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Determining Factors of Dividend Premium For Manufacturing Company on IDX

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ABSTRACT
One of important factors in determining the dividend distribution is how to measure dividend premium. Coming from Baker and Wurgler (1) & (2), it has been declared the catering theory dividend which states new perspectives for management which should take more attention regarding the demand of investors about dividend. The investor's demand is not only about the monetary number of dividend but also the dividend level will meet their demand. In order to fulfill that investor needs, the management must set the dividend premium. Thus, the purpose of this study was to examine the effect of liquidity, profitability, and company growth on the dividend premium in manufacturing companies listed on the IDX. By using panel data regression from time period from 2015-2018, we find the profitability, leverage, and retention ratio have a positive significant effect on dividend premium while liquidity and company growth (PEG) have no significant effect on dividend premium. Hence from our result, we can make an implication of the quiet validity from catering theory of dividend in IDX and the firm should set properly profitability, leverage and retention ratio in order to get positive dividend premium which will bring good response from investors in the capital market.

Keywords: *Catering Theory of Dividend, Dividend Premium, Liquidity, Profitability, Company Growth*

1. INTRODUCTION

Manufacturing is one of important sector in the economy that plays positive role in economic development. The growth and performance of manufacturing companies can be affected by funding and profits. In running companies, adequate funds are needed to carry out operational activities. In addition to funds owned by company owners, funding can be obtained through investment activities according to Mason (7). It is important to manage company finances well by managers because it can affect dividend payments.

According to finance literature, the common determinant factors on dividend distribution decisions are profitability and leverage. Profitability is the company's ability to generate profits or profits. Maximum profits can prosper the owners or shareholders and can attract many investors to invest. The level of dividend payments is positively and significantly influenced by earnings, which are studied by Suharli (15), Sugiarto (14), and Marpaung and Hadianto (10).

While leverage is another important factor in dividend distribution decisions. The low dividend payout is due to the large leverage of the company. The size of the dividend payment is influenced by the amount of liability because a company's capital uses debt as capital. The last factor, namely the growth of the company. In supporting the company's growth, the amount of funds needed for the future is determined by the company's fast-paced growth. If the company's growth rate is stable, the fulfillment of funding can come from the capital market or foreign investment. Therefore, the situation is different. The company is able to pay dividends in high amounts.

Marpaung and Hadianto (10) states that one of the most important financial sources that can be used to finance company growth is retained earnings. The high growth potential of the company is more likely to maintain a high retention ratio to net income. The cheapest source of funding is retained earnings. Financial managers need to be financially careful so that the stability of dividend payments can be maintained by continuing to maintain company profits.

Dividend allocation is referred to the Catering dividend theory by Baker and Wurgler (1) & (2) which is different from theory of Miller and Modigliani (8). This theory states that the firm's dividend target is affected by investors' demand. Thus is will make managers will pay dividends to investors when they get the high dividend premium. Investors will place higher stock prices on companies that pay dividends than companies that do not pay dividends. Thus, dividend payments are influenced by dividend premium and it is measured by different market valuation between dividend payers and non-payers as mentioned by Baker &Wurgler (1) & (2).

Researchers in various countries have discussed and studied dividend catering such as research on the effect of dividend

catering on non-financial companies in Taiwan supported by Ferris, et.al. (5). The existence of catering incentives from positive dividend premiums indicates that the company will pay dividends. The results of the study from the description above are in accordance with the research of Li and Lie (6). However, the catering dividend incentive had a negative impact on the company's dividend payments during 1988-2002 as stated by Ferris et al. (5). In the research of Mangundap and VentjeIlat (8), leverage has a significant negative effect on dividend policy. In some developing countries such as Pakistan, dividend payments are considered very important. The high level of poverty makes them prefer dividends over reinvestment. In the research of El Bannan (4), many investors do risk aversion and demand for regular dividend payments. In addition, research is also conducted by Teja, et.,al (20). Their result show that there is a positive effect of catering dividends measured by dividend premiums on dividend policy. Furthermore, in a previous study conducted by Sari and Handoyo (18), they discussed the effect of profitability and liquidity on the dividend payout ratio in manufacturing companies in Indonesia. The following are the results obtained by the researchers. First, profit (ROI) has a significant positive impact on the dividend payout ratio. An increase in DPR will be followed by an increase in ROI. Second, there is a negative effect of liquidity (QR) on the dividend payout ratio but it is not significant.

Actually, many researchers in various countries have studied and discussed the proxy of catering dividend, namely dividend premium. However, the study of this theory and decisions on dividend payments are still limited in Indonesia. There are still many other variables whose effect on dividend premium is unknown other than those that have been studied by researchers. Therefore, this study aims to determine whether there is an impact of Liquidity, Profitability, and Company Growth on Dividend Premium in Manufacturing Companies Listed on the IDX starting the similar studies from Baker &Wurgler (1) & (2), Suharli (15), Sugiarto (14), Marpaung & Hadianto (10) and Moortgat (11).

2. THEORETICAL UNDERPINNING AND HYPOTHESES FORMULATION

2.1. Theoretical Underpinning

The dividend catering theory which originated from Baker and Wurgler (1) & (2) emphasizes that companies can make dividend payments according to investors' needs. When investors are willing to give a higher stock market price appreciation, this company should pay higher dividends so that it has an impact on the maximum market value of equity.

Baker and Wurgler (1) & (2) in Rochmah and Ardianto (13) use the dividend premium proxy as the difference between the logarithm of the market to book ratio of companies that distribute dividends and companies that do not distribute dividends. According to a study by Lie and Lie (6) and Rochmah and Ardianto (13), the dividend premium proxy can be used effectively if the determinants of the market to book ratio have been decomposed in detail by ensuring that the value of the number of shares outstanding, the share price used and the book value of equity are correct and relevant. officially audited and submitted to the stock exchange authority.

Chazi, et.al. (3) support the catering dividend theory. In his research, stated that the positive effect of the dividend premium can increase if the company's risk is controlled. However, Moortgat (11) show evidence against the emergence of catering incentives found in previous studies. In this study, no significant correlation was found regarding catering and dividend payout variables. The entire study was applied to the US market. Utilization of data collections from other countries also shows mixed results.

2.2. Hypotheses Formulation

2.2.1. Price Earning to Growth Ratio to Dividend Premium

Growth is one of the factors that affect dividend payments. As the company's growth accelerates, the funds needed to finance this growth are even greater. The large demand for funds for the future makes the company decide to withhold profits rather than pay dividends to shareholders. Suharli and Sofyan (16) and Marpaung and Hadianto (10) state that growth has a significant effect on dividend payments. However, Sulistiyowati (17) did not find any influence between growth & dividend payments. Based on the explanation, the first hypothesis is:

H_1: *Price Earning to Growth Ratio influences dividend premium*

2.2.2. Leverage to Dividend Premium

Increased debt will affect the level of net income (net income) available to shareholders, including dividends to be received. According to Suharli and Sofyan (16), as the company's leverage increases, the probability of paying dividends decreases with a view to reducing dependence on external funding. Therefore, the amount of debt used in the company's capital structure will affect the size of the dividend distribution. This is in line with the research of Prihantoro (12) which shows a significant effect on the level of payment. Even so, Sulistiyowati (17) shows that there is no significant effect between leverage and the policy on the amount of dividend distribution. Based on the explanation, the second hypothesis is:

H_2: *Leverage influences dividend premium*

2.2.3. Profitability to Dividend Premium

According to Suharli 15), management will distribute dividends as a sign of the company's success in posting profits. The high profit indicates an increase in the company's ability to pay dividends. In connection with that,

profitability is needed by companies to pay dividends. This is in line with signaling theory and residual dividend policy theory. Signaling theory states that dividend payments are a sign for outside investors about the company's future prospects. Companies that pay dividends prove that the company has good opportunities in the future. The residual dividend policy theory shows that companies pay dividends when there are excess funds that exceed the company's profits aimed at financing planned projects. Suharli (15), Sugiarto (14) and Marpaung and Hadianto (10) respectively have conducted research and proved that profitability has a positive and significant impact on dividend payments. However, Sulistiyowati (17) said that profitability does not have a significant impact on dividend payments. Based on the explanation above, the third hypothesis is:

H_3: *Profitability influences dividend premium*

2.2.4. Liquidity to Dividend Premium

Payment of dividends by the company is a cash outflow so that adequate liquidity is needed. Companies are able to pay dividends when liquidity increases. According to Chazi et. al. (3) revealed that the company's liquidity has a positive effect on dividend payments. Meanwhile, Moortgart (11) interprets the high financial earned and retained earnings do not have to create a high cash position because profits and retained earnings have been used to pay off debt or are attached to assets other than cash. Based on the explanation above, the fourth hypothesis is:

H_4: *Liquidity influences dividend premium*

2.2.5. Retention Ratio to Dividend Premium

There is a strong relationship between retained earnings and dividends. Dividends are the right of shareholders to receive profits earned by the company. The saved income actually belongs to the shareholders that the company holds for business development. Based on Teja, et.al. (20), it can be said as a dividend distribution when the retained earnings have been determined to be distributed to shareholders. Later, the distribution of dividends is based on the number of shares owned by shareholders. Based on the explanation above, the fifth hypothesis is:

H_5: *Retention ratio influences dividend premium*

3. RESEARCH METHOD

This study uses purposive sampling method in sampling. There are several criteria for screening samples, namely:

a. The study uses manufacturing firms that pay dividends and do not pay dividends in the period of 2015-2018.
b. Financial companies, banks and insurance companies are not included in the sample.
c. The manufacturing companies sampled in this study have complete financial data for the period of 2015-2018 and provide information related to the dividend payout ratio, return on asset, quick ratio, leverage, retention ratio, and price earning to growth ratio.

Based on these criteria, the sample to be used in this study is manufacturing companies in the consumer goods industry, basic and chemical industries, as well as various industries listed on the Indonesia Stock Exchange from 2015-2018.

The research data collected is pooling data which is a combination of cross section and time series data from a predetermined sample and period. The data was obtained from the official website of the Indonesia Stock Exchange, namely www.idx.co.id and the websites of each company. The variables in this study consisted of the dependent and independent variables. The dependent variable s the dividend premium (DP) which is the different market valuation or approximately by stock prices between dividend payers and non-payers according to Baker &Wurgler (2004a). The independent variables of this study are price earning to growth ratio (PEG), leverage (DAR), profitability (ROA), liquidity (QR), and retention ratio (RR). This research uses advanced multiple linear regression model i.e. GLS by employed Eviews 11. This research uses descriptive statistics, multicollinearity test, and panel data regression,

4. RESULTS AND DISCUSSIONS

4.1. Descriptive Statistics

From the descriptive statistics result in Table 1, it can be seen that all of determinant factors of DP from QR. ROA, PEG, DAR and until RR have the mean values which are larger than their standard of deviation. So, we can conclude that all of determinant factors of DP is still having near the normal distribution. Hence, they should become good predictor when we conduct model analyzing by using OLS or moreover GLS (Panel Data Regression).

Table 1 Descriptive Statistics

Variables	Mean	Standard Deviation
DP	0.003897	0.354332
QR	1.920368	1.85574
ROA	11.6375	4.22584
PEG	0.150652	0.310236
DAR	0.349221	0.144343
RR	64.41897	51..55198

Source: Data processing results (2021)

4.2. Multicollinearity Test

Based on the multicollinearity test results in Table 2 below, it can be concluded that correlation value between independent variables is smaller than 0.8, meaning that there is no multicollinearity in regression model.

Table 2 Multicollinearity Test

Correlation						
	DPR	QR	ROA	PEG	DAR	RR
DPR	1.000000	-0.111328	0.038454	0.044858	-0.025853	-1.000000
QR	-0.111328	1.000000	0.091589	0.012030	-0.517370	0.111329
ROA	0.038454	0.091589	1.000000	0.015631	-0.098881	-0.038454
PEG	0.044858	0.012030	0.015631	1.000000	0.077295	-0.044859
DAR	-0.025853	-0.517370	-0.098881	0.077295	1.000000	0.025851
RR	-1.000000	0.111329	-0.038454	-0.044859	0.025851	1.000000

Source: Data processing results (2021)

4.3. Panel Data Regression

Panel data regression consists of common effect model, fixed effect model, and random effect model. In determining which model is the most appropriate by performing Chow-test, Hausman-test, and Lagrange multiplier test. This study has obtained the appropriate results of data processing with Chow-test. From the test results of panel data regression is appropriately used by common effect model. There result is presented in table 3.

Table 3 Panel Rata Regression (by Common Effect Model) for Dividend Premium

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-2150.522	239.3961	-8.983115	0.0000
QR	0.016973	0.01202	1.4132018	0.1604
ROA	0.000472	9,78e-06	4.82545	0.0000
PEG	-0.001131	0.00105	-1.247367	0.2145
DAR	0.315646	0.095959	3.285085	0.0013
RR	21.50369	2.353442	8.984419	0.0000

Root MSE	0.350019	R-squared	0.016968
Mean dependent var	0.003897	Adjusted R-squared	-0.028754
S.D. dependent var	0.354332	S.E. of regression	0.359390
Sum squared resid	16.66183	F-statistic	0.371113
Durbin-Watson stat	3.106506	Prob(F-statistic)	0.896183
Unweighted Statistics			
R-squared	0.016968	Mean dependent var	0.003897
Sum squared resid	16.66183	Durbin-Watson stat	3.106506

Source: Data processing results (2021)

The test result in Table 3 above proves that liquidity (QR) has no significant impact on the dividend premium in manufacturing companies listed on the Indonesia Stock Exchange for the 2015-2018 period. This is not in line with the results of research from Chazi et. al. (3) and Moortgart (11 which reveals that company liquidity has a positive effect on dividend payments. This means that investors do not see liquidity as a reference in making investments because it does not guarantee that the company can pay a dividend premium or not. Companies that have high profits are not necessarily able to pay their debts quickly or on time. Vice versa, companies that have low profits are not necessarily unable to pay debts quickly or on time.

From the results of this study, it is evident that profitability has a positive and significant effect on the dividend premium in manufacturing companies listed on the IDX for the 2015-2018 period. This is in line with signaling theory to see good opportunities in the future. In addition, the residual dividend policy theory shows that companies pay dividends when there are excess funds that exceed the company's profits for project financing that has been planned. The results of this study are supported by the results of research by Suharli (15), Sugiarto (14) and Marpaung and Hadianto (10) which state that profitability has a positive and significant impact on dividend payments. In addition, this study also shows that PEG has no significant impact on the dividend premium in manufacturing companies listed on the IDX for the 2015-2018 period. The results of this study are not in accordance with the research conducted by Suharli and Sofyan (2004) and Marpaung and Hadianto (10) that growth has a significant effect on dividend payments. However, this study is in line with the results of research by Sulistiyowati (17) which did not find any influence between growth and dividend payments.

This study also found a positive and significant impact of leverage on the dividend premium in manufacturing companies listed on the IDX for the 2015-2018 period. This shows that leverage affects investors' decisions to invest in a company. Leverage is a company's assets that are purchased or financed with debt. The low leverage of a company due to good company performance. On the other hand, the high leverage is due to the company's performance is not good. The higher the leverage, the company will not pay dividends because it is used for company needs. The results of this study are in line with the results of Prihantoro's (12) research which shows a significant effect on the level of payment.

The results of this study indicate that the retention ratio has a positive and significant effect on the dividend premium in manufacturing companies listed on the IDX for the 2015-2018 period. Our study supports Teja, et.al. (20). When the company retains profits, which means it does not pay a dividend premium to investors, it means that the profits are used for the development needs. In other words that the company should maintain a high retention ratio because it is the cheapest source of funding i.e. retained earnings.

5. CONCLUSION, MANAGERIAL IMPLICATION & SUGGESTION

5.1. Conclusion

Based on the results of the discussion that has been carried out, it can be concluded several things such as: there is no effect of liquidity on dividend premium, there is an effect of profitability on dividend premium, there is no effect of company growth on dividend premium, there is leverage effect on dividend premium and there is an effect of retention ratio on dividend premium. Based on these findings, we can still prove the phenomenon of the catering

theory dividend for manufacturing firms listed in IDX during 2015-2018.

5.2. Managerial Implication

According to our result, it will be implied that dividend premium as the main concern from firm to implement the catering theory of dividend could be realized. The dividend premium is proxied by the difference of market valuation or stock prices from dividend payers and dividend non payers. When the firm is expected for good response from market or investors then firm should set the positive dividend premium. The other managerial implication for the firms is setting properly about level of profitability, leverage and retention ratio in order to obtain he positive dividend premium that would bring the good response from the investors in the market.

5.3. Suggestion

This research still has some limitations and there is little discussion about the variables of discussion, so there are some suggestions that can be given. Investors need to pay attention to profitability, leverage, and retention ratio in setting decisions to invest in a company that can supply maximum returns. High profitability, low leverage, and low retention ratio in the company attract investors to invest their capital. For companies, the prospect of the company in the future is very important for investors because it can determine how much return the company can provide to investors. Therefore, the need for good company performance in managing company finances and assets and being able to minimize unnecessary costs and company debt. In addition, the company should be able to consider the catering dividend theory as an operational definition of the dividend policy that has been running. Further researches can add other independent variables that affect dividend premium beside consider sample size, unit analysis, time period and another type of panel data regression.

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