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THE EFFECT OF DIVIDEND POLICY ON STOCK PRICES IN LQ 45 COMPANIES IN INDONESIA

Andini Nurwulandari
Universitas Nasional, Jakarta, Indonesia

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E-mail:
andinmanajemen@gmail.com

ABSTRACT

A firm's decision on how it will handle its profits—whether those profits will be paid out to shareholders in the form of dividends or kept in the company so that it can be reinvested—is referred to as its dividend policy. The purpose of this study is to investigate the impact that dividend policies have on the share prices of LQ 45 firms that are listed on the Indonesia Stock Exchange. The data that were used are secondary data that were collected from the financial reports of firms that were listed on the Indonesia Stock Exchange throughout the period of 2017-2021. Multiple linear regression is the type of analysis that is utilized, and the dependent variable that is utilized is stock prices, while the independent variable that is utilized is dividend policy. According to the findings of the research conducted, dividend policies have a constructive and discernible impact on the stock prices of manufacturing companies in Indonesia. In this scenario, corporations that have dividend policies that are more generous tend to have stock prices that are higher.

1. INTRODUCTION

Putting money aside now with the expectation of a return (profit) later is what is known as investment (Ghoniyah, 2016). There are two types of investments: those made in paper assets (financial assets) and those made in the physical world (real assets). Investing in real assets, such as land or factories, is accomplished through the acquisition or establishment of actual assets rather than the capital or money markets (Budiman, 2021).

Stocks are a common instrument for participation in the capital market. Dividends and capital gains are two ways in which stockholders might recoup their initial investment. After receiving approval from shareholders at the GMS, the issuing business distributes a portion of its earnings in the form of dividends (Siregar, 2019). When a company pays out dividends, it can do so in two ways: either in the form of cash dividends, in which case the shareholder receives a fixed amount of money per share, or in the form of stock dividends, in which case the shareholder receives a fixed number of shares, resulting in a net increase in the number of shares owned by investors. Trading in the secondary market creates capital gains, which are the difference between the selling price and the original buy price when the selling price is higher than the original purchase price (Mar'ati, 2012).

Even when the issuer has made a profit, a significant number of companies that are listed on the IDX do not pay dividends in the form of cash. In addition, there are issuers that do not consistently provide out dividends to their stockholders (Ovami & Nasution, 2020). The "Bird in the Hand theory," according to Baker et al. (2002), claims that having one bird in one's possession is more valuable than having a thousand birds in the air. Seeing conditions such as these, of course, does not conform to this theory, which states that having one bird in one's possession is more precious than having a thousand birds in the air.

The global financial crisis that began in 2007 has contributed to an increase in the amount of volatility seen in the prices of stocks traded on the Indonesian stock exchange. This makes investing in the stock market a more precarious endeavor than it would otherwise be. There is no exception made for the companies that are included in the LQ45 index, which are the most active companies and have a high level of liquidity. According to Aurora and Riyadi (2013), the stock index of the Indonesia Stock Exchange is called LQ-45. This index is comprised of 45 issuers that have the biggest transaction value and the largest market capitalization during the course of the previous year. In order to qualify for inclusion in the LQ45 index, a company must first have been trading on the stock market for at least three months, in addition to displaying strong financial performance and promising expansion prospects. Even when the issuer has made a profit, a significant number of companies that are listed on the IDX do not pay dividends in the form of cash. Additionally, there are issuers that do not routinely send dividends to their shareholders (Arma, 2013).

According to Harjito and Martono (2011), dividend policy is a decision regarding firm profits that determines whether the profit is delivered to shareholders in the form of dividends or becomes retained earnings for the purpose of investment financing in the future. In addition, dividends are a significant factor in the success of the business. To outsiders, such as investors who are considering making an investment in the desired company, dividends can demonstrate the stability of the company as well as its future potential. The payment of dividends is another way for investors to get an idea of how well a firm is doing financially (Ajizah & Perdinusa, 2022).

According to Dewi (2008), a company's dividend policy is a decision regarding the proportion of its profits that will be delivered to shareholders in the form of dividends or retained earnings for investment financing in the future. This decision is made by the firm. Investor confidence will increase if the quantity of dividends paid out to shareholders remains consistent or grows (Bansaleng et al, 2014). This is because it will indicate to investors, in a roundabout way, that the company is becoming more capable of turning a profit.

One approach that can be used to raise stock values is the distribution of dividends. Along with the growth in dividends, there is also an increase in the share price. If the corporation decides to hand out dividends, the stock price will rise, and with it, the stock price will rise as well. Inversely, if the firm decreases the amount of dividends that it distributes, then the company's condition will worsen, which will result in a decrease in the price of the company's shares (Priana, 2017).

The stock market price is a reflection of the value of a company, where the stock price is determined by the market. If the company is considered good in the sense that the company provides decent profits and good performance, then the market value is relatively good. Conversely, if the company is considered bad, the share value is relatively low (Amanah et al, 2014). Before making a decision to buy a particular type of stock, investors should first carry out a stock analysis, either fundamental analysis through the company's financial and accounting reports or by conducting technical analysis by looking at past price movements. Stock market participants or investors can make informed selections about which firm shares to purchase thanks to a wealth of data on the movements of stock prices on the stock exchange (Azmi et al, 2016). Since stock investment in the capital market is a very high-risk investment despite promising relatively significant rewards (Widoatmojo, 1996), accurate stock valuation can limit risk and help investors earn appropriate profits.

Research on the effect of dividend policy on stock prices has yielded mixed results (a research gap), hence the current investigation will seek to resolve these discrepancies. In light of the foregoing, this study examines how dividend policy affects the stock prices of Indonesia's manufacturing companies.

2. LITERATURE REVIEWS

A. Dividend Policy

The decision to pay out dividends or reinvest earnings is known as the company's dividend policy. According to Sofyaningsih and Hardiningsih (2011), dividend payments reduce retained earnings, which in turn slows a company's growth. According to Gumanti (2013), a manager's optimism about future profit growth increases in proportion to the rate at which payouts are raised. An indication of growing earnings might be seen in a dividend increase. If dividends are attractive, investors will purchase shares of the company. The stock price will rise, of course.

The dividend policy of a corporation can be used as an indicator of its success. The demand and supply of a company's shares on the capital market will be affected by news of dividends, which will have a knock-on effect on the stock price. A good signal from the financial manager to investors in the form of rising dividend payments to stockholders is associated with higher stock prices (Yudiana & Yadnyana, 2016).

B. Stock price

Shares, as defined by Pandansari (2012), are tradable securities that can be purchased or sold by either private investors or institutional traders. Stock prices, as defined by Jogiyanto (2011), are the prices at which stocks trade on the stock market at predetermined intervals set by market participants. Demand and supply in the capital market set the ceiling and floor for the price of these shares.

"Share prices determine the wealth of shareholders," Brigham & Houston (2010) write. In order to maximize shareholder value, it is necessary to maximize the share price. At every given time, the stock price is determined by the average investor's expectation of future cash flows from the purchase of the stock. Stocks are the primary commodity exchanged in trading on the stock market.

Based on the aforementioned literature analysis and preliminary presentation, we were able to formulate the problem of this study as a hypothesis, which we test below:

H1: It is suspected that there is an influence of dividend policy on stock prices in LQ 45 companies listed on the Indonesia Stock Exchange.
H0: It is suspected that there is no effect of dividend policy on stock prices in LQ 45 companies listed on the Indonesia Stock Exchange

3. METHODS

The research method used is a quantitative method that places more emphasis on analysis and then hypothesis testing is carried out and the end result is that there is a significant relationship between variables. The research population is 45 companies in the LQ 45 index for 2017–2019. The sampling technique used is purposive sampling. The total sample is 17 research samples. To test the quality of the data in this study using the classical assumption test with data analysis techniques using simple regression analysis because there is only one dependent variable and one independent variable. The variables in this study are the projected dividend policy with the DPR as the independent variable, and the closing stock price recorded in the company's annual financial statements as the dependent variable.

4. RESULTS AND DISCUSSION

a. Classic assumption test

The results of the classical assumption test in this study indicate that the processed data has passed the classical assumption test. The data is free from autocorrelation, multicollinearity, heteroscedasticity and normally distributed.

b. Simple Regression Analysis

The goal of the simple regression analysis used in this study is to determine the degree to which the dependent variable is influenced by other factors. The stock price serves as both the dependent variable and the independent variable in this study's regression model, which is a simple regression model. What follows is the analysis's conclusionx

Table 1 Simple Regression Analysis Results

Coefficients ^{a}

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	b	std. error	Betas		
1. Constant	1.327	0.571		2.317	0.023
Dividend Policy	0.035	0.013	0.450	3.278	0.001

a. Dependent Variable: Stock Price

This equation is derived from data in Table 1: Y = 1.327 + 0.035X + e The size of the stock price is represented by a constant of 1.327. The 0.035 regression coefficient indicates that for every $1 raised in dividend policy value, the stock price will rise by $0.03. While e quantifies the impact of variables outside of the regression model.

c. Coefficient of Determination

To find out how much each variable matters, researchers employ the coefficient of determination (R2). Coefficient of determination test outcomes are shown in table 2

Table 2 The coefficient of determination (R2)

Summary Model ^{b}

Model	R	R Square	Adjusted R Square
1	0.450a	0.202	0.183

Based on Table 2, the Coefficient (R) value is 0.450 which indicates the magnitude of the relationship between variables, with an Adjusted R square of 0.183 or 18.3%. This means that the dividend policy variable can explain the variable stock price value of 18.3%. While the remaining 81.7% is explained by other variables outside this estimation model such as profitability, investment decisions, leverage and others.

d. t test (Partial)

The results of testing the influence hypothesis (dividend policy) on stock prices can be seen in table 3 below:

Table 3 Results of the t test (partial)

Coefficients [a]

Model	Unstandardized Coefficient b	Unstandardized Coefficient std. error	Standardized Coefficient Betas	t	Sig.
1. Constant	1.327	0.571		2.317	0.023
Dividend Policy	0.035	0.013	0.450	3.278	0.001

2. Dependent Variable: Stock Price

Results from a t-test that helps to explain the effect of the independent variables are shown in the table above. Here are some findings from studies on dividend policy and its impact on stock prices:

a) A significance value of 0.001 indicates that the Sig value ≤ 0.05. While the coefficient value is 0.035. This is consistent with the results of statistical tests that compare t count with t table, that dividend policy affects stock prices.
b) The dividend policy variable has t count (3.278) with a significance value of 0.002 ≤ 0.05. By using the t table, a t table of (2.131) is obtained. This shows that the t count is 3.278 greater than the t table is 2.131, so that H0 is rejected and Ha is accepted, meaning that the dividend policy has a significant and significant effect on stock prices listed in the LQ 45 index.

Discussion

The testing of the hypothesis led to the discovery that the dividend policy (X) has a significance value of 0.001, a t count of 3.278, and a regression coefficient of 0.035. These values were discovered after the hypothesis was put to the test. It is impossible to accept Ho because the significance value of 0.001 is lower than 0.05 or because t count is bigger than t table (3.278 > 2.131). This indicates that the dividend policy variable (X) has a significant influence on company value (Y).

According to the findings of this study, corporations that adopt dividend policies will have an effect on the stock price of the corporation as measured against the LQ-45 index that is traded on the Indonesia Stock Exchange. The acts of the company's dividend policy, which include the distribution of cash dividends, contribute to the increased liquidity of the company's shares that are listed on LQ45. Because there are some investors who view actions taken by the company regarding its dividend policy as a good signal from the company.

Investors look at the firm's dividend policy as a sign that the company has outstanding performance and is able to produce steady and consistent earnings in the future. This perception is supported by the fact that the company has adopted the policy. When viewed over the course of time, dividend policy has the potential to boost investor trust in the firm while also contributing to the continued stability of the stock price.

A company's decision to increase its dividend payouts may also boost its worth in the eyes of stock market investors. Companies demonstrate that they have sufficient resources and that they have confidence in their future performance by dispersing cash dividends to their shareholders. Investors will have a higher level of interest in purchasing shares of companies that offer predictable returns and have a dividend policy that is constant over time.

In general, the dividend policy of a company is a significant component in defining the value of the firm on the stock market, which ultimately leads to an increase in the price of the company's shares. Companies can assist maintain the stability of their stock price and build investor confidence in the company's future performance by implementing a dividend policy that is both constant and positive.This research conforms to the findings of research carried out by Fitri and Purnamasari (2017), which seeks to investigate the impact that dividend policies have on the values of company stocks in Indonesia. According to the findings of this study, dividend policies have a favorable impact on the prices of firm stocks traded on the Indonesia Stock Exchange. These findings are consistent with the conclusions of the research that was discussed earlier.

This research is contradicted by research carried out in Indonesia by Levina and Dermawan (2019), who discovered that there is no effect of dividend policy on the prices of business shares in Indonesia. This research was carried out in Indonesia. This research, which was conducted using data obtained from companies that are included in the Jakarta Composite Index (IHSG), came to the conclusion that dividend policy does not have a major impact on the price of a company's shares.

5. CONCLUSION

Based on the results of this study's data analysis and discussion, it can be concluded that dividend policy has a positive and statistically significant effect on the stock price of the company's LQ 45 shares, with a significance value of 0.001 less than 0.05 or t count greater than t table (3.278 > 2.131). Increasing dividend payments affect the stock price of a company. The magnitude of dividend policy variables' influence on stock prices is 18.3%, while the remainder is influenced by variables that were not included in the study. This study has limitations that will necessitate future research to increase the number of research variables and the duration of the study in order to obtain improved results.

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