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“Regional Development in an Era of Global Innovation Economy”

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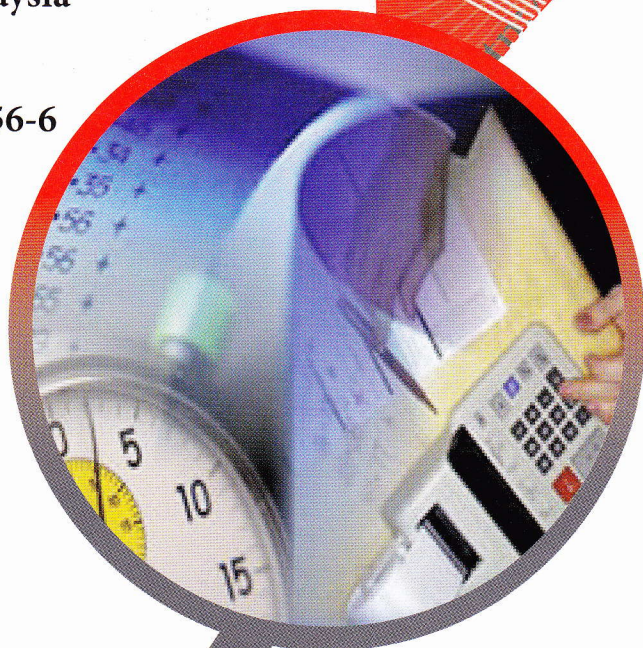
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EFFECT OF DIVIDEND CATERING THEORY TO THE COMPANY'S
DIVIDEND PAYOUT PROPENSITY

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ABSTRACT

The research aim to examine the influence catering theory of dividend to the propensity of company's dividend payout. In the research, dividend catering measured by several proxy variables are dividend premium, company size, profitability, growth opportunities, corporate lifecycle and payment of dividend the previous year. Based on purposive sampling method, totally samples are 69 firm with 309 observations for observation period from 2004 to 2008. This research were analyzed using logistic regression. The results showed that from six variables only variable company size, corporate lifecycle, and payment of dividend the previous year have propensity to influence company's dividend payout, so that these variables can explain the catering theory. Sensitivity test conducted for two variables are company size and growth opportunities. Company size measured using market capitalization and other measure is standard error. Sensitivity test showed that the most appropriate measure the company size is standard error. For growth opportunities measured using Market-to-Book and other measure is Change in Asset. From two measure, sensitivity test showed that the most appropriate measure the growth opportunities is Market-to-Book.

Field Research: Behavioral Finance

1. INTRODUCTION

According Sartono (2001), dividend policy is the decision of whether the profits from the company will be distributed to shareholders as dividends or be retained in the form of retained earnings. In connection with the dividend policy, managers must be able to actually consider whether the company should pay or not pay dividends in terms of retained earnings and reinvestment.

Payment of dividends can minimize the agency conflict (Sartono, 2001). Agency conflict arise especially if the company generate Free Cash Flow (FCF) is very large, where FCF obtained is used managers who have different interests with shareholders. So that the FCF should be

distributed in the form of dividends for the agency to minimize the conflict that occurred in the company.

Payment of dividends is also associated with the pecking order hypothesis, which states that corporate funding is recommended to come from internal or retained earnings. Hence, in the company's high-growth opportunities, companies usually do not have sufficient funds (internal financing) to finance its projects (Arifin, 2007). Therefore, at the time of high growth opportunities, companies will tend to not pay dividends in the hope of high growth opportunities that will generate high internal cash flow, which can benefit investors.

In general, the company will pay a dividend to shareholders every year. However, in certain years the company did not pay dividends. The tendency of companies in paying dividends, then make Baker and Wurgler (2002) developed a theory that is, "Catering Theory of Dividend" used to explain the dividend payout decision. In the catering theory, the dividend payment is influenced by investor demand to receive the dividend. To be able to know the demand of investors, it can be done by looking at how the company's market value. Manager will serve the demand of investors to pay dividends, with the hope of coming diperiode company's stock price will rise. Therefore, in order to see whether or not the dividend catering effects on the propensity to pay dividends, they use the dividend premium as a proxy to explain this effect.

Ferris, Narayanan, and Sabherwal (2009) examine the effect of the dividend catering to the trend of dividend payments by using proxy variables (because the dividend catering can not be directly measured to see the effect on corporate dividend payments) in the form of dividend premium, firm size, growth opportunities, company life cycle and payment of dividend in the previous years. The results of Ferris, et al., (2009) show that companies with high dividend premium has a higher tendency in the payment of dividends compared to firms that have dividend premium is lower.

Besides the effect of the dividend catering using proxy variables, Ferris, et al., (2009) also examine the effect of the dividend catering between countries that are grouped into common law and civil law. From the results of testing done, they find results that companies with high dividend premium will tend to pay dividends in the countries belonging to common law countries than in civil law countries. This indicates that the catering theory more influence in the company's dividend payments on the common law countries than firms located in civil law country group.

Judging from the results of a study conducted by Ferris, et al., (2009), indicating that the catering effect on common law states that one of the countries into the sample testing is the State of Indonesia. Therefore, the author will conduct a special re research only on existing companies in Indonesia to prove the existence of catering theory of dividends to the case of companies listing on the Indonesia Stock Exchange.

Based on the background issues that have been described, then the problem will be discussed in this research is:

1. Does the dividend premium has positive influence on the tendency of dividend payments?
2. Does the size of the company has positive effect on the tendency of dividend payments?

3. Does the company's profitability level has positive affect on dividend payout tendency?
4. Does the opportunities for growth negatively affect the tendency of dividend payments?
5. Does the company's life cycle has positive influence on the tendency of dividend payments?
6. Does the dividend from the previous years has positive influence on the tendency of dividend payments?

The remainder of this article is structured in the following manner. Section 2 reviews the theories and empirical background of the issue addressed in this study. Descriptions on the data and empirical specifications are presented in section 3. This is followed by section 4 which presents and discusses the results and section 5 which concludes and discusses the implications.

2. LITERATURE REVIEW

2.1. Dividend Signaling Theory

Dividend Signalling Theory (DST) explained that the company uses dividend policy to provide a signal to the market about the company's prospects in the future, which will eventually lead to the emergence of a reaction to stock prices.

Husnan (2005) argues that a high dividend payout could be interpreted that the company has good prospects for profitability. Conversely a decrease dividend payments can be interpreted that the level of the company's financial outlook is not good. So it can be said that a high dividend payout can provide a positive signal and vice versa a low dividend payments can provide a negative signal. Increase or decrease the higher dividend payment of Sartono (2001) also regarded by investors as a signal that the company's prospects in the future better. In line with the above, Snajdr (2008) states that the market will react positively to the increase in dividend payments and instead will react negatively to decrease or avoid payment of dividends. This shows there are positive signals and negative at the time of payment of dividends.

2.2 Agency Theory

According Sartono (2001), agency problem can occur because of differences in interests between shareholders and managers because the companies earn Free Cash Flow (FCF) are too big. In connection with the dividend distribution, it can be said that the higher the FCF firms, the firms will tend to pay dividends, which also effects the reduction in agency problem. In addition, agency theory predicts that firms will pay higher dividends if the dividend premium increases the company with the intention to reduce the potential agency conflict is greater.

2.3 Pecking Order Hypothesis

Pecking order hypothesis is based funding concept by a "hierarchy" of funding, the company is advised in advance to fund its investment activities with sources of funding coming from internal sources, ie retained earnings and cash flow. The next sequence is a debt financing with a lower risk, more risky debt, the issuance of convertible bonds and the last is the issuance of new shares (Myers, 1984). Pecking order hypothesis is also related to the company's growth opportunities. At high growth opportunity companies, typically companies do not have sufficient internal funds to finance projects that will benefit the company, making a total Net Present Value (NPV) will be reduced (Arifin, 2007). This will impact on the distribution of dividends, where the higher the growth opportunities the companies tend to not pay dividends, because the funds held by the

company more is needed to finance new projects that will be able to generate higher profits in the future.

2.4 Important Components of Catering Theory of Dividend

Here are some important components of the catering theory of dividends:

1. Investor Demand for Dividend

According to Baker and Wurgler (2002), investor sometimes like a cash dividend, but next time, investors also will choose to not receive dividends. Reasons that may explain why the dividend is important is a belief that the payment of stock dividends less risky. This relates to the opinion of the bird-in-the-hand theory, which stated that investors feel safer to choose to earn income in the form of dividends rather than waiting for capital gains.

2. Limited Arbitrage

According to Baker and Wulger (2002), in an efficient and perfect market, the less informed stock dividend will not affect stock prices. Therefore it can be resolved by arbitration. Arbitration can make companies prefer dividend policy and for a long time and with proper respect for "the perfect replacement", ie companies with similar investment policies but with a different dividend policy.

3. Catering as Rational Response

Baker and Wurgler (2002) argues that in setting the dividend in relation to catering, the manager will have a tendency to pay high dividends when investors will provide an assessment of the stock price higher in subsequent periods and will have a tendency to pay low dividends when investors will not be give a high rating on the company's stock price.

The purpose of catering dividend is to get a stock price premium associated with the characteristics of investors who currently more profitable. Catering dividend which is different from other dividend policy that maximize shareholder value. In Catering dividend, more managers decide to maximize short-term price, while in other dividend policy, emphasizing long-term value.

2.5 Previous Research and Hypothesis Development

2.5.1 Premium Dividend Effect on Dividend Payments Propensity

Dividend premium is the difference between the average Market-to-book ratio of companies that pay dividends by companies that do not pay dividends. According to Liu and Shan (2007), the dividend premium has the effect of dividend payments in relation to agency theory. Dividend premium is higher when there is a need to reduce agency greater conflict, by paying dividends to shareholders.

To resolve the agency conflict, according to Sartono (2001) the company will pay dividends in large numbers, so there is no Free Cash Flow (FCF) is a problem for managers and shareholders. In other words, premiums increased dividend will give effect to the payment of higher dividends. This is also supported by the results of research Ferris, et al., (2009) which showed that there was a positive influence between the dividend premium and the dividend payout tendency, where the company will have a tendency to pay high dividends if the dividend premium is large. Based on the above explanation, the authors formulate the first hypothesis is as follows:

H1 : Dividend premium positive effect on the tendency of dividend payments

2.5.2 Effect of Company Size on Dividend Payments Trends

Ferris, et al. (2009) states that a company's market capitalization can be used as a measure of the company. They concluded that the company has a high tendency in the payment of dividends if the market capitalization to show positive results. Fama and French (2000) show that firms in the United States, which has the largest size has a high dividend payout ratio. The influence of company size and trend of dividend payments was also investigated by Neves and Pidado (2006) and Denis and Osobov (2005). They concluded that larger companies will have a high dividend payout tendency. Based on the above explanation, the second hypothesis is as follows:

H2 : Firm size has positive influence on the tendency of dividend payments

2.5.3 Effect of Profitability Level on Dividend Payments Trends

The management will pay dividends to provide a signal about the company's success in record profits (Wirjolukito et al., 2003 in Suharli, 2007). Signal indicates that the company's ability to pay dividends is a function of corporate profits. Thus profitability is absolutely necessary for the company, if about to pay dividends. The test results Suharli (2007) show that profitability has a positive and significant impact on propensity to pay dividends. Denis and Osobov (2005), also said that the higher profitability of the company will have a high tendency in the payment of dividends and conversely the lower the level of profitability, the company will have a low tendency also in the payment of dividends. Based on the above explanation, the third hypothesis is as follows:

H3 : Level of corporate profitability has positive influence on the tendency of dividend payments

2.5.4 Effect of Growth Opportunities on Dividend Payments Trends

In connection with the pecking order hypothesis, the high growth opportunities for companies that usually do not have sufficient internal funds to finance projects that will benefit the company so that the number of Net Present Value (NPV) will be reduced (Arifin, 2007). This will impact on the distribution of dividends, where the higher the growth opportunities the company will have a tendency to lower the dividend payment.

Fama and French (2000) investigated the relationship of both and give the result that the high growth opportunities that make the amount of dividends paid will be lower or even not pay a dividend. Propensity to pay dividends is negatively and significantly related to growth opportunities. This shows that the higher the company's growth opportunities, then the tendency of corporate dividend payments will be lower (Ferris, et al., 2009). Other evidence suggest a link between opportunities for growth with the dividend payment is the testing done by Denis and Osobov (2005). The results show that in common law countries (the United States, Canada and UK), growth opportunities have a negative and significant impact on dividend payments.

According to Porta, Silanes, Shleifer and Vishny (1999), companies that have high growth, will pay a dividend with a lower level than companies with low growth. In companies with high growth, investors are willing to obtain a low dividend with expectation for the next period of high growth companies will be able to provide higher profits for investors. Based on the explanation above, the fourth hypothesis is:

H4: Growth opportunities negatively affect the tendency of dividend payments

2.5.5 The Effect Of The Company Lifecycle on The Trends Dividend Payments

DeAngelo, DeAngelo and Stulz (2005) showed that there was a positive relationship between the tendency of dividend payments by the company's life cycle stage. High life cycle stage is indicated by the retained earnings are low. This means there is a positive influence between the life cycle of companies with dividend payments. According to Ferris, et al., (2009), the maturity of a company as reflected in the company contributes to the effects of corporate dividend policy. Retained earnings as a proxy that indicates a proxy for firm maturity stage showed positive results and significant, and conclude that the dividend catering remains a significant factor in dividend policy even in the corporate life cycle effects. Based on the above explanation, the authors compile the fifth hypothesis as follows:

H5: Company's life cycle has positive influence on the tendency of dividend payments

2.5.6 Effect of Dividend from Prior Year Against tendency of Dividend Payments

Ferris, et al., (2009) in the results show that the payment of dividend the previous year (t-1) has a positive relationship with dividend payments. This suggests that dividend payments on the previous year, will give a positive signal to the payment of dividends next year. Cahyati (2006) also argue that dividend payments are now affected by the dividend the previous year. Reluctance to reduce the amount of dividend is due because investors typically assume that the reduction in dividend as a signal that the company is experiencing financial difficulties.

The results of Listyantara (2005), also shows the influence of dividend payments the previous year with current dividend payment. The possibility of the company wants to maintain a stable dividend payment to shareholders. Due to such assumptions, then the shareholders will believe that the company's financial condition is very good. Based on the explanation above, the sixth hypothesis is:

H6: Dividends paid the previous year has positive influence on the tendency of dividend payments

3. DATA AND METHODOLOGY

3.1 Research Sample

The samples were non-financial companies listed in Indonesia Stock Exchange (IDX), which was collected using purposive sampling method, with the following criteria:

1. Non-financial company listed in Indonesia Stock Exchange (BEI) in the year 2004 to 2008.
2. The company announced the dividend at least within 1 year over year from 2004 to 2008.
3. Has published financial statements of the period 2004 - 2008 with the reporting period ended on 31 December.
4. The Company has no extraordinary items.
5. The company has total equity is positive.
6. The company has retained earnings is positive (not deficit).
7. The Company does not make a change in accounting policy during the period of observation.
8. Dividend distribution in the form of cash dividends.

3.2 Dependent Variable

In this research, which is used as the dependent variable is the dividend payment. This variable is a categorical variable (non-metric), with number 1 for companies that pay dividends and the number 0 for companies not paying dividends.

3.3 Independent Variables

The independent variables are the dividend catering. Catering dividend represents the trend of dividend payments. In the measurement of the dividend catering there are some proxies that are used, namely:

1. Dividend Premium (PREMI)

Dividend premium is the independent variable representing the difference between the average natural logarithm of Market-to-book companies that pay dividends and firms that do not pay a dividend in each year. The formula for calculating the dividend premium using research Ferris, et al., (2009), namely:

$$Pt^{D-ND} = \log \left(\frac{\sum_i M/B_{ti}^d}{n} \right) - \log \left(\frac{\sum_i M/B_{ti}^d}{n} \right)$$

Note:

Pt^{D-ND} = Dividend premium.

M/B_{ti}^d = The book value of the company's market that pays dividends.

M/B_{ti}^d = The book value of the company's market that does not pay dividends.

n = The number of sample firms

2. Firm Size (SIZE)

Firm size is the size of the company which can affect the access to capital markets. In knowing the size of the company, there are two measurements that can be done, namely:

a. Market Capitalization

Market capitalization is the total price of the shares in a company that is a price to be paid by someone to buy shares of the company. The formula to calculate the size of the market capitalization is to use research Ferris, et al., (2009), namely:

$$Firm\ Size = Closing\ Price \times Share\ Outstanding$$

To avoid the effects of changes in sample size and distribution of company size, the results obtained by the market kapitaliasi sorted or ranked on each sample firm and each year the period of observation.

b. Standar Error

Standard error is a measurement used to see the spread of values around the regression line. At each company, owned by company size varies, there is too large and some are too small. Therefore, the standard error is used to overcome the variation in the size of a company owned by each company and is the measure in assessing the size of the company. The formula to calculate the size of the company with the standard error is (Walpole, 1992):

$$Sx = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

Note :

Sx = Standar Error

x = Independent Variable

x^* = Independent Variable Prediction

n = The number of sample firms

To know the size of the company, used two measures with the aim to find the most appropriate measure used to determine the size of companies that will be tested using Sensitivity Testing.

3. Profitability Level (PROF)

Profitability is the ratio between operating profit with total assets of the company in a period, which is used to assess the ability of the company in generating profits. The formula used to calculate the level of profitability is (Ferris, et al. (2009):

$$\text{Profitability} = \text{Operating Profit} : \text{Book Value of Total Assets}$$

4. Growth Opportunity (GROWTH)

Growth opportunity is an opportunity which is owned by a company to grow and develop their business. In calculating the growth opportunities, used two measures, namely:

a. Market-to-Book (M/B)

Market-to-Book (M / B) is the company's total assets minus total equity plus the market value of equity and divided by total assets.

b. Change in Assets (CA)

Change in Assets (CA) is the level or percentage of total assets of a company changes from year to year.

5. Company's Life Cycle (LCE)

Company's life cycle is a cycle that shows the company's position or level at a certain point. Company's life cycle can be calculated by looking at the ratio of retained earnings to total assets. The formula used to calculate the company's life cycle is (Ferris, et al., 2009):

$$\text{Company's Lifecycle} = \text{Retained Earnings} : \text{Book Value of Total Assets}$$

6. Dividend Payment From Previous Year (PDP)

For these variables used a dummy variable, which gives a value 1 in the previous year the company paid and the number 0 for companies not to pay the previous year.

3.4 Analysis Method

Methods of data analysis used to analyze the effects of independent variables with the dependent variable is the logistic regression model, with the equation:

$$DP = \alpha + \beta_1 \text{PREMI}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{PROF}_{it} + \beta_4 \text{GROWTH}_{it} + \beta_5 \text{CLC}_{it} + \beta_6 \text{PDP}_{it} + e$$

Note:

DP = Dividend Payout (It is a categorical variable with value 1 if the pay and 0 if not paid)

PREMI = Dividend Premium

SIZE = Firm Size

PROF = Level of Profitability

GROWTH = Growth Opportunity

CLC = Company's life cycle

PDP = Previous Dividend Payout (PDP)

α = Konstanta

β = Regression Coefficient
 e = error

3.5 Sensitivity Test

Sensitivity test is a test performed to determine which measure or alternative that is best used to be a measure in the independent variable. As in this study that the independent variables have more than one size is variable firm size measured by market capitalization and standard error, and variable growth opportunities as measured by market book value (M/B) and changes in total assets (CA).

4. FINDINGS AND DISCUSSION

4.1 Research Sample

The firms sampled in the study were as many as 69 companies with 345 observations. From 345 observations, the observation that in accordance with criteria and as a sample in this study was 309 observations. Description of the sample in this study can be seen in Table 1 below:

Table 1. Research Sampel

Research Sample	69 Perusahaan	
Number of Initial Observations	345 Observations	100%
Observations are excluded from the study :		
Has a negative operating income	(13 Observations)	(3.77%)
Has a negative retained earnings	(10 Observations)	(2.89%)
Having extraordinary items	(11 Observations)	(3.18%)
Having a negative retained earnings and extraordinary items.	(2 Observations)	(0.57%)
Observations used in this study	309 Observations	89.59%

Source: Secondary Data Processed

4.2 Descriptive Statistics

Descriptive statistics in this study can be seen in table 2 below:

Table 2. Descriptive Statistics of Research Variables

Variables	Mean	Minimum	Maximum	Percentage (%)		Std. Deviation
				Below Mean	Above Mean	
DP	0,82	0	1	18,4%	81,6%	0,388
Premi	0,412437	0,3274	0,4420	40,5%	59,5%	0,04323
Size	2,50	1	4	49,8%	50,2%	1,118
Profit	0,133094	0,0015	0,5582	61,8%	38,2%	0,10345
CA	117,10445	63,4629	307,3700	62,8%	37,2%	23,61294
M/B	1.5457	0,2797	16,1308	75,1%	24,9%	1,663825
LCE	0,289506	0,0003	0,7662	56%	44%	0,19094
PDP	0,80	0	1	20,1%	79,9%	0,401

Source: Secondary Data Processed

4.3 Hypothesis Testing and Discussion

Using logistic regression, need to be tested for feasibility of the model that aims to see if the proper model (fit) to be tested. In order to assess the feasibility of the model it can be done by comparing the number at -2loglikelihood (-2LL) intercept only with numbers on -2Loglikelihood (-2LL) final. The model is said to fit when the value of -2LL intercept only larger than the value on the final -2LL and the results are significant. If a decline in the value -2loglikelihood and significant, meaning the model used logistic model showed a good (fit) model. Logistic regression test results can be seen in table 3:

Table 3. Results Logistic Regression of Hypothesis Testing

	Coeff.	Wald
<i>Intercept</i>	3.548	3.301
PREMI	4.345	1.217
SIZE	0.4290	5.998*
PROFIT	2.557	0.838
M/B	- 0.008	0.001
CA	0.001	0.036
LCE	2.145	3.856*
PDP	1.876	29.471**
<i>-2loglikelihood Intercept Only</i>		295.465
<i>-2loglikelihood Final</i>		232.644
<i>Nagelkerke R-Square</i>		0.299
Classification		
	Numbers of observation	%
<i>Classification capability 1</i>	57	31.6%
<i>Classification capability 2</i>	252	95.2%
<i>Total Classification capability</i>	309	83.5%

Source: Secondary Data Processed

Note: sig 5% and 1% = * and **

From the test results above, the results of logistic regression on the initial model (-2LL intercept only) shows the value of 295.465 and the final model (-2LL Final) shows a value of 232.644. From the results 2LL intercept-only with -2LL Finals that are impaired and have a level of significance at 1%, it can be concluded that this model is a good logistic model (fit).

Nagelkerke R-Square in this model, has a value of 0.299. This shows that the variability of independent variables have an influence of 29.9% to the variability of the dependent variable. Overall this model has a power classification of 83.5%. Based on these Nagelkerke value can be said that the independent variables can be used to predict the tendency of corporate dividend payments.

Testing of the variable dividend premium (PREMIUM) in this model, shows the regression coefficient of 4.345 with significance level > 5%. PREMIUM regression coefficient was statistically have a positive value but the effect is not significant. Therefore, these results **reject** the first hypothesis. With the rejection of this first hypothesis, it means that the greater the dividend premium, does not indicate that the greater the tendency of dividend payments and conversely the smaller the dividend premium, nor do they show less tendency payment of

dividends, making dividend premium variable does not support the existence of catering theory in relation to the tendency dividend payments. The result of this hypothesis also does not support the research Liu and Shan (2007) and Ferris et al., (2009) which states that the dividend premium has positive influence on the tendency of dividend payments.

Testing for the second hypothesis showed SIZE regression coefficient with a value of 0.429 and significance at 5% so that this test **received** a second hypothesis. The results showed that the larger the size of the company, the greater the tendency of corporate dividend payments. Similarly, on the contrary, the smaller the size of the company, it will be smaller companies also tendency dividend payments. The results of this study also supports research Ferris et al., (2009), Fama and French (2000), Neves and Pindado (2006) and Denis and Obosov (2005) which states that firm size has positive influence on the tendency of dividend payments.

Testing for the third hypothesis showed variable levels of profitability (PROFIT) has a regression coefficient of 2.557 with a significance level of > 5%. These results indicate that the level of profitability has a positive influence on the trend of dividend payments but the effect is not significant, so the results of these tests **reject** the third hypothesis. The results showed greater levels of profitability, did not show greater the tendency of corporate dividend payments and vice versa. Result of test also explains that the signaling theory in relation to the profitability level is not evident indicate that the level of profitability of a company will be able to give a positive signal that the company will pay dividends. The results of this study are not consistent with research conducted by Suharli (2007) and Denis and Obosov (2005) which states that the greater the level of profitability, the greater the tendency of corporate dividend payments.

The fourth hypothesis testing to prove that growth opportunities have a negative influence on the trend of dividend payments. To see the effect of growth opportunities used in two ways, namely by using market and book value (M/B) and changes in asset values (CA). The test results of the market and book value (M/B) shows the regression coefficient value of -0.008 with significance levels > 5%. Test results to changes in asset values (CA) showed the regression coefficient of 0.001 with significance level > 5%. Statistically, the regression coefficient M/B has a negative direction but not significant and regression coefficients CA has a positive direction but not significantly so the fourth hypothesis is **rejected**, which means greater opportunities for growth, the less the tendency of corporate dividend payments and vice versa. The test results explains that the pecking order theory is not proven to indicate a negative influence on the trend of dividend payments. The results of this study are not consistent with a study conducted by Ferris et al., (2009), Denis and Obosov (2005), and the research of La Porta, et al., (1999) who concluded that the higher the growth opportunities that are owned by a company , then the propensity to pay dividends will be smaller.

Testing for the fifth hypothesis (LCE) shows the regression coefficient of company life cycle variables (LCE) that is equal to 2.145 with a significance level of 5%. These statistical results show the company's life cycle has a positive and significant influence. Therefore, the results of these tests **receive** fifth hypothesis, which means that the higher the firm's life cycle (LCE), the greater is the tendency of corporate dividend payments and vice versa. This explains the life cycle effects in the decision to pay dividends. These results show evidence consistent with the results of research conducted by DeAngelo et al., (2005) and Ferris et al., (2009) which states

that there is a positive influence among the company's life cycle with a trend of dividend payments.

Sixth hypothesis testing (PDP variable) showed variable regression coefficient is positive at 1.876 with a significance level of 1%. This shows that **receive** the sixth hypothesis, which means that the higher dividend payment in the previous year (PDP), the greater the tendency of corporate dividend payments in subsequent years and vice versa. The test results support the existence of catering theory. This hypothesis also supports the signaling theory in relation to dividend payments the previous year which states that the payment of dividend the previous year will give a positive signal against the trend of dividend payments in subsequent years. The results of this study are consistent with a study conducted by Ferris, et al., (2009), Listyantara (2005), and Cahyati (2006) which explains the existence of a positive relationship between dividend payments the previous year with the trend of dividend payments.

4.4 Sensitivity Test

In this study, also conducted sensitivity tests to find out which size is most appropriate or alternatively used to be size in the independent variables. In this research, there are two variables that will test level of sensitivity, namely firm size and growth opportunities. Results of sensitivity testing can be seen in table 4:

Table 4. Sensitivity Test

	Model 1		Model 2		Model 3		Model 4	
	Coeff	Wald	Coeff	Wald	Coeff	Wald	Coeff	Wald
<i>Intercept</i>	3.548	3.301	14.477	11.978	3.538	3.368	3.375	3.818
PREMI	4.345	1.217	13.829	3.492	4.318	1.265	4.300	1.197
SIZE	0.4290	5.998*			0.427	6.788*	0.427	5.986*
PROFIT	2.557	0.838	12.820	3.738	2.525	0.936	2.656	0.932
M/B	-0.008	0.001	0.010	0.660			-0.008	0.001
CA	0.001	0.036	0.243	0.175	0.001	0.036		
LCE	2.145	3.856*	3.106	1.979	2.147	3.869*	2.115	3.815
PDP	1.876	29.471**	2.125	10.957**	1.875	29.700**	1.882	29.955**
Alternatif Size (Standard error)			0.001	38.598**				
- 2loglikelihood Intercept Only	295.465		295.056		295.465		295.465	
- 2loglikelihood Final	232.644		83.379		232.645		232.681	
Goodness of fit	232.644		83.379		232.645		232.681	
Nagelkerke RSquare	0.299		0.806		0.299		0.299	
	Clasification		Clasification		Clasification		Clasification	
	N	%	N	%	N	%	N	%
Classification capability 1	57	31.6%	57	84.2%	57	31.6%	57	31.6%

<i>Classification capability 2</i>	252	95.2%	252	99.6%	252	95.2%	252	95.2%
<i>Total Classification capability</i>	309	83.5%	309	96.8%	309	83.5%	309	83.5%

Source: Secondary Data Processed

*Note: sig 5% and 1% = * and ***

N = number of observations

From the test results above, the first and second model used to test the firm size variable. Model 1 shows the test results if alternative size (standard error) is not included in the test, whereas model 2 shows the results if market capitalization is not included in the test. From the test can be seen that the second test had the same fit model because of a decline between - 2loglikelihood intercept only with 2loglikelihood final.

The tests showed the results of the regression coefficient of 0.4290 and market capitalization has a significance level of 5%, while the standard error indicates the regression coefficient of 0.001 with a significance level of 1%. The second outcome measure is positive and significant, but when viewed from nagelkerke R-square value and power of classification which has a higher value of the model 2. From these results can be explained that the two measures used, the most appropriate used as benchmarks to measure the size of the company is the standard error.

The third and fourth test model used to test the sensitivity of the growth opportunities variable, where the third model shows the test without the inclusion of Market-to-Book (M/B), while the fourth model shows the test without entering a Change in Assets (CA). Results-2loglikelihood on both models are impaired, so it can be said that both models are good (fit). Nagelkerke R-Square in model 3 and model 4 has a value of 0.299. This shows that the variability of independent variables have an influence of 29.9% to the variability of the dependent variable. Overall, model 3 and 4 have a high total classification power is equally stood at 83.5%, so it can be said that the two models, independent variables can be used to predict the trend of dividend payments.

Change in Assets (CA) has a regression coefficient of 0.001 with a significance level of > 5%, while the regression coefficient on the Market-to-Book (M/B) has a value of -0.008 with a significance level of > 5%. These results indicate that the two alternative measures, the measures most appropriate for measuring growth opportunities is to use the Market-to-Book (M/B), because M/B has a negative value, although not significant tendency to show effects on dividend payments compared with CA. Sensitivity test results of these growth opportunities to support the results of a study conducted by Ferris, et al., (2009) which shows that the most appropriate measure to measure the growth opportunities are the Market-to-Book (M/B).

5. CONCLUSION AND IMPLICATION

5.1 Conclusion

1. Based on the results of logistic regression, obtained results indicate that company size, company life cycle and payment of dividend the previous year had a positive influence on the propensity of dividend payments, so that proved to explain the theory as well as catering to influence the decision to pay dividends. In contrast, the dividend premium, profitability and growth opportunities showed no effect on the dividend payment the previous year.
2. In the sensitivity test, obtained results that for the variable firm size, more precisely measured using the standard error of the market capitalization. As for the variable growth opportunities, more precisely measured by using the Market-to-Book (M/B) than the Change in Assets (CA).

5.2 Implication

The study provides additional empirical evidence that there is the influence of company size, company life cycle and payment of dividend the previous year against the trend of dividend payments to explain the existence of catering theory. These results can be used by investors who want to invest in stocks in order to analyze the first three factors in order to gain advantage in the future.

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