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Abstract—***This article surveys three theories, namely dividend policy, agency theory, and corporate governance. Dividend policy is still an important issue that causes agency conflicts. The payment of dividends is a form of agency conflict between the majority shareholder and the minority shareholder. Meanwhile, the corporate governance mechanism can be a supervisory mechanism that can reduce agency conflicts. The results of this review explain that the yield model and replacement model need to be redeveloped with dividend policy, corporate governance characteristics and investor legal protection so that various and strong empirical evidence can be obtained.***

Keywords—***Dividend policy; agency theory; corporate governance***

I. INTRODUCTION

Agency conflict is a common problem that often occurs in companies. The conflict arose as a result of the contractual relationship between the principal and the agent in the company (1976). The principal hires an agent to manage the company by mutual agreement stated in the agreed contract. However, the principal does not fully know what is really going on in the company managed by the agent, resulting in a conflict of interest between the two parties. Conflicts that occur can be caused by assumptions that occur within the company. According to Eisenhardt (1989) there are three assumptions in agency theory, namely human assumptions, organizational assumptions and information assumptions. Human assumptions are related to individuals who are concerned with themselves compared to other individuals (self-interest), individuals have limited rationality (bounded rationality) and individuals sometimes become risk-averse individuals to avoid undesirable things (risk-averse). Then, the organizational assumptions include the existence of a partial conflict of objectives between the company's internal and external parties (e.g. managers and shareholders, managers and suppliers, and managers with creditors), efficiency as a criterion of effectiveness and information asymmetry between principals and company agents. Meanwhile, information assumptions relate to information which is a commodity that can be purchased. In other words, information becomes something that can be traded within a company. Agency conflicts result in losses to one party within the company, especially the principal and other external parties. This is due to the lack of knowledge related to internal information within the company. Therefore, it is necessary to have a mechanism that can reduce the conflict of interest.

Dividends play an important role in reducing agency conflicts that occur within the company, where with the payment of dividends the company's internal parties return the company's income to investors and are not intended to benefit themselves (La Porta et al., 2000). However, the absence of an agency model related to dividend policy as part of a contractual agreement between internal and external parties results in financing. Dividends can be viewed from two sides: first, dividends are the result of an effective shareholder legal protection system. The existence of an effective system makes minority shareholders have the legal power to claim their rights in obtaining dividend payments, thereby reducing internal parties to enrich themselves. Second, dividends are a substitute for legal protection. In this case, the company needs external funds by using the capital market as a means of increasing funds with attractive requirements so that the company creates a good reputation for taking over shareholders, one of which is by paying dividends. Thus, dividend policy in a company can be one of the important mechanisms in reducing agency conflicts within the company.

II. LITERATURE REVIEW

A. Agency Conflict

The relationship between internal parties and external parties in the company with a contract agreement creates a conflict between the two parties (Jensen & Meckling, 1976). Agency conflicts arise due to the different objectives and risk preferences between internal and external parties of the company. This conflict can occur in the relationship between the principal and agent, but on the other hand, it can occur in the relationship between minority shareholders and internal parties of the company. The existence of an agency conflict will cause a loss to one of the interested parties in the company, one of which is the minority shareholder. These shareholders are only a minority share in owning company shares. Therefore, minority shareholders need protection to avoid losses due to agency conflicts. One form of protection that can be obtained is related to the payment of dividends from the company which is one form of an effective legal protection system.

B. Dividend Policy.

Dividends are residual income that will be distributed to shareholders with the aim of maximizing shareholder value. In this case, by paying dividends the company has tried to fulfill its obligations to the company's shareholders so as to increase the value of the company's shareholders. According to Abdel-Halim and Bino (2014) dividend policy is defined as a decision on the distribution of the company's net income between dividends to shareholders and retained earnings. Furthermore, La Porta et al., (2000) revealed that there are two views regarding dividends, namely first, dividends as a result of the legal protection of shareholders. The existence of effective legal protection minority shareholders will have the power to obtain their rights in the form of dividends. Second, dividends as a substitute for the legal protection of shareholders. The dividend payments made by the company can create a good reputation in the eyes of external investors. Therefore, dividend policy is a mechanism that can be applied to minimize agency conflicts.

C. Corporate Governance

Corporate governance is an important part that should exist in a company. Corporate governance is related to the supervisory mechanism carried out by stakeholders in the company against internal parties and company management so that their interests are protected (Abdel-Halim & Bino, 2014). Efficiency of corporate governance in the company will provide supervision, check and balance between the interests of shareholders and company management so that it can be a mechanism that reduces agency conflicts. Thus, the existence of a corporate governance mechanism in a company has an important role in a company by providing supervision to create goal alignment between internal parties and company stakeholders, thereby reducing agency conflicts. The corporate governance mechanism in a company may consist of an ownership structure, the structure of the board of commissioners and directors, the audit committee and other committees.

D. Discussion

Research by La Porta et al., (2000) which discusses agency conflict and dividend policy uses two different agency models related to dividends. The model used is the result model and the replacement model. The yield model predicts that the dividend payout ratio is higher than the shareholder protection by the state. Furthermore, the model predicts that in countries with good shareholder protection, firms with better investment opportunities have lower dividend payout ratios. Meanwhile, the surrogate model predicts the opposite of the outcome model. Research conducted by La Porta et al., (2000) shows that companies operating in countries with better protection of minority shareholders pay higher dividends. In addition, companies in countries with good legal protection have fast growth and pay lower dividends than companies with slow growth.

Lin (2003) conducted a study by re-examining two dividend agency models developed by La Porta et al. (2000), namely the yield model and the replacement model. Research conducted by Lin (2003) uses aggregated data from 11 countries in the Asia Pacific. The yield model states that dividends are the result of effective legal protection from minority shareholders, who are able to take payments from the company while the surrogate model states that dividends replace the monitoring role of stakeholders. Legal protection for investors in various countries varies greatly, therefore the level of agency problems and dividend policies will vary. Asia Pacific countries have good variety in legal and financial structures so Lin (2003) uses them as a place for research. To examine two different agency models Lin (2003) ranked countries by their institutional structure and legal regime independently. In the institutional structure, two ratios that measure the depth of the banking system provided by the IMF are used as proxies to distinguish countries that follow the banking model or the capital market model. The ratio of domestic bank credit to GDP (Credit/GDP) measures the relative size of domestic credit extended by the banking sector while the ratio of liquid liabilities to GDP (Liquid/GDP) measures the relative size of bank deposits including currency in the economy.

The results of Lin's (2003) research show that the dividend policy of companies operating in countries with better investor legal protection are found to be higher and less sensitive to changes in earnings. In other words, consistent with the results model. In contrast, no evidence was found of the surrogate model predicting that firms in bank-centric markets pay lower dividends and have more rapid dividend adjustment to changes in earnings.

Research by Bartram et al., (2007) investigates the role of agency conflict in firms and countries in determining corporate payment policies in 43 countries in the world. Bartram et al., (2007) re-examined the outcome model developed by La Porta et al., (2000). However, extending the test of the yield model to the choice of form of payment as dividends and share repurchases can play different roles in reducing agency conflict. In addition, the study adds agency costs in the research model. Agency costs can differ substantially between companies within a country. This implies that country-level shareholder protection measures, as an indicator of expected agency costs, are limited in the insights that can be generated because they are not feasible and therefore do not capture variations in agency costs at the firm level. In addition, Bartram et al., (2007) investigated the interaction between firm and country-level agency cost measures in relation to total payouts and choice of payment form, namely dividends and share repurchases.

The results of the study by Bartram et al., (2007) found that in countries with high protection, investors can use legal force to withdraw cash from companies but the ability of investors to do so can be substantially hampered when agency costs at the company level are high. Meanwhile, in countries with poor protection, investors can seek refuge in corporate-level corporate governance mechanisms to curb agency conflicts, suggesting a substitution between state and firm-level investor protection. Then, the results of the study found that dividends are more likely to be the only method of payment in high-protection countries and in firms that are not very close, compared to repurchases. Overall, the results of research by Bartram et al., (2007) show that firm-level agency conflict and growth opportunities are important in determining dividend payouts in high-protection countries, but often less so in low-protection countries.

Furthermore, Abdel-Halim and Bino (2014) conducted a study by investigating the relationship between corporate dividend policy and corporate governance mechanisms in Jordanian companies. The corporate governance mechanism is measured by the company's ownership structure. This research was conducted in a developing market with a weak corporate governance system and ineffective law enforcement. Abdel-Halim and Bino (2014) examined the relationship between corporate governance mechanisms and dividend policy in countries with weak legal protection from outside investors and high concentration of ownership using two dividend agency models developed by La Porta et al., (2000). The results showed that ownership concentration was significantly negatively related to the dividend payout ratio after controlling for major confounding factors including: firm performance, size, sales growth, and leverage. The results of the study are also consistent with the results model developed by La Porta et al., (2000). The policy implication obtained from the research results is a clear deficiency in dividend policy as a mechanism that should help shareholders to discipline the company's management.

Then, research by Li and Luo (2018) conducted a study on research on ownership structure and protection of minority investors. The study begins with many research findings showing that controlling shareholders tend to use asymmetric ownership structures to violate the interests of minority shareholders in terms of ownership concentration, which results in a supervisory effect and an entrenchment effect. Even so, the emergence of the theory of ownership restrictions is very helpful in improving the situation, these restrictions can effectively limit or even eliminate the behavior of major shareholders to violate the limits of company funds or assets, thereby protecting the interests of minority shareholders.

There are two different points of view on the theory of limitation of ownership. First, Shleifer and Vishny (1996) suggest that ownership concentration is more conducive to increasing profitability and market reaction ability than ownership dispersion. On the one hand, the controlling shareholder imposes a potential expropriation threat on management. On the other hand, the controlling shareholder has the ability to obtain all kinds of information in the market. Second, Demsetz and Lehn (1985) argued that a dispersed ownership structure is preferable to a centralized ownership structure on the grounds that the interests of controlling shareholders and minority shareholders are often inconsistent. According to La Porta et al., (2000), ownership is better for protecting the interests of minority investors and concentrated ownership can result in poor investor protection. Therefore, the key factor of modern corporate governance is maintaining a reasonable concentration of ownership to protect the interests of investors.

The results of the study by Li and Luo (2018) found that ownership concentration is the main problem of corporate governance in the market and is an agency problem between controlling shareholders and external investors. Controlling shareholders take advantage of controlling rights to monitor listed companies and violate the interests of minority investors. The tunneling method contains activities such as selling listed company assets at lower prices and providing loan guarantees to companies that are controlling shareholders with high cash flow rights, paying high salaries to management and violating the development opportunities of listed companies and so on. The external legal environment is the foundation for this, but the laws are passed by the relevant government departments and are not flexible. Therefore, it is necessary to pay more attention to the role of limiting internal ownership to control one share to become very large and protect minority investors.

Kanojia and Bhatia (2021) conducted a study related to the relationship between corporate governance and dividend payments in US and Indian companies. There are drastic differences in the behavior of dividend payments across developed and developing countries. These differences can be explained by corporate governance, ownership structure and financial parameters as well as other economic factors (Kanojia & Bhatia, 2021; La Porta et al., 2000). The US is used as a proxy for developed countries and India as a proxy for developing countries. Concentrated ownership causes principal-principal conflicts between controlling shareholders and minority shareholders, where the case is more severe in India than in the US (Kanojia & Bhatia, 2021). This can change the dynamics of governance and require different solutions to address them. In addition, there are differences in dividend policies between Indian and US companies. Comparative analysis of the impact of corporate governance variables in India and the United States can provide valuable findings in the area of dividends.

Kanojia and Bhatia (2021) use a hypothetical approach to the yield model and the surrogate model developed by La Porta et al., (2000) to examine the relationship between corporate governance and dividends. The results of the research conducted found that companies with good corporate governance paid higher dividends than companies with weak governance. In other words, these results are consistent with the outcome model but different from the surrogate model. In addition, specifically, board independence, board size and institutional ownership are the main drivers of corporate governance of dividend payments in US companies. Meanwhile, there are no individual corporate governance parameters that are significantly related to dividend payments for Indian companies. Based on these results, investors can consider these things for investment decisions. Financial regulators need to improve corporate governance for dividend disbursement and reduce agency problems.

E. Conclusion

The relationship between dividend policy and ownership concentration is still an issue that needs to be investigated, because it becomes an agency conflict within a company. In fact, the concentration of ownership is part of the corporate governance mechanism of a company. The yield model and replacement model need to be redeveloped in countries with different dividend policies, characteristics of corporate governance and legal protection of investors so as to obtain varied and strong empirical evidence. Especially the surrogate model which has not been fully proven in several previous studies. Both models can be linked back to the mechanism of corporate governance, especially the concentration of ownership in the company.

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