

The Influence of Ownership Structure, Company Size and Profitability on the Dividend Policy and the Value of Manufacturing Companies Registered With The Indonesian Stock Exchange

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Abstract: *This research aims at analyzing the influence of ownership structure on dividend policy, the influence of company size on dividend policy, the influence of profitability on dividend policy, the influence of ownership structure on company value, the influence of company size on company value, the influence of profitability on company value, and the influence of dividend policy on company value. The population of this research is 140 manufacturing companies registered with the Indonesian Stock Exchange. With 45 companies in the period of 2013 to 2017 as samples, this research employs purposive sampling. The analysis is conducted using The Structure Equation Modeling (SEM) with assistance of the Analysis Moment of Structure (AMOS) program version 21. The research results show that (1) Ownership structure positively and significantly influences dividend policy; (2) Company size negatively and significantly influences dividend policy; (3) Profitability positively and significantly influences dividend policy; (4) Ownership structure negatively and insignificantly influences company value; (5) Company size positively and significantly influences company value; (6) Profitability positively and significantly influences company value; and (7) Dividend policy positively and significantly influences company value.*

Keywords: *Ownership Structure, Company Size, Profitability, Dividend Policy and Company Value*

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I. Introduction

Capital market is one means of capital formation and fund allocation directed to enhance people's participation to support national development financing. The existence of capital market basically aims to be the bridge between the flows of fund from investors (that possesses fund) and company which needs fund (for business expansion or for improvement of company's capital structure) as well as the government in fund collection for the national development. The existence of relatively large amount of fund and facilitation for obtaining fund from the capital market may enhance company's interest in going public.

The Indonesian capital market is classified as a currently growing capital market with a high potential to contribute to the Indonesian economy. The Indonesian economic crisis influences companies' fundamental value, particularly those registered with the Capital Market. The 1997 crisis is basically a failure in financing management with implications on investment decision and dividend policy, since the three decisions are related one another. The phenomena above have implications in company's policy, in which it will find it difficult to make new investment since it will concentrate on reducing the amount of debt. In addition, the company will find it difficult to apply dividend policy since the profit is zero or small. This condition will not satisfy the shareholders (stakeholders), particularly the owners. This will cause many shareholders, including those in the board of directors (managerial ownership), to release their shareholding to the public. This will result in declining managerial ownership, and, on the contrary, the institutional ownership will increase. It is a special challenge for the management to make the financial decision taken enhance the company's performance and, eventually, company value.

The development of market capitalization which reflects the value of companies registered with the Indonesian Stock Exchange is given in the table 1 below:

Table 1. Development of Market Capitalization in the Indonesian Stock Exchange Year 2013 – 2017

No	Year	Amount of Capitalization (Rp. Trillion)	Growth (%)
1.	2013	3.247	-
2.	2014	3.537	8,90
3.	2015	4.127	16,70
4.	2016	4.219	2,20
5.	2017	5.021	19,00
Average		4.030	11,70

Source: Indonesian Stock Exchange (Year 2018)

The Table 1 above shows that the amount of stock market capitalization in BEI increases 8.9% from 2013 to 2014, increases 16.7% from 2014 to 2015, increases 2.20% from 2015 to 2016, and increases 19% from 2016 to 2017. Therefore, the average increase of stock market capitalization in the Indonesian Stock Exchange from 2013 to 2017 is 11.70%. This means that the stock capitalization increases in the last 5 years (2013-2017), which is an indicator of the value of companies registered with the Indonesian Stock Exchange.

Dividend policy is a decision whether what a company’s profit will be distributed to its shareholders as dividend or retained in the form of retained earnings for future investment financing. If the company chooses to distribute its profit as dividend, it will reduce the retained earnings and then reduce the total sources of fund from internal financing. On the contrary, if the company chooses to retain its profit, its ability to form internal fund will be higher (Sartono, 2011). Profit sharing is divided into payment to shareholders and reinvestment in company, thus dividend policy is an important part of financing company’s long term strategy.

Investors desire stable dividend policy. In fact, however, the average development of dividend payout ratio from 2013-2017 fluctuates. The development of dividend payout ratio (DPR) in manufacturing companies that distribute dividend consecutively from 2013-2017 is shown below.

Table 2. Average development of Dividend Payout Ratio of Group of Industry in the Indonesian Stock Exchange Years 2013-2017

No	Group of Industry	Dividend Payout Ratio (%)				
		2013	2014	2015	2016	2017
1.	Agriculture, Forestry & Fishing	3.763	0.515	0.813	17.006	33.656
2.	Mining	44.488	4.849	25.699	24.740	32.791
3.	Basic Industry	7.378	7.922	11.703	16.702	18.119
4.	Miscellaneous Industry	7.339	9.529	32.741	39.745	29.549
5.	Consumer Goods	10.984	11.069	18.751	13.578	20.368
6.	Property and Real Estate	0.963	3.223	2.692	4.713	5.402
7.	Infrastructure, Utility & Trans	4.986	8.067	6.446	4.377	11.139
8.	Finance	10.105	5.813	12.538	10.966	11.286
9.	Trade and Service	5.479	2.345	20.396	29.787	23.441
Average Annually		10.609	5.926	14.642	17.957	20.639

Source: ICMD 2017, processed.

According to the Table 2 above, we may examine that the average development of Dividend Payout Ratio (DPR) of each sector of industry in the Indonesian Stock Exchange from 2013-2017 fluctuates and there is no indication of a stable dividend policy application.

Dividend policy is also related to the relationship between managers and shareholders. The interest of shareholders and managers may differ and raise conflict. For example, managers desire small dividend distribution since the company needs much fund for its investment funding, while shareholders desire big dividend distribution. Existing conflict will cause agency cost. From owner’s perspective, dividend policy is an effort to reduce arising cost. Keown, et.al (2014:56) state that dividend payment indirectly results in closer monitoring process to investment made by the management, in relation to the ownership structure.

This research emphasizes company internal factors, which are often deemed important in stock price determination. Company internal factors in capital market analysis are often called company’s fundamental factor and controllable, thus the company may control them. Company internal factors may be classified into company policy factor and company performance factor.

II. Research Method

According to the research purpose of examining and analyzing the influence of ownership structure, company growth and company size on dividend policy and the value of manufacturing companies registered with the BEI, the researcher employs a causality research. This research is conducted to test the hypotheses with regard to the causality relationship between some independent variables and some dependent variables. The research is conducted at the Indonesian Stock Exchange by accessing the data through the Indonesia Capital

Market Directory (ICMD) through the websites of IDX and Bank Indonesia. The research object is the manufacturing companies registered with the Indonesian Stock Exchange (BEI) with observation from 2013 to 2017. The research is conducted for 3 (three) months from February to April 2018.

III. Research Results & Discussion

According to the empirical model used in this research, which is the Path Analysis with software AMOS 21, the hypotheses are tested using a path coefficient on the structural equation models. Table 23 presents the hypotheses tests with p value. If p value is lower than 0.05, the relationship or influence between the independent variables and the dependent variables is significant. In addition, it also explains the direct effect and indirect effect between variables, and the total effect, which is the accumulation of direct effect and indirect effect of each variable analyzed. The test results are presented in Figure 3 and Table 23 below.

Table 23. Hypotheses Tests: Direct Effect and Indirect Effect

No	Variable			Direct Effects	Indirect Effects	Total Effects	P-Value	Description
	Independent Variable	Intervening Variable	Dependent Variable					
1	Ownership Structure	Dividend Policy	-	2.346	0.000	2.364	0.000	Positive Significant
2	Company Size	Dividend Policy	-	-1.887	0.000	-1.887	0.034	Negative and Insignificant
3	Profitability	Dividend Policy	-	1.897	0.000	1.897	0.000	Positive Significant
4	Ownership Structure	-	Company Value	-0.463	0.662	0.199	0.455	Negative and Insignificant
5	Company Size	-	Company Value	0.594	-0.532	0.062	0.006	Positive and Significant
6	Profitability	-	Company Value	0.007	0.535	0.542	0.028	Positive and Significant
7	-	Dividend Policy	Company Value	0.282	0.000	0.282	0.014	Positive and Significant

Source: Results of Data Processing (Appendix 2)

Based on the conceptual framework and research model, to examine the influence of independent variables on dependent variables, the result of analysis on direct effect of ownership structure, company size and profitability on dividend policy and company value, a mathematical model in the form of Structural Equation Modeling (SEM) with the formula below are obtained:

a. Influence of ownership structure, company size and profitability on dividend policy, with equation:
 $KD = 2,346SK - 1,887UP + 1,897Profit + \epsilon$

b. Influence of ownership structure, company size and profitability on company value, with equation:
 $NP = -0.463SK + 0.594UP + 0.282Profit + 0.007KD + \epsilon$

Based on the hypothesis and structural equations, it is explained as follows:

a. The influence of ownership structure on Dividend Policy

It is to test the hypothesis 1 (H1) which states that ownership structure positively and significantly influences dividend policy. Table 23 shows that ownership structure positively and significantly influences dividend policy with path coefficient of 2.346 and (p-value) of 0.014. This test result conforms to the hypothesis 1 (H1) that ownership structure positively and significantly influences dividend policy. Therefore, hypothesis 1 (H1) which states that ownership structure positively and significantly influences dividend policy is acceptable or supported by the fact. This means that the better the ownership structure, the higher the company's dividend payment is.

b. The Influence of Company size on Dividend Policy.

It is to test the hypothesis 2 (H2) which states that company size positively and significantly influences dividend policy. The results of analysis in Table 23 show that company size negatively and significantly influences dividend policy with path coefficient of -1.887 and (p-value) of 0.034. This test result does not conform to the hypothesis 2 (H2) proposed, that company size positively and significantly influences dividend policy. Therefore, hypothesis 2 (H2) which states that company size positively and significantly influences dividend policy is rejected or no supported by the fact. This means that the bigger the company size, the lower the company's dividend payment is.

c. The Influence of Profitability on Dividend Policy.

It is to test the hypothesis 3 (H3) which states that profitability positively and significantly influences dividend policy. The results of analysis in Table 23 show that profitability positively and significantly influences dividend policy with path coefficient of 1.897 and (p-value) of 0.000. This test result conforms to the hypothesis 3 (H3) proposed, that profitability positively and significantly influences dividend policy. Therefore,

hypothesis 3 (H3) which states that profitability positively and significantly influences dividend policy is acceptable or supported by the fact. This means that the better the profitability, the better the company's dividend payment is.

d. The influence of ownership structure on Company Value

It is to test the hypothesis 4 (H4) which states that ownership structure positively and significantly influences company value. The results of analysis in Table 23 show that ownership structure insignificantly and negatively influences company value with path coefficient of -0.463 and (p-value) of 0.455. This test result does not conform to the hypothesis 4 (H4) proposed, that ownership structure positively and significantly influences company value. Therefore, hypothesis 4 (H4) which states that ownership structure positively and significantly influences company value is rejected or no supported by the fact. This means that ownership structure does not contribute to company value.

e. The Influence of Company size on Company Value.

It is to test the hypothesis 5 (H5) which states that company size positively and significantly influences company value. The results of analysis in Table 23 show that company size positively and significantly influences company value with path coefficient of 0.594 and (p-value) of 0.006. This test result conforms to the hypothesis 5 (H5) proposed, that company size positively and significantly influences company value. Therefore, hypothesis 5 (H5) which states that company size positively and significantly influences company value is acceptable or supported by the fact. This means that the bigger the company size, the higher the company value is.

f. The Influence of Profitability on Company Value.

It is to test the hypothesis 6 (H6) which states that profitability positively and significantly influences company value. The results of analysis in Table 23 show that profitability positively and significantly influences company value with path coefficient of 0.007 and (p-value) of 0.028. This test result conforms to the hypothesis 6 (H6) proposed, that profitability positively and significantly influences company value. Therefore, hypothesis 6 (H6) which states that profitability positively and significantly influences company value is acceptable or supported by the fact. This means that the higher the profitability, the higher the company value is.

g. The Influence of Dividend Policy on Company Value.

It is to test the hypothesis 7 (H7) which states that dividend policy positively and significantly influences company value. The results of analysis in Table 23 show that dividend policy positively and significantly influences company value with path coefficient of 0.282 and (p-value) of 0.014. This test result conforms to the hypothesis 7 (H7) proposed, that dividend policy positively and significantly influences company value. Therefore, hypothesis 7 (H7) which states that dividend policy positively and significantly influences company value is acceptable or supported by the fact. This means that the higher the dividend payment, the higher the company value is.

IV. Conclusion

Based on the analysis results and discussion, the research conclusions are as follows: (1). Ownership structure positively and significantly influences dividend policy. (2). Company size negatively and significantly influences dividend policy. (3). Profitability positively and significantly influences dividend policy in manufacturing industries registered with the Indonesian Stock Exchange. (4). Structure has negative relationship with company value. This means that the higher the ownership structure, the lower it contributes to company value, and even company value tends to decline. (5). Company size positively and significantly influences company value. (6). Profitability positively and significantly influences company value. (7). Dividend policy positively and significantly influences company value.

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