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ANALYSIS OF THE INFLUENCE OF DIVIDEND POLICY ON STOCK VOLATILITY OF MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study aims to examine how the dividend payout ratio and dividend yield impact stock price volatility, with inflation as a moderating variable, in manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2023. Secondary data are used in this study, drawn from financial statements and annual reports. This study includes manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2023, as well as those that have held an IPO since at least 2018. Forty-four companies met the research criteria, selected using a purposive sampling method. This study used multiple regression analysis. The results show that only the dividend payout ratio significantly influences stock price volatility. Stock prices are riskier when the dividend payout ratio is more dynamic, and vice versa. The study also shows that the dividend payout ratio and dividend yield do not affect stock price volatility.

Keywords : Influence, Dividends, Stock volatility

INTRODUCTION

A company's fundamental goal is to maximize profits and expand its reach. To achieve this, it needs to plan both short-term and long-term steps. This planning can include expanding with other companies, expanding target markets, expanding business sectors, and so on. Companies must have sufficient capital to support these goals. Several ways to obtain capital include obtaining loans from creditors or engaging in the capital markets. The appeal of investing in stocks lies in the profits they generate in the form of *capital gains* and dividends. Investors expect *returns* equal to, or even greater than, the amount of wealth invested in the company. *Capital gains* are the difference between the selling price and the purchase price, while dividends are the return, either in cash or shares, to investors. Each company has a different dividend policy. Dividend policy is defined as the company's decisions regarding dividend distribution, including the amount, the form of dividends to be distributed, and the distribution date. Dividend policy is measured using two metrics: *dividend yield* (DY) and *dividend payout ratio* (DPR). These two metrics represent different things: *dividend yield* reflects the amount of income investors receive based on their invested wealth, while *the dividend payout ratio* indicates the amount of dividends taken from the company's net profit. Stock-related information is interesting news for investors because it can inform their decision-making regarding a company's stock.

According to Khurniaji and Raharja (2013: 2), stock volatility is the fluctuating price movements of stocks on the stock exchange. Higher volatility results in higher risks, which are directly proportional to the opportunity for investors to profit. One factor influencing stock price volatility is inflation. Inflation causes continuous increases in the price of goods, making it difficult for people to obtain goods, leading to business disruptions. This is certainly a key consideration for investors before purchasing a company's shares to avoid losses. Kharinda's (2018) research found that *the Dividend Payout Ratio* has an insignificant effect on stock price volatility, while profitability has a significant effect on stock price volatility. Another study conducted by Azura, Sofia, and Nurhasanah (2018) showed that *Dividend Yield* , company size, trading volume, inflation, and interest rates do not affect stock price volatility, while *the Dividend Payout Ratio* does. Furthermore, a study by Fajrihan (2010) found that *the Dividend Payout Ratio* and *Dividend Yield* affect stock price volatility. Lashgari and Ahmadi (2014) showed that *the Dividend Payout Ratio* has no effect on Stock Price Volatility. The differences in the studies above indicate that the issue of the influence of dividend policy on stock prices still has differences that require further clarification.

Over time, banking institutions have become insufficient to meet the public's urgent need for funds. Therefore, alternative financing options are needed, especially given the limited access to bank funds. To address this, in 1988, the government opened up opportunities for various business entities to engage in financing activities as an alternative way to provide funds to support Indonesia's economic growth. These activities are carried out by institutions called financing institutions.

PROBLEM STATEMENT

Many studies have been conducted on dividend policy and stock price volatility in both developed and developing countries. However, few studies in Indonesia have focused on this area. Several studies conducted in Indonesia have examined the effect of dividend payments, earnings yield, and dividend yield on stock prices without considering dividend payment trends by the companies studied over a specific period (Okafor et al., 2011; Oyinlola and Ajeigbe, 2014; Anike, 2014; Odung, 2014). This study addresses this shortcoming by examining dividend policy patterns among sample companies in Indonesia. Trend estimation reflects the impact of dividend policy on a company's stock price, with dividends per share determining market growth. Therefore, this study contributes to knowledge by addressing this unmet research gap in Indonesia by analyzing dividend policy patterns over the study period.

LITERATURE REVIEW

Dividend Irrelevance Theory

Dividend policy has been a subject of debate in finance; this is evidenced by numerous studies ranging from Lintner (1956) to Modigliani and Miller (1961) to Bhattacharya (1979) and more recently by DeAngelo et al. (1996), Fama and French (2000), and Al-Malkawi (2007). Some theories of dividend policy include: Modigliani and Miller (1961) observed that "dividend policy is irrelevant." Dividend policy has no effect on stock prices and no impact on shareholder wealth in a Perfect Capital Market (PCM) that assumes rational investors. Therefore, they concluded that dividend policy has no impact on shareholder wealth and that all dividend policies are equal. In fact, companies continue to pay dividends to their shareholders. According to them, shareholder wealth is influenced by the income generated by the investment decisions made by the company, and not by how the company distributes those income. Modigliani and Miller further argue that regardless of how a company distributes its earnings, its value is determined by its underlying earnings and investment decisions. They state that "given a company's investment policy, the dividend payout policy chosen by the company will have no effect on its current stock price or total shareholder returns." In other words, investors calculate the value of a company based on the capitalized value of its future earnings, and this is unaffected by whether or not the company pays dividends and how the company sets its dividend policy. Modigliani & Miller further state that for an investor, all dividend policies are effectively the same because investors can create "homemade" dividends by adjusting their portfolios in a way that suits their preferences. Shareholder wealth remains unchanged when all aspects of the investment policy remain constant and any increase in current payouts is financed by stock sales. The assumptions of this theory include;

- There is a 100% dividend payment by management in each period.
- There is a perfect capital market.
- Investors are rational and they value securities based on the discounted value of future cash flows to the investor.
- Managers act as the best agents for shareholders.
- There is certainty regarding the company's investment policy.

Based on the above, Modigliani and Miller concluded that the issue of dividend policy is irrelevant.

Relevance of Dividend Theory

The dividend relevance group believes that under conditions of uncertainty, investors do not
regardless of how the income stream is divided between dividends and retained earnings. Walter (1963) argued that dividend policy should depend on the investment opportunities available to the firm. He argued that as long as there are investment opportunities where the firm earns a rate of return (r) higher than its weighted average cost of capital (Ko), the firm should pay dividends to its shareholders. However, if no such opportunities exist, the firm should pay out a portion of its profits. Walter's suggestion tended to highlight the information content of dividends. This means that the payment or absence of dividends by a firm is a means of publicly announcing the firm's future. A firm that does not pay dividends will be viewed as a weak firm with little or no future prospects, and vice versa. Furthermore, Walter (1963) proposed a model explaining how dividend policy affects stock prices on the stock market.

Anastassia and Firnanti (2014) state that the upward or downward movement of stock prices on the Indonesia Stock Exchange is stock price volatility. (Ullah et al., 2015) state that stock price volatility is a benchmark for determining the risk of a stock. The higher the stock price volatility, the greater the possibility of stock prices rising and falling rapidly (Priana and Muliartha, 2017). Stock price volatility is a concern for market players in the capital market because it is used as a reference for determining the right investment strategy (Dewi and Suaryana, 2016). Significant volatility indicates that a stock's profits or losses will be greater in the short term (Hashemijoo et al., 2012). Stock prices with high volatility are difficult to predict because they can change at any time. According to (Fahmi, 2012:89), factors that cause stock prices to fluctuate include micro and macroeconomic conditions, company policies in deciding to expand the business (expansion), sudden changes in directors, the involvement of directors or commissioners in a criminal act whose case has reached the courts, company performance that continues to decline over time, systematic risk, and the effects of market psychology. Stock price volatility can be influenced by dividend policy, exchange rates, leverage, and firm size. Dividend policy is the decision whether a company's profits will be distributed to shareholders as dividends or retained as retained earnings to finance future investments (Sartono, 2014:281). According to (Jannah and Haridhi, 2016), information regarding dividend policy is related to signaling theory, because this information provides a signal to investors regarding the company's long-term performance and attracts investors to invest their funds in the stock, so that demand for shares increases and ultimately causes the stock value to also increase. This indicates that the greater the dividend payment, the stronger the signal of the company's profitability, thereby reducing investor risk in investing and lowering price volatility.
share.

METHOD

Based on its nature, the type of data used in this study is quantitative data. Quantitative data is data in the form of numbers resulting from measurements, observations, and numerators that can be analyzed using statistical methods, to obtain trends, predict relationships between variables, compare results with group comparisons, so that they can be presented in the form of statistical data (Riadi, 2016: 48). The object of this study is a finance company because finance companies are non-bank financial companies that are currently growing quite rapidly in Indonesia. The data required in this study are debt policy, dividend policy, total assets, profitability, and company value. Therefore, the data source used is secondary data. This secondary data comes from the annual reports of finance companies listed on the Indonesia Stock Exchange (IDX) for 2018-2023 on the official IDX website.

RESULTS AND DISCUSSION

The results of the multiple regression test obtained are that the most influential and significant are *the Dividend Payout Ratio* and *Dividend Yield,* with a significance value below 0.05. *Dividend Payout Ratio* with a significance value of 0.000 <0.05 and *Dividend Yield* with a significance value of 0.000 <0.05. These results are in accordance with the opinion of Alwi (2003) , which influences stock price volatility, one of which is the announcement of the company's financial reports, such as profit forecasts before and after the end of the fiscal year, EPS, DPS, PER, NPM, ROA, ROE, and others. With the increasing ability of the company to generate profits which is also accompanied by the increasing amount of dividends distributed, this will cause stock prices to increase. This is because many investors are interested in buying shares of companies that have a high ability to generate profits, so that *demand* for these shares increases. This finding is also in accordance with research conducted by According to Nishat and Chaudhari (2003) entitled *dividend policy and stock price*

Volatility explains that dividend policy (*Dividend Yield and Dividend Payout Ratio*) has a significant impact on stock price volatility in the Pakistan Stock Exchange. This finding also supports I. Roni Setyawan (2006) entitled Detecting Comparison of Price Volatility and *Earnings Reactions* to Returns and Stock Prices in the LQ45 Sector, with the variables of excess volatility, *discount rate, earnings* , and stock price. The variable explains that investors pay more attention to excess price volatility than excess *earnings volatility* . Although it must be admitted that they still have a positive interest in the quality *of earnings* generated by LQ45 issuers. The *Earnings Volatility variable* with a significance value of 0.414>0.05 indicates that the *earnings volatility variable* has no effect on stock price volatility. This finding is in accordance with the opinion of Brigham and Houston (2009), stock price volatility is interpreted as risk, but profit volatility does not always have to be interpreted as risk. We must consider the causes of such volatility before drawing conclusions about whether volatility indicates risk. Some companies experience these fluctuations following cyclical or seasonal patterns. Therefore, volatility will not be a significant part of the risk. This will not be a concern for investors, so the company's stock price will not be affected. The *size variable* has a significance value of 0.277>0.05, indicating that the *size variable* does not affect stock price volatility. This contrasts with the findings of Nishat and Chaudhari (2003) that the *size variable* influences stock price volatility. The larger the company size, the lower the volatility, especially for companies classified as LQ 45, which are leading companies with high liquidity. This finding is consistent with Fama and French (1992) who examined market beta or CAPM predictions regarding the positive influence of market beta on average stock returns and found no effect of market beta, especially after varying beta calculations related to *firm size* . *The DAR variable,* with a value of 0.914>0.05, indicates that the *leverage variable* does not significantly influence stock price volatility. This finding is in line with the findings of Modigliani and Miller (1958), who stated that in a perfect capital market, financial decisions are no longer relevant. In other words, the use of financing sources, whether debt or equity, does not affect *the cost of capital* and ultimately does not affect the company's value (stock price). This result is similar to research conducted by Anton (2006). The results of the LQ45 stock study showed that stock returns in Indonesia have *time-varying volatility problems* , but there is no *leverage effect* on stock return volatility. *The growth in assets variable* , with a significance value of 0.917>0.05, indicates that *the growth in assets variable* does not significantly influence stock price volatility. Asset growth in a company reflects the certainty of returns or profits that investors will receive, so investors will continue to invest in the shares so that the share price will be more stable.

CONCLUSION

This study examines the impact of dividend policy and dividend payout on the market prices of listed companies in Indonesia and the relationship between dividend policy and stock prices. Data analysis using random effects regression indicates that dividends per share have a significant relationship with stock prices. A one percent (1%) increase in dividends per share will lead to a 0.213% increase in stock prices, and conversely, a one percent (1%) decrease in dividends per share will lead to a 0.213% decrease in stock prices. Therefore, it can be concluded that dividend payout has a very significant impact on stock prices of listed companies in Indonesia. This indicates that these variables have little influence on stock price determination in Indonesia. By all indications, these variables do not significantly influence stock prices and, therefore, can be considered secondary determinants of market share price. Therefore, it is recommended that companies strive to improve their financial performance, which will allow for a consistent increase in their dividends per share, which will positively impact market value. This is necessary because a decrease or non-payment of dividends can send false signals to investors regarding the company's viability or profitability.

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