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Stock Price Optimization through Financial Performance and Dividend Policy

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ABSTRACT

Stock price is the main indicator of a company's performance which is a major concern for investors and company management. Solid financial performance and the right dividend policy are two key factors that can affect stock prices. In a competitive market, a company must be able to optimize its stock price to attract investment and maintain shareholder trust. This study aims to identify and analyze the influence of financial performance and dividend policy on the company's stock price. By understanding this relationship, it is hoped that companies can formulate effective strategies to increase the value of shares. This study uses a quantitative approach with multiple regression methods to analyze data. The data used in this study comes from the annual financial statements and share prices of companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period. The independent variables analyzed included profitability, liquidity, and dividend policy ratios, while the dependent variable is the stock price. The results show that good financial performance, as measured through profitability and liquidity ratios, has a positive and significant influence on stock prices. In addition, a consistent and sustainable dividend policy also plays an important role in increasing stock prices. Companies that are able to maintain solid financial performance and implement prudent dividend policies tend to have higher and stable stock prices.

Keywords: Stock Price Optimization, Financial Performance, Dividend Policy, Profitability Ratio, Liquidity

INTRODUCTION

The capital market is one of the main instruments in the global financial system that facilitates the flow of capital between investors and companies. In it, stock prices are an important indicator that reflects the health and performance of a company (Azharin & Ratnawati, 2022). For investors, the stock price is not just a buying and selling price, but also a reflection of expectations for the company's future performance. Therefore, stock price optimization is the main focus for company management to increase the company's value and attract investors (Liswatin & Sumarata, 2022).

The company's financial performance is one of the fundamental factors in determining its share price. Strong financial performance, such as stable profitability levels and good liquidity, can give a positive signal to the market that the company is able to generate profits consistently and has the ability to meet its financial obligations (Deska, 2022; Habumugisha & Mulyungi, 2018). In addition, a prudent dividend policy also plays an important role in shaping investors' perception of the company's value. A consistent dividend policy not only shows that the company is able to distribute profits to shareholders, but also shows management's commitment to sharing value to shareholders (Vasiljeva, 2017).

Research on the relationship between financial performance, dividend policy, and stock prices has become a topic of interest for financial researchers and practitioners. Various studies show that good financial performance and the right dividend policy can increase stock prices. However, it is important to note that this relationship is not always simple and can be affected by complex external and internal factors. For example, market conditions, regulations, and other company policies can also affect the market's perception of stock prices (Kusuma, et, al., 2021).

In Indonesia, as one of the fastest-growing capital markets in Southeast Asia, stock price optimization through financial performance and dividend policies is relevant in the context of economic growth and investment (Ningsih, et, al., 2023). In this context, this study aims to contribute to a further understanding of the factors influencing stock prices in the Indonesian capital market, with a focus on how financial performance and dividend policies can be optimized to increase corporate value and investor confidence.

With a deeper understanding of these dynamics, it is hoped that the company's management can formulate more effective strategies in increasing the value of their shares and maintaining long-term shareholder trust. Furthermore, this study will use a quantitative approach to analyze financial data and stock prices of companies on the Bursa Efek Indonesia (BEI), with the hope of providing valuable insights for financial practitioners, investors, and academics in understanding the dynamics of the Indonesian capital market.

THEORETICAL BASIS

Stock Price

The stock price is the selling price or market value of one share of a company listed on the stock exchange. In the capital market, shares represent a share of ownership of a company traded on the secondary market, where investors can buy and sell those shares (Saputra, et, al., 2023). The share price reflects the value of a company's assets, growth potential, and expectations for the company's future performance. The main factors that affect stock prices are supply and demand in the market. When many investors want to buy shares of a company, this tends to increase its share price due to the limited number of shares available for trading (Zannati & Budiarti, 2021).

Conversely, if many investors want to sell the stock, the stock price tends to fall because supply exceeds demand. Stock prices are determined by the supply and demand mechanisms in the market. This means that the stock price can go up or down depending on the investor's interest in buying or selling the stock (Ambarsari & Verlandes, 2023). When the demand for a company's shares increases, its stock price tends to rise because there are more buyers than sellers. Conversely, if supply exceeds demand, stock prices could fall because there are more sellers than buyers (Zannati & Budiarti, 2021).

Stock prices also reflect market expectations for the future performance of a company. So, if investors believe that a company will generate high profits or announce favorable policies, they may be more willing to pay a higher price to buy shares of that company (Kusaendri & Mispiyanti, 2022). In addition, stock prices are also influenced by external factors such as global market conditions, economic and political news, industrial events, and government policies. All these factors can affect investor sentiment and directly affect stock prices in the capital market. Therefore, stock prices are not just numbers, but also an important indicator that reflects market confidence and evaluation of the value and prospects of a company (Hasan & Mildawati, 2020).

Financial Performance

Financial performance is a measure or indicator used to assess the extent to which a company has managed to achieve its financial goals. Financial performance reflects the effectiveness and efficiency of a company in managing the resources it has to generate profits (Waruwu, 2021). This assessment is usually carried out using various financial ratios and financial statements such as balance sheets, income statements, and cash flow statements. Key indicators of financial performance include profitability, liquidity, solvency, and operational efficiency (Purwaningsih, 2020).

Operational efficiency reflects how well a company manages its day-to-day operations to maximize output by minimizing inputs. Ratios such as inventory turnover and receivables turnover are used to assess how efficient the company is in managing inventory and receivables (Widajanti, 2021). A high level of efficiency indicates that the company is able to optimize the use of assets to generate revenue, which in turn can increase profitability and liquidity. Good operational efficiency also shows that the company has effective management and optimal business processes (Ningsih, et, al., 2023).

In addition to using financial ratios, financial performance can also be assessed through the analysis of financial trends over time. This analysis involves examining historical financial data to identify growth or decline patterns in key financial indicators. By understanding these trends, management can make more informed decisions regarding business and investment strategies. Regular monitoring of financial performance assists companies in identifying areas that need improvement and developing action plans to improve overall performance (Setiyadi & Wijayanti, 2022). Overall, financial performance is a critical aspect of a company's management that affects the attractiveness of investment and the value of a company in the eyes of shareholders and investors.

Dividend Policy

Dividend policy refers to the decisions taken by the company's management regarding how much profits will be distributed to shareholders in the form of dividends, as well as how much will be retained in the company for reinvestment (Ahmad, et, al., 2020). These decisions are an important part of a company's financial strategy and can have a significant impact on investor perception and the company's stock price. The dividend policy reflects a balance between the need to provide returns to shareholders and the need to fund the company's growth. One of the main approaches in dividend policy is the fixed dividend policy, where companies commit to paying a certain amount of dividends each year (Bahrun, et, al., 2020).

Another approach is a variable dividend policy, where the amount of dividends paid can fluctuate depending on the company's financial performance. In this policy, companies can choose to pay larger dividends when profits increase and reduce or even eliminate dividends when profits decrease. This approach is more flexible and allows companies to adjust dividend payments according to current financial conditions. However, variable dividend policies can create uncertainty for shareholders and may affect their perception of the company's stability (Fahruddin & Subardjo, 2022). In addition, some companies implement a residual dividend policy, where dividends are paid after all investment and operational needs are met.

Companies that have high profitability and strong cash flow are more likely to pay higher and consistent dividends. The importance of dividend policy lies in its impact on the company's value and relationship with shareholders. The right dividend policy can increase investor confidence, attract new investments, and increase the company's stock price. Conversely, poor or inconsistent dividend policies can create uncertainty and dissatisfaction among shareholders (Kusaendri & Mispiyanti, 2022). Therefore, the company's management must consider various factors and strategies in formulating an optimal dividend policy, which can support the company's long-term growth while providing adequate returns to shareholders.

METHOD

This study uses a quantitative approach with descriptive methods and regression analysis to identify the relationship and influence between the variables studied. The population in this study is companies listed on the Bursa Efek Indonesia (BEI) during the 2019-2023 period, consisting of 75 companies. Samples will be taken using the purposive sampling method, which is the selection of companies based on certain criteria relevant to the research objectives, resulting in 30 companies as a sample.

The data analysis techniques used in this study include hypothesis testing and multiple regression analysis. The hypothesis test was carried out to test the significance of the influence of financial performance and dividend policy on stock prices partially and simultaneously. Multiple regression analysis is used to determine how much influence each independent variable (financial performance and dividend policy) has on the dependent variable (stock price). The results of this analysis will provide a clear picture of the contribution of financial performance and dividend policy in determining the company's share price.

The results of the analysis will be interpreted to understand how financial performance and dividend policy affect stock prices. This interpretation will help in providing practical recommendations for the company's management in the strategy of improving financial performance and determining the optimal dividend policy. In addition, the results of this study are also expected to provide insight for investors in making better investment decisions by considering financial performance factors and dividend policies.

RESULT

The Effect of Financial Performance on Stock Price

The results of this study show that financial performance has a positive and significant effect on stock prices. This is proven through the t-test which produces a calculated t-value of 4.784, which is greater than the t-value of the table of 1.984. With t calculated greater than t table, it can be concluded that the null hypothesis (H0) is rejected and the alternative hypothesis (Ha) is accepted. This means that there is statistical evidence that supports that financial performance does have a significant influence on stock prices. Furthermore, the value of the determination coefficient (R square) obtained in this study is 0.492.

This value shows that 49.2% of the stock price variability can be explained by the variability of the company's financial performance. In other words, almost half of the changes in stock prices can be explained by changes in financial performance. However, another 50.8% of the stock price variability is explained by other factors that are not included in this research model. Therefore, while financial performance has a significant influence, it is important for investors and company management to also consider other external factors that can affect stock prices.

Overall, the results of this study provide empirical evidence that financial performance is an important factor in determining a company's stock price. Company management should focus on improving financial performance to increase the company's value in the eyes of investors. For investors, understanding a company's financial performance can help in making better investment decisions. However, consideration is still needed for other external factors that also affect the stock price.

The Effect of Dividend Policy on Stock Price

The results of the study show that the dividend policy has a positive and significant effect on stock prices. This is evidenced by the results of the t-test which shows a calculated t-value of 2.481, which is greater than the table's t-value of 1.984. With t calculation greater than t table, it can be concluded that the null hypothesis (H0) is rejected and the alternative hypothesis (Ha) is accepted. This means that there is statistical evidence to support that dividend policy does have a significant influence on stock prices.

The value of the determination coefficient (R square) obtained in this study is 0.368. This value shows that 36.8% of the stock price variability can be explained by the variability of the dividend policy. In other words, more than a third of the change in stock prices can be explained by changes in dividend policy. However, 63.2% of the stock price variability is explained by other factors that are not included in this research model. Therefore, while dividend policy has a significant influence, it is important for investors and company management to also consider other external factors that can affect stock prices.

Overall, the results of this study provide empirical evidence that dividend policy is an important factor in determining a company's stock price. Company management should consider an optimal dividend policy to increase the company's value in the eyes of investors. For investors, understanding a company's dividend policy can help in making better investment decisions. However, consideration is still needed for other external factors that also affect the stock price. These results emphasize the importance of a comprehensive analysis in assessing the factors that affect stock prices in the market.

The Effect of Treasury Performance and Dividend Policy on Stock Prices

The results of this study show that financial performance and dividend policy have a significant simultaneous effect on stock prices. This is evidenced by the results of the F test which shows a calculated F value of 17.481, which is greater than the table F value of 3.09. With F calculation greater than F table, it can be concluded that the null hypothesis (H0) is rejected and the alternative hypothesis (Ha) is accepted. This means that there is statistical evidence to support that financial performance and dividend policy together have a significant influence on stock prices. The value of the determination coefficient (R square) obtained in this study is 0.508.

This value shows that 50.8% of the stock price variability can be explained by the variability of financial performance and dividend policy together. In other words, more than half of the change in stock prices can be explained by changes in financial performance and dividend policy. However, 49.2% of the stock price variability is explained by other factors that are not included in this research model. Therefore, while financial performance and dividend policy have a significant influence, it is important for investors and company management to also consider other external factors that can affect stock prices.

Overall, the results of this study provide empirical evidence that financial performance and dividend policy are important factors in determining a company's stock price. Company management should focus on improving financial performance and implementing an optimal dividend policy to increase the company's value in the eyes of investors. For investors, understanding a company's financial performance and dividend policy can help in making better investment decisions. However, consideration is still needed for other external factors that also affect the stock price. These results emphasize the importance of a comprehensive analysis in assessing the factors that affect stock prices in the market.

CONCLUSION

Based on the results of the study, it can be concluded that both financial performance and dividend policy have a positive and significant influence on stock prices. Financial performance that reflects the health and operational efficiency of the company, along with a dividend policy that indicates the distribution of profits to shareholders, is simultaneously able to explain more than half of the variability of stock prices. This shows the importance of these two factors in investors' assessment of the company's value.

A fairly high value of the determination coefficient indicates that 50.8% of the change in stock prices can be explained by changes in financial performance and dividend policy. However, there is still 49.2% of stock price variability influenced by other factors that are not included in this research model. These factors may include macroeconomic conditions, market sentiment, government policies, and overall industry performance. This emphasizes the need for a more holistic and thorough analysis to understand all the factors that affect stock prices.

In conclusion, the results of this study provide strong evidence that company management must pay serious attention to improving financial performance and implementing appropriate dividend policies to increase the company's value in the eyes of investors. For investors, a deep understanding of a company's financial performance and dividend policy can be helpful in making more informed investment decisions. However, it is still worth remembering that other external factors also have an important role in influencing stock prices, so investment decisions should be based on comprehensive and informed analysis.

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