International Summit on Science Technology and Humanity
ISETH 2023
ISSN: 2807-7245 (online)

Ownership Structure and Dividend Choices in The Context of Islamic Banking: A Case Study of Indonesia

Fathimah Tri Handhayani[1,*], Recha Tazqy[2], Salvia Suci Handayani[3], Yuni Nuryanti[4], Nafisah Ruhana[5], Setiawan[6]

[1,2,3,4,5,6] Department of Accounting, Politeknik Negeri Bandung, Bandung, Indonesia

Abstract

Purpose: This research explores the factors influencing dividend policies based on ownership structure in Islamic Commercial Banks in Indonesia during the period of 2012-2022.
Methodology: The sample of this research consists of 16 Islamic Commercial Banks operating in Indonesia and uses secondary data which is analyzed using logistic regression.
Results: The results of this research indicate that government ownership has a positive effect on dividend policy. On the other hand, institutional ownership does not affect dividend payment decisions in Islamic Commercial Banks in Indonesia.
Applications/Originality/Value: The differences in this research are in the research object, research time, and variables used.

Introduction Section

Dividend policy remains one of the controversial topics in financial literature. Numerous previous studies have empirically examined the reasons behind companies paying dividends. However, these reasons remain unresolved despite the extensive research and debates that have taken place (Al-najjar & Kilincarslan, 2019). Dividend policy is a strategic decision for banks worldwide (Kullab et al., 2022). The determinants of dividend policy still pose an unsolved puzzle. The core mystery is that some well-performing companies do not pay dividends, while poorly performing ones do (Du Jardin & Séverin, 2013).

The Islamic finance industry has high potential for development, especially in the Islamic banking sector. The growth of Islamic banks in Indonesia is marked by the increasing number of Sharia commercial banks operating in the country over the past eleven years. Furthermore, the planned merger of three giant ba nks is aimed at fostering the development of the Islamic finance industry. Amidst the current growth of the Islamic finance industry, there is an opportunity to attract investor interest in investing, particularly in the Islamic banking sector. However, there are still few Islamic banks in Indonesia that distribute dividends, even though dividends are an expectation for investors when investing their capital. Over the past eleven years, only a minimal number of Islamic commercial banks have paid dividends annually, ranging from 7% to 57%. In fact, in 2012, not a single Islamic commercial bank distributed dividends.

Table 1. *Dividend Payment at Islamic Commercial Bank 2012-2022 Period*

Year	Islamic Commercial Bank	Pay Dividends	Not Paying Dividends
2012	11	0	11
2013	13	1	12
2014	13	1	12
2015	13	4	9
2016	14	1	13
2017	14	5	9
2018	14	2	12
2019	14	7	7
2020	14	8	6

* Corresponding author: fathimah.tri.ksy20@polban.ac.id

2021	12	5	7
2022	13	7	6

Literature Review And Hypothesis Development

Theory

The signaling theory suggests that management has access to information about the company's prospects that is not accessible to external investors. This information can be used to take actions that benefit management while potentially harming shareholders. The announcement of dividends serves as a signal to communicate information and reduce information asymmetry. In this context, dividend payments act as a means to provide a positive signal to investors about the company's promising prospects in the future (John & Williams, 1983). According to the signaling theory, (Miller & Rock, 1985) argues that dividend payments elicit a positive market reaction because dividends are considered a bright signal about the company's future state. Dividend policies play a role as a costly signal used to convey the company's future to external parties with less information compared to the management (Vieira & Raposo, 2011).

Hypothesis Development

The influence of government ownership on dividend policies

In its ownership of a company, the government represents the primary owner not directly involved in management (Putri & Yulianto, 2020). Companies owned by the government tend to pay dividends as a signal of a positive corporate image (Bataineh, 2021). This is further supported by prior research (Duygun et al., 2018; Hamza & Al-dulemy, 2019), which found that government ownership has a positive influence on dividend policies. Thus, the proposed hypothesis is:

H1 : Government ownership is suspected to have a positive influence on dividend payments in Islamic Commercial Banks in Indonesia

The influence of institutional ownership on dividend policies

The signaling theory suggests that investors can infer that managers have sufficient confidence in the future profitability of the company when the distributed dividends increase. Consequently, shareholders react to dividend payments (Fooladi & Farhadi, 2019). This aligns with the findings of previous research (Benu, 2020; Rahayu & Rusliati, 2019; Widodo et al., 2021) that identified a positive relationship between institutional ownership and dividend policies. Thus, the proposed hypothesis is:

H2 : Institutional ownership is suspected to have a positive influence on dividend payments in Islamic Commercial Banks in Indonesia

Method

This research attempts to see the relationship between the independent variables and the dependent variable based on secondary data obtained from the financial reports of each Sharia Commercial Bank operating in Indonesia. The research involves one dependent variable and two independent variables. The dependent variable uses the proxy of Propensity to Pay Dividends (PPD), a binary variable with a value of 1 for companies paying dividends and 0 for those not paying dividends. The independent variables used are government ownership (percentage of government share ownership of total shares) and institutional ownership (percentage of institutional share ownership of total shares). The study also incorporates 7 control variables, including Capital Adequacy Ratio (CAR), bank size (natural logarithm of total assets), ROA (after-tax profit divided by total assets), FDR (total financing divided by total third-party funds), BOPO (operational expenses divided by operational income), ROE (after-tax profit divided by equity), and growth (assets in year n minus assets in year n-1 divided by assets in year n-1).

The data sample consists of all Islamic Commercial Banks operating in Indonesia from 2012 to 2022, encompassing the entire population of 16 Islamic Commercial Banks in Indonesia. The data analysis employed is binary logistic regression. Binary logistic regression analyzes the probability of the dependent variable occurring predicted by independent variables (Ghozali, 2018). Furthermore, (Hosmer & Lemeshow, 2000) state that binary logistic regression is used to explain the relationship between a categorical dependent variable and independent variables. The logistic regression model addresses the shortcomings of the Linear Probability Model (LPM), where the assumption of the probability of an event occurring linearly increases with the level of regressors (Than & Econ, 2010)."

Result and Discussion

Descriptive statistical testing is conducted to examine the mean values, minimum values, maximum values, and standard deviation. The following are the results of the descriptive statistical testing.

Table 2. Descriptive Statistic

Variable	Mean	Min	Max	Std. dev.
PPD	0,2827586	0	1	0,4519011
GOV_OWN	0,12578	0	1	0,3302548
INST_OWN	0,0967613	0	1	0,2534502
CAR	0,3486896	0,1103	3,905	0,522118
SIZE	7,03451	5,972884	8,485334	0,5348594
ROA	1,000227	-20.13	12,37	3,78509
FDR	65,12677	0	5066	547,1229
BOPO	4,323556	0,5377	95,41	16,42314
ROE	5,479724	-94,01	57,98	16,2778
Growth	0,1855935	-0,288259	1,907096	0,2781609

Based on the descriptive statistical testing in Table 2, it is found that the average dividend policy is 0.2827586, with a minimum value of 0 and a maximum value of 1, as it involves a dummy variable, and a standard deviation of 0.4519011. The average government ownership variable is 0.12578, with a minimum value of 0, a maximum value of 1, and a standard deviation of 0.3302548. On the other hand, the institutional ownership variable has an average of 0.0967613, a minimum value of 0, a maximum value of 1, and a standard deviation of 0.2534502.

Structural Model

The results of the logit model regarding the factors influencing dividend policies in Islamic Commercial Banks in Indonesia are presented in Table 3. The Hausman test results indicate that the Random Effect Model is more appropriate than the Fixed Effect Model. Therefore, the discussion of the results will refer to the Random Effect Model to explain the relationship between independent variables and the dependent variable.

Table 3. Structural Model

Variables/Model	Random effects logit model			Fixed effect logit model		
Dependent variable	*PPD*			*PPD*		
Independent Variable	*Coefficient*	*z-statistic*	*P value*	*Coefficient*	*z-statistic*	*P value*
GOV_OWN	3,770202	4,40	0,000*	-10,05095	-0.21	0.835
INST_OWN	-1,032501	-1,07	0,268	-2,91567	-0.87	0.385
CAR	2,694264	3,25	0,001*	2,15065	2.06	0.039**
SIZE	2,22791	3,52	0,000*	6,28806	2.82	0.005*
ROA	0,184839	1,75	0,080***	0,11721	0.92	0.358
FDR	-0,002383	-0,19	0,850	-0,00221	-0.13	0.895
BOPO	-0,018095	-0,99	0,321	-0,19364	-0.41	0.685
ROE	-0,033703	-1,34	0,179	-0,01909	-0.68	0.495
GROWTH	0,630682	0,67	0,504	0,47427	0.37	0.709
Constant	-18,2337	-3,87	0,000	0,000	0,000	0,000
Wald Chi2		33,03			-	
Prob > chi2		0,0001			-	
LR chi2		-			25,59	
Prob > chi2		-			0,0024	

Observation	145	145
Banks	16	16

*significant at 1%, ** significant at 5%, *** significant at 10%

Based on the results of the testing in the above Table 3, it is observed that only one independent variable significantly influences dividend policies at the 1% level, namely government ownership. On the other hand, three control variables significantly affect dividend policies, namely CAR and SIZE at the 1% level. As for the ROA control variable, it significantly influences dividend policies at the 10% level. The Wald Chi2 value of 33.03 with Prob > chi2 of 0.0001 indicates that the independent variables in the model can explain the dividend policy variable. At a confidence level of 95%, the LR chi2 value of 25.59 with Prob > chi2 of 0.0024 explains that all variables collectively can influence dividend policies.

The influence of government ownership on dividend policies

The research results indicate that government ownership has a positive and statistically significant influence on the decision to pay dividends at the 1% level. This finding aligns with signaling theory, which asserts that the presence of the government in the company's ownership structure plays a crucial role in strengthening its position and signaling a positive corporate image through dividend payments (Bataineh, 2021). These results are also supported by previous research (Duygun et al., 2018; Hamza & Al-dulemy, 2019; Putri & Yulianto, 2020), which similarly found a positive relationship between government ownership and dividend policies. Government ownership as the major shareholder influences dividend payments because dividends serve as a significant source of income for the government budget (Duygun et al., 2018). The government tends to rely on high dividends, supported by empirical studies in developing countries such as China. Research by (Wei et al., 2004) suggests that the government, as a shareholder, can control shareholder meetings by maintaining control over vote counting. Therefore, dividend payment policies are dependent on the government. Moreover, companies will be controlled by the government to support the government in enhancing the welfare of the people, resulting in government-controlled companies being required to pay dividends (Putri & Yulianto, 2020).

The influence of institutional ownership on dividend policies

The results of this study indicate that institutional ownership does not have a statistically significant influence on dividend payments in Islamic Commercial Banks in Indonesia. This finding is consistent with (Aleknevičienė & Vilimaitė, 2023; Ardelia & Lukman, 2023; Asriyani & Prasojo, 2023; Jayanti & Puspitasari, 2017; Sari & Djajanti, 2021). Furthermore, (Aleknevičienė & Vilimaitė, 2023) states that institutional ownership does not affect the likelihood of dividend payments in public companies in the Baltic region. This is due to the main characteristics of the Baltic market, in line with the European governance model, namely the high concentration of ownership and the presence of controlling shareholders. Controlling shareholders can use their power to take over minority shareholders (Lacave & Urtiaga, 2014). Additionally, the study by (Ardelia & Lukman, 2023) suggests that institutional ownership is not represented on the boards of directors of companies, and therefore, they cannot significantly influence dividend policies.

Conclusion

This study found that (i) government ownership has a positive influence on the decision to pay dividends, and (ii) the presence of institutional ownership does not affect dividend policies.

The presence of this research contributes to the development of financial literature, particularly in Islamic finance. The results of this study can provide insights for investors considering investments in the Islamic banking sector. Additionally, the findings in this research can serve as input for management to consider the interests of shareholders in deciding dividend payment policies.

This research still has limitations, namely, it only focuses on government ownership and institutional ownership. Additionally, the proxy used in the research is only the Propensity to Pay Dividend (PPD). Therefore, future research is expected to consider other ownership aspects, integrate internal bank aspects, and use other proxies for dividend policies to provide a more comprehensive understanding.

References

Al-najjar, B., & Kilincarslan, E. (2019). *What do we know about the dividend puzzle ? – A literature survey*. https://doi.org/10.1108/IJMF-03-2018-0090

Aleknevičienė, V., & Vilimaitė, K. (2023). Effect of ownership structure on dividend payments : Evidence from public companies in Nordic and Baltic Countries Effect of ownership structure on dividend payments : Evidence from public companies in Nordic and Baltic Countries. *Cogent Economics & Finance*, *11*(2). https://doi.org/10.1080/23322039.2023.2238377

Ardelia, J., & Lukman, H. (2023). *FACTORS AFFECTING DIVIDEND POLICY ON LQ45 INDEX COMPANIES ON THE INDONESIA STOCK EXCHANGE*. *1*(2), 24–35.

Asriyani, W. D., & Prasojo, P. (2023). *Relationship between Ownership , Capital Structure , and Investment Opportunities with Dividend Policy : A Study in Manufacturing Companies*. *6*(1), 16–25.

Bataineh, H. (2021). The impact of ownership structure on dividend policy of listed firms in Jordan The impact of ownership structure on dividend policy of listed firms in Jordan. *Cogent Business & Management*, *08*(1). https://doi.org/10.1080/23311975.2020.1863175

Benu, Y. R. (2020). *The Effect Of Ownership Structure and Financial Factors On Dividend Policy*. 2641–2656.

Du Jardin, P., & Séverin, E. (2013). *Munich Personal RePEc Archive Dividend policy*. *44382*.

Duygun, M., Guney, Y., & Moin, A. (2018). Dividend policy of Indonesian listed fi rms : The role of families and the state. *Economic Modelling*, *June*, 1–19. https://doi.org/10.1016/j.econmod.2018.07.007

Fooladi, M., & Farhadi, M. (2019). The Effect of Institutional Investors on Dividend Payout Abstract : *Iranian Journal of Accounting, Auditing & Finance*, 93–99. https://doi.org/10.22067/ijaaf.2019.39254

Ghozali. (2018). *Aplikasi Analisis Multivariate Dengan Program IBM SPSS 25 (9th ed.)*. Badan Penerbit Universitas Diponegoro.

Hamza, H., & Al-dulemy, J. (2019). Role of state and foreign ownership and dividend policy: Supply chain strategies in emerging market perspective. *International Journal of Supply Chain Management*, *8*(2), 744–749.

Hosmer, D. W., & Lemeshow, S. (2000). *Applied Logistic Regression (2nd ed.)*. JOHN WILEY & SONS, INC.

Jayanti, I. S. D., & Puspitasari, A. F. (2017). STRUKTUR KEPEMILIKAN DAN KEBIJAKAN DIVIDEN PADA PERUSAHAAN MANUFAKTUR DI INDONESIA. *The Indonesian Journal of Applied Business*, *1*(1), 1. https://doi.org/10.20473/tijab.v1.i1.2017.1-13

John, K., & Williams, J. (1983). Dividends, Dilution, and Taxes: a Signalling Equilibrium. *Financial Review*, *18*(3), 51–51. https://doi.org/10.1111/j.1540-6288.1983.tb01890.x

Kullab, Y., Messabia, N., Altaweel, I., & Shehada, M. (2022). Determinants of dividend policy in Palestinian banks. *Accounting*, *8*(3), 375–384. https://doi.org/10.5267/j.ac.2021.9.002

Lacave, M. S., & Urtiaga, M. G. (2014). Dividend policy with controlling shareholders. *Theoretical Inquiries in Law*, *16*(1), 107–130. https://doi.org/10.1515/til-2015-006

Miller, M. H., & Rock, K. (1985). Dividend Policy under Asymmetric Information. *The Journal of Finance*, *40*(4), 1031–1051.

Putri, P. B., & Yulianto, A. (2020). Government Ownership and Dividend Payment Policy. *Management Analysis Journal*, *9*(2), 179–186. https://doi.org/10.15294/maj.v9i2.37344

Rahayu, D., & Rusliati, E. (2019). Kepemilikan Institusional, Kepemilikan Manajerial, Dan Ukuran Perusahaan Terhadap Kebijakan Dividen. *Jurnal Riset Akuntansi Kontemporer*, *11*(1), 41–47. https://doi.org/10.23969/jrak.v11i1.1870

Sari, B. R., & Djajanti, A. (2021). The Factors Affecting Dividend Policy of Manufacturing Companies in Indonesia Stock Exchange. *Jurnal Aplikasi Bisnis Dan Manajemen*, *7*(3), 592–601. https://doi.org/10.17358/jabm.7.3.592

Than, T., & Econ, M. (2010). *LINEAR PROBABILITY, LOGIT AND PROBIT MODELS IN QUALITATIVE DATA ANALYSIS* (Issue 1).

Vieira, E. S., & Raposo, C. C. (2011). Signalling with Dividends? The Signalling Effects of Dividend Change Announcements: New Evidence from Europe. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.955768

Wei, J. G., Zhang, W., & Xiao, J. Z. Z. (2004). Dividend Payment and Ownership Structure in China. *Advances in Financial Economics*, *9*, 187–219. https://doi.org/10.1016/S1569-3732(04)09008-5

Widodo, F. P. T., Praptapa, A., Suparlinah, I., & Setyorini, C. T. (2021). The effect of company size, institutional ownership, profitability and leverage on dividends payout ratio. *Journal of Contemporary Accounting*, *3*(2), 77–87. https://doi.org/10.20885/jca.vol3.iss2.art3