
The Role of Ownership's Concentration Moderating Dividend Policy Effects on Firm Value

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Abstract:

Purpose: The main aim of this research is to examine the role of ownership's concentration moderating of dividend policy effects on firm value.

Design/methodology/approach: For the empirical part we have used a sample of 23 companies with five years of observation a total of 115 data observations. The retrieval of data observations in the sample was based on certain criteria in the period of 2014-2018.

Findings: The result supported the hypothesis that dividend policy had a positive effect on firm value. Besides, the concentration of ownership weakened the relationship between the dividend policy and the firm value. Results proved that companies in Indonesia whose ownership had been owned by families would affect management policies, such as dividend policy.

Practical Implications: Therefore, the concerns of business ethics in Indonesia had been weak. It was supporting the allegation that law enforcement in Indonesia was weak.

Originality/value: The Novelty of testing the concentration of ownership as a moderating variable.

Keywords: Firm value, dividends policy, ownership concentration.

JEL Codes: H2, H21, J54, Q13.

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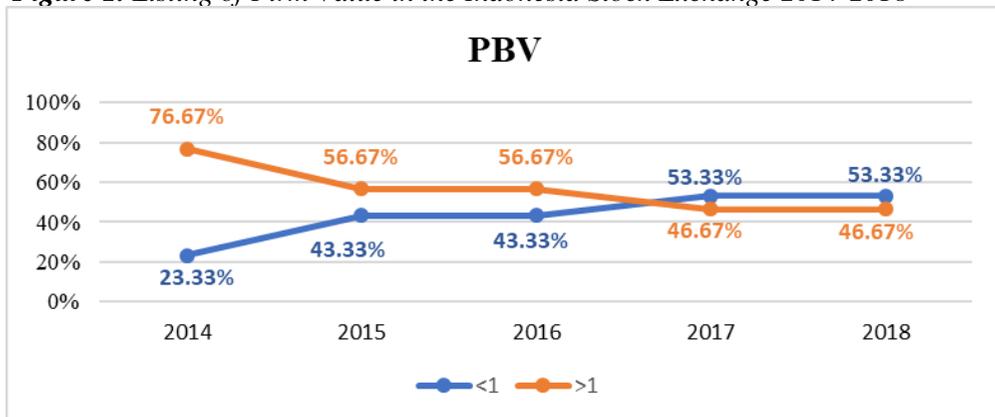
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1. Introduction

Firm value is an investor's assessment of a company that was associated with the company's share price (Brigham and Houston, 2001). Through the high share price the firm value will be high, so it will increase the market reliance on the prospects of the company in the future (Cremers *et al.*, 2017) The firm value of industrial manufacturing in Indonesia was measured by using the Price to Book Value (PBV) as indicated in Figure 1.

Figure 1. Listing of Firm Value in the Indonesia Stock Exchange 2014-2018



Source: Indonesia Stock Exchange.

Based on this Figure there was a decline in the industrial manufacturing firm value in the period 2014-2018. In 2014, listed industrial manufacturing firms having PBV below one was 23,33% of the total while in 2018 had increased to 53,33%. The firm value, which is less than 1, illustrated that the company was in undervalued condition (Kuzey and Uyar, 2017) meaning that the company's shares are rated lower than its book value (Damodaran, 2016). Meanwhile, the total number of companies with PBV more than 1 had decreased from 76,67% in 2014 to 46,67% in 2018. PBV greater than 1 is the case of an overvalued case. For companies that had PBV higher than 1 is a favourable condition as it is pointed out by Willim (2015). Thus, there was a decrease in PBV for the industrial manufacturing companies during the period 2013-2017.

One of the suspected factors that could affect the firm's value is the dividend policy. According to Nippel (2008), the firm value decreased while there were reducing dividend payments. This is because the dividends have a signalling effect as pointed by Okoro, Ezeabasili and Alajekwu, (2018). The increase in dividend payments was being regarded as a positive signal in conveying information about the company's future income prospects, so it increased the firm value (Ismail *et al.*, 2019a; 2019b). Conversely, a reduction in the dividend payments was being regarded as a negative signal about future income prospects to lower the firm value (Budagaga, 2017). According to Brigham and Houston (2001) the dividend policy was a decision on

how large profits that will be paid out as dividends or retained to be invested back into the company. Furthermore, Chen and Dhiensiri (2009) argued that the dividend policy was essential for investors because it was able to provide certainty about the health of financial companies and attract the investors' interests who seek for fixed income. The dividend payments, which were done consistently and stably, could affect the shares' price, and the growth period ahead (Shams Koloukhi, Taghavi Moghaddam and Parsian, 2016; Kambey *et al.*, 2018; Kurniawati *et al.*, 2019).

Anton's research (2016) in Romania and Subramaniam's (2018) in Malaysia concluded that management could increase the firm value. Research conducted by Senata (2016) in Indonesia proved that the increase of the distributed dividends became a signal to investors about the prospects for company's growth in the future. Meanwhile, Marangu and Jagongo (2015) in Kenya proved that the dividend policy got negative impacts on the firm value. Furthermore, Gharaibeh and Qader (2017) in Saudi Arabia concluded that the dividend policy was not the main factor that affected the firm's value.

Managers to consider policies that allegedly have opted for more profit-making have been taken to carry out the expansion and do not distribute dividends to shareholders. This was because the manager had an interest in pursuing prosperity by accepting the premiums / incentives in a performance that was achieved and managed in a program called a bonus program (Watts and Zimmerman, 2001).

Some studies have previously had inconsistent results. It was suspected that other variables could affect the concentration of ownership. In Asian countries, including Indonesia, most ownership shares were concentrated with overall main ownership shares (Zhuang, Edwards and Capulong, 2001). The structure of centralized ownership has shown the potential of shareholders responsible for managing the company (Prencipe, Bar-Yosef and Dekker, 2014). It would lead to a difference in interests between the majority shareholders and minority shareholders, so the majority owner had an opportunity to suppress the rights of the minority owner (Mitton, 2002). The majority owner tends to make a policy more favourable to his interests, such as the negative minority owners of those interests (Claessens *et al.*, 2000; Sakir *et al.*, 2019; Setyawan *et al.*, 2014). In Indonesia, the structure of companies' governance was managed by majority families (Lukviarman, 2004; Bernadus *et al.*, 2018). This opinion was supported by an Indonesian business survey conducted by Price Waterhouse and Copper in 2014 proved that more than 95% of businesses in Indonesia were owned by families' companies.

Crisostomo and Brandao (2016) in Brazil proved that the concentration of ownership had adverse effects on the distributed dividends. Furthermore, the research of Boubraki *et al.* (2011) and Reyna (2015) in Canada proved that the concentration of ownership had adverse effects on the firm value. Thus, the concentration of ownership had predicted to weaken the dividends policy influences on the firm value.

2. Theoretical Framework

This study used the agency theory to explain the occurred problems in dividend policy. Interest conflicts are the essence of agency problems that have been arisen from the delegation of management functions from principals to agents (Jensen and Meckling, 1976). Based on the assumption that both sides, managers and investors, are utility maximisers (maximizing their profits) in determining the dividend policy allegedly chose to withhold incomes for their interests and did not pay attention to the welfare of the shareholders. Thus, the occurred agency problem could decrease the distributed dividends and reduce the firm value.

The ownership concentration was expected to reduce agency problems that occurred between principals and agents. It has happened because the majority of shareholders could use the owned controls to put, pick, and oversee the management following its interests. The existence of management who worked with promoting the interests of majority shareholders would bring the agency conflict, such as conflict of agency among the shareholders in majority and minority stakes (Brian and Martani, 2014). Thus, the authors concluded that the existence of ownership concentration did not resolve agency conflict entirely. However, it caused other agency conflicts among majority shareholders and minority shareholders.

The firm value was an investor's assessment of a company associated with the company's share value (Brigham and Houston, 2001). The firm value was reflected by its share price, if the share price were higher, so the firm value will be higher. The higher share price could increase public trust in the company's prospects (Hermuningsih, 2013). Therefore, the company tried to increase the firm value by maximizing its share price (Pangulu and Maski, 2014). The firm value in this study was measured by using the Price to Book Value, the comparison between the market value of the share and the book value of the share as a ratio.

Meanwhile, according to Brigham and Houston (2001), the dividend policy was the decision of how much profit now will be paid out as dividends or detained to be invested back into the company. By dividend policy, the financial health of the company could be known (Crisostomo and Brandao, 2016). Besides, it was able to improve the shareholders' trust of the company through the dividend policy (González, Guzmán, Pombo and Trujillo, 2014). The dividend policy in this study was proxied by the Dividend Payout Ratio (DPR). The reason for choosing the Dividend Payout Ratio (DPR) was a measure which used by investors to see how a large amount of the dividend payments were carried out by the company (Akani and Sweneme, 2016). Weston and Brigham (2005) concluded that the optimal dividend policy was able to create a balance between dividends now and the growth in the future to maximize the reflected firm value through the share price.

The structure of shares ownership in a country was determined by the strength or the weakness protection of the state towards the shareholders (La porta *et al.*, 1996). The

concentration of ownership could encourage majority shareholders tended to create a policy that has greater priority to their interests and detrimental to the minority shareholders (Claessens *et al.*, 2000). Furthermore, Claessens *et al.* (2000) proved that the concentration of ownership in Asia could be measured by using a rate of 10 percent and 20 percent. Furthermore, the research by Lukviarman (2004) concluded that the share ownership of more than 50 percent was the concentrated ownership.

Thus, this research referred to measure the concentration of ownership as in the research by Lukviarman (2004) by using the percentage of share ownership by individuals or companies. Crisóstomo and Brandão (2016) proved that the takeover by the majority shareholders resulted in restricted dividends. Furthermore, the research of Boubraki *et al.* (2011) and Tachmatzidi (2018; 2019) concluded that the lack of law protection towards the minority shareholders resulted in the agency problem among the majority shareholders and minority shareholders. Thus, the concentration of ownership was predicted to weaken the influence of dividend policy on the firm value.

3. Research Methodology

Secondary data form the annual reports of 23 companies selected based on certain criteria, as it is pointed out above in the period of 2014-2018 were used in this study. The sampling was done by using the purposive sampling method, which aimed to obtain a representative sample following the specified criteria.

As a measurement of firm value, we used the Price to Book Value (PBV) that is a ratio between the share price and the book value of the company's share (Brigham and Houston, 2001). The dividend policy that was proxied by the Dividend Payout Ratio (DPR) was used as an independent variable in this study. The DPR was the ratio of dividends per share with earnings per share (Brigham and Houston, 2001). The concentration of ownership was used as a variable moderating in this study. According to Lukviarman (2004), the concentration of ownership could be measured by the proportion of majority share ownership. Meanwhile, the company and leverage measurement were employed as a variable control. Regression model with Moderate Regression Analysis (MRA) was developed to test the formulated hypotheses (Ghozali, 2016) as follows:

$$PBV_{it} = \beta_0 + \beta_1 DPR_{it} + \beta_2 KK_{it} + \beta_3 DPR_{it} * KK_{it} + \beta_4 LEV_{it} + \beta_5 SIZE_{it} + e$$

Where:

PBV_{it} : Firm Value

DPR_{it} : Dividend policy

KK_{it} : Ownership Concentration

SIZE_{it} : Company Measurement

LEV_{it} : Leverage

e_{it} : Error term

4. Results and Discussion

A sample of 23 companies with five years of observation was employed in this study, a total of 115 data observations. Based on Table 1, the firm value (PBV) showed that the mean was 6,47. Furthermore, the dividend policy value (DPR) has a mean value of 0,51 or 51%. It indicated that the dividends distributed by a manufacturing company to the shareholders were still relatively low and has not been optimal. While the concentration of ownership (KK) showed a mean value of 70,14 or 70.14%. It was indicated that there was a concentration of ownership by the very high percentage.

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
PBV	115	0,01	3,45	6,47	0,59
DPR	115	0,00	0,18	0,51	0,04
LEV	115	0,01	0,06	0,37	0,01
SIZE	115	1,11	1,36	29,01	0,09
KK	115	2,13	4,1	70,14	0,63
Valid N (listwise)	115				

The control variable consisted of leverage (LEV) revealed that the mean was 0,37 or 37%. It was indicated the needs of companies' funds were financed by debt that is relatively low. Furthermore, the company measurement generated the mean at 29,01. It showed that companies in Indonesia had large companies' measurements (Table 2).

Table 2. Regression Analysis

Variable	Regression Coefficient	t count	Sig
(Constant)	-11,99	-1,32	0,193
DPR	3,19	2,25	0,003
LEV	0,479	2,91	0,083
SIZE	2,80	1,14	0,29
KK	0,68	1,16	0,00
MODERATION	-0,70	-2,16	0,006
R Square	0,55		
Adjusted R Square	0,578		
F	5,93		
Sig	0,00		

Based on Table 2, the value of the determination coefficient (adjusted R -square) in this research model is 0,578 or 57,8 %. It means that the independent variables in

this study were able to explain the influences on the dependent variable by 37,8 %, and the rest was influenced by other variables not included in this research model. Thus, it can be concluded that the model used in this study is accepted and can be used. Four out of five independent variables are statistically significant. Based on the regression results presented in Table 1 the DPR variable influenced positively the dependent variable with a coefficient 3,19, the LEV variable with a coefficient 0,479 and the SIZE variable with a coefficient 2,80. The significance level in all cases less than 0.05%.

It can be concluded that the research model has proved that the dividend policy has a positive effect on firm value. Therefore, the first hypothesis of this study is accepted. The testing result showed the compatibility with the results of Anton's research (2016) in Romania concluded that management could increase the firm value by improving the dividend policy in an optimal way. Other research by Senata (2016), conducted in Indonesia, concluded that by increasing the distributed dividends it will work as a signal for investors about the prospects of companies' growth in the future. Furthermore, the research by Nwamaka and Ezeabasili (2017) proved that the dividend policy had a positive effect on firm value. It was caused due to the dividend distribution competently prevented the use of flows of cash surplus in unprofitable investments.

Other results in Table 2 proved that the moderating variable has influenced the firm value with coefficient -0,70. It can be concluded that the second hypothesis which suspected that the concentration of ownership weakened the influence of dividend policy on the accepted firm value is approved. The results are in line with the research conducted by Crisostomo and Brandao (2016) in Brazil, stating that the takeover by the majority shareholders caused the limited dividend distribution. The decline of distributed dividends might be affected by the decline of the firm value. Other studies, Boubarki *et al.* (2011), proved that the concentration of ownership has affected negatively the firm value. Thus, it can be concluded that the concentration of ownership weakened the influences of dividends policy on the firm value (Taqi *et al.*, 2020). Moreover, the research by Saona and Martin (2016) concluded that if the concentration of ownership increased, it might decrease the firm value. This is because of the takeover by the majority shareholders on the minority shareholders.

The regression coefficient for LEV (leverage) is 0,479 and statistically significant. The magnitude is low concluding that the leverage is ineffective on the firm value. The regression coefficient for SIZE is not statistically significant (significance level $0,29 > 0,05$) with t value 1,14.

5. Conclusion

It has been proven that the dividend policy has a positive and statistically significant effect on the firm value of the industrial manufacturing companies listed in Indonesia Stock Exchange in the period under study. It was demonstrated that the

dividend policy is one of the factors that affects the firm's value. The increase in distributed dividends could increase the firm's value. The concentration of ownership has shown that it may weaken the relationship between the dividend policy and the firm value. It was showed that the concentration of ownership is one of the deciding factors on the firm value. The results are in line with previous studies on the same subject.

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