# Does Ownership Structure Affect Dividend Decisions? Evidence from Indonesia's Banking Industry

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# Does Ownership Structure Affect Dividend Decisions? Evidence from Indonesia's Banking Industry

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**ABSTRACT**

This research aims at examining the effect of ownership structure on dividend decisions in the context of Indonesia's banking industry. The results of the study show that controlling ownerships have a negative effect on dividend payouts. Controlling ownerships in Indonesia's banking industry prefer to pay less dividends to the shareholders. Further, the nonmonotonic test also shows negative effects of controlling ownerships on the dividend payouts. The study divide ownership into three categories: family-owned bank, government-owned bank, and foreign-owned bank. Government-owned banks and foreign-owned banks have negative effects on the dividends. However, family ownership positively affects dividend payouts. Family-owned banks pay more dividends to the shareholders. The results show that family-owned banks align their interests with those of the shareholders.

*JEL Classifications: G21, G32, G35*

*Keywords:* *ownership structure; dividend decision; banking; family ownership; foreign ownership; government ownership*

## I. INTRODUCTION

This research aims at examining the effect of ownership structure on dividend decisions. A dividend decision is one of the most important decisions for a company because the company has to share its resources with the shareholders. Shareholders expect that their investments earn dividends. Therefore, dividend announcement has a significant information content (Aharony and Swary, 1980; Bandi, Setiawan, Suranta, and Kee, 2014). A survey of executives in Norway and Canada also provides evidence that managers believe dividends are an important event for the company (Baker, Mukherjee, and Paskelian, 2006; Baker and Weigand, 2015). One of the important elements during dividend decisions is ownership structure (Faccio, Lang, and Young, 2001; Setiawan, Bandi, Phua, and Trinugroho, 2016). If the owners have significant company shares, they can have a substantial influence on the company's decision. Controlling owners have the ability to drive company decisions regarding dividend payments.

There are two possibilities regarding the effect of controlling ownership on dividend decisions: alignment or entrenchment. With the alignment effect, the argument is that controlling owners have adequate resources to actively monitor the company (Shleifer and Vishny, 1986). It is expected that monitoring activity increases firm performance. Thus, controlling ownerships have common interests with other shareholders to increase firm value. The increase in firm value will increase the probability of higher dividend payouts. It is expected that the alignment effect of controlling ownership will have a positive impact on dividend payouts. Previous studies, such as Maury and Pajuste (2005) and Berzins, Bøhren, and Stacescu (2018), provide evidence that controlling shareholders align their interests with the minority shareholders.

On the other hand, it is possible for controlling owners to expropriate minority shareholders. Controlling shareholder prefer to hold firm resources within the firm rather than distribute it to the shareholders. Controlling shareholders use firm resources to increase firms' internal equity. It is expected that controlling shareholders have a negative effect on the dividend payouts. Controlling shareholder pay less dividends to the shareholders. Previous studies, such as those by Faccio et al. (2001), Gugler and Yurtoglu (2003), Harada and Nguyen (2011), and De Cesari (2012), provide evidence that controlling owners have a negative effect on the dividend payouts. Controlling owners use their discretion to pay less dividends.

This study divides controlling ownership into three categories: family ownership, foreign ownership, and government ownership (Setiawan et al., 2016). Previous studies showed that family owners prefer to hold dividends rather than distribute them to the other shareholders (De Cesari, 2012; Setiawan et al., 2016; Wei, Wu, Li, and Chen, 2011). Thus, family firms pay lower dividends to the other shareholders (Gugler and Yurtoglu, 2003). Furthermore, the study concerns the effect of foreign ownership and government ownership, because the percentages of foreign and government ownership in Indonesia have increased in recent years (Carney and Child, 2013).

Most of the past studies on the effect of ownership structure on dividend policy focused on nonfinancial firms (De Cesari, 2012; Faccio et al., 2001; Setiawan et al., 2016). In contrast, this study focuses on the banking industry. Recently, the Federal Reserve Board (FRB, 2011) and the Basel Committee on Banking Supervision (BCB, 2011) emphasized the importance of overseeing decisions on dividend distributions.

During the financial crisis of 2007–2008, bank still paid higher dividends despite lower performance. In the case of Indonesia, Agus Martowardojo (as a governor of the Bank Indonesia at the time) argued that the Bank of Indonesia had planned to regulate dividend policy by Indonesian banks. Agus Martowardojo acknowledged the importance of distributing dividends to shareholders; however, the dividend payments should not have a negative effect on the banks' financial condition. This study investigates the effect of ownership structure on dividend policy in the banking industry in an Indonesian context.

## II. LITERATURE REVIEW and HYPOTHESIS DEVELOPMENT

Dividend decisions are one of the most important decisions for a company, because dividends will distribute firm resources to the shareholders. Shareholders expect that they will earn dividends from their investments. Therefore, investor react positively (negatively) to dividend increase (decrease) announcements (Bandi et al., 2014; Miller and Rock, 1985). Dividends have significant information content to the investors. Baker and Powell (2012) conducted a survey on how Indonesian executives perceive dividend decisions in an Indonesian context. The results of their study show that Indonesian executives believe dividend decisions are an important decision because dividend payouts have a significant effect on firm value and shareholder wealth. Therefore, companies need to be careful to make good decisions on dividend payments. Indonesian executives also believe that one of the important factors for dividend decisions is the needs of the shareholders. Thus, the shareholders' structure have a significant effect on the dividend decisions.

There are two types of agency costs: agency type 1 and agency type 2. Agency type 1 costs rise because there is information asymmetry between agent and principal (Jensen and Meckling, 1976). The principal, as the owner of the company, delegates the right to manage the company to the manager. Managers, as the agent in the agency relationship, have more information on the firm condition compared to the owners. Agency theory argues that both the owners and the managers engage in self-interested actions. Therefore, managers have different interests from the owners. Managers prefer to maximize their interests at the expense of the owners. On the other hand, agency type 2 costs rise because there are different interests between majority and minority shareholders (Claessens and Yurtoglu, 2013). Agency type 2 costs mostly occur in concentrated ownership. People involved in concentrated ownership have the opportunity to use their discretion to maximize their interests. However, the concentrated ownership decisions have negative effects on minority shareholder wealth. In the case of dividend payments, people with concentrated ownership prefer to pay less dividends because they can maintain firm resources within their discretion rather than distribute them to the shareholders.

Faccio et al. (2001) conducted a cross-country study on the effect of concentrated ownership on the expropriation of minority shareholders. East Asian countries have higher concentration ownership rates compare to the other regions. People with concentrated ownership have ability to earn profit from the company even though the company bears negative return from the project. These results show that concentrated ownership has a negative effect on minority shareholder wealth. These results are confirmed by De Cesari (2012) in an Italian context. Furthermore, Gugler and Yurtoglu (2003) find that the largest owners in Germany reduce dividend payments. Controlling ownership prefers to hold dividends within the company; therefore, controlling ownership is able to earn it at the expense of minority shareholders. Harada and Nguyen (2011) also find similar negative effects of ownership concentration in Japan. The controlling ownership is reluctant to increase dividends when company earnings increase. Concentrated ownership keeps the firm resources rather than distributing them to the other shareholders in Japan. On the other hand, Setiawan et al. (2016) shows the positive effect of controlling ownership on dividend payouts in Indonesia. The higher percentages of share proportions have increase dividend payouts. This result is in line with the substitution theory as suggested by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000). However, further tests show this result is mostly driven by foreign ownership and government ownership. On the other hand, family ownership in Indonesia as the main controlling ownership has negative effects on the dividend payments. This study expected that people with concentrated ownership use their discretion based on their self-interest. Concentrated ownership tends to result in expropriation of minority shareholders. Thus, the first hypothesis is:

H1: Concentrated ownership has a negative effect on the dividend payouts.

Farinha and López-de-Foronda (2009) find that the effects of ownership on the dividend payout are not linear. They find the effects of ownership concentration on dividend payouts in civil law countries are positive-negative-positive. This result show that the effect of ownership structure on dividend payouts do not produce a monotonic effect (Huang, Chen, and Kao, 2012; Mancinelli and Ozkan, 2009). On the other hand, Setiawan et al. (2016) find that in Indonesia, ownership structure has a monotonic effect on dividend policy. Thus, the current study also expects that ownership concentration has a monotonic effect on dividend payouts in Indonesia.

The study analyzes the ownership structures in three categories: family ownership, government ownership, and foreign ownership. Previous studies showed that the effect of family ownership on dividend payout is inconsistent. Pindado, Requejo, and de la Torre (2012) investigate the effect of family ownership on dividend decisions in the euro. Their study shows that family owners have a positive effect on dividend payouts. Family owners align their interests with those of minority shareholders. Family owners prefer to earn dividends rather than keep them at the company. This relationship between controlling owners and dividend decisions are in line with minority shareholders. These results are also in line with Setia-Atmaja (2010), who find that family owners in Australia also have a positive effect on dividend payouts. Ampenberger, Schmid, Kaserer, and Achleitner (2010) demonstrate a positive impact of family owners on dividend decisions. Family firms in Germany pay more dividends compare to nonfamily firms.

Other studies, such as one by González, Guzmán, Pombo, and Trujillo (2014), find that ownership in closely held firms in Colombia have a negative effect on dividend payouts. Family firms pay less dividends compared to other firms. González et al. (2014) argue that controlling owners in Colombia engage in expropriation for minority shareholders. This result show that family firms have a negative effect on dividend payouts. Wei et al. (2011) also find that family firms in China pay lower dividends compared to nonfamily firms. Family firms hold firm resources within their discretion. A previous study by Setiawan et al. (2016) found that family firms have a negative effect on dividend payouts, using a nonfinancial firm sample. Thus, Indonesian family firms prefer to pay less dividends. These results confirm the findings of Prabowo and Simpson (2011), who find that family owners have a negative effect on firm performance.

Previous studies show inconclusive results on the effect of family ownership on dividends. There is evidence that family owners increase dividend payments (Ampenberger et al., 2010; Pindado et al., 2012; Setia-Atmaja, 2010). Family owners align their interests with those of minority shareholders. On the other hand, there is evidence that family owners have a negative effect on dividend payouts (González et al., 2014; Setiawan et al., 2016; Wei et al., 2011). However, these studies investigate the effects of family firms on dividend policy using nonfinancial firms. Banking firms have different characteristics compared to nonbanking firms. The banking industry is an industry that mostly depends on trust. Therefore, it is expected that family firms try their best to earn trust from customers. In the context of dividend payments, it is expected that family owners pay more dividends to the investors. Therefore, the second hypothesis is:

H2: Family owners have a positive effect on dividend payouts.

Carney and Child (2013) provide evidence that the percentage of government ownership have increased recently. State-owned enterprises (SOEs) have unique characteristics compared to private and public firms. Although SOEs try to get higher returns, SOEs still have a social purpose for the Indonesian people. Setiawan et al. (2016) provide evidence that government ownership has a positive effect on dividend payouts. SOEs pay more dividends compared to other firms. Similarly, there is a positive effect of government ownership on dividend payment in China (Chen, Jian, and Xu, 2009; Wei, Zhang, and Xiao, 2004). On the other hand, Al-Najjar and Kilincarslan (2016) find that the level of government ownership reduces the level of dividend payments. Government ownership has a negative effect on the dividend payouts in Turkey. It is expected that government ownership pushes companies to pay more dividends. Therefore, the third hypothesis is:

H3: Government ownership has a positive effect on dividend payments.

In recent years, the percentage of foreign ownership in Indonesia has increased (Carney and Child, 2013). According to Carney and Child, Indonesia has the second highest percentage of foreign ownership compared to other countries. Foreign owners expect to earn returns from their investments. Therefore, it is expected that foreign ownership pushes management to pay more dividends to the shareholders. A previous study by Setiawan et al. (2016) found that foreign ownership positively affected the company to pay more dividends. These results are in line with Jeon, Lee, and Moffett (2011), who find that foreign ownership pushes the company to pay higher dividends. On the other hand, Al-Najjar and Kilincarslan (2016) do not find a positive effect of foreign ownership. Foreign owners in Turkey prefer to pay less dividends to the shareholders. Foreign owners prefer to re-invest firm earnings in the company itself (Lam, Sami, and Zhou, 2012). Therefore, it is expected that foreign ownership has a negative effect on dividend payouts. The fourth hypothesis is:

H4: Foreign ownership has a negative effect on dividend payments.

## III. RESEARCH METHODS

### A. Data

Samples of the study consist of dividend payments within the banking industry in Indonesia. This study focuses on how ownership affects dividend decisions in the Indonesian banking industry. There are 142 firm-year observations during the 2000–2015 period.

The study uses dividend payouts as a proxy of dividend decisions. A dividend payout is the percentage of dividend to earnings. The independent variable of the study is ownership structure. Ownership structure is defined as percentage of shares owned by the shareholders. For the first hypothesis, the study examines the effect of controlling shareholders on the dividend payout. The study measures the control right of the controlling shareholder following Claessens, Djankov, and Lang (2000) and Faccio et al.'s (2001) methods. Farinha and López-de-Foronda (2009), Huang et al. (2012), and Mancinelli and Ozkan (2009) argue that ownership structure might have nonmonotonic effects on the dividend payment; therefore, the study uses the square of percentage of share ownership to test the nonmonotonic effect. Further, the study divides ownership structure into three categories: family ownership, government ownership, and foreign ownership. The study uses dummy variable for the family ownership: 1 if the company is owned by family and 0 otherwise. The study follow Claessens et al. (2000), Huang et al. (2012), and Prabowo and Simpson (2011), using 20 percent as a cutoff point. However, the study extends it to 30 percent and 50 percent as cutoff points to categorize family firm referred to by Huang et al. (2012), Prencipe and Bar-Yosef (2011) and Setiawan et al. (2016). This measurement also applies for government ownership and foreign ownership.

There are four control variables in the study: return on equity, bank size, growth, and audit firm. Return on equity (ROE) is percentage of earnings to equity. Bank size is measured by log bank assets, and growth is measured by market-to-book value of equity. The audit firm is the dummy variable: 1 if the audit firm is Big 4 and 0 otherwise.

### B. Hypothesis Testing

The current study uses the first equation to test the first hypothesis:

$$Div = \alpha + \beta_1 \, Con\_Own + \beta_2 \, ROE + \beta_3 \, Size + \beta_4 \, Growth + \beta_5 \, Audit + \varepsilon \qquad (1)$$

where Div = dividend payout, dividend per share divided by earnings per share; Con_Own = controlling ownership, percentage of shares owned by the largest shareholder; ROE = return on equity, earnings divided by equity; Size = bank size, ln bank assets; Growth = market-to-book ratio of equity; and Audit = audit firm, dummy variable 1 if audit firm is Big 4 and 0 otherwise.

The study uses the second equation to test the second hypothesis:

$$Div = \alpha + \beta_1 \, Con\_Own^2 + \beta_2 \, ROE + \beta_3 \, Size + \beta_4 \, Growth + \beta_5 \, Audit + \varepsilon \qquad (2)$$

where $Con\_Own^2$ = the square of percentage of shares owned by the largest shareholder.

To test the effect of family ownership, the study uses the following equation:

$$Div= \alpha + \beta_1 \text{ Fam\_Own} + \beta_2 \text{ ROE} + \beta_3 \text{ Size} + \beta_4 \text{ Growth} + \beta_5 \text{ Audit} + \varepsilon \quad (3)$$

where Fam_Own family ownership, dummy variable 1 if the family owns 20 percent or more shares.

To test the effects of government ownership, the study uses the following equation:

$$Div= \alpha + \beta_1 \text{ Gov\_Own} + \beta_2 \text{ ROE} + \beta_3 \text{ Size} + \beta_4 \text{ Growth} + \beta_5 \text{ Audit} + \varepsilon \quad (4)$$

where Gov_Own = government ownership, dummy variable 1 if the government owns 20 percent or more shares.

To test the effects of foreign ownership, the study uses the following equation:

$$Div= \alpha + \beta_1 \text{ For\_Own} + \beta_2 \text{ ROE} + \beta_3 \text{ Size} + \beta_4 \text{ Growth} + \beta_5 \text{ Audit} + \varepsilon \quad (4)$$

where For_Own = foreign ownership, dummy variable 1 if a foreign entity owns 20 percent or more shares.

This study also uses 30 percent and 50 percent ownership as cutoff points to categorize as family firms, government firms, and foreign firms.

## IV. RESULTS

### A. Descriptive Statistics

The descriptive statistics are shown in Tables 1a and 1b.

**Table 1a**
Descriptive statistics

| Variables | N | Maximum | Minimum | Mean | Median | Std Dev |
|---|---|---|---|---|---|---|
| Div | 142 | 94.0600 | 0.0800 | 33.4709 | 30.4350 | 18.6661 |
| Con_Own | 142 | 99.3500 | 25.3100 | 64.3686 | 64.2550 | 14.6578 |
| ROE | 142 | 0.9855 | 0,0096 | 0.1685 | 0.1644 | 0.0998 |
| SIZE | 142 | 20,4128 | 13.3816 | 17.3879 | 17.8192 | 1.8689 |
| Growth | 142 | 5.6954 | 0.0142 | 1.9135 | 1.6669 | 1.1143 |

Div = dividend payout; Con_Own = controlling ownership, percentage of shares owned by the largest shareholder; ROE = return on equity, earnings divided by equity; Size = bank size, ln bank assets; Growth = market-to-book ratio of equity

**Table 1b**
Statistic descriptive for dummy variable

| | Audit |
|---|---|
| Category 1 | 0.8732 |
| Category 0 | 0.1268 |

Audit = audit firm, dummy variable 1 if audit firm is Big 4 and 0 otherwise

From Table 1a, we can see that mean and median for dividend payouts are 33.4709 and 30.4350, respectively. These numbers show that the banking industry in Indonesia pays 30 percent of its earnings as dividends. Furthermore, the maximum and minimum values for dividend payouts are 94.060 and 0.0800. Table 1 also shows that the mean value for controlling ownership is 64.3686%. The largest shareholders have the ability to use their discretion to drive firm strategy and decision making. This number is smaller than Carney and Child's (2013), who found that the largest owner in Indonesia after 2008 were held 68.1 percent. However, the controlling owners in Indonesia’s banking industry have higher numbers compared to their counterpart in nonfinance firms. Setiawan et al. (2016) found that the mean value for controlling owners in the nonbanking industry in Indonesia is around 59.4341 percent. This data show that the controlling owner in Indonesia’s banking industry is the ultimate owner. Controlling owners have the ability to pursue their own interests.

Table 1a also provides information regarding the statistics descriptive for control variables. ROE for the study range from 0.0086 to 0.9855. Mean and median values for the ROE are 0.1685 and 0.1644, respectively. Thus, banking industry in the study has a number of ROE around 16 percent. Further, the banking industry has higher growth opportunities. The mean value for growth is 1.9135. Most of the banks in Indonesia are audited by a Big 4 audit firm in Indonesia. Table 1b show that 87.32 percent of our sample use a Big 4 firm to audit and 12.68 percent use non-Big 4.

## V. RESULTS AND DISCUSSION

Table 2 provides the results of the effect of controlling ownership on dividend payments in the Indonesian banking industry.

From Table 2, we can see that controlling ownership has a negative effect on dividend payouts. Therefore, the higher percentage of the controlling owner has reduced the dividend payments. The controlling owners in Indonesia prefer to keep resources within their discretion rather than distribute them to the shareholders. These results confirm previous studies, such as those by De Cesari (2012), Faccio et al. (2001), and Harada and Nguyen (2011), who find negative effects of controlling ownership on dividend payouts.

The results of the study show that controlling owners in the Indonesian banking industry prefer to pay less dividends. Therefore, controlling owners put the resources in the company. It is possible for the controlling owners to use their discretion for the firm resources. Since controlling owners in Indonesia hold more than 50 percent of bank shares, controlling owner are able to drive firm strategy and decision making. It is expected that controlling owners use their discretion to maximize their interest. However, it has a negative effect on minority shareholder wealth. Minority shareholders prefer to hold returns or dividends rather that re-invest in the company. The results of the study have different results from Setiawan et al. (2016), who find that controlling owners in Indonesia have a positive effect on dividend payments. The current study uses the banking industry as a sample, whereas Setiawan et al. (2016) use nonfinancial firms. Thus, the Indonesian banking industry has different characteristics compared to nonfinancial firms.

**Table 2**
The effect of controlling ownership on dividend payouts

| **Variables** | **1** | **2** |
|---|---|---|
| C | 151.614 | 135.8716 |
| | (0.0015) | (0.0026) |
| CON_OWN | −0.2757[b] | |
| | (0.0256) | |
| CON_OWN_SQ | | −0.0016[b] |
| | | (0.0438) |
| ROE | −16.3715 | −16.3249 |
| | (0.2915) | (0.2922) |
| SIZE | −5.5538 | −5.2593 |
| | (0.0207) | (0.0302) |
| PBV | −0.2324 | −0.1021 |
| | (0.8993) | (0.9574) |
| AUDITQ | −0.7187 | −1.0106 |
| | (0.9173) | (0.8829) |
| Adjusted $R^2$ | 0.2808 | 0.2772 |
| F-statistic | 3.1175 | 3.0794 |
| Prob (F-statistic) | 0.00002 | 0.00002 |
| N | 142.0000 | 142.0000 |

Div = dividend payout; Con_Own = controlling ownership, percentage of shares owned by the largest shareholder; Con_Own_Sq = Con_Own square; ROE = return on equity, earnings divided by equity; Size = bank size, ln bank assets; Growth = market-to-book ratio of equity, Audit = audit firm, dummy variable 1 if audit firm is Big 4 and 0 otherwise

Furthermore, the study investigates the nonmonotonic effect of ownership structure. The results of the study show that the controlling ownership square has a negative effect on dividend payment. This result is in line with the monotonic test. Therefore, based on this hypothesis, this study does not find the effect of nonmonotonic of ownership structure on dividend payments in Indonesia banking industry. These results do not confirm those of a previous study, such as Farinha and López-de-Foronda (2009), Huang et al. (2012), and Mancinelli and Ozkan (2009), who find that ownership structures have a nonmonotonic effect on dividend payouts.

Table 3 shows that family ownership has a positive effect on dividend payments. The family owners prefer to earn their dividends rather than keep the resources within the bank. This result confirms the previous studies of Ampenberger et al. (2010), Pindado et al. (2012), and Setia-Atmaja (2010), who find the positive effects of family ownership on dividend payouts. The decision of the controlling family to distribute dividends is in line with the minority interests. Minority interests prefer to earn dividends rather than re-invest it to the bank. The controlling family in Indonesia's banking industry has different characteristics than the controlling family in nonfinancial banking. A previous study on the effect of family in Indonesia showed that family owners have a negative effect on firm performance (Prabowo and Simpson, 2011). Family owners in Indonesia use their discretion to engage in expropriation of minority shareholders (Claessens et al., 2000).

**Table 3**
The effect of family ownership on dividend payouts

| VARIABLES | 1 | 2 | 3 |
|---|---|---|---|
| C | 44.7836 | 54.7203 | 48.1905 |
| | (0.1450) | (0.1722) | (0.2342) |
| Fam_Own20 | 35.7259[a] | | |
| | (0.0000) | | |
| Fam_Own30 | | 24.8747[a] | |
| | | (0.0066) | |
| Fam_Own50 | | | 20.3243[a] |
| | | | (0.0010) |
| ROE | −22.5611 | −20.2509 | −21.1218 |
| | (0.1987) | (0.2112) | (0.1964) |
| SIZE | −0.9326 | −1.3296 | −0.7563 |
| | (0.5992) | (0.5555) | (0.7416) |
| PBV | −1.1507 | −0.3529 | 0.7078 |
| | (0.5235) | (0.8645) | (0.6695) |
| AUDQ | −2.7806 | −3.2079 | −4.3540 |
| | (0.6895) | (0.6454) | (0.5172) |
| Adjusted $R^2$ | 0.3673 | 0.3249 | 0.3195 |
| F-statistic | 4.1477 | 3.6098 | 3.5459 |
| Prob (F-statistic) | 0.0000 | 0.0000 | 0.0000 |
| N | 142 | 142 | 142 |

Div = dividend payout; Fam_Own= family ownership dummy variable 1 if family owns the company and 0 otherwise, there are three cutoff points: 20 percent, 30 percent, and 50 percent; ROE = Return on Equity, earnings divided by equity; Size = bank size, ln bank assets; Growth = market-to-book ratio of equity, Audit = audit firm, dummy variable 1 if audit firm is Big 4 and 0 otherwise.

There is an interesting case on how a controlling family in Indonesia reacted to help the minority interest. Edward Soerjadjaja was the ultimate owner of Bank Summa. In 2002, the Bank of Indonesia issue a letter to liquidate Bank Summa. Therefore, investors in Bank Summa asked for their right to the controlling ownership. Edward Soerjadjaja is the son of William Soerjadjajaja, the founder of Astra International. Since Edward Soerjadjaja was not able to pay his obligation to the investor, William Soerjadjaja, as the father of Edward Soerjadjaja, assumed the responsibility to pay the obligation of Edward Soerjadjaja. Therefore, Edward Soerjadjaja sold his hare of Astra International to obtain cash to pay the obligation of Bank Summa. This case shows that the controlling family is willing to pay everything to maintain their reputation. Therefore, family owners have a positive effect on the firm performance.

Table 4 provides the result of the effect of government ownership on the dividend payouts. Table 4 shows that government ownership has negative effect on the decision to pay dividends. The government ownership pays less dividends to the shareholders. Thus, the company prefers to re-invest its earnings to fund firm growth. These results are robust to the three cutoff points: 20 percent, 30 percent, and 50 percent. Government ownership has the ability to drive Indonesian banking to pay less dividends. These results do not confirm previous studies that find positive effects of government ownership (Chen et al., 2009; Setiawan et al., 2016; Wei et al., 2004). However, the results of the study confirm the conclusions of Al-Najjar and Kilincarslan (2016), who found that government ownership negatively affected dividend payments.

**Table 4**
The effect of government ownership on dividend payouts

| VARIABLES | 1 | 2 | 3 |
|---|---|---|---|
| C | 125.3404<br>(0.0019) | 125.3404<br>(0.0019) | 124.1490<br>(0.0014) |
| Gov_Own20 | −12.7785[c]<br>(0.0600) | | |
| Gov_Own30 | | −12.7785[c]<br>(0.0600) | |
| Gov_Own50 | | | −10.5098[b]<br>(0.0370) |
| ROE | −14.5085<br>(0.3287) | −14.5085<br>(0.3287) | −14.8353<br>(0.3183) |
| SIZE | −4.7640[b]<br>(0.0376) | −4.7640[b]<br>(0.0376) | −4.7595[b]<br>(0.0323) |
| PBV | −0.1508<br>(0.9342) | −0.1508<br>(0.9342) | 0.0075<br>(0.9967) |
| AUDITQ | −1.4437<br>(0.8393) | −1.4437<br>(0.8393) | −1.5634<br>(0.8250) |
| Adjusted $R^2$ | 0.2760 | 0.2760 | 0.2740 |
| F-statistic | 3.0669 | 3.0669 | 3.0471 |
| Prob (F-statistic) | 0.0000 | 0.0000 | 0.0000 |
| N | 142 | 142 | 142 |

Div = dividend payout; Gov_Own= government ownership dummy variable 1 if family owns the company and 0 otherwise. There are three cutoff points: 20 percent, 30 percent, and 50 percent; ROE = return on equity, earnings divided by equity; Size = bank size, ln bank assets; Growth = market-to-book ratio of equity, Audit = audit firm, dummy variable 1 if audit firm is Big 4 and 0 otherwise.

Table 5 provides the results of the effect of foreign ownership on dividend payouts. Table 5 also shows that foreign ownership has a negative effect on the dividend payments in Indonesian banking industry. Foreign owners use their discretion to keep firm resources within the firm rather than distribute them to the shareholders. These results do not confirm the findings of previous studies, such as by Jeon et al. (2011) and Setiawan et al. (2016), who find that foreign ownership positively affects the company to pay more dividends. Our results are in line with Al-Najjar and Kilincarslan (2016) and Lam et al. (2012), however, who find that foreign ownership have a negative effect on the dividend payouts. Foreign owners prefer to re-invest their earnings in the bank itself. Foreign ownership uses these resources to expand bank strategy.

**Table 5**
The effect of foreign ownership on dividend payouts

| VARIABLES | 1 | 2 | 3 |
|---|---|---|---|
| C | 57.7129 | 57.7129 | 57.7129 |
| | (0.1907) | (0.1907) | (0.1907) |
| For_Own20 | −17.6322[b] | | |
| | (0.0276) | | |
| For_Own30 | | −17.6322[b] | |
| | | (0.0276) | |
| For_Own50 | | | −17.6322[b] |
| | | | (0.0276) |
| ROE | −24.9378 | −24.9378 | −24.9378 |
| | (0.2160) | (0.2160) | (0.2160) |
| SIZE | −0.7375 | −0.7375 | −0.7375 |
| | (0.7845) | (0.7845) | (0.7845) |
| PBV | 0.1228 | 0.1228 | 0.1228 |
| | (0.9523) | (0.9523) | (0.9523) |
| AUDITQ | −3.8416 | −3.8416 | −3.8416 |
| | (0.5804) | (0.5804) | (0.5804) |
| Adjusted R-square | 0.2969 | 0.2969 | 0.2969 |
| F-statistic | 3.2902 | 3.2902 | 3.2902 |
| Prob (F-statistic) | 0.0000 | 0.0000 | 0.0000 |
| N | 142 | 142 | 142 |

Div = dividend payout; Gov_Own= government ownership dummy variable 1 if family owns the company and 0 otherwise. There are three cutoff points: 20 percent, 30 percent, and 50 percent; ROE = return on equity, earnings divided by equity; Size = bank size, ln bank assets; Growth = market-to-book ratio of equity, Audit = audit firm, dummy variable 1 if audit firm is Big 4 and 0 otherwise.

## VI. CONCLUSIONS

The study investigates the effect of ownership structure on the dividend payouts in Indonesia's banking industry. The results of the study show that controlling ownership in Indonesia's banking industry has a negative effect on the dividend payouts. The increase of the controlling ownership share pushed Indonesian banking to pay lower dividends to the shareholders. Controlling owners use their discretion to drive bank decisions to pay less dividends. Controlling owners prefer to re-invest firm earnings to expand bank operations. Furthermore, the study found that the effect of the controlling owner on the dividend payouts is monotonic.

This study categorizes the controlling owners into three ownership structures: family owner, government owner, and foreign owner. The results of the study found that the controlling family in Indonesia had a positive effect on the dividend payouts. The controlling family pushed management to pay higher dividends to the shareholders rather than keep it in the bank. This decision exhibited congruence with minority shareholder interests. Minority shareholders prefer to receive dividends rather than re-invest it again. Furthermore, the study found that both government ownership and foreign ownership have negative effects on the dividend payments in Indonesia's banking industry.

The implications of the study are, first, the ownership structure matters for the company. It is better for the shareholders to get to know the ownership structure of the bank. The higher the share owned by the owner, the greater the possibility for the controlling shareholder to engage in expropriation. Second, the effect of the controlling owner is different between ownership structures. The controlling family has positive effect on the dividend payout, whereas both government and foreign ownership have negative effects on the dividend payout.

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