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The Effect of Dividend Policy and Firm Value on Stock Price: Evidence from LQ45 Companies

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Abstract
This paper examines how dividend policy and corporate worth affected the stock prices of LQ45-listed firms between 2019 and 2024. The Dividend Payout Ratio (DPR) serves as the metric for dividend policy, while the Price to Book Value (PBV) ratio represents firm value. This quantitative study applies panel data regression, utilizing Chow, Hausman, and Lagrange Multiplier tests to determine the most fitting econometric model. Individual variable significance is assessed via t-tests to isolate partial effects on stock prices. The findings indicate that while the DPR has a negligible effect on stock prices, PBV plays a much more prominent role. Consequently, investors appear to favor overall firm value over dividend payouts during decision-making. However, a low yet statistically significant coefficient of determination highlights that external, unmodeled factors heavily influence stock prices. The study concludes that firm value is vital to stock price dynamics and advises future researchers to incorporate macroeconomic indicators to boost the model's predictive strength.

Keywords: Dividend Payout Ratio; LQ45; Price to Book Value; Stock Price

1. Introduction

The capital market dynamics are an important environment that the macroeconomic conditions in Indonesia are under development in the 2019-2024 period. It is one of the most active economic changes in the past ten years, including the situation before the COVID-19 (2019), the situation during the pandemic (2020-2021), and the situation of economic recovery (2022-2024). This time occasioned several strains into the Indonesian capital market by the slows in the international economies, fluctuations in the inflation rate, increase in the benchmark interest rate, and lack of clarity in the market concerning the investment choices. The changes in the macroeconomic environment influenced the stock price dynamics and the company values in the Indonesia Stock Exchange (IDX), which consists of

the companies listed in LQ45 index and can be characterized by high liquidity and fairly good fundamentals (Rachmawati, 2018; Sari et al., 2022; Wijaya & MN, 2022). This also impacts on the trading phenomenon and stock liquidity which are crucial facets in the formation of the stock price and returns in the capital market (Violita & Putrihadiningrum, 2023). The economic character of the stable corporations that have high market values forms LQ45 stocks that appear to have a higher resistance to the economic strains at a relative level than the small-cap stocks (Fajri et al., 2019).

Besides the macroeconomic factors, the activity of the capital market during the period of the study was also determined by a high inflow of retail investors following the pandemic (Ghazali Syamni et al., 2025; Mudijaningsih et al., 2023). This increase made stock trading activities more active and the market more responsive to various company information (Mudijaningsih et al., 2023). Consequently, this potentially increased stock liquidity, accelerating the price formation process through more intensive supply and demand mechanisms (Violita & Putrihadiningrum, 2023). It implies also that the process of setting prices of stocks will not only be dependent on the factors underpinning it, but it would also depend on how the investor behavior behave and on the fluctuating state of the economy (interest rate, inflation, exchange rate and global changes in the economies) in the post-pandemic period (Khoirayanti & Sulistiyo, 2020; Lahouel et al., 2021). This condition shows that the mechanism of stock price formation in the post-pandemic period is becoming increasingly complex due to the interaction between company fundamental factors, investor behavior, and macroeconomic dynamics.

Theoretically, the dividend policy is considered to be an indicator of profitability of an organization and its financial sustainability. Based on the signaling theory, decisions regarding the dividend distributions can be taken by the investors as the future signal (Khoirunisa et al., 2024; Mudijaningsih et al., 2023). At the same time, the market values the performances of firms, in terms of their book value, through firm value in the form of Price to Book Value (PBV). The greater PBV value the greater trust of the investor in the future creation of value in the company (Amin et al., 2022; Yanto, 2021). Furthermore, Efficient Market Hypothesis (EMH) is founded on the premise that the price on the stock market is all the information that is present in the market, both the available, and the unknown information about the state of the company (Fama, 1970; Malkiel, 2019). The field observations however reveal that there is no systematic correlation between dividend policy and firm value and stock prices. Even in the case where dividend payment was not increased and high dividend payment did not

have a positive relationship with stock price increase, LQ45 stock prices went up also (Septariani, 2017; Yanto, 2021). Conversely, high PBV stocks tend to receive more positive market responses (Amin et al., 2022; Laksmiwati et al., 2023; Zaini et al., 2022).

Unlike previous studies that primarily examined the direct effect of either dividend policy or firm value on stock prices across general listed companies, this study simultaneously investigates the roles of Dividend Payout Ratio (DPR) and Price to Book Value (PBV) within LQ45 firms, which represent highly liquid and fundamentally strong companies in the Indonesian capital market (Fajri et al., 2019; Rachmawati, 2018). By integrating Signaling Theory and the Efficient Market Hypothesis (EMH), this study explains how different types of corporate information are interpreted by investors under varying market conditions, addressing recent indications that firm value tends to elicit stronger investor responses than dividend information (Amin et al., 2022; Habibah & Heruwanto, 2022; Khoirunisa et al., 2024). Furthermore, the study captures three distinct economic phases pre-pandemic, pandemic, and post-pandemic recovery allowing a more comprehensive understanding of changes in investor responses and stock price formation during periods of macroeconomic uncertainty (Mudijaningsih et al., 2023; Violita & Putrihadiningrum, 2023).

The novelty of the research in comparison to most of its predecessors which have concentrated on industries in particular or the pre-pandemic era before the pandemic, it is the companies that were encompassed in the LQ45 index between the 20192024 period, which comprises of the pre-pandemic, the pandemic and the economic recovery periods. This specific timeframe allows for a more comprehensive observation of market responses to dividend policy and firm value information under different economic conditions, especially amid rising retail investor participation (Mudijaningsih et al., 2023; Violita & Putrihadiningrum, 2023). This study integrates signaling theory and EMH to explain how fundamental information is translated into stock prices (Fama, 1970; Malkiel, 2019), addressing recent indications that firm value (PBV) tends to elicit stronger investor responses than dividend information (Amin et al., 2022; Habibah & Heruwanto, 2022; Laksmiwati et al., 2023). This study builds on and extends other past studies in that it uses panel data regression to get a more detailed view of the relationship between variables in these particular macro-economic transitions.

The theoretical value of this work lies in its potential to advance scholarly understanding of how stock prices in developing economies are

framed by signaling theory and the Efficient Market Hypothesis. From an empirical perspective, the outcomes deliver actionable intelligence for investors relying on fundamental analysis, while simultaneously aiding corporate managers in structuring dividend frameworks that elevate company worth. This paper aligns itself with the scholarly debate on equity price determinants among LQ45-indexed firms in Indonesia. Prompted by the background context and identified deficiencies in prior research, this study is structured around two fundamental inquiries: (1) Does the dividend policy proxied by the Dividend Payout Ratio (DPR) affect the stock prices of the companies that are listed in the LQ45 index in the 2019-2024 period, and (2) Does the firm value proxied by the Price to Book Value (PBV) affect the stock prices of the companies that are listed in the LQ45 index in the 2019-2024 period?.

2. Method

Structurally, this paper relies on a quantitative, explanatory research methodology to evaluate the empirical connections between dividend policy, firm value, and stock prices. The study population consisted of 69 companies that were included in the LQ45 Index during the 2019–2024 period. Using purposive sampling, firms were selected based on three criteria: (1) consistently included in the LQ45 Index throughout the observation period; (2) having complete annual data on the Dividend Payout Ratio (DPR), Price to Book Value (PBV), and closing stock prices; and (3) publishing complete financial reports during the study period. Based on these criteria, 21 companies met the requirements, resulting in 126 balanced panel observations (21 firms × 6 years).

Secondary data were obtained from the IDX official website, annual financial reports, and reliable financial platforms (TradingView and Investing.com). The independent variables under investigation comprise dividend policy, operationalized via the Dividend Payout Ratio (DPR), and firm value, represented by the Price to Book Value (PBV) ratio, while the closing stock price serves as the dependent variable.

By utilizing panel data regression, this study accounts for both cross-sectional variations and time-series fluctuations. The estimation process evaluates three model candidates: the Common Effect, Fixed Effect, and Random Effect Models. The optimal estimation method is selected by applying the Chow, Hausman, and Lagrange Multiplier tests. To ensure the model yields unbiased and valid inferences, classical assumption diagnostics including normality, multicollinearity, heteroscedasticity, and

serial correlation are executed prior to hypothesis testing. The individual significance of each independent variable is then determined through a *t*-test at a 5% significance level.

3. Results and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted as the initial stage of data exploration to provide an overview of the characteristics and distribution of the research variables before performing inferential and econometric analyses. This analysis summarizes the central tendency, dispersion, and distributional properties of each variable, thereby enabling a preliminary assessment of data variability and identifying potential irregularities that may influence subsequent statistical modeling. The descriptive statistics for all variables included in this study are presented in Table 1.

Table 1. Results of Descriptive Statistical Analysis

	YCLOSINGPRICE	X1DPR	X2PBV
Mean	8.234816	3.694134	0.556480
Median	8.337809	3.931826	0.434977
Maximum	9.853509	5.391717	4.105449
Minimum	6.194405	0.000000	-0.916291
Std. Dev.	0.759382	1.101375	0.965123
Skewness	-0.476256	-1.991.402	1.643698
Kurtosis	2.579791	6.999043	6.726812
Observations	126	126	126

(Source: EViews 13 Output)

The first statistical preliminary insights into the underlying characteristics of the dataset are established through descriptive statistics prior to conducting further econometric analysis. It is important to note that in this analysis, the mean, maximum and minimum value of each research variable will be quantified in such a way that the pattern and the magnitude of variation of used data may be given (Ghozali, 2023; Wooldridge, 2010).

According to the values of the analysis, the average of X1DPR is 3.694134, the minimum that it can be is 0.000000, and the maximum is 5.391717. The SD of this variable is 1.101375. The variable X2PBV has a mean value of 0.556480, with a minimum of -0.916291, a maximum of

4.105449, and a standard deviation of 0.965123. Meanwhile, mean of YCLOSINGPRICE is 8.234816 and minimum is 6.194405, maximum is 9.853509 with a standard deviation of 0.759382. This study has 126 data points.

Panel Data Regression

Three model methods, such as the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) were used to perform the panel data regression estimation in this study (Kumaraswamy et al., 2019; Silwal and Napit, 2019). A set of model selection tests were conducted to decide which model is the most suitable, such as the Chow test, Hausman test, and Lagrange Multiplier (LM) test (Ghozali, 2023).

Chow Test

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Time series F	96.961.779	-20,103	0.0000
Time series Chi-square	376.370.993	20	0.0000

(Source: EViews 13 Output)

Based on the Chow test results, the probability value of the Time series Chi-square was 0.0000, which is smaller than the significance level of 0.05. This result indicates that the more appropriate model to use is the Fixed Effect Model (FEM) compared to the Common Effect Model (CEM).

Hausman Test

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Time series random	5.461.181	2	0.0652

(Source: EViews 13 Output)

The Chow test yields a Chi-square p-value of 0.0000, which falls well below the 5% significance level. This outcome demonstrates that the Fixed Effect Model (FEM) provides a better fit for the panel data than the Common Effect Model (CEM).

Lagrange Multiplier (LM) Test

Table 4. Lagrange Multiplier Test

	Test Hypothesis		
	Time series	Time	Both
"Breusch-Pagan"	260.9361	2.635895	263.5720
	(0.0000)	(0.1045)	(0.0000)

(Source: EViews 13 Output)

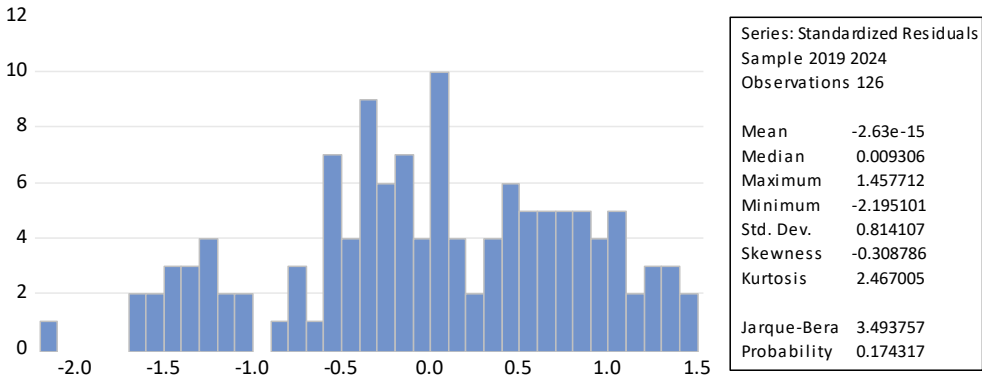
With a Breusch-Pagan LM test p-value of 0.0000 ($p < 0.05$), the null hypothesis of no random effects is rejected, confirming that the Random Effect Model (REM) outperforms the Common Effect Model (CEM) (Ghozali, 2023). Consequently, based on the cumulative diagnostics of the Chow, Hausman, and LM tests, the REM is selected as the optimal model for the final panel data regression analysis.

Classical Assumption Test

To make sure that the regression model fits the relevant statistical criteria, the classical assumption test was performed (Ghozali, 2023).

Normality Test

Table 5. Normality Test



(Source: EViews 13 Output)

According to the outcomes of the normality test, skew and kurtosis were -0.308786 and 2.467005, respectively. The skew value (-2 to +2) and kurtosis (-7 to +7) are in range and indicates that the data of the residue were normally distributed. The skewness value is rather near to zero and indicates that the distribution of residuals is rather symmetric and kurtosis value is near three and value indicates that peakedness distribution is not too different than that of normal distribution. By doing so, it can be

concluded that the regression model is normal and further analysis of the data can be conducted (Ghozali, 2023).

Multicollinearity Test

Table 6. Multicollinearity Test

	X1DPR	X2PBV
X1DPR	1.000000	0.296909
X2PBV	0.296909	1.000000

(Source: EViews 13 Output)

Using the test results, the correlation value of the variables X1DPR and X2PBV was 0.296909. This is inadequate to general cut off 0.80. Thus, the regression model does not have multicollinearity problems (Ghozali, 2023).

Heteroskedasticity Test

Table 7. Heteroskedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.741048	0.129195	5.735.908	0.0000
X1DPR	-0.008826	0.019611	-0.450057	0.6535
X2PBV	-0.088165	0.050289	-1.753.193	0.0821

(Source: EViews 13 Output)

The results of the heteroscedasticity test (Glejser test on Time Series randomly effect) showed a probability value of the variable X1DPR of 0.6535 and X2PBV of 0.0821. The probability value (F-statistic) of the model was 0.211167 which is higher than the significance level of 0.05. This way, the regression model will meet the homoscedasticity assumption in that there are no symptoms of heteroscedasticity (Ghozali, 2023).

Autocorrelation Test

Table 8. Autocorrelation Test

Statistik	Nilai
Durbin-Watson stat	0.913978

(Source: EViews 13 Output)

Based to the test results with the utilization of the Random Effect Model (REM), the value of the Durbin-Watson statistic was 0.913978. Though mathematically, this value suggests the possibility of

autocorrelation in the model, this breach of the assumption may be pardoned since the REM estimation will automatically use the Estimated Generalized Least Squares (EGLS) method. The weighting mechanism of the EGLS procedure has the capacity to inherently address and resolve the disruptions of the autocorrelation among the observations in panel data regression in such a manner that the outcomes of the parameter estimations can be valid, consistent and reliable to carry out hypothesis tests (Ghozali, 2023).

Hypothesis Testing (t-Test)

The t-test was used to test the hypothesis and partial effect of each independent variable on the dependent variable (stock price) at a significance level of 0.05 (Ghozali, 2023). Based on the findings of the estimation of the Random Effect Model, the subsequent results were obtained:

Table 9. Hypothesis Test (t-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.908.766	0.187387	4.220.560	0.0000
X1DPR	0.012238	0.021192	0.577485	0.5647
X2PBV	0.504673	0.057455	8.783.797	0.0000

(Source: EViews 13 Output)

The X1 (DPR) value is 0.012238 with a probability value of 0.5647. X1(DPR) is not a significant influence on Y (closing price) because the probability 0.5647 which is above 0.05 is not significant. X2 (PBV) probability has a coefficient of 0.504673 and probability value is 0.0000. X2 (PBV) affects Y (closing price) to a great extent because the chance that the probability of X 2 (PBV) to be less than 0.05 is less than 0.05.

Coefficient of Determination Test (R^2)

Table 10. Coefficient of Determination Test (R^2)

Statistik	**Nilai**
R-squared	0.379077

(Source: EViews 13 Output)

According to the estimated value of the random Effect Model, the estimates of the value of R-squared and ADR-squared were of V=0.379077, and V=0.368981 respectively. It implies that the combination of the independent variables has the power to explain the variation in the dependent variable by 36.89 and the remaining part of the percentage by the

other factors which are not represented in this model (Ghozali, 2023; Rakhman & Vita, 2017; Septariani, 2017).

Coefficient of determination (R^2) stands at 36.89 percent, meaning that predictive power of the variables of proportion of dividend paid (DPR) and of Price to Book Value (PBV) in predicting the change of stock prices can be stated as average. This observation suggests the variability of stock prices is not entirely reliant on the dividend policy and value of the firm, but on many other numerous factors including but not limited to profitability, capital structure, macroeconomic variables, investor sentiment, stock liquidity and changes in external information, which are changing in the capital market (Astuti & Setiawati, 2024; Kayode et al., 2022). Applying the Efficient Market Hypothesis (EMH) implies that the stock price reflects all market information available; therefore, the dynamics of the price variations are not determined by a single or two simple corporate signs (Fama, 1970; Malkiel, 2019). This finding suggests that investment decisions regarding LQ45 companies tend to consider a combination of various fundamental insights and overall market conditions.

The Effect of Dividend Policy (Dividend Payout Ratio/DPR) on Stock Prices

The evidence reveals that stock prices are largely unaffected by the firm's dividend payout policy. This conclusion means that dividend policy does not take a leading role among the reasons that investors take into account when making their investment decisions (Hidayat, 2021; Pramesti et al., 2023). Within the framework of the Efficient Market Hypothesis (EMH), information regarding dividend payouts constitutes public information that is relatively easy for market participants to predict based on a company's historical track record. Consequently, dividend information is often anticipated and already priced into the stock value long before its official announcement, limiting its impact on stock price fluctuations when publicly declared.

This lack of a significant relationship between the Dividend Payout Ratio (DPR) and stock prices corroborates earlier empirical evidence, which concluded that modern investors have shifted away from prioritizing dividend policy during their investment evaluation process. Banjar et al. (2023) conclude may be the DPR does not have a strong impact on the stock prices of manufacturing firms in Indonesia. Similar results were also reported by Akib et al. (2023), who reported that the dividend payout ratio did not significantly affect stock prices since investors are interested in

growth opportunities and fundamental performance, but not the size of dividends paid. In an increasingly efficient capital market, dividend-related information is generally known and anticipated by investors, thereby failing to trigger a strong market reaction upon announcement. This condition reinforces the view that dividend policy carries relatively limited information content for explaining stock price variations in large and liquid corporations, such as members of the LQ45 index.

Besides theoretical description, this can be elaborated by the actual situation of the Indonesian capital market during the period of observation. In a volatile market environment shaped by recent global economic dynamics, most investors orient themselves toward short-term capital gains or market momentum rather than expecting annual dividend income (Wandira & Saputra, 2023). Investors tend to pay closer attention to long-term growth prospects, business expansion, and corporate innovations. This condition prevents changes in the dividend payout ratio from directly impacting investor purchasing interest or market stock price movements.

The characteristics of the sample companies, which are generally large and well-established, also mean that investors already hold specific expectations regarding their internal policies. As long as the firm maintains its operational performance and demonstrates healthy profitability, investors are less concerned with whether net income is distributed as dividends or retained to fund business expansion (Pradnyadewi et al., 2025). Consequently, shifts in dividend policy do not trigger aggressive market responses from capital market actors.

This study's findings concur with Kumaraswamy et al. (2019), Laksmiwati et al. (2023), and Lisnawati et al. (2018b), who stated that dividend policy does not always significantly influence stock prices. However, these results differ from the findings of Mudijaningsih et al. (2023), Sari et al. (2022), and Wijaya & MN (2022), who discovered that dividend policy has a positive impact on stock price.

The Effect of Firm Value (Price to Book Value/PBV) on Stock Prices

The findings also show that firm value clearly affects stock prices in a linear manner, as compared to dividend policy. This observation proves that one of the determinants that is overweight in terms of investors in valuing stock quality is stock value. Price of the company calculated by sum of net worth of the firm divided by the market price: this is the market value of the company. The higher market value increases investor confidence that

the managements can make profit and create value in the future, contributing to the rise in their demand and high stocks prices (Sartika & Gantino, 2023).

The massive addition made by price to book value (PBV) ratio to the stock price depicts that investors are concerned on how a business is rated in the market. PBV is a pointer of the ability of a business to create value to the shareholders by increasing its market value compared to the book value. This observation correlates with those reported by Amin et al. (2022), Habibah & Heruwanto (2022), and Laksmiwati et al. (2023), that indicate that companies that have high PBV ratios are likely to receive positive responses of the investor, thus leading to stock price growth. As the studies by Melina & Tanny (2022) demonstrate, the Price to Book Value (PBV) can also have a strong impact on stock prices since this ratio is an effective measure of the market expectations of future growth opportunities of the firm. Therefore, PBV can be considered an effective indicator for explaining stock price formulation in high-liquidity companies, such as those included in the LQ45 index.

Empirically, professional and institutional investors in the Indonesian capital market commonly employ this firm value metric as a primary screening indicator to assess investment feasibility (Marietza & Tifani, 2022) When a firm's value increases, investors interpret it as a positive market validation of future business prospects, which subsequently triggers massive buying activity. Unlike dividends, which are seasonal and announced only at specific times, firm value reflects fundamental conditions in a more comprehensive and dynamic manner, observable at any moment through daily price movements and periodic financial reports.

Furthermore, the sampled companies exhibit high levels of liquidity and information transparency, allowing insights regarding financial performance and asset growth to be instantly absorbed by the market. This tight linkage supports signaling theory, where a rising firm value acts as a vital positive signal regarding corporate quality and long term viability. Ultimately, investors place a much higher premium on concrete firm value than on dividend policy. Nonetheless, this finding does not mean that real world stock price movements are unaffected by variables outside this research framework. In reality, macroeconomic factors such as fluctuating interest rates, inflation, currency exchange rates, and investor psychology exert continuous pressure on stock pricing.

Conceptually, the results of such a study may be used to justify the Efficient Market Hypothesis (EMH) and signaling theory to the stock price action of LQ45 index firms. The non-significant effect of the Dividend Payout Ratio (DPR) indicates that information regarding dividend policy tends to be anticipated by investors, thereby yielding no meaningful stock price adjustments, as described in the semi-strong form of the efficient market concept (Fama, 1970; Malkiel, 2019). Conversely, the significant effect of PBV demonstrates that investors still respond robustly to information reflecting the firm's value and future prospects. This finding indicates that signals originating from firm value possess greater informational power than those from dividend policy in shaping stock prices within the Indonesian capital market.

Practically, what these findings imply is that investors can apply the Price to Book Value (PBV) to make a simple metric in fundamental analysis and then make an investment decision regarding LQ45 stocks. This is because PBV reflects market perceptions of corporate quality, growth prospects, and the firm's capacity to generate value for shareholders (Amin et al., 2022; Laksmiwati et al., 2023). For corporate management, these insights indicate that enhancing firm value through improvements in operational performance, profitability, and long-term growth prospects potentially yields a greater impact on increasing stock prices than merely raising the proportion of distributed dividends. This observation is consistent with other scholars including Habibah & Heruwanto (2022), Melina & Tanny (2022), and Yanto (2021), demonstrating that companies with favorable market valuations tend to garner positive investor responses, thereby enabling stock price appreciation. Consequently, a strategy focused on increasing firm value becomes a critical factor in building investor trust and lifting the firm's market value.

4. Conclusion

The discussion evaluates dynamic impact of Dividend Payout Ratio (DPR), and Price to Book Value (PBV) upon the stock prices belonging to LQ45 index companies in 20192024, encompassing the pre-pandemic, pandemic, and economic recovery timeframes and thus provides a new contribution to the literature which usually considered different sectors or pre-pandemic years. The results indicate that dividend policy (DPR) does not have any significant impact on the stock prices, which supports the fact that dividend information is not that much unexpected by investors in an efficient market and consequently has little informational content, in line with the semi-strong version of the Efficient Market Hypothesis (EMH).

Firm value (PBV) on the other hand positively but significantly affects the price of stock implying that investors attach greater importance to the opinions of quality of a firm and its future growth, and value generation in future in the name of the signaling theory. These results address the research gap by demonstrating that, in the context of highly liquid and well-established LQ45 companies during a period of macroeconomic volatility, firm value dominates dividend policy as a driver of stock prices. However, the relatively low coefficient of determination (R^2= 36.89%) implies that stock price variations are also influenced by a wide range of other factors beyond the model, including macroeconomic conditions (inflation, interest rates, exchange rates), investor sentiment, trading liquidity, and other fundamental indicators such as profitability and capital structure. The current study, therefore, shows how firm value is important as a variable that ought to be considered by investors and, hence, future study ought to factor the macroeconomic factors and other externalities to better explain the stock price determinants in the Indonesian capital market and provide a more comprehensive picture to the study.

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