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The effect of free cash flow and ownership structure on dividend payout ratio in manufacturing companies in Indonesia

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A B S T R A C T

Dividend policy is used to determine the amount of net profit after tax that will be distributed to shareholders and the amount of equity in the net income that will be used to finance the company's investment. Optimal dividend policy is a dividend policy that creates a balance between current dividends and growth in the future to maximize the company's stock price. The purpose of this study is to analyze the effect of Free Cash Flow (FCF) and Ownership Structure, consisting of Institutional Ownership, Family Ownership and Foreign Ownership, on Dividend Payout Ratio (DPR) in manufacturing companies listed on the Indonesia Stock Exchange in 2011-2013. The research methodology used is descriptive analysis method and statistical analysis method. The data used is secondary data consisting of 173 research data used as the sample. Hypothesis testing is done by using multiple linear regression analysis. The results of regression analysis show that free cash flow, family ownership and foreign ownership have positive effect on dividend payout ratio, while institutional ownership does not have negative effect on dividend payout ratio.

A B S T R A K

Kebijakan dividen digunakan untuk menentukan jumlah laba bersih setelah pajak yang akan dibagikan kepada pemegang saham dan jumlah ekuitas dalam laba bersih yang akan digunakan untuk membiayai investasi perusahaan. Kebijakan dividen yang optimal adalah kebijakan dividen yang menciptakan keseimbangan antara dividen saat ini dan pertumbuhan di masa depan sehingga dapat memaksimalkan harga saham perusahaan. Tujuan dari penelitian ini adalah untuk menganalisis pengaruh Arus Kas (FCF) dan Struktur Kepemilikan, terdiri dari Kepemilikan Institusional, Kepemilikan Keluarga dan Kepemilikan Asing, pada Dividend Payout Ratio (DPR) pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia pada 2011 -2013. Metodologi penelitian yang digunakan adalah metode analisis deskriptif dan metode analisis statistik. Data yang digunakan adalah data sekunder yang terdiri dari 173 data sebagai sampel. Pengujian hipotesis dilakukan dengan menggunakan analisis regresi linier berganda. Hasil analisis regresi menunjukkan bahwa free cash flow, kepemilikan keluarga, dan kepemilikan asing berpengaruh positif terhadap dividend payout ratio, sedangkan kepemilikan institusional tidak berpengaruh negatif pada dividend payout ratio.

1. INTRODUCTION

In stock investment, investors always expect to get the yield from the company in the form of dividends and capital gains. The options on dividends and capital gains depend on their needs and goals. In addition, the investors who prefer dividends will expect to adjust the level of distribution and the growth of dividend to the corporate profits.

According to Levy and Sarnat (1990), dividend policy or dividend decision basically determines the portion of profit that will be distributed to the shareholders and the portion that will be retained as part of retained earnings. In general, the policy of dividend payout ratio uses the indicator of company's net income.

There have been very few researches on ana-

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lyzing the effect of free cash flow on dividend payout ratio, because the calculation of free cash flow is not widely recognized yet by the investors. A research conducted by Dini (2009), concerning with the effect of free cash flow on dividend payout ratio, found that free cash flow has positive effect on dividend payout ratio.

The company management often uses the funds that should be used to give payment to shareholders as the dividend payout to make excessive investments. The decision to undertake this investment results in agency problem. According to Kouki & Guizani (2009), agency problem is the problem that arises when there is a different interest between shareholders and manager. The shareholders are only interested in the financial results or the growth of investment in the company, while the manager wants the maximum incentive for his performance.

According to Jensen and Meckling (1976), agency problem can be reduced by increasing the internal party ownership. The internal party ownership can be done by giving stock options to manager. In addition, the internal party ownership can be done by owning the majority proportion of the stocks so that a certain stockholder may control the company.

According to Jurica & Lilyana (2012), ownership structure has an effect on dividend policy. In the company's ownership structure may consist of managerial ownership, institutional ownership, family ownership, state ownership (SOEs), foreign ownership and public ownership. Managerial ownership and public ownership are not used in this study because the managerial ownership in companies listed on the Indonesia Stock Exchange (BEI) is not more than 5%. According to Chai (2010), the percentage of more than 5% is an appropriate indicator in conducting research on the tocks ownership in the company. State ownership is also not used in this study because the policy of dividend payout ratio in the state-owned companies is arranged by the regulations set by the government.

Different stockholding results in different objectives so that policy in dividend payout ratio is also different. A research conducted by Jurica & Lilyana (2012) found that institutional ownership has a negative effect on dividend payout ratio, family ownership does not have significant effect on dividend payout ratio, and foreign ownership does not have significant affect on dividend payout ratio. Chai (2010) found that foreign ownership has positive effect on the level of dividend payments as measured by dividend payout ratio.

The discrepancies among the results of research on the effect of free cash flow and ownership structure on dividend payout ratio lead to ambiguity in making conclusion. Therefore, it is necessary to conduct a study again in relation to the effect of free cash flow and ownership structure on the dividend payout ratio. This study replicated the research conducted by Jurica & Lilyana (2012), Dini (2009), and Sisca (2008), that examined the effect of free cash flow and ownership structure on the dividend payout ratio.

This study aims to examine the effect of free cash flow and ownership structure, consisting of institutional ownership, family ownership and foreign ownership, on dividend payout ratio in manufacturing companies listed on the Indonesia Stock Exchange 2011-2013.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Agency Theory

According to Tarjo and Hartono in Sisca (2008), agency theory explains that the management's interest and the shareholder' interest are often contradictory to cause conflicts between them. This often happens because managers tend to try to give priority to their personal interests. Yet, shareholders do not like the personal interests of the managers because it will add to the cost for the company and will reduce the benefits received by the shareholders. The differences in interests are then called agency conflict.

Jensen and Meckling (1976) developed a theory of how the ownership structure affects the behavior of individuals within the company. The development of this theory is based on several assumptions, such as rational principals, self-interested agents (opportunism), informational asymmetries and risk bearing. On the basis of the agency theory, Jensen and Meckling (1976) argued that a company is a legal partner which acts as a contractual relationship between individuals. They define an agency relationship as a contract mechanism between capital providers (the principals) and agents. In the contract that is designed to minimize agency costs of this relationship, the agency relationship is a contract, either explicit or implicit, in which one or more person (called the principal) asks another person (called an agent) to act on behalf of the principal.

Definition of Free Cash Flow

White et al. (2003) defined free cash flow as discretionary cash flow available for companies. Free

cash flow is cash from operating activities minus capital expenditures spent by the company to meet the current production capacity. Besides that, free cash flow can be used for discretionary use such as acquisitions and capital expenditures with a growth-oriented, debt repayments and payments to shareholders in the form of dividends. The greater the free cash flow available within a company, the healthier the company is, because it has cash available for growth, debt repayments and dividends.

Ross et al. (2003) defined free cash flow as the company's cash that can be distributed to creditors or shareholders who are not used for working capital or investment in fixed assets. Free cash flow shows a picture to investors that the dividends distributed by the company are not merely a "strategy" to manipulate the market with the intention of increasing the value of the company. For the companies that perform capital expenditures, free cash flow will reflect clearly on which companies that have and do not have the ability in the future (Uyara and Tuasikal, 2003).

Definition of Institutional Ownership

According to Listyani (2003), institutional ownership is the portion of shares owned by the institution at the end of year which is measured in percentage. High level of institutional stocks will result in a more intensive supervision effort so as to limit the opportunistic behavior of managers, in which the managers report profits opportunistically to maximize his personal gain.

According to Tarjo (2008), institutional ownership is the stocks ownership by financial institutions, such as insurance companies, banks, pension funds, and asset management.

Definition of Family Ownership

According to Anderson et al. (2003), family company is defined as a form of company in which the ownership and management are managed and controlled by the founder or family member or group who have family ties, both of belonging to the nuclear family or expansion (both who have a blood relationship or matrimony). At such company, the results obtained by the company are distributed in such a way to the coffers in the group that has the family ties. In family company, the personnel can occupy positions as employees, directors, block holder, either individual or group.

Family is a special class of large shareholders who have intensive structure and unique power in the company to establish important financial decisions (Anderson et al. 2003). This unique character leads to different decisions related to dividend policy, leverage, debt maturity, and leasing.

Definition of Foreign Ownership

According to Setiawan et al. (2006), foreign ownership is a portion of outstanding shares owned by investors or foreign investors. Based on the Ministry of Finance Regulation No. 153/PMK.010/2010 on Stocks Ownership and Equity Securities Company, foreign investors are foreign individuals or foreign legal entities that are not engaged in the financial sector. The existence of foreign investors in the company ownership structure is expected to raise the company's performance for several reasons. First, the foreign investors will put pressure on managers by providing additional supervision. Second, the foreign investors can provide new capitals and hire well-trained managers. Third, the foreign investors will help their local company to enroll in the international market which in turn will lead to the decrease in their capital acquisition cost (Bekaert & Harvey 1999).

Definition of Dividend

According to Gitman (2003), the cash dividends paid are the investors' assessment of a share. Cash dividend reflects cash flow to shareholders and informs the current and future performance of the company. Since the retained earnings are one of the forms of internal funding, the decision regarding the dividend may affect the company's external financing needs. Thus, the greater the cash dividends paid by the company, the greater the number of external funding through loans payable or the sales of shares.

The similar definition of dividend was expressed by Ross et al. (2003), that dividend is a form of payments made by the company to its owners, either in cash or stock. Dividend is also referred to as "income component" of investment return on stocks.

Theory of Dividend Policy

Dividends are payments from the company to the shareholders on the profits earned. Dividend policy is a policy related to the payment of dividends by the company, such as the determination of the amount of dividends to be distributed and the amount of the balance of retained earnings for the company's interests (Sutrisno, 2001). Gitman (2003) gave the definition of dividend policy as the company's action plan that must be followed when the dividend decisions have to be made.

Dividend policy is the use of net profit after tax

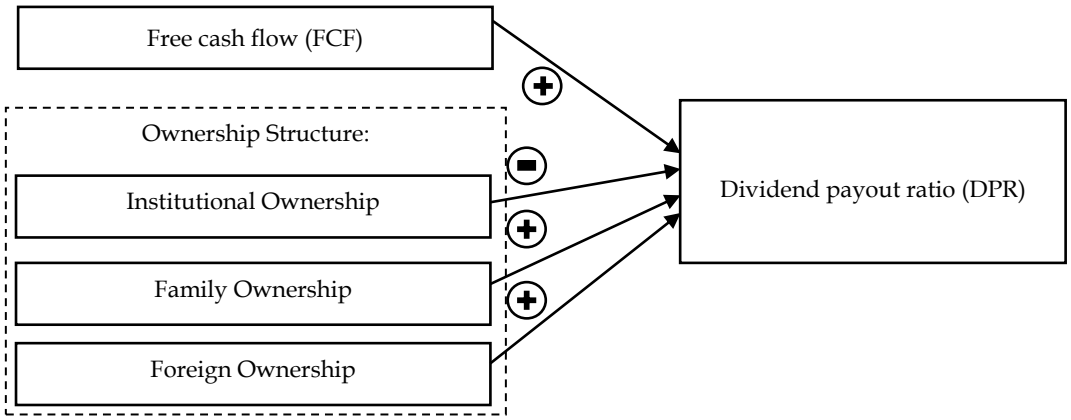

Figure 1
Research Framework

that will be distributed to shareholders and how big the portion of net income that will be used to finance the company's investment. If the company chooses to distribute profits earned in the form of dividends, it will reduce the retained earnings, which will further reduce total internal funding sources. Conversely, if the company chooses to withhold the profits obtained, then the ability to form internal funds will be even greater.

Optimal dividend policy is a dividend policy that creates a balance between current dividends and the future growth to maximize the company's stock price.

Dividend Payout Ratio

According to Gitman (2003), Dividend Payout Ratio is an indication of the percentage of earned income that is distributed to the owners or shareholders in the form of dividend. Meanwhile, according to Bambang Riyanto (2008: 623), the percentage of earnings paid to shareholders as the cash dividends is referred as dividend payout ratio.

Research Hypothesis

The hypothesis is a temporary formulation of the answers to the problem that will be investigated and tested with the aim to get evidence and truth based on facts. Based on the framework, the hypotheses of this research are as follows:

H1 : Free cash flow has positive effect on dividend payout ratio

H2 : Institutional ownership has negative effect on dividend payout ratio

H3 : Family ownership has positive effect on dividend payout ratio

H4 : Foreign ownership has positive effect on dividend payout ratio

Schematic framework in this study can be drawn in Figure 1.

3. RESEARCH METHOD

Sample Classification

The population consists of all companies listed on the Indonesia Stock Exchange in 2011 - 2013. It used a purposive sampling method for taking the sample. A non-probability sampling method takes the research object based on certain criteria. The sampling criteria are as follows:

a. The manufacturing companies listed on the Indonesia Stock Exchange and published by the Indonesia Stock Exchange (IDX) in 2011-2013.
b. The manufacturing companies that report complete financial statements and ended on December 31, in 2011-2013.
c. The manufacturing companies that distribute dividends in 2011 - 2013 as a requirement to produce the variable of dividend payout ratio (DPR).
d. The manufacturing companies that have financial information to produce the variable of free cash flow (FCF).

Research Data

The secondary data were in the form of financial statements of companies listed on the Indonesia Stock Exchange in 2011-2013, which are obtained from the Indonesia Stock Exchange (IDX). The data required are:

1. The financial information to determine free cash flow (FCF) is cash flow from operations, dividends and total assets.
2. The information on the ownership structure is the number of shares owned by institutional, family, and foreign as well as the number of shares outstanding.
3. The financial information to determine the dividend payout ratio (DPR) is the dividend per share (DPS) and earnings per share (EPS).

Research Variable

The research variables used in this study are dependent variable, namely dividend payout ratio, and independent variables, namely free cash flow, institutional ownership, family ownership, and foreign ownership.

Operational Definition of Variables

a. *Free Cash Flow* (FCF)

Free Cash Flow is a fund/cash available in the company that should be distributed to shareholders and creditors in the form of dividend payments and repayment of debt, but the company has first fulfilled the investment in fixed assets and working capital to sustain the company's growth. Free cash flow, according to the White et al. (2003: 27), can be calculated using the following formula:

$$FCF = \frac{Operating\ \ Cash\ Flow\ -Dividend}{Total\ \ Asset}. \quad (1)$$

b. Institutional Ownership

Institutional ownership shows the percentage of shares held by institutions and ownership by block holder, i.e. individual ownership on behalf of individual above 5 percent but not included in the class of insider ownership. The measurement of institutional ownership variable, according to Ismiyanti & Hanafi (2003), is as follows:

$$INS = \frac{\sum Institutional\ \ Shares}{\sum Shares\ Outstanding} \times 100\%. \quad (2)$$

c. Family Ownership

According to Harijono in Yulius and Yeterina (2013), the search of family ownership is done by looking at the names of the board of directors and board of commissioners. If the names of the board of directors and board of commissioners tend to be the same in several years and have stares in the company ownership, the company could be included in family ownership. If the company is owned by other institutions, the search of ownership is conducted using pyramid ownership analysis and cross-ownership structure. Having traced it can be seen if the company's controlling stake is an individual, then it could be classified as family ownership. The measurement of family ownership variable is as follows:

$$FAM = \frac{\sum Family\ \ Shares}{\sum Shares\ \ Outsta\ nding} \times 100\%. \quad (3)$$

d. Foreign Ownership

Based on the Ministry of Finance Regulation No. 153/PMK.010/2010 on Stocks Ownership and Equity Securities Company, foreign investors are foreign individuals or foreign legal entities that are not engaged in the financial sector. The measurement of foreign ownership, according to Setiawan et al. (2006), is as follows:

$$FORE = \frac{\sum Foreign\ \ Shares}{\sum Shares\ \ Outstanding} \times 100\%. \quad (4)$$

e. Dividend Payout Ratio

Dividend Payout Ratio is an indication of the percentage of earned income that is distributed to the owners or shareholders in the form of cash. According to Gitman (2003), the measurement of scale is using a ratio scale with the following formula:

$$DPR = \frac{Dividend\ \ per\ Share}{Earnin\ gs\ per\ Share}. \quad (5)$$

Analysis Instrument

The data were analyzed using descriptive analysis and multiple linear regression analysis. Regression analysis was performed to test the strength of the relationship between two or more variables. Additionally, regression analysis also shows the direction of the relationship between dependent variable and independent variables (Ghozali, 2011: 95).

In addition to measure the strength of the relationship between two or more variables, multiple regression analysis also indicates the direction of the relationship between dependent variable and independent variable. Therefore, multiple regression analysis is an analysis to measure how much the influence of variable of free cash flow (FCF), institutional ownership, family ownership and foreign ownership on dividend payout ratio in manufacturing companies listed on the Indonesia Stock Exchange.

4. DATA ANALYSIS AND DISCUSSION

Descriptive Analysis

Descriptive statistics is used to provide an overview or a thorough description of the characteristics of the main variables. The dependent variable used is dividend payout ratio which is measured from the dividend per share divided by earnings per share, while the independent variables which are indicated to have an effect on the dividend payout ratio are free cash flow (expressed in the ratio of operating cash flow minus dividends with total assets), ownership institutional (expressed in ratio of the number of institution shares and the number of shares outstanding), family ownership (expressed in ratio of the number of family shares and the number of shares outstanding), and foreign ownership (expressed in ratio of the number of foreign shares and the number of shares outstanding). In the test for

Table 1
Descriptive Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
FCF	173	-0.17290	0.28274	0.056809	0.07847245
INS	173	0.00000	0.98179	0.175687	0.28161975
FAM	173	0.00000	0.98463	0.264005	0.29992025
FORE	173	0.00000	0.99140	0.261768	0.29809810
DPR	173	-0.52174	1.45391	0.391358	0.31847086
Valid N (listwise)	173				

Table 2
The Portion of Ownership Structure on the Number of Samples

Ownership Structure	Which have	Which do not have	Number of Samples
Institutional Ownership	86	87	173
	49,71%	50,29%	100%
Family Ownership	113	60	173
	65,32%	34,68%	100%
Foreign Ownership	100	73	173
	57,80%	42,20%	100%

dependent variable (Y) is using the data of the current year (t), while for the dependent variable (X) is using the previous year's data (t_1). Table 1 is the output of descriptive test of the variables of dividend payout ratio, free cash flow, institutional ownership, family ownership and foreign ownership.

Free Cash Flow (FCF)

Free cash flow is operating cash flow minus dividend divided by total assets. If in the previous year (t-1) the company does not distribute dividends, the dividend value is equal to zero (0) and still be able to calculate free cash flow because each company has its operating cash flow and total assets.

Based on Table 1 that is the descriptive test results, it can be seen that the average level of free cash flow is 0.0568 with a standard deviation of 0.0785. The standard deviation is used to indicate a range or distance between one data and another. In this study, it can be said that the range or distance between one data of free cash flow of data and another is 0.0785, in which the value is not more than 2.5 times of the average value. This indicates that the variance is low or the data is increasingly homogeneous.

The minimum value of free cash flow is negative, or -0.17290, which is obtained from one of the samples, namely Indomobil Sukses International Tbk, with the financial statements of 2012. This is because the value of its operating cash flows is less than the value of the dividends distributed. Its operating cash flow is negative and very low, or - IDR 2,876,087,842,113, because the incoming cash is lower than the outgoing cash which is used for the payment of its burdens.

Ownership Structure

The ownership structure in this research uses the proxy of institutional ownership, family ownership and foreign ownership. Based on Table 1, the descriptive test results show that the minimum value of institutional ownership, family ownership and foreign ownership is 0, because there are some companies that do not have institutional ownership, family ownership or foreign ownership. Yet, the maximum value of institutional ownership is 0.9818, family ownership is 0.9846, and foreign ownership is 0.9914, then the remaining each ownership is not more than 2 per cent in which the portion can be held by the public, managerial, government, and others in addition to be owned by institutional, family and foreign. From this description, it can be concluded that there are some manufacturing companies whose public ownership are still very low, in which the go public companies' stocks should be widely held by the public instead of the institution, the family, or the foreign.

Table 2 shows a portion of the ownership structure taken from the number of samples. It can finally be seen how many companies that have and do not have institutional ownership, family ownership and foreign ownership.

Institutional Ownership (INS)

Institutional ownership is the portion of shares owned by the institution divided by the number of shares outstanding. If the company does not have institutional ownership, the value is zero (0) and can still be used as research data.

Based on Table 1, the descriptive test results show that the average level of institutional owner-

Table 3
Results of F Statistical Test

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.432	4	.608	6.803	0.000[b]
	Residual	15.013	168	.089		
	Total	17.445	172			

Table 4
Results of Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.373[a]	0.139	0.119	.29893902

Table 5
Results of Regression and t Test

	Model	Unstd. Coefficients		Std. Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.105	0.075		1.395	0.165
	FCF	0.883	0.298	0.218	2.964	0.003
	INS	0.468	0.111	0.414	4.221	0.000
	FAM	0.241	0.114	0.227	2.118	0.036
	FORE	0.345	0.113	0.323	3.046	0.003

ship is 0.1757 with a standard deviation of 0.2816. The standard deviation is used to indicate a range or distance between one data and another. In this study, it can be said that the range or distance between one data of institutional ownership and another is 0.2816, in which the value is no more than 2.5 times of the average value. This indicates that the variance is low or the data is increasingly homogeneous.

Based on Table 2, the portion of the ownership structure on the number of samples shows that among 173 data used in the sample, there are 86 data that have institutional ownership, or 49.17%. It can be concluded that the minority of manufacturing companies listed on the Indonesia Stock Exchange have institutional ownership.

Family Ownership (FAM)

Family ownership is a portion of shares owned by the family divided by the number of shares outstanding. If the company does not have family ownership, the value is zero (0) and can still be used as research data.

Based on Table 1, the descriptive test results show that the average level of family ownership is 0.2640 with a standard deviation of 0.2999. The standard deviation is used to indicate a range or distance between one data and another. In this study, it can be said that the range or distance between one data of family ownership and another is 0.2999, in which the value is no more than 2.5 times of the average value. This indicates that the variance is low or the data is increasingly homogeneous.

Based on Table 2, the portion of the ownership structure on the number of samples shows that of 173 data used, there are 113 data that have family ownership, or 65.32%. It can be concluded that the majority of companies listed on the Indonesia Stock Exchange have family ownership where the control of the company by the family will lead to monopoly.

Foreign Ownership (FORE)

Family ownership is a portion of shares owned by foreign parties divided by the number of shares outstanding. If the company does not have foreign ownership, the value is zero (0) and can still be used as research data.

Based on Table 1, the descriptive test results show that the average level of foreign ownership is 0.2618 with a standard deviation of 0.2981. The standard deviation is used to indicate a range or distance between one data and another. In this study, it can be said that the range or distance between one data of foreign ownership and another is 0.2981, in which the value is no more than 2.5 times of the average value. This indicates that the variance is low or the data is increasingly homogeneous.

Based on Table 2, the portion of the ownership structure on the number of samples shows that of 173 data used, there are 100 data that have foreign ownership, or 57.80%. It can be concluded that the majority of manufacturing companies listed on the Indonesia Stock Exchange have foreign ownership.

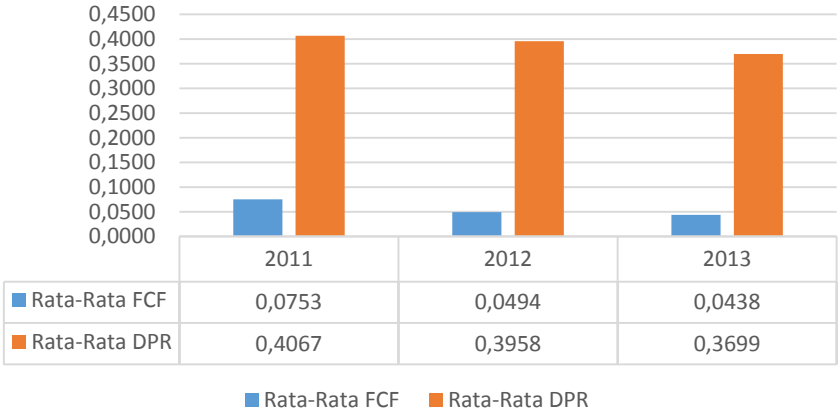

Figure 2
Graph of the Average Free Cash Flow and Dividend Payout Ratio

Dividend Payout Ratio (DPR)

Dividend payout ratio is an indication of the percentage of earned income that is distributed to owners or shareholders in the form of cash. In this case, the dividend payout ratio is derived from the dividend per share divided by earnings per share. If the company does not distribute dividends, in which the dividend is used for the calculation of the dividend payout ratio, it is included in the data of outliers and cannot be used as research data.

Based on Table 1, the descriptive test results show that the average level of dividend payout ratio is 0.3914 with a standard deviation of 0.3185. The standard deviation is used to indicate a range or distance between one data and another. In this study, it can be said that the range or distance between one data of dividend payout ratio and another is 0.3185, in which the value is less than the average value or not more than 2.5 times of the average value. This indicates that the variance is low or the data is increasingly homogeneous. The minimum value of the dividend payout ratio is -0.5217 because the value of its earnings per share is negative or experiences losses. Therefore, there are some companies that experience losses but they can still pay dividends. The distribution of dividends is taken from retained earnings. This is in accordance with the law that determines that dividends should be paid from earnings, both current earnings and last year's earnings, which are available in the post of "retained earnings" in the balance.

Results and Discussion

Hypothesis Test

a. F Statistical Test

Based on Table 3, F statistical test results show that the significance value of F test is 0.000 <0.05. So, H0 is rejected, which means that the regression model is fit or good and the variables of free cash flow (FCF), institutional ownership, family ownership and foreign ownership have an effect on dividend payout ratio (DPR).

b. Determination Coefficient Test (R^2)

Based on Table 4, the results of determination coefficient test show that the value of adjusted R2 is 0.119. This means that the variable of dividend payout ratio can be explained by the variables of free cash flow, institutional ownership, family ownership, and foreign ownership with the value of 11.9%. Meanwhile, the remaining of 88.1%, i.e. the variable of dividend payout ratio, is explained by other variables which are not examined in this study. It can be concluded that the ability of independent variables in influencing the dependent variable is low.

c. Multiple Linear Regression Analysis and t Statistical Test

Based on Table 5, the equation in the multiple linear regressions modeling in this study is as follows:

DPR = 0.105 + 0.883 FCF + 0.468 INS + 0.241 FAM + 0.345 FORE + e.

Where:

DPR = Dividend Payout Ratio
FCF = Free Cash Flow
INS = Institutional Ownership
FAM = Family Ownership
FORE = Foreign Ownership
e = error term

Based on Table 5, the results of t test shows that each independent variable used in this research, namely free cash flow (FCF), institutional ownership (INS), family ownership (FAM) and foreign ownership (FORE) is at the significance level of 5% (0.05). So based on hypotheses that are made, it can be described as follows:

1. Based on the result of t test, the variable of Free Cash Flow has significance value of 0.003 <0.05

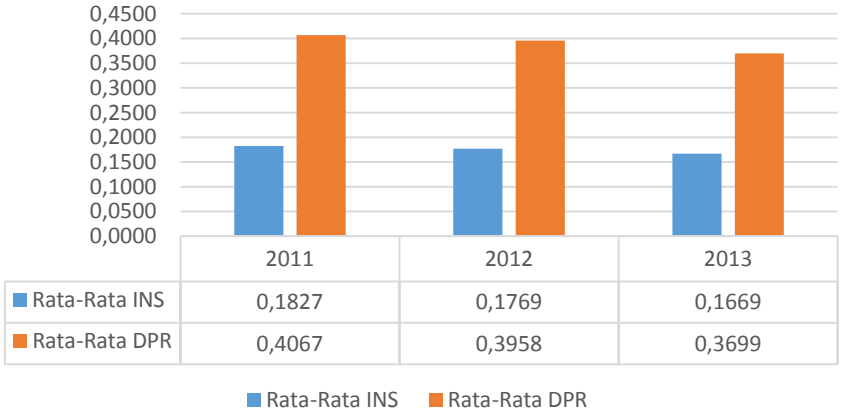

Figure 3
Graph of the Average Institutional Ownership and Dividend Payout Ratio

and its regression coefficient is positive, so H0 is rejected. This can be concluded that Free Cash Flow (FCF) has positive effect on Dividend Payout Ratio (DPR).

2. Based on the result of t test, the variable of Institutional Ownership (INS) has significance value of 0.000 <0.05 and its regression coefficient is positive, so H0 cannot be rejected. This can be concluded that Institutional Ownership (INS) does not have negative effect on Dividend Payout Ratio (DPR).
3. Based on the result of t-test, the variable of Family Ownership (FAM) has significance value of 0.036 <0.05 and its regression coefficient is positive, so H0 is rejected. This can be concluded that Family Ownership (FAM) has positive effect on Dividend Payout Ratio (DPR).
4. Based on the result of t-test, the variable of Foreign Ownership (FORE) has significance value of 0.003 <0.05 and its regression coefficient is positive, so H0 is rejected. This can be concluded that Foreign Ownership (FORE) has positive effect on Dividend Payout Ratio (DPR).

Discussion

The Effect of Free Cash Flow on Dividend Payout Ratio

Free cash flow describes the level of the company's financial flexibility. The companies with excess free cash flow will have a better performance than other companies because they can take advantage of various opportunities which may not be obtained by other companies. The companies with high free cash flow are expected to survive even in a bad situation. Thus, in theory, the higher the free cash flow, the higher the possibility of the company to pay dividends.

Based on the t-test analysis results, it is found that free cash flow has positive effect on dividend payout ratio. The more free cash flow owned by the company, the higher the dividends that will be paid. Graph 2 shows that free cash flow has positive effect on dividend payout ratio:

Based on Figure 2, the graph of average free cash flow and dividend payout ratio shows that in 2011 the average free cash flow is 0.0753 and the average dividend payout ratio is 0.4067. In 2012 the average free cash flow is 0.0494 and the average dividend payout ratio is 0.3958. In addition, in 2013 the average free cash flow is 0.0438 and the average dividend payout ratio is 0.3699. Of the three years, it shows that the direction movement of free cash flow and dividend payout ratio from year to year is positive. This means that the higher the level of free cash flow, the higher the level of dividend payout ratio. So, it can be concluded that free cash flow has a positive effect on dividend payout ratio.

The result of this test is in line with the research conducted by Dini (2009) that free cash flow has an influence on dividend payout ratio. The influence of free cash flow on dividend payout ratio is positive. It is also in line with the research conducted by Jurica & Lilyana (2012), there is no significant relationship between free cash flow and dividend payout ratio.

The Effect of Institutional Ownership on Dividend Payout Ratio

Institutional ownership is the portion of shares owned by the institution at the year end of the year which is measured in percentage. The high level of institutional shares will result in the efforts of intensive supervision to limit the manager's opportunistic behavior, in which the manager reported profits opportunistically to maximize his personal gain.

In accordance with the theory of tax prefe-

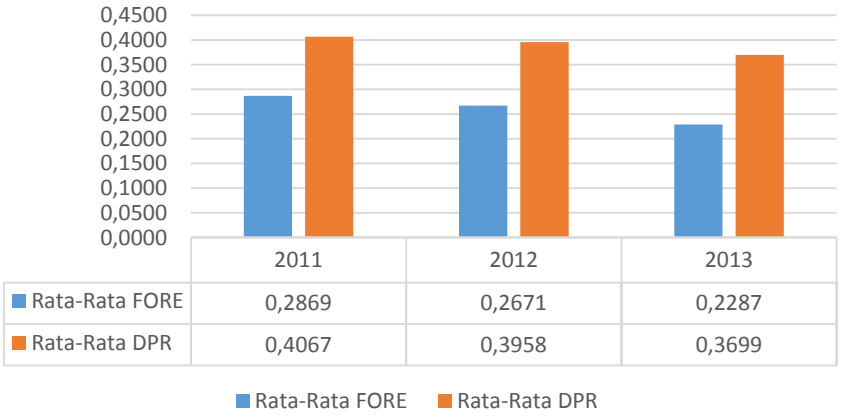

Figure 4
Graph of the Average Foreign Ownership and Dividend Payout Ratio

rences, individual investors would prefer the company does not pay dividends because the personal tax rate for the income received in the form of dividend is greater than the personal income tax rate on capital gains. Investors will be more profitable if the funds remain in the company or paid through the repurchase of shares outstanding. Thus, they pay tax on capital gains, which is lower than to receive dividends.

Based on the results of t- test analysis, it is found that institutional ownership does not have negative effect on dividend payout ratio.

Based on Figure 3, the graph of average institutional ownership and dividend payout ratio shows that in 2011 the average institutional ownership is 0.1827 and the average dividend payout ratio is 0.4067. In 2012 the average institutional ownership is 0.1769 and the average dividend payout ratio is 0.3958. In addition, in 2013 the average institutional ownership is 0.1669 and the average dividend payout ratio is 0.3699. Of the three years, it shows that the direction movement of institutional ownership and dividend payout ratio from year to year is positive. This means that the higher the level of institutional ownership, the higher the level of dividend payout ratio. Thus, it can be concluded that institutional ownership does not have negative effect on dividend payout ratio.

The result of this test is in line with the research conducted by Tandelilin and Wilberforce (2002) that institutional ownership has positive influence on dividend policy because institutional ownership is more concerned with the stability of income (returns) through the distribution of dividends. But, this result is not consistent with the research conducted by Jurica & Lilyana (2012) that institutional ownership has negative effect the dividend payout ratio.

The Effect of Family Ownership on Dividend Payout Ratio

A company with family ownership as the controller has greater voting rights in the election of directors and commissioners in the General Meeting of Shareholders (AGM) so that the directors and commissioners of the company are occupied by the family members.

Based on the theory developed by Jensen and Meckling (1976), the company with the family ownership structure can minimize or eliminate the problem and agency costs between the majority shareholders and the management. However, it will cause a problem of agency with the minority shareholders. Management tends to increase the dividend to reduce the agency conflict.

Based on the result of t-test analysis, it is found that family ownership has positive effect on dividend payout ratio. This is because there are 133 companies that have family ownership of the 173 existing data, or 65.32%. It can be concluded that the majority of companies listed on the Indonesia Stock Exchange have family ownership where the control of the company is by the family, and this will lead to monopoly.

This result is consistent with the research conducted by Sugiarto (2008) that family ownership has positive effect on dividend policy as measured by dividend payout ratio. But, it is not consistent with the research conducted by Jurica & Lilyana (2012) that family ownership does not have significant effect on dividend payout ratio.

The Effect of Foreign Ownership on Dividend Payout Ratio

Foreign investors tend to choose to invest in companies that have a higher value in the market. This is because foreign investors invest for the long

term. It is shown from the results of the research conducted by Wang (2007) that foreign transactions reduce the level of volatility in the capital markets. The long-term transactions can provide benefits in the form of dividends to foreign investors.

The existence of foreign investors in the ownership structure of the company can raise the performance of the company for several reasons. First, foreign investors can put pressure on managers by providing additional supervision. Second, foreign investors can provide new capitals and hire well-trained managers. Third, foreign investors are helping local companies to enroll in the international market which leads to the decrease in capital acquisition cost.

Based on the result of t-test analysis, it is found that foreign ownership has positive effect on dividend payout ratio. Graph 4 explains that foreign ownership has positive effect on dividend payout ratio:

Based on Figure 4, the graph of average foreign ownership and dividend payout ratio shows that in 2011 the average foreign ownership is 0.2869 and the average dividend payout ratio is 0.4067. In 2012 the average foreign ownership is 0.2671 and the average dividend payout ratio is 0.3958. In addition, in 2013 the average foreign ownership is 0.2287 and the average dividend payout ratio is 0.3699. Of the three years shows that the direction movement of foreign ownership and dividend payout ratio from year to year is positive. This means that the higher the level of foreign ownership, the higher the level of dividend payout ratio. It can be concluded that foreign ownership has a positive effect on dividend payout ratio.

The result of this study is consistent with the research conducted by Chai (2010) that the level of foreign ownership has a positive effect on the payment of dividends as measured by dividend payout ratio. This is in contrast to the research conducted by Jurica & Lilyana (2012) that foreign ownership does not have significant effect on dividend payout ratio.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The conclusion of each test result is as follows:

1. Based on the result of normality test shows that this study is free from bias and can be said that the data are distributed normally.
2. Based on the result of model test analysis (F test) shows that the model fits the regression equation of free cash flow (FCF), institutional ownership, family ownership and foreign ownership on the dividend payout ratio (DPR).
3. Based on the result of determination coefficient test (R2) shows that the ability of the variables of free cash flow, institutional ownership, family ownership and foreign ownership in influencing the variable dividend payout ratio is relatively low.
4. Based on the result of the regression analysis (t-test) shows that free cash flow, family ownership and foreign ownership have positive effect on dividend payout ratio, while institutional ownership does not have negative effect on dividend payout ratio. This is because the institutional ownership is more concerned with the stability of income (returns) through the distribution of dividends.

This study has several limitations, among others are:

1. The sample used in this study is 173 of the 398 research data. So, the sample is less than 50% of the population, which means that it is still far from the researcher's expectation to make the data sample close to the existing number of population.
2. The search for family ownership is done simply by looking at the names of board of directors and board of commissioners. If the company is owned by other institutions, the search for the ownership is conducted by using pyramid ownership analysis and cross-ownership structure, then it can be known if the controlling share of the company is individual (board of directors or board of commissioners). So, it could be classified as family ownership.

For further research, researchers are suggested use all go public companies as the population of the study because there are many companies that pay dividends and have a more complete ownership structure for the research sample. And, in searching the family ownership, it is not only seen from the names of the board of commissioners and board of directors, but also from the names of personnel who occupy the positions as employees, block holder, either individual or group, because there is a possibility that family is in that position as stated by Anderson et al. (2003).

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