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Dividend policy and its implications on stock prices. Examples of evaluation in Indonesia

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Abstract. The food and beverage industry is one of the mainstay sectors that support the growth of manufacturing and the national economy in Indonesia. The more demand for products in the food and beverage industry, it will be very profitable for companies because of the large number of requests for these products, so that they are expected to get the maximum profit and attract investors to invest. With these logical considerations, we try to investigate the relationship between financial performance, ownership structure, macroeconomics, dividend policy, and stock prices in Indonesia. Data processing techniques are supported by path analysis, where secondary data is collected from IDX during the period 2013 to 2019. Path analysis classifies three structures to identify direct effects (structure one and structure two), then there is a triple structure based on indirect effects. From this study, it can be seen the interaction of the variables that have been limited to a model. As a result, there is a direct positive-significant relationship between financial performance and dividend policy, but ownership structure and macroeconomics actually have a negative effect, even though the probability of ownership structure is significant. On stock prices, dividend policy has given a signal that its effect has a significant positive impact. Particularly for the indirect effect, it illustrates if financial performance and ownership structure both affect stock prices through dividend policy positively and significantly. Because the relationship is quite systematic, the financial performance and ownership structure are considered successful, which is indicated by a positive path coefficient. On the other hand, in macroeconomics towards stock prices through dividend policy, the results are negative and insignificant.

Keywords. Financial performance, ownership structure, macroeconomics, stock prices, dividend policy, path analysis, Indonesia.

1. Introduction

The food and beverage industry is one of the subsectors of manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange (IDX). The phenomenon that occurs is that the development of this sub-sector manufacturing company is very rapid, especially in Indonesia because it has a large population with very large needs and high purchasing power so that consumer demand for a consumer product is very high so that it attracts investors to invest in the company. In addition, if the demand for products is increasing, this sub-sector manufacturing company also requires a large number of workers to help companies meet consumer demand (Yulyanah & Kusumastuti, 2019). If the company's profits or profits in a certain period are increasing and stable, it can provide a positive signal for an increase in company value, which is reflected in the high stock prices in the capital market where the high or low of the company's shares is determined by the power of demand or supply from investors who are interested in buy and sell it.

The intensity of the stock prices continues to increase, so the company management and shareholders can get income or profits that are shared over a certain period in the form of dividends as part of the company's profits (Ircham et al., 2014). It is important to acquire a decision within the management of the company in order to distribute dividends both to investors and to the company itself in order to increase the company's progress on the benefits it has made.

Dividend policy includes the decision of the board of directors whether all the profits generated by the company in a certain period are distributed to shareholders or that the profits are retained for future operational needs of the company. If it is distributed to shareholders or decides for the profit to be managed for the benefit of the company, it will have an impact on increasing and decreasing stock prices for consumer satisfaction (Samrotun, 2015).

Financial performance is one of the fundamental factors that show the effectiveness and efficiency of an organization in achieving its objectives. Effectiveness and efficiency if management has the ability to achieve predetermined goals (Jumame, 2018). To measure financial performance, it can be done by using financial ratio instruments, which in this study uses a proxy for return on equity which is reflected in the profitability ratio, the current ratio which is reflected in the liquidity ratio, and the debt to equity ratio which is reflected in the solvency ratio. The reflection of these proxies is due to measuring the ability to earn profits or profits, the ability to meet short-term obligations, and the ability to meet long-term obligations. If the company is able to earn a profit or profit and is able to fulfill its obligations, the financial performance is very good and this of course can encourage investor interest to invest so that the stock prices will directly increase which if this continues, the company's dividend payout ratio will also the higher it is.

Apart from internal factors that can have implications for stock prices, there are also several external and fundamental factors that influence it, such as macroeconomics. Macroeconomic factors are external factors that can affect the rise or fall of stock prices (Asmara & Suarjaya, 2018). Macroeconomic factors used in this study consist of the inflation rate and interest rates, which is because if the product continues to rise or is high, which is reflected in the value of inflation, it will reduce the real return or the rate of return, thereby reducing investor interest in investing. Investment tends to give a positive signal if the inflation rate in a country is under control. However, if the interest rate decreases, what investors do to invest in stocks is because the smaller the yield from deposits or bonds, the more likely investors are to invest and vice versa if high-interest rates cause the company's capital expenditures or costs to increase so that the company loses its opportunity to increase revenue which in turn has a direct impact on decreasing dividend payments (Kewal, 2012). How important is the role of macroeconomic

factors in influencing the rise or fall of stock prices which, if these factors are controlled, can increase dividend payments?.

Referring to the general description previously presented, it is important for us to highlight the relationship between financial performance, ownership structure, and macroeconomics to dividend policy and stock prices with a range in Indonesia. The structure of the arrangement is divided into four-five stages. Introduction consisting of background and study objectives which is illustrated in the first session. The second session includes a literature review that focuses on the basic theory and supports the findings that can strengthen the relationships in the model being assembled. In the third session, methods that support the study will be reviewed. Then, the fourth session refers to the analysis part. Finally, the fifth session is a discussion and summarizes ideas for future studies considering the weaknesses of the study.

2. Literature review

2.1. Theoretical background

Fahmi (2016) emphasizes financial performance as an illustration of the company's success from the results that have been achieved for various activities that have been carried out. The financial performance also analyzes the company's ability to carry out its operations through proper and correct financial implementation rules.

The ownership structure is defined as the provision of capital contributions and looks at the ownership structure to include inner equity (managers), outside equity, and debt holders (Jensen & Meckling, 1976; Anisaadha, 2017).

Furthermore, according to Salvatore (2012), macroeconomics is the science that discusses output, income, employment, consumption, investment, and prices in total or the aggregate of the economy as a whole.

Gumanti (2013) interpreted that **dividend policy is a practice carried out by management in making dividend payment decisions, which include the amount of rupiah, the pattern of cash distribution to shareholders.** Dividend policy is an inseparable part of the company's funding decisions. A dividend policy is a decision regarding how much current profit will be paid as a substitute dividend from the investment invested and how much is retained for reinvestment in the company (Brigham & Houston, 2013).

The last explanation, regarding the stock prices, can determine the shareholder's wealth. Maximizing shareholder wealth translates into maximizing the company's stock prices. The price of a share at any given time will depend on the cash flows that the average investor is expected to receive in the future if an investor buys a stock. In Indonesia, stock prices occur on the stock exchange at a certain time determined by market players and determined by the demand and supply of shares concerned in the capital market (Jogiyanto, 2013).

2.2. Constructions for variables

Financial ratios are very important to analyze the company's financial condition. In general, short-term and medium-term investors are more interested in short-term financial conditions and the company's ability to pay or distribute adequate dividends. (Fahmi, 2016).

Situmeang & Habibi (2018) have found that financial performance has a significant effect on dividend policy. Meanwhile, a striking difference was revealed by Wati & Darmayanti (2013), that financial performance has a positive and insignificant effect on dividend policy. On the other side, Atmoko et al. (2017) through the proxy debt to equity ratio, proves that the debt to equity ratio as a proxy for financial performance has a positive and significant effect on the dividend payout ratio. This means that the better the financial performance of the company in

its operational activities, the more direct it can affect the dividend policy in the form of dividend payments to shareholders. Therefore, we propose the first hypothesis.

H1: Financial performance will have a positive and significant effect on dividend policy.

The relationship between ownership structure and dividends can be explained by using agency theory which helps solve agency problems through supervision of management. High ownership will result in agency problems between majority shareholders and minority shareholders (Shleifer & Vishny, 1997; Murhadi, 2013).

Accordingly, there are different findings made by Abdullah et al. (2012) stated that ownership structure has a positive and insignificant effect on dividend policy. On the other hand, Silaban & Purnawati (2016) highlighted ownership structures that have a positive and significant effect on dividend policy, and that is also reinforced by Raharjanti & Setyowati (2018) from their findings that public ownership structure affects dividend policy. This implies that the company's ownership structure can have a direct effect on the distribution of dividends given to shareholders. Therefore, we propose a second hypothesis.

H2: Ownership structure will have a positive and significant effect on dividend policy.

A dividend policy is a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings, for investment financing in the future. Companies in determining dividend policies must pay attention to the factors that affect dividend policy, both micro and macro factors (Rahmini, 2019). Hunjra et al. (2014) and Situmeang & Habibi (2018) reinforce this theory that the macroeconomy has a significant effect on dividend policy. Therefore, we propose a third hypothesis.

H3: Macroeconomics will have a positive and significant effect on dividend policy.

Dividend policy can affect the market price of shares or the value of the company. That is, if the dividends distributed by the company are getting bigger, the market price of the company's shares will also be higher and vice versa. This happens because dividend distribution can reduce the uncertainty faced by investors (Sudana, 2011). In contrast, the results of Rizal's (2014) investigation show that dividend policy does not have a significant effect on stock prices, but Wijaya (2017) concludes that dividend policy has a positive and significant effect on stock prices. Alfred et al. (2019) have also predicted with the same results, that dividend policy has a positive and significant effect on stock prices. This means that the higher the dividend value, the direct impact the increase in stock prices and vice versa. Therefore, we propose a fourth hypothesis.

H4: Dividend policy will have a positive and significant effect on stock prices.

Dividend policy is reflected in the dividend payout ratio, which is the percentage of profit distributed in the form of cash dividends, meaning that the size of the dividend payout ratio will affect the investment decisions of shareholders and on the other hand it can affect the company's financial condition. The greater the level of profit distributed in the form of dividends will make potential investors more interested in investing and it shows the condition of the company is healthy and has good prospects for the future. Companies that choose to distribute profits as dividends will reduce the total internal sources of funds. Companies that choose to retain their earned profits will result in a greater ability to form internal funds (Sartono, 2014).

Abdullah et al. (2012) evaluated the ownership structure and dividend policy, but the results were positive and insignificant. Silaban & Purnawati (2016) have in fact confirmed that ownership structure has a positive and significant effect on dividend policy and is also strengthened by research by Raharjanti & Setyowati (2018). This indicates that the company's ownership structure can simultaneously affect the distribution of dividends paid to shareholders. Therefore, we propose the fifth hypothesis.

H5: Financial performance will have a positive and significant effect on stock prices with the role of dividend policy.

Companies that will distribute profits in the form of dividends must first see the proportion of share ownership of their investors, so a share ownership structure is required. In addition, in distributing dividends, companies must look at their liquidity position and/or the need to pay off debts (Weston & Copeland, 2010). Investors invest in shares in a company with the main objective of obtaining returns on investment in the form of dividends and capital gains. Naturally, investors expect the highest return on their investment. There are important things that must always be considered, namely how much risk must be borne from the investment itself. The risk that is borne by investors when investing in stocks is the risk of not getting dividends when the company cannot generate profits, resulting in capital loss, which is the negative difference between the selling price and the buying price of shares (Hermuningsih, 2012). Therefore, we propose a sixth hypothesis.

H6: Ownership structure will have a positive and significant effect on stock prices with the role of dividend policy.

Government announcements are closely related to macroeconomic variables, so we use proxies for inflation and interest rates. If the macroeconomic level reflected in the inflation rate and interest rates falls or is high, it can affect the low or high stock prices. Stock prices are influenced by external factors, namely political conditions, culture, economy, and government policies. To maximize the value of the company, it is necessary to make policies that are able to influence the company regarding shares or the decision whether the profits earned by the company will be distributed to shareholders as dividends or withheld for future investment financing (Wiagustini, 2014)

Musthafa (2009) states that the macroeconomy has a negative and significant effect on stock prices, but Hunjra et al. (2014) determine that the macroeconomy, which is reflected in the inflation rate and interest rates, has a significant effect on stock prices. Then, Situmeang & Habibi (2018) confirmed that the macroeconomy has a significant effect on dividend policy. This fact shows that dividend policy can affect the macroeconomy and stock prices because if the macroeconomy is out of control it can affect stock prices. In the end, it has an impact on the decrease in dividends paid by the company. Therefore, we propose the seventh hypothesis.

H7: Macroeconomics will have a positive and significant effect on stock prices with the role of dividend policy.

2.3. Conceptual framework

Figure 1 illustrates the variable model designed with a causality approach, which is divided into three structures. Based on the theoretical reference and the seven proposed hypotheses, we demonstrate it into a direct effect (hypotheses 1, 2, and 3) for structure one, then in the second structure to predict hypothesis 4. Meanwhile, the third structure presents an indirect effect.

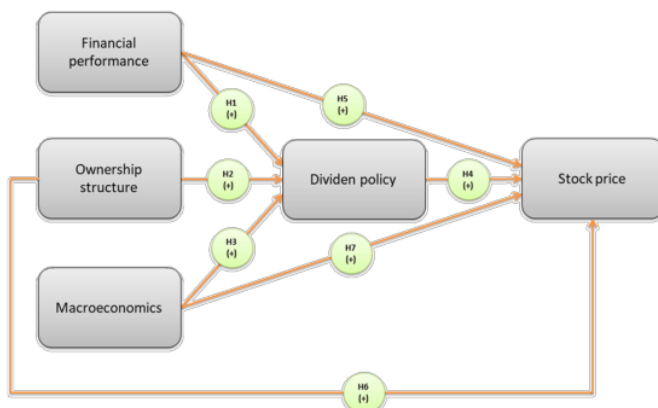


Figure 1: The proposed model and expectations

The function of each variable also refers to the hypothesis. For the first, second, and third hypotheses, dividend policy becomes the dependent variable that is predicted by financial performance, ownership structure, and macroeconomics (independent variable). In the fourth hypothesis, dividend policy (independent variable) explains the stock price which acts as the dependent variable. Interestingly, dividend policy also plays an important key, where dividend policy includes an intervening or mediating variable in determining the indirect effect of the three independent variables, namely financial performance, ownership structure, and macroeconomics on stock prices.

3. Method and measurement

3.1. Population and sample

The population is aimed at food and beverage sub-sector manufacturing companies listed on IDX for the 2013-2019 period, amounting to 29 companies. In detail, a study relevant to this has been developed by Azis et al. (2020a, b), so we need to review the variable components and there are differences in the time-series or the object under study. In determining the sample, we use a non-probability sampling technique, where this technique does not provide an opportunity or opportunity for each member of the population to be sampled and purposive sampling is part of this technique (Ikbal et al., 2020) so that the sample size is 12 companies.

3.2. Data processing

Streiner (2005) observes that the path analysis model is an extension of multiple linear regression analysis to estimate the causality relationship between variables that have been predetermined based on theory. Path analysis cannot determine the causal relationship and also cannot be used as a substitute for researchers to see the causality relationship between variables mediated by intervening variables (Wijaya et al., 2021), so it requires addition with a single test.

What path analysis can do is determine the pattern of the relationship between three or more variables and not indirectly confirm or reject the imaginary causality hypothesis (Wijayanti & Darma, 2019). To facilitate data processing, it is supported by SPSS 26. Data analysis is concentrated on secondary data. The equation function for the structure of the path analysis method is formed by the following assumptions:

$$\text{Sub-structure 1. } Y1 = \beta1X1 + \beta2X2 + \beta3X3 + \epsilon1 \quad (1)$$

$$\text{Sub-structure 2. } Y2 = \beta4Y1 + \epsilon2 \quad (2)$$

Where: β (regression coefficient), Y1 (dividend policy), Y2 (stock price), X1 (financial performance), X2 (ownership structure), X3 (Macroeconomics), and ϵ (Residue).

4. Findings

4.1. First path analysis

The first line analysis highlights the direct impact on financial performance, ownership structure, and macroeconomics on dividend policy. Table 1 confirms the results of the path analysis for the first structural model.

Table 1: Summary for sub-structure 1

Model	Coefficients	Std. Error	T-Statistics	Sig.	Accepted/ Rejected
Constant	2.953	1.976	1.494	0.139	
X1 -> Y1 (H1)	0.095	0.039	2.424	0.018	Accepted
X2 -> Y1 (H2)	-0.491	0.819	-0.599	0.050	Rejected
X3 -> Y1 (H3)	-0.313	0.557	-0.561	0.576	Rejected

Source: Own calculations

Based on these results, the path coefficients in the first model can be detailed as follows:

$$Y1 = 2.953 + 0.095 X1 - 0.491 X2 - 0.313 X3 \quad (3)$$

The equation model presents that financial performance reflected in return on equity, current ratio, and debt to equity ratio has a positive or unidirectional relationship with the dividend policy, where the better the financial performance in this company, the better the dividend policy given to shareholders. Meanwhile, the ownership structure reflected in the proxies of public ownership and macroeconomic conditions represented by inflation and interest rates actually had a negative or unidirectional effect on dividend policy. This gives a signal that the higher the macroeconomic problems and ownership structure paid by the company, the less systematic impact on the proportion of dividend policy. This fact is marked by the ownership structure that is not too high and macroeconomic conditions that are less stable, which has an impact on investors' interest in investing.

4.2. Second path analysis

Particularly in the second path analysis, Table 2 focuses on the relationship between dividend policy and stock prices in the second structural model. We conclude that the second model integrates a positive or unidirectional relationship between dividend policy and stock prices, where the correlation is very strong.

Table 2: Summary for sub-structure 2

Model	Coefficients	Std. Error	T-Statistics	Sig.	Accepted/ Rejected
Constant	6.491	0.644	10.080	0.000	
Y1 -> Y2 (H4)	0.009	0.006	1.551	0.025	Accepted

Source: Own calculations

On the basis of considerations in the second model, the path coefficient can be expressed with the structural equation as follows:

$$Y2 = 6.491 + 0.009 Y1 \quad (4)$$

4.3. Third path analysis

The third line, calculating the effect of financial performance, ownership structure, and macroeconomics on stock prices through dividend policy. The indirect effect explains why the variables are correlated using a sequential model temporarily with the role of the intervening variable.

Table 3: Details of the indirect effects

Model	Coefficients	Std. Error	T-Statistics	Sig.	Accepted/ Rejected
X1 -> Y1 -> Y2 (H5)	0.095 x 0.009 = 0.000	0.000	1.277	0.020	Accepted
X2 -> Y1 -> Y2 (H6)	-0.491 x 0.009 = 0.004	0.007	-0.556	0.042	Accepted
X3 -> Y1 -> Y2 (H7)	-0.313 x 0.009 = -0.002	0.005	-0.526	0.436	Rejected

Source: Own calculations

The modeling ability of the intervening variable (dividend policy) has identified the ability of financial performance, ownership structure, and macroeconomics to stock prices. An antidote result is the insignificant macroeconomic effect. In terms of closeness of the relationship, financial performance and ownership structure have a positive effect. Conversely, macroeconomics actually has a negative effect on stock prices through dividend policy, where the path coefficient for this relationship is -0.002.

Stock prices are a very important source of information for investors. If the stock price increases, the company has good prospects in the future, and investors are interested in investing. With an increase in stock prices, it is also a sign that there is a distribution of company profits received to investors in the form of dividends and affects the proportion of share ownership structure. Sound financial performance conditions and macroeconomic factors can also encourage investment decisions made by investors.

5. Discussion and conclusion

The recapitulation of empirical studies investigates seven important points. For dividend policy, financial performance has a positive and significant effect (H1 is accepted), ownership structure has a negative but significant effect (H2 is rejected), macroeconomics has a negative and insignificant effect on it (H3 is rejected). In the second structure, dividend policy has a positive and significant effect on stock prices (H4 accepted). In an indirect relationship, financial performance and ownership structure have a positive and significant effect on stock prices through dividend policy (H5 and H6 are accepted), while macroeconomics has a negative and insignificant effect (H7 is rejected).

In line with this, Wijaya (2017) emphasizes that dividend policy has a positive effect on stock prices and Osakwe et al. (2019) proved that dividend policy also has a positive effect on stock prices. However, Rizal (2014) actually proves different things that dividend policy does not have a significant effect on stock prices.

Wijaya (2017) analyzes financial performance has a positive and significant effect on stock prices. However, this study has also proven that financial performance has no effect on stock prices through its relationship with dividend policy. This of course implies that financial performance does not affect stock prices indirectly through dividend policy.

According to this, Opu (2015) proves different that dividend policy indirectly has a significant effect on stock prices through the ownership structure. Then, Abdullah et al. (2012) clarified that the ownership structure has a positive and insignificant effect on stock prices. However, Silaban & Purnawati (2016) presented that ownership structure has a positive and significant effect on dividend policy, and Raharjanti & Setyowati (2018) proxies that ownership structure on managerial ownership structure and institutional ownership structure has an effect on stock prices. This means that indirectly the higher the value of the stock prices, the higher the proportion of dividend payments paid or issued in the share ownership structure in the company.

The findings that have been previously published, are different from the others. Musthafa (2009) actually proves that the macroeconomy has a negative and significant effect on stock prices. In contrast, Hunjra et al. (2014) demonstrated that the macroeconomy, which is reflected in the inflation rate and interest rates, has a significant effect on stock prices. On a similar occasion, Situmeang & Habibi (2018) presented that the macroeconomy **has a significant effect on dividend policy**. This means that **the** dividend policy can affect the macroeconomy and stock prices, where if the macroeconomy is not controlled, it can affect the stock price which indirectly causes a decrease in the dividends paid by the company.

Suggestions as well as policy implications taken by various parties, especially those involved in the financial sector, can consider this finding. Indeed, this empirical result still has shortcomings and weaknesses in the presentation, but the parties involved (especially those who are in top management), continue to maintain and improve their company's financial performance, so as to get the maximum possible profit. Shareholders are very interested in investing in companies with good financial performance, thus being able to provide returns through promising dividends.

Other extra efforts can also increase the proportion of share ownership not only to public share ownership because it has proven unable to encourage an increase in a dividend distribution to investors. Then, from the macroeconomic aspect, in certain situations, it is possible to distribute dividends to investors because it is proven that it is unable to encourage an increase in profits. An interesting phenomenon is the distribution of dividends to shareholders because it plays a central role in spurring an increase in stock prices.

Consistent financial performance today, in particular, can predict what will happen in the future. IDX should further optimize external fund ownership from public share ownership by focusing on macroeconomic conditions which of course have implications for a decrease or increase in stock prices. Investors tend to transfer their funds in other forms such as savings or deposits, which of course indirectly affects the distribution of company dividends.

Researchers in the field of financial management and who are interested in trying to observe the dimensions in this study, need to consider the use of macroeconomic variables in determining the implications for dividend policy through stock prices. As is well known, macroeconomics is very broad in scope, because it is not only concentrated on inflation and interest rates. An interesting thing to note is that macroeconomic variables always change from time to time or experience trends that are difficult to predict.

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