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Business Risk as a Moderating the Effect of Institutional Ownership and Managerial Ownership on Dividend Policies

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ABSTRACT : This study aims to determine the effect of institutional ownership and managerial ownership on dividend policy with business risk as a moderating variable. The population of this study is focused on manufacturing companies on the Indonesia Stock Exchange for the 2016-2019 period, amounting to 144 companies. Based on the criteria for determining the sample by purposive sampling method and outlier data expenditure obtained a sample of 12 companies. The analysis technique used is Moderated Regression Analysis (MRA). The results of the analysis show that business risk does not moderate the effect of institutional ownership on dividend policy in manufacturing companies on the Indonesia Stock Exchange, while business risk weakens the effect of managerial ownership on dividend policy in manufacturing companies on the Indonesia Stock Exchange.
Keywords: *Institutional Ownership, Managerial Ownership, Business Risk, Dividend Policy.*

I. INTRODUCTION

Dividend policy is one of the most important policies for companies because it can affect stock prices, financial structure, funding flows, company investment opportunities, and liquidity position (Yasmita & Widanaputra, 2018). Dividend policy is a decision to determine how much profit the company will allocate to be distributed to investors as dividends and how much will be retained in the form of retained earnings. The dividend policy of a company will be reflected in the dividend payout ratio, which is the percentage of profit distributed in the form of cash dividends. The size of the dividend payout ratio will affect the investment decisions of shareholders and the company's financial condition(Widyasti & Putri, 2021). Based on signal theory, dividend policy can give the impression to shareholders that the company has good prospects in the future. Therefore, dividends can be an attraction for investors to invest in a company(Astika & Kirana, 2020).

Astra International Tbk company. in 2019 it earned a profit of 26,621 billion and was allocated as dividends of 10,621 billion, which is only 40% of the total profit the company received. In contrast to Unilever Indonesia Tbk. those who distribute dividends are higher, 55% of their profits even though the profits earned are only 7,392 billion or about three times less than the profits of Astra International Tbk. Gudang Garam Tbk Company. which has a profit of 10,880 billion distributes dividends of 24% even though the profit earned is higher than the company profit of Unilever Indonesia Tbk. The same is true for the company Selamat Sempurna Tbk. which only has a profit of 638 billion or about eleven times smaller than the profit of Unilever Indonesia Tbk., but distributes dividends amounting to 64% of its profit. The Arwana Citramulia company distributes dividends of 68% even though the profit earned is only 217 billion, which is about three times less than Selamat Sempurna Tbk's profit. The difference in the amount of dividend determination from the earnings of these companies indicates that several factors influence dividend policy.

Dividend policy has to do with agency problems. Agency problems arise because of opportunistic actions taken by managers for the welfare of themselves and not for the interests of company values This manager's actions are against the interests of shareholders who want maximum profits, which creates agency conflicts(Dewi & Abundanti, 2020). Agency conflicts that occur between managers and shareholders can be minimized utilizing a supervisory mechanism. However, this supervisory mechanism will incur a cost for shareholders, namely agency cost(Suartama & Sukartha, 2020). One way that can be done to reduce agency costs is to activate the supervisory function through institutional ownership (Dewi & Wirawati, 2021). Institutional ownership is the involvement of institutions such as government, legal institutions, financial institutions, and other institutions in ownership of stock in a company. The institutional share ownership mechanism is expected to improve the company's management performance(Trisnadewia & Amlayasa, 2020). The more concentrated share ownership is, the more effective the owner's supervision will be on management (Nataliantari et al., 2020). The high level of institutional ownership is expected to encourage more optimal supervision to prevent opportunistic behavior by managers to ensure the welfare of shareholders. Dividend distribution can be used to compensate institutional investors for their monitoring efforts of company managers(Budiharjo, 2020). Based on signal theory, high dividend payments can be a signal from managers to institutional shareholders that the company's performance is good(Santhi & Wirakusuma, 2021). Therefore, the higher the level of institutional ownership in a company, the higher the dividend rate to be distributed(Dewiningrat & Baskara, 2020). Managerial ownership is also an alternative that can be used to minimize agency costs(Febrianty & Mertha, 2021). The existence of a manager who is involved in share ownership can align the interests of the manager and the shareholders. The position of a manager who is also a shareholder will prefer a large dividend income(Putra & Suarjaya, 2020). The more managers are involved in share ownership, the less the assets owned by the manager are not optimally diversified so that as compensation, the manager wants a high dividend distribution(Ramadhanty & Budiasih, 2020). Therefore, the higher the managerial ownership, the higher the dividends to be distributed(Padmini & Ratnadi, 2020).

The results of research conducted by Shaheen & Ullah (2018) show that institutional ownership has a positive effect on dividend policy. Jacob &Lukose(2018) states that large institutional ownership can encourage company management to act in line with the interests of shareholders, distributing large dividends. Besides, dividend payments can be said to be effective as an incentive for monitoring efforts that have been carried out by institutional owners of company management. High institutional share ownership can result in more intensive supervision efforts on manager behavior. High institutional ownership can force managers to distribute free cash flow as dividends if management does not have projects that can increase company value. Dhuhri & Diantimala (2018) show that institutional ownership has a negative effect on dividend policy. This is because institutional ownership as the majority shareholder tends to dislike a high dividend payout ratio because it has high taxes.

Managerial ownership has a positive effect on dividend policy in research conducted by Gewar & Suryantini (2020), Sindhu et al. (2016) state that a high level of managerial ownership will result in the manager's assets not being diversified optimally so that managers want a large return on opportunity cost, namely by dividing the dividends that are getting bigger. Besides, the ownership structure of companies in Indonesia is relatively concentrated or controlled by families, so they tend to pay larger dividends. On the other hand, companies that have low managerial ownership show optimal diversification so they tend to prefer retained earnings and will then pay low dividends. In contrast to research conducted by Ibrahim & Shuaibu (2016)and Rahayu & Rusliati (2019)which show that managerial ownership has a negative effect on dividend policy. The choice of business risk as a moderating variable aims to test whether the business risk can influence the relationship between institutional ownership and managerial ownership on dividend policy because the business risk is an important factor that managers need to consider in deciding dividend policy. Business risk is the risk of a company's assets if the company does not use debt. Business risk can increase when the company uses high debt to meet its funding needs. The company will not pay high dividends if the business risk is high. This is because the high business risk of a company indicates that the company has the probability to make a dividend cut when profits decrease which can generate negative signals. This is supported by research conducted by Mnune & Purbawangsa (2019)which state that business risk has a negative and significant effect on dividend policy. Therefore, in companies that have high levels of institutional ownership and managerial ownership, if the business risk is also high, the dividends to be distributed will not be too high. This is done by managers to maintain the stability of dividends distributed so that the signal sent by the company is always positive. Based on the description above, the following hypothesis can be concluded:

H1: The higher the institutional ownership, the higher the dividends to be distributed, especially for companies that have a low level of business risk.

H2: The higher the managerial ownership, the higher the dividends to be distributed, especially for companies that have a low level of business risk.

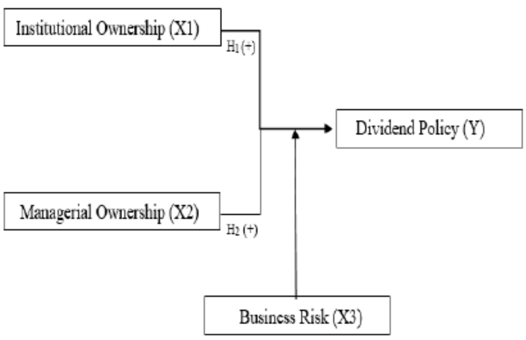

Fig. 1 Conceptual framework

II. RESEARCH METHODS

The approach used in this research is a quantitative approach with an associative method. This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019. The reason for choosing a manufacturing company as a location in this study is because manufacturing companies consist of various sub-sectors and have the largest number of companies compared to other sector companies so that they are expected to reflect all companies listed on the Indonesia Stock Exchange. The research object in this study is the dividend policy which is proxied by the Dividend Payout Ratio (DPR). The data collection method used in this study was non-participant observation. The data analysis technique used in this study is Moderated Regression Analysis (MRA). The population in this study are manufacturing companies listed on the Indonesia Stock Exchange during 2016-2019. The sample in this study used a purposive sampling technique with criteria including companies that distributed dividends consecutively during 2016-2019; always published successive financial reports during 2016-2019 and the stocks were owned by institutional and managerial parties during 2016-2019.

III. RESULTS AND DISCUSSION

Based on the sample selection process, 20 companies in the manufacturing sector were obtained with a total of 80 observations from the four years of research. In this research, the researcher removes outlier data so that the data is spread normally. This causes the companies studied to be reduced to 12 companies with a total of 48 observations

Table 1. The Results of Moderated Regression Analysis and Hypothesis Test (t test)

Model		Unstandardized Coefficients		StandardizedCoefficients		
		B	Std.Error	Beta	T	Sig.
1	(Constant)	0.212	0.296		0.718	0.477
	IOWN(X_1)	0.387	0.353	0.318	1.096	0.279
	MOWN(X_2)	-3.917	1.423	-1.653	-2.753	0.009
	BRISK(X_3)	-16.621	14.677	-0.898	-1.132	0.264
	IOWN*BRISK (X_1X_3)	7.349	17.333	0.352	0.424	0.674
	MOWN*BRISK (X_2X_3)	192.280	59.338	2.000	3.240	0.002
Adjusted R^2:0,389						
F Sig : 0.000						

The adjusted R2 value is 0.389, which means that 38.9% of the variation in dividend policy can be explained by institutional ownership, managerial ownership, business risk, the interaction between institutional ownership and business risk, and the interaction between managerial ownership and business risk. The remaining 61.1% is explained by other variables not included in the regression model. The significance value obtained is 0.000. The value of 0.000 is smaller than the significance level of 0.05 (5%), which means that the regression model used in this study is feasible to use.

Business Risks on Institutional Ownership Relationships and Dividend Policy

The results of this study indicate that the regression coefficient $\beta 4$ is 7.349 with a p-value of 0.674 which is greater than the real level $\alpha = 0.05$, so the results of this study indicate that business risk does not affect the relationship between institutional ownership and dividend policy. This shows that **H1 is rejected**. Based on agency theory, institutional ownership is limited to monitoring shareholders of management performance to reduce agency costs. Although institutional share ownership tends to be high and dominates in company share ownership, institutional investors are not directly involved in managing the company. If company policies such as dividend policies or risk management policies are not in line with what is expected by the institution, they can at any time sell their shareholdings. Therefore, the level of the business risk of a company does not affect the relationship of institutional ownership to the company's dividend policy. The results of this study are in line with research conducted by Paulina & Silalahi (2016)

Business Risk in Managerial Ownership Relationship and Dividend Policy

The results of this study indicate that the regression coefficient $\beta 5$ is 192.280 with a p-value of 0.002 smaller than the real level $\alpha = 0.05$, so the results of this study indicate that the higher the managerial ownership, the lower the dividends distributed, especially to companies that have a low level of business risk. This indicates that **H2 is rejected**. Based on agency theory, at a high level of managerial ownership, managers will be more careful in making decisions. This causes managers to tend to allocate company profits to retained earnings rather than dividend payments. Managerial ownership in companies that have high business risk will cause the dividends to be distributed by the company not too low because the higher the business risk of a company, the greater the return expected by managerial investors and other investors. The dividend distribution is carried out to reduce the uncertainty faced by investors as a result of the high business risk the company has. The results of this study are in line with the research conducted by Ahmad et al. (2016)

IV. CONCLUSION

Business risk is not a moderating variable on the relationship between institutional ownership and dividend policy. This means that business risk does not affect both weakening and strengthening the relationship between institutional ownership and dividend policy. This can occur because institutional investors are not directly involved in managing the company so that if company policies such as dividend policies and risk management policies are not in line with what institutional investors expect, they can at any time sell their shareholdings. Business risk is a moderating variable in the relationship between managerial ownership and dividend policy. In this study, business risk weakens the influence of managerial ownership on dividend policy. This is because managerial ownership will make managers more careful in making decisions so that managers tend to withhold company profits rather than distributing them as dividends. In high-risk companies, managers will pay dividends that are not too low to reduce the uncertainty faced by investors. Based on the research results and conclusions in this study, the suggestions given are for further research to be able to examine other variables that may affect the relationship between institutional ownership on dividend policy because in this study it was found that business risk is not a moderating variable in the relationship between the two variables.

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