EKONOMICS FACULTY
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Thesis

OWNERSHIP CONCENTRATION AND DIVIDEND POLICY : THE CASE OF LISTED BANKS IN THE JAKARTA STOCK EXCHANGE (JSX)

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CHAPTER 1

INTRODUCTION

1.1 Background

Since most of countries in the Asia swept by the economic crises of 1997-1998, the need of financial and governance reforms in this region become so important. A study by Asian development bank (ADB 2000) reported that the economic crises in Asia were caused by the failure in implementing prudent Corporate Governance (CG).

Indonesia, as one of the countries most affected by the crises, is seeking to do financial systems reform and corporate reform by developing rules, institutions, and mechanisms to achieve good corporate governance (Patrick 2001). If Corporate Governance (CG) implemented substantially and adhere to the rules, the CG may influence the company's performance. In a corollary, implementation of CG encourages fair competition and conducive business climate leading to sustainable economic growth and stability (Indonesia's Code of Good Corporate Governance 2006).

The need for sound Corporate Governance practices become so important in the financial crisis recovery because sound Corporate Governance can provides protection and right guarantee to stakeholders including shareholders, lenders, employees, executives, government, customers, and other stakeholders (Naim 2000). Corporate governance is defined as a relationship among the stakeholders that is used to set a direction and performance control in a company. Corporate governance deals with the ways in which suppliers of finance to corporations ensure a fair and safe return on their investments (Shleifer and Vishny 1997), by managing the mechanisms with which a corporation conducts its basic operation.

In practicing corporate governance there are several problem that occur and must be solved. The dominant view of corporate governance hinges on the issue of separation of ownership and control within the firm, which is modeled by "the agency theory" (Keasey, Thompson and Wright 1997; Demirag 1998). Agency theory is a perspective which clearly describe the potential conflicts arises by the separation of ownership and control, known as the agency problem, as argued by Jensen and Meckling (1976). Problem arises when the agent (e.g. borrower) have had different-interest with the principal (provider of finance e.g. lender). To avoid such problems the companies have to implement the concept of control that will further developed as good corporate mechanism of control.

The agency conflict have strong relationship with the ownership structure. Conflict of interest arise between two kinds of firms owners, that is *controlling (majority) shareholders and minority shareholders*. Majority shareholders have a significant amount of power. By kindness of a significant shareholding stake, the owners are in a position to shape the investment, funding, and payout policies of a firm. Earlier studies demonstrate that concentrated ownership is quite common, especially in Asia (La Porta, Lopez-de-Silliness, Shleifer, and Vishny, 1998; Claessens, Djankov, and Lang, 2000). The large owners are quite often family

CHAPTER 5

CONCLUSION & LIMITATIONS

5.1 Conclusion

This research investigates how ownership concentration correlate with dividend policy in the banking firm that listed in Jakarta Stock Exchange. The researcher replicates the previous research by Harada and Nguyen (2003) who investigate about Ownership Concentration, Agency Conflicts, and Dividend Policy in Japan but the researcher using different samples and different period of time. In this research ownership concentration play role as independent variable,and dividend policy as dependent variable. Besides that, researcher use two controlling variables in order to control several factors particularly affected the research empirical results. The controlling variables that used in this research are Firm Size and Profitability.

Result of this research find that there is a positive relationship between ownership concentration and dividend policy (dividend payout) eventhough the relationship is very weak. Its means that the banking firms which choosen as a samples in this research not always pay lower dividend to shareholders if the ownership is concentrated. The findings of controlling variables show that both of controlling variables has a negative relationship with dividend policy. This findings means that Firm Size and Profitability as controlling variables do not influence the empirical result of this research and also do not influence the independent variables of this research.

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