

The Role of Blockholders on Dividends Policy Of Indonesian Public Listed Companies

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Abstract

Blockholders as the majority shareholders of the company are indicated to have the power to determine company policies, including dividends policies. The aim of this research is to investigate the role of blockholders on the dividend policy of Indonesian public companies. The analysis was carried out using 2016-2017 financial report from 213 Indonesian public companies. A linear regression conducted to test the relationship between blockholders on dividend payout ratio, and to determine the moderating role of multiple blockholders. The finding of the study reveal that ownership concentration by blockholders proved to have negative significant influence on the decision the portion of profit distributed on dividends (dividends payout ratio). The moderation model testing result that existence of multiple blockholders is not moderate the relationship of ownership concentration by blockholders and dividend policies.

Keywords: *blockholders, multiple blockholders, dividend policies.*

1. Introduction

Dividend policy is one of the important decisions in corporate financial management, the policies about decision on whether profits earned by a company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to financing investment in the future (Dennis & Osobov, 2008). The company's decision to distribute profits as dividends is also related to the funding strategy from external sources, if the company requires additional funds for investment. Conversely, if profits are decided to be retained to finance investment plans in the future, it means that dependence on external funding sources will be reduced.

On the other hand, dividends distributed are important factors that determine shareholder wealth. Investors expect dividends distributed by companies to be stable or even increase over time (Anderson, 2009). Many investor prior to invest their fund on the companies with higher dividend payout.

Based on agency theory (Jensen & Meckling, 1976), company executive has the role as agent on duty to control the company on the best way, while the role of shareholders are to be an principal to that controls the performance of executive at the company concerned. Executive must be able to apply various policies to create profits for the company and provide dividends for shareholders. Conflict of interest from principle and agent creating the problem as agency conflict between principle and agent.

There are several ways that can be taken to reduce agency problems, one of them is to bring the interests of management closer to the interests of shareholders or investors by increasing management ownership in the company concerned (Jensen 1986). Managerial participation in company ownership is expected to minimize agency conflict of principle and exexutive.

Another way that can be taken to reduce agency problems is by increasing control of management performance through centralized share ownership. The concentration of share ownership by blockholders give more control by principle on company policies, including dividend policies (Shleifer & Vishny, 1986). Blockholders prefer to take personal benefits that are not owned by minority shareholders in contributing some of corporate strategic.

Some research has conducted to analyze the influence of ownership concentration by blockholders on dividend policies. Shleifer & Vishny (1986) found that companies with higher concentration ownership are frequently distribute dividend. Ullah, et al (2012) indicate that a positive effect from ownership concentration on dividend payout ratio.

While some other studies get different results related to the influence of blockholders on dividend policies, Hu & Kumar (2004) states that dividend payments significantly decrease with the presence of large shareholders on the company. Mancinelli & Ozkan (2006) found that there was a negative relationship between dividend payments and shareholding decision making power. Harada & Nguiyen (2011) explain that there is a negative relationship between the existence of blockholders and dividend distribution by companies.

2. Literatur Review

Dividend Policies

Dividends represent the amount of corporate profits that are earned and distributed to shareholders, while the rest will be held as retained earnings (Dennis & Osobov, 2008). Dividend Payout Ratio (DPR) is the amount of dividends paid to shareholders in relation to the total amount of net income the company generates. In other words, the dividend payout ratio measures the percentage of net income that is distributed to shareholders in the form of dividends. Dividend policy is important for companies because it involves 2 (two) main reasons (Brigham & Gordon, 1968); 1) Dividend payments will affect the stock price on the market, 2) Retained earnings are the most important source of additional capital for company growth.

Blockholders

Blockholders is an entity that has more than 5% of the total shares of a company (Shleifer & Vishny 1997). Where the entity can be an employee, director or family of people in the company, and can also be an institution or other individuals that come from outside the company.

Ownership concentration have an important role in company policy, especially dividend payment policies. Concentrated ownership has more attention to overseeing corporate decisions with the aim of protecting its investment (Ullah, et al., 2012). On the companies with an higher ownership concentration will pay lower dividends because controlling shareholders have a greater influence on dividend policy (Ramli, 2010).

Blockholders have an important role in reducing agency problems between shareholders and executive, because the presence of concentrated share ownership will facilitate the supervision of company management through voting rights at the General Meeting of Shareholders (GMS). Blockholders ownership can lead to new agency conflicts if there is more than one majority ownership on the company (Edman, 2009). Dividend policy will become more complex on the multiple blockholders companies, which some blockholders can provide a different view of the company's dividend policy (La Porta, et al, 2000).

3. Hypothesis

This study examine the effect of shareholding ownership by blockholders on the company's dividend policy, and whether the existence of more than one blockholders in a company can moderate the effect of blockholders' ownership of shares on the company's dividend policy. The research framework is developed as the following path:

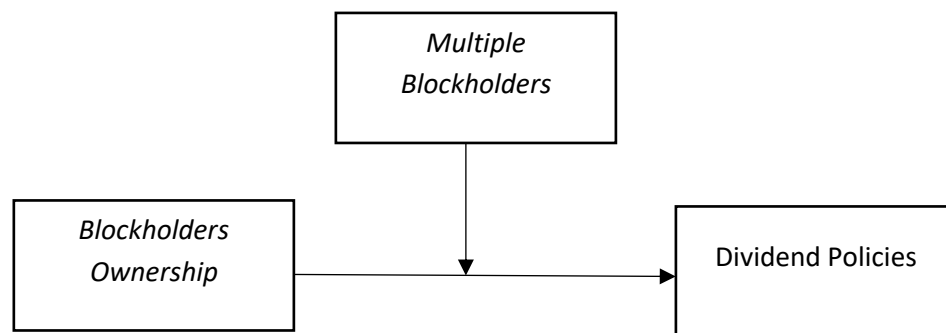


Figure 1 Research Conceptual Framework

Referring to the research problem, conceptual framework, and some theories discussed above, two research hypothesis are considered as follow:

- H₁ : Companies with an higher concentrated ownership by blockholders are associated with less dividend paying firm.
- H₂ : The existence of more than one blockholders in a company's share ownership moderates the influence of the blockholders on the company's dividend policy.

4. Research Method

The type of data in this study is quantitative data which consist of data for ownership structure obtained from company annual report and dividend payout collected from company individual performance. The Website of Indonesian Stock Exchange (IDX) are the main source for related data of this research.

Sample for this study consisted of company listed on Indonesian Stock Exchange that distribute dividend on the period from 2016 to 2017. The final sample consisted of 213 firm-year observations.

Data analysis was performed using multiple regression analysis techniques. The dependent variable was dividend payout ratio which measured as dividend per share divided by earning per share. The independent variable was blockholders ownership variable which measured by the percentage of share ownership by blockholders of the total shares of the company. The multiple blockholders variable in this study is a dummy variable, where the company will be given a score of 1 if there are more than one shareholder in the company with more than 5% ownership, and a score of 0 will be given if there are no more than one blockholders in the company's share ownership.

To analyze the effect of blockholders ownership on dividend policy, we estimated empirical model as follows (Formula 1):

$$DPO = B_0 + B_1Block + e$$

To examine the role of multiple-blockholders as moderating variable on the relationship between shareholding ownership by blockholders and dividend policy, we conducted formula 2 as follows:

$$DPO = B_2 + B_3block + B_4Multip + B_5Block * Multip + e$$

Where *DPO* is a dividend policy, *block* is ownership of shares by blockholders, while *multip* is the existence of multiple blockholders in a company.

Descriptive Data Analysis

Before testing the research hypothesis, we conducted a descriptive analysis to describe the company-company conditions based on the variables studied. Table 1 shows the descriptive statistics of the three variables in this study.

Tabel 1. Descriptive Data

| Variabel | Minimum | Maximum | Mean | Standar Deviasi |
|---------------|---------|---------|-------|-----------------|
| <i>DPO</i> | 0.002 | 0.347 | 0.190 | 0.111 |
| <i>Block</i> | 0.154 | 0.989 | 0.698 | 0.189 |
| <i>Multip</i> | 0 | 1 | 0.732 | 0.440 |

From table 1 it can be seen that there is a high concentration of share ownership on the sample companies. The data shows that the average share ownership by blockholders is 69.8%, and the highest portion of share ownership owned by blockholders of the company is 98.9%.

Hypothesis Testing

To test the effect of the concentration of shareholding by blockholders on dividend policy we conducted a regression analysis from the block variable to DPO. The test results are presented in the following table:

Table 2. Regression Analysis

| | Coefficients | Standard Error | t Stat | P-value |
|------------------|--------------|----------------|--------------|-------------|
| Intercept | 0.271526705 | 0.028782003 | 9.433905728 | 7.4846E-18 |
| <i>X (Block)</i> | -0.117457207 | 0.039831408 | -2.948859045 | 0.003549009 |

The results of the regression analysis in table 2 show that the effect of the blockholders variable on the DPO variable has a coefficient of -0.1775 with a p value of 0.0036. It can be concluded that there is a significant effect of blockholder ownership on the company's dividend policy, a negative coefficient number can be interpreted that the ownership of shares that is increasingly concentrated by the blockholders, the smaller the dividends paid by the company.

Furthermore, to examine the multiple blockholders variable as a moderating relationship between share-ownership by blockholders on company dividend policy. The regression test is performed twice based on Formula 1 as a model before there is a moderating variable and the regression formula 2 is a model with an moderating variable. The results of testing of moderating variables are shown in table 3 below:

Tabel 3. Test Results of Multiple Blockholders as Moderating Variable

| <i>Regression Statistics</i> | <i>Sebelum Moderating Model</i> | <i>Setelah Moderating Model</i> |
|------------------------------|---------------------------------|---------------------------------|
| | | |

| | | |
|-------------------|-------------|-------------|
| Multiple R | 0.198949644 | 0.198992467 |
| R Square | 0.039580961 | 0.039598002 |
| Adjusted R Square | 0.035029212 | 0.025812327 |
| Standard Error | 0.10942713 | 0.109948483 |

From Table 3 it appears that the R square value of the regression test before the moderating model is 0.03958, while the R square value of the regression test in the moderating model is 0.03958, or it can be concluded that the existence of multiple blockholders does not moderate the relationship between the concentration of share ownership by blockholders and company dividend policy.

5. Discussion

The results showed that the concentration of ownership by blockholders had a significant negative effect on dividend policy. The higher concentration ownership of the firm indicates that lower dividends paid by the company. Blockholders can provide an effective monitoring role by having more attention to oversight of corporate decisions with the aim of protecting their investment (Thanatawee, 2013). The results of these studies support the results of several previous studies: Chai (2010), Ullah, et al. (2012), and Hamzah & Abdul (2014).

Dividend policies will provide value of the company in the future. So there are various motivations of the shareholders will be involved in that decision. Basically, investor motivation can be grouped into two, namely long term motivation and short term motivation. Investors with short-term investment motivation will prefer a large portion of dividend payments by companies, while conversely, investors with long-term investment motivation will be more supportive of retained earnings policies (Holderness, 2003). The negative effect of the ownership concentration of blockholders' on dividend policy is due to the fact that blockholders are investors with long-term investment motivation so that it is not oriented towards receiving dividends from the company but on increasing the value of the company (Cronqist. & Fahlenbrach R. (2009).

This research also found that the existence of multiple blockholders does not moderate the relationship between the concentration of blockholders' ownership on the company's dividend policy. The existence of other blockholders in the company's share ownership with the number of shares not as much as the main blockholders does not affect the ability of the main blockholders as controller shareholders in exercising control over company policies, including dividend policy (Hamzah & Zulkifli, 2014).

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