

# The Urgency of Education Regarding Testing the Mediation of Dividend Policy on The Effect of Expropriation, Big Double Shareholders, and Company Value

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## ABSTRACT

This study aims to explain the importance of education to examine and analyze dividend policy as a variable on the effect of expropriation, several large shareholders, and firm value. The type of research used is quantitative explanatory using secondary data, namely 2015 to 2020 annual reports taken from the official website of the Indonesia Stock Exchange (IDX), Indonesian Capital Market Exchange (ICMD), and the website [www.investing.com](http://www.investing.com). The sampling method in this study was purposive sampling so that a sample of 3,328 data was obtained. The data analysis method used in this study uses the unbalanced data panel and path analysis method with the Eviews software program. The study's results prove that dividend policy does not mediate between expropriation and firm value but instead becomes a variable that mediates several large shareholders with firm value. This means related party transactions as proxies cannot be used as a benchmark in assessing a company.

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## 1. INTRODUCTION

Economic development learning materials in universities are increasingly developing along with the development of the industrial market. Including the development of the 2016 KKNI curriculum into the MBKM curriculum. Thus, management policy materials are also continuously strengthened to support the development of management science. One of them is the dividend policy.

The company's goal, according to the view of financial management, is basically to optimize the value of the company. The higher the firm value, the more prosperous its shareholders are. The firm value will be from the stock price (Fama, 1980). So the higher the stock price, the greater the prosperity the company owner will receive. The stock price reflects the business unit's ability to efficiently generate profits using company resources (Wright and Ferris, 1997; Satriawan and Agustina, 2016). The firm value can be based on the company's stock price (Wijaya and Sedana, 2015). High share prices make investor

interest even more significant because all companies have a height of shareholders. Thus, the higher the company's profits, the higher.

Conflicts of interest between managers and shareholders can be minimized with a supervisory mechanism by shareholders. One of the most conspicuous inhibiting factors in the function that often occurs in companies in Indonesia is the strong influence of shareholders, who are often dualistic with company management.

Agency problems cause tunneling activity (Claessens et al., 2000). One tunneling activity is carried out by providing credit to related parties at the request of the controlling shareholder for personal interests (Atasanov et al., 2008). This results in cash flows that allow the company to relate, which can be detrimental if the loan is given without being reactivated.

The two views related to RPT cause different effects on firm value. The firm value is seen in the market price of the company's stock, which reflects the company's financial condition. This financial information is essential for investors in their investment decisions. Several studies state that investor confidence in financial information reported by the company will decrease because the control holders can manipulate the report to perform or hide activities through RPT.

RPT activity also affects dividend policy (Su et al., 2014), where the RPT carried out by the controlling shareholder will reduce the company's opportunity to distribute dividends (Sari, 2017). Shareholders control personal profits from the RPT, such as divestment of subsidiaries, sale or purchase of fixed assets, and share ownership of shareholdings. Expropriation actions carried out by management through RPT activities have a negative effect on dividend policy (Cheung et al., 2006; 2009).

Jensen (1986) states that paying dividends using the company's free cash flow can minimize actions expropriation by managers. Managers tend to invest excessive free cash flow (overinvestment). This action will be detrimental to the shareholders and is considered a form of expropriation against the shareholders. For this reason, according to the free cash flow theory (Jensen, 1986), companies must distribute FCF to minimize expropriation actions that managers will carry out.

Previous studies on MLS have focused on firm performance or firm value and have yielded mixed results (Lehmann & Weigand, 2000; Gutierrez et al., 2003; Gutierrez et al., 2004; Maury & Pajuste, 2005; Laeven & Levine, 2008; Attiq, Ghoul and Guedhami, 2009; Isakov & Weisskopf, 2010). The existence of other large, substantial shareholders can increase company profits and value because they act as supervisors of dominant shareholder activities. It can limit the ability of dominant shareholders to explore company resources for personal wealth purposes (Lehman & Weigand, 2000; Laeven & Levine, 2008; Attiq, Ghoul and Guedhami, 2009; Maury & Pajuste, 2005).

The results of other studies show that other large shareholders are in coalition with the largest shareholders, thereby exacerbating the expropriation of minority shareholders, which results in a decrease in firm value (Gomes & Novaes, 2001; Zwiebel, 1995). The role of this other significant shareholder sheds light on the mechanism of corporate governance by mitigating type 2 agency conflicts between the most significant and minority shareholders but, on the other hand, adds complexity to agency conflicts. Given the different perspectives on the role of other shareholders, whether it has a positive impact on mitigating agency problems or has a negative impact on minority shareholders, further investigation is needed.

Some findings are different from the results of several previous studies about several variables of expropriation, MLS, and dividend policy, on firm value, illustrating that there is no clear concept of the relationship between these variables. Therefore, it is necessary to educate the public about a concept to investigate the relationship between the influence of each variable on firm value. This study places dividend policy as a mediating variable. Dividend policy is estimated to strengthen the relationship or influence between expropriation and MLS variables with firm value.

## 2. METHODS

This type of research is explanatory research that explains the influence between variables using secondary data. The sampling method in this research is purposive sampling, then has 3328 research unit. The purposive sampling method is a method that uses specific criteria in taking the sample to be studied. The criteria used in this research are; 1. Companies listed on the Indonesia Stock Exchange between 2015 and 2020; 2. The company is in a non-financial industry because financial companies have regulations that differ from non-financial companies; 3. The company publishes financial reports consistently from 2015-2020

## 3. FINDINGS AND DISCUSSION

### The Urgency of Education About Testing the Mediation of Dividend Policy on Firm Value

The development of learning curriculum in the field of management economics at universities is becoming increasingly rapid in line with the market needs of industry. Including dividend policy. This material can be included in student material content in the third and fourth semesters with a weight of 4 credits, because it can strengthen microeconomic studies. As an illustration, it is as follows;

Dividend policy is still a matter of debate because there are several opinions regarding dividends. First, the opinion that dividends are divided as much as possible (dividend relevant); Second, dividend policy is irrelevant; and the three companies distribute the minor possible dividend (Sriyono, 2019: 2).

Dividend policy is reflected in the dividend payout ratio, namely the percentage of profits distributed in the form of cash dividends, meaning that the size of the dividend payout ratio will affect the investment decisions of shareholders and, on the other hand, affect the company's financial condition. Companies that distribute profits as dividends will reduce the total internal funding sources. Meanwhile, companies that withhold the profits earned will result in the ability to form internal funds to increase (Sartono, 2010: 281).

Dividend policy has a significant influence on both investors and companies. Therefore, a profitable company is a company that can pay dividends. The size of the dividend paid by the company depends on the company's dividend policy, so the management's considerations are critical for investors to invest in a company.

The dividend decision is critical because dividends are an allocation of cash flows set aside for shareholders, while retained earnings are one of the most important sources of funds to finance company growth (Horne and Wachowicz, 2008). If the dividend paid is high, the stock price tends to be high, so the firm value is also high. Conversely, if the dividend paid is small, the company's stock price is also low. The ability to pay dividends is closely related to the company's ability to earn profits. Therefore, it is necessary to research the urgency of dividend policy in assessing firm value.

### Panel Data Regression Analysis

Before performing path analysis, the first step is to perform panel data regression analysis. This study uses two research models as follows:

Model 1:

$$Z_{it} = 0 + 1X_{1it} + 2X_{2it} + e_{it}$$

Model 2:

$$Y_{it} = 0 + 1X_{1it} + 2X_{2it} + 3Z_{it} + \beta_4ROA_{it} + 5DER_{it} + 6SIZE_{it} + e_{it} \dots \dots \dots 2$$

Information:

$Y_{it}$  = Firm Value

$X_{1it}$  = Expropriation

$X_{2it}$  = Multiple Large Shareholders

$Z_{it}$  = Kebipay dividends

ROA = Return On Assets

DER = Debt To Equity ratio

SIZE = Firm Size

0 = constant

1, 2,  $\beta_3, \beta_4, 5, 6$  = regression coefficient of each variable

eit = error term

i = cross-section

t = time series

The estimation method using panel data can be done through three approaches: common effect, fixed effect, and random effect.

The selection of the estimation model from the three models is determined through the chow test and the Hausman test. After carrying out these tests, the best estimation model will be obtained, whether using the standard effect model (CEM), fixed effect model (FEM), or random effect model (REM).

### **Chow Test**

Chow Test is used to determine the best model between the common and fixed-effect models. The output results in equations I and II show the probability of cross-section  $F < (0.0000 < 0.05)$ . This shows that the fixed effect model is better than the typical model.

### **Hausman test**

Hausman Test compares the fixed effect model with the random effect model. The model output equations I and II results show that the probability of a random cross-section  $< 0.05$ . It can be concluded that the decision to choose the model for equations I and II, namely the fixed effect model, is better than the random effect model. From the analysis of the selection of the correct model above, the model used in this study is the fixed effect model.

### **The goodness of Fit Test**

#### **Coefficient of Determination (R<sup>2</sup>)**

The correlation coefficient (R) value indicates the significance of the correlation or relationship between the independent and dependent variables. The correlation coefficient is vital if the R-value is above 0.5 and close to 1. The Adjusted R-Square value is 0.369696. This means that 36.9% of the variation or change in dividend policy can be explained by variations in expropriation and MLS, while the remaining (63.1%) is explained by other causes (Ghozali, 2011).

#### **Coefficient of Determination (R<sup>2</sup>) Model II**

The adjusted R-Square value is 0.856789. This means that 85.6% of the variation or change in firm value can be explained by variations in dividend policy, while the remaining (14.4%) is explained by other reasons (Ghozali, 2011).

### **For Simultaneous Test**

It can be seen that the prob value (F-Statistic) is  $0.000000 < 0.05$ , then  $H_0$  is rejected, which means that the independent variables together have a significant effect on the dependent variable.

### **Hypothesis testing**

#### **Panel Data Regression Analysis Results**

The following is the equation of model 1:

$$ZDPR = -0.934327 + 0.013455RPT - 0.229445MLS + e_1$$

The above equation can be explained as follows:

1. The constant or intercept is -0.934327, meaning that if the RPT and MLS values are constant or fixed, then the DPR value is -0.934327.
2. The RPT regression coefficient is 0.013455, which means that if the RPT increases by 1 unit, it will also be followed by an increase in the DPR by 0.013455 with the assumption that other independent variables are fixed or constant.
3. The MLS regression coefficient is -0.229445, meaning that if the MLS increases by 1 unit, it will also be followed by a decrease in the DPR by -0.229445, assuming other variables are fixed or constant.

**The following is the equation of the model 2:**

$$Y_{\text{tobins Q}} = 12.38047 + 0.006703\text{RPT} - 0.003741\text{MLS} + 0.046075\text{DPR} + 0.012897 \text{ DER} + 0.134708\text{ROA} - 6.100035 \text{ SIZE} + e_2$$

The equation in a bag can be described as follows:

1. A constant or intercept of 12.38047 means that if the value of DPR, MLS, and DPR is constant or fixed, then the value of Tobin's Q is 12.38047.
2. The RPT regression coefficient is 0.006703, meaning that if the RPT increases by one suggestion, it will also be followed by an increase in Tobin's Q of 0.006703, assuming other independent variables are constant.
3. The MLS regression coefficient is -0.003741, meaning that if the MLS increases by 1 unit, it will be followed by a decrease in Tobin's Q by -0.003741, assuming other variables are constant or fixed.
4. The DPR regression coefficient is 0.046075, meaning that if the DPR increases by 1 unit, it will also be followed by an increase in Tobin's Q of 0.046075, assuming other variables are constant or constant.

The regression analysis models I and II results become the basis for interpreting the causal relationship in the path analysis model. Path analysis is an extension of multiple linear regression. The results of the path analysis of the effect of expropriation and MLS on firm value with dividend policy as a mediating variable.

**Statistical Test Results (t)**

The statistical t-test shows that the RPT variable has a regression coefficient of 0.006703 with a probability value of 0.5298 > 0.05; this means that the RPT variable has no positive and significant effect on the Tobin's Q variable, so H1a is rejected. The MLS variable has a regression coefficient of -0.003741 with a probability value of 0.880 > 0.05, this means that MLS has no negative and significant effect on the Tobin's Q variable, so H2a is rejected. The DPR variable has a coefficient of 0.046075 with a probability value of 0.0002 < 0.05, this means that the DPR has a positive and significant effect on Tobin's Q so that H3 is accepted.

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**Sobel Test**

The results of testing the indirect effect are as follows:

- a. The indirect effect between RPT on TOBIN'S Q through the DPR intermediary is not significant, where the indirect effect test between RPT on TOBIN'S Q through the DPR intermediary obtained a significant Sobel test value of 0.730 (> 0.05) so that the DPR is unable to mediate the effect between RPT to TOBIN'S Q. So the hypothesis H1c is rejected
- b. The indirect effect between MLS on TOBIN'S Q through the DPR intermediary is significant where the test of the indirect influence between MLS on TOBIN'S Q through the DPR intermediary, the Sobel test is significant, as large as 0.034 (< 0.05) so that the DPR can mediate the influence between MLS and TOBIN'S. Q. So that the hypothesis H2c is accepted

**Discussion****The Effect of Expropriation on Firm Value**

The first hypothesis of this research is the effect of expropriation on firm value. The RPT variable has a regression coefficient of 0.006703 with a probability value of 0.5298 > 0.05, this means that the RPT variable has no positive and significant effect on Tobin's Q variable, so H1a is rejected. This means related party transactions cannot be used as a benchmark in assessing a company.

This study finds that the market generally views RPT as not significantly different from non-RPT in terms of its impact on firm value. These findings imply that in developing countries such as Indonesia, RPT may have to be carried out given the expensive external market and inefficient judicial process (Utama et al., 2010; Wardani, 2019), and this may offset the potential for abuse of RPT for deprivation of wealth. Furthermore, these findings suggest that oversight by regulators and the public can also play a role in reducing the occurrence of RPT abuse. This result is in line with Cheng and Leung (2014), which state that RPT has no significant effect on companies listed in China. They use sales RPT and purchase RPT in defining the RPT variable. This may be based on the Arm's Length Principle, which states that the price charged to any related company should be the same as the price charged to an unrelated company for each similar item in comparable circumstances (Choe & Matsushima, 2013).

This finding is consistent with Mobong (2017) research that did not find a significant relationship between RPT and company ROA and EPS. Okoro and Jeroh (2016) and Anastasia and Onuora (2019) also draw similar conclusions after examining companies registered in Nigeria but over different periods. In China, Ying and Wang (2013) found that propping and tunneling did not have a significant relationship with a firm's ROA during 2002-2008. Leung (2014) also found similar results when analyzing the impact of RPT on the performance of companies listed in the China Stock Market and Accounting Research Database (CSMAR) from 2007-2011. Moreover, Utama et al. (2010) and Angelica et al. (2021) show no significant difference in firm value in companies that run RPT or those that do not. This is because the losses and gains from doing RPT offset each other. On the one hand, RPT can be detrimental because it creates agency problems, namely when RPT is used to expropriate minority shareholders. However, on the other hand, RPT can also benefit by reducing transaction costs such as negotiation costs or interest rates.

### **Effect of Expropriation on dividend policy**

The second hypothesis of this research is the effect of expropriation on dividend policy. The RPT variable has a regression coefficient of 0.013455 with a probability value of  $0.7311 > 0.05$ , this means that the RPT variable has no positive and significant effect on the DPR variable, so H1b is rejected. This means related party transactions cannot be used as a benchmark in dividend payment decisions.

The results of this study are the same as the research conducted by Koestaman and Diyanty (2013), which also found that expropriation does not affect dividend policy. The effect of related party transactions with dividend policy is not due to other related party transactions and dividend policy factors. Another factor influencing the relationship between related party transactions and dividend policy is the number of control shareholders has in the ownership structure. One party with high control in a company gives the controlling shareholder a more significant opportunity to take actions that can benefit themselves, especially with the weakness of corporate governance and control mechanisms. Koestaman and Diyanty (2013), in their research, say that the level of controlling shareholder control affects the outcome of the company's expropriation relationship and dividend policy. Before adding the controlling level factor, related party transactions did not affect the company's dividend policy.

Indonesia is one of the countries with the potential for expropriation through related party transactions (RPT). Claessens et al. (1999) found that more than 50% of companies in Indonesia are family companies. The majority of family ownership shows that Indonesia is a country whose ownership structure is generally concentrated. In addition, Claessens (2000) states that in Indonesia, voting rights (control rights) exceed cash flow rights can have implications for controlling shareholders to have the ability and incentives to expropriate minority shareholders. The weak law on the protection of investors is reinforced by the possibility of using related party transactions to gain profits for management or controlling shareholders in Indonesia (Diyanty, 2013).

### **The effect of expropriation on firm value is mediated by dividend policy**

The third hypothesis of this study is the effect of expropriation on firm value mediated by dividend policy. Testing the indirect effect of RPT on TOBIN'S Q through the DPR intermediary obtained a significant Sobel test value of 0.730 ( $> 0.05$ ) so that DPR could not mediate the effect of RPT on TOBIN'S Q. So, the hypothesis H1c was rejected.

According to Huang & Liu (2010), one of the benefits of conducting related party transactions for companies is that companies will get profit opportunities by adjusting transactions that are not following the arm's length principle. According to PER-32/PJ/2011, the arm's length principle is a principle that stipulates that if the conditions in a transaction between related parties are the same or comparable to the conditions in a transaction between a third party, that is the comparison, the price or profit in the transaction transactions made with related parties must be equal to or within the range of prices or profits in transactions between third parties. With this regulation, the company cannot arbitrarily determine the price set in the related party transaction. This happened in this study so that investors did not react to the sales and purchases of related party transactions.

The insignificant effect of PRPT on firm value can also be caused by the fact that the majority of the company investors studied are group companies, so group investors do not see related party transactions as investment decisions because the treatment of related party transactions has been regulated in the company group. The results of this study contradict the results of research conducted by Huang & Liu (2010) and Wong et al. (2015), which states that the purchase of related party transactions has a significant effect on firm value.

### **Effect of Multiple Large Shareholders on company value**

The fourth hypothesis of this research is the influence of Multiple Large Shareholders on firm value. The MLS variable has a regression coefficient of -0.003741 with a probability value of 0.880  $> 0.05$ , this means that MLS has no negative and significant effect on the Tobin's Q variable, so H2a is rejected.

Empirical evidence of the influence of several large shareholders on firm performance is still limited. Lehman and Weigand (2000) report that the presence of a substantial second-largest shareholder increases the profitability of listed companies in Germany. Faccio et al. (2001) examined the effect of several large shareholders on dividends. They find that the presence of a few large shareholders reduces takeovers in Europe (due to monitoring) but exacerbates them in Asia (due to collusion). For Italy, Volpin (2002) provides evidence that valuations are higher when control is to some extent contestable, as in the case where voting syndicates control the firm. Most of these empirical studies focus on the modest presence of multiple controllers, not on the characteristics of individual controllers or the competitiveness of power.

### **Effect of Multiple Large Shareholders on dividend policy**

The fifth hypothesis of this research is the Effect of Multiple Large Shareholders on the policy of dividends. The MLS variable has a regression coefficient of -0.229445 with a probability value of 0.0099  $< 0.05$ , this means that MLS has a negative and significant effect on the DPR variable, so H2b is accepted.

This finding indicates that the relevant agency problem is not a problem between company managers and shareholders but somewhat between controlling shareholders and minority shareholders. Controlling shareholders often have managerial ties, which allows collusion between managers and controlling shareholders. This indicates that shareholders are the largest and may collude in generating personal gain by paying lower dividends. This result is in line with a companion paper (Maury and Pajuste, 2002) which found evidence of collusion between the most significant and second-largest shareholders; companies in which the second-largest shareholder is critical to gaining majority control tend to be undervalued (have a lower Tobin's Q). The results also support the findings of Faccio et al. (2001) on East Asian companies.

This result agrees with Adelopo (2019) and Becht (2001) in Maury (2005). They explain that large shareholders (MLS) will act in coalitions and participate in ownership competition with other large

shareholders, so MLS tends to side with management and ignore the interests of minority shareholders. This result also agrees with Selly A (2015), which explains that several shareholders with significant ownership may reduce the firm value because shareholders will seize personal benefits using coalitions, thus harming minority shareholders.

This study is inconsistent with some results on Swedish firms by Angeldorff and Novikov (1999), who claim that privately controlled firms behave differently by paying lower dividends. A critical difference between Finland and Sweden is the preferential tax treatment of dividends for domestic private investors and companies, which is not the case in Sweden. The results of Angeldorff and Novikov (1999) show that, because of the imputation tax credit in Finland, private owners, in general, prefer dividends over capital gains. However, when the private owner is also the CEO of the company, the benefits of personal control may outweigh the benefits of paying dividends.

### **The Multiple Large Shareholders' influence on the firm value is mediated by dividend policy.**

The sixth hypothesis of this research is the influence of Multiple Large Shareholders on firm value mediated by dividend policy. Testing the indirect influence between MLS on TOBIN'S Q through the DPR intermediary found a significant Sobel test value of 0.034 ( $< 0.05$ ) so that DPR could mediate the influence between MLS on TOBIN'S Q. So, the hypothesis H2c was accepted.

The dividend policy has successfully bridged the gap between MLS and firm value. Sofyaningsih and Pancawati (2008:76) argue that if the company increases dividend payments, it may be interpreted by investors as a signal that its performance will improve in the future. So dividend policy influences firm value. According to Wiagustini (2013: 286), dividend policy affects the flow of funds, financial structure, company liquidity, and investor behavior. Dividend policy is one of the important decisions about efforts to maximize company value made by the majority shareholder. Dividend policy is important for investors because investors consider dividends not only a source of income but also a way to assess a company from an investment point of view. (Wiagustini, 2014:286).

Dividend policy is closely related to firm value because it relates to the company's ability to earn profits. If the company has high profits, then the ability to pay dividends is also significant so that the value of the company will also increase. That is why dividend policy can mediate the effect of MLS on firm value.

### **The Effect of dividend policy on firm value**

The seventh hypothesis of this research is the effect of dividend policy on firm value. The DPR variable has a coefficient of 0.046075 with a probability value of  $0.0002 < 0.05$ , this means that the DPR has a positive and significant effect on Tobin's Q so that H3 is accepted.

This is by research from Astianah and Tony (2017), Artini and Ni Luh (2011), Noerirawan and Abdul Muid (2012), Sari (2013), and Fatimah (2015), and Jusriani and Shiddiq (2013). This study is conducted by Astianah and Aji (2017) on the consumer goods industry for the period 2011-2015, concluding that dividend policy affects firm value where which can be good information for shareholders. Moreover, shareholders prefer dividend payments to the company's retained earnings; besides, they have more certainty than capital gains. Supported by research Sari (2013) says that dividend policy has a positive and significant effect on company value; the greater the dividend distributed to shareholders, the better the issuer or company performance will be considered better, and ultimately the value of the company will increase.

The results of this study are also by the signaling theory, which states that good quality companies will intentionally give signals to the market so that the market is expected to distinguish between good and bad quality companies. Dividends provide information or signals about company profits because dividend payments will increase confidence in company profits. If the company has a goal of a stable dividend payout ratio over time and the company can increase that ratio, investors will believe that management is announcing a positive change in the company's expected profits. The signal to investors is that management and the board of directors are fully convinced that financial conditions are better



than reflected in the stock price. This increase in dividends will be able to have a positive influence on stock prices which will also have a positive effect on firm value.

#### 4. CONCLUSION

The process of theoretical and empirical studies in this research concludes that:

1. Expropriation does not affect firm value.
2. Expropriation does not affect dividend policy.
3. Expropriation does not affect firm value mediated by dividend policy.
4. Multiple Large Shareholders do not affect the firm value.
5. Multiple Large Shareholders affect dividend policy.
6. Multiple Large Shareholders affect company value mediated by dividend policy.
7. Dividend policy affects firm value.

The dividend decision is critical because dividends are an allocation of cash flows set aside for shareholders (Horne and Wachowicz, 2008). If the dividend paid is high, the stock price tends to be high, so the firm value is also high. Conversely, if the dividend paid is small, the company's stock price is also low. The ability to pay dividends is closely related to the company's ability to earn profits. Therefore, it is necessary to research the urgency of dividend policy in assessing firm value.

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