

THE EFFECT OF OWNERSHIP STRUCTURE AND CASH FLOW TO THE NON-FINANCIAL FIRMS' DIVIDEND PAYOUT RATIO LISTED IN IDX

Regina Aria Putri dan Rofikoh Rokhim

Department of Management, Faculty of Economics and Business,
Universitas Indonesia

reginaariaputri@yahoo.com dan rofikoh.rokhim@ui.ac.id

Abstract. The aim of this study is to analyze the effect of ownership structure and cash flow to the non-financial firms' dividend payout ratio listed in Indonesian Stock Exchange (IDX). The samples of this study are 63 firms over the period 2009 – 2013. This study conducted in panel regression analysis using the random effect model approach. The result of regression found that largest shareholder and government ownership give a positive effect to the payment of dividend. While institutional ownership and operating cash flow give a negative impact to the payment of dividend.

Keywords: dividend, ownership structure, cash flow

Abstrak. Penelitian ini bertujuan untuk menganalisis pengaruh *ownership structure* dan *cash flow* terhadap *dividend payout ratio* pada perusahaan non-keuangan yang terdaftar di Indonesia Stock Exchange (IDX). Sampel penelitian ini adalah 63 perusahaan dengan periode penelitian tahun 2009 – 2013. Penelitian ini dilakukan dengan menggunakan *panel regression analysis* dengan pendekatan *random effect model*. Hasil regresi menunjukkan bahwa *largest shareholder* dan *government ownership* memberikan pengaruh positif yang signifikan terhadap pembayaran dividen. Sementara *institutional ownership* dan *operating cash flow* memberikan pengaruh negatif yang signifikan terhadap pembayaran dividen.

Kata kunci: dividen, struktur kepemilikan, arus kas

INTRODUCTION

One of the most important goals for companies in operating their business is to giving value to its owners. For companies that have gone public, the owners of the companies could be called as shareholders (investors). The companies could share the profit they get to the investor by giving dividend, profit reinvestment, or buyback shares (Mahmood *et al.*, 2011). Another option for the investors to get profit is by selling their shares. They will get gain from the difference between the buy price (price when they bought the share at the first time) and the sell price or can be called as capital gains.

The companies usually will hold an annual meeting every period (General Meeting of Shareholders) and one of important thing that will be decided in this meeting is about dividend policy. Based on Indonesian Act No. 40 year 2007 about Limited Company, dividend will be giving after it has been decided in Yearly General Meeting of Shareholders or Extraordinary General Meeting of Shareholders. Dividend policy is about whether the companies will distribute their profit to the shareholders as dividend (in cash) or hold it as retained earnings to be reinvested (Hussainey *et al.*, 2011).

One of proxies that could be used to measure dividend policy is dividend payout ratio (Thanatawee, 2014). Dividend payout ratio will show the comparison between dividend distributed to shareholders and net income (Ross *et al.*, 2012). Taleb (2012) said that dividend is not only can be used to distribute companies' profit but also can be used to mitigate agency problem between management and shareholders. Agency problem could raise agency cost directly and indirectly to the companies (Ross *et al.*, 2012). The direct agency cost could be cost that benefit management but not for the shareholders, like cost to supervise work of management. While the indirect agency cost could be the loss of opportunity.

Agency problem also can be occurred between shareholders because of the proportion of shares they hold (ownership structure), it is called as majority and minority shareholders. The majority shareholders have more control to companies' cash flow (Shleifer dan Vishny, 1997) and could give effect to the amount of dividend that will be distributed to all of shareholders.

In Indonesia the definition of majority shareholders is explained in Indonesian Act No. 8 Year 1995 about Capital Market. Majority shareholders are shareholders who hold more than 50% of all of equity that have been placed to the company.

In other hand, the regulation of controlling shareholders is explained in regulation of Indonesian Securities Exchange Commission (SEC) which since 2012 to be Indonesian Financial Service Authority. Based on Indonesian SEC No. IX.F.1 Year 2011 about Tender Offer, controlling shareholders are shareholders who directly or indirectly have at least 20% of voting rights from all of shares who have voting rights in a company. From this regulation, it also can be concluded minority shareholders are shareholders who have shares less than 20% and do not have control to the company.

Based on data from World Bank (2010), generally public companies in Indonesia are owned and controlled by some parties. The controlling shareholders consist of one family or one group or government.

Another factor that could affect dividend payout ratio based on research conducted by Afza and Mirza (2010) is firm's cash flow such as operating cash flow. From firm's point of view, cash generated from operational activities has an important role in deciding the amount of dividend. Operating cash flow can be a reliable source of fund to pay dividend comparing to other cash flow from investing and financing activities. Firm that has higher operating cash flow will pay more dividends. It indicates that operating cash flow will determine the level of dividend payment.

On the other hand, Taleb (2012) said that another cash flow that could affect dividend payout ratio is free cash flow. Firm could use free cash flow to invest in projects that have positive Net Present Value (Jensen, 1986). The higher free cash flow, the higher dividend payments will be expected. It means dividend could be used as one of way to mitigate agency problem by decreasing the inappropriate use of free cash flow.

Based on explanation above, we can see that ownership structure and cash flow can affect the level of dividend payout ratio of a firm. Therefore, it should be conducted a research to analyze whether ownership structure and cash flow also effect dividend payout ratio in non-financial firms which are listed in IDX. The problem statements of this research are: (1) Does ownership structure effect dividend payout ratio in non-financial firms listed in IDX during 2009 – 2013? (2) Does cash flow effect dividend payout ratio in non-financial firms listed in IDX during 2009 – 2013?

THEORETICAL REVIEW

Dividend policy is a policy to decide whether the companies will distribute their profit to the shareholders as dividend (in cash) or hold it as retained earnings to be reinvested. Not only that, the amount of payment of dividend and the patterns of the payments (annually, semiannually, or quarterly) will also be decided. This policy also used to decide whether the profit would be distributed as share repurchases or any other specific form (Hussainey *et al.*, 2011).

In this research dividend payout ratio will be used to determine dividend policy following Thanatawee (2014), Afza and Mirza (2010), and Taleb (2012). Dividend payout ratio can be calculated by dividing dividend per share and earning per share.

The payments of dividend in Indonesia is regulated in Indonesian Act No. 40 Year 2007 about Limited Company Article 70 Paragraph 1 – 3, Article 71 Paragraph 1 – 3, Article 72 Paragraph 1 – 6, and Article 73 Paragraph 1 and 3. Dividend will be paid based on decision of General Meeting of Shareholders or Extraordinary General Meeting of Shareholders.

Theory of Dividend Policy

Dividend Irrelevance Theory. According to Miller and Modigliani (1961), any kind of dividend policy will not give any effect to the shareholders. In this theory Miller and Modigliani (1961) assume investment policy is different with dividend policy. It makes shareholders' value will not change when the investment policy does not change and increasing of dividend payout is funded by the selling of shares.

Bird-in-hand Theory. According to Al-Malkawi (2007), the uncertainty of business condition and the asymmetric information between shareholders and management make dividend (a bird in hand) is more worthy than retained earnings (to get capital gains in the future). The reason behind this, if firm retains its earnings it will cause the uncertainty of future cash flow. It makes shareholders prefer dividend than capital gains.

Agency Cost and Free Cash Flow Theory. Agency cost is cost that will rise or opportunity that will lose because of conflict in a firm (agency problem). One example of agency problem is the conflict between manager and shareholders and its relation to the firm's free cash flow. According to Jensen (1986), agency problem will raise when manager using free cash flow for its own concern. To prevent this, firms could pay dividend to reduce the amount of free cash flow. From this explanation we can conclude that dividend can be used as one of ways to reduce agency problem between manager and shareholders.

Emery *et al.*, (2011) says that agency problem also can occur between debtholders and stockholders. In this case, debtholders want to protect themselves from stockholders' decision that could harm them because the increasing of debt risk. But on the other hand, stockholders always try to get return from their equity (dividend). The payment of dividend will reduce the amount of cash and the amount of owners' equity or assets (because the decreasing of cash will also decrease the total assets). Even though the amount of owners' equity is decreasing, the amount of debt is still the same. The payment of dividend will raise the proportion of asset that is financed by debt, so the debt ratio will also increase and will make the risk of debt increases. The increasing of risk will decrease the debt's market value and it will decrease the level of debtholders' (claim dilution).

To avoid claim dilution and to protect themselves, debtholders usually will make an agreement with the firm like dividend may be paid if the firm has paid the debt in specific amount or the limit of cash dividend may be paid depends on the amount of profit or cash flow. Ross *et al.*, (2008) added another example of the agreement such as dividend may be paid if the level of firm's earnings, cash flow, and working capital has reached a specific amount.

Informational Asymmetry and Signaling Theory. In a public company, asymmetric information often occurs between manager (the firm) and market. Bhattacharyya (1979) explained that much information about the firm is only knew by the manager, but not by market like the prediction of profit from project they will get. To give this information to market, firm will give a signal to the market by paying dividend. The higher level of dividend payment, makes the market will think the better the firm's performance and the market will also predict that the firm will get high level of profit. By paying dividend a firm could give market the information of firm's condition indirectly. It will make market interested in buying their shares and give benefit to the firms if they want to get additional equity. Al-Malkawi (2007) also explained that only firms with a good quality could give signal to the market by dividend payment because it will take an extra cost like the cost has to be paid to get external financing, the tax of dividend payment, or other cost due to poor investment decision.

Clientele Effects of Dividend Theories. This theory divides investors (clienteles) to two part based on the tax rate and transaction cost (Al-Malkawi, 2007). If the rate of tax is higher than transaction cost, investors will invest their funds in a firm that pay dividend in lower level or do not pay dividend at all. In contrast, if investors do not have to pay tax of the dividend payment or the tax rate is lower than transaction cost, they will prefer to invest their funds in a firm with high level of dividend payment. The same as investors who want to get capital gains, if they could not afford to pay the high transaction cost, they will prefer to invest in a firm with high level of dividend payment.

Life-Cycle Theory. Based on this theory, firms will pay dividend according to their phase in life cycle. A mature company will pay dividend because they already have big amount of cumulative profit but have little investment opportunities. While growth company usually will not pay dividend because in this phase they have many investment opportunities but limited source of funds, so they will retain the profit for reinvestment (DeAngelo *et al.*, 2006).

DeAngelo *et al.*, (2006) used retained earnings to total assets (RETA) ratio as proxy of firms' life cycle. Firms with higher RETA are more mature than firms with lower RETA and have higher free cash flow. It makes the more mature firms will pay higher dividend.

Factors Influencing Dividend Payout Ratio. Below are some factors that could influence firms' dividend payout ratio:

(a) **Ownership structure.** According to Thanatawee (2014), ownership structure could affect firms' dividend payout ratio. In agency theory, large shareholder or majority shareholder will give two perspectives about moral hazard (Shleifer and Vishny, 1997). In one side, large shareholders (blockholders) have an important role in mitigating agency problem between shareholders and management. But in the other side because of control they have, majority shareholders could benefit their position to gain profit for their own. It could happen because majority shareholders also have control of firms'

cash flow. This could raise another agency problem between majority and minority shareholders.

Based on the research, Thanatawee (2014) found that largest shareholders, ownership concentration by five largest shareholders, and government ownership would give positive effect to firms' dividend payout ratio. While institutional ownership would give negative effect to dividend payout ratio. Thanatawee (2013) also found that individual investor (public investor) would give negative impact to firms' dividend policy.

Bradford *et al.* (2013) also found the same evidence as Thanatawee (2014) about the relation of government ownership and dividend payout ratio. The higher government ownership in a firm, the higher dividend it would pay due to the easier access of capital. Then similarly with Thanatawee (2013) findings, Ehsan *et al.* (2013) also found individual ownership has negative impact to dividend payouts. The reason behind this could be some individual investors' point of view arguing that dividend is not the instant source of fund.

In Indonesian case, generally public companies in Indonesia are owned and controlled by some people (World Bank, 2010). The controlling shareholders consist of one family or one group or government. It means a lot of individual investors are minority shareholders. Therefore to protect minority shareholders, Indonesia has regulated this in Indonesian Act No. 40 Year 2007 about Limited Company.

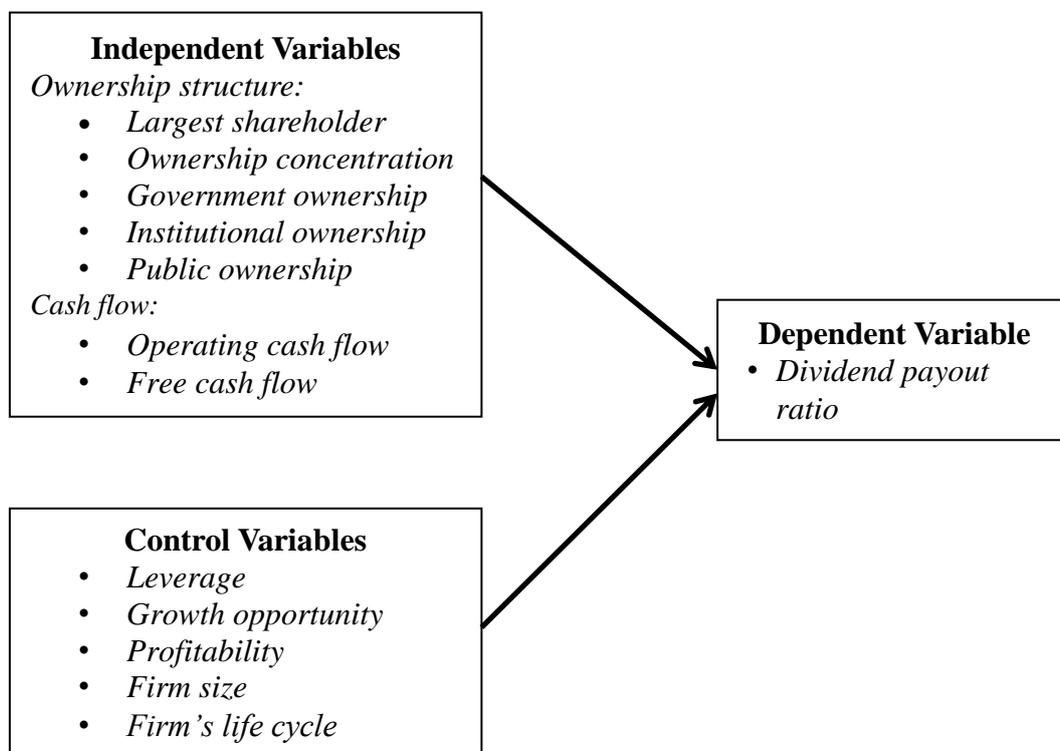
(b) Cash flow. The first cash flow is operating cash flow, which is generated from firms' business activities. From firms' point of view, cash generated from firms' operating activities has an important role in deciding dividend payments. Operating cash flow can be more reliable to pay dividend than two other source of cash flow like cash flow from investing and financing activities (Afza and Mirza, 2010). Beside that, operating cash flow can better reflexing firms' performance and the level of the firms' liquidity (Mahmood, 2007). As the result, firms' with higher operating cash flow are expected to have better position in paying dividend than firms' with lower or negative operating cash flow. According to Afza and Mirza (2010), there is a significant positive effect between operating cash flow and firms' dividend payout ratio.

The second cash flow is free cash flow. According to Jensen (1986), free cash flow is surplus cash flow than can be used for investing in new projects with positive net present value which have been calculated by using specific level of cost of capital before. If firms have a big amount of free cash flow, it will raise the potency of agency problem to happen.

The amount free cash flow can be reduced by paying dividend to the shareholders. And this payment of dividend can reduce the possibilities of agency problem between manager and shareholders (Taleb, 2012). Hence, it could be seen that free cash flow may affect firms' dividend payout ratio. Taleb (2012) found that free cash flow gives negative significant effect towards dividend ratio. It means there is agency problem in the sample firms of the research. On contrary, Amidu and Abor (2006) and Holder *et al.* (1998) found there is positive and significant effect between free cash flow and dividend payout ratio.

METHOD

Mind Map Figure



Based on the literature review and mind map figure of frameworks, below are the hypothesis of this research:

H_1 : There is effect between ownership structure and dividend payout ratio.

H_2 : There is effect between cash flow and dividend payout ratio.

H_3 : There is effect between ownership structure and cash flow towards dividend payout ratio.

This research uses the data from: (1) Information and theory are collected through books, scientific literature, journal, article, and any other source that relevant to this research. (2) Secondary data is obtained by collecting firms' audited annual reports and closing price during 2009 – 2013 from IDX, Thomson Reuters, and some other source to support this research.

The unit analysis of this research is organization, the non-financial firms listed in IDX during 2009 – 2013 and the population of this research is all of non-financial firms listed in IDX. Purposive sampling method has been used to get the sample with criteria: (1) The non-financial firms' listed in IDX have complete audited annual reports during 2009 – 2013. (2) The firms have complete closing price during the period. (3) The firms have positive profit during the period. (4) The firms may not more than 1 year not paying dividend during 2009 – 2013.

Operational Variables. Dependent variable in this research is dividend payout ratio (DPO). It could be calculated by dividing dividend per share and earning per share (Thanatawee, 2014).

Independent variables consist of ownership structure and cash flow: (a) Ownership structure Ownership structure consists of largest shareholder (TOP1): the percentage of shares owned by the largest shareholder (Thanatawee, 2014), ownership concentration (TOP5): the percentage of shares owned by five largest shareholders (Thanatawee, 2014), government ownership (GOV): the percentage of shares owned by government (Thanatawee, 2014), institutional ownership (INST): the percentage of shares owned by bank, financial institutions, insurance companies, funds, and unit trusts (Thanatawee, 2013), and public ownership (PBLC): the percentage of shares owned by public and individual investor (Thanatawee, 2014). (b) Cash flow consists of operating cash flow which could be calculated by dividing operating cash flow and total assets (Afza and Mirza, 2010) and free cash flow could be calculated by subtracting net profit with change in fixed assets and change in net working capital, then divide it by total assets (Taleb, 2012).

Control variables are firm characteristic that consist of leverage (LEV) using debt to equity: dividing total debt and total equity (Taleb, 2012), growth opportunity (GRO) using price to book ratio: dividing share price and book value (shareholders' equity) per share (Baker *et al.*, 2007), profitability (PRO) using return on equity (ROE): dividing net profit and total shareholders' equity (Taleb, 2012), firm size (SIZ) using natural logarithm of total assets (Baker *et al.*, 2007), and firm's life cycle (FLC) using retained earnings to total assets ratio (Thanatawee, 2014).

Panel Data Regression. Based on mind map, to analyze the effect of ownership structure and cash flow to dividend payout ratio, panel regression method will be used. The models are:

Model 1

$$(DPO)_{it} = \alpha + \beta_1(TOP1)_{it} + \beta_6(LEV)_{it} + \beta_7(GRO)_{it} + \beta_8(PRO)_{it} + \beta_9(SIZ)_{it} + \beta_{10}(FLC)_{it} + \varepsilon_{it} \quad (1)$$

Model 2

$$(DPO)_{it} = \alpha + \beta_1(TOP5)_{it} + \beta_6(LEV)_{it} + \beta_7(GRO)_{it} + \beta_8(PRO)_{it} + \beta_9(SIZ)_{it} + \beta_{10}(FLC)_{it} + \varepsilon_{it} \quad (2)$$

Model 3

$$(DPO)_{it} = \alpha + \beta_1(GOV)_{it} + \beta_6(LEV)_{it} + \beta_7(GRO)_{it} + \beta_8(PRO)_{it} + \beta_9(SIZ)_{it} + \beta_{10}(FLC)_{it} + \varepsilon_{it} \quad (3)$$

Model 4

$$(DPO)_{it} = \alpha + \beta_1(INST)_{it} + \beta_6(LEV)_{it} + \beta_7(GRO)_{it} + \beta_8(PRO)_{it} + \beta_9(SIZ)_{it} + \beta_{10}(FLC)_{it} + \varepsilon_{it} \quad (4)$$

Model 5

$$(DPO)_{it} = \alpha + \beta_1(PBLC)_{it} + \beta_6(LEV)_{it} + \beta_7(GRO)_{it} + \beta_8(PRO)_{it} + \beta_9(SIZ)_{it} + \beta_{10}(FLC)_{it} + \varepsilon_{it} \quad (5)$$

Model 6

$$(DPO)_{it} = \alpha + \beta_1(OCF)_{it} + \beta_6(LEV)_{it} + \beta_7(GRO)_{it} + \beta_8(PRO)_{it} + \beta_9(SIZ)_{it} + \beta_{10}(FLC)_{it} + \varepsilon_{it} \quad (6)$$

Model 7

$$(DPO)_{it} = \alpha + \beta_1(FCF)_{it} + \beta_6(LEV)_{it} + \beta_7(GRO)_{it} + \beta_8(PRO)_{it} + \beta_9(SIZ)_{it} + \beta_{10}(FLC)_{it} + \varepsilon_{it} \quad (7)$$

Model 8

$$(DPO)_{it} = \alpha + \beta_1(TOP1)_{it} + \beta_2(TOP5)_{it} + \beta_3(GOV)_{it} + \beta_4(INST)_{it} + \beta_5(PBLC)_{it} + \beta_6(OCF)_{it} + \beta_7(FCF)_{it} + \beta_8(LEV)_{it} + \beta_9(GRO)_{it} + \beta_{10}(PRO)_{it} + \beta_{11}(SIZ)_{it} + \beta_{11}(FLC)_{it} + \varepsilon_{it} \quad (8)$$

FINDINGS AND RESULT

Descriptive Analysis. After conducted normality test, the total samples of this research are 63 non-financial firms listed in IDX who pay dividend minimum four years during 2009 – 2013. Below is descriptive statistic for mean, minimum, maximum, and standard deviation every variable.

Table 1. Descriptive Statistics

Variabel	Obs.	Mean	Max.	Min.	Std. Dev.
DPO	315	0.2615	0.7890	0.0000	0.1763
TOP1	315	0.5502	0.9855	0.0777	0.2129
TOP5	315	0.6783	0.9855	0.1505	0.1824
GOV	315	0.0831	0.9003	0.0000	0.2222
INST	315	0.0476	0.8150	0.0000	0.1284
PBLC	315	0.3327	0.8768	0.0145	0.1903
OCF	315	0.1020	0.3913	-1.7435	0.1432
FCF	315	0.0099	2.9675	-0.9995	0.2139
LEV	315	1.2177	8.2279	0.0632	1.1426
GRO	315	1.8970	8.2096	0.0022	1.6748
PRO	315	0.1979	1.4818	0.0001	0.1282
SIZ	315	15.1554	19.1809	11.1959	1.5162
FLC	315	0.3341	0.8809	0.0043	0.2030

Source: Researcher (2014)

The mean value of dividend payout ratio (DPO) during 2009 – 2013 is 0.2615 with standard deviation 0.1763. The maximum value of DPO is 0.7890 and the minimum value is 0.0000. Those firms did not pay dividend because according to Indonesian Act No.40 Year 2007 about Limited Company, firms may not pay dividend if General Meeting of Shareholders decided not to pay dividend to the shareholders. For the next sample largest shareholder (TOP1), it has mean value 0.5502 with standard deviation 0.2128. The maximum value of TOP1 is 0.9855 and the minimum value is 0.0777. From the mean value, it could be concluded that most of largest shareholders of the samples are majority shareholders because they have more than 50% of total shares and they also controlling shareholders because they have more than 20% of total shares. Then for ownership concentration (TOP5), the mean value is 0.6783 with standard deviation 0.1824. The maximum value of TOP5 is 0.9855 and the minimum value is 0.1505. For government ownership (GOV), the mean value is 0.0831 with standard deviation 0.2222. The maximum value is 0.9003 and the minimum value is 0.0000. Then for institutional ownership (INST), the mean value is 0.0476 with standard deviation 0.1284. The maximum value is 0.8150 and the minimum value is 0.0000 for most of firms in this research. The mean value of public ownership (PBLC) is 0.3327 with standard deviation 0.1903. The maximum value of PBLC is 0.8768 and the minimum value is 0.0415. From the mean value it could be concluded that public ownership with minimum holding of shares 5% is low. It is because there is still no regulation about the minimum total of shares has to be owned by public in limited public company.

For operating cash flow (OCF), the mean value is 0.1020 with standard deviation 0.1432. The maximum value is 0.3913 and the minimum value is -1.7435.

From the mean value, it can be concluded the ability of firms to generate cash flow from their business activity is low. Then the mean variable of free cash flow (FCF) is 0.0099 with standard deviation 0.2139. The maximum value is 2.9675 and the minimum value is -0.9995. The mean value of FCF is quite low, it means firms on the sample have low level of cash flow to be invested in future projects.

The mean value of leverage (LEV) is 1.2177 with standard deviation 1.1426. The maximum value is 8.2279 and the minimum value is 0.0632. The value of mean show that firms in this research not rely on debt as source of fund. For the next sample growth opportunity (GRO), the mean value is 1.8970 with standard deviation 1.6748. The maximum value is 8.2096 and the minimum value is 0.0022. Firms with higher level of growth opportunity tend to save profit as retained earnings. Then the mean value of profitability (PRO) is 0.1979 with standard deviation 0.1282. The maximum value is 1.4818 and the minimum value is 0.0001. From the mean value it can be concluded that firms have not optimize the using of equity to generate profit. For variable firm size (SIZ), the mean value is 15.1554 with standard deviation 1.5162. The maximum value is 19.1809 and the minimum is 11.1959. Firms with higher level of firms size are expected to pay dividend in higher level too. The last variable is firms' life cycle (FLC), the mean value is 0.3341 with standard deviation 0.2030. The maximum value is 0.8809 and the minimum value is 0.0043. Firms with higher level of FLC are more mature than firms with lower FLC and expected to pay dividend in higher level.

Analysis of Estimation Result . After conducted classic assumptions, it has been found the regression with random effect model (REM) has heteroscedasticity problem. To handle this problem, regression with REM and White's cross-section standard errors will be conducted. Below is the estimation result for all models.

From the regression result of ownership structure, variable largest shareholder in Model 1 and Model 8 gives significant positive effect to dividend payout ratio. Largest shareholder with mean value 55.02% who can be categorized as majority shareholder (because more than 50%) and controlling shareholder (because more than 20%) have control of firms' cash flow (Shleifer and Vishny, 1997). The control of firms' cash flow gives positive and significant effect to dividend payout ratio. It means the higher shares percentage owned by largest shareholder, the higher level of dividend would be paid. This result is same as research conducted by Thanatawee (2014) in China.

In Model 2, shares owned by 5 largest shareholders do not give any significant effect to dividend payout ratio. But in Model 8 when regression was conducted for all of variables, shares owned by five largest shareholders gives negative and significant effect to dividend payout ratio.

Shares owned by five largest shareholders are used as proxy of ownership concentration. With the quite high mean value 67,83%, Harada and Nguyen (2011) said the firms' monitoring should be better because it could decrease the unnecessary investment and increase the dividend payment. But in this research in Model 2 shows that the high ownership concentration does not give any effect to dividend payout ratio. It could be concluded the high ownership concentration does not mean the better monitoring and gives no significant effect to dividend payout ratio. While shares owned by five largest shareholders give negative significant effect to dividend payout ratio (Model 8) shows the bad monitoring of firms. It same as the result of research

Table 2. The Regression Result Using Random Effect Model and White's cross-section standard errors

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	-0.2696***	-0.2394**	-0.1601***	-0.1752***	-0.1745***	-0.1377***	-0.1838***	-0.1088
	(-3.2445)	(-2.4765)	(-3.2234)	(-3.6454)	(-3.3148)	(-2.7863)	(-3.7207)	(-0.0129)
TOP1	0.1471***							0.1866***
	(3.4802)							(3.0554)
TOP5		0.0578						-0.1165**
		(1.1248)						(-2.1303)
GOV			0.1466***					0.1386**
			(2.8382)					(2.2652)
INST				-0.1147***				-0.02833
				(-3.5230)				(-0.4666)
PBLC					-0.0719			-0.0094
					(-1.3256)			(-6.0919)
OCF						-0.1973***		-0.2195***
						(-4.2461)		(-5.6138)
FCF							-0.0045	0.0136
							(-0.1562)	(0.5652)
LEV	0.0151*	0.0161**	0.0142*	0.0163**	0.0162**	0.0085**	0.0158**	0.0054
	(1.8830)	(2.0970)	(1.9642)	(2.0629)	(2.1213)	(2.1996)	(2.0657)	(1.0264)
GRO	0.0139***	0.0141***	0.0132***	0.0135***	0.0140***	0.0131***	0.0137***	0.0122***
	(7.2740)	(7.6304)	(8.3312)	(6.6250)	(7.3038)	(6.3649)	(6.9782)	(6.6684)
PRO	-0.2989***	-0.2957***	-0.2938***	-0.2975***	-0.2960***	-0.3717***	-0.2955***	-0.3830***
	(-2.9605)	(-2.8702)	(-2.6306)	(-2.8316)	(-2.8919)	(-4.1783)	(-2.7599)	(-4.5987)
SIZ	0.0197***	0.0202***	0.0170***	0.0191***	0.0201***	0.0183***	0.0191***	0.0152*
	(3.0418)	(2.9674)	(2.8118)	(3.3383)	(2.9617)	(3.0691)	(3.3110)	(2.0919)
FLC	0.4951***	0.5006***	0.5006***	0.4930***	0.5005***	0.5401***	0.5047***	0.5325***
	(10.9637)	(10.5402)	(10.7601)	(10.9171)	(10.5175)	(9.9106)	(11.2208)	(10.4236)
Obs.	315	315	315	315	315	315	315	315
R-squared	0.2380	0.2226	0.2353	0.2236	0.2241	0.2449	0.2190	0.2776
Adj. R-squared	0.2231	0.2074	0.2205	0.2085	0.2090	0.2302	0.2038	0.2489
Prob. (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

*** significant at level of 1%, ** significant at level of 5%, *significant at level of 10%

Source: Researcher (2014)

conducted by Khan (2006) in United Kingdom and Harada and Nguyen (2011) in Japan.

Then in Model 3 and Model 8, government ownership gives positive and significant effect to dividend payout ratio. It same as research conducted by Thanatawee (2014) in China. It shows the higher government ownership, the higher dividend payment. It happens because there is regulation about dividend payment in public company with government ownership, Regulation of the Minister of Finance

Republic of Indonesia No. 5/PMK.02/2013 about Procedures for Acceptance of Non Tax Inclusion of Dividend.

For institutional ownership in Model 4, it gives negative and significant effect to dividend payout ratio. While in Model 8, institutional ownership does not give any significant effect to dividend payout ratio.

Jensen (1986) explained that if institutions conduct an effective monitoring, the cash flow could be used to pay dividend or in other words dividend is used to compensate the monitoring by institutions (Shleifer and Vishny, 1986). But this research shows that institutions do not conduct an effective monitoring, so it does not give any effect to dividend payout ratio even gives negative effect. According to Thanatawee (2014), this negative effect also indicates that institutions expropriate the minority shareholders' rights of dividend. This result is same as research by Thanatawee (2014) in China.

Public ownership in Model 5 and Model 8 does not give any significant effect to dividend payout ratio. It shows that in Indonesia majority shareholder has more dominant role in deciding dividend payout ratio than minority shareholder even though there is regulation to protect minority shareholder, Act No. 40 Year 2007 about Limited Company. Minority shareholders do not give effect to dividend payout ratio indicate there is agency problem between majority and minority shareholders (Shleifer and Vishny, 1997). This result is same as research by Thanatawee (2014) in China.

Then in Model 6 and Model 8 operating cash flow gives negative and significant effect to dividend payout ratio. It means the higher operating cash flow, the lower the dividend payment. Whereas Afza and Mirza (2010) explained the operating cash flow is more reliable source to pay dividend than two others cash flow, cash flow from investing and financing activities. But negative and significant effect in this research indicates there is agency problem between management and shareholders (Thanatawee, 2014). Management pay low dividend when the level of operating cash flow is high means that management expropriate shareholders' rights of dividend.

Then in Model 7 and Model 8, free cash flow does not give any significant effect to dividend payout ratio. It is same as research conducted by Thanatawee (2013) in Thailand. Free cash flow does not give any significant effect to dividend payout ratio indicates that the amount of free cash flow is not a factor in deciding dividend payment to shareholders in this research.

For control variables firm characteristic, leverage, growth opportunity, profitability, firm size, and firm's life cycle give consistent effect in all model, except in Model 8. Leverage, growth opportunity, firm size, and firm's life cycle give positive, while profitability gives negative and significant effect to dividend payout ratio.

Leverage gives positive and significant effect to dividend payout ratio means firms with higher leverage will also pay higher dividend. It indicates firms use dividend to reduce debtholders' claim of debt's return (claim dilution). It occurs because the payment of dividend could reduce cash and total asset, and also owners' equity (Emery *et al.*, 2011). The reduce of owners' equity but the same amount of debt will raise debt to equity ratio. The raising of debt to equity ratio will also increase debt risk and decrease the market value. It makes debtholders' claim of debt could decrease (claim dilution). It is same as research by Thanatawee (2011) in Thailand and Taleb (2012) in Jordan.

Then, growth opportunity gives positive and significant effect to dividend payout ratio. It means firms with higher growth opportunity also pay higher dividend. As according to signaling theory, it indicates firms use dividend to give signal to the

market that they are having good growth opportunity. By paying dividends, the market is expected to be interested to invest in the firms. It is same as research by Naceur *et al.*, (2006) in Tunisia and Aivazian *et al.*, (2001) in emerging market countries like Malaysia, Thailand, Jordan, Pakistan, and Turkey.

For the next variable, profitability gives negative and significant effect to dividend payout ratio. It means that profit is retained as retained earnings to be reinvested. Beside that, this result could be evidence there is lower propensity to pay dividend even though firms have ability to pay it (Fama and French, 2000).

Fama and French (2000) also explained it happens due to realization of higher cost has to be paid of dividend payment than cost has to be paid for selling shares to get capital gain to the shareholders. Based on Indonesian Income Tax Regulation Article 23 Year 2008, the tax has to paid of dividend is 15% while based on Government Regulation No. 18 Year 1997, the final tax of capital gain is 0.1% of total transaction. It could be seen that tax rate for dividend is higher than capital gain. According to Al-Malkawi (2007), it matches clientele effects theory which if tax rate of dividend higher than capital gain investors will prefer to invest in firms who pay low or no dividend.

For firm size, it gives positive and significant effect to dividend payout ratio. It shows the bigger firms, the higher dividend payment. It happens because big companies are having more financial stability and having more access to get external source of fund than small companies (Fama and French, 2000). This result is also same as research by Thanatawee (2014) in China and Holder *et al.*, (1998) in United States.

The last variable, firm's life cycle gives positive and significant effect to dividend payout ratio. Retained earnings to total asset (RETA) is used as proxy for firm's life cycle. According to DeAngelo *et al.*, (2006) firms with higher RETA are more mature than firms with lower RETA and will pay more dividend because they have bigger accumulation of profit. It is same as research by Thanatawee (2014) in China.

CONCLUSION

Below is conclusion from this research: (1) Largest shareholder and government ownership give positive and significant effect to dividend payout ratio. While institutional ownership gives negative and significant effect to dividend payout ratio. Then ownership concentration and public ownership do not give any significant effect to dividend payout ratio. (2) Operating cash flow gives negative and significant effect while free cash flow does not give any significant effect to dividend payout ratio.

According to the result and analysis of this research, firms (practitioners/finance managers) are expected to conduct good governance in operating business to avoid agency problem between management and shareholders because it will harm firms in the future. Beside that, it is because shareholders have rights to get returns like dividend. Therefore firms are expected to give more attention in deciding the level of dividend payout ratio.

From this research it can be seen the level public ownership (minority shareholders) is quite low. It may occurs because public is still not interested to invest their money in equity market and the socialization by related party is still not optimal. This research also shows the low level of dividend payment by firms. Even though majority shareholders give positive and significant effect to dividend payment, it would be better if the regulator give more attention to the level of dividend payment. The regulator could make regulations about dividend payment by obligating firms to pay

dividend if they get positive profit during specific periods and the minimum level of dividend payment. It is intended to make dividend as one of factors to make public interested to invest their money in equity market for long term and not only expected capital gain to get profit.

Before investing money in a firm, investors who wants to get dividend as returns should know what factors could effect the firm's dividend payout ratio because there is still no regulation obligating firms to pay dividend. The factors are the firms' ownership structure, condition of operating cash flow, leverage, profitability, growth opportunity, firm size, and firm's life cycle. Investors also should know their rights as shareholders and the regulations protecting them.

In analyzing the effect of institutional ownership to dividend payout ratio, the future research could make it more detail as Khan (2006) did. Institutional ownership is divided to ownership by pension funds, insurance companies, other financial institutions, non-financial companies, and other (like non-profit organization). It is intended to analyze which institutions give significant effect to dividend payout ratio and how the effect is.

REFERENCES

- Afza, T., & Mirza, H.M. (2010). Ownership Structure and Cash Flows as Determinants of Corporate Dividend Policy in Pakistan. *International Business Research*, Vol. 3. No. 3, 210–221.
- Aivazian, V., Booth, L. & Cleary, S. (2001). Do Firms in Emerging Markets Follow Different Dividend Policies From Those in the US: Evidence From Firms in Eight Emerging Countries. *The Journal of Financial Research*.
- Al-Malkawi, H.A.N. (2007). Determinants of Corporate Dividend Policy in Jordan: An Application of The Tobit Model. *Journal of Economic and Administrative Sciences*, Vol. 23, No. 2, 44–70.
- Baker, H.K., Saadi, S., Dutta, S., & Ghandi (2007). The Perception of Dividends by Canadian Managers: New Survey Evidence. *International Journal of Managerial Finance*, Vol. 3, No. 1, 70–91.
- Bhattacharya, S. (1979). Imperfect Information, Dividend Policy, and “The Bird in The Hand” Fallacy. *The Bell Journal of Economics*, Vol. 10, No.1, 259–270.
- Bradford, W., Chen, C., & Zhu, S. (2013). Cash Dividend Policy, Corporate Pyramids, and Ownership Structure: Evidence from China. *International Review of Economics & Finance*, Vol. 27, 445–464.
- DeAngelo, H., DeAngelo, L., & Stulz, R.M. (2006). Dividend Policy and The Earned / Contributed Capital Mix: A Test of The Life Cycle Theory. *Journal of Financial Economics*, Vol. 81, 227–254.
- Ehsan, S., Tabassum, N., Akram, Z., & Nasir, R. (2013). Role of Insider and Individual Ownership Structure in Dividend Payout Policy: Evidence from Pakistan. *Middle-East Journal of Scientific Research*, Vol. 17, No. 9, 1316–1326.
- Emery, D.R., Finnerty, J.D., & Stowe, J.D. (2011). *Corporate Financial Management* (4th ed.). New Jersey: Wohl Publishing.
- Fama, E. & French, K.R. (2000). Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay? *The Center for Research in Security Prices Working Paper*, No. 509.
- Harada, K. & Nguyen, P. (2011). Ownership Concentration and Dividend Policy in Japan. *Managerial Finance*, Vol. 37, No. 4, 362–379.

- Holder, M.E., Langrehr, F.W., & Hexter, J.L. (1998). Dividend Policy Determinants: An Investigation of the Influences of Stakeholder Theory. *Financial Management*, Vol. 27, No. 3, 73–82.
- Hussainey, K., Mgbame, C.O., & Chijoke-Mgbame, A.M. (2011). Dividend Policy and Share Price Volatility: UK Evidence. *The Journal of Risk Finance*, Vol. 12, No. 1, 57–68.
- Indonesian Act No. 8 Year 1995 about *Capital Market*.
- Indonesian Act No. 40 Year 2007 about *Limited Company*
- Indonesian Securities Exchange Commission (2011). SEC Regulation No. IX.F.1 Year 2011 about Tender Offer. <http://www.ojk.go.id/>
- Jensen, M.C. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Reviews*, Vol. 76, No. 2, 323–339.
- Khan, T. (2006). Company Dividends and Ownership Structure: Evidence from UK Panel Data. *The Economic Journal*. Vol. 116, No. 510, 172–189.
- Mahmood, H.T. (2007). The Association between Operating Cash Flows and Dividend Changes: Evidence from Jordan. *Revue des Sciences Humaines*, No. 11, 91–110.
- Mahmood, S., Sheikh, M.F., & Ghaffari, A.Q. (2011). Dividend Announcements and Stock Returns : An Event Study on Karachi Stock Exchange. *Interdisciplinary Journal of Contemporary Research in Business*, Vol. 3, No. 8, 972–981.
- Miller, M.H., & Modigliani, F. (1961). Dividend Policy, Growth, and The Valuation of Shares. *The Journal of Business*, Vol. 34, No. 4, pp. 411–433.
- Naceur, S.B., Goaid, M. & Belanes, A. (2006). On The Determinants and Dynamics of Dividend Policy, *Working Paper Series*.
- Regulation of the Minister of Finance Republic of Indonesia No. 5/PMK.02/2013 about Procedures for Acceptance of Non Tax Inclusion of Dividend.
- Ross, S.A., Westerfield, R.W., Jaffe, J.F., & Jordan, B.D. (2008). *Modern Financial Management* (8th ed.). New York, USA: McGraw-Hill, International Edition.
- Ross, S.A., Westerfield, R.W., Jordan, B. D., Lim, J., & Tan, R. (2012). *Fundamentals of Corporate Finance* (Asia Global ed.). Singapore: McGraw-Hill Education (Asia).
- Shleifer, A. & Vishny, R.W. (1986). Large Shareholder and Corporate Control. *The Journal of Political Economy*, Vol. 94, No.3, 461–488.
- Shleifer, A. & Vishny, R.W. (1997). A Survey of Corporate Governance. *The Journal of Finance*, Vol. 52, No.2, 737–783.
- Taleb, G.A. (2012). Measurement of Impact Agency Costs Level of Firms on Dividend and Leverage Policy: An Empirical Study. *Interdisciplinary Journal of Contemporary Research in Business*, Vol. 3, No. 10, 234–243.
- Thanatawee, Y. (2011). Life-Cycle Theory and Free Cash Flow Hypothesis: Evidence from Dividend Policy in Thailand. *International Journal of Economics and Finance*, Vol. 2, No. 2, 52–60.
- Thanatawee, Y. (2013). Ownership Structure and Dividend Policy: Evidence from Thailand. *International Journal of Economics and Finance*, Vol. 5, No. 1, 121–132.
- Thanatawee, Y. (2014). Ownership Structure and Dividend Policy: Evidence from China. *International Journal of Economics and Finance*, Vol. 6, No. 8, 197–204.
- World Bank (2010). Corporate Governance Country Assessment Indonesia. *Report on The Observance of Standards and Codes (ROSC)*.