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MANAGERIAL OWNERSHIP AND DIVIDEND POLICY IN INDONESIA

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Abstract

In general, the main objective of investors in investing their capital is to get a return or return on investment (return), namely in the form of dividend income. This dividend policy is very important for financial managers because a manager must pay attention to the interests of the company, shareholders, society and the government. So this research takes the title Managerial Ownership and Dividend Policy. The formulation of the problem in this study is: Does the proportion of managerial ownership affect dividend policy? The number of samples in this study was all 611 companies listed on the Indonesia Stock Exchange in the 2015-2019 observation periods. With the method of determining the sample using purposive sampling technique, 26 companies were obtained as samples with 5 years of financial report data, so the data obtained as 130 financial statement data will be processed using SPSS for Windows. The data analysis techniques used were validity and reliability tests, classical assumption tests, multiple linear regression analysis, determination analysis, t-test (t-test), and F test (F-test). The analysis found that managerial ownership has a positive effect on dividend policy in companies listed on the Indonesia Stock Exchange, the proportion of managerial ownership <20% has no effect on *dividend policy in companies listed on the Indonesia Stock Exchange, the proportion of managerial ownership> 20% has a positive effect on dividend policy on companies listed on the Indonesia Stock Exchange, return on assets has no effect on dividend policy on companies listed on the Indonesia Stock Exchange, debt to equity ratio has no effect on dividend policy on companies listed on the Indonesia Stock Exchange, and total asset turnover has a negative effect on dividend policy in companies listed on the Indonesia Stock Exchange.*

Keywords: Managerial Ownership, Dividend Policy, Return on Assets, Debt to Equity Ratio, Total Asset Turnover

INTRODUCTION

The rapid development of the business world has led to increasingly fierce business competition. This creates a business environment that is full of competition, so the management has to rack their brains to maintain the company's existence in the business world. One form of company to develop its business can be done by increasing capital, either by way of debt or issuing shares in the capital market. According to Dewi and Vijaya (2018: 15) the capital market in general is a meeting place for sellers and buyers to conduct transactions in order to obtain capital. Sellers in the capital market are companies that need capital (issuers), so they try to sell securities in the capital market. While the buyer (investor) is the party who buys shares in the company to earn a profit.

In general, the main purpose of investors in investing their capital is to get a return or return on investment in the form of dividend income. Thus, every company is required to be able to operate with a fairly high level of efficiency in order to continue to have superiority and high competitiveness in an effort to generate net profit as optimally as possible.

Profits earned by the company are divided in the form of dividends or held for investment. The profit allocated to retained earnings will be used by the company to be reinvested in profitable assets, for example used to buy securities. Meanwhile, profits allocated to dividends will be distributed to investors as a return on funds invested in shares. Dividends are an investment attraction for investors in the primary and secondary markets.

This dividend policy is very important for financial managers because a manager must pay attention to the interests of the company, shareholders, society and government. Problems are sometimes complicated by external funding. So it is possible to distribute profits as dividends and at the same time issue new shares. Another problem with dividend policy is that companies can distribute dividends not in the form of cash but in the form of shares (stock dividend). Companies can also distribute funds to shareholders by repurchase of shares (Dewi and Vijaya, 2019: 137).

Then there is an agency problem or agency conflict. Agency problems can be overcome by carrying out total supervision of the performance of the manager or manager. Such supervision requires a large enough cost to overcome it which is called agency cost. Agency costs can be in the form of a bonus of share ownership rights in the company's share ownership structure by shareholders. To reduce agency costs, it can be done by increasing managerial ownership.

According to Nabela (2012: 2) managerial ownership (managerial ownership) is the proportion of shareholders from the management who actively participate in making company decisions (directors and commissioners). In the involvement of share ownership, managers will act carefully because they will also bear the consequences in the decisions they make (Listyani, 2013: 45). In addition, managers will be motivated to improve the management of their company. Managerial ownership can be seen from the concentration of ownership or the percentage of share ownership by the board of directors and management. The percentage is obtained from the number of shares owned by the managerial. The greater the proportion of managerial ownership in the company,

Concentrated ownership has more attention on monitoring company decisions with the aim of protecting their investments (Ullah et al, 2012). Taman and Nugroho (2011) argue that the concentration of ownership describes how and who has control over the whole or most of the ownership of the company and the whole or most of the holders of control over the business activities of a company. This is in accordance with the residual theory of cash dividends (Karen, 2003) which states that the excess cash should be distributed in the form of dividends, but the owner does not like the distribution of profits in the form of dividends. Owners prefer to treat it as retained earnings, unless they know that the fund does not provide a positive net present value (NVP) on the additional investment.

High managerial ownership will align the interests of management with the interests of shareholders. Managers will act more carefully, because managers, who are also shareholders, will also bear all the consequences that are beneficial or detrimental to shareholders, so that the company's management policies that will be implemented can increase the prosperity of shareholders. When the manager owns shares in the company, then he tends to lead to a decision to pay higher dividends as a return on his investment. Several research results that show managerial ownership have a positive effect on the dividend payout ratio include research from Rahmawati (2015), Yusuf (2016), and Qahtani (2017).

The results of the research are not yet conclusive or inconsistent, the researcher suspects that the proportion of managerial ownership according to SAK is <20% managerial ownership, the investor company does not have a significant influence on the investee company, while companies with >20% managerial ownership have a significant influence on the investee company. . Therefore, in this study, apart from examining the effect of managerial ownership on dividend policy, it also examines the proportion of ownership on dividend policy, this distinguishes this research from previous research that has been done.

To find out how much influence managerial ownership has on dividend policy, this study uses the control variables debt to equity ratio (DER), return on assets (ROA), and total assets. Financial ratio debt to equity ratio can be used to assess debt to equity. An increase in debt will affect the size of the net profit available to investors and determine the size of the dividend to be received. Research result Muktisari (2005) shows *return on assets* (ROA) effect to the dividend payout ratio.

Debt to equity ratio (DER) is the main financial ratio and is used to assess the financial position of a company. This ratio is also a measure of the company's ability to pay off its obligations. The results of Yasa's research (2016) show that the debt to equity ratio (DER) has a negative effect to the dividend payout ratio. According to Syamsuddin (2011: 62), total assets are the total of all assets owned by companies or financial institutions that are used to support the operations of these companies and financial institutions. The results of Simanjuntak's research (2016) show that total assets have a significant effect to the dividend payout ratio.

Referring to the background of the research that has been presented, the formulation of the research problem is: Does the proportion of managerial ownership affect dividend policy?

LITERATURE REVIEW AND RESEARCH HYPOTHESES

Signaling Theory

The theory that can be used as a basis for dividend policy is signaling theory. The originator of this signaling theory is Spence who conducted a study entitled Job Market Signaling in 1973. Spence (1973) stated that asymmetric information occurs in the labor market. Therefore, Spence created a signal criterion in order to add power to decision making. Information is an important element for investors and business people because it presents information, notes or descriptions of both past, current and future conditions regarding the company's business prospects and how the securities market is. Complete, relevant, accurate and timely information is needed by investors in the capital market as an analytical tool to make investment decisions (Jogiyanto, 2017: 89).

According to Suryani (2015: 30) signaling theory is about how a company should give signals to users of financial statements. This signal is in the form of information about what the company has done to realize the owner's wishes. Companies that have good prospects will try to avoid selling company shares and seek new capital in other ways. Company information is an influential element for investors, because company information can provide an overview of the current and future state of the company.

Signaling theory is a theory that looks at the signs that describe a company (Dewi and Wijaya, 2018: 134). This theory explains that information about cash dividends paid is considered by investors as a signal of the company's prospects in the future. This assumption is due to the occurrence of asymmetric information between managers and investors, so that investors use dividend policy as a signal about the company's prospects. If there is an increase in dividends it will be considered a positive signal which means the company has good prospects, causing a positive stock price reaction, on the other hand, if there is a decrease in dividends it will be considered a negative signal which means the company has not so good prospects, causing share prices low (Sofia Maria and Asandimitra, 2017: 198).

Residual Dividend Theory

Residual dividend policy is a form of dividend policy that pays dividends only if there is an excess of funds over the company's profits that are used to finance planned projects. According to Hannifin (2015: 372), the basis of this policy is that investors prefer if the company holds and reinvests the company's profits rather than distributing dividends if the reinvested profit can generate a higher return than the average return that can be generated from other investments with comparable risk. The theory explains that dividend payments are made if the company has excess funds remaining after being used to finance investments that have a positive NPV by using the company's retained earnings. Companies that do not have remaining funds will not pay dividends. Companies tend to finance investment projects using internal financing compared to external financing because the costs to be incurred will be cheaper. This theory also explains why companies that experience fast growth tend to rarely pay dividends and have a low dividend payout ratio.

Agency Theory

Agency theory states that agency relationships arise when one or more people (principals) employ another person (agent) to provide a service and then delegate authority in decision making to the agent (Supriyono, 2018: 63). In practice, the manager as the manager of the company certainly knows more internal information and the company's prospects in the future than the capital owners or shareholders. So as a manager, the manager has an obligation to provide information about the condition of the company to the owner.

Shareholders expect agents to act on their behalf thereby delegating authority to agents. To be able to perform its functions properly, management must be provided with adequate incentives and supervision. Supervision can be done through ways such as binding agents, auditing financial statements and limiting the decisions that can be taken by management. Supervision activities, of course, require costs called agency costs. Agency costs are costs associated with management oversight to ensure that management acts consistently in accordance with the company's contractual agreements with creditors and shareholders (Sofia Maria and Asandimitra, 2017: 190).

Managerial Ownership and Dividend Policy

The theory that can be used as a basis for dividend policy is signaling theory. According to Suryani (2015: 30) signaling theory is about how a company should give signals to users of financial statements. Dividend payout ratio (DPR) is a financial ratio used to measure the percentage of net profit distributed to shareholders in the form of dividends for a certain period of time (usually within 1 year). According to Sudana (2011: 167) Dividend payout ratio (DPR) is the percentage of profit paid in the form of dividends, or the ratio between profits paid in the form of dividends and the total profit available to shareholders.

Problems arise when there is a difference between shareholders and managers or what is called the agency problem. On the one hand, shareholders want the company's profits to be distributed as dividends on their investments, but managers want the profits to be used as purchases of larger investments for company growth.

Agency problem can be overcome by carrying out total supervision of the performance of managers or managers. Such supervision requires a large enough cost to overcome it which is called agency cost. Agency costs can be in the form of a bonus of share ownership rights in the company's share ownership structure by shareholders. To reduce agency costs, it can be done by increasing managerial ownership.

According to Nabela (2012: 2) managerial ownership (managerial ownership) is the proportion of shareholders from the management who actively participate in making company decisions (directors and commissioners). In the involvement of share ownership, managers will act carefully because they will also bear the consequences of the decisions they make. In addition, managers will be motivated to improve the management of their company.

Research conducted by Indriani (2015) and Yusuf (2016) shows that managerial ownership has a positive effect on the dividend payout ratio (DPR). So the first hypothesis in this study is:

H1: Managerial ownership has a positive effect on *Dividend PA Ratio* in Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period.

Managerial Ownership Proportion and Dividend Policy

Managerial ownership can be seen from the concentration of ownership or the percentage of share ownership by the board of directors and management. The proportion of managerial ownership according to SAK managerial ownership < 20% of the investor company does not have a significant influence on the investee company, while the company with managerial ownership > 20% of the investor company has a significant influence on the investee company. The percentage is obtained from the number of shares owned by the managerial. The greater the proportion of managerial ownership in the company, the management tends to be more active in the interests of shareholders where the shareholders are themselves (Manurung, 2012: 87).

Companies with managerial ownership above 20% of voting rights and are the highest shareholder compared to other shareholders will become controlling shareholders in the company and vice versa. By becoming a controlling shareholder, a shareholder can propose policies related to the running of the company, including dividend policy. So the second and third hypotheses in this study are:

H2: Managerial ownership < 20% has a negative effect on *Dividend PA Ratio* in Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period.

H3: Managerial ownership > 20% has a positive effect on *Dividend PA Ratio* in Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period.

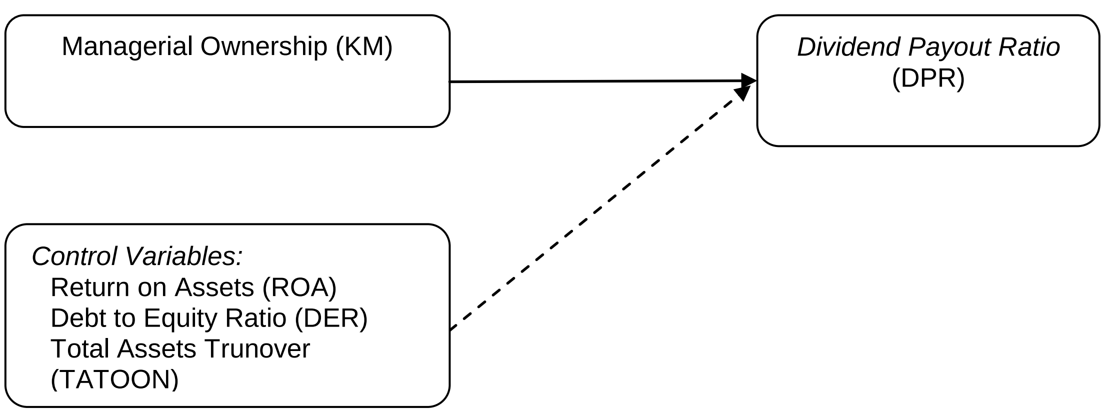

Figure 1 Conceptual Framework

RESEARCH METHOD

The location of this research was carried out on the Indonesia Stock Exchange (IDX) by accessing *www.idx.co.id.*The object of this research is managerial ownership and dividend policy. The population is a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then draw conclusions (Sugiyono, 2016). The population of this study were all companies listed on the Indonesia Stock Exchange for the 2015-2019 observation period as many as 611 companies.

The sample is part of the population that has characteristics like those of the population. The sampling method chosen was non-probability sampling with purposive sampling technique. Purposive sampling technique is a technique of determining the sample by doing based on considerations that are in accordance with the research objectives. This sample is used because in an effort to obtain data about the phenomenon or problem to be studied requires a data source or special criteria based on certain research, a certain level of significance (Sugiyono, 2016). The criteria used as the basis for selecting sample members in this study are as follows:

a. Companies listed on the Indonesia Stock Exchange (IDX) during the study period, namely 2015 to 2019.
b. Companies that publish consecutive financial statements during the 2015-2019 period.
c. Companies that distribute dividends during the 2015-2019 period.
d. Companies with managerial ownership during the 2015-2019 period.

Table 1. Sample Selection Stage Based on Criteria

No	Information	Amount
1	Companies listed on the Indonesia Stock Exchange in a row in 2015-2019	611
2	Companies that do not report annual financial statements during the study period	(119)
3	Companies that do not distribute dividends during the study period	(337)
4	Companies that do not have / do not have managerial ownership during the 2015-2019 period	(129)
Number of samples		26
Total observation data (5 years x 26 companies)		130

Based on Table 1, the total population of 661 was dropped from the study because the company did not submit financial statements, did not distribute dividends and had no managerial ownership 585 (95.74%). So there are 26 (4.26%) manufacturing companies listed on the Indonesia Stock Exchange that meet the criteria in the study, so that the number of observational data obtained is 130, namely 26 companies and observations for 5 years**.**

RESULTS AND DISCUSSION

Effect of Managerial Ownership on Dividend Policy

The results of testing the first hypothesis of the effect of managerial ownership on the dividend payout ratio in companies listed on the Indonesia Stock Exchange show a regression coefficient of 0.19% and a t-count value of 1.16 and a significant value of 0.03 which is smaller than 0.05, it can be concluded that managerial ownership has a positive effect on the dividend payout ratio in companies listed on the Indonesia Stock Exchange, so the first hypothesis (H1) which states that managerial ownership has a positive effect on the Dividend PA Ratio in Companies Listed on the Indonesia Stock Exchange for the 2015-2015 period 2019, supported.
Managerial ownership is the proportion of management's shareholders who are actively involved in making company decisions (directors and board of commissioners). In the involvement of share ownership, managers will act carefully because they will also bear the consequences of the decisions they make. In addition, managers will be motivated to improve the management of their company. So the higher the managerial ownership, the higher the dividend policy made by the company. The results of this study are in line with research conducted by Indriani (2015) and Yusuf (2016) which shows that managerial ownership has a positive effect on the dividend payout ratio (DPR).

The Effect of the Proportion of Managerial Ownership < 20% on Dividend Policy

The results of testing the second hypothesis that the effect of the proportion of managerial ownership <20% on the dividend payout ratio in companies listed on the Indonesia Stock Exchange show a regression coefficient value of 0.16 and a t-count value of 1.39% and a significant value of 0.16 which is greater. of 0.05, it can be concluded that the proportion of managerial ownership <20% has no effect on the dividend payout ratio in companies listed on the Indonesia Stock Exchange, so the second hypothesis (H2) which states managerial ownership <20% has a negative effect on the Dividend PA Ratio. Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period, are not supported.

The results of this study indicate that the proportion of managerial ownership <20% cannot affect the size of the dividend policy carried out by the company, this is probably because the percentage of managerial ownership below 20% has no influence in determining the dividend policy taken by the company. The proportion of managerial ownership according to

SAK managerial ownership < 20% of the investor company does not have a significant influence on the investee company.

Effect of Managerial Ownership Proportion > 20% on Dividend Policy

The results of testing the second hypothesis that the proportion of managerial ownership > 20% on the dividend payout ratio in companies listed on the Indonesia Stock Exchange shows a regression coefficient value of 0.96% and a t-count value of 2.23 and a significant value of 0.02 which is smaller. of 0.05, it can be concluded that the proportion of managerial ownership > 20% has a positive effect on the dividend payout ratio in companies listed on the Indonesia Stock Exchange, so the third hypothesis (H3) which states managerial ownership > 20% has a positive effect on the Dividend PA Ratio. Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period, are supported.

Managerial ownership can be seen from the concentration of ownership or the percentage of share ownership by the board of directors and management. The proportion of managerial ownership according to SAK managerial ownership < 20% of the investor company does not have a significant influence on the investee company, while the company with managerial ownership > 20% of the investor company has a significant influence on the investee company. The percentage is obtained from the number of shares owned by the managerial. The greater the proportion of managerial ownership in the company, the management tends to be more active in the interests of shareholders where the shareholders are themselves.

Companies with managerial ownership above 20% of voting rights and are the highest shareholder compared to other shareholders will be the decision makers in the company and vice versa. By becoming a decision maker, a shareholder can propose policies related to the running of the company, including dividend policy.

Effect of Control Variables on Dividend Policy

The control variable in this study consisted of three variables, namely Return on Assets (ROA), Debt to Equity Ratio (DER), and Total Asset Turnover (TATO). The results of the Return On Asset (ROA) test in model 1 show a coefficient value of -0.54%, a t-count value of -1.19, and a significance of 0.23 greater than 0.05 while in model 2 shows a coefficient value of 0.10%, the value of t arithmetic is 0.21, and a significance of 0.83 is greater than 0.05, it can be concluded that Return On Assets (ROA) cannot affect dividend policy in both model 1 and model 2. This means that it is high the low return on assets (ROA) will not affect the level of dividend policy issued by the company.

The results of the Debt to Equity Ratio (DER) test in model 1 show a coefficient value of -0.97%, the t-count value of -0.68, and a significance of 0.49 greater than 0.05 while in model 2 shows a coefficient value of -0.69%, to arithmetic value of -0.48, and a significance of 0.62 greater than 0.05, it can be concluded that the Debt to Equity Ratio (DER) can not affect dividend policy either model 1 or model 2 This means that the high and low Debt to Equity Ratio (DER) will not affect the level of dividend policy issued by the company.

The results of the Total Asset Turnover (TATO) test in model 1 show a coefficient value of -2.74%, the t-count value is -2.14, and a significance of 0.03 is smaller than 0.05 while in model 2 shows a coefficient value of - 2.30%, the t-count value is -1.74, and a significance of 0.08 is smaller than 0.05, it can be concluded that Total Asset Turnover (TATO) has a negative effect on dividend policy, both model 1 and model 2. The higher the Total Asset Turnover (TATO) will reduce the dividend policy issued by the company.

CONCLUSION

Based on the results of the research described in chapter V, the conclusions related to the influence of managerial ownership, the proportion of managerial ownership <20%, the proportion of managerial ownership> 20%, return on assets, debt to equity ratio, and total asset turnover to dividend payout ratio the companies listed on the Indonesia Stock Exchange in this study are as follows:

1. Managerial ownership has a positive effect on dividend policy in companies listed on the Indonesia Stock Exchange.
2. The proportion of managerial ownership <20% has no effect on dividend policy in companies listed on the Indonesia Stock Exchange.
3. The proportion of managerial ownership > 20% has a positive effect on dividend policy in companies listed on the Indonesia Stock Exchange.
4. *Return on assets* does not affect the dividend policy of companies listed on the Indonesia Stock Exchange.
5. *Debt to equity ratio* does not affect the dividend policy of companies listed on the Indonesia Stock Exchange.
6. Total asset turnover has a negative effect on dividend policy in companies listed on the Indonesia Stock Exchange.

This study provides a practical contribution, especially for principals that the proportion of ownership in general has an effect on dividend policy, but after further deepening it turns out that <20% ownership has no effect on dividend policy while ownership> 20% has a significant effect on dividend policy. The results of this study indicate that there is a nonlinear relationship between managerial ownership and dividend policy as the results of research (Collins at al., 2009). Future research should examine the non-linear relationship between managerial ownership and dividend policy. Further research should include the proportion of managerial ownership > 50% with a wider population with longer observations and include more control variables to increase the internal validity of research results.

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