



Information Asymmetry and Dividend Policy in The Cement Sub-Sector Manufacturing Company

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ABSTRACT

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The purpose of this research is to analyze the effect of information asymmetry on dividend policy in manufacturing companies in the cement sub-sector. The research used is explanatory research, Proof of the hypothesis is done by testing the regression coefficients partially. The results in this study explain as follows: this study shows that asymmetric information proxied by earnings forecast error has no significant negative effect on dividend policy. The second hypothesis in this study shows that asymmetric information proxied by firm size has no significant positive effect on dividend policy. The third hypothesis in this study shows that asymmetric information proxied by growth opportunities has a significant positive effect on dividend policy. The fourth hypothesis in this study shows that asymmetric information which is proxied by earnings forecast error, firm size, growth opportunities have a significant effect on dividend policy. The magnitude of the influence of Asymmetric Information on dividend policy is 54.7%, of which another 45.3% is influenced by other asymmetric information proxies which are not discussed in this study.

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1. Introduction

Indonesia's cement industry plays an important role in the period of infrastructure development which is currently very intensively carried out, which is supported by the high cement production capacity in Indonesia, reaching an average of 113 million tons per year. Today the development of the cement industry business in Indonesia depends on the direction of the Indonesian economy. The issue of dividend policy is a phenomenon that still controversial in the financial literature. Two approaches that have been carried out in previous studies are used to explain the phenomenon of the relationship between dividend policy and information asymmetry: signaling theory and pecking order. Signaling theory predicts that companies have an incentive to pay dividends to signal the market about the company's prospects, making it easier to raise funds in the future. However, the pecking order theory argues that the company will most likely not pay dividends. The sample group of companies provides a strong basis for testing the dominant theory and explaining dividend policy.

In general, investors invest funds aimed at maximizing wealth obtained from dividends or capital gains, while management tries to maximize investor welfare by making good decisions in the form of dividend policies, funding. In making decisions on funding sources from internal (Retained Earning and depreciation) or external (debt and equity) or both, because each source of funds has different consequences and financial characteristics (Van Horne & Wachowicz, 2005:270).

Asymmetric information is a situation where company managers have more perspective information about the company than shareholders (Brigham and Houston, 2014: 621). There are two theories that state the effect of information asymmetry and dividend policy, namely pecking order theory and signaling theory. (Puspitasari et al., 2020)



According to signaling theory, dividend payments are a signal to outside investors about the company's future prospects. This means that dividends have a positive relationship with stock price reactions. According to Asquith and Mullins (1983), the positive effect of dividend payment policy on stock prices is due to a mechanism that can communicate management information about the current and future performance of the company. Another opinion according to Miller and Rock (1985) states that there is information asymmetry between investors and management because changes in dividend payments will have an impact on stock price reactions in the market. They also argue that unanticipated dividends signal changes in the company's earnings and cash flows in the future. (Kusuma, nd)

Dividends are considered signals by investors based on two assumptions. First, the company is reluctant to change its dividend policy, because a change in dividend distribution will reflect the company's prospects in the future. Second, there are differences in the information held by investors and company managers where managers tend to have more information about the actual condition of the company ((Puspitasari et al., 2020). Dividend policy is also associated with capital structure because the cash flow generated can be used to increase capital if it is not distributed to shareholders as dividends. Corporate dividend decisions should also be seen as an integral part of the firm's capital structure (Horne and John M. Wachowicz, 2005).

For companies that have gone public, maximizing the value of the company can be reflected in high share prices. The value of the company is important because it can describe the condition of the company. With a good company value, potential investors will view the company well because a high company value reflects the company's good performance. In addition, the value of the company can describe the prospects and expectations of the ability to increase the company's wealth in the future. The size of a company (firm size) is considered capable of influencing the value of the company. This is because the larger the size of the company, the easier it will be to obtain sources of funds. (Wahyudi, 2016)

The amount of profit that will be distributed as dividends is related to the amount of funds needed by the company and the company manager's policy regarding the source of funds used. One alternative to meet the needs of funds comes from internal funds and retained earnings obtained by the company. Companies that are experiencing growth require larger funds, so that the dividend policy taken by the company may be affected (Kusuma, 2006). This growth opportunity will be calculated based on a ratio using the Market to Book Value of Assets (MBVA), which is the result of subtracting from total assets with total equity plus the number of outstanding shares multiplied by the closing price and divided by total assets then a percentage (Anggun Sari et al., 2019).

A large company will have easy access to the capital market, while new and small companies will experience many difficulties to have access to the capital market. Because the ease of access to the capital market is quite significant for its flexibility and ability to obtain larger funds, thus enabling the company to be able to have a higher dividend payout ratio than small companies. (Sari, 2019).

Earning forecast error is a way for company management to attract investors to invest in the company (Puspitasari et al., 2020). (Hanke & Wichern, 2005) explains that forecasting helps investors to predict the uncertainty of a trend in business which can help make decisions that can affect the future of an organization where forecasting is usually done for the long term or short term. In manufacturing companies in the cement sub-sector, the earning forces ratio cannot influence and predict the company's dividend policy. Elton, Gruber, and Gultekin (1984) in (Li, 2021) proves that forecast error analysis is a proper proxy in determining the level of information asymmetry in the company. Earning forecast error is the value of the difference between past income before tax and current income before tax divided by current income before tax (Yang and Kao, 2005). Generally, companies will tend to provide positive news about the company to investors, so companies will tend to issue earnings forecasts to improve the value of the company in the future, so that information asymmetry is related to dividend policy. (Puspitasari et al., 2020).

2. Research Methods

The research used is explanatory research which aims to test a theory or hypothesis to strengthen or reject the theory or hypothesis in previous research (Gujarati, 2015). The type of data used in this study is secondary data in the form of financial statements of the Cement Sub-Sector Manufacturing Companies listed on the IDX. The source of the data comes from the company's financial reports which have been published on the insurance company's official website and the Indonesia Stock Exchange's official website (www.idx.co.id).

The population in this study is the cement manufacturing sub-sector companies listed on the Indonesia Stock Exchange. The research sample was determined by purposive sampling with the following criteria:

1. Cement Sub-Sector Manufacturing Companies that are listed on the Indonesian stock exchange during the 2019-2020 research period and are not delisted.
2. Cement Sub-Sector Manufacturing Companies that distribute dividends in the 2019-2020 research period.

The method of data analysis in this study is to use multiple linear regression. Multiple linear regression analysis serves to determine the effect of asymmetric information on dividend policy. The multiple linear regression equation is as follows:

$$DPR = - b1Fe + B3Size- b2MBVA + e$$

Where:

DPR = constant

B = regression coefficient

Fe = earnings forecast error

Size = company size

MBVA = growth opportunity

e = residual variable

3. Results And Discussion

3.1 Descriptive statistics

The sample in this study is a cement sub-sector manufacturing company which is traded on the Indonesia Stock Exchange in 2019-2021. Manufacturing companies in the cement sub-sector have 6 companies, but only 5 companies that provide dividends, so in this study the sample used is 5 manufacturing companies in the cement subsector.

| | N | Minimum | Maximum | Mean | Std. Deviation |
|--------------------|----|---------|----------|------------|----------------|
| FE | 15 | -18.76 | .77 | -1.5845 | 4.88045 |
| SIZE | 15 | 17.08 | 30.41 | 23.4890 | 5.72159 |
| MBVA | 15 | .67 | 61681.71 | 11297.4729 | 20691.83614 |
| DER | 15 | .13 | 1.48 | .6711 | .37940 |
| Valid N (listwise) | 15 | | | | |

Proofing the hypothesis is done by partially testing the regression coefficient to find out whether the independent variable has an effect on the dependent variable, either positively or negatively. Tests were carried out using IBM SPSS 24 software. The Result Show :

| Variable | T | sig | Results |
|----------|-------|------|-------------|
| FE | -.567 | .582 | H1 Rejected |
| SIZE | 1.311 | .216 | H2 Rejected |
| MBVA | 3.395 | .006 | H3 Accepted |

The first hypothesis in this study shows that asymmetric information proxied by earning forecast error has an insignificant negative effect on dividend policy. The results of this study are not in line with research conducted by(Puspitasari et al., 2020)which in his explanation states that the earning forecast error has a significant positive effect on dividend policy. (Hanke & Wichern, 2005) explains that forecasting helps investors to predict the uncertainty of a trend in business which can help make decisions that can affect the future of an organization where forecasting is usually done for the long term or short term. In manufacturing companies in the cement sub-sector, the earning forces ratio cannot influence and predict the company's dividend policy.

The second hypothesis in this study shows that asymmetric information proxied by firm size has no significant positive effect on dividend policy. The results of this study are in line with the research conducted by Valipour (2009) which in the research conducted shows that there is a significant influence between



asymmetric information on dividend policy, it's just that company size does not have a significant effect on dividend policy. This study proves that the size of the company cannot fully influence the dividend policy in a company. In the cement industry, the majority of cement companies pay dividends to shareholders. It's just that the distribution of dividends does not significantly increase the size of the company. According to Riyanto (2001) in Maryam (2014) company size can be interpreted as the size of the company seen from the amount of equity value, company value, or the total asset value of a company. This study proves that larger companies will be able to easily access the capital market in obtaining larger funding for their companies, so that companies are able to have a higher dividend payout ratio than small companies.

The third hypothesis in this study shows that asymmetric information is proxied with growth opportunity significant positive effect on dividend policy. The results of this study are in line with research conducted by Sari (2009) which shows that the variable of growth opportunity has a partial and significant effect on dividend policy. when the company has a high growth opportunity, it will cause high information asymmetry too, but it does not necessarily lead to a dividend distribution, this is because the management will make profits every year as a reserve fund to be reinvested. (Andiyani and Gayatri, 2018)

The fourth hypothesis in this study shows that asymmetric information proxied by earnings forecast error, firm size, growth opportunity has a significant effect on dividend policy. The magnitude of the influence of Asymmetric Information on dividend policy is 54.7%, of which another 45.3% is influenced by other asymmetric information proxies which are not discussed in this study.

4. Conclusion

The results in this study explain as follows This study shows that asymmetric information proxied by earning forecast error has no significant negative effect on dividend policy, this study shows that asymmetric information proxied by firm size has a positive and insignificant effect on dividend policy. This study shows that asymmetric information is proxied with growth opportunity significant positive effect on dividend policy. This study shows that asymmetric information which is proxied by earnings forecast error, company size, growth opportunity has a significant effect on dividend policy. The magnitude of the influence of Asymmetric Information on dividend policy is 54.7%, of which another 45.3% is influenced by other asymmetric information proxies which are not discussed in this study.

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