ANALYSIS ON THE EFFECT OF MANAGERIAL OWNERSHIP STRUCTURE AND DIVIDEND POLICY TOWARDS STOCK RETURN (A CASE STUDY OF PROPERTY, REAL ESTATE, AND BUILDING CONSTRUCTION COMPANIES LISTED IN BURSA EFEK INDONESIA)

Nurfauziah, Dra. MM
Department of Management, Faculty of Economics,
Universitas Islam Indonesia, Indonesia.
Email: nurfauziah@uii.ac.id

Rintan Nuzul Ainy, SE., M.Sc
Department of Accounting, Faculty of Economics,
Universias Ahmad Dahlan, Indonesia
Email: ainy_rintan@yahoo.com

ABSTRACT

This study aimed to analyze the effect of dividend policy and managerial ownership structure to the stock return in Property, Real Estate & Construction Building Company Listed on the Stock Exchange Period 2012-2014. Populations of this research are companies in the property sectors, real estate, and building construction that are listed on the Indonesia Stock Exchange. Samples were taken by purposive sampling methods. The samples are 12 companies with the number of observations for 3 years. The data used in this study are in the form of an annual report for each company and secondary data collected from Indonesian Capital Market Directory (ICMD) obtained through the Indonesia Stock Exchange. The hypothesis was tested using multiple linear regressions. These results indicate that the EPS has a significant positive effect on stock returns. However, DPR and Managerial Ownership do not have a significant effect on stock returns.

Keywords: Stock Return, Earnings Per Share (EPS) Dividend Payout Ratio (DPR), Managerial Ownership.

1. INTRODUCTION

When investing their fund in the capital market, investors expect to get profit in the form of dividend and/or *capital gain.* Dividend is the profit shared by the company to their investor. Meanwhile, *capital gain* is the profit that the investor expects to get from the gap of the buying and selling prices of securities.

In a go-public company or a company that sells its stock on the market, the stock price shows the value of the company. The rising stock prices indicate the increase of the company value. This shows that the prosperity and the wealth of the stockholder are also rising. On the contrary, if the stock prices decline, the value of the company also decreases. This of course makes the wealth of the stockholder declines too. Therefore, all policies taken by the company must be based on the company's effort to raise its value. The decision of the company's policy makers has a very great effect in the increase of the company's stock prices. Thus, the manager that has been chosen by the company must act on the behalf of the investor or stockholder. However, in reality conflict often happens between the management and stockholder. The conflict happens due to interests differences between the manager and stockholder. This kind of condition is called *agency problem*. *Agency problem* happens due to *information asymmetry*. It is a condition when the management has more information about the company's internal condition more than the stockholder does. According to Jensen and Meckling (2008), agency conflict occurred due to the separation between ownership and control.

The existence of agency conflict may result in the decline of company value, which means this conflict would also decrease the company's stock prices. To minimize agency conflict, there must be a supervision mechanism that can balance all interest of the involved party. Supervision mechanism will result on a supervision cost called agency cost. One of the efforts that company can do to minimize agency cost is by increasing the company's stock ownership to the management. By having a management given from the company's owners will make they are going to be more careful in making decisions. Because if the company owners make the wrong decision and that decision result in the company loss, they also need to bear the loss. According to Jensen and Meckling (1976), managerial Ownership would make the interest of the management and stockholder equal.

The decision that the company takes will have a significant impact to the stock prices, including the company's decision in determining the dividend policy. Dividend policy is a company policy regarding how to use the profit that the company gets. The company policy regarding the sharing of the dividend cannot be separated from the company policy on how to use the net profit that the company has gained. The profit that the company made is not always shared to the investor as a dividend, because there is a chance that the profit will be used by the company as an additional investment or it can be used to fulfill the company liquidity needs.

The company decision regarding of the company's profit use will affect the funding flow, investment chances, liquidity position, and the company's financial structure. While the dividend policy that will be done by the company will give the stockholder information about the company's condition. In addition, the dividend being shared would also show the company's capabilities to make profit. Thus, the information will affect the stock's supply and demand and later it can increase the stock prices.

According to the expositions above, it can be formulated that the purpose of this study is to find: 1) The effect of Managerial Ownership Structure to the Stock Return and 2) The effect of Dividend Policy to the Stock Return.

2. REVIEW ON LITERATURE AND HYPOTHESIS DEVELOPMENT

The main purpose of the company is to maximize the prosperity of its stockholder. Manager, as a responsible person to the company, also have an obligation to accomplish the company's main purpose. However, manager, as an individual, on the other side, also expects to get his/her welfare taken care by the company. The combination of these two different interests and purposes often make a conflict occurred. This conflict is called agency conflict.

According to Eisendhart (1989), there are several assumptions that become the base of agency theory. First assumption is the human nature. Human tend to be self-interest (selfishness), have *bounded rationality,* and avoiding/dislike risk *(risk aversion).* Second assumption is organization assumption. This assumption is emphasizing on the conflict between the members of the organization and the asymmetry existence between the principal and agent. The next assumption is information. This assumption emphasize that information is a commodity that can be sold and bought. According to these assumptions, the meaning of the agency theory is a theory that discusses about the agency relationship between the *principal* and *agent*. The conflict of interest between *principal* and *agent* in achieving the expected prosperity is called *agency problem.* Agency problem can occur as the effect of information asymmetry between the owner and the manager. Information asymmetry happens when the manager has relatively more information regarding the company internal affairs and the manager can get it faster than the company external party can. This condition gives an opportunity for the manager to use the information to do financial report's manipulation in order to maximize his/her personal prosperity (Richardson, 1998).

According to Scott (1967), asymmetry information has two types. Type 1 is called *adverse selection.* In this type, the party that has the less information is not willing to do an agreement to the other party. Should the agreement been settled, they will make a restriction with strict limitation and very high cost. The other type of asymmetry information is called *moral hazard.* An information asymmetry happen when the manager act without the concern of the company owner for his/her personal gain and result in the decrease of the owner's prosperity.

One of the characteristics of modern economy is the separation between the company ownership and the company management. The company owner(s) *(principal)* give the company management to the professional workers *(agent)* who understand more about it so that the owner can get maximum profit with efficient cost. The company structure is reflected by stock and debt proportion. Therefore the possibility of future problem can be predicted by it. Several things must be paid attention to regarding to the ownership structure such as followings:

1) A little portion of the company ownership by the management will affect the tendency to maximize the stockholder value.
2) Concentrated ownership gives the major stockholder incentives to actively participate in the company.

The owner identity will determine the company's social purpose priority and the maximization of stockholder value. For example, government-owned company will more likely to follow political purpose rather than company purpose. According to Ittuiraga and Saz (1998) in Carolina (2007) agency problem occurred due to the conflict of interest between the company's owner (the major stockholder) and the manager. Because of that, ownership structure is considered as critical thing to solve the agency problem. With the good ownership structure, a good and decent work ethic can be realized because the managers, as the competent party in managing the company, have enough authority to do their job.

Managerial stock ownership is a proportion of ordinary stock that can be owned by the management. It can be measured by the stock percentage from the management that actively involved in the company's decision-making processes. According to Jensen and Meckling (1976) the manager's ownership to the company's stock can decrease the opportunity for the conflict of interest between stockholder and manager to happen because the manager is also the owner.

According to Itturiaga and Sanz (2000) managerial ownership structure can be explained from two approaches i.e. agency approach and asymmetric information approach. Agency approach thought the managerial ownership structure as an instrument or tools to decrease agency conflict. Asymmetric information thought the managerial ownership structure as one way to decrease the imbalance flow of information between the insider and outsider through information disclosure in the capital market.

The bigger the managerial ownership proportion to the company, the more serious, and diligent the management would run the company for the sake of stockholder's importance. The management will also bear the consequences if there is a mistake or failure because the management is also the company's owner. This is suitable with Demsy and Laber (1993) opinion that most agency problems were affected by insider ownership.

The bigger the managerial ownership, the smaller the interest's differences between the stockholder (owner) and the one who run the company (management).The managers will act more careful because they will also bear the consequences when they make any mistake. The smaller the managerial ownership, the smaller the amount of stockholder involved in company management. Therefore, there is bigger opportunity for agency problem to occur because there is a big interest differences between the stockholder and the management.

2.1 Hypothesis 1: Managerial Ownership has positive effects on stock return

Dividend policy is a part that is inseparable with company's funding decision (Harjito and Martono, 2012). *Dividend policy* is a decision whether the end-year profits that the company gets will be shared to the stockholder in the form of dividend or will be hold as an additional capital in order to cover the future investment cost.

If the profit that the company gets is published to the society, the company stock prices can be affected. A company that can generate big profits and always develops each year will attract investors to invest their fund in the company. Thus, the stock prices also rise. Therefore, the increasing amount of profits the company will also increase the stock prices. According to Gibson (1996:429), earning per share is a ratio that shows earnings or profits got from each share.

2.2 Hypothesis 2: Earnings Per Share has positive effects on stock prices

Dividend is a part of company's profit that is shared to the stockholders. The amount of the dividend the stockholders gets depend on the ownership proportion or the amount of stock the investors have. The profits that the company shared to the stockholder will decrease the amount of profits that the company will hold (use) to fulfill the company liquidity needs.
Regarding how much amount of profits will be shared as dividend depends on dividend policy by the company's chairperson.

2.3 Hypothesis 3: Dividend payout Ratio has positive effects on the stock prices

According to Horne (2002), the evaluation regarding the effect of dividend payment ratio toward the stockholder wealth can be done by seeing the company's dividend policy as a funding decision involving the held profits. For each period, the company must decide whether the profits they got will be held or distributed, partly or wholly, to the stockholder as dividends.

The company usually chooses to do stable dividend payment and refuses to decrease it. Only the company with high level of profit capability and bright future prospect is capable to share the dividend. Many companies always publish that their companies have a good prospect with the existence of dividend sharing. This kind of company will have positive responds from the market and it can increase its stock prices. On the contrary, the company who undergoes financial problem and does not share its dividend will be responded negatively by the market, which will result in the decline of the stock prices.

3. RESEARCH METHODOLOGY

This research was done on the *property, real estate, & building construction* companies registered in Bursa Efek Indonesia (BEI)/Indonesian Stock Exchange in the period of 2012-2014. The sample consists of 59 companies and they were taken based on purposive sampling. The companies that fulfill the criteria between years 2012-2014 is 12 companies.

3.1 Research Variable

a. Stock Return
Dependent variables used in this research are the companies' stocks return in property, real estate, and building construction sectors registered at Indonesia Stock Exchange in the period of 2012-2014.

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}}$$

b. Managerial Ownership (MO)
Managers' proportion in terms of companies' shareholdings.

c. Earning Per Share (EPS)
EPS is the ratio that shows net profit that can be successfully obtained by companies for every stock unit in a certain period. The mathematic formula is shown below (Tandelilin, 2001):

$$EPS = \frac{Net\ Profit}{Number\ of\ Circulating\ Stock}$$

d. Dividend Pay Out Ratio (DPR)
Dividend payout ratio is the percentage of profits that are paid to stockholders in the form of cash (Brigham and Gapenski, 1996). This ratio is formulated below (Brigham and Gapenski, 1996):

$$DPR = \frac{Dividen\ Per\ Share}{Earning\ Per\ Share}$$

4. RESULTS OF ANALYSIS

4.1 Data Normality Test

Table 1 Result of Data Normality
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		36
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.80855577
Most Extreme Differences	Absolute	.197
	Positive	.197
	Negative	-.168
Kolmogorov-Smirnov Z		1.180
Asymp. Sig. (2-tailed)		.124

a. Test distribution is Normal.

Based on normality test above, it is known that the residual for return stock data, EPS, DPR, and MO for about 0.124 which means > 0.05 of significance so that all of variables are distributed normally.

4.2 Multicollinearity Test

Table 2 Result of Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.682	1.626		.420	.678		
	EPS	.003	.001	.393	2.314	.027	.918	1.090
	DPR	.000	.001	-.021	-.125	.901	.943	1.060
	MO	-.527	2.745	-.032	-.192	.849	.925	1.082

a. Dependent Variable: STOCK_RETURN

Test result of multicollinearity shows that all of Independent Variable has tolerance value more than 0.10 (10%). The result of VIF also shows that all of independent variable has VIF less than 10. From all of the results above, it can be concluded that there is no multicollinearity between variable and regression model.

4.3 Heteroscedasticity Test

Table 3 Result of Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.100	2.873		.035	.973
	LNEPS	.528	.387	.208	1.364	.182
	LNDPR	-1.088	.325	-.504	-3.352	.002
	LNMO	.427	2.006	.031	.213	.833

From Heteroscedasticity Test above, it is known that the value of t arithmetic < t table = 2.037, which shows that this model has no problem with heteroscedasticity. It can be concluded that this regression model has no problem with heteroscedasticity.

4.4 Autocorrelation Test

Table 4 Result of Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.391[a]	.153	.074	1.89153	2.029

a. Dependent Variable: STOCK_RETURN

The value of Durbin Watson is 2.029, which is larger than dU = 1.654 and smaller than 4 – 1.654 = 2.346. Thus, it can be concluded that there is no positive or negative autocorrelation. It can be concluded that there will be no problem of autocorrelation in regression model.

4.5 Determination Coefficient Test (Adjusted R^2)

Table 5 Result of Determination Coefficient (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.392[a]	.153	.074	1.89143

a. Predictors: (Constant), MO, DPR, EPS

It can be seen that determination coefficient (*adjusted R square*) on the result of the test is 0.074. Therefore, it can be said that the amount of variable effect of EPS, DPR, and MO toward stock return is 7.4% while the rest (92.6%) is influenced by others variable outside of the research.

4.6 Partial Significance Test (Test-T)

Table 6 Result of Partial Significance Test (t-Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.682	1.626		.420	.678
	EPS	.003	.001	.393	2.314	.027
	DPR	.000	.001	-.021	-.125	.901
	MO	-.527	2.745	-.032	-.192	.849

a. Dependent Variable: STOCK_RETURN

It cannot be proven that MO variable negative effect and significant towards stock return with significant value of 0.849 above significant standard value 0.05. It can also be concluded that the first hypotheses cannot be supported.

It cannot be proven that DPR variable has positive and significant effect towards stock return with significant value of 0.901 above significant standard value 0.05. It can be concluded that the second hypotheses cannot be supported.

EPS variable has a significant positive effect towards stock return by the significant number of 0.027 that is below significant standard value of 0.05. It can be concluded that the third hypotheses (H3) is supported.

From the multiple linear regression calculation, the result is obtained as explained below:

$$Y= 0.682+0.393\ EPS-0.021\ DPR-0.032MO+e$$

5. DISCUSSION

5.1 The Effect of Managerial Ownership towards Stock Return

Based on the result of hypotheses test above it can be seen that MO has no significant effect towards stock return. Thus, it can be concluded that the first hypotheses (H1) cannot be supported. The result of this research matches with the research conducted by Demsetz and Villalonga (2009). Managerial ownership of a company does not affect stock return because the amount of managerial ownership tends to be stable and it does not fluctuate so that it will not significantly affect stock return of a company.

5.2 The Effect DPR towards Stock Return

Based on the result of hypotheses test above it can be seen that DPR has no significant effect towards stock return, and it can be concluded that the second hypotheses (H2) cannot be supported. This research is supported by the previous research conducted by Bramantyo (2006). It is based on the policy requirements abolition of minimum profit 10% of self-asset so that the company decides its own policy to divide the dividend for stockowners.

5.3 The Effect of Earning Per Share towards Stock Return

Based on the result of hypotheses test above, it can be seen that EPS has an effect towards stock return, and it can be concluded that the third hypotheses (H3) is supported. The result of this research supports the previous research conducted by Wibowo (2007), which showed that EPS variable has significant effect of stock return in a company. The development of EPS variable in a stock investment should be noticed by the investors, because the higher the EPS value in a company, the higher the profit produced by that company so that the stock return of the company is also higher.

6. CONCLUSION

Partially, the variable of Managerial Ownership and Dividend Payout Ratio have no significant effect toward stock return in service companies of property, real estate, & building construction sectors which are registered at BEI year 2012-2014. On the other hand, EPS variable has significant effect towards stock return in service companies of property, real estate, & building construction sectors that are registered at BEI year 2012-2014.

Suggestion from this research is all parties need to pay attention toward other factors, not only just rely on the data of EPS, DPR, and MO, but also on other factor which has good internal influence like the size of the company, assets, the asset structure, etc. All parties also need to pay attention toward the influence of social, politic, and economic condition.

Moreover, the future researchers are expected to give more research samples and to expand the amount of year's observation to make the next research to be more accurate and precise.

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