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Managerial Ownership and Dividend Policy of Non-Financial Companies Listed on Indonesian Stock Exchange

Imas Purnamasari[a], Disman[b], Nugraha, N[c], Ikaputera Waspada[d], Amir Machmud[e], [a,b,c,d,e]Study program Doctor of Management Science, Post Graduate School, Universitas Pendidikan Indonesia, Indonesia, Email: [a]imaspurnamasari@upi.edu, [b]disman@upi.edu, [c]nugraha@upi.edu, [d]Ikaputerawaspada@upi.edu, [e]amir@upi.edu

This study aims at examining the influence of managerial ownership on the dividend policy of non-financial companies listed on the Indonesian Stock Exchange during the period of 2002–2018. Employing a descriptive and verificative method, this study uses purposive sampling of 128 companies for a 17-year period, with 2,025 units of observational data. The statistical analysis of multiple data panel regression shows that managerial ownership is negatively related and is significant to dividend policy. Similarly, firm size and profitability are positively related and are significant to dividend policy. On the other hand, leverage shows a negative and significant relation to dividend policy. The implication of this finding theoretically accepts the agency theory, which states that dividends can be used to minimise agency cost.

Keywords: *Managerial ownership, Firm size, Profitability, Leverage, Dividend policy.*

Introduction

Managerial ownership and dividend policy are two related issues in companies and which are always interesting to explore. The relationship between these two aspects may sometimes create problems which require mediation through an agency. In this regard, the agency theory argues that the payment of dividends may reduce problems related to agency (Ramli, 2010). Besides reducing the availability of cash flow, the funding that companies do not have cash to pay dividends to stakeholders may be subject to misuse. For instance, management may spend this cash for their own personal interests, which is not relevant to the interests of its stakeholders. In fact, a dividend serves as a mechanism to reduce the cash flow controlled by management, so that it can help reduce agency problems. Supporting this, some scholars believe that a dividend policy can help reduce some agency problems that may arise between the company management and stakeholders (Hansen & Crutchley, 2015; Jensen & Meckling, 1976; Rozeff, 1982). To anticipate the issue of an agency problem, companies sometimes offer management to share their ownership of the stocks, so that both the management board and stakeholders have a more equal position in the company. This form of managerial ownership is considered as a good solution to the agency problem faced by companies (Taking, Policy, Chen, & Steiner, 1999; Machmud, 2016).

In this regard, many studies have been conducted to show empirical evidence of the agency problem on the influence of the managerial ownership structure on the dividend policy. The studies have shown several interesting and different results. In their studies, several scholars have identified a negative relationship between managerial ownership and dividend policy (Jensen & Meckling, 1976; Schooley & Barney Jr, 1994). A similar result was also identified by other studies (Short, Zhang, & Keasey, 2002; Kania & Bacon, 2005; Ullah, 2012; Gharaibeh, 2013). On the other hand, other researchers have identified a positive relationship between managerial ownership and dividend policy (Truong & Heaney, 2007; Setiawan, Bandi, Phua, & Trinugroho, 2016; Azfa & Mirza, 2010). Meanwhile, other studies indicate no relationship between these two aspects (Kumar, 2003; Mehrani, Moradi, & Eskandar, 2011; Mohd, Abdullah, Ahmad, & Roslan, 2012). Furthermore, managerial ownership and dividend policy are believed to reduce the agency problem (Schooley & Barney Jr, 1994).

Considering the continuous phenomenon of agency confict which results from the dividend policy, studying this topic in respect to an agency theory context is always interesting. The fact that the results of this scope of study in many countries has led to several inconsistencies, makes this issue more attractive to examine. Therefore, this research explores to identify the influence of managerial ownership on dividend policy. Unlike several previous studies on the relationship between managerial ownership and dividend policy, it analyses additional important factors in deciding dividend policy, such as the company size, profitability, and leverage as control variables.

Literature Review

As an essential aspect of management theory, the agency theory manages the relationship between stakeholders (principal) and managers (agent). This theory identifies several potential conflicts between the parties involved in companies, including that these conflicts occur because the parties have different orientations and interests in the company or companies (Jensen & Meckling, 1976). Furthermore, scholars agree that the parties involved in managing companies have a relationship and engagement to perform a service on their behalf by delegating a process of decision-making to a referred agency. As the parties involved in company management may have different orientations, this contract of a relationship and engagement may end in a conflict.

In order to overcome this agency conflict, a control mechanism is necessary to adjust and mediate the interests of both management and shareholders through a mutual managerial ownership. This control mechanism requires all the parties involved in companies, such as the management, directorate, and commissariat, to have shares in the company. For an acceptability reason, the structure of ownership is an important component of company management which is to be publicly accepted by all parties. In this case, the shares of the company should be distributed among the managers and commissaries of companies (Shleifer & Vishny, 1986). This distribution of share is expected to reduce the potential conflicts of company management.

The research on this issue has shown several inconsistencies and within different variables. Some studies have identified a significant influence of managerial ownership on dividend policy, but its direction varies from one study to another and is inconsistent. For instance, Short et al. (2002) identified a negative relationship between managerial ownership and dividend payout policy, whereas Chen et al. (2005) found a negative relationship between managerial ownership and dividend policy. Similarly, Ullah (2002) also identified a negative relationship between managerial ownership and dividend policy. Meanwhile, Mehrani et al. (2011) identified a negative relationship between managerial ownership and dividend payment policy.

In terms of significance, the studies also show different results. A study conducted on the insider ownership upon dividend yield by Ramirez (1993) shows that an insider ownership has a negative significance on dividend policy. Similarly, insider ownership is also identified to have a negative significance on dividend payout ratio (Afza & Mirza, 2010). Another study by Moh'd, Perry, and Rimbey (1995) examined the relationship between agency theory and dividend policy with variables of growth, institutional and insider ownership, shareholder dispersion, firm size, business risk, operating, financial leverage, and dividend payout ratio. This study found that growth rate, insider ownership, and operating and financial leverages have a partially negative significance on dividend policy. A similar study also shows a coefficient negative significance between managerial ownership and dividend payout ratio (Short et al., 2002). Based on various findings on the relationship between managerial ownership and dividend policy above, this study proposes a hypothesis that managerial ownership has an impact on dividend policy, with the control variables of company size, profitability, and leverage.

Research Method

Sample Selection

The subjects of the study were several non-financial companies listed on the Indonesian Stock Exchange during the period of 2002–2018. The sampling in this study used a purposive sampling technique of judgment sampling. Based on this method, the determination of the sample aims to obtain a representative sample in accordance with the specified criteria. The criteria sample selection used in this study was:

1. Companies listed on the Indonesian Stock Exchange during the period of 2002–2018.
2. Companies that have distributed dividends during the period of 2002–2018.
3. Companies that provided complete financial statements from 2002 to 2018.
4. Companies that have the data required in research.

Using a purposive sampling technique, the study identified 128 companies which yielded 2,025 units of data. The information on company management ownership was identified and transferred into a table as raw data (Saunders et al., 2007: 248).

Research Instrument

The proportion or amount of ownership of share capital owned by managers and the board of commissioners of the company compared to the total shares of the company in circulation. The managerial ownership is the proportion or percentage of the amount of ownership of share capital which is owned by the managers (the board of directors) and the board of commissioners of the company, compared to the total company shares outstanding. In this study, managerial ownership variables are described using the dummy variable. Each issuer that has a managerial ownership is given a numerical value of one, and issuers that do not have a managerial ownership are given a value of zero.

The dividend policy is a policy taken by company management to decide to pay a portion of the company's profits to shareholders rather than holding it as retained earnings to be reinvested in order to receive capital gains (Ambarwati, 2010). The dividend policy variable uses the dividend payout ratio (DPR) to obtain the percentage of dividends paid and divided by the net profit obtained by the company. The greater the dividend payout ratio distributed, the smaller the funds held by the company, and vice versa, the smaller the dividend payout ratio distributed, the greater the profit retained by the company.

Data Collection

The study employed the descriptive, and verification methods. The first method was used to describe the empirical data of the management ownership of the listed companies (Kothari, 2004). Meanwhile, the second method was employed to verify and test the hypothesis of the relationship between management ownership and dividend policy (Nazir, 2014). Thus, these two methods can accurately describe the real phenomenon of managerial ownership of the listed companies and explain its relationship to dividend policy.

The data was obtained from time series and cross section, which included dividend policy, managerial ownership, and the control variable, so that the study used panel data multiple regression. The research instrument in this study were the firm annual reports from 2002 to 2018, taken from the Indonesian Capital Market Directory. The data collection used the documentation technique.

The regression model was used in this study to examine the effect of managerial ownership on dividend policy, with moderation and control effects, as follows:

$Y = DPR = a - b1MO + b2\ SZ + b3ROE - b4\ DER$

Hypothesis 1: Managerial ownership negatively influences the dividend policy.

Results and Discussion

Prior to the hypothesis testing, the study underwent a classic assumption test to determine whether or not the variables used have a normal distribution, and are free of heteroscedasticity, auto correlation, and multicollinearity problems.

The results in Table 1 show that the dividend policy is predicted to be influenced by the managerial ownership controlled by the company size, profitability, and leverage.

Table 1: Regression Estimation Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.328231	0.031671	10.36389	0.0000
MO	-0.002697	0.000428	-6.307588	0.0000
SZ	0.003682	0.001357	2.713189	0.0067
ROE	0.007722	0.002366	3.263263	0.0011
DER	-0.085199	0.018409	-4.628000	0.0000
Random Effects (Cross)				
	Effects Specification			
			S.D.	Rho
Cross-section random			0.218918	0.3066
Idiosyncratic random			0.329257	0.6934
	Weighted Statistics			
R-squared	0.032628	Mean dependent var		0.068877
Adjusted R-squared	0.030713	S.D. dependent var		0.334631
S.E. of regression	0.329477	Sum squared resid		219.2807
F-statistic	17.03294	Durbin-Watson stat		0.724779
Prob (F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.022718	Mean dependent var		0.200988
Sum squared resid	317.8103	Durbin-Watson stat		0.500078

Based on Table 1, the study has identified the following equation:

$$DPR = 0.328231 - 0.002697MO + 0.003682SZ + 0.007722ROE - 0.085199DER$$

The statistical analysis shows that the managerial ownership has a negatively significant impact on the dividend policy in the companies listed on the Indonesian Stock Exchange during the period of 2002–2018, with a P-value of 0.0000, and a significance level of 0.05. Therefore, the hypothesis is accepted. This means that the share ownership by management has a negative impact on the dividend policy of the non-financial companies listed on the Indonesian Stock Exchange. This finding supports the results of previous studies in both developed and developing market capitals, and conducted by many scholars (Ramirez, 1993; Moh'd, Perry & Rimbey, 1995; Short et al., 2002; Chen et al., 2005; Afza & Mirza, 2010; Mehrani et al., 2011; Ullah, 2012; Gharaibeh, 2013). These prior studies identified that managerial ownership and dividend policy are negatively significant.

In addition, statistical analysis shows a negatively significant impact of managerial ownership on dividend policy. This result also reflects the hypothesis that tends to support the tax preference theory. As shareholders, managers prefer to have a low dividend rate. The increase of managerial ownership does not lead to an increased dividend share. Following the tax preferences of dividends, as increased dividends lead to high tax, shareholders prefer a low dividend rate. This condition is because of a lack of harmony between the interests of both management and shareholders. Thus, the finding does not support the agency theory, which states that managerial ownership may reduce some of the potential agency conflicts.

The analysis of the regression equation demonstrates how company size, as a control variable, has a positive impact of 0.003682 on the dividend policy. As the level of significance of the company size variable is 0.0067 and is less than the 0.05 significance level, this result is considered significant. This positive coefficient variable of the company size indicates that the greater the company size, the higher the dividend that a company can issue to its shareholders. Large companies tend to have a stronger capacity to provide bigger dividends to their shareholders. This finding supports previous studies by Al Malkawi (2008), Ahmed and Javid (2009), Afza and Mirza (2010), Metha (2012), Baker (2013), Malik, Gul, Khan, and Rehman (2013), Malik (2013), Komrattanapanya and Suntraruk (2014), Maladjian and El Khoury (2014), and Ahmad (2014), which show a significantly positive impact of company size on dividend distribution.

Furthermore, the regression equation analysis of profitability control shows how this variable has a positive influence on dividend policy of 0.007722. The significance value of this variable is 0.0011, which is less than 0.05, meaning that its correlation is significant. This positive coefficient of the profitability variable indicates that the higher the profitability level of a company, the higher the dividend level shared to its holders. This result also confirms previous studies which indicated the influence of the profitability variable on the dividend share (Afza & Mirza, 2010; Al-Kuwari, 2009; Kania & Bacon, 2005; Yiadom & Agyei, 2011; Yusof & Ismail, 2016).

Finally, the statistical analysis of the regression equation shows a significantly positive relationship between leverage as a control variable and dividend policy of -0.085199. Since this variable has a significance value of 0.0000, which is less than 0.05, its correlation is significant. This negative coefficient means that the bigger the leverage variable of a company, the lower or smaller their dividend that is shared to its holders. In this case, companies with a high leverage tend to apply a lower dividend policy because they need to use their profits to pay their obligations. This finding of leverage control on dividend policy supports several previous studies (Abbas & Saad Ameer, 2017; Komrattanapanya & Suntraruk, 2014), which also show a significantly negative relationship between these two variables. Nevertheless, this finding contradicts other studies (Malik, Gul, Khan & Rehman, 2013; Yiadom & Agyei, 2011), which show a positively significant relationship between leverage level and dividend policy.

Conclusion

The data on the influence of managerial ownership on dividend policy on the Indonesian Stock Exchange is still limited. As such, this study manages to expand its scope by examining the influence of managerial ownership on dividend policy. To obtain more accurate data on the influence of this aspect, the study includes several control variables which include company size, profitability, and leverage. The results show that managerial ownership, particularly among Indonesia's non-financial companies, is negatively related to dividend policy.

The limitations in this study are a lack of variables that serve as control variables. Future research could add independent variables, including share ownership.

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