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The Impact of Ownership Structure on Dividend Payout Property and Construction Companies In Indonesia

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ABSTRACT

The development of property and construction activities provides a multiplier effect on the economic development. This makes investors interested to invest their capital in the property as well as construction sectors and expecting returns that are not only capital gains but also dividends. In this study we will measure how ownership structure influences dividend decisions. The population of this research is all property and construction companies listed on the Indonesia Stock Exchange. Of the 55 listed companies only 12 companies met the research requirements to be sampled. The results of this study indicate a significant positive effect of institutional ownership on dividend payout, while measurement of managerial ownership does not affect dividend payout.

INTRODUCTION

Every economic activity basically needs property and construction products as one of the factors of production. The development of property and construction activities provides a multiplier effect on the development of other sectors that are directly or indirectly related. When there is no demand for property and construction products, it indicates that the economy is in a less developed condition. This makes investors interested to invest their capital in the property as well as construction sectors and expecting returns that are not only capital gains but also dividends.

Dividend policy itself is described as one of the difficult challenges for economists in the financial sector, and many researchers still do not fully understand the factors that influence dividend policy and the way these factors interact (Bhattacharyya, 2007). Dividend policy is one of the most controversial topics in financial management research (Mehta, 2012). Dividend is the distribution of the remainder of the company's net profit distributed to shareholders with the approval of the Annual General Meeting/AGM (Darmadji & Hendy, 2001). Several variables have

the potential to determine dividend payment decisions in companies. One of the variables used as a benchmark in influencing dividends is the ownership structure.

Based on agency theory, managers carry out full-cost activities for shareholders, and even contracts between managers and companies cannot prevent these investors' opportunistic activities. This is because managers must decide how much company profits are allocated for dividends and how much investment in the form of retained earnings is reinvested into the company. As a result, shareholders who lack control of power need a monitoring structure.

Institutional ownership has a vital role in minimizing agency conflicts that occur between managers and shareholders. The existence of institutional investors is considered capable of being an effective monitoring mechanism in every decision taken by the manager. On the other hand, managerial ownership has succeeded in becoming a mechanism to reduce managerial agency problems by harmonizing the interests of managers and shareholders (Jensen and Meckling, 1976). Siallagan and Machfoedz (2006) state that the greater management ownership in a company, management will tend to try to improve its performance in the interests of shareholders as well as its own interests.

The research conducted by Chen et al. (2005) found a negative correlation between managerial ownership and dividend policy. While Wen and Jia (2010) study the role of dividends in reducing agency costs by examining the relationship between dividends and managerial ownership, institutional ownership, and another set of variables that measure the level of agency costs. The results showed that managerial ownership and institutional ownership were negatively related to dividend policy for companies. The research gap arises because these results are in contrast to the research of Mehrani et al. (2011) in Iran which shows that there is no significant correlation between managerial ownership and dividend payments.

LITERATURE REVIEW

The theory related to this research is Agency Theory. Jensen and Meckling (1976) define agency relationships as follows:

"an agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent)."

Rozeff (1982) argues that the dividend is a tool to reduce agency costs. Jensen (1986) argues that dividend payouts are able to reduce conflicts between managers and company shareholders. Managers want to retain resources from companies rather than dividends. They follow the company's growth opportunities because in this case more resources from the company will come under their control. On the other hand, stock-holders want dividends instead of maintaining profits. Therefore, if dividends are not paid, managers can use these resources for their personal benefit or they can invest these resources in unprofitable projects. Dividends are used to reduce conflict with shareholders (Bohren et al, 2012).

Dividend Policy

Dividends are the amount of income distributed among the company's shareholders. Dividends can be in the form of cash or stock. Share dividends have no effect on shareholders' wealth except for the loss of transaction costs associated with shares (Khalid & Rehman, 2015). Dividend is the distribution of the remainder of the company's net profit distributed to

shareholders, with the approval of the AGM (Darmadji & Hendy, 2001). Dividend policy is the decision of a company regarding whether the profits obtained by the company will be shared with shareholders or held in the form of retained earnings for future investments (Sartono, 2010). Dividend policy involves the use of a constant payment ratio, namely the Dividend Payout Ratio. Dividend Payout Ratio is measured by comparing cash dividends per share against profits earned per share.

Managerial ownership

According to (Suranta et al, 2005) managerial ownership is a good corporate governance mechanism because managerial ownership can limit the opportunistic behavior of managers in the form of earnings management that can harm the interests of other parties (stakeholders). Managerial ownership in the company's financial statements are indicated by the percentage of the company's shares owned by the manager. Abdullah et al. (2012) examined the effect of company ownership structures on dividend payout ratios between 70 companies listed on the Karachi Stock Exchange (KSE) for 2003 to 2010. The results showed that managerial ownership had negatively affected dividend payment in Pakistan. Likewise the research conducted by Al-Gharaibeh et al. (2013) which examined the relationship between ownership structure and dividend payments in 35 sample companies from Jordan. The results show that there is a negative relationship between managerial ownership and the company's dividend payout ratio. According to (Wahidahwati, 2002), the ownership of share percentage by management from the board of commissioners and directors who participate in making managerial ownership decisions is managerial ownership whose amount can be calculated from a certain period in percentage units (Wardani and Hermuningsih, 2011).

Institutional Ownership

Institutional ownership in Veronica and Bachtiar (2004) is the ownership of company shares by financial institutions such as insurance companies, pension fund banks, or asset management funds. The higher the level of institutional ownership is predicted to lead to greater supervision efforts by institutional investors so that it can hinder manager's opportunistic behavior. Companies with large institutional ownership (more than 5%) indicate their ability to monitor management (Susetyo, 2006). This opinion is also reinforced by Barnea and Rubin (2005) which states that institutional shareholders with large share ownership have incentives to monitor corporate decision making. Institutional and concentrated ownership enhances monitoring and helps reduce agency conflict (Khan, 2005). Kouki and Guizani's (2009) study reports that Tunisian companies pay lower dividends when they have higher institutional ownership, consistent with the role of effective institutional investor oversight. In contrast, Abdelsalam et al (2008) found a positive correlation between institutional ownership and dividend policy from Egyptian companies. Similarly, Manos (2002) found the impact of institutional ownership on the ratio of firm payments in India is positive, which is inconsistent with the arguments of institutional capacity in terms of more effective monitoring capable of reducing the need for dividend-induced mechanisms.

METHODOLOGY

This study used explanatory research, which is a study that seeks to explain the causal relationship between research variables through testing a particular hypothesis. Sources of data used were secondary data or indirect data, which were taken from the financial statements of property and construction companies in 2010-2016. The population of this study is all property and construction companies listed on the Indonesia Stock Exchange, in the observation period from 2010 to 2016. The samples were taken using purposive sampling method. The criteria for sampling are: (1) Issuers of the property and construction sector which are listed on the IDX between 2010-2016, and having audit financial report data as of December 31. (2) Property and construction companies that distributed dividends at least four times in the study period. (3) Issuers which have ownership composition owned by other institutions or managerial ranks. Of the 55 listed companies, only 12 companies met all research requirements to be the samples. Some samples were aborted because the data did not meet the established criteria and the data was incomplete.

RESULTS

The analysis technique used in this study is multiple linear regression using the IBM SPSS 17. Analysis of the data used is the classic assumption test, multiple regression analysis, and hypothesis testing.

Regression analysis is used to measure the strength of the correlation between two or more variables, also shows the direction of the correlation between the dependent variable and the independent variable (Ghozali, 2011). Regression models are as follows:

$$DPR = \alpha + \beta_1 \text{ Institutional Ownership} + \beta_2 \text{ Managerial Ownership} + e$$

In the data screening process, to test the normality with the Kolmogorov-Smirnov test on the data of each variable, it was found that the DPR data was not normally distributed, therefore it was necessary to do a transformation in the study by doing natural log on both variables.

Classic Assumption Test

From the Kolmogorov-Smirnov test table, it can be seen that the unstandardized residuals kolmogorov-smirnov test has a significant value of 0.472 and greater than 0.050, so it can be concluded that the regression model is normally distributed. While the results show that two independent variables do not occur because multicollinearity VIF value <10. Thus, the two independent variables can be used to predict payout dividends during the observation period.

Based on the scatterplot graph, it can be seen that the points do not spread randomly either above or below the number 0 on the Y axis, and also seen those points do not form a certain pattern. Thus, it can be concluded that heteroscedasticity does not occur in this study.

Based on the test results, the DW value obtained is 2.414. The Durbin Watson value based on a table with a confidence level of 5% is 1.317 for dL and 1.773 for dU, so the 4-dL value is 2.683. The value of Durbin Watson in this study was 2,414, so that it was in the interval between dU and 4-dL or $dU < DW < 4-dL$, then the estimated data did not occur autocorrelation.

Regression Test

Table 1. Regression Result				
Variable	Coefficients	t-statistic	Probability	VIF
INS_OWN	-0.601	-3.159	0.003*	2.561
MANJ_OWN	-0.134	-0.828	0.413	1.864
f-statistic		6.571	0.000*	
Ad R ² Square	0.393			

Based on the results of testing with multiple linear regression equations to test the effect of Institutional Ownership variables, Managerial Ownership on the DPR variable, an equation can be arranged as follows:

$$\text{LnDPR} = 9,786 - 0,601 \text{ Kep_Institutional} - 0,134 \text{ Kep_Manager} + e$$

The determinant coefficient is used to measure how far the ability of the model in explaining variations of the dependent variables. The coefficient value is between zero and one and is indicated by the adjusted R² value. The results of this study indicate that the determinant coefficient value (R²) of the second equation obtained is 0.547 or 54.7%. This shows that 39.3% of DPR is influenced by Institutional Ownership variables, managerial ownership, while the remaining 60.7% is explained by other variables.

The results of data processing show that the independent variable (Institutional Ownership and managerial ownership) has a significance F count of 6.571 with a significance level of 0,000, which means it is smaller than the maximum limit of the significance level of 0.050. Thus, the results of the analysis in this study indicate that H₀ is rejected and H_A is accepted, meaning that the independent variables (Institutional Ownership and managerial ownership) together have a significant influence on the dividend payout ratio.

DISCUSSION

1. Based on the results of statistical tests, institutional ownership is obtained by the value of the critical ratio of -3.159 with a significance value (p-value) of 0.003. This significance value is smaller than the probability value of 0.05, meaning that Institutional Ownership has a negative and significant effect on the DPR. These results interpreted that the higher the percentage of institutional ownership, the lower dividends are distributed. This result is consistent with the research conducted by Crutchley et al. (1999). This result can occur because the higher the institutional ownership, the stronger the external control of the company and reduce agency costs, so that the company will tend to provide lower dividends. These results are proven in the data on the average institutional ownership of property and construction companies reaching 32.5%, the results are not comparable with the average public ownership that might expect dividends in the study period which is 13%. The large composition of institutional ownership makes the shareholder institutions in property and construction companies form different behaviors than investors in the capital market; they have a tendency to develop business in the coming period by holding dividends.
2. Based on the results of statistical test calculations, managerial ownership is obtained by the critical ratio value of -0.828 with a significance value (p-value) of 0.413. This significance

value is greater than the probability level of 0.05, indicating that managerial ownership does not have a significant effect on the DPR. These results indicate that there is no correlation between the size of managerial ownership and the dividends distributed by the company to shareholders. This result can occur because the managerial ownership level of property and construction companies in Indonesia is still low, so it has not been able to reduce the agency's problems, and companies prefer to hold their profits to diversify their business rather than distribute dividends. This result is in line with the study by Mehrani et al. (2011) in Iran which shows that there is no significant relationship between managerial ownership and dividend payments.

CONCLUSION

Ownership structure is a determinant of company policy. The importance of majority shareholders influences the power of decision making that benefits them, such as dividend decisions (Bistrova et al, 2013). The first result is Institutional Ownership has a negative and significant effect on the Dividend Payout, and the second is Managerial Ownership has not significant on the Dividend Payout. The results of this study indicate that owner management can affect the dividend policy of property and construction companies in Indonesia, however this good management in the form of institutional ownership for measuring managerial ownership does not affect the company's dividend policy. These results indicate that large capital requirements in running property and construction businesses make companies have to share the percentage of ownership with other institutions that have a lot of capital.

The implementation of this study for investors who want to get dividends from property and construction companies can consider institutional ownership as a major factor in making investment decisions. This is based on the statistics results of this study. However, the influence of institutional ownership is negative, meaning that investors are better off choosing property and construction companies with small institutional ownership. Because the smaller the ownership of other institutions in property and construction, the greater the dividends shared by the company. Future advice for property companies that want to increase their dividend payout, they must reduce the composition of other institutions ownership in their company.

The limitation of this study is the empirical model that only uses internal corporate governance mechanisms, because agency theory focuses more on the aspects of the mechanism of internal corporate governance Eiscenhardt (1989). Whereas, Wals and Seward (1990) state that in general, two control mechanisms are known, namely internal and external control mechanisms.

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