International Journal of Accounting & Finance in Asia Pasific (IJAFAP)
Vol. 7 No. 2 pp.159-174, June, 2024
E-ISSN: 2655-6502 P-ISSN: 2684-9763
https://www.ejournal.aibpmjournals.com/index.php/IJAFAP

Examining Dividend Policy's Impact on Stock Returns with Profitability and Liquidity Analysis

I Gede Cahyadi Putra[1], Kadek Apriada[2], I Kadek Bagiana[3]
Mahasaraswati Denpasar University[1,2,3]
Jl. Kamboja No. 11A, Denpasar, 80119, Indonesia
Corresponding Author: gdcahyadi@unmas.ac.id

ARTICLE INFORMATION

Publication information

Research article

HOW TO CITE
Putra, I. G. C., Apriada, K., & Bagiana, I. K. (2024). Examining dividend policy's impact on stock returns with profitability and liquidity analysis. *International Journal of Accounting & Finance in Asia Pasific, 7*(2), 159-174.

DOI:
https://doi.org/10.32535/ijafap.v7i2.2973

Received: 16 April 2024
Accepted: 18 May 2024
Published: 20 June 2024

ABSTRACT

This research aims to address the lack of existing literature on the correlation between dividend policy and stock performance in the banking industry. This paper examines the intervention mechanisms that mediate the relationship between dividend policy and stock returns, with a specific focus on profitability and liquidity as determining factors. This research uses a quantitative approach by collecting secondary data from annual reports of banking companies listed on the Indonesia Stock Exchange and company websites, as well as a sample of 13 banking companies. According to the research findings, profitability has a notable positive impact on dividend policy, whereas liquidity has a significant negative impact. Nevertheless, both profitability and liquidity do not directly impact stock returns. Dividend policy does not directly impact stock returns. The data suggest that the link between these factors is not linear, and the dividend policy variable does not operate as a mediator for the impact of profitability or liquidity on stock returns. These findings suggest that it is important to consider other factors that may affect the relationship between dividend policy and stock returns. Additionally, it highlights the significance of utilizing diverse and knowledge-based investment strategies to maximize shareholder value in the context of the capital market.

Keywords: Dividend Policy; Liquidity; Profitability; Stock Returns

JEL Classification: G15; G21; G35; M20

INTRODUCTION

Academics and financial practitioners have shown interest in the correlation between dividend policy and stock performance in the banking sector. The connection between banking and the economy is important because banking plays a critical role in the economy and has distinct operating features. It is crucial for investors, regulators, and policymakers to comprehend the impact of dividend policy on stock returns in this sector. The study conducted in several disciplines, such as economics, business, management, and accounting, have yielded significant findings about dividend policy and its impact on shareholders (Dewi & Novitasari, 2022). Scholars have examined the factors and outcomes of dividend policy in many organizational situations. Previous studies by Limbunan & Daromes (2022) and Shao (2019) have shown how complicated the relationship is between dividend policy and stock returns. These studies emphasize how important profitability and liquidity are as key factors in the banking industry. Wang and Wang (2018) highlight the significance of dividend policy in communicating firm performance and controlling investor expectations.

The literature on the relationship between dividend policy and stock returns acknowledges the importance of profitability and liquidity in determining dividend decisions within banking businesses (Yoon, 2019). However, there remains a significant gap in understanding the specific mechanisms through which dividend policy affects stock returns in this industry, including the potential mediating effects. This lack of research hinders a deeper understanding of how dividend policy influences stock returns in financial organizations. Addressing this gap is essential for providing insights to investors, policymakers, and regulators to maximize shareholder value and financial stability. Additionally, elucidating these intervention mechanisms has the potential to advance theoretical progress in corporate finance and financial economics by integrating insights from behavioral finance, agency theory, and institutional economics, thus enriching dividend policy models (Rooly, 2021).

The objective of this research is to enhance the current body of knowledge on dividend policy and stock returns in banking firms. The analysis centers on examining the correlation between dividend policy and stock returns, taking into account exogenous variables such as profitability and liquidity as well as intervening variables like dividend policy. The study seeks to clarify the mechanisms that facilitate this link, with a specific emphasis on intervening variables. The objective is to improve comprehension, mitigate risk, and make more knowledgeable choices in the context of the capital market by identifying important research discoveries on management practices, regulatory policies, and investment strategies in banking firms.

LITERATURE REVIEW

Signaling Theory

Signaling theory plays a fundamental role in the corporate world, providing guidance to companies on how to effectively communicate important information to the market. Firms communicate their future prospects to investors and stakeholders through actions such as sustainability reporting and dividend announcements (Limbunan & Daromes, 2022; Simamora, 2019). These signals have a vital role in influencing how the market perceives the organization, improving its reputation, and attracting stakeholders who prioritize social responsibility. This notion is evident in several market situations when corporations strategically use signals like research and development announcements to influence market reactions and obtain funding opportunities (Fedorova et al., 2022; Wang & Wang, 2018). In addition, signaling helps to reduce information asymmetry by offering distinct and dependable indicators, thus promoting investor trust and decreasing uncertainty (Jen & Pei, 2020; Nugroho & Stoffers, 2020).

Agency Theory

Agency theory, a fundamental concept in the field of corporate governance, explores the inherent conflict of interest that arises between principals and agents inside organizations (Shao, 2019; Hendrastuti & Harahap, 2023; Rooly, 2021). It emphasizes the importance of having mechanisms such as boards of directors to supervise and coordinate the acts of agents in accordance with the interests of principals, usually shareholders. Governance systems and contractual agreements reduce conflicts of interest by managing the risk of agents prioritizing their own personal benefit over the aims of the principal (Yoon, 2019). The report delves deeper into the dynamics of the principal-agent interaction, highlighting the difficulties that arise from differences in goals and the significance of efficient control systems (Shim, 2022).

Stock Returns

Stock returns are a vital measure in investment research, indicating the profits or losses from stock investments (Nurfadila & Sukmayanti, 2020). Several factors, such as financial performance, exchange rates, inflation, and interest rates, influence these returns. Research has demonstrated the substantial influence of financial performance on stock returns (Jariah et al., 2022). Assessing the potential hazards and gains before making investment selections is considered crucial for making well-informed choices. Moreover, there is a direct relationship between investor sentiment and stock market results. Gaining a thorough understanding of these elements and performing in-depth analysis is crucial for investors who aim to navigate the stock market successfully.

Dividend Policy

Choosing the dividend policy of a firm is crucial as it involves deciding how profits will be allocated, whether they will be distributed to shareholders as dividends or retained for future investment. The objective of an optimal dividend policy is to increase the value of the company (Wahjudi, 2020). The company exemplifies its approach to utilizing its earnings by choosing to either pay shareholders or reinvest in the firm. Dividend policy is a crucial component of corporate governance and exerts a substantial influence on the performance of a firm. Comprehending the intricacies of dividend policy is crucial for organizations seeking to improve their financial strategy and enhance shareholder value.

Profitability

Profitability ratios are essential metrics used to assess a company's capacity to make profits within a specific timeframe. This ratio offers a deeper understanding of the company's financial well-being and operational effectiveness. Financial analysis often employs different profitability ratios, including return on assets and return on equity (Toni et al., 2022). Financial ratio analysis, which includes profitability ratios, is crucial for assessing a company's capacity to generate profits. Profitability ratios are employed to evaluate and gauge a company's financial standing throughout several time periods (Tamba & Purwanto, 2021). Analyzing these ratios (Murniati et al., 2019) can provide stakeholders with useful insight into a company's profitability and resource management capabilities.

Liquidity

Liquidity ratios, also known as working capital ratios, are important financial metrics used to assess a company's ability to fulfill its immediate financial obligations. These ratios provide valuable information about the liquidity position by comparing the amount of current assets to the amount of current liabilities. Some commonly used liquidity ratios are the working capital ratio, current ratio, quick ratio, and cash ratio. They evaluate the company's capacity to meet short-term liabilities using its current assets. Effective management of working capital has a significant impact on a company's financial well-being, affecting its liquidity and profitability. Companies that have higher working capital ratios are able to reduce the amount of cash they hold because working capital can be used as a substitute for cash (Wijaya & Nadya, 2021). Efficient management of working capital is essential for preventing financial challenges and possible insolvency. Through vigilant monitoring and effective management of working capital, organizations can improve their financial stability and reduce the likelihood of encountering financial difficulties.

Hypotheses

The Impact of Profitability on Dividend Policy

Profitability is a crucial determinant of dividend policy in a corporation. The firm's high profitability indicates its robust and consistent financial performance, instilling confidence in management that the company can generate ample cash flow to sustain favorable dividend payments (Irsutami & Fortuna, 2023). Hence, when faced with very profitable circumstances, management is more likely to opt for an assertive dividend policy, thereby boosting investor confidence and sending a favorable message regarding the company's financial well-being. Therefore, profitability positively influences dividend policy by indicating a greater level of management's trust in the company's capacity to sustain and enhance dividend distributions to shareholders. A study conducted by Andriyani and Oktarina (2023) demonstrates a direct correlation between profitability and dividend policy. Consistent with the findings of Irsutami and Fortuna (2023), it is evident that profitability has a favorable impact on dividend policy. Furthermore, Susilo et al. (2021) assert that there is a major enhancement in dividend policy as a result of increased profitability. From the given description, the initial hypothesis that may be formulated for this research is as follows:

H1: The impact of profitability on dividend policy is positive.

The Impact of Liquidity on Dividend Policy

High liquidity signifies that the company possesses ample cash flow and assets that can be readily turned into cash, hence instilling management with the assurance to continuously distribute dividends. When there is ample liquidity, management is more inclined to allocate a portion of the cash flow to pay dividends to shareholders. This is because they believe that the company still has sufficient resources to fund future operations and growth. Therefore, a strong level of liquidity has a favorable impact on the dividend policy as it demonstrates the company's capacity to distribute profits to shareholders without causing any disruptions to its day-to-day operations or its long-term investment strategies. Based on the aforementioned description, the subsequent hypothesis that can be formulated in this research is as follows:

H2: The impact of liquidity on dividend policy is positive.

The Impact of Profitability on Stock Returns

The profitability of a company has a substantial impact on its stock returns (Wibowo et al., 2018; Gunadi et al., 2020). This is because companies that generate large profits tend to attract institutional investors and analysts, which leads to an increase in demand for their shares (Toni et al., 2022). As a result, share prices and returns for shareholders also increase. Multiple studies support this correlation, demonstrating that profitability has a crucial impact on positively impacting stock returns (Kusumaningtyas et al., 2021). Multiple researchers have discovered strong and favorable effects of profitability on stock returns in many markets (Clara & Kim, 2021). Therefore, the present study data provide support for the notion that there is a positive association between profitability and stock returns.

H3: The impact of profitability on stock returns is positive.

The Impact of Liquidity on Stock Returns

Increased liquidity has a favorable impact on stock returns by enhancing investor confidence and market liquidity (Hu & Sun, 2023). It guarantees that shares can be readily purchased and sold without substantial decreases in price, which is attractive to investors (Tabibian et al., 2020). Companies that possess a significant amount of readily available cash and assets are able to attract institutional investors and traders (Daryaei & Fattahi, 2022). This increased interest from investors and traders leads to higher levels of trading activity and overall market liquidity. As a result, the company's share prices and returns have improved. Multiple studies have provided evidence that higher levels of liquidity have a favorable impact on stock returns, suggesting that there is a correlation between enhanced liquidity and higher overall market returns (Violita, 2019). The results as a whole provide evidence that there is a positive relationship between liquidity and stock returns.

H4: The impact of liquidity on stock returns is positive.

The Impact of Dividend Policy on Stock Returns

A reliable and growing dividend payment policy acts as a sign to investors, demonstrating the robustness and stability of the firm, thereby enhancing their trust and cultivating optimistic views of the company's future potential (Yoon, 2019). This policy also appeals to investors who are looking for a consistent source of income, such as institutional investors and individuals who rely on dividends for passive income. As a result, it increases the demand for firm shares, leading to higher share prices and profits for shareholders (Rooly, 2021). The company's sustainable dividend payments improve its reputation among analysts, which can lead to more stock coverage and recommendations, ultimately boosting the overall performance of the stock. Prior studies support the existence of a favorable correlation between dividend policy and stock returns (Limbunan & Daromes, 2022); Shao, 2019). Hence, implementing a cautious and reliable dividend policy can effectively enhance a company's stock performance.

H5: The impact of dividend policy on stock returns is positive.

The Impact of Profitability on Stock Returns with Dividend Policy as Mediation

Investors view companies that are able to sustain or enhance their profits as a favorable indication of corporate performance. This is because the primary objective of investors who allocate capital to public companies is to get dividends (Andriyani & Oktarina, 2023). This study employs return on assets (ROA) and return on equity (ROE) as metrics to assess the degree of profitability. Achieving a high return on assets (ROA) and return on equity (ROE) will capture the interest of potential investors, as it indicates that the company's management is proficient in utilizing its resources and capital to make profits (Rialdy, 2019). Companies with the ability to make substantial profits typically have elevated share prices, which in turn provide investors with significant returns (Clara & Kim, 2021). According to the given description, the sixth hypothesis that can be formulated in this research is as follows:

H6: Profitability positively impacts stock returns via dividend policy.

The Impact of Liquidity on Stock Returns with Dividend Policy as Mediation
Enhanced liquidity helps mitigate the risk of failing to fulfill the company's immediate financial commitments. High liquidity signifies the presence of sufficient funds to cover dividend payments, support corporate operations, and make investments, hence enhancing investors' opinions of firm performance (Violita, 2019). By sending a favorable signal, investors will be encouraged to invest their capital, resulting in an increase in demand for the company's shares. As demand rises, share prices will also rise, resulting in higher returns for investors. This is due to the significant difference between the present share price and the price in the preceding period. From the given description, the seventh hypothesis that may be formulated in this research is as follows:

H7: Liquidity positively impacts stock returns via dividend policy.

RESEARCH METHOD

The population consists of banking businesses that are listed on the Indonesia Stock Exchange (BEI) throughout the years 2020–2022. The sample selection employed a purposive sampling technique, utilizing specific criteria, which include: (1) banking companies that are listed on the Indonesian Stock Exchange until 2022; (2) banking companies that are consecutively listed on the Indonesian Stock Exchange from 2020 to 2022; and (3) banking companies that consecutively distribute dividends from 2020 to 2022.

Table 1. Sample Selection

No	Information	Total
1.	Banking firms that are currently listed on the Indonesia Stock Exchange until 2022.	47
2.	Non-listed banking firms in Indonesia between 2020 and 2022.	(2)
3.	Banking firms that have not consistently issued dividends from 2020 to 2022.	(32)
Number of samples		13
Number of observation samples (13 x 3 years)		39

The study selected a sample of 13 banking firms with a total of 39 observations based on specific parameters. Secondary data from annual reports sourced from the PT Bursa Efek Indonesia website and individual company websites were utilized. Research variables were categorized into exogenous and endogenous, with dividend policy and stock returns considered as inherent components. Dividend policy was evaluated using Dividend Payout Ratio (DPR) and Dividend Per Share (DPS), while stock returns represent returns from stock investments in dividends and capital gains. Two exogenous variables, profitability (measured by return on assets and return on equity) and liquidity (measured by current ratio and cash ratio), were employed. The study employed the partial least squares (PLS) approach via Smart PLS 4.0 software tools, a method based on components or variants, to validate previous research on the impact of dividend policy and stock returns on the profitability and liquidity of banking firms listed on the Indonesia Stock Exchange. PLS was chosen for its ability to investigate variables with limited theoretical foundations and to validate theories, especially in models with many dependent variables, small samples, and data that do not follow a normal distribution. Additionally, PLS does not rely on many assumptions and is particularly useful for predictive purposes (Hair et al., 2016).

RESULTS

Table 2. Descriptive Statistics Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	39	0.50	11.43	2.5954	2.36649
ROE	39	1.69	24.21	13.3546	7.01936
CR	39	0.20	1.89	0.8059	0.44739
CS	39	0.08	0.69	0.2203	0.13121
DPR	39	0.12	0.85	0.4336	0.17891
DPS	39	3.32	555.00	127.4500	143.61436
SR	39	-0.71	7.57	0.1964	1.23399
Valid N (listwise)	39				

Table 2 presents the descriptive statistics for several financial ratios across a sample of 39 observations. These ratios include Return on Assets (ROA), Return on Equity (ROE), Current Ratio (CR), Cash Ratio (CS), Dividend Payout Ratio (DPR), Dividends per Share (DPS), and Stock Returns (SR). For ROA, the mean value is 2.5954 with a standard deviation of 2.36649, indicating a moderate variability in the profitability of assets across the sample. ROE shows a higher mean of 13.3546 with a standard deviation of 7.01936, suggesting greater variability in the return on equity. The CR has a mean of 0.8059, implying that, on average, companies in the sample have more current assets than current liabilities. Other ratios, such as CS, DPR, and DPS, also exhibit varying levels of mean and standard deviation, indicating different levels of liquidity, dividend policy, and stock performance. Finally, SR range from -0.71 to 7.57, with a mean of 0.1964, showing a modest average return with considerable variability. The valid sample size for all variables is 39, indicating no missing data points in the analysis.

Figure 1. Path Diagram

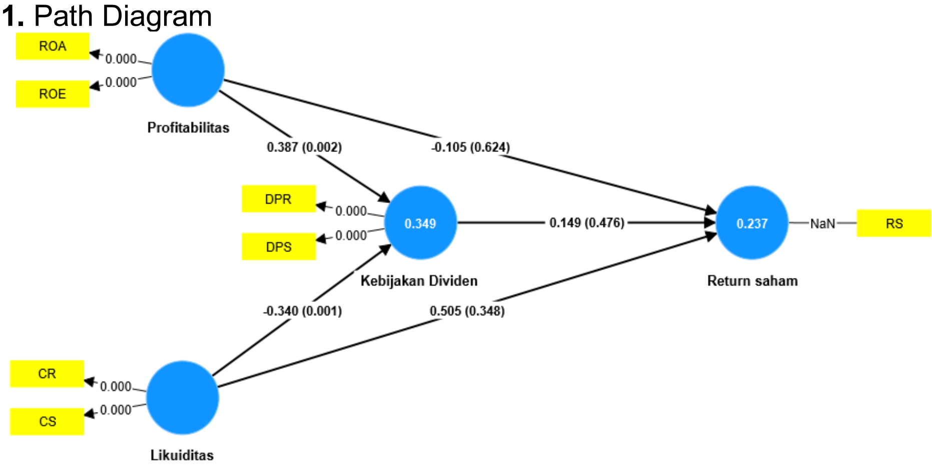

Figure 1 is a path diagram that depicts the relationship between exogenous variables, intervening variables, and endogenous variables in an analytical model. This path diagram provides a visual depiction of how the relationship between the three types of variables takes place in the context of the analysis being carried out.

Evaluation of the Measurement Model (Outer Model)

Convergent Validity

Loading Factor

Table 3. Loading Factor

Profitability	Loading Factor	Information
Profitability		
ROA	0.749	Valid
ROE	0.993	Valid
Liquidity		
CR	0.880	Valid
CS	0.886	Valid
Dividend Policy		
DPR	0.887	Valid
DPS	0.848	Valid
Stock Returns		
SR	1.000	Valid

Based on Table 3, the resulting Loading Factor values show that Profitability, Liquidity, Dividend Policy, and SR have a Loading Factor value greater than 0.7, meaning that these indicators can be declared valid.

Average Variance Extracted (AVE)

Table 4. Average Variance Extracted (AVE)

Variable	AVE	Information
Dividend Policy	0.753	Valid
Liquidity	0.779	Valid
Profitability	0.773	Valid

Based on table 4 above, it shows that the Average Variance Extracted (AVE) value is above 0.5 for each variable, which means the indicator is declared valid.

Discriminant Validity

AVE vs Correlation Between Latent Variables

Table 5. Fornell-Larcker Criteria

	Stock Returns	Dividend Policy	Liquidity	Profitability
Stock Returns	1.000			
Dividend Policy	-0.137	0.868		
Liquidity	0.470	-0.464	0.883	
Profitability	-0.193	0.496	-0.320	0.879

Based on Table 5, it can be explained that the AVE (Fornell-Larcker Criteria) value for all variables has a value greater than the correlation with other variables, where the indicators have met the discriminant validity requirements.

Cross Loading

Table 6. Cross Loading

	Stock Returns	Dividend Policy	Liquidity	Profitability
CR	0.294	-0.521	0.880	-0.338
CS	0.532	-0.300	0.886	-0.229
DPR	-0.117	0.887	-0.392	0.493
DPS	-0.122	0.848	-0.416	0.359
ROA	-0.131	0.063	0.021	0.749
ROE	-0.194	0.548	-0.365	0.993
SR	1.000	-0.137	0.470	-0.193

International Journal of Accounting & Finance in Asia Pasific (IJAFAP)
Vol. 7 No. 2 pp.159-174, June, 2024
E-ISSN: 2655-6502 P-ISSN: 2684-9763
https://www.ejournal.aibpmjournals.com/index.php/IJAFAP

Based on Table 6 above, it can be seen that the Loading Factor for each indicator on the variable is greater than the Cross Loading value. So, the variable indicators of profitability, liquidity, dividend policy, and stock returns tested using the Cross Loading model have met the discriminant validity requirements.

Heterotrait Monotrait

Table 7. Heterotrait Monotrait

	Stock Returns	Dividend Policy	Liquidity	Profitability
Stock Returns				
Dividend Policy	0.168			
Liquidity	0.553	0.672		
Profitability	0.200	0.454	0.310	

Testing on the Heterotrait Monotrait model can be declared to meet the Discriminant Validity requirements if it has a value <0.9. Based on Table 7, it shows that the value of each variable is less than 0.9. So, it is stated that all variable indicators have discriminant validity.

Reliability

Table 8. Reliability Test Results

Variable	Cronbach's Alpha	Composite Reliability	Information
Dividend Policy	0.674	0.859	Reliable
Liquidity	0.716	0.876	Reliable
Profitability	0.798	0.870	Reliable

Based on Table 8, the composite reliability value for the Profitability, Liquidity, and Dividend Policy variables is greater than 0.7 and the Cronbach's alpha value for each variable is above 0.6. So, the data above can be declared reliable.

Structural Model Evaluation (Inner Model)

R-Square

Table 9. R-Square Test Results

	R-Square	R-Square Adjusted
Stock Returns	0.237	0.172
Dividend Policy	0.349	0.313

Based on Table 9, it shows that the R-Square value of the Dividend Policy variable is 0.349, which means that the Profitability and Liquidity variables are able to explain 34.9% of the Dividend Policy and the remaining 65.1% is not explained in this research. Meanwhile, the R-Square value of the SR variable is 0.237, which means that the Profitability, Liquidity, and Dividend Policy variables are able to explain 23.7% of SR and the remaining 76.3% is not explained in this research. The R-Square value for the Dividend Policy variable is categorized as moderate and the R-Square value for the SR variable is categorized as weak.

F-Square

Table 10. F-Square Test Results

	Stock Returns	Dividend Policy	Liquidity	Profitability
Stock Returns				
Dividend Policy	0.190			
Liquidity	0.259	0.160		
Profitability	0.108	0.206		

Vol. 7 No. 2 pp.159-174, June, 2024
E-ISSN: 2655-6502 P-ISSN: 2684-9763
https://www.ejournal.aibpmjournals.com/index.php/IJAFAP

Based on Table 10, it is known that there is no large effect size with the F-Square criterion exceeding 0.35. It is known that there is a medium-size effect, namely with the F-Square criteria between 0.15 - 0.35, the influence of Dividend Policy on SR is 0.190, the influence of Liquidity on SR is 0.259, the influence of Liquidity on Dividend Policy is 0.160, and the influence of Profitability on Dividend Policy, namely 0.206. Meanwhile, the effect of Profitability on SR of 0.108 is a small effect size, because the F-Square value is in the range 0.02 - 0.15.

Predictive Relevance (Q2)

Q2 in the Inner Model is used to assess the accuracy of the research model and its parameter estimates. The Q-Square value ranges from 0 to 1. The closer it is to 0, the less good the model is; the closer to 1, the better the model. Based on calculations, Q2 = 0.504, indicating the contribution of the variables in the model is 50.4% to stock returns, with the remaining 49.6% coming from other variables.

Hypothesis Testing

Table 11. Hypothesis Testing Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
DP → SR	0.149	0.055	0.209	0.714	0.476
LQ → SR	0.505	0.236	0.538	0.938	0.348
LQ → DP	-0.340	-0.348	0.101	3.360	0.001
PR → SR	-0.105	0.004	0.214	0.491	0.624
PR → DP	0.387	0.401	0.127	3.039	0.002

Table 12. Indirect Effect Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
LQ → DP → SR	-0.051	-0.022	0.079	0.640	0.522
PR → DP → SR	0.058	0.019	0.090	0.639	0.523

Based on Table 11 and Table 12, the data show that the effect of LQ on DP (a) is significant (3.360 > 1.96), DP on SR (b) is not significant (0.714 < 1.96), and LQ on SR (c) is not significant (0.938 < 1.96). Based on this, the DP variable is a mediating variable that does not mediate the impact of LQ on SR. Then the influence of the PR variable through DP on SR was obtained that the relationship between PR and DP (a) was significant (3.039 > 1.96), DP on SR (b) was not significant (0.714 < 1.96), and PR on SR (c) is not significant (0.491 < 1.96). Based on this, it can be concluded that DP is not a mediating variable between PR and SR. Hypothesis testing using Partial Least Square produces the following findings: (1) Profitability has a significant positive effect on dividend policy (H1 is accepted); (2) Liquidity has a significant negative effect on dividend policy (H2 is rejected); (3) Profitability has no effect on stock returns (H3 is rejected). (4) Liquidity has no effect on stock returns (H4 is rejected); (5) Dividend policy has no effect on stock returns (H5 is rejected); (6) Profitability has no effect on stock returns through dividend policy (H6 is rejected); and (7) Liquidity has no effect on stock returns through dividend policy (H7 is rejected).

DISCUSSION

The Impact of Profitability on Dividend Policy

A company's dividend policy is typically positively affected by high profitability. This is because robust profitability signifies that the company possesses the capability to consistently create ample and steady money to fulfill operational requirements and facilitate corporate expansion. Within this particular framework, corporate leadership typically has a greater sense of ease when allocating dividends to shareholders as a means of acknowledging their confidence and as a tactic to uphold or enhance the value of the company's stocks. Furthermore, a high level of profitability not only signifies the financial well-being of the firm but also boosts investor trust and minimizes uncertainty, motivating management to take actions that favor a rise in dividend policy. Therefore, a company's decision about dividend policy is generally influenced by its high profitability. The findings of this study align with the studies undertaken by Irsutami and Fortuna (2023) and Susilo et al. (2021), which demonstrate that profitability has a favorable impact on dividend policy.

The Impact of Liquidity on Dividend Policy

Increased liquidity typically has an adverse impact on a company's dividend policy. This is the result of a deliberate decision to balance the allocation of corporate funds between distributing dividends to shareholders and ensuring there is enough cash available for day-to-day operations and short-term investments. When a firm has high liquidity, it means that it has a larger amount of funds that can be used to invest in projects that have the potential to provide higher returns compared to dividend payments. Therefore, firm management typically opts to retain a significant amount of this money for investment purposes or to address unforeseen circumstances, consequently diminishing the probability of substantial dividend disbursements. Hence, the level of liquidity frequently plays a role in a company's choice to implement a reduced dividend policy. The findings of this study align with the research carried out by Sembiring et al. (2022) demonstrating that liquidity exerts a detrimental impact on dividend policy.

The Impact of Profitability on Stock Returns

While ROA and ROE are commonly employed as significant metrics to evaluate a company's financial performance, their impact on stock returns is not necessarily obvious. This phenomenon is a result of a multitude of external and internal factors that have the potential to impact the market value of a company's shares. These factors encompass non-financial elements like market sentiment, industry conditions, and government policies, as well as internal elements such as risk management strategies, product innovation, and alterations in the company's capital structure. While ROA and ROE can offer a general assessment of a company's financial performance, investors typically take into account additional aspects and do a thorough study before making investment choices. As a result, a straight relationship between ROA, ROE, and stock returns is not always evident.

The Impact of Liquidity on Stock Returns

The research findings indicate that there is no correlation between liquidity and stock returns. This indicates that the amount of liquidity in a company does not have the ability to impact the rise or fall of stock returns. Liquidity solely pertains to the company's ability to fulfill its immediate financial obligations. High levels of liquidity do not guarantee high levels of stock returns. Investors generally disfavor companies with a high level of liquidity due to the indication that these companies possess a surplus of cash or easily sellable assets. This suggests that the company may struggle to allocate funds towards business expansion, lack investment opportunities, and lack a clear long-term plan.

Consequently, this unfavorable signal can significantly impact the investment decisions of capital-seeking investors. Hence, it is imperative for firm management to carefully consider the optimal equilibrium between enough liquidity and an effective allocation of capital for the company's sustained expansion and investment. The findings of this study align with the research undertaken by Sembiring et al. (2022), which concluded that liquidity does not have any impact on stock returns.

The Impact of Dividend Policy on Stock Returns

The research findings indicate that the dividend policy does not have any impact on stock performance. Investors generally like receiving capital gains as opposed to dividends, as capital gains indicate the expansion of their investment capital through rises in share prices. Capital gain refers to the financial gain achieved by subtracting the purchase price of shares from the selling price. Investors with a concentration on capital growth typically like to witness the appreciation of their investments over time, as capital gains offer the possibility for greater long-term profits. According to the irrelevant dividend theory, dividend policy does not affect share prices. The magnitude of the dividend payout ratio does not define the value of a company. Instead, the value of a firm is determined by its net profit and the level of risk it faces. The findings of this study align with the studies undertaken by Dewi and Yudowati (2020), indicating that dividend policy does not have a significant impact on stock returns.

The Impact of Liquidity on Stock Returns with Dividend Policy as Mediation

The research findings indicate that there is no direct impact of profitability on stock returns when considering dividend policy as a mediating factor. Profitability is a metric used to measure a company's capacity to earn profits. The dividend policy variable does not have the potential to moderate the impact of profitability on stock returns. The dividend policy solely quantifies the amount of profit allocated to shareholders, but it fails to offer a comprehensive assessment of the company's overall success. Profitability, as gauged by the metrics of ROA and ROE, does not serve as a reliable indicator for investors to assess the investment prospects of a company. This is because the corporation does not distribute all of its income from its present assets as dividends. In addition, the presence of a dividend policy in a corporation does not play a role in influencing the profitability of stock returns. This demonstrates that the dissemination of information pertaining to dividend payment rules does not have any impact on the fluctuation of a company's share returns.

The Impact of Profitability on Stock Returns with Dividend Policy as Mediation

The research findings indicate that there is no direct impact of liquidity on stock returns when considering dividend policy as a mediating factor. Liquidity refers to a company's capacity to convert its assets into cash quickly and without incurring substantial losses in order to fulfill its short-term financial obligations. The primary focus of the organization is to ensure sufficient liquidity to meet short-term financial obligations. While strong liquidity is generally seen as a desirable attribute, it does not necessarily indicate the future performance of a firm. In other words, a company with high liquidity does not guarantee high stock returns, and vice versa. The fluctuation of a company's current ratio, whether it is high or low, does not have an impact on the company's dividend policy or share price. When it comes to companies, the current ratio does not play a significant role in deciding the magnitude of the dividend policy. Furthermore, investors do not consider the current ratio to be a significant factor in their investment decisions. If the corporation is in a state of illiquidity, it will be unable to distribute substantial dividends. The current circumstances render the dividend policy ineffective in moderating the impact of the current ratio on stock returns. The findings of this study align with the research conducted by Irsutami and Fortuna (2023), which indicates that the dividend

Vol. 7 No. 2 pp.159-174, June, 2024
E-ISSN: 2655-6502 P-ISSN: 2684-9763
https://www.ejournal.aibpmjournals.com/index.php/IJAFAP

policy does not have the ability to impact the correlation between the current ratio and share prices.

CONCLUSION

This study examines the correlation between dividend policy, stock returns, profitability, and liquidity within the banking sector. The research findings indicate that profitability exerts a favorable influence on dividend policy, whereas liquidity exerts an unfavorable influence on dividend policy. Nevertheless, the financial metrics of profitability and liquidity do not have a direct impact on the performance of stock returns. The impact of dividend policy on stock returns is not significant. In addition, the dividend policy does not have the power to moderate the connection between profitability, liquidity, and stock returns.

The research in question has significant limitations. Firstly, it only focused on banking companies that are listed on the Indonesia Stock Exchange during a specific time frame. Consequently, the findings may not accurately represent the entire banking industry as a whole. The utilization of the PLS technique may possess specific limitations in the estimation of models. The variables employed in this study may not encompass all the elements that exert an influence on dividend policy, stock returns, profitability, and liquidity. The findings of this study are solely applicable to banking firms that are publicly traded on the Indonesia Stock Exchange during the selected timeframe. They cannot be easily extrapolated to other industries or market conditions.

One suggestion is to enhance the analytical methodologies employed by including the panel regression method. This approach can help address various limitations identified in the prior investigation. It is advisable to include or re-evaluate certain factors that could impact dividend policy, stock returns, profitability, and liquidity. To enhance the generalizability of the findings, broaden the sample to encompass financial institutions from various nations or stock exchanges. Further investigation is needed to explore additional elements that may influence or mitigate the relationship between dividend policy, stock returns, profitability, and liquidity. This will provide a more thorough knowledge of these dynamics, specifically in the context of banking organizations. Disseminate the practical ramifications of our research findings to financial practitioners, policymakers, and investors to aid them in making more informed decisions regarding the administration and allocation of their assets.

ACKNOWLEDGMENT
N/A

DECLARATION OF CONFLICTING INTERESTS
The authors declared no potential conflicts of interest.

REFERENCES

Andriyani, I., & Oktarina, L. (2023). Effect of profitability and leverage on firm value with dividend policy as an intervering variable in LQ45 companies on the IDX. *Neo Journal of Economy and Social Humanities, 2*(1), 9-16. https://doi.org/10.56403/nejesh.v2i1.83

Clara, N., & Kim, S. S. (2021). The effect of firm profitability on expected stock return in asean stock market. *Jurnal Keuangan Dan Perbankan, 25*(3), 642-655. https://doi.org/10.26905/jkdp.v25i3.5598

Daryaei, A. A., & Fattahi, Y. (2022). Stock liquidity and stock return: an asymmetric impact of institutional ownership approach. *Corporate Governance, 22*(4), 781-797. https://doi.org/10.1108/cg-03-2021-0119

Dewi, I. K., & Yudowati, S. P. (2020). Analisis komponen arus kas, manajemen modal kerja dan kebijakan dividen terhadap return saham. *Jurnal Mitra Manajemen, 4*(4), 566-580. https://doi.org/10.52160/ejmm.v4i4.370

Dewi, N. L. P. S., & Novitasari, N. L. G. (2022). The effect of debt policy, dividend policy, investment decisions and corporate size on corporate value. *International Journal of Accounting & Finance in Asia Pasific, 5*(3), 61-68. https://doi.org/10.32535/ijafap.v5i3.1886

Fedorova, E., Drogovoz, P., Popova, A., & Shiboldenkov, V. (2022). Impact of R&D patents and innovations disclosure on market capitalization: Russian evidence. *Kybernetes, 52*(12), 6078-6106. https://doi.org/10.1108/k-08-2021-0760

Gunadi, I. G. N. B., Putra, I. G. C., & Yuliastuti, I. A. N. (2020). The effects of profitabilitas and activity ratio toward firms value with stock price as intervening variables. *International Journal of Accounting & Finance in Asia Pasific, 3*(1), 56-65. https://doi.org/10.32535/ijafap.v3i1.736

Hair, J. F., Sarstedt, M., Matthews, L. M., & Ringle, C. M. (2016). Identifying and treating unobserved heterogeneity with FIMIX-PLS: Part I–method. *European Business Review, 28*(1), 63–76. https://doi.org/10.1108/EBR-09-2015-0094

Hendrastuti, R., & Harahap, R. F. (2023). Agency theory: Review of the theory and current research. *Jurnal Akuntansi Aktual, 10*(1), 85. https://doi.org/10.17977/um004v10i12023p085

Hu, Z., & Sun, P. W. (2023). Extreme liquidity risk and the cross-section of expected returns: Evidence from China. *Asia-Pacific Journal of Financial Studies, 52*(2), 159-192. https://doi.org/10.1111/ajfs.12420

Irsutami, I., & Fortuna, D. (2023, January). The effect of institutional ownership, Free Cash Flow (FCF), and profitability on dividend policy on registered basic and chemical manufacturing companies on the Indonesia Stock Exchange. *In Proceedings of the 4th International Conference on Applied Economics and Social Science, ICAESS 2022, 5 October 2022, Batam, Riau Islands, Indonesia.* https://doi.org/10.4108/eai.5-10-2022.2325890

Jariah, A., Lukiana, N., Hartono, H., & Irwanto, J. (2022). The efficiency of financial decisions on stock returns moderated financial performance. *Jurnal Ilmu Manajemen Advantage, 6(*1), 11-20. https://doi.org/10.30741/adv.v6i1.822

Jen, W. C., & Pei, Y. H. (2020). The association between corporate governance and company share repurchases: Evidence from Taiwanese small and mid-sized companies. *International Journal of Social Science and Economic Research, 05*(04), 860-871. https://doi.org/10.46609/IJSSER.2020.v05i04.001

Kusumaningtyas, N., Widagdo, B., & Nurjannah, D. (2021). The effect of interest rate, inflation and exchange value on stock returns with profitability as intervening variables. *Jurnal Manajemen Bisnis Dan Kewirausahaan, 1*(2), 97-108. https://doi.org/10.22219/jamanika.v1i2.16773

Limbunan, T., & Daromes, F. E. (2022). Testing the determinants of corporate reputation and their impact on market valuation. *Jurnal Akuntansi, 26*(2), 263-279. https://doi.org/10.24912/ja.v26i2.934

Murniati, S., Mus, H. A. R., Semmaila, H. B., & Nur, A. N. (2019). Effect of investment decisions, financing decisions and dividend policy on profitability and value of the firm. *International Journal of Accounting & Finance in Asia Pasific, 2*(1). https://doi.org/10.32535/ijafap.v2i1.359

Nugroho, A. C., & Stoffers, J. (2020). Market competition and agency problem: a study in indonesian manufacturing companies. *Jurnal Dinamika Manajemen, 11*(1), 65-77. https://doi.org/10.15294/jdm.v11i1.21684

Nurfadila, N., & Sukmayanti, S. (2020). Does CSRD and GCG moderate the effect of financial performance on stock return?. *Atestasi Jurnal Ilmiah Akuntansi, 3*(2), 133-141. https://doi.org/10.57178/atestasi.v3i2.262

Rialdy, N. (2019). Influence of Return on Equity (ROE), the Price Earnings Ratio (PER) and the capital structure of the company's share price against the sub sectors of transport registered in Bursaefek Indonesia (BEI) the period of 2015-2018. *International Journal of Accounting & Finance in Asia Pasific, 2*(3), 46-53. https://doi.org/10.32535/ijafap.v2i3.589

Rooly, M. S. A. R. (2021). Impact of board diversity on agency costs in the context of agency theory approach: Evidence from listed companies in Sri Lanka. *Indian Journal of Corporate Governance, 14*(2), 133-153. https://doi.org/10.1177/09746862211045758

Sembiring, S., Sinaga, R. V., & Lase, B. (2022). Pengaruh leverage, likuiditas dan profitabilitas terhadap kebijakan dividen perusahaan property dan real estate yang terdaftar di Bursa Efek Indonesia periode 2017-2019. *Jurnal Riset Akuntansi & Keuangan*, 141-155. https://doi.org/10.54367/jrak.v8i1.1763

Shao, L. (2019). Dynamic study of corporate governance structure and firm performance in China. *Chinese Management Studies, 13*(2), 299-317. https://doi.org/10.1108/cms-08-2017-0217

Shim, J. (2022). Patient agency: Manifestations of individual agency among people with health problems. *Sage Open, 12*(1), 215824402210850. https://doi.org/10.1177/21582440221085010

Simamora, A. (2019). Earnings management and future earnings. *Jurnal Akuntansi Dan Keuangan Indonesia, 16*(2), 141-164. https://doi.org/10.21002/jaki.2019.08

Susilo, B., Chandrarin, G., & Asih, P. (2021). The effect of profitability on dividend policy and firm value: a case study of indonesian manufacturing company. *International Journal of Advances in Scientific Research and Engineering, 7*(8), 70-76. https://doi.org/10.31695/ijasre.2021.34068

Tabibian, S. A., Zhang, Z., & Jafarian, M. (2020). How does split announcement affect stock liquidity? Evidence from Bursa Malaysia. *Risks, 8*(3), 85. https://doi.org/10.3390/risks8030085

Tamba, C. A. O., & Purwanto, P. (2021). Determinants of capital structure using profitability as moderating in Indonesia's property and real estate firms. *Emerging Markets Business and Management Studies Journal, 8*(2), 73-88. https://doi.org/10.33555/embm.v8i2.175

Toni, N., David, J., & Sari, W. (2022). Profitability analysis with non performing loan as the moderate variable: the study cases of banking companies in Indonesia. *Modern Management Review, 27*(2), 15-29. https://doi.org/10.7862/rz.2022.mmr.08

Violita, C. E. (2019). Stock liquidity and stock return. *Ekspektra*, 111-122. https://doi.org/10.25139/ekt.v3i2.2047

Wahjudi, E. (2020). Factors affecting dividend policy in manufacturing companies in indonesia stock exchange. *Journal of Management Development, 39*(1), 4-17. https://doi.org/10.1108/jmd-07-2018-0211

Wang, Y., & Wang, K. (2018). The signaling effect of listed companies' executives' shares reduction empirical evidence from securities lending transactions in chinese a-share market. *Open Journal of Business and Management, 6*(2), 234-249. https://doi.org/10.4236/ojbm.2018.62017

Wibowo, C. C. A., Sukoco, A., Wulandari, A., & Bhukuth, A. (2018). Stock Price and Performance of Indonesian Banking, Case Study for The Period of 2013-2016. *International Journal of Accounting & Finance in Asia Pasific, 1*(1). https://doi.org/10.32535/ijafap.v1i1.113

Wijaya, A. L., & Nadya, M. R. A. (2021). Working capital management and cash holdings: Evidence from LQ45 companies in Indonesia. *Ceccar Business Review* (9), 52-62. https://doi.org/10.37945/cbr.2021.09.06

Yoon, H. J. (2019). Toward agentic HRD: A translational model of Albert Bandura's human agency theory. *Advances in Developing Human Resources, 21*(3), 335-351. https://doi.org/10.1177/1523422319851437