The Influence Of Insider Ownership, Deviden Policy And Debt Policy to The Firm Value at Companies Which are Enlisted in Indonesia Stock Exchange

Dra. Sri Hermuningsih, MM.
Faculty Of Economics, Universitas Sarjanawiyata Tamansiswa Yogyakarta
Dr. Dwipraptono Agus Harjito.
Faculty Of Economics, Universitas Islam Indonesia Yogyakarta
Dewi Kusuma Wardani,SE
Faculty Of Economics, Universitas Sarjanawiyata Tamansiswa Yogyakarta

Abstract

The aim of this study was proving the influences of insider ownership, debt policy, and dividend policy to firm value at companies which were listed in Indonesia Stock Exchange. Object of this study were companies which were listed in Indonesia Stock Exchange during 2003 to 2008. This study used Two Stage Least Square (TSLS) method to know the influence between four factors. TSLS method through six phases, that was 1). TSLS for the insider ownership to firm value 2). TSLS for the debt policy to firm value 3). TSLS for dividend policy to firm value 4). TSLS for the insider ownership to debt policy 5). TSLS for the insider ownership to dividend policy 6). TSLS for the debt policy to dividend with storey level isn't it 0.05.

This study findings indicated that 1) insider ownership have not an effect to company value 2). debt policy have not an effect on value company 3) dividend have not effect to company value 4). insider ownership have not an effect to debt policy 5). insider ownership have not an effect to dividend policy 6). debt policy have not an effect on to dividend.

Keywords*: insider ownership, debt policy, dividend policy, firm value*

1.Introduction

The purpose of company management is to give prosperity to the owner. The higher of share price means that the owner prosperity will higher too. Share market price shows firm value. Thereby, if share prices are increased, the firm values will be increased too. To get that purpose, the owners (as principle) can entrust to the professional or insider or called by agent. That professional or managers will responsible for, first, the fund allocation decision, both for inside fund and outside fund for investment. Second is expenditure decision. This decision will relate with optimum expenditure. Third is dividend decision (Hardjito, 2006).

The trust that is given to insider can be viewed as the function dissociation of decision making and of risk beating (Jansen & Meckling, 1976). Owners as fund resources have an importance to protect their investment fund, while the insiders are entitled for salary and other compensation because they make the best decision for owner. But often insiders work not to maximize firm value, but minimize, or just improve their prosperity. The owner do not like that way because the costs will increase and dividend will decline. Owners are prefers to be financed by debt, but managers do not like because the debt has high risk. Therefore, the insider existence is related to firm value.

Meanwhile, debt policy also related to firm value. Considering tax, firm value or stock price will be determined by capital structure. The improvement of debt proportion makes the stock prices higher, but in the specific point the improvement of debt is less than the expenses. While Homaifar, Benkato, and Zietz (1994) found that stock profit influences decision of capital structure. They found that stock gain had negative relation with debt. This argument supports the opinion that company tends to replace debt with equity if the stock gain level is high.

Dividend policy can be related with firm value. There are three theories, MM argues that dividend policy is not relevant. It means that is no optimum dividend because dividend does not influence firm value. Second group is Gordon-Litner. They argue that dividend has less risk than capital gain, so dividend after tax and dividend that give higher dividend yield will minimize cost of capital. Third group is the group that argues that because dividend is subject of tax so the investors ask for the profit level higher for the higher dividend yield. This group suggests that the lower dividend yield can maximize firm value. Those three arguments give a justification that dividend has an effect to firm value (Hardjito, 2006).

This research aim is to prove the influence of insider ownership, debt policy, and dividend policy to firm value at companies which are enlisted in Indonesia Stock Exchange.

2. Relevant Literature

Insiders Ownership

To reduce agency cost can be done with improving the insider ownership, on the chance of spreading the risk. Managers have tendency to use the excess of profit for the consumption and opportunistic behavior. Managers also have tendency to use the higher debt not to maximize firm value, but to their opportunistic behavior. Those will improve debt interest expenses because the firm bankrupt risk is increase, so agency cost of debt will increase too. The high agency cost of debt can reduce the firm value. With insider ownership, insider can get direct benefit from their decisions, but also bear the direct risk if their decisions are wrong. Insider ownership can also reduce misallocation resource allocation. Thereby the insider ownership is incentive to improve firm performance.

Dividend Policy

Dividend policy is decision about how much profit that be payed as dividend to compensate the investment and how many that left in firm as an investment. (Brigham and of Houston, 2006:32). If companies choose give profit as dividend, they will reduce their profit and internal fund resources. On the contrary, if companies do not choose to give dividend, their internal fund formation capabilities will be increasing.

Dividend policy is controversial because of their investor behaviors and characteristics. There are contradictive theories related with dividend policies and still debatable until now. Brigham and Houston theory (2006:69):

a. Irrelevance Theory

This theory convinces that a company dividend policy do not has influence to firm value and cost of capital.

b. Bird in the hand theory

This theory convinces that we can maximize firm value by specified high dividend payout ratio because owners like if the dividend is high so the stock price will increase too.

c. Tax Preference Theory

This theory convinces that low dividend payout is more preferred by investor because (1) dividend tax that must be pay by investor is higher than long term capital gain, (2) capital gain tax must not be pay until the stock is sold, (3) there is tax remove if the owner dead.

Debt Policy

MM argues that high debt usage will make high risk and high cost of capital. Thereby, usage of debt will not make high firm value because the cheaper debt cost benefits will be pay with the increasing of cost of capital itself. This opinion then was introduced by MM herself in 1963. If there is firm revenue tax, usage of debt will make the firm value increasing because debt interest expense is an expense that reduce tax (tax deductable expense).

The usage increasing of debt financing will influence equity capital transfer. Jensen (1986) says that debt can use to manage overload free cash flow by manager, so useless investment can be avoided. The debt usage can increase firm value. That increasing of firm value is related with stock price and the decline of debt will make down stock price (Masulis, 1988). But, the increasing of debt will make the increasing of bankrupt- risk if the debt is used not careful.

Firm value

The fundamental company target is maximized profit. Now, this view change because its target weaknesses (Sartono, 2001:7). Those weaknesses are: first, microeconomic standard with maximize profit is stag because getting the run around time dimension, so that are no difference between short term and long term profit. Second, the profit definition is maximize nominal profit or profit level. Third, is about decision alternative risk. Maximizing profit without pay attention with risk is big false. Fourth, maximizing profit can be done by investing stock sell fund in deposit, but owner want the higher deposit interest from the higher risk too, so the market value will decline and firm value will decline too.

Based on those weaknesses, firm value will move to be firm objective maximization through maximization wealth of stockholders. Stockholders wealth will increase if their stock prices are increasing. Public firm value is determined by stock price, while non-public firm value is determined by the same market (Sartono, 2001:8).

According to J. Keown, Scott, and Martin (2004: 849), there are quantitative variables that can used to estimate the firm value:

a. Book value

Book value is the amount of assets from of balance sheet less by account payable or owner equity. Book value do not calculate firm market price as a whole because book value is calculated by historical firm asset data.

b. Company market price

Market stock price is an approach to estimate net business value. If stock is registered in security market and widely commercialized, value approach can be build by market price. Value approach is more usable approach to estimate big company, and this value can change immediately.

c. Firm value appraisal

Firm which is based on independent appraiser will permit the reduction of goodwill if the firm asset price is increase. Goodwill is produced when firm purchase value more than its asset book value.

d. Expected cash flow

The value is used in merger or acquisition. Present value of cash flow which is determined will maximum and must be pay by target firm. The down payment can reduce present net value of merger. Present value is free cash flow future.

Hypotheses

H1 : There is a significant positive effect of insider ownership on corporate value

H2 : There is a significant positive impact of debt policy to firm values

H3 : There is a significant positive effect of dividend payment policy of the company's value

H4 : There is a negative relationship between insider ownership with debt policy

H5 : There is a negative relationship between insider ownership with dividend payment policy

H6 : There is a negative relationship between debt with dividend payment policy

3. Research Design And Methods

1. Population and Sample

Population of company was all companies which are enlisted at Indonesia Stock Exchange since 2003 to 2008. While the sample chosing used purposive sampling method, with sampling judgment were the companies that had financial statement during the research period, had percentage of insider ownership data, gave dividend, had debt, and had positive EBIT.

2. Operational Definition of Variable

1) INSD = Insider Ownership

Insider ownership was the share percentage that be owned by insider, like director or manager. The formula was:

$$INSD = \frac{\text{Amount of shares that were owned insider}}{\text{Total of share}}$$

2) DEBT = Debt Policy

Debt usage level from a company can be shown by debt to equity ratio (DER). Debt to equity ratio is a ratio of total debt to total owner equity. The formula is:

$$DER = \frac{\text{Total Liabilities or Total Debt}}{\text{Total Owner Equity}}$$

3) DPR = Dividend Policy

Financial ratio that could use to measure the level of dividend that was gave to owner was Dividend Payout Ratio (DPR). DPR was the ratio that showed the comparison between Dividend-per-Share (DPS) and Earning-Per-Share (EPS). The formula is:

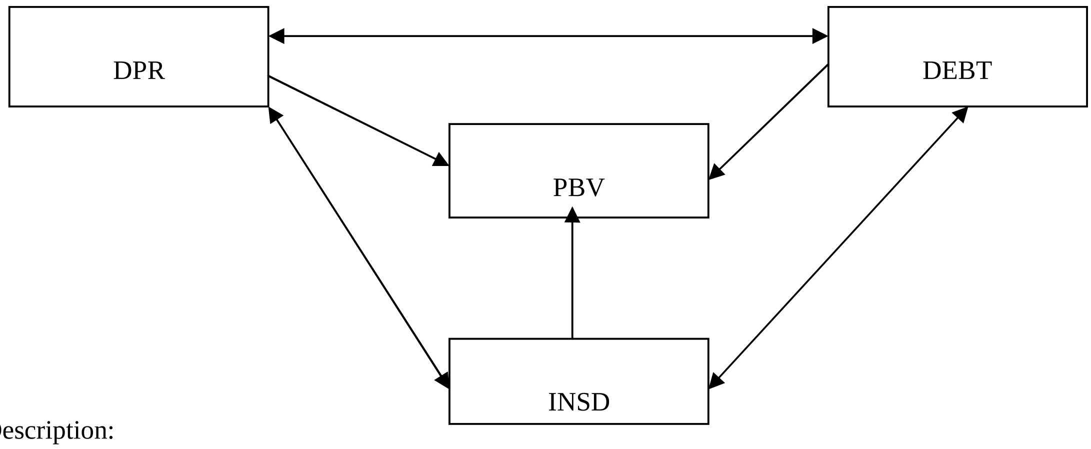
$$DPR = \frac{\text{Dividend per share}}{\text{Earning per share (EPS)}}$$

4) PBV = Firm value

Price to book value or PBV shows how much market appraises book value of company stock. Higher this ratio means market trust to that firm prospect. The formula is:

$$PBV = \frac{\text{Stock Price}}{BV}$$

3. Research Model



Description:

INSD = Insider Ownership DPR = Dividend Policy

DEBT = Debt Policy PBV = Firm value

4 . Analysis Technique

Joher et.al (2005) use equation model Two Stage Least Square (2 SLS) to test for the simultaneous determination of endogenous variables. The use of 2 SLS to provide a consistent and unbiased result. To test Hypotheses 1 through 6, performed by Two Stage Least Square:

1. **PBV = a0 + a1 INSD + a2 DEBT + a3 DIVD + RISK + GROWTH + SIZE + e**
2. **INSD = b0 + b1 DEBT + b2 DIVD + RISK + GROWTH + SIZE + e**
3. **DEBT= c0 + c1 INSD + c2 DIVD + RISK + GROWTH + SIZE + e**
4. **DIVD= d0 + d1 INSD + d2 DEBT + RISK + GROWTH + SIZE + e**

4. DATA ANALYSIS RESULTS AND DISCUSSION

Table 1 shows the statistical charactersitics including average and standard deviation for all of these dependent and independent variables that used in this study.

TABLE 1.
Descriptive Statistic of Dependent and Independent Variable of Indonesia's Data

Variable	**N**	**Minimum**	**Maximum**	**Average**	**Standar Deviation**
Dependent:					
DEBT	56	1.208890	6.284485	1.284223	1.316555
INSD	56	0.021667	10.51000	3.334554	3.190110
DIVD	56	-0.006467	0.550686	0.042087	0.099720
PBV	56	-0.175289	5.150117	1.104632	0.994217
Independent:					
SIZE	56	10.55674	17.40800	13.26634	1.471319
RISK	56	-0.987542	20.11380	1.185282	3.573959
GROWTH	56	-0.745693	0.535996	-0.255106	0.292443

The simultaneously test of the relationship between debt policies, insider ownership, and dividend policy in the agency problem monitoring mechanism in this study using the method of least squares regression on two levels (two-stage least square, 2 SLS). The analysis result of 2SLS method for each variable ad shown in table 2.

TABLE 2
2SLS Regression Result of The Relationship between Debt Policy, Insider Ownership, and Dividend Ratio to Indonesia Companies Values

Independent variables	**Dependent Variables**			
	DEBT	**INSD**	**DIVD**	**PBV**
Constanta	4.2134	4.9256	0.1525 (1.2902)	0.1539
	(0.2903)	(1.4368)		(0.0270)
DEBT	-	-0.1957	-0.0063	0.4724
		(-0.0802)	(-0.0836)	(0.7358)
INSD	-0.6178	-	-0.0307	0.1071
	(-0.1989)		(-1.4195)	(0.0939)
DIVD	-20.6492	-31.832	-	-0.3169
	(-0.2075)	(-1.4200)		(-0.0086)
SIZE	0.1147	-0.3326	0.0094	-0.0116
	0.8546	(-1.0475)	(0.9545)	(-0.1195)
RISK	-0.0357	-0.1735	0.0062	-0.0263
	(-0.6366)	(-1.3194)	(1.5211)	(-0.6485)
GROWTH	-0.0745	-1.6805	0.0405	-0.1979
	(-0.1136)	(-1.0924)	(0.8400)	(-0.6485)
R^2 value	-4.1361	-0.7042	-0.6834	0.0475
Durbin-Watson	1.9380	1.9813	1.9789	2.0566

Note:
*** Significant at the significance level 1%
** Significant at the significance level 5%
* Significant at the significance level 10%
t-Statistic value in the brackets.

Hypothesis 1

From the hypotheses testing resulted the influence of insider ownership variables (INSD) to the the firm value is positive but not significant ($\beta = 0.1071$; $t = 0.0939$). This shows that the increase in the number of manager's shares is likely to increase the firm value but is not significant. From these results indicate that the hypothesis (1) is also not proven. Hypothesis (1) which state there is a significant positive effect of insider ownership on corporate value proved, but not completely.

Hypothesis 2

From the results from hypothesis testing, the influences of ratio of debt (DEBT) to the company's value (PBV) is positive and significant (β = 0.4724; t = 0.7358). This positive relationship indicates that the increase in debt will raise the value of the company. The results of this study support the hypothesis (2) is proposed. Hypothesis (2) states that there is a significant positive impact of debt policy to firm values. Therefore, hypothesis (2) proved in this study.

Hypothesis 3

From the results of hypotheses testing, dividend (DIVD) has a negative relationship and not significant with Price to book value (β = -0.3169; t = -0.0086). The increased of dividend payments a negative signal to investors about the state of the company. Maybe, this is caused by the manipulation of actual situation that occurred in the company concerned. In addition, a high dividend payment was not necessarily a sign for investors that the agency problem can be reduced. Dividend payments as a reducer mechanism for agency problems have not used as a regulatory tool by the owner to reduce the agency problems. Thus the hypothesis (3) which state there is a significant positive effect of dividend payment policy of the company's value is not proven in this study.

Hypothesis 4

From the hypotheses testing results that insider ownership variable (INSD) to debt (debt), debt variable coefficients shows a negative relationship, but not significantly with insider ownership (β = -0.1957; t = -0.0802). Direct relationship between insider ownership with debt shows that the increase in debt will cause a decrease of insider ownership. In the monitoring context indicates that the role of insider ownership in Indonesia can replace the role of debt in the regulatory mechanism, although the problem is not effective agents. Therefore, these two monitoring mechanisms need to be done together. The results of this study do not support the first hypothesis (H4) which states there is a negative relationship between insider ownership with debt policy as a monitoring mechanism for agency problems.

Hypothesis 5

From the hypotheses testing results that insider ownership variable (INSD) has a negative coefficient but not significant (β = -0.0307; t = -1.4195). The increasing of insider ownership to improve the agreement or alignment (alignment) between the shareholders by managers in improving corporate profits does not give the impression of significantly decreasing the level of dividend payments. In the context of controlling mechanisms of agency problem, it indicates that the increasing of insider ownership can not replace the role of dividend payment policy to reduce agency problems. In other words, payment of dividends as the financial policy can not be replaced by insider ownership role as a policy rather than finance the agency problem’s controlling mechanisms. The implication is that the increasing of insider ownership is not reducing the dividend payment. The results of this study do not support the fifth hypothesis (H5)

Hypothesis 6

The analysis results that coefficients of debt variables in the dividends (DIVD) equation model is negative and not significant (β = -0.0063; t = -0.0836). This means that the debt ratio increased by 1% would reduce the dividend payment ratio of 0.63% in the role of agency problems monitoring. This negative relationship indicates that there is the relationship between debt policies and dividend payment policy in the agency's problems monitoring mechanisms. But these replacement relationships is ineffective. The role of dividends as a reducer mechanism of agency problems will decrease with the increasing of debt levels. This study result does not support the sixth hypotheses (H6) that are described in the debt ratio equation.

PBV = 0.1539 + 0.1071 INSD + 0.4724 DEBT - 0.3169 DIVD - 0.026320 RISK - 0.197997 GROWTH - 0.011634 SIZE

INSD = 4.9256 - 0.1957 DEBT - 31.8320 DIVD - 0.1735 RISK - 1.6805 GROWTH - 0.3326 SIZE

DEBT = 4.2134 - 0.6178 INSD - 20.6492 DIVD - 0.0357 RISK - 0.0745 GROWTH + 0.1147 SIZE

DIVD = 0.1525 + -0.0307 INSD + -0.0063 DEBT + 0.0062 RISK + 0.0405 GROWTH + 0.0094 SIZE

5. Suggestion

For investor, if they want to invest in capital markets, investors should be able to see, analyze, and predict the factors that affect the company value, both of the internal and external factors in order to get the results as expected.

For researcher, the number of samples is relatively less, so the researchers who will take the the same topic should take more sample and extend the period, so that will increase the accuracy of the research results.

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