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DO INDEPENDENT COMMISSIONERS CONTROL THE FAMILY-OWNED BUSINESS CHARACTERISTICS EFFECTS ON DIVIDEND POLICY?

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Abstract:
This study aims to determine the role of independent Commissioners to control the effect of family-owned business characteristics on dividend policy. This study construct panel data that estimate using panel regression with a fixed-effect model. The model is estimated using financial data of 64 Indonesian manufacturing companies that were observed from the period 2016-2018. The result showed that family-owned business characteristics have a positive effect on dividens. The Independent Commisioners were able to control the effect of family business characteristics on the dividend policy. The Independent Commissioners have a role in reducing the positive effect of family-owned businesses characteristics on dividends.

Keywords:
Independent Commissioners, Family-owned Business Characteristics. Dividend Policy.

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INTRODUCTION

The structure of share ownership certainly differs from one company and another. A family business is a company that is controlled by the members of the family through share ownership and involvement in management. Family involvement in ownership is ussually measured based on the percentage of shares owned by them (Sciascia and Mazzola, 2008). Companies with board family ownership tend to make them the majority shareholder; therefore, the minority has to accept their decisions. This form of ownership may lead to a lack of professional management because the family members are as manager; therefor, the implementation of company policies is dominated (Shyu, 2011). When a company is not managed correctly, the performance and various kinds of decisions taken, such as dividend policy, are affected because the controlling shareholder preference has a significant effect. The dividend policy decides the proportion of the company profits to be distributed to shareholders or retained for future investment financing is reflected in the Dividend Payout Ratio (DPR), which is the percentage of profit distributed in dividends (Angelo *et al.,* 2009).

The managers have a moral responsibility to optimize the shareholders profit and have an interest in maximizing their walfare. Therefore, there is a possibility that they

do not always act in the best interests of shareholders. This conflict of interest is called agency problems (Jensen and Meckling, 1976). Studies on family ownership to dividend policy have shown different result. Meanwhile, the independent commissioner was added in this study as a moderating variable. An independent commissioner is a company free from personal relationships with the management team and company shareholders who are likely to influence their independence. Their existence is to create a corporate governance climate free from the intervention of owners or controlling shareholders and be more objective in making decisions (Acero and Alcalde, 2016). This study is critical because the modern corporate agency theory separates shareholders and managers. However, many family members are involved in company management, either directly or partly as a supervisor. In Indonesia, it is a fact that family ownership and involvement have very high contributions in making financial decisions. Therefore, a study on the characteristics of a family director's company management involvement needs to be examined further. These reasons are the novelty for this study.

The agency relationship describes the contract between shareholders as principal and mangers as an agent running the company. Agency problems cause agency costs to be borne by shareholders and managers or agents. This problem is reduced by monitoring the internal and external market managers, including large shareholders such as financial institutions, through an independent board of directors and the corporate control market through the acquisition process (Jansen and Meckling, 1976). The study carried out by Isakov and Weisskopf (2014); Schmid *et al.* (2010); Chen (2005); Atmaja *et al.* (2010) linked ownership not only to company management but also to family ownership in running a company. The results showed that family ownership and a company's dividend policy are in direct proportion. The income needs hypothesis influences the high dividend payout ratio in a company owned by a family. Therefore, as controlling shareholders, they have a significant amount of funds invested in the company, which cannot be sold to diversify their wealth or consumption because they want to have control over the company in the long run continuously.

Family-owned companies provide better information about their business because they were directly involved in it from the start (Charbel and Georges, 2013). The number of companies is overgrowing due to the high level of loyalty and dedication of family members towards better performance. This great sense of belonging is critical for their progress (Komalasari and Nor, 2014). Also, it has a positive effect on performance due to more stable returns obtained compared to non-family companies (Musallam *et al.*, 2018). They usually have family representatives as company directors and CEOs (Chief Executive Officer). This is carried out to supervise the company board and participate in the management and decision-making processes, which undoubtedly reduces agency costs because family members participate in the supervision. Therefore, there is no need to pay for agents to supervise company management (Chang and Shim, 2015).

Furthermore, when family members are actively involved in the company as managers or on the board of directors (possibly as CEOs), they try to pay higher dividends to minority shareholders to keep them satisfied. It leads to building a reputation by giving better treatment in the form of paying higher dividends, limiting the misuse of the remaining company fund (Setianto and Sari, 2017). Therefore, the hypothesis is:

H1: Family owned-business characteristics have a positive effect on dividend policy.

Independent commissioners are part of the internal corporate governance mechanism, which plays an essential role in controlling agency problems, especially in supervising and directing executive management, protecting the interests of principals,

aligning the interests of agents and principals, including reducing information asymmetry between principals (Utama *et al.*, 2017). The independence of commissioners in family companies is vital to maintain harmony between majority and minority interests. They play a role in supervising and ensuring that all company policies are adequately implemented, and operations are carried out smoothly. Therefore, most companies' average performance tends to improve (Anderson *et al.*, 2003). Increasing company value and influencing dividends' payment is carried out when there is high free cash flow (Yarram and Dollery, 2015). The hypotheses in this study are:

H2: Independent commissioners control the effect of family-owned businesses on dividends.

METHOD

This study used annual financial reports from manufacturing companies for 2016-2018 published on the Indonesia Stock Exchange's official website. The samples from 64 manufacturing companies with family ownership were obtained using a purposive sampling method. Multiple linear regression analysis was used in this study, and data processing was carried out using Eviews software. This study aims to determine the effect of family ownership and the Proportion of family directors and CEOs on dividend policy. Furthermore, the independent commissioner was added as a moderating variable, which is thought to strengthen family ownership relationships on dividend policy. The study diagram of the relationship between the variables used is shown in the following figure:

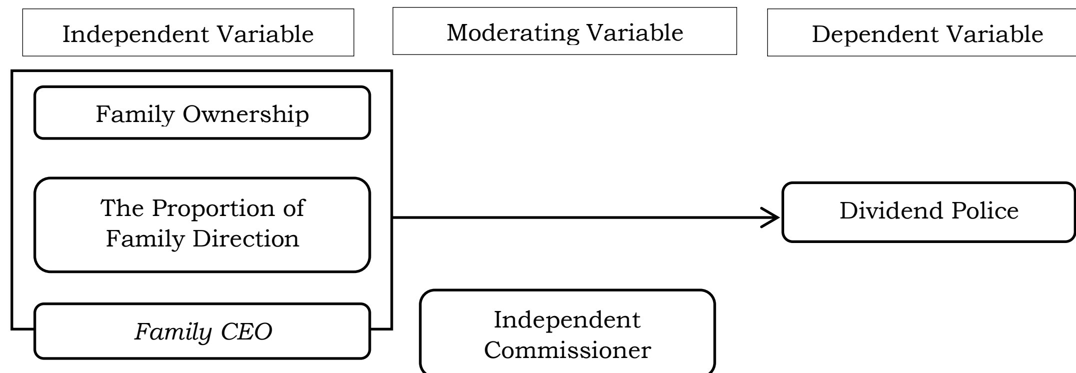

Figure 1 Research Framework

Dependent Variable

Dividend policy is a management decision to allocate company cash either as dividends or to be reinvested in projects. The formula for measuring it is (Ross *et al.*, 2012).

$$DV = \frac{\text{Dividends per share}}{\text{Net income per share}}$$

Independent Variable

Family ownership is the percentage of equity or shares owned by family members in a company (Martins, 2016). The formula for measuring it is:

$$FM = \frac{\text{Total family shares}}{\text{Total shares outstanding}}$$

The proportion of family directors refers to the number of family members serving on its board of directors determined by checking the board of directors' profile and family relationships (Komalasari and Nor, 2014). The formula for measuring it is:

$$FD = \frac{\text{Number of family directors}}{\text{Total members of the board of directors}}$$

The family CEO is the prominent director's position, which is held by a family member of the company's shareholders (Sudana and Aristina, 2017). The formula for measuring it is: dummy variable family CEO = 1, Non-family CEO = 0.

Moderation Variable

An independent commissioner is one with no financial, management, share ownership, or family relationship with other commissioners, directors, controlling shareholders, or any other relationship that may affect his ability to act independently. The formula for measuring it is (Poniman, 2018):

$$KI = \frac{\text{Independent commissioner}}{\text{Total board of Commissioners}}$$

Control Variable

Firm size is the grouping of companies into several groups, namely large, medium, and small. The company scale is a measure used to reflect the firm size based on total assets. The formula for measuring it is Martins (2016):

$$SZ = \text{Ln (Total Assets)}$$

Firm age is obtained with the natural logarithm from the year the company was founded until the last year of the study period. The formula for measuring it is (Bhatt and Bhattcharya, 2017):

AG = Ln (Study year − Year the company was founded)

RESULTS AND DISCUSSION

Regression analysis provides answers about each independent variable's effect on the dependent variable by looking at each contained's coefficient and probability values in the analysis results. This study used the manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018 as subjects. The following are the regression results for the four models.

Model 1 shows that the three independent and control variables did not affect the company's dividend policy. The R-squared value of 0.0833 obtained shows that the independent variable explained the dependent variable by 8.33%, while other variables outside this study explained the rest. Model 2 shows that the independent variable of family ownership (FM) positively affected the dividend payout ratio. Meanwhile, the proportion of family directors (FD) and CEO (FC) individually did not affect dividend. Furthermore, the independent commissioner as a moderating variable was able to control the relationship between family ownership (FM)with the dividend payout ratio, but not the proportion of family directors (FD) and CEO (FC). The R-squared value of 0.1372 obtained in model 4 shows that the independent variable explained the dependent variable by 13.72%, while other variables outside this study explained the rest.

Table 1 Multiple Linear Regression Results

	MODEL 1			MODEL 2		
Variable	**Coefficient**	**Probability**		**Coefficient**	**Probability**	
C	-3.760.621	0.0252	**	-2.584.400	0.1596	

FM	0.296598	0.3488		3.029.148	**0.0456**	**
FD	0.571984	0.1386		-0.354552	0.8693	
FC	-0.153896	0.4795		-1.914.579	0.2136	
SZ	0.090769	0.0642	*	0.064418	0.2122	
AG	-0.035258	0.8393		-0.098487	0.6028	
LV	-0.456492	0.2106		-0.509004	0.1597	
FM*KI				-7.307.049	0.0662	*
FD*KI				1.989.226	0.7288	
FC*KI				4.547.724	0.2499	
R-squared		0.0833			0.1372	
Adjusted R-squared		0.0228			0.0490	
F-statistic		3.777.042			1.555.850	
Prob(F-statistic)		1.378.460			0.141275	
N Obs		189			189	

Source: Data processed 2021

Table1 model 1 showed that family ownership did not affect. It implies that family share ownership does not guarantee the distribution of company dividends because family shareholders prefer the company's profits to be retained earnings, which for development rather than distributing it as dividends. It was carried out to aid the growth of the company in the long run. The study's results were supported by the study carried out by Lucyanda and Lilyana (2012), which stated that family ownership does not affect dividend policy. However, this was different from that of Isakov and Weisskopf (2014), which stated that it is directly proportional to the distribution of dividends to shareholders because family members perceive dividends as income sources.

Table1 model 1 showed that family directors (FD) did not affect dividend payouts; profits and prospects need to be considered, including the shareholders. Therefore, the proportion of family directors as company managers is not the only consideration of making dividend payouts. The results were different from that of Setianto and Sari (2017), which stated that family members who serve as company executives, such as the board of directors and increase dividend payouts, are directly proportional. Furthermore, Isakov and Weisskopf (2015) stated that when more family members are involved in a company, it promotes adjustment policies taken by managers, especially dividend policies, according to controlling shareholders' cash distribution preferences.

Table 1, model 1, showed that the family CEO (FC) did not affect dividend payouts. This position is the principal director and is held by a family member of the company's shareholders (Sudana and Aristina 2017). This study showed that the family CEO does not affect dividend policy because it is not the only determinant. The result was different from that of Setianto and Sari (2017), which stated that when family members are also actively involved in the company as managers (or as CEOs), they try to pay higher dividends to keep minority shareholders satisfied. Therefore, a reputation will be built treating minority shareholders well, such as paying higher dividends. Table1 model 2, the independent variable of family ownership (FM) individually, positively affected dividend policy. It implies that as company owners, they also require a return in dividends from the shares owned, and dividends are distributed as an attractive reward for all investors.

Furthermore, after moderation between family ownership (FM) and independent commissioners (KI), the probability value was 0.0662 > 0.05. It implies that there is no

influence of family ownership moderated by independent commissioners on dividend policy. Therefore, it was concluded that the moderating effect weakens the dividend policy. Furthermore, this is seen in the coefficient of positive 3.0291 before and negative -7.3070 after being moderated. An independent commissioner as a moderator between family ownership and dividend policy weakens the relationship between the two. As a professional party with no affiliation, they will act following their duties as best as possible. Therefore, the company will run smoothly by supervising company management and not directly agreeing with family shareholders' decision results and management to pay dividends.

CONCLUSIONS

This study aimed to examine the effects of family ownership, the proportion of family directors and family CEOs, including the moderating effect of independent commissioners on company performance. and dividend policy in manufacturing companies on the Indonesia Stock Exchange in 2016-2018. The results showed that family ownership affected the dividend, but the family directors and CEOs do not affect the company's dividend policy. The proportion of family directors (FD) individually did not affect policy. It implies that the number of family members serving on the board of directors does not affect dividend policy. When family directors do not work professionally, it does not affect improving company performance; therefore, there would be no dividends distribution because the company has not earned a profit. The result was different from the study carried out by Setianto and Sari (2017), which stated that the increasing number of family members who serve as company executives such as the board of directors brings about a rise in dividend payouts. Furthermore, after moderation between the proportion of family directors (FD) and independent commissioners (KI), it did not affect dividend policy. It implies that the moderating effect did not improve the regression results between the proportion of family directors individually.

The variable of family CEO (FC) individually did not affect dividend policy. It implies that the family members of shareholders who serve as CEOs do not affect dividend payouts. When making a dividend payout decision, an agreement is needed from all company managers, including the majority and minority shareholders. Therefore, the FC alone does not make the decisions on the distribution of dividends. Furthermore, after the moderation between family CEO (FC) and independent commissioner (KI), it did not affect dividend policy. It implies that the independent commissioner does not moderate the family CEO with dividend policy. Furthermore, in the family-owned and CEO variables, the independent commissioner was utterly unable to strengthen their relationship with dividend policy because their function was limited to being the party conducting control without the policymaker's role. When it is related to good corporate governance, they cannot solve agency problems between directors' characteristics in companies related to dividend policy. After being moderated by an independent commissioner, the effect was more substantial than before moderation. These results explain that family members were more vital after being interacted by an independent commissioner to make its dividend policy.

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