has been seen as a control mechanism to alleviate conflict between shareholders and managers (Jensen and Meckling, 1976). Rozeff (1982) argue one way the company reduces the agency problem could use the dividend payout policy (Dividend Payout Ratio).

Dividend policy is one important component of the company and has been seen as an interesting issue in the literature. Dividend Payout Ratio influences company's decisions (Mehrani et al 2011). Dividend policy will not only assist in reducing agency cost, but will also act as a signal to inform shareholders about the company's evaluation (Warrad et al 2012). Dividend payout may be affected by the ownership structure of the company. Ownership structure is a very important and influenced factor in determining the market efficiency by providing information about two significant things (Carvalhal-da-Silva and Leal, 2004). This study aimed to analyze the effect of ownership structure on dividend payout policy in the company in Indonesia.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Performance of a company is very closely related to management role and function of the company. The success of a company to generate a profit is an achievement made by management in managing the company well and properly, so that the smooth operations of a company depends on the ability of the company's management. According to Short and Keasey (2002) another thing to note is characteristic of corporate governance, because governance characteristics in a company will also be able to affect a company's performance as it relates to human resources and culture of a company.

Given the importance of the relationship between the company's owner with the company's management needs to be viewed more deeply how this relationship is when the ownership structure is different and what is the impact to the company's management. The Company has various ownership form depending on the environment where the company is located, government regulations, and
economic conditions which is going on. Ownership form of the company will give a different effect on corporate governance and policies relating to the company. In this case, the policy that will be discussed is the company’s policy regarding to the financing structure. 

According to Warrad et al., (2012) who stated that the ownership structure is a proportion of stock ownership held by private ownership, government ownership, foreign ownership, and family ownership.

a. Private ownership

According to Warrad et al. (2012). Private ownership is the company’s ownership by a non-governmental agencies or usually a limited liability company.

b. Government ownership

According to Hapsoro (2007), government ownership is the number of shares owned by the government. Through this ownership the government is entitled to determine the company’s directors. Besides, the government can control the measures taken by management to fit the interests / aspirations of the government.

c. Family ownership

According to Warrad et al. (2012), family ownership is the portion or amount of shares held by the family.

d. Foreign Ownership

According to Law No. 25 of 2007 in Article 1 paragraph 6 foreign ownership is an individual foreign nationals, foreign entities, and foreign governments who make an investment in the territory of the Republic of Indonesia.

According to Mondher et al. (2009) one of the factors that influence the dividend payout policy (ratio) is the ownership structure. Ownership structure is the factor that affect the company’s policy. Decision on dividend is one of the basic components of corporate policy, therefore, there is significant relationship between ownership structure and dividend policy expected.

Azzam (2010), states that there are influences between the private ownership structure to dividend payout policy. Result of this study obtain that private institutional ownership has a positive and significant effect on stock volatility (an uncertainty measure of the stock price movement in the future), so that private ownership can increase the dividend payout policy, this study uses samples of 50 companies. Short et al. (2002) in a study uses samples of 211 companies listed in London Stock Exchange and uses data from 1988 to 1992 by using four different dividend models, namely control adjustment model, partial adjustment model and earnings trend model. For all the models where they find evidences that there is a relation between private ownership with dividend payout policy. Based on previous study it can be put forward the following hypothesis:

H1: There is the influence of private ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.

Wei and Varela et al. (2003), investigated the effect between dividend payout policy and ownership structure by using 3994 Chinese listed companies for the period of 1995-2001. This study
suggests that there is influence between state ownership and cash dividends. Gugler (2003), in his study suggests that in Austria there is influence between state company with the dividend payout ratio. This study uses samples of 19,000 financial firms from 61 countries. Based on previous study it can be put forward the following hypothesis:

**H2:** There is the influence of private ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.

Based on previous study conducted by Warrad et al. (2012) who examine the effect of the ownership structure and dividend payout policy for 168 industrial companies listed on the Amman Stock Exchange (ASE) for the period 2005-2007. This study reveals that there is a strong influence between foreign ownership structure to dividend payout policy. Lee et al. (2006) in his study suggests that foreign ownership shows a strong and significant relationship to the increase in dividend payouts. Based on previous study it can be put forward the following hypothesis:

**H3:** There is the influence of foreign ownership structure to dividend payout policy in companies listed in Indonesia Stock Exchange.

Kang (1999) find that firms with family shareholders have a high level of dividend payouts. This study also suggests that an effective family ownership in the government companies can form dividend payout policy and gain greater financial benefits. Yao and Sun (2008) in their study suggest a strong relation between family ownership and dividend payouts Based on previous study it can be put forward the following hypothesis:

**H4:** There is the influence of government ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.

**METHODS**

**Sampling**

Sampling is done by purposive sampling method, sampling is based on certain criteria. The criteria used in this study are:

1. Is a manufacturing company and has been listed on the Indonesia Stock Exchange
2. Have the financial data for the period of 2009-2011.
3. Have data on the company’s ownership structure

Based on these criteria the study eliminates companies that do not meet the existing criteria, and the final results obtained as many as 85 companies listed on the Indonesia Stock Exchange (of 131 companies).

**Data Analysis**

Data analysis method used is secondary data, namely

a. Descriptive Statistics

Descriptive statistics describe the minimum value, maximum value, average value, and standard deviation of each variable.
b. Multiple Regression Linear Analysis

Multiple Linear Regression Analysis is an extension of simple linear regression. In this analysis its relationship form is a free variable, namely private ownership structure, government ownership structure, foreign ownership structure, and family ownership structure. to a dependent variable, namely dividend payout policy.

c. T Test

T-Test is a testing of effect from each independent variable to dependent variable, to determine whether or not there is an influence between independent variable with dependent variable.

Variables and Measurement

Variables used in this study stands of:

1. Dependent Variable

   Dividend Payout Ratio (DPR)

   Description:

   Dividend per share: Dividends distributed on each share by the company at the end of year. Dividend per share, namely the ratio between cash dividend to the number of shares of common stock outstanding, which number of shares of common stock outstanding are obtained from the comparison between the earnings available for common stockholders to earnings per share. Earning per share: Profit after tax earned in each share by the company at the end of year. Earning per share is obtained from the profit and loss statement.

2. Independent Variable

   Categories in Ownership Structure are private ownership structure, government ownership structure, foreign ownership structure, and family ownership structure (Warrad et al., 2012). Those four categories are measured as shown below:

   a. Private ownership structure, the measure used is based on the proportion of public ownership information listed on the Indonesian Capital Market Directory (ICMD). Private ownership is a dummy variable coded 1 if it exists and 0 if it does not exist. Data type of this variable is nominal data, namely data that is only used to distinguish only and do not indicate any level (Sukamulya, 2004).

   b. Government ownership structure, the measure used is based on the proportion of public ownership information listed on the Indonesian Capital Market Directory (ICMD). Government ownership is a dummy variable coded 1 if it exists and 0 if it does not exist. Data type of this variable is nominal data, namely data that is only used to distinguish only and do not indicate any level (Sukamulya, 2004).

   c. Foreign ownership structure, the measure used is based on the proportion of public ownership information listed on the Indonesian Capital Market Directory (ICMD). Foreign ownership is a dummy variable coded 1 if it exists and 0 if it does not exist. Data type of this variable is nominal data, namely data that is only used to distinguish only and do not indicate any level (Sukamulya, 2004).

   d. Family ownership structure, the measure used is based on the proportion of public ownership
information listed on the Indonesian Capital Market Directory (ICMD). Family ownership is a dummy variable coded 1 if it exists and 0 if it does not exist. Data type of this variable is nominal data, namely data that is only used to distinguish only and do not indicate any level (Sukamulya, 2004).

3. Control Variable

Control variable in this study is the size and debt ratio (Warrad et al., 2012)

a. Size measurements are Log Sales (Ezeoha and Okfor, 2010)

b. Debt Measurement is total liabilities divided by total assets (Warrad et al., 2012)

RESULTS & DISCUSSION

Samples in this study consist of 7 companies (6%) engaged in the consumer goods industry sectors: food and beverage, 1 company (1%) engaged in various industry sectors: footwear, 1 company (1%) engaged in the basic industrial and chemicals sector: wood and its processing, 2 companies (2%) engaged in the consumer goods industry sectors: tobacco, 5 companies (4%) engaged in the consumer goods industry sectors: pharmaceuticals, 2 companies (2%) engaged in consumer goods industry sectors: cosmetics and household goods, 2 companies (2%) engaged in the consumer goods industry sectors: household appliances, 12 companies (10%) engaged in various industry sectors: Textile & Garment, 12 companies (10%) engaged in basic and chemical industry sectors: metals and the like, 3 companies (3%) engaged in basic and chemical industry sectors: plastics and packaging, 4 companies (3%) engaged in basic and chemical industry sectors: animal feed, 6 companies (5%) engaged in basic and chemical industrial sectors: chemical, 5 companies (4%) engaged in basic and chemical industry sectors: ceramics, porcelain and glass, 6 companies (5%) engaged in various industry sectors: cables, 10 companies (6%) engaged in various industry sectors: automotive and components, 3 companies (3%) engaged in basic and chemical industry sectors: cement, 4 companies (4%) engaged in basic and chemical industry sectors: pulp & paper.

The results of the descriptive statistical calculations are described as follows.

a. Dividend Payout Ratio (DPR)

Based on the test results of descriptive statistics, the average DPR of the company is at 0.3977 with a standard deviation of 0.29875 with the highest value of 1.70 DPR.

b. Private Ownership Structure

The results of descriptive statistical testing, averagely the companies owned by private in Indonesia in the year observed is 0.674. Where the standard deviation is 4.69.

c. Government Ownership Structure

The results of descriptive statistical testing, averagely the companies owned by the government in Indonesia in the year observed is 0.07. Where its standard deviation is 0.269.

d. Family Ownership Structure

The results of descriptive statistical testing, averagely the companies owned by family in Indonesia in the year observed is 0.266. Where its standard deviation is 0.443.
e. Foreign Ownership Structure
The results of descriptive statistical testing, averagely the companies owned by family in Indonesia in the year observed is 0.698. Where its standard deviation is 0.460.

f. Debts Ratio
The results of descriptive statistical testing, averagely the companies in Indonesia in the year observed is 0.6254. Where its standard deviation is 0:57. With a minimum value of 5:03 and a maximum of 0:04.

g. Size
Based on the results of descriptive statistical testing, averagely the sales owned by the companies logged is 14.2328. The highest size value is 14.2328 namely PT Astra International Tbk. Companies that have a large total assets indicates that the company has reached the maturity stage where in this stage the company has a positive cash flow and is considered to have good prospects in a relatively long period of time, but it also reflects that the company is relatively more stable and better to make a profit compared with the company with small total assets.

Discussion
1. The influence of private ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.
The results showed that the regression analysis performed by using DPR ratio as a dividend payout policy indicators show a positive and significant effect between private ownership structure and dividend payout policies. This study is in line with research conducted Azzam (2010), states that there is influence between the private ownership structure to dividend payout policy. In this study obtained research results that private institutional ownership has a positive and significant effect on DPR, so that private ownership can increase the dividend payout policy. This study uses samples of 85 companies. This study is also in line with research conducted Short et al. (2002) in a study using samples of 211 companies listed on the London Stock Exchange and using data from 1988 to 1992 by using four different dividend models, namely Control Adjustment Model, Partial Adjustment Model and Earnings Trend Model. For all the models they find evidences that there is a relation between private ownership with dividend payout policy.

2. The influence of the government ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange
Based on calculations performed, the result that there is no influence between the government ownership structure to the dividend payout policy in companies listed on the Indonesia Stock Exchange, this is due to at least manufacturing companies owned by the government. This study is not in line with research conducted Wei and Varela et al. (2003), investigates the effect of the dividend payout policy and ownership structure by using 3994 Chinese listed companies for the period of 1995-2001. This study suggests that there is influence between state ownership and cash dividends. Gugler (2003), in his study suggests that in Austria there is influence between state company with the dividend payout ratio. This study uses samples of 19,000 financial companies from 61 countries.
3. The influence of private ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.

Based on calculations results, it is known that there is no effect between foreign ownership structure to the dividend payment policy in companies listed on the Indonesia Stock Exchange, it is not because of the small number of foreign ownership in the manufacturing companies in Indonesia, but because foreign investors more like the companies which do not pay dividends because tax rates for income received in the form of dividends is greater than the income tax rate on capital gains.

This study is not consistent with previous studies conducted Warrad et al. (2012) who examine the effect of the ownership structure and dividend payout policy for 168 industrial companies listed on the Amman Stock Exchange (ASE) for the period of 2005-2007. This study reveals that there is a strong influence between foreign ownership structure to dividend payout policy. Lee et al. (2006) in his research suggests that foreign ownership showed a strong and significant relationship to the increase of dividend payouts.

4. The influence of government ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.

Based on calculations result performed, there is no known effect between family ownership structure to the dividend payout policy in companies listed on the Indonesia Stock Exchange, it is due to the less family ownership in manufacturing companies. This study is not in line with Kang (1999) who find that firms with family shareholders have a high level of dividend payouts. Yao and Sun (2008) in their study suggest a strong relation between family ownership and dividend payouts.

5. The influence of loan structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.

The results of the regression output can be seen that the debt provide a positive and significant effect on the dividend payout ratio, this means that companies use dividends as a way to reduce demands of debtholders (parties who provide loans) for the refund to be made by the companies or dilution claim. This is because dividend payouts can reduce the amount of cash and reduce the amount of owners’ equity and total assets owned by the companies (Emery et al., 2011). These results are also consistent with the study results that has been done by Thanatawee (2011) in Thailand and the study that has been done by Taleb (2012) in Jordan.

6. The influence of firm size on dividend payout policy in companies listed in Indonesia Stock Exchange

Based on the regression output results, the magnitude of companies provide a significant and positive effect on the dividend payout ratio. This proves that big companies are more often to distribute dividends to shareholders than small firms. This is because large companies have a better degree of stability in terms of finances and have easier access to obtain funding from outside companies than small companies (Fama & French, 2000). These results are also consistent with the study results by Taleb (2012) conducted in Jordan and the study results by Holder et al. (1998) conducted in the United States.
CONCLUSIONS

Based on the analysis and discussion that has been described in the previous chapter, it can be concluded as follows:

1. There is a positive and significant effect between private ownership structure and the dividend policy as represented by DPR.
2. There is the influence of private ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.
3. H1: There is the influence of foreign ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.
4. There is the influence of family ownership structure to the dividend payout policy in companies listed in Indonesia Stock Exchange.
5. There is a positive effect of debt on dividend policy in the companies listed in Indonesia Stock Exchange.
6. There is a positive effect of firm size on dividend policy in the companies listed in Indonesia Stock Exchange.

This study results would be useful to financial managers especially those who work in private companies to use more debt in their financing decisions. The study results also provide information to investors, that the private ownership structure of the companies has an influence on dividend payout policy to be received.

REFERENCES


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