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EXAMINING THE IMPACT MANAGERIAL OWNERSHIP AND FINANCIAL PERFORMANCE ON DIVIDEND POLICY

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ABSTRACT

Financial performance is a depiction of the company's financial demands throughout a given time period in terms of raising and disbursing funds. These requirements are often defined by indices of capital sufficiency, liquidity, and profitability. Monetary execution is a vision of obtaining organizational prosperity that may be expressed as what will happen that has been reached for the various exercises that have been carried out. The method utilized in this article is a qualitative method that incorporates a literature review or library research. The purpose of this article is to compare existing hypotheses to older theories in the research literature. The literature used is material from study findings or reviews reported in scientific publications in national and international forms related to financial management. All of the publications included were found using Mendeley's electronic data literacy search engine and Google Scholar. Based on the analysis of the impact of managerial ownership and financial performance on dividend policy, it is feasible to conclude that (1) managerial ownership has a significant impact on dividend policy in firms. (2) Financial performance has a significant impact on a company's dividend policy.

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1. INTRODUCTION

The company's executives are always working to increase the wealth of the shareholders. To accomplish this, the capital owner transfers control of the company to the manager. However, managers and shareholders frequently have asynchronous goals that conflict with the company's core goals, resulting in a conflict of interest between managers and shareholders. The agent-principal connection describes the interplay between managers and shareholders in agency theory.

Shareholders become principals, and managers become agents. Managers must make the best business judgments possible in order to increase shareholder wealth. Managers' business decisions aim to maximize the company's power sources. However, shareholders do not have complete control over the activities and decisions of managers. Managers will pose a threat to them if they work for their own benefit rather than the benefit of the shareholders. The conflict of interests between managers and shareholders is a basic issue in agency theory. According to research findings on managerial ownership and corporate values, managerial ownership has a significant negative impact on firm value.

According to (Jumingan, 2006), financial performance is a summary of the company's financial demands throughout a given time period in terms of raising and disbursing funds. These requirements are often defined by indices of capital sufficiency, liquidity, and profitability. Monetary execution is a vision of obtaining organizational prosperity that may be expressed as what will happen that has been reached for the various exercises that have been carried out. According to (Fahmi, 2012), "financial performance" refers to measuring the company's compliance with financial implementation regulations to determine its level of success. Managers who own stock will operate more efficiently for the benefit of the organization. Managers are today not only well-paid professionals, but also business owners.

If the company is profitable, it will continue to grow and expand. This profit is made up of retained profits, divided profits, and profits kept to a minimum. Retained earnings are one of the most essential sources of funding for firm expansion in the following stage. The more extensive the company's financial sources: The stronger the company's financial situation, the more earnings it keeps after depreciation of

fixed assets. So long as a portion of the company's profit is distributed to shareholders as dividends. The dividend policy of company leaders is a determining factor in the amount of dividends to be compared (Sjahrial, 2008).

Dividend policy, according to (Yudhayanto, 2011), has a major impact on financial performance. In this study, the independent variables are earnings per share (EPS), return on assets (ROA), return on equity (ROE), and net profit margin (NPM). The dividend policy, on the other hand, is the dependent variable. Control over dividend policy is one of the authorities granted to managers by shareholders. Dividend policy demands that considerations linked to dividend policy must be taken into account when choosing whether corporate profits will be given to shareholders as dividends or deducted as retained earnings for dividend financing. Dividends will be influenced by the company's good financial performance because hygienic profit is a measure of corporate performance and dividends are always based on net income for the current year.

2. LITERATURE REVIEW

2.1. Manajerial

Managerial ownership, also known as insider ownership, accounts for the majority of firm shares owned by management, according to (Borrola, 2011). This is demonstrated by the company's management's significant percentage shareholding. Shareholders contribute a portion of these managerial share ownership rights in the belief that managers will have a deeper sense of belonging to the company, thereby enhancing loyalty, devotion, and productivity (Suryani and Redawati, 2016). (Suryani and Redawati, 2016).

Some of the definitions above describe managerial ownership as the proportion of management's (directors' and commissioners') common stock ownership expressed as a percentage of total management shares. With managerial ownership, it is possible to reduce agency problems, and the higher the level of managerial ownership, the more active management will be in improving performance because management is obligated to uphold the ideals of shareholders and uses this responsibility to reduce the company's financial risk by reducing debt. Previous studies on management ownership include: (Gede, Mahariana, & Ramantha, 2014), (Candradewi, Bagus, & Sedana, 2016), (Anita & Yulianto, 2016), and (Anita & Yulianto, 2016). (Indahningrum, 2009)

2.2. Financial Performance

The corporate sector has a rather comprehensive concept of financial performance. According to the Indonesian Institute of Accountants (2007), financial performance is a company's ability to manage and control its sources of power. Indicators of capital adequacy, liquidity, and profitability are often used to gauge financial performance, which is a description of the company's financial demands within a certain time period in terms of fundraising and disbursing funds (Jumingan, 2006). Looking at the outcomes of various activities might provide insight into where the company's success stems from depending on its financial performance. According to (Fahmi, 2012), financial performance is an analysis of the company's compliance with the norms of applying finance to determine its extent.

Furthermore, financial performance is used as a research to examine whether or not the firm has used excellent financial application standards (Andriana & Panggabean, 2017). As a result, financial performance can be characterized as the company's struggle to evaluate and assess every success achieved during a given time period, which can take the form of profits (Maith, 2013). This method can characterize the company's future prospects, growth, and development potential. As a result, financial performance is the financial state that is influenced by the financial management decision-making process.

2.3. Dividen

Dividends are the transfer of profits to shareholders by a firm from the participation of shareholders or investors in funding the company's operations (Nur et al., 2021). The amount of profit distributed to shareholders is set during the annual shareholders' meeting (Nuswandari, 2013). According to the Indonesian accountants' bond in PSAK No. 23, dividends are the transfer of profits to shareholders based on their investment in specific categories of capital (Nur et al., 2021). The company's net profits will have an impact on the company's profit balance (Firnanti, 2011). When the balance is distributed to shareholders, the state of the company's balance will experience a shortage in proportion to the amount of the balance provided to shareholders (Waldelmi, 2015). Of course, this disease has an impact on finances.

As a result, the execution of dividend policy in the corporation is an essential issue that requires attention.

According to (Martono and Harjito, 2014), the company's dividend policy is a decision on whether profits will be distributed to shareholders as dividends or saved as retained earnings to support future investments. When a company decides to distribute dividends from profits, it reduces the amount of profits it keeps and the overall quantity of internal cash or financing available. However, if the company decides to keep its profits, it will have a higher capacity to generate internal money.

3. METHOD

The method used in this article is a qualitative method that includes literature study or library research. The goal of this article is to compare existing hypotheses to earlier theories in the research literature. The literature used is literature from the findings of research or reviews reported in scientific journals in national and international forms linked to financial management. All publications utilized were obtained via Mendeley's electronic data literacy search engine and Google Scholar.

A type of qualitative research, or literature research, is a systematic review of the literature using the appropriate methodological technique. It is utilized inductively so that it does not raise further issues. The reason for undertaking qualitative research is that this research is exploratory in character.

Furthermore, an in-depth discussion is conducted on the relevant section of literature or the literature being reviewed, because this section is the basis for formulating hypotheses and will subsequently become material for comparison with the results or findings from previous research results to reveal the truth of the existing theory (Permatasari and Jaelani, 2021). This article will show how the company's profitability value and leverage affect its growth.

4. RESULTS AND DISCUSSION

4.1. Managerial Influence On Dividend Policy

Managers can choose to hold shares in order to distribute earnings to shareholders. This approach requires managers to perform well while paying out a low level of direct dividends. Because of its relatively high internal fund origin to finance future investments, the firm has significant retained earnings despite having a moderate dividend determination (Nuringsih, 2005). If certain shareholders prefer large payouts, dividends must be increased. If high-level managers own shares, however, there will be a preference among shareholders for managers, therefore there is no need to enhance dividends (Dewi, 2008).

Management ownership has a negative impact on dividend policy, according to (Nursih, 2005). Managers with a high level of managerial ownership focus earnings on retained earnings rather than paying dividends since internal funds are more efficient than external funds. According to (Dewi, 2008), managers pay dividends at low levels of managerial ownership to show investors the likelihood of future firm performance.

Managerial ownership has a favorable impact on dividend policy, according to study (Sumartha, 2016). As a result of this distribution, dividends paid to shareholders will include a higher percentage of managerial ownership. Because the majority of Indonesian firms are family-owned, they typically pay substantial dividends. The manager's actions imply that the payout is large enough to be considered a return on investment. Increased managerial ownership can be used to cut agency costs. According to (Nasir, 2016), increased management ownership of poly shares reduces agency expenses, results in smaller dividends, and gives more capital for business expansion.

4.2. Effect Of Financial Policy On Dividend Policy

Dividend policy has a statistically significant beneficial effect on firm value. The findings of this study indicate that manufacturing companies would surely enhance business value if they are able to issue dividends to shareholders on a consistent basis, persuading investors to participate — even if only with the consent of shareholders present at the general meeting. This study will add to the findings of Soebiantoro (2007), Hasnawati (2005), Salatiga (2009), and Chengxuan (2011), who all show that financial performance indicators can have a major impact on dividend policy. Figure 1 depicts the conceptual framework in this article, which is based on the study of the theory of variable relations.

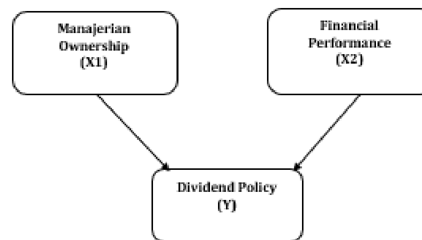

Figure 1. Conceptual Framework

5. CONCLUSION

Based on the analysis of the effect of managerial ownership and financial performance on dividend policy, it is possible to conclude that managerial ownership has a significant effect on dividend policy in companies, and that financial performance also has a significant effect on dividend policy

In companies. Based on the previous results, the relevant advice in this article is to conduct a literature review outside the scope of this article. This study focuses entirely on managerial dividend policy ownership and dividend policy financial performance. The company's executives are always working to increase the wealth of the shareholders. To accomplish this, the capital owner transfers control of the company to the manager. However, managers and shareholders frequently have asynchronous interests that conflict with the company's primary aims, resulting in a conflict of interest between managers and shareholders. The agent-principal connection describes the interplay between managers and shareholders in agency theory.

Shareholders become principals, and managers become agents. Managers must make the best business judgments possible in order to increase shareholder wealth. Managers' business decisions aim to maximize the company's power sources. However, shareholders do not have complete control over the activities and decisions of managers. Managers will pose a threat to them if they work for their own benefit rather than the benefit of the shareholders. The conflict of interests between managers and shareholders is a basic issue in agency theory. According to research findings on managerial ownership and corporate values, managerial ownership has a considerable detrimental impact on firm values.

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