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The Effect of Capital Structure and Ownership Structure on Financial Performance and Dividend Policy on Manufacturing Companies in the Indonesia Stock Exchange

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Abstract

This study aimed to examine the effect of capital structure and ownership structure on financial performance and dividend policy. The study involved the manufacturing companies listed on IDX from 2012 to 2016. The data were analyzed by applying PLS (Partial Least Square). Research method used in this research was explanatory research using purposive sampling. The results of this study were: Capital Structure had a positive significant effect on Financial Performance, Capital Structure had non-significant effect on Dividend Policy, Ownership Structure had a positive significant effect on Financial Performance, Ownership Structure had non-significant effect on Dividend Policy, and Financial Performance had a positive significant effect on Dividend Policy.

Keywords: Capital Structure, Ownership Structure, Financial Performance, Dividend Policy

INTRODUCTION

The main objective of a company is to try to maximize shareholders' prosperity. To achieve this goal, the company will manage the money that has been invested by shareholders on profitable investments [1]. The profitable investment here is having to get a profit that is greater than the expected return of shareholders [1]. According to [2], the first decision that must be taken by the financial manager is an investment decision. The second most important decision is to determine how much funds are needed and where the funds come from. The decision which is usually referred to as financing decision is trying to determine the composition that is most beneficial between own funds and loan funds (the best financing mix/capital structure).

Furthermore [2] states that this composition is related to the amount of cost of capital that will be borne by the company. The greater the cost of capital borne by the company, the less competitive the company is. For this reason, the main source that will be explored by the company is the source from within the company itself, namely from retained earnings. [1] states that on the other hand retained earnings are the rights of shareholders that should be shared with shareholders, but if they can be given understanding in the sense of a better outlook or profit overview in the future, it is likely that shareholders will give up to delay taking advantage of that. This decision is usually called a dividend decision.

According to [3] the company's capital structure describes the comparison between the amount of debt and equity capital used by the company. Managers must be careful in making funding decisions for companies related to determining capital structure, because this decision can affect the performance of the company and ultimately affect the achievement of objectives to maximize the welfare of shareholders. [4] states that to compete with other companies, a company is faced with conditions that encourage it to be more creative in obtaining the most effective funding sources. The company's funding decision is one of the important decisions for the company because this also has an influence on the company's risks and bank lending decisions. According to [5] the optimal capital structure can change over time, which can affect the weighted average cost of capital.

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Every company has a purpose to create value for its owner (shareholders) by maximizing the owner's wealth [6]. According to [7], in achieving company goals, owners often have limitations in managing the company. Thus, this triggers the owners to hand over the responsibility for managing the company to a second party called the manager. According to [8], agency relations are one of the most common forms of social interaction when there is a separation of management functions and ownership functions, where one party (agent) acts as the representative of the other party (principal) in decision making. The separation of management and ownership functions will lead to agency problems because of differences in interests. [9] states that agency conflicts can be minimized through supervision and control mechanisms, namely through managerial ownership, debt policy, and dividend policy.

According to [10] an explanation of dividend policy is still a long debate for researchers in the field of financial economics. Research that has been done for years also still gives different results. Dividend policy cannot be separated from funding decisions. If the financial manager decides to distribute profits in the form of dividends so that the shareholders' prosperity increases, then when the company needs additional funds for investment, the financial manager must look for other sources of funds, thus the dependence on external funding sources will also increase. Conversely, if it is decided that profits will be retained in order to finance investment in the future, it means that dependence on external funding sources will be reduced.

Research on dividend policy has emerged since in the middle of the last century in the modern commercial era. To date, dividend policy is growing and is still a debated topic in the field of financial management. According to [11] in research on dividend policy, namely the more we try hard to look into the dividend overview, then it will feel more like a puzzle, in which each part of it is separated from each other. Furthermore [12] also mentions in his research that researchers have tried to solve several problems related to dividend policy and formulated the right theories and models to explain dividend behavior in the company.

This study used manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period of 2012-2016 as objects of research. The selection of the manufacturing sector is based on the reason that the contribution of the large manufacturing sector to the economy cannot be separated from the dynamics of the manufacturing sector. According to [13], the manufacturing industry is an industry that in its activities relies on capital from investors, therefore manufacturing companies must be able to maintain their financial health or liquidity. Investment in the manufacturing sector is a promising investment in Indonesia. Investors choose to invest in the manufacturing sector because they have good prospects and have opportunities that continue to grow. However, this is not supported by the number of companies that distribute dividends annually [11]. This indicates that one of the problems faced by the manufacturing sector is how to improve the financial performance of companies that can increase dividends through increasing debt to finance investment projects that can improve the company's financial performance or through a policy mechanism of ownership structure in monitoring management performance and reducing agency conflict at the company.

RESEARCH METHODS

This research was explanatory research, namely research conducted with the intention of an explanatory or confirmatory that provides a causal explanation or influence between variables through testing hypotheses [14]. When viewed according to the type of data, this research was included in quantitative research. According to [15] quantitative research is research that uses numbers as a research approach. This quantitative approach will later produce real data in the form of numbers so that it can be measured with certainty [15]. This study used historical data in the form of financial statements. Financial data collection used a research location, namely the Indonesia Stock Exchange website (http://www.idx.co.id) in the form of annual financial reports that have been audited during 2012-2016.

The data needed in this study are as follows:

Table 1. Capital Structure Indicators

No	Indicators	Formula
1	Debt Ratio (DR)	$\frac{\text{Total Debt}}{\text{Total Asset}}$
2	Debt to Equity Ratio (DER)	$\frac{\text{Total Debt}}{\text{Equity}}$
3	Long Term Debt to Total Asset (LTDA)	$\frac{\text{Long Term Debt}}{\text{Total Asset}}$

Source: Previous Research Summary

Based on Table 1, the indicators of Capital Structure in this strudy, consists of Debt Ratio

(DR), Debt Equity Ratio (DER), and Long Term Debt to Total Assets Ratio (LTDA).

Table2. Ownership Structure Indicators

No	Indicators	Formula
1	Managerial Ownership	$\frac{\Sigma \text{shares owned by management}}{\Sigma \text{outstanding shares}}$
2	Institutional Ownership	$\frac{\Sigma \text{shares owned by institution}}{\Sigma \text{outstanding shares}}$
3	Public Ownership	$\frac{\Sigma \text{shares owned by public } (< 5\%)}{\Sigma \text{outstanding shares}}$

Source: Previous Research Summary

Based on Table 2, the indicators of Ownership Structure in this strudy, consists of Managerial Ownership, Institutional Ownership, and Public Ownership.

Table 3. Financial Performance Indicators

No	Indicators	Formula
1	Return on Assets (ROA)	$\frac{\text{Net Income}}{\text{Total Assets}}$
2	Return on Equity (ROE)	$\frac{\text{Net Income}}{\text{Shareholder's Equity}}$
3	Net Proft Margin (NPM)	$\frac{\text{Net Income}}{\text{Revenue}}$

Source: Previous Research Summary

Based on Table 3, the indicators of Financial Performance in this strudy, consists of Return On Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM).

Table 4. Dividend Policy Indicators

No	Indicators	Formula
1	Dividend Per Share (DPS)	$\frac{\text{Dividend}}{\text{Share}}$
2	Dividend Payout Ratio (DPR)	$\frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$
3	Dividend Yield (DY)	$\frac{\text{Dividend per share}}{\text{Price per share}}$

Source: Previous Research Summary

Based on Table 4, the indicators of Dividend Policy in this strudy, consists of Dividend Per Share (DPS), Dividend Payout Ratio (DPR), and Dividend Yield (DY).

The population used in this study was 158 companies incorporated in the manufacturing sector during the 2012-2016 period. The sampling method used in this study was purposive sampling, namely the formation of samples from populations based on certain criteria [14]. Purposive sampling obtained the results of a sample of 49 companies.

The analysis method used in this study was Partial Least Square (PLS). According to [16] PLS is a very powerful analysis method because it can be applied to all data scales, does not require many assumptions, and act as confirmation of relationships that do not have a strong theoretical basis. [17] states that PLS is used to develop or build hypotheses, predict complex situations, and has a feature that facilitates multivariate data analysis. PLS is also oriented to component based predictive models and uses algorithms that allow getting the best weight estimate in each latent variable. Furthermore, PLS is different from previous or general SEM (Covariance based-SEM) that is based on proof of theory with parametric assumptions that must be met [18]. The PLS method in this study used SmartPLS 3.0 software.

RESEARCH RESULTS

Table 5. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
DR	245	0.110	1.210	0.407	0.186
DER	245	0.120	7.400	0.894	0.933
LTDA	245	0.006	0.538	0.121	0.118
IO	245	0.322	0.982	0.741	0.167
MO	245	0.000	0.289	0.019	0.059
PO	245	0.018	0.669	0.276	0.161
ROA	245	0.005	0.745	0.115	0.114
ROE	245	0.001	1.435	0.119	0.238
NPM	245	0.001	0.509	0.094	0.074
DPS	245	0.000	4.745	1.400	1.073
DPR	245	0.000	19.750	1.653	2.527
DY	245	0.000	0.502	0.024	0.040

Sumber: Processed Data, 2018

The amount of debt ratio during 2012-2016 as seen in Table 5 ranged from 0.110 (11%) to 1.210 (121%) with a mean value of 0.407 (40,7%) and standard deviation of 0.186. The amount of debt equity ratio during 2012-2016 ranged from 0.120 (12%) to 7.400 (740%) with a mean value of 0.894 (89.4%) and standard deviation of 0.933. The amount of long term debt to total assets ratio during 2012-2016 ranged from 0.006 (6%) to 0.538 (53.8%) with a mean value of 0.121 (12.1%) and standard deviation of 0.118.

The amount of institutional ownership during 2012-2016 ranged from 0.322 (32.2%) to 0.982 (98.2%) with a mean value of 0.741 (74.1%) and standard deviation 0.167. The amount of managerial ownership during 2012-2016 ranged from 0.000 (0%) to 0.289 (28.9%) with a mean value of 0.019 (1.9%) and standard deviation 0.059. The amount of public ownership during 2012-2016 ranged from 0.000 (0%) to 0.289 (28.9%) with a mean value of 0.019 (1.9%) and standard deviation 0.059.

The amount of return on assets during 2012-2016 ranged from 0.005 (0.5%) to 0.745 (74.5%)

with a mean value of 0.115 (11.5%) and standard deviation 0.114. The amount of return on equity during 2012-2016 ranged from 0.001 (0.1%) to 1.435 (143.5%) with a mean value of 0.119 (11.9%) and standard deviation 0.238. The amount of net profit margin during 2012-2016 ranged from 0.001 (0.1%) to 0.509 (50.9%) with a mean value of 0.094 (9.4%) and standard deviation 0.074.

The amount of dividend per share during 2012-2016 ranged from 0.000 to 4.745 with a mean value of 1.400 and standard deviation 1.073. The amount of dividend payout ratio during 2012-2016 ranged from 0.000 (0%) to 19.750 (197.5%) with a mean value of 1.653 (165.3%) and standard deviation 2.527. The amount of dividend yield during 2012-2016 ranged from 0.000 (0%) to 0.502 (50.2%) with a mean value of 0.024 (2.4%) and standard deviation 0.040.

Outer Model Test

1. Convergent validity

Table 6. Convergent validity

	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (|O/STERR|)
DR->CS	0.937	0.017	55.892*
DER->CS	0.559	0.061	9.083*
LTDA->CS	0.671	0.166	13.207*
IO->OS	0.986	0.007	135.763*
MO->OS	0.987	0.010	97.505*
PO->OS	0.860	0.036	24.185*
ROA->FP	0.978	0.009	110.605*
ROE->FP	0.907	0.029	31.539*
NPM->FP	0.998	0.029	31.539*
DPS->DP	0.529	0.054	9.783*
DPR->DP	0.858	0.061	3.078*
DY->DP	0.947	0.017	56.054*

Source: PLS Analysis Results, 2018

* : significant because t-statistics are more than 1.960 (t-statistics> 1.96)

Table 6 illustrates the value of the loading factor (convergent validity) of each indicator. The loading factor value of >0.5 can be categorized as valid. Meanwhile, the *rule of thumb* of the interpreted loading factor value of >0.5 can already be said as valid or having a statistical *t*-value of > 1.96. From Table 6, it is shown that all of the loading factor values of the Capital Structure, Ownership Structure, Financial Performance, and Dividend Policy indicators were greater than 0.5 or had a statistical *t*-value of > 1.96, indicating that the indicators were valid.

2. Discriminant validity

Table 7. Discriminant Value (Cross Loading)

	Capital Structure	Ownership Structure	Financial Performance	Dividend Policy
DR	**0.937**	0.939	0.851	0.705
DER	**0.559**	0.584	0.597	0.421
LTDA	**0.768**	0.671	0.616	0.497
IO	0.946	**0.986**	0.908	0.754
MO	0.940	**0.987**	0.912	0.750
PO	0.798	**0.860**	0.785	0.665
ROA	0.980	0.897	**0.978**	0.813
ROE	0.835	0.809	**0.907**	0.774
NPM	0.898	0.921	**0.998**	0.838
DPS	0.225	0.777	0.870	**0.872**
DPR	0.281	0.352	0.207	**0.662**
DY	0.058	0.713	0.720	**0.952**

Source: PLS Analysis Results, 2018

Based on the cross loading values presented in Table 7, it can be seen that each variable in this study (the value in bold) has satisfied discriminant validity because it has the largest outer loading value for the variable that is formed and not in the other variables, thus all the indicators in each variable of this research has fulfilled discriminant validity.

Inner Model Test

Table 8. R-square Value

Construct	R-square
Financial Performance	0.856
Dividend Policy	0.703

Source: PLS Analysis Results, 2018

Table 8 shows that the R-square value for Financial Performance was 0.856. This shows that 85.6% of the Financial Performance variable can be influenced by the Capital Structure and Ownership Structure. The remaining 14.4% is influenced by other variables outside the research. The R-square value for the Dividend Policy was 0.703. This shows that 70.3% of the Dividend Policy variable can be influenced by Capital Structure, Ownership Structure, and Financial Performance. The remaining 29.7% is influenced by other variables outside the variables studied.

In the PLS model, the overall assessment of goodness of fit is known from the value of Q-square (predictive relevance), where the higher Q-square, the model can be said to be more fit with the data [17]. From the R-square test results,it is then formulated into the Q-square equation, as follows:

$Q^2 = 1 – (1 – R_1^2) (1 – R_2^2)$

$Q^2 = 1 – (1 – 0.856) (1 – 0.703) = 0.957$

Based on the results of calculating the Q-square value, it can be seen that the Q-square value is 0.957. This shows that the variables of

Capital Structure, Ownership Structure, and Financial Performance have a good level of prediction on Dividend Policy.

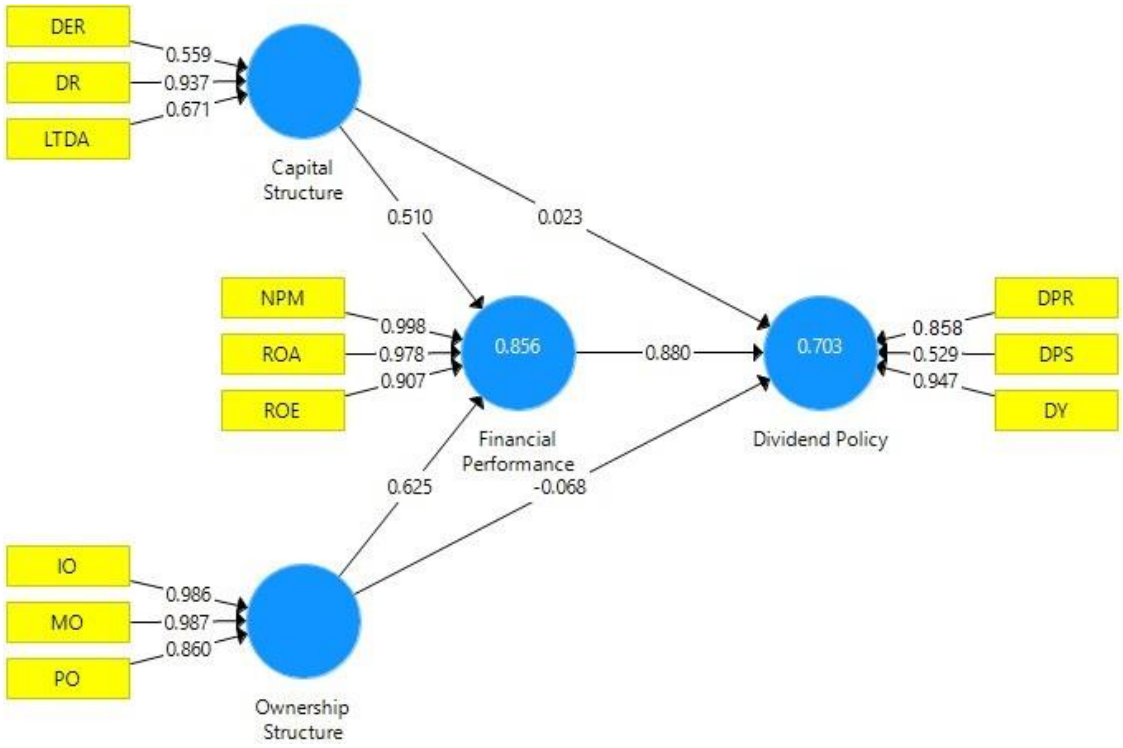

Figure 1. Structural Model

Table 9. Hypothesis Test

H	O	STDEV	T Statistics	Remarks
H1	0.510	0.144	2.161*	Significant
H2	0.023	0.153	0.151	Non-significant
H3	0.625	0.145	4.311*	Significant
H4	-0.068	0.186	0.363	Non-significant
H5	0.873	0.128	6.884*	Significant

Source: PLS Analysis Results, 2018

* : significant because t-statistics are more than 1.960 (t-statistics> 1.96)

Hypothesis testing was conducted with Bootstrapping. According to [17], the implementation of this method does not require the assumption of a normal distribution, and does not require a large number of samples. Testing can be done with t-statistics. It is said to be significant when the t-value is above the t-table (t-value> t-table) (t-table ± 1.960) in a 5% error rate. If the results of testing the model are significant, then there is an influence between latent variables.

Based on Table 9, results of hypothesis testing using bootstrapping, it can be concluded that:

H1: capital structure had a positive and significant effect on financial performance

H2: capital structure had non-significant effect on dividend policy

H3: ownership structure had a positive and significant effect onfinancial performance

H4: ownership structure had non-significant effect ondividend policy

H5: financial performance had a positive and significant effect ondividend policy

DISCUSSION

Effect of Capital Structure on Financial Performance. H1 hypothesis which states that capital structure affects financial performance is accepted (t-statistics = 2.161> 1.960). The direction of the positive effect (0.560) can be said that every increase in capital structure variable will affect the increase in financial performance variable, this effect applies the opposite.

The results of this study strengthen the Trade-off Theory proposed by [19], which states that the capital structure has a positive effect on financial performance. Capital structure is important for the company because the good or bad capital structure will affect the financial performance of the company. Companies can calculate the optimal capital structure by considering increasing

the company's financial performance and the costs that will arise. The trade-off theory in the capital structure can explain the difference in capital structure targeted by the company.

According to [20] in an optimal capital structure, trade-off theory has a strong appeal. This is in accordance with the facts stated by [20] that companies that are relatively safe in growth, have tangible assets that are dominant in the company's operations, tend to use a greater proportion of debt compared to companies that have dominant intangible assets that are more risky. This high business risk can increase the likelihood of financial distress, and companies with ownership of dominant intangible assets will be more difficult to get out of financial distress. The results in this study are in accordance with the findings [20], in which manufacturing companies that utilize the use of tangible assets in the company's operational activities, then the use of debt as a source of funding is a good alternative.

Capital structure policies involve balancing or trade-offs between risk and return. The risk here is the risk faced by the company, one of which is the use of debt. The results of this study indicate that in 2013 the company's capital structure proxied through debt, that at an average debt level of 52.1%, the company received a return of 15.099%. In 2014, the level of debt was 50.7% and the company received a return of 13.022%. In 2015, at a debt level of 46.9%, the company received a return of 11.025%. From this pattern, it can be seen that there is a balance between the use of debt and the return obtained by the company. The higher the debt, in which the increase in debt results in an increase in the risks faced by the company, will result in an increase in the return obtained by the company. Conversely, the lower the debt, in which the decrease in debt results in a decrease in the risk faced by the company, will result in a decrease in the return obtained by the company. In accordance with the trade-off theory [19] this can occur because debt incurs an interest expense, interest can be a tax deduction, so the use of debt will reduce tax liabilities and leave a greater operating profit for corporate investors.

The trade-off theory states that the relationship between capital structure and financial performance has an optimal level of leverage. According to the trade-off theory, in order to achieve an optimal capital structure, the company needs to balance the risk and return obtained. When the debt level is still low, an increase in debt can improve the company's performance because with debt, the company will get tax benefits from interest (tax-shield). Thus, it can improve the company's financial performance. However, if debt continues to rise beyond the optimal capital structure, then financial difficulties will be more likely occured. This is where the role of the financial manager in determining the proportion of the company's capital structure greatly determines the financial performance of the company.

The results of this study reinforce the results of previous research conducted by [21] and [22] which states that there is a significant effect with the direction of positive coefficients regarding the effect of capital structure on financial performance. But it does not support research conducted by [23], [24], and [25] which states that the increase in the capital structure will have an impact on a decrease in financial performance, and vice versa. The results of the study [26] state that capital structure has a significant effect on financial performance. The existence of this insignificant effect means that the increase or decrease in capital structure will not affect financial performance.

Effect of Capital Structure on Dividend Policy. Hypothesis H2 which states that the capital structure affects the dividend policy is rejected (t-statistics = 0.151 <1.960). The direction of the influence is positive (0.325) so it can be said that every increase in capital structure variable will affect the increase in the dividend policy variable, this effect applies the opposite. But the effect is not significant at t-statistics values of 0.151 (<1.96).

The results of this study does not strengthen the Debt Covenant Hypothesis proposed by [27], which states the influence of the direction of the negative correlation between leverage and dividends. Based on the debt covenant hypothesis, the creditor will limit the dividend payment by the company because in the presence of dividend payments will create the potential as a place to transfer wealth from creditors to shareholders. According to the debt covenant hypothesis that the creditor wants the profits obtained by the company to be used to repay the loan given by the creditor, rather than given to the shareholders through dividends. Thus, this makes companies that have a high level of leverage tend to pay smaller dividends because of constraints on the agreement with creditors to pay dividends. The Debt covenant hypothesis argues that the higher the company's debt is the same as the

more stringent the company is against the limitations contained in the debt agreement with the creditor.

According to the results of this study, it shows that an increase or decrease in debt does not have any effect on dividend policy carried out by the company. This is because this research is carried out on companies that are in countries with developing market conditions. In developing market conditions, companies are faced with investment choices that can increase company's growth, or whatever investment opportunities that arise to increase growth will be a serious consideration for company management. So that in such conditions, this will make the management of the company more concerned with increasing capital gains, which is done by allocating funds owned to develop investment projects rather than being distributed as dividends to shareholders.

Capital structure has decreased during the study period, the capital structure average in 2012 was 43.8% and in 2016 was 43.5%. This decline does not affect dividends because during the period of observation, the dividend experienced fluctuations due to fluctuations from dividends per share. Companies that have a high level of leverage are faced with the condition that the manager must manage the company's performance well so that the company can allocate the funds owned for the company's operational activities so that it will provide returns for the company.

The results of this study are in accordance with the results of research conducted by [28] and [23] which states that leverage is not significant to the dividend policy. However, the results of this study do not strengthen the results of research conducted by [29] which states that the capital structure has a significant positive effect on dividend policy. Research [30], [31], [32], and [33] state that leverage has a significant negative effect on dividend policy, which means that if there is an increase in the capital structure variable, it will cause a decrease in the dividend policy, and vice versa.

Effect of Ownership Structure on Financial Performance. The H3 hypothesis which states that ownership structure affects financial performance is accepted (t-statistics = 4.311> 1.960). The direction of the positive effect (0.625) can be said that every increase in ownership structure variables will affect the increase in financial performance variable, this effect applies the opposite.

The results of this study strengthen the Agency theory proposed by [9] which states that there is a positive effect between ownership structure on financial performance. This agency problem arises because of the development of the company which initially only took the form of individual companies into companies where ownership and management were separate. This agency problem itself arises between interested parties in the company referred to as stakeholders. In the agency theory, it is stated that there is often conflict between management and shareholders. This conflict occurs because of differences in interests between management and shareholders. According to this theory, the management who is referred to as the agent of the company has a different interest from the principal. The difference in conflicts of interest between managers and shareholders can be minimized by a monitoring mechanism. Agency theory according to [9] predicts that a high level of managerial ownership will reduce the inherent conflict of interest between the manager and shareholders.

The proportion of managerial ownership in manufacturing companies in Indonesia is still relatively low at 1.885% (<5%). From the results of this study, it appears that share ownership in manufacturing companies in Indonesia tends to be concentrated on the institutional side (the average institutional ownership is 70.424%). The high ownership of this institution proves that investors in the form of institutions have a dominant influence in decision making on the company. The dominance of this institution in agency theory can lead to a high agency conflict between the management and the principal, the agency problem that can occur is the principal's perception that the agent acting for his own interests, not for the interests of the shareholders. In accordance with the agency theory proposed by [9] it is stated that by increasing managerial ownership, it will reduce the agency cost which in its implications will increase the company's financial performance. The results of this study state that the lower managerial ownership will be followed by a decrease in financial performance. If it is related to the Agency Theory paradigm proposed by [9] then this indicates the high agency conflict in the companies in this study.

The results of research conducted by [29], [6], [34], and [35] show positive results from the effect of ownership structure on financial performance.

Research conducted by [36] and [37] state that ownership structure has a negative and significant effect on financial performance. Research [38] and [22] state that ownership structure has no effect on financial performance, this condition shows that if there is an increase or decrease in ownership structure variable, it will not affect any financial performance.

Effect of Ownership Structure on Dividend Policy. The H4 hypothesis which states that ownership structure affects the dividend policy is rejected (t-statistics = 0.363 <1.960). The direction of influence is negative (-0.068) so it can be said that every increase in ownership structure variable will affect the increase in dividend policy variable, this effect applies the opposite. But the effect is not significant at t-statistics value of 0.363 (<1.96).

The results of this study do not reinforce the Asymmetric information theory proposed by [39] which states that there is a positive effect between ownership structure on dividend policy. Asymmetric information occurs when internal parties of the company have more complete information about the condition of the company than the shareholders who are external parties of the company and are not directly involved in managing the company. The implication of this information imbalance is that investors cannot distinguish between companies that have good performance and companies that are performing poorly. With this information imbalance problem, internal companies that have information about the company about the company's prospects and conditions tend to give positive signals to outside investors about the company's performance. This information delivery will be captured as a positive and negative signal by investors regarding the conditions that occur in the company.

The results of this study indicate that companies that have low managerial share ownership and high institutional share ownership will cause the company not to have good ability to pay the company's dividends. Low managerial ownership in this study with an average of less than 5% (i.e. 1.885%) causes managers not to have enough voting power to make decisions regarding the allocation of the company's free cash flow in order to be distributed to shareholders in the form of dividends, so as to provide a good signal for investors and markets regarding the condition of the company.

The high institutional share ownership (an average of 70.412%) in this study causes no need for dividend payments because institutional investors will prioritize the use of available funds for the company's investment needs which provide more long-term benefits to the company. The high institutional ownership indicates that institutional investors have dominant control over the company so that in this case there is no asymmetric information because of the low management control in the management of the company, so that it can be said that managers act in accordance with the orders of the dominant shareholders (in this case, institutional ownership).

Companies that have low managerial share ownership (an average of 1.885%) are indicated as a company that has low profitability (an average of 13.601%), thus causing the company to not have good ability to pay dividends. According to [31] there are several arguments that can explain this indication. First, low managerial share ownership occurs because the company has low profitability. This is because the lower the profitability of the company, the manager of the company will tend to be reluctant to invest in companies that have low financial performance. Theoretically, according to the signaling hypothesis proposed by [10] which states that companies that have low profitability will not allow companies to pay dividends. Second, companies that have low profitability, have indicated that the company is using high leverage. Theoretically, according to debt covenant hypotehesis proposed by [27] states that companies that use high amounts of leverage will have implications for the company's low ability to pay dividends, which is paid if the company makes a profit or return.

The results of research on the effect of ownership structure on dividend policy support the Clientele Effect theory proposed by [40]. This theory is based on the fact that different groups of clients will like different dividend policies. There are at least two groups of investors with two conflicting interests. The first group is investors who prefer to get current income in the form of dividends so that they want the company to distribute dividends in large amounts; and the second group is investors who prefer to reinvest their profits so that the company does not need to distribute dividends in large amounts. With the existence of these two groups, companies must be able to determine the dividend policy that is considered by the company as the best policy according to the interests of stakeholders.

The results of this study support the Tax Preference theory proposed by [41] which states that because of the tax on dividend profits and capital gains, investors prefer capital gains because they can delay tax payments. According to the tax preference theory, if there is a difference between personal tax rates on dividend income and capital gains, investors will be more pleased if the profits earned by the company remain understood in the company, to spend the investments made by the company. Thus in the future it is expected that there will be an increase in capital gains with a lower tax rate. If many investors have such views, investors tend to choose stocks with small dividends with the aim of minimizing the taxes they have to pay from income on dividends.

The results of this study are in line with the results of the study conducted by [29] which states that there is no significant influence between ownership structure on dividend policy. The results of this study are not in line with the research [42] which states that ownership structure has a positive effecton dividend policy, this means that if there is an increase in ownership structure, it will increase the dividend policy, and vice versa. This research is also not in line with the results of research conducted by [33], [43], and [44] which state that ownership structure has a negative effect on dividend policy, this means that an increase in ownership structure will cause a decrease in dividend policy, and vice versa.

Effect of Financial Performance on Dividend Policy. H5 hypothesis which states that financial performance affects dividend policy is accepted (t-statistics = 6.884> 1.960). Direction of positive sign (0.873) can be said that every increase in financial performance variable will affect the increase in dividend policy variable, this effect applies the opposite.

The results of this study are in accordance with the logic in Signaling Theory proposed by [10], which states that financial performance has a positive effect on dividend policy. According to this theory, companies with good financial performance can send signals to the market through dividends. The model of signaling theory is based on the existence of asymmetric information problems, in which the management of the company has inside information about the prospects and conditions of the company, so that it tends to give a positive signal to investors or parties outside the company about the company's superiority, one of the positive signals is to distribute dividends to shareholders.

Positive effect between financial performance and dividend policy also strengthens the Free cash flow theory proposed by [45]. In this theory, [45] explains that even though the company has a large stock of cash in the form of funds, it will still choose to use debt as a corporate funding decision, and use the excess cash held to pay dividends and compensate the company management, which is the incentive can be an alternative to reduce agency costs. Based on the results of this study, the average dividend payout ratio experienced fluctuations during the observation period, this fluctuation was due to dividends per share which also experienced fluctuations. This fluctuation in dividend per share causes a fluctuation in the dividend payout ratio and dividend yield. This shows that dividend policy in manufacturing companies is still often changing, and not constant. This change is in accordance with the dynamics of the company's financial performance.

The results of this study are in accordance with research conducted by [28], [46], and [23] which states that there is a positive effect between financial performance and dividend policy. The results of research conducted by [47], [7] and [48] stated that there was no influence between financial performance and dividend policy. According to [47], the level of profits obtained by the company will not affect the management's decision to distribute dividends. The results of the study conducted by [47] state that there is a need for symmetric information between internal and external parties, the company management is expected to provide adequate and open information about the condition of the company so that if the asymmetric information can be suppressed, investors will not catch an incorrect signal regarding the condition of the company.

CONCLUSION

This study examined the causal relationship between Capital Structure and Ownership Structure on Financial Performance and Dividend Policy on Manufacturing Companies listed on the Indonesia Stock Exchange (BEI) for the period of 2012-2016 using the Partial Least Square (PLS) analysis method. The results of this study showed that Capital Structure had a positive and significant effect on Financial Performance, Capital Structure had no significant effect on Dividend Policy, Ownership Structure had a positive and significant effect on Financial

Performance, Ownership Structure had no significant effect on Dividend Policy, and Financial Performance had apositive and significant effect Dividend Policy. The results of this study can be used as a reference for new investors or old players in the capital market to do fundamental analysis if they want to make new investments or increase their portfolio. For companies, this study can provide good advice for each management decision. This study can also contribute to further research in the field of financial management, especially related to financial accounting topics, management decisions, and corporate strategies.

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