FEMALE REPRESENTATION IN THE BOARD OF DIRECTORS, OWNERSHIP CONCENTRATION, AND DIVIDEND POLICY – EVIDENCE OF INDONESIA

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Abstract
The purpose of this paper is to discuss empirical research examining the impact of female representation in the board of directors and ownership concentration on dividend policy for firms listed in Indonesia Stock Exchange (IDX). Female representation is measured by dummy which is stated by 1 for the existing of representation and 0 otherwise. Ownership concentration is measured by Herfindahl Index, whereas dividend policy is measured by dividend payout ratio. The data used in this study are obtained from Indonesian Capital Market Directory, Indonesian Stock Exchange database, and company annual reports.

Using a sample of 323 observations of publicly listed companies on the Indonesian Stock Exchange for the fiscal year that ends on December 31, 2014 through 2016, this study finds that, in general, female representation in the board of directors positively affects dividend policy. Moreover, ownership concentration is also positively affects dividend policy. ownership concentration is also positively affects dividend policy is only confirmed in five industry, which are consumer goods; infrastructure, utilities and transportation; miscellaneous industry; property, real estate and building construction; and trade, services & investment, whereas in other three industries are not supported. Moreover, female representation in the board of directors positively affects dividend policy is also supported in three industry, which are consumer goods; infrastructure, utilities and transportation; and property, real estate and building construction, but in the other five industry not supported. This study provides further evidence of the effect gender in board directors and ownership concentration on dividend policy using data from Indonesia.

Keywords: Female representation, dividend policy, ownership concentration.

Paper type: Research paper

INTRODUCTION

This paper discusses empirical research examining the impact of female representation in the board of directors and ownership concentration on dividend policy for firms listed in Indonesia Stock Exchange (IDX). This research is motivated by the fact that gender diversity has fast becoming an emerging issue in the corporate world (Julizaerma and Zulkarnain, 2012). The lack of female participation in the top level and main decision position is disclosed in the 2017 gap index where in Indonesia, female's economic participation and opportunity is in the 108th of 144 position with score of 0.610 (World Economic Forum, 2017) and this score is considered

low score. Moreover, this research is also motivated by the survey toward 5.500 companies in 36 countries which was disclosed in Woman in Business Annual Report by Grant Thornton stated that female in executive position in Indonesia is 46% in 2017 which increase from 36% in 2016 (http://marketplus.co.id/2017/04). Previous research which find that different characters between female and male affect decision making also motivate this research. Ball, Eckel, and Heracleous, (2010) stated that most men being risk lovers, whereas women are naturally risk averse and wouldn"t take on debt that potentially affects performance of the firm. Therefore gender needs to be taken into account as one of research variables since extant research suggests that the monitoring effectiveness of the board of directors relies upon factors such as independence, experience, and size (Gul, Munir, and Zhang, 2016). Based on above description, we believe that gender will become an important variable for corporate dividend policy, since it is believed that women on a board better represent shareholders' interests. Dividend decision is a major financial decision of a firm which is the responsibility of a board. Moreover, there has been growing research interest in understanding the role that corporate board gender composition plays in board effectiveness. The topic has become a central focus of corporate governance reconstruction efforts, with companies being advocated to appoint female directors to their boards (Adam and Fereira, 2009).

Extant research investigate the effect of ownership concentration (Chen, Cheung, Stouraitis and Wong, 2005; Erol and Tirtiroglu, 2011), outside directors (Al-Najjar and Hussainey, 2009; Setia-Atmaja, 2010), dividend tax (Amihud and Murgia, 1997), future earnings (Flint, Tan and Tian, 2010; Vermeulen, 2011) and investors protection on dividend policy (La Porta, Lopez-de-Silanes, Shleifer and Vishny 2000). Yet, research about dividend policy in the diversity gender companies, as long as we know are still little, if any, especially in emerging countries. If ownership concentration is consistent with the alignment of interest between management and shareholder, as studies of corporate performance have suggested, there should be a higher dividend payout. However, ownership concentration can also facilitate rent extraction by dominant shareholders, resulting in lower payouts (Harada and Nguyen. 2006). Therefore, empirical research have to be done in order to get a conclusive result about the association of ownership concentration and dividend payout.

From review above, it can be concluded that female in executives has positive affects. Yet, there are little, if any, research which associate female representation and ownership concentration with corporate dividend policy. Therefore, we would like to give contributions to the literature by examining the effect of female representation and ownership concentration on corporate dividend policy. Therefore, we formulate the research problems into a research question as follow:

RQ1: Does the female representation in the board of directors and ownership concentration affects dividend policy in the firms listed in Indonesia stock exchange?

This research contributes to the existing literature by addressing the potential effects of female executives and ownership concentration on dividend policy. In this paper, we presume that the documented behavioral differences between women and men may mitigate one of

agency problem which is agency cost, since a proper decision about dividend would solve the corporate free cash flows.

RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

This research investigates the effect of female representation in executives and ownership concentration on company's dividend policy. Since dividend policy is one of instruments for reducing agency cost, this research uses agency theory. Agency theory the theory of agency relationship predicts and explains behavior of related parties in principal-agent relationships (Jensen and Meckling, 1976). Principal-agent relationships create a potential conflict between the principal and the agent, which result in agency cost. Jensen (1986) and Rozeff (1982) argued that the firms to alleviate the agency problems could use dividend payout policy. If dividends are not paid to the shareholders, the managers will start using these resources for their private benefits. Gender diversity among board members improves monitoring and it serves as a supervisor for shareholder (Kandel and Lazear, 1992). Consequently, female representation on directors may align the incentives between managers and shareholders through their influence on dividend policies, because they may have high cash flows. To reduce free cash flow problems, they may pay high dividends to their shareholders.

The proportion of female directors and shares held by female directors are positively associated with dividend payout in Spain (Pucheta-Martinez and Bel-Oms 2016). This is similar to the view that female director can help mitigate agency problems by monitoring and resolving conflicts of interest between managers and shareholders (Jurkus, Park and Woodard, 2011). Women directors on corporate boards tend to pay dividends, because paying dividend may mitigate agency costs and the opportunistic behavior of management which in turn, managers being required to seek financing in capital markets. Easterbrook (1984), and Byoun et al. (2013) state that large dividend payments reduce opportunistic conduct; possible overinvestment, improve monitoring of capital markets, and reduce agency problems. A research conducted in the United States (US) find that board gender diversity eliminates agency costs by encouraging distribution of dividends. Recent evidence from the United States (US) emphasizes how board gender diversity purges agency costs by encouraging distribution of dividends (Byoun et al., 2016; Chen et al., 2017).

Moreover, dividends help alleviate agency conflicts because firms are assumed to more likely issue the more shares (Easterbrook, 1984). Female directors can be more effective in monitoring management than male directors (Adams and Ferreira, 2009), and consequently it become a control mechanism by demanding corporate governance mechanisms, such as larger dividend payouts and increasing the tendency to pay dividends (Pucheta-Martinez and Bel-Oms 2016). Based on the fact that female directors have the greater focus on monitoring and their corporate governance role of dividends, we predict that there is a positive relationship between the two factors. Therefore, we formulate our hypothesis as follows:

H₁: Female representation on Director structure positively corporate dividend policy.

Jensen (1986) stated that dividend payment reduces corporate cash which is controlled by managers and thus, dividends may be used as a mechanism to mitigate agency cost of free cash

flows. Ownership concentration is an internal governance device that allows the majority shareholder to gain control over firm's activities and resources. Such a control, usually, introduces agency conflict between the majority shareholder and the minority shareholders (Gedajlovic and Shapiro, 2002). The agency conflict stems from the fact that ownership concentration provides incentives and means to the majority shareholder to expropriate minority shareholders (Zingales, 1994; Morck, Shleifer, and Vishny, 1988). Concentrated ownership allows controlling shareholders to conspire with managers to drain minority shareholders' resources (Short, 1994).

Firms with concentrated ownership give more powers in the hands of controlling shareholders, who unlikely to disclose all information in order to obtain private benefits of control. Stacescu (2013) find a positive relationship between ownership concentration and dividends dividend policy in Norwegian private and public firms. Thanatawee (2013) finds that Thai firms are more likely to pay dividends when they have higher ownership concentration. Thanatawee (2014) find that firms with higher ownership by the majority shareholders, are more likely to pay dividends in China. Sakinc and Gungor (2015) also find that increase in the concentration of ownership increases the proportion of cash dividend. Based on the review of previous research, this research hypothesizes that private benefit of control lead to lower dividend pay out ratios. Therefore, hypothesis is stated as follow:

H_1: *Concentration of ownership positively affects dividend policy.*

RESEARCH DESIGN

The sample used in this research are firms listed on the Indonesian Stock Exchange (IDX) for the period of 2014 to 2016. The sample was selected using the purposive sampling technique and obtained fromthree sources, Indonesian Capital Market Directory (ICMD), www.idx.co.id, and company's website. The unit analysis used in this research is firm-year. Ownership is defined as the amount of equity shares an ultimate owner holds in the sample firms. The Indonesian Companies Act of 1995 requires firms to disclose directors' report and ownership data in their annual reports. Hence, ownership data are readily available from the sections on the analysis of shareholdings and director's reports of firms' annual reports. Concentrated Ownership (KON) is measured by using Herfindahl index. The value of the H is the sum of the squares of the shares ownership of each kind of ownership and the value is between 0 and 1. It is calculated as follows:

$$H = \sum_{i=1}^{n} (\text{Share Ownership Portion})^2 \tag{1}$$

where i refers to an individual firm and n refers to the number of firms. The higher the index, the more concentrated the ownership. Higher ownership concentration lead to the decrease of information disclosure and increase of agency problem (Leuz, Nanda, and Wysocki, 2003).

We define and measured dividend policy by the dividend pay out ratio (DPO) which is the percentage of earnings paid out as dividends. Dividend pay outs are supposed to alleviate agency conflicts through the reduction of free cash flow available to managers. Female

representation in director structure (FEM) is a dummy variable which has value of 1 if a company is directed by female director and 0 otherwise. SIZE is the proxy for Firm size. Size is a well-established determinant for firm's value and has an effect on many aspects of a firm's operation. This variable is measured as log total assets. Lev or financial leverage is a control variable used to control the company's capital structure. This variable is measured by dividing total liabilities with total assets. Return on asset (ROA) and return on equity (ROE) are also control variables used to control the company's profitability. ROA is measured by dividing net income with total assets whereas ROE is measured by dividing net income with total equity.

The main statistical method to test the hypotheses is the GLS regression. The GLS regression models are estimated as follows:

$$\text{DPO}_{it} = \alpha_+ \beta_1\text{KON}_{it} + \beta_2\text{FEM}_{it} + B_3\text{LEV}_{it} + \beta_4\text{SIZE}_{it} + \beta_5\text{ROA}_{it} + B_6\text{ROE}_{it} + \varepsilon_{it} \qquad (2)$$

Where DPO_{it} is dividend pay out firm i in the year t, KON_{it} is concentrated ownership firm i in the year t, which is measured by herfindahl index, FEM_{it} is female representative and an independent dummy variable which has value of 1 if a company is directed by female director and 0 otherwise. SIZE_{it} is the firm size which is measured by the logarithm of total assets is a control variable, LEV_{it} is leverage ratio firm i in the year of t, ROA_{it} is return on assets firm i in the year of t, ROE_{it} return on equity firm i in the year of t, and ε_{it} is *error term*. Variables of interest in this model are FEM and KON. If the coefficient of both variables positive and significant, the hypothesis is accepted and supported by empirical data.

DATA ANALYSIS AND DISCUSSION

On the basis of the sampling process described, this study uses 387 firms data in the year of 2014 to 2016. The total observations consist of 1.161 firm-years. Table 1 shows the descriptive statistics for the sample data which consist of dependent variable, independent variables, and control variables. From Table 1, it can be seen that the mean of the DPO shows a value of 12.573 with a standard deviation of 50.257. The mean of KON shows the number of 0.545 with a standard deviation of 0.152 whereas the second independent variable, FEM has mean value of 0.066 with standard deviation of 0.248.

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Median	Std. Dev.
KON	.135	.982	.545	.517	.152
DPO	.000	936.970	12.573	.000	50.257
SIZE	3.884	8.418	6.414	6.389	.711
LEV	.000	5.110	.531	.490	.451
FEM	.000	1.000	.066	.000	.248
ROA	-127.910	185.170	3.038	2.260	12.855
ROE	-7397.000	799.100	-.573	5.160	241.232

Table 2 show the correlation between the two variables, which is Spearman correlation (top side) and Pearson correlation (bottom side). Correlation between DPO and KON is positive and insignificant whereas correlation between DPO and FEM is positive and insignificant. This provide a preliminary support for H_1 and H_2. This result indicates that female representation in

the Board of Directors and ownership concentration are positively correlated to dividend policy. This will be further examined in the regression analysis

Table 2. Bivariate Analysis

	DPO	KON	Size	Lev	Fem	ROA	ROE
DPO	1	.033	.081*	-.038	.016	.062	.012
KON	.033	1	.002	.006	.034	.082*	.026
SIZE	.081*	.002	1	.024	-.073*	.102**	.057
LEV	-.038	.006	.024	1	-.070*	-.181**	.009
FEM	.016	.034	-.073*	-.070*	1	.068*	.017
ROA	.062	.082*	.102**	-.181**	.068*	1	.117**
ROE	.012	.026	.057	.009	.017	.117**	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

To test the hypotheses, this study uses a multiple regression model. The procedure uses generalized least square (GLS) estimation method. The classic assumptions of regression model have been tested before the regression statistics analysis was conducted. The assessment shows that the residual were normally distributed and there are no problems with multicolinearity, heteroscedasticity, and autocorrelation in the data. The regression analysis results to test the hypotheses are presented in Table 3.

Table 3. Regression Analysis

$$DPO_{it} = \alpha + \beta_1 KON_{it} + \beta_2 FEM_{it} + B_3 LEV_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + B_6 ROE_{it} + \varepsilon_{it} \quad (2)$$

Variable	Coefficient		t-Statistic	Sig
C	-22.090	***	-11.117	0.000
KON	3.821	***	1.997	0.046
SIZE	4.100	***	16.512	0.000
LEV	-0.897	***	-10.044	0.000
FEM	6.978	***	21.663	0.000
ROA	0.103	***	5.418	0.000
ROE	0.000	***	3.697	0.000
Adjusted R-squared	0.274			
F-statistic	61.935	***		

To test whether there is an association between FEM and DPO (H$_1$), the variable investigated is FEM. Table 3 shows the regression result. The result shows a positive (6.978) and significant coefficient in the level α=0.01. This result indicates that FEM which is the proxy of female representation in the board associated positively with DPO. Therefore, when FEM increase, DPO will increase. It can be concluded that H$_1$ which states that female representative positively affects dividend policy supported by empirical data. This result is consistent to and confirms the research conducted by Pucheta-Martinez and Bel-Oms (2016), Byoun et al., (2016); Chen et al., (2017) who find that gender diversity on director structure positively affect dividend payment and the likelihood to pay dividend.

To test whether there is an association between ownership concentration and dividend payout policy (H$_2$), the variable investigated is KON. Table 3 shows a positive (3.821) and

significant coefficient in the level α=0.05. This result indicates that the DPO increase as ownership concentration increases. It can be concluded that H_2 which states that concentration of ownership positively affects dividend pay out ratio is supported by the empirical data. This result is consistent to and confirms confirms previous research conducted by LaPorta et al. (2000) who find that the higher ownership concentrated firms are likely to pay the higher dividend, and research conducted by Shleifer and Vishny (1997) who find that concentrated ownership is the main factor which forces a company to pay dividend. In addition, we argue that insiders of firms with concentrated ownership are aware of the fact that outsiders associate ownership concentration with high agency problems. Therefore, it is in the best interest of these firms to do something that can signal low agency conflicts. Paying high dividends is one such signal. Grossman and Hart (1980) stated that dividend pay outs alleviate the agency conflicts through the reduction of free cash flow available to managers. In another related study, Jensen (1986) documents that high dividend pay outs lessen agency costs by reducing free cash flows that could be expensed on unprofitable projects. Paying high dividends reflects managements' good faith and signals low agency problems. Consequently, it is very plausible explanation that firms with ownership concentration pay high dividends. Additionally, other previous research are also confirmed by this result, i.e. Stacescu (2013) who finds a positive relationship between ownership concentration and dividends dividend policy, Thanatawee (2013) who finds that Thai firms are more likely to pay dividends when they have higher ownership concentration, Thanatawee (2014) who finds that firms with higher ownership by the majority shareholders, are more likely to pay dividends in China, and Sakinc and Gungor (2015) who find that increase in the concentration of ownership increases the proportion of cash dividend.

We conduct additional analysis by decomposing data into eight industries. The main objective is to confirm the consistency between the whole result and industrial result. The regression analysis result for each industry is presented in Table 4. From Table 4, we could see that the result for each industry is distinct. For hypothesis 1, which stated that female representative positively affects dividend policy is confirmed in the industry of consumer goods; infrastructure, utilities and transportation; miscellaneous industry; property, real estate and building construction; and trade, services & investment. This is disclosed in Table 4 that the variable FEM coefficient is 15.044 and significant at the level of 1%, 18.291 and significant at the level of 1%, 3.455 and significant at the level of 1%, 3.161 and significant at the level of 1%, 6.646 and significant at the level of 1% consecutively in the above industry. For agriculture industry, female representation negatively affects dividend policy, whereas in basic industry and chemical and mining industry female representation does not affect. This is stated by Table 4 which shows that variable FEM has coefficient of -3.186 and significant at the level 1%; 10.727 and insignificant; 7.038 and insignificant. Therefore hypothesis 1 is not confirmed in the last three industries.

For hypothesis 2, which stated that ownership concentration positively affect dividend policy, is confirmed by industry of consumer goods; infrastructure, utilities and transportation; and property, real estate and building construction. This is stated in Table 4 which shows that coefficient for KON is 11.192 and significant at the level of 1%; 17.522 and significant at the level of 10%; 2.803 and significant at the level of 1%; 11.192 and significant at the level of 1%

for the above variables sequentially. For agriculture industry, concentrated ownership does not affect dividend policy, whereas for the rest four industries which are basic industry and chemical; mining; miscellaneous Industry; trade, services & investment, concentrated ownership negatively affect dividend policy. This is stated by Table 4 which shows that concentrated ownership does not affect dividend policy -41.144 and significant at the level of 1%; -7.876 and significant at the level of 1%; -4.750 and significant at the level of 1%; -2.040 and significant at the level of 1%; for each above industry respectively. Therefore, hypothesis 2 is not confirmed for the last five above variables.

Table 4

Regression Analysis Per Sector

PANEL A

Variable	Agriculture		Basic Industry and Chemicals		Consumer Goods Industry		Infrastructure, Utilities and Transportation	
	Coefficient		Coefficient		Coefficient		Coefficient	
C	-16.312		-5.396		-10.247	**	-22.198	***
KON	2.173		-41.144	***	11.192	***	17.522	*
SIZE	3.695		12.115	***	1.372	**	2.663	**
LEV	-11.067	***	-65.530	***	-1.257		-0.788	***
FEM	-3.186	***	10.727		15.044	***	18.291	***
ROA	0.410	***	0.716		1.093	***	0.081	***
ROE	-0.039	***	-0.134		-0.156	***	0.022	***
Adj.R-squared	0.176		0.463		0.385		0.186	***
F-statistic	2.670	***	11.223	***	16.528	***	5.194	***

PANEL B

Variable	Mining		Miscellaneous Industry		Property, Real Estate and Building Construction		Trade, Services & Investment	
	Coefficient		Coefficient		Coefficient		Coefficient	
C	-27.438	***	-12.380	***	-10.325	***	-23.701	***
KON	-7.876	***	-4.750	***	2.803	***	-2.040	***
SIZE	6.174	***	2.144	***	1.691	***	4.842	***
LEV	-8.813	***	9.554	***	-0.656	***	1.029	***
FEM	7.038		3.455	***	3.161	***	6.646	***
ROA	0.352	***	0.045		0.022	***	0.174	***
ROE	0.079	**	-0.032		-0.004	**	0.000	**
Adj. R-squared	0.316		0.213		0.073		0.303	
F-statistic	8.081	***	6.369	***	2.170	**	18.493	***

CONCLUSION

This research investigates the effect of female representation and concentrated ownership on dividend policy. The result shows that female representation and concentrated ownership affect dividend policy. Accordingly, hypothesis 1 and hypothesis 2 are supported by empirical research data. When we decompose data into eight industries, the result shows inconsistency. Hypothesis 1 is only confirmed in five industry, which are consumer goods; infrastructure, utilities and transportation; miscellaneous industry; property, real estate and building construction; and trade, services & investment, whereas in other three industries are not supported. Moreover, hypothesis 2 is also supported in three industry, which are consumer goods; infrastructure, utilities and transportation; and property, real estate and building construction, but in the other five industry hypothesis 2 is not supported.

This research has some limitations. First, we could not involve any other variables which may affect dividend policy, such as other corporate governance structure and mechanisms. Second, this research uses 3 years observation data. Third, this research uses data from one single jurisdiction, which is Indonesia, therefore the result generalization is narrow. Future research could be performed by involving the more variables and longer data, and using cross-country data so that the more comprehensive result and the wider generalization would be drawn.

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