FINANCIAL POLICY, MARKET RESPONSE, AND FINANCIAL PERFORMANCE AS DETERMINANT OF STOCK RETURN

Chyntia Octaviani Kaban[1]
chyntia.maritim@gmail.com

Mustanwir Zuhri[2,]
Riza Zahrotun Nisa[3,]
Rizki Yuniarti[4]

mustanwir@perbanas.id

[1,2,3,4] Perbanas Institute

Abstract – *This study is designed to prove the influence of financial policy such as dividend policy proxied by the dividend pay-out ratio (DPR) and debt policy proxied by the debt to equity ratio (DER), market response proxied by the PER, and financial performance proxied by return on equity (ROE) on stocks returns in consumer cyclicals companies listed on the Indonesia Stock Exchange (IDX) during the period 2016 – 2023. The study uses a quantitative approach and using secondary data collected through documentation. The data is processed and analyzed using panel data regression with the assistance of EViews 13 software. The results indicate that DPR dan DER have a positive effect on stocks returns, while PER and ROE do not have effect on stock returns.*

Keywords: *Dividend Payout Ratio, Debt to Equity Ratio, Price to Earnings Ratio, Return on Equity, Stock Return.*

I. INTORDUCTION

Indonesia's capital market recorded solid performance throughout 2023, according to Indonesia Stock Exchange (IDX), despite ongoing global challenges, especially the long-term impact of the Covid-19 pandemic that began in 2020. As the economic conditions began to recover in 2023, fundraising in the capital market increased. Moreover, trading volume and the number of retail investors also increased. These improvements were reflected in Indonesia Composite Index (ICI), which reached 7.272,8 by the end of 2023. Marking a 6,16% increase from the previous year. However, not all sectors followed this upward trend. During 2021 to 2023, consumer cyclical sector kept declining. Its index dropped from 900,421 in 2021, 850,90 in 2022, and 821, 42 in 2023. A total drop of 8,77% over three years.

A continuous decline in a sectoral index can bring a negative impact on companies within that sector. Falling stock prices may signals the investors suggesting that a company may be experiencing financial difficulties, which can affect stock returns. If a company unable to meet investor's return expectations, investors may lose interest in investing further. As a result, company could struggle to obtain funding, which may eventually lead to financial losses or even bankruptcy. Existing investors may also be affected, as they face the risk of reduced or even zero dividend payments.

Many variables can influence stock returns, including financial policy, market response, and financial performance. Financial policy includes dividend policy proxied by dividend payout ratio (DPR) and debt policy proxied by debt-to-equity ratio (DER). Market response is measured using price to earnings ratio (PER), while financial performance indicates by return on equity (ROE). However, previous studies have shown inconsistent findings regarding the effects of DPR, DER, PER, ROE on stock returns. Studies by Asrini (2020), Kholifah & Retnani (2021), Dewi et al. (2020) Cahyati et al. (2022), Asia (2020), Amri & Ramdani (2020) dan Iskandar (2020) have found varying results on how these variables effects stock returns, indicating a gap that this study aims to explore further.

II. LITERATURE REVIEW

Signaling Theory

According to Brigham & Houston (2001), signaling theory means that decisions made by company's management serve as signal to investors about how management's view of the company's prospects. Company policies and financial reports, act as indicators for all stakeholders in deciding how to manage their investments.

Efficient Market Theory

Efficient market theory, introduced by Eugene Fama in 1970, states that stock prices reflect all available information. The market considered efficient only when it seems like everyone has access to the same information and uses it when making decisions.

Dividend Payout Ratio (DPR)

According to Pribadi & Sampurno (2012), DPR is the percentage of dividends per share compared to earnings per share. Malik & Kodriyah (2021) explain that DPR shows how much of the profit is shared with investors as dividends and how much is kept by the company as retained earnings. DPR can show the company's performance, especially during its growing and planning to expand.

Debt to Equity Ratio (DER)

DER indicates the company's financial health in terms of debt policy by comparing its total debt to its equity. DER helps to measure the company's financial health and ability to pay its obligations using internal funds (Sawir, 2015). DER also shows the company's credit strength and financial risk.

Price to Earnings Ratio (PER)

PER shows the comparison between a stock's market price and its earnings per share (Murhadi, 2013:63). PER indicates how long it may take to get return from investment based on company's stock price. The higher the market price of the stock compared to its earnings per share, the higher the PER.

Return on Equity (ROE)

According to Murhadi (2013), ROE is used to measure how much return shareholders earn for every rupiah they invest. ROE shows how well a company uses its equity to generate profit.

Stock Return

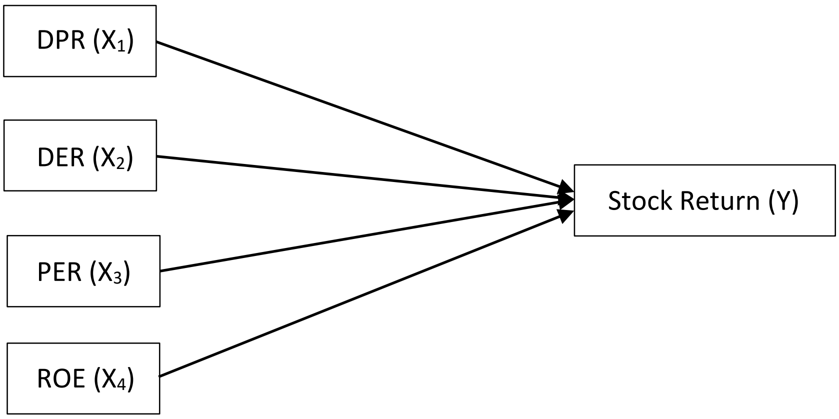
The definition of stock return according to Herlambang & Kurniawati (2022), is the amount of return an investor earns from an investment during a certain period. Stock returns can be calculated from the difference between the current and previous stock price. Greater price changes, lead to higher returns. This return may result in capital gain or capital loss.

Previous Study

Bird in the Hand Theory suggest that investors prefer current cash dividends over future capital gains. This theory is supported by Asrini (2020) dan Kholifah & Retnani (2021). However, Dewi et al. (2020) found no significant relationship between the DPR and stock return. Pecking Order Theory by Myers & Majiuf (1984), stated that companies prioritize internal financing, followed by debt, and then stock issues as source of funding. Companies with high profitability tend to have lower debt levels. This theory aligns with study conducted by Cahyati et al. (2022). In contrast, Amri & Ramdani (2020) found that DER has a positive effect on stock returns. PER as an indicator of market response, compares stock's prices to its earning. According to Asia (2020), PER has positive effect on stock return, while Dewi et al. (2020) concluded that PER has no effect on stock return. ROE as an indicator financial performance, shows how well a company generate profit with its equity. Iskandar (2020) found that ROE has a positive effect on stock return. In contrast, Dewi et al. (2020) concluded that ROE has no effect on stock return.

Research Conceptual Framework

Picture II. 1 Research Conceptual Framework



Hypotheses

H_1 : DPR has a positive effect on stock return of companies in the consumer cyclical company.

H_2 : DER has a negative effect on stock return of companies in the consumer cyclical company.

H_3 : PER has a positive effect on stock return of companies in the consumer cyclical company.

H_4 : ROE has a positive effect on stock return of companies in the consumer cyclical company.

III. METHODS

Population and Sampling Methods

This study using consumer cyclicals company that listed on the Indonesia Stock Exchange as the population. The data sample in this study includes Ace Hardware Tbk. (ACES), Astra Otoparts Tbk. (AUTO), Indo Kordsa Tbk. (BRAM), Catur Sentosa Adiprana Tbk. (CSAP), Indospring Tbk. (INDS), dan Selamat Sempurna Tbk. (SMSM). The sampling method used is purposive sampling, based on cyclicals consumer companies that are listed on the main board and regularly distributing dividends during 2016 – 2023.

Data Processing and Analysis

The data was processed and analyzed using panel data regression, including model estimation, model selection tests, classical assumption tests such as normality, multicollinearity, autocorrelation, and heteroscedasticity tests, and analysis of the coefficient of determination, using Eviews 13 software.

IV. RESULTS AND DISCUSSION

Model Selection

According to the results of the Chow Test and Lagrange Multiplier Test, the selected model is Common Effect Model. Table IV.4 presents the data from *Common Effect Model*.

Table IV. 4 Common Effect Model Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.660389	16.35068	-0.162708	0.871510
DPR	0.595249	0.302042	1.970743	0.055212
DER	0.219774	0.116322	1.889360	0.065598
PER	-1.077362	0.844276	-1.276078	0.208777
ROE	-0.154191	0.887400	-0.173756	0.862872

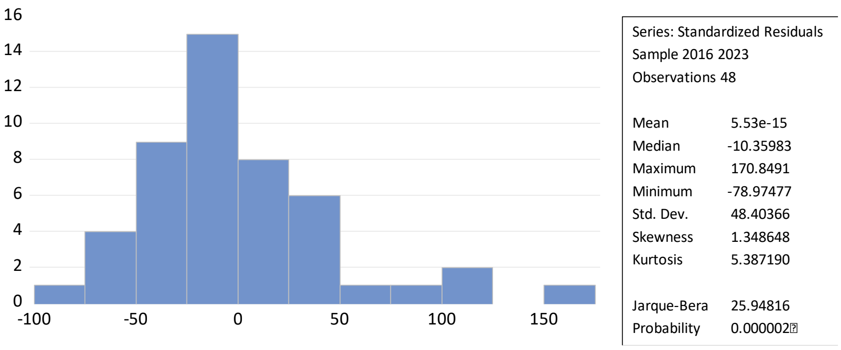
R-squared	0.111267	Mean dependent var	18.16938
Adjusted R-squared	0.028594	S.D. dependent var	51.34434
S.E. of regression	50.60493	Akaike info criterion	10.78430
Sum squared resid	110117.0	Schwarz criterion	10.97922
Log likelihood	-253.8234	Hannan-Quinn criter.	10.85796
F-statistic	1.345877	Durbin-Watson stat	1.984205
Prob(F-statistic)	0.268576		

Sumber: Output EViews 13

Classical Assumption Test

Normality Test

Picture IV.1 Normality Test Result



Source: EViews 13 Output

From Picture IV.1, the probability value is 0,000002, less than 0,05, which means the data is not normally distributed. However, according to Central Limit Theorem, Agung (2006), if the sample size is at least 30, the data can be considered normally distributed. This study uses 48 samples, so the data is considered normal.

Multicollinearity Test

Table IV.5 Multicollinearity Test Result

	ROE	PER	DER	DPR
ROE	1	0.207726593	-0.278320283	0.365342734
PER	0.207726593	1	0.250492987	0.651242219
DER	-0.278320283	0.250492987	1	-0.243305919
DPR	0.365342734	0.651242219	-0.243305919	1

Source: EViews 13 Output

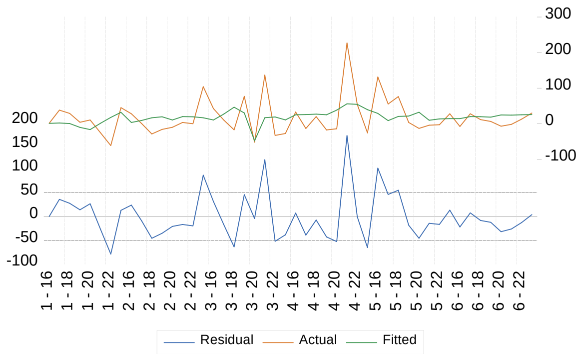
From Table IV.5, all multicollinearity test values are below 0,8, indicating that the independent variables in this study are free from multicollinearity.

Autocorrelations Test

The results of Durbin-Watson stat from Table IV.4 is 1,9, which falls within the acceptable range of -2 to +2, can be concluded the data in this study is free from autocorrelation.

Heteroscedasticity Test

Picture IV.2 Heteroscedasticity Test Result



Source: EViews 13 Output

According to Napitupulu et al. (2021) residual graphic from Picture IV.2, the data considered free from heteroscedasticity if the residual graphic remains within the range of 500 to. From Picture IV.2, the blue residual graphic remains within the range of 500 and -500, indicating the data is free from heteroscedasticity.

Panel Data Regression Analysis

RETURN = -2,66 + 0,59DPR + 0,22DER – 1,07PER – 0,15ROE

The regression formula can be defined as follows:

1. The constant value is -2,66, when variables DPR, DER, PER, and ROE are equal to zero, the stock return is predicted to be -2.66%.

2. The beta coefficient for the DPR is 0,59, indicating that if independent variables remain constant, a 1% increase in DPR will lead to a 0,59% increase in stock return.
3. The beta coefficient for the DER is 0,22, indicating that if independent variables remain constant, a 1% increase in DER will lead to a 0,22% increase in stock return.
4. The beta coefficient for the PER is 1,07, indicating that if independent variables remain constant, a 1% increase in PER will lead to a 1,07% decrease in stock return.
5. The beta coefficient for the ROE is 0,15, indicating that if independent variables remain constant, a 1% increase in ROE will lead to a 0,15% decrease in stock return.

t Test

Based on the t-test results, it can be concluded as follows:

1. DPR probability value is 0,055 < 0,10 and the t-statistic is 1,97 > 1,68, indicating that DPR has an effect on stock return.
2. DER probability value is 0,065 < 0,10 and the t-statistic is 1,88 > 1,68, indicating that DER has an effect on stock return.
3. PER probability value is 0,208 > 0,10 and the t-statistic is -1,27 < 1,68, indicating that PER has an effect on stock return.
4. ROE probability value is 0,863 > 0,10 and the t-statistic is -0,17 < 1,68, indicating that ROE has an effect on stock return.

F Test

F-statistic probability value is 0,26, which is greater than 0,10 and F-statistic value is 0,26, lower than the F-table value of 2,08. Therefore, it can be concluded that the data sample does not pass the goodness of fit test.

Coefficient of Determination Analysis

The adjusted R-squared value is 0,028, indicating the independent variables such as DPR, DER, PER, and ROE explain 2,8% of the changes in stock return, while the remaining 97,2% is influenced by other variables not included in this study.

Discussion

The effect of DPR on stock return

DPR has a positive effect on stock return. A high DPR sends a positive signal to investors and creates a good image for potential investors, which can lead to higher stock prices and returns. This is aligned with the Bird in the Hand Theory, which states that investors prefer cash dividends over capital gains due to their certainty and lower risk. It is also in line with the study by Asrini (2020) and Kholifah & Retnani (2021). Hypothesis 1 is accepted.

The effect of DER on stock return

DER has a positive effect on stock return. This supports the findings of Amri & Ramdani (2020), who explained that using debt makes companies aim for higher profits and use the fund more efficiently due to the responsibility of repaying the debt. This can attract investors and increase stock returns. Hypothesis 2 is rejected.

The effect of PER on stock return

PER has no effect on stock return. A high PER is not always a good sign because it may indicate that the stock is overvalued. Investor often look for capital gains. Dewi et al. (2020) also found that PER has no effect on stock return. PER tend to be used as an indicator if a stock is overpriced and to decide to take profits. Hypothesis 3 is rejected.

The effect of ROE on stock return

ROE has no effect on stock return. ROE can increase in two situations, when the company's net income rises or its total equity decreases. A decrease in equity may indicate that the company is using external funding, so the higher return is used to pay back the funding, not to increase investor returns. As a result, a higher ROE may not be a consideration for investors when deciding to invest. Dewi et al. (2020) also found that ROE has no effect on stock return. Hypothesis 4 is rejected.

IV. CONSLUSION

Conclusion

The result of the study proves the effects of DPR, DER, PER, dan ROE on stock return of companies in the consumer cyclical company during 2016 – 2023, as follows:

1. DPR has a positive effect on stock return.
2. DER has a positive effect on stock return.
3. PER has no effect on stock return.
4. ROE has no effect on stock return.

Recommendation

1. Additional independent variables that may better explain stock return are needed.
2. Companies should give more attention to financial policy such as dividend policy and capital structure, as these factors can influence investor decisions.

REFERENCE

Agung, I. G. N. (2006). *Statistika Penerapan Model Rerata-Sel Multivariat dan Model Ekonometri dengan SPSS*. Yaysan Sad Satria Bhakti.

Amri, A., & Ramdani, Z. (2020). PENGARUH NILAI TUKAR, KEBIJAKAN DEVIDEN DAN STRUKTUR MODAL TERHADAP RETURN SAHAM PADA PERUSAHAAN YANG TERDAFTAR DI JAKARTA ISLAMIC INDEX. *Jurnal Ilmu Keuangan Dan Perbankan (JIKA)*, *10*(1). www.market.bisnis.com,

Asia, N. (2020). FAKTOR-FAKTOR YANG MEMPENGARUHI RETURN SAHAM PADA PERUSAHAAN PROPERTY TAHUN 2014-2016 DI BURSA EFEK INDONESIA. *FORECASTING: Jurnal Ilmiah Ilmu Manajemen*, *2*(1), 76–101.

Asrini, E. D. (2020). Pengaruh Earning Per Share dan Price Earning Ratio Terhadap Return Saham Dengan Kebijakan Dividen Sebagai Variabel Intervening. *E-BISMA*, 64–78. https://doi.org/10.37631/e-bisma.v1i2.196

Brigham, E. F., & Houston, J. F. (2001). *Manajemen Keuangan* (8th ed., Vol. 1). Erlangga.

Cahyati, M. Y., Hermuningsih, S., & Kusumawardhani, R. (2022). Pengaruh Profitabilitas, Leverage, Ukuran Perusahan dan Kebijakan Dividen Terhadap Return Saham pada Perusahaan Sektor Consumer Goods Industry yang Terdaftar di Bursa Efek Indonesia. *Jurnal Ilmiah Universitas Batanghari Jambi*, *22*(1), 22–27. https://doi.org/10.33087/jiubj.v22i1.1890

Devi, N. N. S. J. P., & Artini, L. G. S. (2019). PENGARUH ROE, DER, PER, DAN NILAI TUKAR TERHADAP RETURN SAHAM. *E-Jurnal Manajemen Universitas Udayana*, *8*(7), 4183. https://doi.org/10.24843/ejmunud.2019.v08.i07.p07

Dewi, N. L. Y. A. P., Endiana, I. D. M., & Arizona, I. P. E. (2020). PENGARUH RASIO KEUANGAN DAN KEBIJAKAN DEVIDEN TERHADAP RETURN SAHAM. *Jurnal Kharisma*. Vol. 2 No. 3 (2020): Kumpulan Hasil Riset Mahsiswa Akuntansi (KHARISMA)

Herlambang, G., & Kurniawati, L. (2022). Pengaruh Fundamental Perusahaan Manufaktur Sektor Industri Barang Konsumsi Terhadap Return Saham. *Seminar Nasional Hasil Riset dan Pengabdian*.

Iskandar, Y. (2020). The Effects of ROA, ROE, NPL, and Operating Expenses to Operating Revenues on Stock Return at Commercial Banks in Indonesia. *Journal of Applied Management (JAM)*, *18*(4), 704–711. https://doi.org/10.21776/ub.jam

Kholifah, D. N., & Retnani, E. D. (2021). PENGARUH TINGKAT SUKU BUNGA, KEBIJAKAN DIVIDEN, DAN STRUKTUR MODAL TERHADAP RETURN SAHAM Endang Dwi Retnani Sekolah Tinggil Ilmu Ekonomi Indonesia (STIESIA) Surabaya. *Jurnal Ilmu dan Riset Akuntansi*, *10*(7). https://jurnalmahasiswa.stiesia.ac.id/index.php/jira/article/view/4117

Malik, A., & Kodriyah. (2021). Dividen Payout Ratio Pada Perusahaan Manufaktur Di Bursa Efek Indonesia. *Jurnal Akuntansi*, *8*(2). https://doi.org/10.30656/Jak.V8i2.5522

Murhadi, W. R. (2013). *Analisis Laporan Keuangan : Proyeksi dan Valuasi Saham*. Salemba Empat.

Myers, S. C., & Majiuf, N. S. (1984). CORPORATE FINANCING AND INVESTMENT DECISIONS WHEN FIRMS HAVE INFORMATION THE INVESTORS DO NOT HAVE. *Working Paper No. 1396*. https://ssrn.com/abstract=274547

Napitupulu, R. B., Simanjuntak, T. P., Hutabarat, L., Damanik, H., Hotriado, H., Sirait, R. T. M., & Lumban Tobing, C. E. R. (2021). *Penelitian Bisnis dengan SPSS STATA dan Eviews*. *1*.

Pribadi, A. S., & Sampurno, R. D. (2012). ANALISIS PENGARUH CASH POSITION, FIRM SIZE, GROWTH OPPORTUNITY, OWNERSHIP, DAN RETURN ON ASSET TERHADAP DIVIDEND PAYOUT RATIO. *DIPONEGORO JOURNAL OF MANAGEMENT*, *1*(1), 212–211. http://ejournal-s1.undip.ac.id/index.php/djom

Sawir, A. (2015). *Analisis Kinerja Keuangan dan Perencanaan Keuangan Perusahaan*. PT Gramedia Pustaka Utama.