Role of Share Ownership and Dividend Policy on Financial Performance (Case Study at Construction Service Company)

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Abstract — The purpose of this study is to analyze financial performance seen on the basis of share ownership and dividend policy of the construction services company listed in Indonesia Stock Exchange (IDX) during 2014-2016. This study analyzes the role of share ownership and dividend policy of the construction services company and their impact on financial performance. Data of this research is Construction Company listed in Indonesia Stock Exchange which report Consolidated Financial Statements and audited in 2014-2016. The analytical technique used is Multiple Regression Analysis. The data of financial statements were downloaded from Indonesia Stock Exchange website and tested with SPSS 24 application. Result of this study is that the performance of Construction Company is influenced by Managerial Ownership positively and significantly affects all financial performance indicators, both Net Profit Margin, Return On Asset and Return On Equity, Institutional ownership has a negative and insignificant effect on financial performance indicator of Net Profit Margin and Return On Equity. While on Return On Asset has a positive effect but not significant. Dividend policy negatively affects all financial performance indicators. However, it is significant to Net Profit Margin and Return On Equity, while on Return On Asset, it is not significant. The findings of this study are financial performance of contruction companies that go public in Indonesia, is determined by the value of Managerial Ownership Financial Statement and ROE which will assist to provide useful information to other researchers, investors and banking companies

Keywords: Managerial Ownership, Institutional Ownership, Dividend Policy, Financial Performance

INTRODUCTION

A rise in stock prices for construction services firms may boost investor optimism for higher dividends. Before determining dividend policy, there are factors influencing dividend policy that must be considered first by each company. Determination of dividend policy is indispensable for the welfare of shareholders. The amount of dividend is distributed upon the request and approval of the majority of shareholders.

Seen in April 2017 the share price of state-owned construction companies jumped significantly. PT Adhi Karya Tbk (ADHI)'s stock price jumped 9.26% to Rp 2,360 per share from Rp 2,180 per share. In the second position there are shares of PT Wijaya Karya Tbk (WIKA) which increased by 7.76% to Rp 2,360 per share. The third position was PT PP Tbk (PTPP), which increased by 6.96% to Rp 3,380 per share from Rp 3,160 per share. And that is in the fourth position is PT Waskita Karya Tbk (WSKT) which rose 4% to Rp 2,340 per share (kontan.co.id). The amount of dividends paid to shareholders will usually return to the company for the acceleration of infrastructure development. Based on these data the government wants a dividend of 30 percent of net profit per construction service company (cnnindonesia.com).

High price per share can not be separated from good management and operational performance so as to increase net income. The measure of success of any business can also be interpreted as a company's financial performance. The management of the company is required to improve the welfare of the shareholders, so often this makes the management has a goal different from the main objective of the company (Yadnyana & Wati, 2011), this is also called Agency theory.Konflik that occurs between the management and the holder shares will affect the company's financial performance. Conflict between management and shareholders can be affected by ownership structures such as managerial ownership and institutional ownership (Jensen, 2002) (Artini & Puspaningsih, 2011).

Copeland and Weston in (Sofyaningsih & Hardiningsih, 2011) say that in addition to agency issues, dividend policy also plays an important role because this policy is related to whether the company's cash flow will be paid to shareholders or reinvested by the company.

Based on the problems mentioned above, the writer wanted to know the relationship between managerial ownership, institutional ownership and dividend policy on financial performance at construction service companies listed in Indonesia Stock Exchange. Therefore, the authors chose the title "Role of Share Ownership and Dividend Policy on Financial Performance (Study on Construction Service Company)".

FORMULATION OF THE PROBLEM

1. Does managerial ownership significantly affect the financial performance of construction service companies listed on the Indonesia Stock Exchange?
2. Does institutional ownership have a significant effect on financial performance on construction service companies listed on the Indonesia Stock Exchange?
3. Do dividend policies have a significant effect on financial performance on construction service companies listed on the Indonesia Stock Exchange?

THEORITICAL REVIEW

Shareholding

Ownership is socially supported power to exercise control over something exclusively owned and use it for personal purposes, and the understanding of shareholders is a person or legal entity that legally owns one or more shares in the company. So ownership of shares can be interpreted something owned one or more shares by a person or legal entity to hold the control of a company.

Managerial ownership

Managerial ownership is a separation of ownership between the outsider and the insider.Jika in a company has many shareholders, then the large group of individuals is clearly not able to participate actively in the management of everyday companies. Therefore, they choose the board of commissioners, who choose and supervise company management.This structure means that the owner is different from the company manager. This provides stability for companies that are not owned by companies with the same owner (Bodie, Kane, & Alan, 2006)

Shliefer and Vishny in (Siallagan & Machfoedz, 2006) state that large shareholdings in terms of economic value have an incentive to monitor. According to (Jensen & Meckling, 1976), when stock ownership by management is low then there is a tendency for increased opportunistic manager behavior as well.

Managerial ownership is measured based on the percentage of ownership of shares owned by the management consisting of the board of directors. According to (Listyani, 2003), this variable is used to determine the benefits of managerial ownership in agency conflict reduction mechanisms.

$$K.M = \frac{\text{(Number of Managerial Shares)}}{\text{(Total Shares Outstanding)}} \times 100\%$$

Institutional ownership

Institutional ownership is a stock ownership in a company owned by a non-bank financial institution that manages funds on behalf of others (Houston & Brigham, 2009). Examples of non-bank financial institutions are insurance companies, investment companies, mutual fund companies, money market dealers, leasing companies, pension funds companies, consumer finance companies and other non-bank financial institutions.

(Jensen & Meckling, 1976) argue that institutional ownership has a very important role in minimizing agency conflict between managers and shareholders. In addition to management ownerships that can effectively monitor corporate activity, the existence of institutional ownership is also considered to be a monitoring mechanism against each decisions taken by the management. This is because institutional investors are involved in strategic decision making so it is not easy to believe in manipulating the labs.

Institutional ownership is the ownership of shares of government, financial institution, legal entity, foreign institution, trust fund and other institution at the end of the year. Institutional shareholders will usually give more attention to the management of the company, and this will have a positive effect for a company, either increase profit or performance of the company itself.

$$K.I. = \frac{\text{(Number of Institutional Shares)}}{\text{(Total Shares Outstanding)}} \times 100\%$$

Dividend Policy

The dividend policy is the decision to determine the amount of share of earnings to be shared with the shareholders and the part that will be addressed by the company (Weston & Copeland, 1992). The dividend policy concerns the use of profits to which the shareholders are entitled, and the profits may be divided as dividends or retained profits to be reinvested (Husnan & Pujiastuti, 1998).

The dividend policy according to (Martono & Harjito, 2002) is an inseparable part of the company's funding decisions. The dividend policy is a decision whether the profits earned by the company at the end of the year will be shared with shareholders in the form of dividends or will be withheld to increase capital for future investment financing.

The dividend policy determines how much profit a shareholder will earn. The profits to be earned by this shareholder will determine the welfare of the shareholders who are the main objectives of the company. The General Meeting of Shareholders (GMS) will determine the company's dividend policy. Dividend signaling theory was first coined by (Bhattacharya, 2009). This theory explains that the information about cash dividend paid is considered investor as a signal of future prospects. Dividend policy is measured by using Dividend Payout Ratio ratio.

$$DPR = \frac{\text{(Dividend Per Share)}}{\text{(Earnings per share sheet)}} \times 100\%$$

Financial performance

Financial performance is a description of the achievement of the company's success can be interpreted as a result that has been achieved on various activities that have been done. Can be explained that the financial performance is an analysis conducted to see how far a company has implemented by using the rules of financial implementation properly and correctly (Fahmi, 2012). Performance Good companies influence the ease of the company to obtain loans, influencing investor decisions in investing and for the future of the company.

In this study, financial performance is measured by:

1. Net Profit Margin

   Net Profit margin calculates the extent to which a company's ability to generate net income at certain sales levels.

   NPM = (Net Income) / (Sales)

2. Return On Assets (ROA)

   This ratio measures the company's ability to generate net income based on certain asset levels.

   ROA = (Net profit) / (Total Assets)

3. Return On Equity (ROE)

   This ratio measures the ability of firms to generate profits based on certain share capital.

   ROE = (Net income) / (Stock Capital)

Previous Research

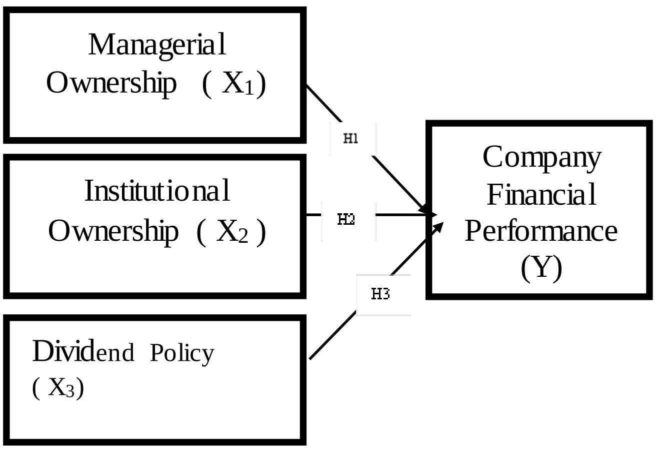
There are several studies that have been conducted regarding the relationship of share ownership and dividend policy to financial kinerka. One of them is research (Waskito, 2014) that by using the t test it is known that managerial ownership has a positive effect on financial performance, and institutional ownership has a negative effect on financial performance. While using F test it was found that managerial ownership and institutional ownership are significant explanations of financial performance.

Other research conducted by (Kusuma Arumsari, Djumahir, & Aisjah, 2014) shows that managerial ownership, dividend policy, debt policy affect the financial performance. In addition to the above research there are studies of (Mudambi & Nicosia, 1995) which show a positive result of the effect of managerial ownership on the financial performance of the company. Another research is the research of (Kartikawati, 2007) which shows that institutional ownership positively affects the financial performance of the company. Institutional ownership will encourage more optimal oversight of management performance, since share ownership represents a source of power that can be used to support or otherwise to the existence of management.

Another study conducted by (Gunawan & Astuti, 2015) showed that the results showed Intangible Asset has no significant effect on financial performance. Debt policy has no significant effect on financial performance, while dividend policy has a significant effect on financial performance. The research undertaken (Nany & Wijaya, 2009) which indicates that the results show that operational activities are not affected by interconnection changes and individual changes and changes in performance.

RESEARCH METHODS

This study examines the role of share ownership and dividend policy on financial performance at construction service companies listed on the Indonesia Stock Exchange.



Based on the conceptual framework above it can be arranged hypothesis as follows:

1. Managerial ownership has a significant effect on financial performance on construction service companies listed on the Indonesia Stock Exchange.
2. Institutional ownership significantly affects the financial performance of construction service companies listed on the Indonesia Stock Exchange.
3. Dividend policy has a significant effect on financial performance on construction service companies listed on the Indonesia Stock Exchange.

Location and Object Research

This research is done by accessing data through website www.idx.co.id, The object of this research is all construction company listed in Bursa Efek Indonesia.

Types of research

This type of research is associative research. According to (Sugiyono, 2003) associative research is research that aims to determine the influence or also the relationship between two variables or more. This study has the highest level compared with the descriptive and comparative because with this research can be built a theory that can work to explain, predict and control a symptom.

Types and Data Sources

The type of data used in this study is quantitative data. Quantitative data is data that can be calculated or measured directly berupaberupa numbers, dimension values and others.

Sources of data in this study comes from secondary data. Secondary data is data that is not cultivated its own collection by researchers or data obtained indirectly from the source. Secondary data obtained by the authors in this study obtained from articles, journals and previous research.

Population and Sample

Population is the whole object of research (Arikunto, 1998) Population in this research is Construction Service Company listed in Bursa Efek Indonesia

The sample is part of the number and characteristics possessed by the population, or a small portion of the population members taken according to certain procedures so as to represent the population. The sample in this study is the Construction Company listed on the Indonesia Stock Exchange which reports the Financial Statements respectively and audited in 2014-2016.

Data collection technique

According to (Sugiyono, 2013) data collection techniques is the most strategic step in the research, because the main purpose of the research is to obtain data. In this study data collection techniques using Documentation Techniques.

Documentation techniques is a record of events that have passed. Documents may be in the form of writing, drawing, or monumental works of a person. Documentation method in this research is annual financial report of construction company listed in Indonesia Stock Exchange which obtained from website of website www.idx.co.id

Data analysis technique

Data analysis is the ways to

ANOVA

F	Sig
8,007	0,024

process the data that has been collected to then be able to provide interpretation, where the results of data processing is used to answer the problems that have been formulated. Data analysis in this research is done by using multiple linear regression with equation as follows:

Y = β_0 + β_1 X_ (1) + β_2 X_2 + β_3 X_3 + e

Where :

Y: Corporate Financial Performance

X1: Managerial Ownership

X2: Institutional Ownership

X3: Dividend Policy

β_0: Intercept (Constants)

β_1 β_2 β_3: Regression coefficient.

e: Error

Fault tolerance (α) set at 5% with 95% significance.

RESEARCH RESULT AND DISCUSSION

After data obtained on the basis of audited financial statements, which are reported from 2014-2016 on the Indonesia Stock Exchange, the data is tested using SPSS version 24. The results obtained are as follows:

1. The Effect of Managerial Ownership, Institutional Ownership and Dividend Policy on Financial Performance with Net Profit Margin (NPM) indicator.

Model Summary

R Square	Std error of the estimate
0,828	0,0128507

Tabel 1.1 Model Summary SPSS

- Based on Table 1.1 it is known that the ability to predict the variable X to the Y variable shown from the R Square column is 82.8%.

Tabel 1.2 ANOVA SPSS

- Based on Table 1.2 it is known that the model used is feasible to use where the significance of the F test shows a number below 0.05 of 0.024

Coefficients

	Unstandardized B	t	Sig
(Constan)	0,098	3,594	0,016
X_1	0,363	2,802	0,038
X_2	-0,062	-1,356	0,233
X_3	-0,028	-3,687	0,014

Tabel 1.3 Coefficients SPSS

Based on table 1.3 is known relationship of each variable X to Y. For variable X1 that is managerial ownership positively affect Y variable that is financial performance with indicator Net Profit Margin (NPM), and t test show influence between this variable equal to 0,038 meaning have a significant effect. This shows with a percentage of 36.3% which can be said quite small, it can be concluded that the smaller shares owned by a managerial company then the higher the influence on net income received by the company.

Model Summary

R Square	Std error of the estimate
0.809	0.0154131

Coefficients

	Unstandardized B	T	Sig
(Constant)	0.034	1.033	0.349
X1	0.584	3.758	0.013
X2	0.015	0.268	0.799
X3	-0.031	-2.364	0.064

ANOVA

F	Sig
7.068	0.03

X2 which is an institutional ownership negatively affected by 6.2% of the net income of a company with a t test that shows the significance of 0.233 which means the influence between these variables do not significantly influence. This shows that the smaller shares owned by an institutional in a company then the profit received by the company also has little effect.

X3 is dividend policy, this variable negatively affects net income of a company, with t test showing significance level of 0,014 this indicates that the relation between these two variables significantly influence. So it can be concluded that the dividend policy has a significant effect on the acceptance of a company's net profit.

2. Effect of Managerial Ownership, Institutional Ownership and Dividend Policy on Financial Performance with Return On Asset (ROA)

Tabel 2.1 Model Summary

Based on Table 2.1 note that the ability to predict the variable X terhadap variable Y indicated from column R Square is equal to 80.9%.

Tabel 2.2 ANOVA SPSS

Based on Table 2.2 it is known that the model used is feasible to use where the significance of the F test shows a number below 0.05 of 0.03

Tabel 2.3 Coefficients SPSS

Based on table 2.3 is known relationship of each variable X to Y. For variable X1 that is managerial ownership positively influence to variable Y that is financial performance with indicator Return On Asset (ROA), and t test show influence between this variable equal to 0,013 meaning significantly. It shows with the percentage of 58,4% which can be said big, hence can be concluded that bigger shares owned by managerial of a company hence the higher influence to asset rotation in a company.

Coefficients

	Unstandardized B	T	Sig
(Constant)	0.169	3.113	0.026
X1	1.235	4.793	0.005
X2	-0.059	-0.646	0.547
X3	-0.066	-4.359	0.007

X2 which is an institutional ownership positively affects 1.5% of the asset turnover of a company with a t test that shows the significance of 0.799 which means the influence between these variables does not significantly influence. This shows that the smaller the shares owned by an institutional in a company then the asset turnover of the company also has little effect.

X3 is a dividend policy, this variable negatively affects the rotation of a company's assets, with t-test showing the significance level of 0.064 this indicates that the relationship between these two variables has no significant effect. So it can be concluded that the dividend policy has little effect on the rotation of a company's assets

3. Effect of Managerial Ownership, Institutional Ownership and Dividend Policy on Financial Performance with Return on Equity (ROE)

ANOVA

F	Sig
14.769	0.006

Tabel 3.1 Model Summary

Based on Table 3.1 note that the ability to predict the variable Xterhadap variable Y shown from the R Square column is 89.9%

Tabel 3.2 ANOVA SPSS

Based on Table 3.2 it is known that the model used is very feasible to use where the significance of the F test shows a number below 0.05 is 0.006.

Model Summary

R Square	Std error of the estimate
0.899	0.0255389

Tabel 3.3 Coefficients SPSS

Based on table 3.3 is known the relationship of each variable X to Y. For variable X1 that is managerial ownership positively affects the variable Y is the financial performance with indicators Return On Equity (ROE), and t test shows the influence between these variables by 0.005 which means have a significant effect. This indicates that the greater the shares owned by a managerial company then the higher the influence on the return on equity.

X2 which is an institutional ownership negatively affect the return on equity of a company, with t test showing the significance of 0.547 which means the influence between these variables do not significantly influence. This shows that the smaller shares owned by an institutional in a company's return on equity companies also have little effect.

X3 is dividend policy, this variable negatively effect to return on equity of a company, with t test showing significance level 0,007 this matter indicate that relation between two variable is very influential significantly. So it can be concluded that the dividend policy has a big effect on return on equity of a company.

Conclusion

Based on the calculation and testing of hypotheses that have been done, it can be concluded as follows:

1. Managerial Ownership positively and positively affect all financial performance indicators, both Net Profit Margin, Return On Asset and Return On Equity.
2. Institutional ownership has a negative and insignificant effect on financial performance indicator of Net Profit Margin and Return On Equity. While on Return On Asset have positive effect but not significant.
3. Dividend policy negatively affects all financial performance indicators. However significant to Net Profit Margin and Return On Equity, while on Return On Asset is not significant.

Suggestion

Based on the results of the above research there are several things that can be used as suggestions, namely:

1. From the above research shows that managerial ownership has a positive and significant effect on financial performance. For that, the managerial shareholders must have the right consideration in decision making.
2. Institutional ownership is insignificant to the company's financial performance. Because indeed the biggest decision is in the hands of managerial stakeholders. However, if improper managerial decisions will be bad for all parties. For that although it has an insignificant effect, institutional shareholders should take part in decision making if managerial shareholders' decisions are deemed inappropriate for some parties.
3. Dividend policy has a negative effect on financial performance. This should be so. Because the dividend payout for shareholders certainly has no significant effect on financial performance. But keep in mind that the dividends received are the result of the hard work of the management and all employees.

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