ANALYZE OF COMPANY SIZE, INSTITUTIONAL OWNERSHIP AND REPUTATION ON DIVIDEND PAYMENT DECISIONS IN PRIVATIZED COMPANIES

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ABSTRACT

Researchers realize that it is very important to reflect on and develop research on dividend payments because it is very important to do especially in Indonesia. Researchers reviewed 15 journals related to economics, accounting, management, and finance indexed in Scopus. So that there are 10 articles that discuss dividend payments. Researchers aim to examine the relationship between firm size, institutional ownership and reputation and dividend payments. Then the researchers chose a privatized company because there were significant changes in dividend payments before and after privatization.

Keywords: Company Size, Institutional Ownership, Reputation, Dividend policy, Privatized

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1. Introduction

Privatization is a process of divestment by the government of state-owned companies.Privatized companies used to be owned exclusively by the state but since the divestment part of the company rights have become public property (Abhinav Goyal, Shrikant P. Jategaonkar, Cal B. Muckley, 2020). The main principle regarding company ownership is that all political parties that control state enterprises can use company resources in an effort to achieve political, social, or personal goals (ex, Megginson dan Netter, 2001; Shleifer dan Vishny, 1994).

Privatization of state enterprises has become a major phenomenon in both developed and developing countries. This has led to significant changes in the ownership structure of companies worldwide (Boubakri et al., 2005). Based on these, D'Souza, Nash, dan Megginson (2005) argues that the fundamental change resulting from privatization is a change in ownership. In the privatization literature, dividends have been shown to increase after privatization (Megginson dan Netter, 2001) and after stay high (Gugler, 2003; Von Eije dan Megginson, 2008), but no explanation is given as to why this happened. On the other hand, there is a body of research that

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shows that people are inside the company (La Porta et al., 2000; Chay dan Suh, 2009), and, in particular, the controlling shareholder (Faccio et al., 2001; Angelo et al. Al., 2009; Isakov dan Weisskopf, 2015; Attig et al., 2016), can have an important impact on the formulation of dividend policy, there is little evidence of the effect of state ownership on corporate cash dividends.

The government has attempted various things to support the country's development for the better, by paying attention to the sustainability of companies through economic policies. Investors are not always sure about the sustainability of economic policies under future governments (Durnev, 2013; Baloria dan Mamo, 2017) but companies use dividend payments to convince investors and shareholders that the company can handle uncertain situations that may arise as a result of cause and effect. From the events that occurred (Farooq, Omar and Neveen Ahmed, 2019), with dividend payments, the company will reflect the company's ongoing commitment to investors (La Porta et al, 2000 dalam Abhinav Goyal, Shrikant P. Jategaonkar, Cal B.Muckley , 2020).

Gugler (2003) and Henk & Megginson (2008), state that privatized companies will continue to pay higher dividends than public companies for years after privatizing. So that the dividends distributed by the company will provide support for the company's reputation (Abhinav Goyal, Shrikant P. Jategaonkar, Cal B. Muckley, 2020). In general, state companies have an inefficient image and are thick with elements of bureaucracy and politics. With the company privatization, it is hoped that it can change its image to become an efficient and profit-oriented company. In addition, this image change also changes the company's reputation. The company's reputation will be seen through the efforts made to investors.

Grossman and Hart (1980) in Farooq and Neveen (2019), document that high dividend payments will reduce ownership conflicts through reducing free cash flow available to managers. They argue that paying high dividends reflects management's goodwill and signals low ownership problems. In another related study, Jensen (1986) concluded that a high payout ratio would reduce costs by reducing the free cash flow that could be charged on unfavorable projects (Farooq, Omar and Neveen Ahmed, 2019).

2. Literature Review

Researchers begin the process of identifying research related to dividend policy by selecting journals indexed in Elsevier. Elsevier is one of the world's largest portal for providing scientific, technical and medical information and a technology company. Its products include the journals The Lancet and Cell, the electronic journal collection ScienceDirect, the Trends and Current Opinion journal series, and the Scopus online citation database. Referring to all the research results contained in Elsevier, the researcher made a literature review which aims to find out the shortcomings and weaknesses of the research carried out related to dividend payments in privatized companies. In addition, researchers are interested in identifying how research on dividend payouts in Elsevier can provide insight and research results related to this phenomenon.

Researchers limit this review to only review journals related to the fields of economics, accounting, management, and finance which are included in Q1 to Q4. The journal ranking is carried out by the Scimago Journal Rank based on a numerical value that indicates the average number of weighted citations received during a given year per document published in the journal during the previous three years. Table 1 shows the journals included in the criteria for this literature review. After obtaining journals related to economics, accounting, management, and finance, the researcher then conducted a search by writing the keywords "dividend", "privatization", "institutional ownership", "reputation", "size firm", "pay dividend ”in each of these journals which have been automatically searched in the journal database available online. So that several studies were found as shown in Table 2.

Table 1. List of review journals

No	Rank	Journal Name	Available Online
1	Q1	*Journal Of Corporate Finance* Netherlands	ISSN : 09291199
2	Q1	*Research in International Business and Finance* Netherlands	ISSN : 02755319
3	Q1	*International Business Review* United Kingdom	ISSN : 09695931
4	Q1	*Journal of Finance* United Kingdom	ISSN : 00221082, 15406261
5	Q1	*Journal of Accounting Reseaech* United Kingdom	ISSN : 1475679X, 00218456
6	Q1	*Journal of Financial Economics* Netherlands	ISSN : 0304405X
7	Q1	*European Research on Management and Business Economics* Spain	ISSN : 24448834
8	Q1	*Journal of Business Research* Spain	ISSN :01482963
9	Q1	*Pasic-Basin Journal* Amerika Serikat	ISSN: 0927-538X

Tabel 2. Previous research related to dividend payment

No	Author	Tittle	Variabel	Result
1	Abhinav Goyal, Shrikant P. Jategaonkar, Cal B. Muckley (2020)	*Why do privatized firms pay higher dividends?*	Privatization, State Ownership, Payout Policy, Dividends, Minority Shareholders, State Income, State Reputation	● State ownership has a positive effect on cash dividends. ● The state's political ideology does not depend on privatized corporate dividends, a left-wing political orientation may imply an aversion to the concession of privatized corporate control to the market. So that it hinders the country to generate income by transactions in the capital market.
2	Guadalupe D.C. Briano-Turren,Mingsheng Li, Hongfeng Peng (2020)	*The impact of family-CEOs and their demographic characteristics on dividend payouts: Evidence from Latin America*	Dividend policy, Family firms, agency issue, direct family ownership	● CEO-family firms pay less dividend amounts and invest more in capital expenditures than companies that are not CEO-family firms

3	Quoc Trung Tran (2019)	*Creditors and dividend policy : Reputation building versus debt covenant*	Creditors, Dividend Policy, Reputation building and debt covenant	● The relationship between rule of law (creditor information) and dividend policy in countries with high availability of credit information (strong rule of law) should be higher. ● The effect of the availability of credit information on the choice to pay dividends and dividend rates is stronger in countries with strong rule of law.
4	Zi Tingting Jia, Matthew J. McMahon (2019)	*Dividend payments and excess cash: An experimental analysis*	Dividend, Cash on hand	● There is a positive correlation observed between companies' dividend sizes and the amount of cash they own. ● There is establishing a new channel of prudent cash holdings associated with dividend smoothing, predicting that an increase in dividends will cause firms to hold more cash.
5	Manhwa Wu, Yensen Ni, Paoyu Huang (2019)	*Dividend payouts and family controlled firms*	Dividend payout, financial performance, Family-controlled firms	● Family-controlled firms pay less cash dividends than non-family-controlled companies in Taiwan, which differs from moderating the proxy problem by increasing dividend payments due to reduced free cash flow.
6	Sandra Mortal, Vikram Nanda, Natalia Reisel (2019)	*Why do private firms hold less cash than public firms? International evidence on cash holdings and borrowing costs*	Cash Holdings, Creditor Rights, European Firms, Borrowing Costs, Precautionary Motive, Private Firms	● Private companies tend to use cash flow to pay off existing debt rather than accumulate cash. ● In countries with less developed debt markets and higher borrowing costs, private companies retain far less cash than those from countries with more developed lending markets.
7	Bo Li, William L. Megginson, Zhe Shen dan Qian Sun (2019)	*Privatization effect versus listing effect : Evidence from China*	Privatization, Listing Effect	● The effect of privatization is flooded with negative listings that lead to changes in profitability of share issue privatizations (SIP) or it is said to be insignificant as a whole. So that the sample used shows that there is a positive effect and there is a negative listing effect on profitability after privatization.
8	Meryem Duygun,	*Dividend policy of Indonesian listed*	Variabel dependen : payer, dividend per share (DPS),	● The effect of state ownership on dividends is positive and

	Yilmaz Guney dan Abdul Moin (2018)	*firms : The role of families and the state*	total dividend over total assets (DIVTA) dan dividend payout ratio (DPR) Variabel penjelas : tipe dan identitas kepemilikan saham dan konflik keagenan.	significant, indicating that the presence of the state as an influential shareholder may help reduce concerns regarding takeover risks in Indonesia. ● Family ownership and dividend payments are negatively correlated. ● Agency conflicts between managers and shareholders negatively affect dividend payout rates, implying that companies are likely to retain their earnings rather than return to their shareholders.
9	Victor Barros, Pedro Verga Matos dan Joaquim Miranda Sarmento (2019)	*What firms characteristics drive the dividend policy? A mixed-method study on the Euronext stock exchange*	*Dividend policy, Dividend payout, Euronext, Qualitative Analyses, fsQCA*	● Company ownership drives dividend policy (Pérez-González, 2002). ● Stocks circulating on a free float affect dividend policy ● Large companies tend to pay dividends more frequently but their value is uncertain
10	Omar Farooq dan Neveen Ahmed (2019)	*Dividend policy and political uncertainty : Evidence from the US presidential elections*	Political Uncertainty, Dividend Policy, Control Variables (Size, Leverage, EPS, Growth, Analyst, Ownership, Capex)	● Companies respond to political uncertainty by increasing their dividend payout ratio during the presidential election year. ● Election years with higher uncertainty about monetary policy and fiscal policy are associated with higher dividend payout ratios. ● Companies that pay high dividends during the presidential election year have a higher value than peers that pay low dividends.
11	Juliet D'Souza and Robert Nash (2017)	*Private benefits of public control: Evidence of political and economic benefits of state ownership*	Private benefits control, privatizaion, cross listing	● Several legal factors are closely related to SIP cross-listing decisions such as personal allowances, hence the institutional characteristics of the state suggest that the private benefits of state control should be lower.
12	Narjess boubakri, Omrane Guedhami, Chuck C.Y Kwok dan He (Helen) Wang (2019)	*Is privatization a socially responsible reform?*	Privatization, state ownership, corporate social responbility and institutions	● Privatization companies have a better average CSR intensity than other public companies. ● The existence of a nonlinear relationship between remaining state ownership and the intensity of CSR which depends on the trade-off between the profit maximization objectives of private owners

				● There is an influence of state-level institutions on state ownership and privatized companies benefit from higher valuations and lower costs of equity financing through better CSR
13	Kiyoung Chang, Eun Kang dan Ying Li (2015)	*Effect of institutional ownership on dividends : An agency theory based analysis*	Institutional ownership, agency theory, Dividend	● Concentrated institutional investors and institutions play a monitoring role ● Monitoring agencies use dividend payments as a monitoring tool
14	Koji Ota, Hironori Kawase dan David Lau (2019)	*Does reputation matter? Evidence from share repurchases*	Reputation, share repurchases dan spillover effect	● The stock market considers the reputation of the buyback of the company, the reputation of the company's forecasts built from the accuracy of management's previous earnings forecasts, which shows the spillover effect of re-forecasting forecasts. ● The market will react more to the low repurchase reputation estimate. ● The company will build a reputation through various sources so that the buyback will be diverted to an alternative source of reputation because the credibility of the buyback is considered important
15	Michael firth, Jin Gao, Jianghua Shen, Yuanyuan Zhang (2016)	*Institutional stock ownership and fifirms' cash dividend policies: Evidence from China*	Institutional ownership, Mutual funds, Dividend policy, Exit theory	● Agency theory suggests that outside shareholders prefer higher dividend payments to reduce the free cash flow of firms that are under insider control. ● Mutual funds influence companies to pay higher cash dividends. The effect is more pronounced in companies controlled by state and local governments, in companies with relatively higher free cash flow. ● The effect of mutual funds is stronger when the investment horizon is longer and ownership is larger. Other institutional investors, such as banks, insurance companies, and securities firms have a lower exit threat and have no

				influence on the company's cash dividend payments or financial performance.

3. Results

Based on previous studies, there are several independent variables that influence dividend payment decisions on the implementation of privatization companies. There are 17 studies or articles that discuss dividend payout decisions. The majority of previous researchers conducted tests using variables related to company ownership, company reputation and assets on dividend payout decisions. From some of these variables there are studies that get different results. The following describes some of the findings from previous research.

3.1 Institutional Ownership

Companies that pay dividends, of course, also through decisions or policies taken by the leaders of the company. The decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance future investments. However, the financial manager's decision to distribute profits in the form of dividends is aimed at increasing shareholder prosperity, thus leading to increased dependence on external sources of funds if the company requires additional funds for investment, as research results in Firth, et.al, 2016; Boubakri, et.al, 2019; Duygun, et.al, 2018; and Goyal, et.al, 2020. On the other hand, institutional ownership is closely related to sources of financing but is concentrated as the role of monitoring managerial performance on dividend payments (Ota, Kawase & Lau, 2019).

3.2 Firm Size

The size of the company plays a role in explaining the dividend payout ratio in a company. Companies that are privatizing tend to be more *mature* and have easier access. So that it does not depend on internal funding and will distribute higher dividends to investors. This is because the company has bigger assets and it is easy to get funding externally. In contrast to companies that have fewer assets, they tend to pay lower dividends because profits are allocated in retained earnings to increase the company's assets. In the research results Manhwa, dkk (2019) it is argued that paying less cash dividends will moderate the problem of proxies by increasing the dividend payout thus reducing free cash flow.

3.3 Reputation

The company's reputation is an intangible asset. The state of a reputation will depend on what the company does as one of the most important elements. Because the good and bad in the company's reputation is an important indicator of the company's success. One of the main goals of the company in improving the company's reputation can be dividends. Research results from Ota, et.al (2019) stated that the repurchase reputation in the stock market is highly considered from the accuracy of the forecast of prior earnings thus indicating the new share price. Companies also need to build a reputation through various sources of information so that share repurchases can maintain the company's reputation.

4. Discussion and Conclusion

Researchers see a gap to develop research on this dividend payment at a later date. Given that, from the results of the literature review conducted on 15 economic journals indexed in Elsevier, there are only 10 studies or articles that discuss the factors that affect dividend payments. Therefore, researchers also get an overview of the results of research conducted by Goyal, et al (2020) that companies that have carried out privatization are still very dependent on company ownership. Even though companies have privatized the presence of the state is very influential and can help reduce the risk of default to investors (Duygun, et al., (2018); Tran, QT (2020)). The risk of default that occurs in the company usually greatly affects the company's reputation.

Jia, Z. T., & McMahon, M. J. (2019) which estimates that it is possible for companies to pay higher dividends by taking into account internal-external factors such as company size and the value of cash held. In addition, the high availability of creditor information can help privatized companies in regulating the amount of dividends to be distributed (Tran, Q. T., 2019). Most countries with a less stable debt market and have higher borrowing costs prefer to keep less cash, because they think that the money can be used to pay off debts rather than accumulate it into cash. (Mortal, Nanda, & Reisel, 2020).

According to Barros, V,. Pedro, V. M,. & Joaquim, M. S. (2019) company ownership is very influential on dividend policy. This is confirmed by the results of the research Bae, Chang & Kang, (2012); Firth, Shen, & Zhang, (2016) that there is a positive relationship between long-term ownership of the company, which plays a role as a company supervisor. Apart from those who play the role of monitoring, they also consider that making high dividend payments can help other investors who have weak power to participate in the dividend policy made by the company. However, most of them are still weak on the availability of creditor information. Because most of the high availability of creditor information is only in developed countries, while for developing countries they do not pay attention to this, so investors find it very difficult to analyze how much dividends the company will distribute (Tran, Q. T., 2019). Then from several studies in various countries which reveal that state ownership is still very thick for companies that have carried out privatization, but in research Goyal, et al (2020) said the state's political ideology does not depend on the decision to pay dividends of privatized companies, in fact the state strongly supports companies to seek investors in order to generate new income through the capital market.

Companies that have privatized tend to be more independent and not completely dependent on institutional ownership, because privatized companies have better value than public companies. Usually companies get higher profits and get higher capital than other public companies (Boukbari, N,. Omrane, G,. Chuck, C. Y. K,. & He. W. (2019)). However, there are also those who consider that the effect of privatization companies is worse than before or can be said to be insignificant as a whole, based on *share issue privatizations* (SIP) (Li, Bo,. William, Zhe, & Qian, 2019). Among the many differences in research results D'Souza, J,. & Robert, N. (2017) said that based on the SIP decision and several legal factors that are closely related to each other, it shows that there are personal benefits such as benefits so that state control is lower over the company.

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