The Effect of Share Ownership Structure to The Dividend Policy and Firm Value of The Manufacturing Company Listed in Indonesia Stock Exchange

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Abstract

This study aims to examine the effect of share ownership structure on dividend policy and firm value using agency theory perspective. The study involved the consumer goods industry sector of the manufacturing companies listed on IDX from 2010 to 2016. The data were analyzed by applying Smart PLS (Partial Least Square). The share ownership structure is divided into three: managerial ownership, institutional ownership and state ownership. The indicators used to measure dividend policy are Dividend per Share, Dividend Payout Ratio and Dividend Yield, while the value of the firm is represented by MBVE, Tobin's Q and Closing Price. The structural model assessment reveals that share ownership structure has negative and significant effect to dividend policy. This means that increased managerial ownership and institutional ownership of the company will be followed by a decrease in dividend policy. The share ownership structure proved to have a positive and insignificant effect on the firm value. This shows that the share ownership structure is not significant effect on the increase of firm value. The dividend policy proved to have a positive and significant influence on the firm value in the sense that the higher Dividend per Share, Dividend Payout Ratio and Dividend Yield will affect the increase of firm value.

Keywords: Share ownership structure, dividend policy, firm value

INTRODUCTION

Every company has a goal to maximize the company's wealth or value for its shareholders/ owners. Corporate values that have gone public can be reflected from the market price of the company's stock. Company goals can be achieved by applying the functions of financial management including fund seeking and fund spending, and performing the three main functions of financial managers namely investment decision, financing decision, and dividend decision [1]. Financing decisions made to achieve the company goals are inseparable from the relationship between corporate managers and other parties covering shareholders and stakeholders.

The relationship between managers and shareholders according to the agency theory is called as an agency relationship [1]. An agency relationship is defined as a contract in which one or more persons (principals) involve others

(agents) to perform some services on their behalf that implicate the partial delegation of the decision-making authority to the agent [2]. Corporate managers are the agents of shareholders, a relationship fraught with conflicting interests [3].

The separation of ownership and control in large companies creates fundamental conflicts of interest between managers and shareholders, often referred to as agency conflicts [2] & [4]. Agency conflicts concern on the use of free cash flow by managers; which is the more cash flow required to fund all projects that have a positive Net Present Value (NPV) [3]. Managers behave in order to maximize company's free cash flow in funding corporate activities while shareholders demand the distribution of free cash flow as dividends.

Moreover, general agency conflicts (problems) are related to the alignment of goals of principals and agents to enable managers to maximize shareholder wealth. [2] argued that the relationship between managers and shareholders of companies conforms to the definition of agency relationship so that it can be concluded that the relationship associated with "separation

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of ownership and control" in company ownership is closely related to the general agency problem. Furthermore, [2] found that agency costs generated by companies lead to the development of the theory of corporate ownership structure (or capital structure).

[2] defined ownership structure in terms of capital contribution and viewed ownership structure as inside quality (equity owned by managers), outside equity (equity owned by others outside the company) and debt (owned by others outside the company). [2] used the term 'ownership structure' to show that the important variables in capital structure are not only determined by debt and equity but also the percentage of managerial share ownership. [5] argued that managerial share ownership (at low levels) may be proposed as a mechanism that can help align the interests of managers and shareholders. Also, managerial share ownership can serve as a mechanism to lower agency costs and increase corporate values [6].

[7] argued that another way that can be done in reducing agency conflicts is by increasing control over management performance with increased share ownership outside the company through institutional share ownership. The results of research conducted by [8] showed that institutional investors play an active role in corporate management, not only using their voting rights. Meanwhile, [9] stated that institutional investors have strong incentives and good ability to gather information and monitor corporate behavior effectively. Institutional investors also play a highly effective supervisory role which can improve corporate performance [10].

Distribution of shares among shareholders has a significant impact on corporate activities that rely on shareholder rights [11]. The share ownership structure of companies can determine how company policies will be made. Controls based on ownership structure give shareholders greater power and discretion over the key decisions, such as dividend policy [12]. [13] said that ownership structure is a factor affecting company policies such as dividend policy.

Dividend policy refers to a decision whether the profit earned by a company at the end of the year will be distributed to shareholders in the form of dividends or will be withheld to increase capital for future investment financing. [14] argued that payment policies seem to be governed by agency conflicts between managers and shareholders. Dividend payouts can increase external funding costs but reduce managerial opportunism costs. It suggests that there are optimal payouts minimizing the number of agency conflicts and agency costs [15]. Dividends can be a means to minimize agency problems in which the possibility of expropriation can be lower through the sharing of free cash flow as dividends [16].

Dividends are an important factor that determines shareholder wealth [17]. Dividend policy continues to draw attention due to its relationship with corporate financing and investment decisions, as well as its impact on shareholder wealth [18]. Maximizing corporate values and shareholder wealth are the goals of any company. [19] stated that information asymmetry and agency costs of free cash flow can make the size and timing of dividends relevant to corporate values. [20] explained that dividend payouts show the good performance of management in managing the company and is a positive signal for investors to reinvest in the company.

Research conducted by [20] found that Dividend Payout Ratio has a positive effect on corporate values because distributed dividends can be a positive signal for investors to reinvest and show that the company is in a good performance. In contrast, the findings of research conducted by [20] are irrelevant when associated with the dividend irrelevance theory stating that the dividend policy of companies has no effect, either on corporate values or capital costs [1]. The findings of this gap encourage further research to be done on the relationship between dividend policy and corporate value.

This research used manufacturing companies of the consumer goods industrial sector listed on the Indonesia Stock Exchange (IDX) period 2010 – 2016 as the objects being studied for several reasons. Manufacturing companies are the leading sector that considerably contributes to Indonesia's economic growth. The industrial sector of consumer goods has an important role in the development of manufacturing companies. This industry sector also has a good prospect and growing opportunity. Unfortunately, it is not supported by a large number of companies paying out dividends annually. It shows that the problems faced by manufacturing companies are on how to increase corporate values, either by dividends or investment, to maximize the company's operations.

MATERIAL AND METHOD

This research used an explanatory research design with quantitative approach. The variables studied in this research were *Share Ownership Structure* (X), *Dividend Policy* (Y), and *Corporate Value* (Z). Data analysis techniques used in this research were descriptive statistic analysis and Structural Equation Model (SEM) analysis based on Partial Least Square (PLS) using SmartPLS 2.0 software.

Data Collection

In this research, the data collection was conducted at the Indonesia Stock Exchange (IDX). This research used secondary data obtained from the financial statements and annual reports of manufacturing companies engaged in the consumer goods industrial sector listed on IDX in the period of 2010 to 2016. The population of this study amounted to 39 manufacturing companies (engaged in the consumer goods industrial sector) listed in IDX of 2010 – 2016. The samples of this study were determined using purposive sampling technique with certain criteria so as to involve 21 company samples.

Table 1. Sample of Consumer Goods Industry Sector Listed on IDX

No	Code	Companies
1	BUDI	Budi Starch & Sweetener Tbk.
2	CEKA	Wilmar Cahaya Indonesia Tbk.
3	DLTA	Delta Djakarta Tbk.
4	ICBP	Indofood CBP Sukses Makmur Tbk.
5	INDF	Indofood Sukses Makmur Tbk.
6	MLBI	Multi Bintang Indonesia Tbk.
7	MYOR	Mayora Indah Tbk.
8	ROTI	Nippon Indosari Corpindo Tbk.
9	SKLT	Sekar Laut Tbk.
10	ULTJ	Ultrajaya Milk Industry & Trading Tbk.
11	DVLA	Darya-Varia Laboratoria Tbk.
12	INAF	Indofarma (Persero) Tbk.
13	KAEF	Kimia Farma (Persero) Tbk.
14	KLBF	Kalbe Farma Tbk.
15	MERK	Merck Tbk.
16	TSPC	Tempo Scan Pacific Tbk.
17	GGRM	Gudang Garam Tbk.
18	HMSP	HM Sampoerna Tbk.
19	MRAT	Mustika Ratu Tbk.
20	TCID	Mandom Indonesia Tbk.
21	UNVR	Unilever Indonesia Tbk.

Sources: Data Processed 2018

Operational Variable

1. Share Ownership Structure (X)

Share ownership structure is the share ownership of a company distributed to shareholders. In this research, the share ownership structure was divided into two,

namely *managerial share ownership* and *institutional share ownership.* Thus, the indicators of share ownership structure of this study consisted of managerial ownership, institutional ownership and state ownership.

a. Managerial Ownership (X₁)

Managerial share ownership is the percentage of shares owned by management and directors. Managerial share ownership can be measured by the percentage of total shares owned by management with the following formula:

$$Mng = \frac{Number\ of\ Managerial\ Ownership\ Shares}{Number\ of\ Shares} \times 100\%$$

Sources: [22]

b. Institutional Ownership (X₂)

Institutional share ownership is the percentage of shares owned by an institution. The percentage of institutional share ownership is the total shares owned by the institution divided by the total outstanding shares. Institutional share ownership can be measured using the following formula:

$$Inst = \frac{Number\ of\ Institutional\ Ownership\ Shares}{Number\ of\ Shares} \times 100\%$$

Sources: [22]

c. State Ownership (X₃)

State ownership is the percentage of shares owned by state, government, and public authorities.

$$\frac{Number\ of\ Shares\ Held\ by\ State}{Total\ Number\ of\ Shares\ Outstanding} \times 100\%$$

Sources: [22]

2. Dividend Policy (Y)

Dividend policy is the decision whether the profit earned will be distributed or shared to shareholders as dividends or will be withheld as retained earnings for future investment financing. Dividend policy relates to the percentage of net income after taxes distributed as dividends to shareholders. The measurement of dividend policy in this research used several indicators, namely *Dividend per Share, Dividend Payout Ratio* and *Dividend Yield.*

a. Dividend per Share (Y$_1$)

Dividend per Share (DPS) is the amount of dividends earned per share based on the calculation of the total amount of dividends divided by the total number of shares of the company.

b. Dividend Payout Ratio (Y$_2$)

Dividend Payout Ratio (DPR) is a ratio showing the percentage of any earned profit that is distributed to shareholders in cash. DPR is the number of dividends paid to shareholders divided by the total net income after taxes of the company. DPR can be measured using the following formula:

$$Dividend\ Payout\ Ratio = \frac{Dividend\ Per\ Share}{Earning\ Per\ Share}$$

Sources: [23]

c. Dividend Yield (Y$_3$)

Dividend Yield is a way to determine how much a company pays out in dividends to shareholders based on its current share price. Dividend Yield can be calculated using the following formula:

$$Dividend\ Yield = \frac{Dividend\ per\ Share}{Market\ Price\ per\ Share}$$

Sources: [24]

3. Corporate Value (Z)

The major goal of companies is to maximize the company wealth or values for its shareholders/ owners. Corporate values that have gone public can be reflected in the market price of the company's shares. Corporate values can be measured using several indicators, namely *Tobin's Q* and *Closing Price.*

a. MBVE (Z$_1$)

Market to Book Value of Equity (MBVE) is a ratio that reflects growth opportunities as well as expected investment opportunities.

$$MBVE = \frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Equity}$$

Sources: [34]

b. Tobin's Q (Z$_2$)

Tobin's Q provides an explanation of corporate values. Tobin's Q model defines corporate values as combined values between tangible assets and intangible assets. The value of Tobin's Q or Q ratio can generally be calculated by dividing the market value of a company (as measured by the market value of its outstanding shares and debt) by the replacement cost of the company's assets (book value). Here is the formula of Tobin's Q calculation:

$$Q = \frac{(Market\ Value\ of\ Equity + Book\ Value\ of\ Debt)}{Book\ Value\ of\ Assets}$$

Sources: [25]

c. Closing Price (Z$_2$)

Closing Price is the final price at which stock is traded during the regular trading season. It is commonly used to predict stock prices in the next period. Predicted share prices in the world of investment become an important thing for share buying and selling activities.

RESULT AND DISCUSSION

1. Statistik Deskriptif

Table 2. Descriptive Statistic

	N	Min	Max	Mean	Std. Deviation
X$_1$	147	0.00	0.25	0.01	0.04
X$_2$	147	0.00	0.98	0.66	0.27
X$_3$	147	0.00	0.90	0.09	0.25
Y$_1$	147	-1.07	10.3	4.03	2.87
Y$_2$	147	-1.03	1.72	0.40	0.38
Y$_3$	147	0.00	0.09	0.02	0.02
Z$_1$	147	0.24	62.9	7.30	11.6
Z$_2$	147	0.42	18.6	3.97	4.05
Z$_3$	147	4.14	13.9	8.35	2.19

Sources: Data Processed 2018

The amount of managerial share ownership during 2010-2016 as seen in Table 2 ranged from 0.000 (0%) to 0.2522 (25.22%) with a mean value of 0.0122 (1.22%) and standard deviation of 0.0423. The lowest managerial share ownership of 0% was shown by the companies with no managerial share ownership in a certain year during the observation period such as BUDI, CEKA, DLTA, ICBP, MLBI, MYOR, ROTI, HMSP, DVLA, INAF, KLBF, MERK, TSCP, MRAT, and UNVR. Meanwhile, the highest managerial share ownership of 25.22%, was shown by MYOR in 2016. The average managerial share ownership during the observation period was 1.22%.

The amount of institutional share ownership during 2010-2016 as seen in Table 2 ranged from 0.0000 (0%) to 0.9818 (98.18%) with a mean value of 0.6635 (66.35%) and standard deviation of 0.2744. The lowest institutional share

ownership of 0% was obtained by the companies with no institutional share ownership in a certain year during the observation period such as INAF and KAEF. The two companies are SOEs, so the ownership of the shares is mostly owned by the Government of Indonesia. On another side, the highest institutional share ownership of 98.18% was owned by HMSP in 2010-2014. The average institutional share ownership during the observation period was 66.35%. This percentage indicates that the average of the companies' shares during the observation period was owned by institutional shareholders with the ownership percentage of more than 50%.

Based on Table 2, the dividend payout ratio of 2010-2016 ranged from -1.0328 (-103.28%) to 1.7225 (172.25%) with a mean value of 0.4025 (40.25%) and standard deviation of 0.3847. The lowest dividend payout ratio of -103.28% was shown by MRAT in 2013. It occurred because MRAT suffered losses but still paid out dividends for the year. Meanwhile, the highest dividend payout ratio of 172.25% was gained by MERK in 2012. The average dividend payout ratio during the observation period was 40.25%, indicating that the average net income of the company allocated as dividends was less than the net income allocated as retained earnings.

Furthermore, Table 2 shows that the dividend yield of 2010-2016 ranged from 0.0000 (0%) to 0.0963 (9.63%) with a mean value of 0.0211 (2.11%) and standard deviation of 0.0189. The lowest dividend of 0% was owned by the companies that did not distribute dividends in a certain year during the observation period, covering BUDI, CEKA, ROTI, SKLT, INAF, KAEF and MRAT. On another side, the highest dividend yield of 9.63% was shown by DLTA in 2011. The average dividend yield during the observation period was 2.11%, indicating that the average rate of return received by investors in the form of dividends amounted to 2.11%.

The Tobin's Q ratio of 2010-2016 as seen in Table 2 ranged from 0.4206 to 18.6404 with a mean value of 3.9663 and standard deviation of 4.0534. The lowest Tobin's Q ratio of 0.4206 was shown by MRAT in 2015 while the highest Tobin's Q ratio of 18.6404 was owned by UNVR in 2015. The average ratio of Tobin's Q during the observation period was 3.9663, indicating that the average of the companies' shares was in an overvalued condition. The management successfully managed the company's assets and the potentials for high investment growth.

As for the closing price of 2010-2016 as shown in Table 2, it ranged from 4.1431 to 13.9978 with a mean value of 8.3496 and standard deviation of 2.1925. The lowest closing price of 4.1431 was made by BUDI in 2015 at a share price of IDR 65 while the highest closing price of 13.9978 was reached by MLBI in 2013 at a share price of IDR 1,200,000 (per share). The average natural log value of the closing price during the observation period was 8.3496.
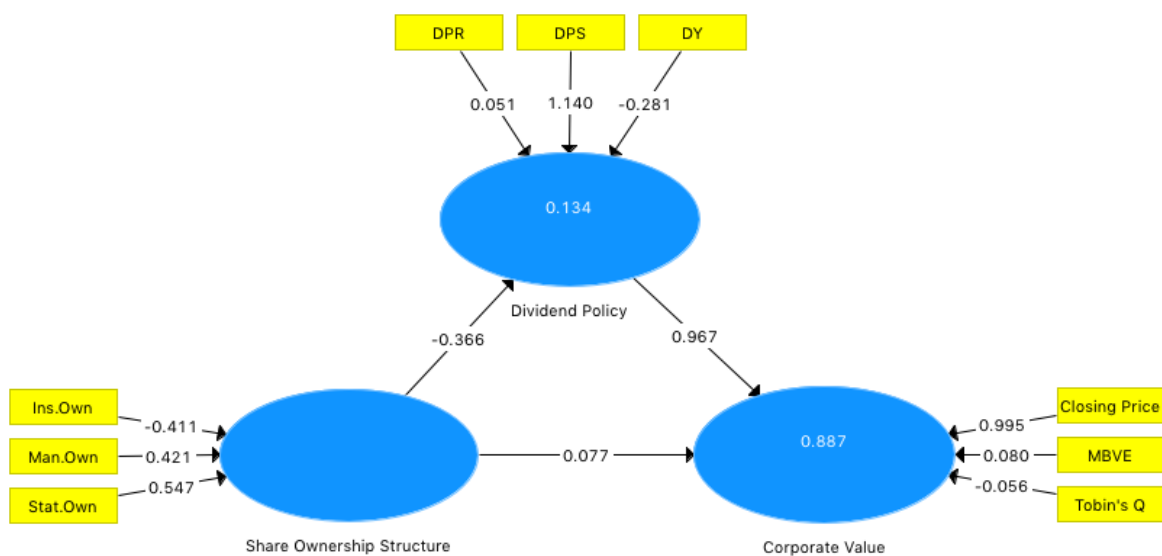

Figure 1. Structural Model (Outer Model).

2. Data Analysis

The data processing of this research was done using SEM method based on Partial Least Square (PLS).

a. Outer Model Assessment (Measurement Model)

Table 3. Outer Weights (Mean, STDEV, T-Values)

Hubungan variabel	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (|O/STERR|)
X_1 -> **X**	0.422	0.201	2.100
X_2 -> **X**	-0.902	0.364	2.479
X_3 -> **X**	0.827	0.317	2.612
Y_1 -> **Y**	0.982	0.052	13.485
Y_2 -> **Y**	0.699	0.007	139.439
Y_3 -> **Y**	0.550	0.065	8.482
Z_1 -> **Z**	0.477	0.060	8.005
Z_2 -> **Z**	0.585	0.058	10.125
Z_3 -> **Z**	0.999	0.002	470.164

Sources: Data Processed 2018

Table 3 illustrates the value of the loading factor (convergent validity) of each indicator. The loading factor value of > 0.7 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 3, it is shown that all of the loading factor values of the Share Ownership Structure (X), Dividend Policy (Y) and Corporate value (Z) indicators were greater than 0.5 or had a statistical *t*-value of > 1.96, indicating that the indicators were valid.

b. Discriminant Validity

The results obtained from the discriminant validity test are as follows:

Table 4. Values of Discriminant Validity (Cross Loading)

	X	Y	Z
X_1	**0.422**	-0.208	-0.046
X_2	**-0.902**	0.312	0.273
X_3	**0.827**	-0.275	-0.266
Y_1	-0.386	**0.982**	0.912
Y_2	-0.335	**0.699**	0.626
Y_3	-0.322	**0.550**	0.469
Z_1	-0.184	0.452	**0.477**
Z_2	-0.204	0.553	**0.585**
Z_3	-0.275	0.938	**0.999**

Sources: Data Processed 2018

Based on the cross loading values presented in Table 4, it can be seen that all indicators making up each variable in this research (the values in bold) met the discriminant validity because it had the largest outer loading value for the variable it formed only, not for other variables.

c. Inner Model Assessment (Structural Model)

The test on the structural model was done by looking at the R-square which is a goodness-fit test model.

Table 5. R-Square Value

Constructs	R Square
Dividend Policy	0.134
Corporate Value	0.887

Sources: Data Processed 2018

In principle, this research used two variables influenced by other variables, *i.e.* the Dividend *Policy* variable influenced by the *Share Ownership Structure* variable. Similarly, the *Corporate Value* variable was also influenced by both Dividend Policy and Share Ownership Structure variables.

Table 5 shows that the R-square of the Dividend Policy obtained 0.134, indicating that 13.4% of the Dividend Policy was affected by the Share Ownership Structure. Meanwhile, the remaining 86.6% was affected by other variables (not involved in this research).

Furthermore, Table 5 also suggests that the R-square of the Corporate Value was 0.887. This indicates that 88.7% of the Corporate Value was affected by the Share Ownership Structure and Dividend Policy. Meanwhile, the remaining 11.3% was influenced by other variables which were not studied in this research.

In the PLS model, the overall Goodness of Fit assessment was known from the value of Q^2 (predictive relevance) in which the higher Q^2 would lead the model to be more fit with the data. From Table 5, the value of Q^2 can be calculated as follows:

Q^2 Value $= 1 - (1 - R^2) \times (1 - R^2)$
Q^2 Value $= 1 - (1 - 0.134) \times (1 - 0.887)$
$= 0.902$

Based on the calculation result, it is shown that the value of Q^2 was 0.902, meaning that the amount of variability of the research data which could be explained by the structural model was 90.2% while the rest 9.8% was explained by other factors outside of the model. Based on this result, the structural model in the study can be said as having a good fit.
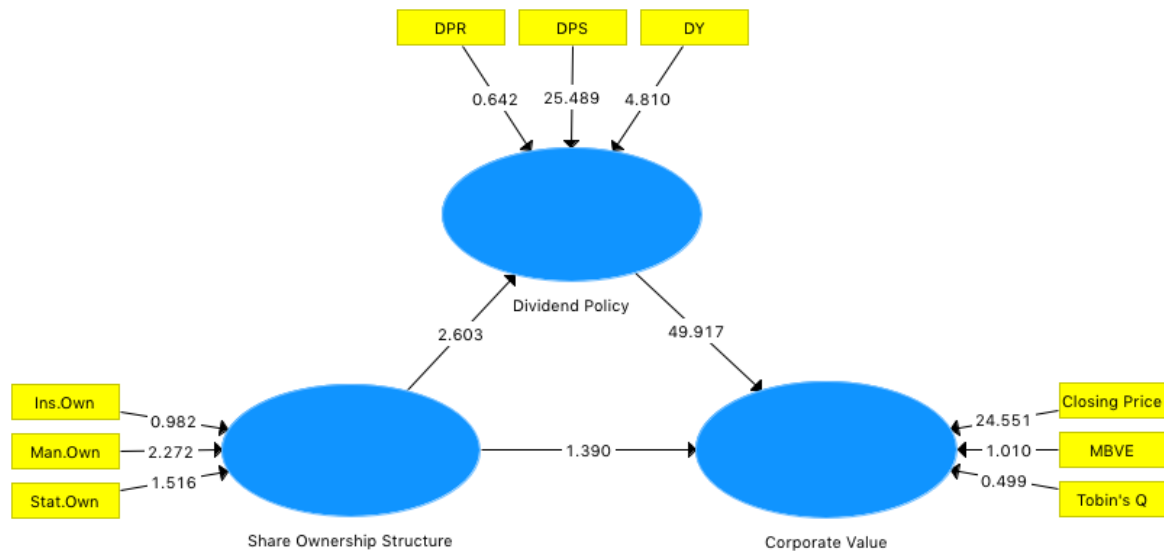
Figure 2. Structural Model (Inner Model).

d. Hypothesis Testing

The test results with bootstrapping of the PLS analysis are as follows:

Table 6. Path Coefficient (Mean, STDEV, T-Values)

Hubungan Variabel	O	STDEV	T Statistics	Notes
X -> Y	-0.366	0.153	2.603	Signifikan
X -> Z	0.077	0.057	1.390	Tidak Signifikan
Y -> Z	0.967	0.019	49.917	Signifikan

Sources: Data Processed 2018

Based on Table 6 above, the results obtained are as follows:

1) The results of the first hypothesis testing suggest that the relationship between the Share Ownership Structure (X) and the Dividend Policy (Y) obtained a path coefficient value of -0.366 with *t*-value of 2.603. The value was greater than the tabulated *t* (*t*table) of 1.960, indicating that the Share Ownership Structure had a negative and significant effect on the Dividend Policy. This is not consistent with the first hypothesis stating that *Share Ownership Structure has an effect on Dividend Policy.* Thus, **Hypothesis 1 was accepted.**

2) The results of the second hypothesis suggest that the relationship between the Share Ownership Structure (X) obtained a path coefficient value of 0.077 with *t*-value of 1.390. The value was smaller than the tabulated *t* (*t*table) of 1.960, meaning that the Share Ownership Structure had a positive yet insignificant effect directly on the Corporate value. This completely does not support the second hypothesis stating that *Share Ownership Structure has an effect on Corporate value.* Thus, **Hypothesis 2 was rejected.**

3) The results of the third hypothesis show that the relationship between the Dividend Policy (Y) and the Corporate value (Z) obtained a path coefficient value of 0.967 with *t*-value of 49.917. The value was greater than the tabulated *t* (*t*table) of 1.960, indicating that the Dividend Policy had a positive and significant effect on the Corporate Value. This is in line with the third hypothesis stating that *Dividend Policy has an effect on Corporate value.* Thus, **Hypothesis 3 was accepted**.

3. Discussion

a. The Effect of Share Ownership Structure on Dividend Policy

The results of the hypothesis testing that have been explained above show that the relationship between the Share Ownership Structure and the Dividend Policy was negative and significant, indicated by the path coefficient value of -0.366 and *t*-value of 2.603. Thus, it can be said the results are in line with the first hypothesis. Besides, the negative path coefficient value (-0.366) indicates that the relationship between the two variables is not in the same direction, indicating that the increased of share ownership structure by managers, institutions, and state will influence the decreased of company dividend policy. The effect also applies vice versa.

The low managerial share ownership (average less than 5%) in this research led to high dividend payouts because managers did not have enough

voting power, so the company's board of directors could not allocate company's free cash flows to corporate investments or actions that could harm the shareholders or owners of the company. The high institutional share ownership (on average 66.35%) in this research led to low dividend payments because institutional investor could serve as a monitoring mechanism, so there is no need of high dividend payment as a substitute to reduce agency problem. State ownership in this study indicates that the higher the shares owned by the government, the dividend payout will decrease, it indicates that the role of government in handling agency problem in the company is running well, so there is no need of high dividend payment as a substitute to reduce agency problem.

The findings are consistent with the theoretical logic of the agency cost model [2], particularly those derived from the mechanism monitoring argument of [26] stating that the effectiveness of dividends as a monitoring device depends on the other monitoring devices such as ownership structure. Companies with high managerial and institutional share ownership should be able to suppress their agency conflicts or problems so that the company dependency to dividends as a monitoring device in reducing agency problems can be lowered. In this research, managerial, institutional and state share ownership have been able to reduce the agency problems so that the companies does not rely on dividends as their monitoring mechanism.

These findings can be attributed to the characteristics of share ownership structure in this research showing that the share ownership was mostly dominated by institutional investors with the average share ownership overall of 66.35% which in reality consisted of affiliated *holding* companies. Even the *holding* companies still have kinship or relation with the company management, so agency problem tends not to happen. The managerial share ownership in this research can be categorized as small with average share ownership below 5%. Consequently, the agency problems or agency costs could not be suppressed. As described by [2], this situation can cause the monitoring mechanism not to work properly, thus requiring high dividend payout ratio to replace the ownership structure function as an ineffective monitoring device to reduce agency problems and control agency costs.

The findings in this research are in accordance with *Entrenchment Hypothesis* stating that below

an entrenchment level insider ownership and dividend policies can be seen as substitute corporate governance devices, therefore leading to a negative relationship between these two variables [27]. Increased managerial share ownership can cause management to have more power in influencing the distribution of free cash flow. Therefore, higher dividend payouts can be used as a monitoring mechanism for controlling management actions potentially harming shareholders. The findings in this research support the results of previous studies conducted by [28] and [9]. In contrast, this research does not support previous studies carried out by [5] and [29].

b. The Effect of Share Ownership Structure on Corporate Value

The results of the hypothesis testing suggest that the relationship between the Share Ownership Structure variable (X) and the Corporate Value variable (Z) obtained a path coefficient value of 0.077 with the *t*-value of 1.390. These results indicate that the Share Ownership Structure insignificantly influenced the Corporate Value, not supporting the second hypothesis. The positive path coefficient value of 0.077 suggests that the relationship between the two variables is in the same direction, meaning that the increased of managerial share ownership, institutional ownership and state ownership will also improve the corporate value proxied by the MBVE, Tobin's Q and closing price, but it will not occur at the *t*-value of 1.358 or less than the t_{table} of 1.96.

The results of this research also suggest that the companies had not been able to deal with agency problems using the share ownership structure in achieving its goal of increasing the corporate value. This is in line with research conducted by [30] finding that share ownership structures cannot overcome the agency problems occurring within companies. The largest share ownership, according to this research, was held by institutional investors. However, the institutional share ownership, in this case, had not been able to run a monitoring mechanism to reduce agency problems and increase the corporate values [2]. This is possible because the characteristics of institutional investors in this research were dominated by affiliated holding companies. Therefore, because most of the share ownership in this research was owned by institutional investors as dominated by non-independent parties (affiliated each other),

consequently the function of institutional investors as a monitoring mechanism could not run well and thereby the agency problems had not been resolved.

Besides, the research results found that the managerial share ownership could not be a monitoring mechanism for reducing agency problems in order to create corporate values. This is because the managerial share ownership in this research was low with the average percentage of 1.22%, causing the alignment of interests between managers and shareholders difficult to do. According to [2], [26] and [3], a mechanism that can be used to align interests between managers and shareholders is through dividend payouts. Companies that paying dividends will increase the value of the company. This allows for the insignificant findings between the share ownership structure and corporate value in this research. These results are in line with the research conducted by [30] and [31] finding that managerial share ownership significantly influences corporate values. In contrast, these results do not support the research undertaken by [32]. In conclusion, based on the research results, share ownership structures have not been able to use as the mechanism in the alignment of interests to reduce agency problems in order to create corporate values.

c. The Effect of Dividend Policy on Corporate value

According to the results of the hypothesis testing, the relationship between the Dividend Policy variable (Y) and the Corporate value (Z) showed a path coefficient value of 0.967 with the *t*-value of 49.917. This indicates that the Dividend Policy variable had a positive and significant effect on the Corporate Value variable, supporting the third hypothesis stating that *Dividend Policy has an effect on Corporate value.* The positive path coefficient of 0.967 suggests that the relationship between the two variables is in the same direction, indicating that the increased dividend policy proxied by the dividend per share, dividend payout ratio and dividend yield will improve the corporate value proxied by the MBVE, Tobin's Q and closing price.

Furthermore, according to the research findings, the dividend policy determined by the companies had an effect on the corporate value. These findings are consistent with the signaling theory stating that dividends bring important information and the announcement of dividends will bring more information. In this case, dividend policy by a company can be a positive signal for investors to reinvest, showing that the company is in a good performance which potentially increases the corporate values. The positive relationship between the Dividend Policy and the Corporate Value in this research indicates that the greater the dividend is distributed, the better the company's performance and the more profitable the investment in the company will be.

Dividends are an important factor that determines shareholder wealth. Therefore, dividend policy has an influence on corporate values. The increase in corporate values or shareholder wealth is the main goal of any company. According to this research, dividend policy can be used as consideration for companies to achieve the goals.

Dividends can also be used as mechanisms in aligning interests between managers and shareholders, so dividends can be used as mechanisms to reduce agency problem. Based on the share ownership structure in this research, the company that distributes high dividends is a company with low managerial share ownership, so the company has high corporate value. It also reinforces the significant influence of dividend policy with corporate value in this research.

The research findings support the previous research conducted by [20] finding that Dividend Payout Ratio positively influences corporate values because the distributed dividends can be a positive signal for investors that the company is in good condition. This research is also consistent with the research conducted by [19] and [33]. However, this research is in contrast with the Dividend Irrelevance Theory of [21] stating that dividend policy does not affect corporate values while this research indicates that dividend policy positively and significantly influences corporate value.

CONCLUSION

Share Ownership Structure has a significant and negative effect on Dividend Policy. The negative effects found in this research are in line with the theoretical logic of the agency cost model because the share ownership structure in this research has not yet been able to be a mechanism in reducing agency problems occurring within the companies. Therefore, higher dividend payouts are not needed as a substitute monitoring device of ownership structure in suppressing agency problems and reducing agency costs. These findings are in

accordance with *Entrenchment Hypothesis* which allows for a negative relationship between dividend policy and managerial share ownership.

Furthermore, according to this research, Share Ownership Structure has an insignificant effect on Corporate Value. The findings of this research have not been able to show that the share ownership structure can serve as a mechanism to increase the corporate value. Furthermore, high institutional and state share ownership has not been able to run well the monitoring mechanism to reduce agency problems and increase corporate values. This happens because the characteristics of institutional investors in this research are dominated by affiliated holding companies (non-independent parties) so agency problems occurring within the companies have not been resolved. The managerial share ownership in this research is considered as low with the average percentage of 1.22%, causing the alignment of interests between managers and shareholders difficult to do and encourage the management to maximize their own interests that potentially harm shareholders.

On another side, Dividend Policy has a significant effect on Corporate Value. That is, dividend policy by a company can be a positive signal for investors to reinvest, showing that the company is in good condition and thus able to create corporate values. The company goal to increase corporate values or shareholder wealth can be achieved by determining the appropriate dividend policy because dividends are one of the factors that determine shareholder wealth.

It is suggested for further research to conduct similar studies but with a different industrial sector and involving more number of diverse samples so as to strengthen the results of previous research. Subsequent research is also expected to use other variables influencing dividend policy and corporate value to obtain more diverse findings.

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