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INFLUENCE OF FINANCIAL RATIO AND SALES GROWTH ON DIVIDEND AND IMPLICATION OF STOCK PRICE ON MANUFACTURED COMPANIES LISTED ON INDONESIAN STOCK EXCHANGE

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Abstract

This research is aimed to know the influence of financial performance to management decision in paying dividend to the stock holder. The determinants of stock prices have been investigated by scholars and practitioners by employing a variety of methods and factors. This study investigates the internal determinants of the stock price movement on sector basis. The purpose of this study is to empirically study the effect of accounting variables— profitability ratio, liquidity ratio, and sales growth —on dividend payout ratio and the implications with stock price at the firm LQ 45 on Jakarta Stock Exchange (JSX). Sampling Method used in this study is purposive sampling. Sample size is based on the criteria of a total units from 45 firms registered on JSX in the analysis more than less 20 are used as samples for this study. The observation data obtained at more than less 51 observations data. Analysis used was multiple regression analysis, which is preceded by a test consisting of the assumption of classical test for normality, heteroscedasticity test, test of multicollinearity and autocorrelation. Hypothesis testing is done through F test and t test. The result of this study using path analysis suggests that only two variables (liquidity ratio and current ratio) that significantly affect the following year stock price with level of significance 5 percent. The ratio is used for research profitability, liquidity sales growth and dividend payout ratio the implication on the stock price, the research showed the company fundamental, its financial aspect became consideration to the dividend and there is implication at stock prices.

Keywords: Stock price, dividend, sales growth, profitability, liquidity

INTRODUCTION

Investors to invest in the stock market requires a consideration - consideration. Accurate information that is necessary to know the extent of ties variables - variables that cause fluctuations in the company's stock price to be purchased. The main purpose of a company is to increase the prosperity of the owners or shareholders. To achieve these objectives, the owner handed over management of the company's capital to the manager. Financial management, as one of the company's strategic functions relating to financial management, make decisions to achieve those goals. According to Van Horne (1998) in Martono and Kusuma (2005), three decisions made by the financial management namely: Decisions on investment; Decisions on funding needs; The decision on dividends

Discussion of dividends has been widely discussed before Lintner (1956) conducted a study to 600 companies to 28 intensive interviews with noted company research on the distribution of dividends and dividend models trying to convey. Miller and Modligiani (1961) convey no effect of dividend policy on firm value. Walter (1963) describes the impact of dividend policy on firm value. Fama and Babiak (1968) provide a model of dividend policy. Watt (1973) discusses the information content of dividends. Pettit (1977) discusses taxes, transaction costs and the clientele effect of dividends. Bhattacharaya (1979) describes the imperfect information received investor and dividend policy. Rozef (1982) discusses the growth, beta and agency costs as determinants of dividend payout ratios. Litzenberger and Ramaswamy (1982) suggests the influence of dividends on stock prices. John and Williams (1985) discusses signal dividend tax balance due. Allen et al (2000) describes the theory of dividends based on tax brackets. Baker and Wurgler (2004) describes the theory catering from dividends.

Furthermore, companies with free cash flow can be used for the two measures are provided to shareholders in cash dividend and stock repurchase (repurchase stocks). Both of these actions by the company to enhance shareholder value. Payment by cash as dividends to shareholders are considered to provide an increase in the value of the company.

Many variables that can affect a company's stock price, both of which come from the external environment or the advent of the internal environment of the company itself. According to research by Gordon (Bolten, 1976) Variables that come from internal sources such as dividends, earnings growth, liquidity, firm size and debt ratio or other financial ratio could affect the stock price. Stock prices also reflect the value of a company. If the company achieved a good performance, the company's stock will be in great demand by investors. Accomplishments achieved both companies can be found in the financial statements published by the company (issuer). Issuer is obliged to publish financial statements in certain periods.

This financial report is useful to investors to assist in making investment decisions, such as selling, buying, or planting stock. To assess the financial condition and achievements of the company, financial analysis requires several benchmarks.

Benchmark that is often used is the ratio or index, which connects the two financial data with each other. Analysis and interpretation of various ratios may provide better information about the financial condition and financial performance for the analysis of more skilled and experienced than the analysis based solely on financial data alone do not form the ratio. The problem is that dividend payments will not pose a problem as long as does not affect the company's financing and investment policies. This is because dividends will affect corporate financing policy, as it Will reduce cash and encourage the company to issue new securities.

The company requires a high level of liquidity in order to rule out the possibility - the possibility of an implicit claim to incidence and costs of financial shortage. To improve liquidity, the company lowered the dividend payout ratio (Holdet et al, 1988), with a lower dividend payout means companies need less external financing, because the company instead of paying dividends, but rather retain cash internally. In this research, the scope of the discussion is mainly emphasis on dividend cash dividends because it involves a sufficient amount of cash which can be paid on the company to investors and at the current share price (closing price).

THEORETICAL FRAMEWORK AND HYPOTHESES

The reason companies provide financial information because of the wide range of stakeholders (interested parties), such as shareholders, bondholders, bankers, lenders, suppliers, employees and stakeholders need to monitor how well their interests can be served. The use of ratio analysis in financial statements best option, because the use of ratio analysis will help the stakeholders, namely in terms of (Gitman, 2012). :

1) Provide the basis for predicting the future prospects of the company to come.
2) Provide clues or symptoms - symptoms that arise from information presented,
3) Facilitate the financial statements.

Ratio analysis can explain the relationship between the relevant variables that can be used to assess the financial condition and could be used as a basis for comparison over time. Used to forms of financial ratios, because the ratio can be made according to analysis. Relationships between Research Variables:

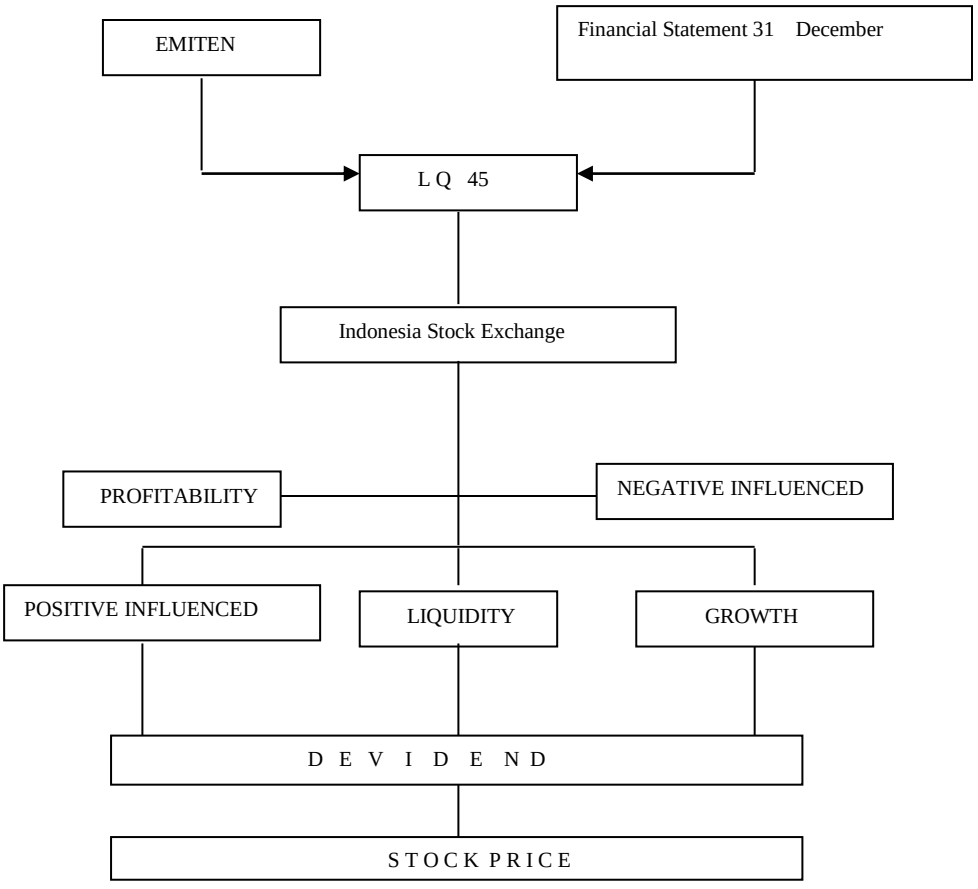
1) The relationship between the liquidity of the company's dividend According to Myers (1984), the ways in which companies with lower dividend payments to increase liquidity, cash a company withholding of the respective companies prefer internal financing compared to external funding and will adjust the target payout ratio to the existing investment opportunities.
2) The relationship between profitability of the dividend. According to Leland and Pyle (1977), stated that the company's dividend policy can provide conclusive information that the capital will be used to benefit (profit). Dividend payments are not directly result in stricter monitoring the investment management activities, so that dividends can be a significant contribution to the value of the company. The relationship between the growth of sales of the dividend.
3) According to Easterbrook (1984), states that companies with a high growth rate and high demand new capital will have a reason to pay a high dividend because they must often

analyze the stock market. So a high dividend is a way to bind the shareholders to accept a rate of return (rates of return) the normal of the capital invested in the company.

4) The relationship between Dividend on Stock Price According Husnan (2004), with increased dividends, the stock price will rise. But basically depends on the change in dividend payout policy that is interpreted as a change in the prospects of companies where investors tend to overreact (overreaction) to the dividend, causing a decrease in the stock price.

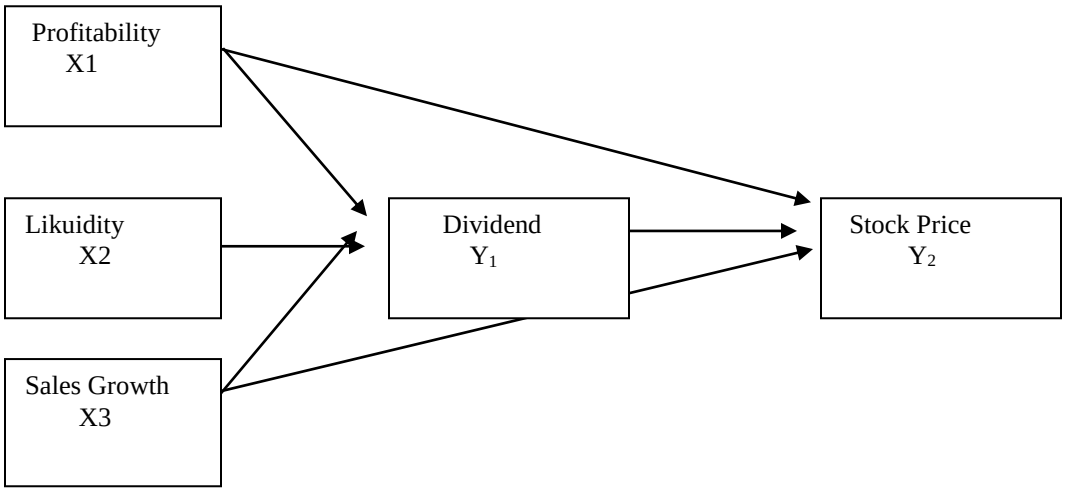
According to Myres (1984), suggest that there are several things that can cause restriction of dividend are: (i) there is still the cost of monitoring, because there are a lot of capital transfers to the owner of the company, (ii) the investment policy from the perspective of the shareholders and not the wisdom that maximum value of the company. The shareholders still likes risky assets to secure other similar assets, (iii) restrictions on dividends if the binding would make the company to invest in assets that have a net value (net worth) is now negative is not profitable, (iv) restrictions on dividends will useful if it is actually available cash to make dividend payment. Based on the previous description, the issues and objectives of the study developed a framework thinking process as shown below:

Figure 1. Thinking Framework



The conceptual framework developed through a number of alternative models as a combination of variables -variables studied. The first form of the conventional model that connects independent variables such as liquidity, profitability, sales growth with the dependent variable in the form of dividends and stock prices. The model consists of three independent variables, namely the variable liquidity, profitability and sales growth, with dependent variables, namely variable dividends and stock prices. The model below is how to measure the magnitude of the effect of variable liquidity, profitability and sales growth of the stock price variables directly and indirectly through a variable dividend.

Figure 2. Conceptual Framework



With reference review above, the hypothesis proposed in this study are:
HO 1: There is no significant effect between variables with the variable dividend Liquidity
HA 1: There is a significant effect between liquidity with variable Dividend
HO 2: There is no significant effect between variables Profitability with variable dividend.
Ha2: There is a significant effect between variables profitability with a variable dividend.
HO3: There is no significant effect between the variables Sales Growth with variable dividend.
HA3: There is a significant effect between the sales growth variable with variable dividend.
HO4: There is no significant effect between the variable liquidity, profitability and sales growth with dividends
HA4: There is a significant effect between variables of liquidity, profitability and sales growth with a variable dividend.
HO5:There is no significant effect between liquidity, profitability, sales growth and dividend by the stock price.

HA5:There is a significant effect between liquidity, profitability, Sales growth and dividends with stock prices.

HO6: There is no significant effect between liquidity and stock prices

HA6: There is a significant effect between liquidity and stock prices

HO7: There is no significant effect between profitability and stock prices

HA7: There is a significant effect between profitability and stock prices

HO8: There is no significant effect between sales growth and stock price

HA8: There is a significant effect between sales growth and stock prices

HO9: There is no significant effect between dividends and stock prices

HA9: There is a significant effect between dividends and stock prices

RESEARCH METHOD

In line with the objectives of the study, descriptive design was included in the study hypothesis test to assess the type of causal (Sekaran;2010), cash which can be paid by the company to investors and at the current share price (Closing price). Based on the description above, it will be analyzed in this study are several variables that affect the payment of dividends, namely : liquidity, profitability, and growth as well as the implications for the company's stock price. The unit of analysis of this study is a LQ 45 at the Jakarta stock exchange. Time horizon of research in the period 2006 to 2011. The population of the study was all issuers (companies) incorporated by LQ 45 in the period 2006 to 2011. The subjects of this study were the entire population of some 45 companies spread across Indonesia with the following provisions:

1. Issuers were selected that trade actively.
2. Issuer is an issuer that does not qualify as delisting.

As well as issuing a fixed dividend is 20 companies. Data used In this study are panel data. Panel data are combined data time series and cross section (Ghozali, 2012:21). The sample selection is done using purposive sampling method is a method of sampling that are not classified random selection carried out on the consideration of certain criteria, the criteria used are as follows:

1. Companies studied are LQ 45 firms listed on the Jakarta Stock Exchange in 2006 to 2011 and the share dividend.
2. Necessary data are available and have been published in the form of financial statements as of December 31.

Dividend

Dividend in question is a measure of the level of payments to show some part of the profit shares distributed to shareholders as dividends. Formula DPR = DPS / EPS x 100%

Stock Price

The increase in stock prices is already reflected in the current stock price if the firm lowers its dividend payments, which is used closing price.

Liquidity

Is a measure of the liquidity of the company in terms of short-term obligations that have matured In this case the liquidity calculated using:

Current Ratio = Current Assets / Current Debt x 100%

Profitability

It is a measure to assess the effectiveness of the company's management in terms of earning ability.

Net acquired companies

In this case the profitability calculated by using

Return on Equity = EAT / Equity

Growth

Growth in the relationship is linear and additive variables is not multiplication. Measuring how well the company to maintain its economic position overall. In the case of growth is calculated using sales or revenue growth, and growth in profit after tax. The growth of the company is a component to assess the prospects company in the future and is measured by change in total sales of the company [(sales t - sales t-1) / Sales t-1]. So measuring the growth of the company is (Indrawati and Suhendro, 2000):

$$\text{Company's sales growth} = \frac{\text{t} - \text{t} - 1 \text{ sales}}{sales\ t - 1}$$

This study uses secondary data i.e. data on the Jakarta stock exchange, in this case the secondary data that have been published are considered to be more valid and reliable. Data analysis was performed by observing the development of the financial statements of the sample firms that go public on the Jakarta Stock Exchange in the study

period from 2006 to 2011. This study used path analysis (Path Analysis), according Supranto (2004) assumptions that need to be considered in the analysis of the path is:

1. Endogenous variables should be normal, at least not in the form of interval scale or ratio scale best.
2. As with other linear models, path analysis was also based on the relationship causal relationship.
3. A large enough samples needed in order to obtain a stable path analysis results.

Path analysis is used to assess the causal relationship between variables (causal models) that have been previously set by the theory. Path analysis can not determine causality and can not be used as a substitute for the researchers to see the causal relationship between variables. Causality between variables has been established with a model based on a theoretical Structural equations that describe the pathways that have been previously established a regression equation that would show the hypothesized relationships. Thus the assumptions for building a regression equation must be met, including, among others (Imam, Ghozali 2012: 82).

1. There is no correlation between errors or mathematically Cov (ui, uj / Xi, Xj) = 0
2. Heteroscedasticity, meaning that the same error variance for each period and is expressed in mathematical form Var (ui / Xi) = σ2.
3. The number of observations n must be greater than the number of parameters estimated (number of independent variables).
4. There is no perfect multicollinearity between independent variables.

ANALYSIS AND DISCUSSION

The sample was LQ 45 firms that pay dividends in a row and serves the complete financial statements and is listed on the Jakarta Stock Exchange during the period 2007 to 2011. Results summary of several alternative regression models for the formation of the first equation shown in the box below: Multicollinearity, tolerance value for the variable ROE = 0.985; LQDT = 0.966; GROWTH = 0.967 and all still on 0.1 and VIF for ROE = 1.015; LQDT = 1.036; GROWTH = 1.034 and all are still no more than 10. Autocorrelations is a calculated by Durbin Watson = 1.679 is well above the 1.634 and heteroscedasticity with scatterplot dots centered on the 0 axis X and Y axis so it does not look random and spread good Normal probability plots appear to follow a diagonal line and a lot of points that approach, but it is also supported by the KS test of significant value above 0.05.

TABLE 1. Test Assumptions Classical Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	34.212	4.988		6.858	.000		
	ROE	.099	.139	.071	.711	.479	.985	1.015
	LQDT	-2.790	1.195	-.235	-2.335	.022	.966	1.036
	GROWTH	-.003	.162	-.002	-.020	.984	.967	1.034

a Dependent Variable: DPR

Tolerance value for the variable ROE = 0.980; LQDT = 0.914; DPR = 0.943 and all still on 0.1 and VIF for ROE = 1.021; LQDT = 1.094; DPR = 1.061 and all are still no more than 10.

TABLE 2. Test Assumption Classic

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	7.161	.405		17.661	.000		
	ROE	.017	.009	.184	1.845	.068	.980	1.021
	LQDT	.114	.082	.144	1.394	.166	.914	1.094
	DPR	.004	.007	.065	.643	.522	.943	1.061
	GROWTH	-.014	.011	-.130	-1.302	.196	.967	1.034

a Dependent Variable: PRICE

Structural equation to be selected is based on the best regression model is by using a form of logarithms for the dependent variable. Structural equation resulting from the regression for the first equation is Structural Equation One or substructure Equation 1:

Y1=PY1X1+PY1X2+PY1X3+Є1

Where,

Y1 = Dividend

X1=Liquidity

X2=Profitability

X3=Sales Growth

Є1 = Error

TABLE 3. REGRESSION Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	GROWTH, ROE, LQDT(a)	.	Enter

a All requested variables entered.

b Dependent Variable: DPR

1. Regression analysis a. See the impact of sales growth, liquidity and profitability are combined to dividends.

TABLE 4. Determination Coefficient

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.240(a)	.057	.028	18.75480

a Predictors: (Constant), GROWTH, ROE, LQDT

Large number of R - square (R2) is 0.057 means that the effect of variable sales growth, liquidity and dividend profitability on a consolidated basis was 5.7% while the remaining 94.3% influenced by other factors.

TABLE 5. F Test ANOVA(b)

Model		Sum of Squares	Def.	Mean Square	F	Sig.
1	Regression	2058.783	3	686.261	1.951	.012(a)
	Residual	33767.279	96	351.742		
	Total	35826.061	99			

a Predictors: (Constant), GROWTH, ROE, LQDT

b Dependent Variable: DPR

The hypothesis reads as follows:

HO4: There is no significant effect between the variable liquidity, profitability and sales growth with dividends

HA4: There is a significant effect between variables of liquidity, profitability and sales growth with a variable dividend.

From the calculation, see figure significance of 0012, this means that Ho is rejected and Ha accepted, meaning that there is a linear relationship between the variables of liquidity, profitability and sales growth with a variable dividend.

b. See the impact of variable liquidity, profitability and sales growth to variable partial dividend. To see the magnitude of the effect of variable liquidity, profitability, and sales growth for the partial dividend used T test, while the magnitude of the effect is used to view the beta or standardized Coefficient number below :

TABLE 6. t test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	34.212	4.988		6.858	.000
	ROE	.099	.139	.071	.711	.479
	LQDT	-2.790	1.195	-.235	-2.335	.022
	GROWTH	-.003	.162	-.002	-.020	.984

a Dependent Variable: DPR

b.1. The relationship between the variables and the variable Liquidity Dividend HO 1: There is no significant effect between variables with thevariable dividend Liquidity HA 1: There is a significant effect between liquidity with variable dividend From the calculation, see figure significance of 0.022, this means that Ho is rejected and Ha accepted, meaning that there is a linear relationship between liquidity variables with the variable dividend.

b.2. The relationship between profitability and variable Dividend HO 2: There is no significant effect between variables Profitability with variable dividend. Ha2: There is a significant effect between variables profitability with a variable dividend. From the calculation, see figure significance of 0.479, this means rejected Ho accepted and Ha means there is no linear relationship between the variables of profitability with a variable dividend.

b.3. The relationship between variable and variable sales growth dividend HO3: There is no significant effect between the variables Sales Growth with variable dividend. HA3: There is a significant effect between the sales growth variable with variable dividend. From the calculation, see figure significance of 0.989, this means rejected Ho accepted and Ha means there is no linear relationship between sales growth variable with a variable dividend. Correlation 2.Analisis Analysis of correlation between variables liquidity, profitability and sales growth with the calculation results SPSS as indicated below:

TABLE 7. Correlation Analysis

		ROE	LQDT	GROWTH
ROE	Pearson Correlation	1	.085	.075
	Sig. (2-tailed)	.	.402	.460
	N	100	100	100
LQDT	Pearson Correlation	.085	1	-.158
	Sig. (2-tailed)	.402	.	.116
	N	100	100	100
GROWTH	Pearson Correlation	.075	-.158	1
	Sig. (2-tailed)	.460	.116	.
	N	100	100	100

The correlation between liquidity and profitability, based on the calculations, the number of correlation between liquidity and profitability variable of 0.85, meaning that the two variables strong correlation. The correlation between liquidity and sales growth, based on the calculations, the correlation between the variable rate and sales growth of liquidity -0158, correlation means the two variables is weak. The correlation between profitability and sales growth ,based on the calculations, the correlation between variables profitability figures and sales growth of 0.75 means that a strong correlation of the two variables. Structural equation or substructure second equation 2:

Y2=PY2X1+PY2Y1+PY2X3Є2

Where Y2 = Stock Price

X1 = Liquidity

Y1 = Dividend

X3 = Sales Growth

Є2 = Error

TABLE 8. Regression Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	GROWTH, DPR, ROE, LQDT(a)	.	Enter

a All requested variables entered.

b Dependent Variable: PRICE

1. Regression analysis a. See the impact of sales growth, liquidity and profitability, and a combined dividend to share price

TABLE 9. Coefficient Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.280(a)	.079	.040	1.24884

a Predictors: (Constant), GROWTH, DPR, ROE, LQDT

Large number of R-square (r^2) is 0.079 means that the effect of variable sales growth, liquidity and dividend profitability on a consolidated basis was 7.9% while the remaining 92.1% influenced by other factors.

TABLE 10. F Test ANOVA(b)

Model		Sum of Squares	def.	Mean Square	F	Sig.
1	Regression	12.645	4	3.161	2.027	.097(a)
	Residual	148.162	95	1.560		
	Total	160.807	99			

a Predictors: (Constant), GROWTH, DPR, ROE, LQDT

b Dependent Variable: PRICE

The hypothesis reads as follows:

HO5: There is no significant effect between variables of liquidity, profitability, sales growth and dividend together with the share price.

HA5: There is a significant effect between variables of liquidity, profitability, sales growth and dividend by the stock price. From the calculation, see figure significance of 0097, this means that Ho is rejected and Ha accepted meaning, there is a linear relationship between the variables of liquidity, profitability, sales growth and dividends with stock prices.

TABLE 11. UJI t

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.161	.405		17.661	.000
	ROE	.017	.009	.184	1.845	.068
	LQDT	.114	.082	.144	1.394	.166
	DPR	.004	.007	.065	.643	.522
	GROWTH	-.014	.011	-.130	-1.302	.196

a Dependent Variable: PRICE

b.1. The relationship between the variables and the variable Liquidity Dividend HO 6: There is no significant effect between variables Variable Liquidity with stock prices

HA 6: There is a significant effect between liquidity with variable share prices From the calculation, see figure significance of 0166, this means Ha Ho accepted and rejected, that is, there is no linear relationship between liquidity variables with variable share price .

b.2. The relationship between the variables of profitability and stock price variable HO 7: There is no significant effect between variables Profitability with variable share price.

HA 7: There is a significant effect between variables profitability with variable share price. From the calculation, see figure significance of 0.068, this means that Ho is rejected and Ha accepted meaning, there is a linear relationship between the variables profitability with variable share price.

b.3. The relationship between variable sales growth and stock price variable

HO8: There is no significant effect between variables with the variable Sales Growth stock price

HA8: There is a significant effect between variables with the variable sales growth stocks price

From the calculation, see figure significance of 0.196, this means rejected Ho accepted and Ha means there is no linear relationship between sales growth variable with variable share prices

b.4. The relationship between variable and variable dividend stock price

HO9: There is no significant effect between variables with a variable dividend stock price

HA9: There is a significant effect between variables with the variable dividend stock price.

From the calculation, see figure significance of 0.522, this means rejected Ho; accepted Ha, means there is no linear relationship between the variables of dividend to share price.

Analysis of correlation between variables liquidity, profitability, sales growth and dividends with the calculation results SPSS as indicated below:

TABLE 12. CORRELATION TEST

		ROE	LQDT	DPR	GROWTH
ROE	Pearson Correlation	1	.085	.051	.075
	Sig. (2-tailed)	.	.402	.615	.460
	N	100	100	100	100
LQDT	Pearson Correlation	.085	1	-.229(*)	-.158
	Sig. (2-tailed)	.402	.	.022	.116
	N	100	100	100	100

DPR	Pearson Correlation	.051	-.229(*)	1	.041
	Sig. (2-tailed)	.615	.022	.	.689
	N	100	100	100	100
GROWTH	Pearson Correlation	.075	-.158	.041	1
	Sig. (2-tailed)	.460	.116	.689	.
	N	100	100	100	100

* Correlation is significant at the 0.05 level (2-tailed).

The correlation between liquidity and profitability, based on the calculations, the correlation between the variable rate liquidity and profitability of 0.085, meaning that the two variables strong correlation. The correlation between liquidity and sales growth, based on the calculations, the number of correlation between liquidity and variable sales growth of -0.158, which means the two variables is weak. The correlation between profitability and Sales growth.

Based on the calculations, the correlation between variables profitability figures and sales growth of 0.75 means the two variables are very strong correlation. Correlation liquidity and dividend based on the calculations, the correlation between the variable rate and liquidity dividend of -0.22 correlation means the two variables is weak. Correlation profitability and dividend, based on the calculations, the number of correlations between variables of profitability and dividend for 0051 means a strong correlation of the two variables. Correlation between sales growth and dividend, based on the calculations, the correlation between the variable rate of sales growth and dividend of 0041 means the two variables correlation enough.

Of the two regression models generated above, it can be concluded for Structural Equation model is as follows:

Substructure 1: Y1 = 0.051 X1 - 0.0235 X2 - 0.002 X3 + €

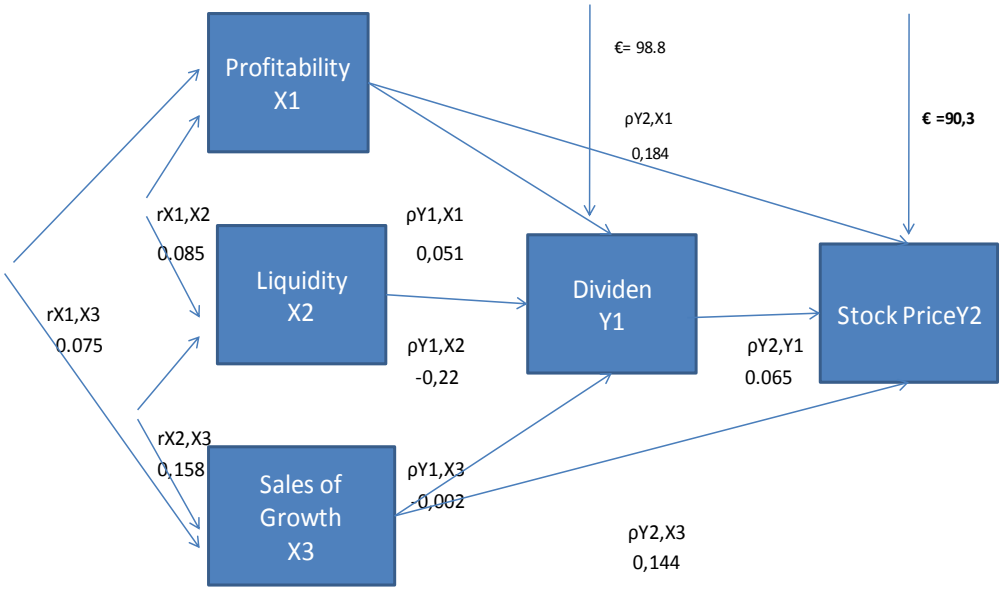
Substructure 2: Y2 = 0.184 +0.144 X1 + X2 + Y1 0.065+ €

The Direct effect of variable profitability of the dividend, X1→ Y1 = 0.051 effect of variable liquidity to the dividend, X2 → Y1 = -0.023, effect of variable sales growth to dividend X3 → Y1 = -0.002, effect of variable dividends on stock prices, Y1 -→ Y2 = 0.065,effect of variable profitability on stock prices, X1 → Y2 = 0.184,effect of variable sales growth on stock prices, X3→Y2 = 0.144

The indirect effect (Indirect Effect), effect of variable profitability on share prices through dividend X1→Y1→Y2 = (0.071 x 0.065) = 0.004615, Variable -liquidity effect on stock prices through dividend Y1→ X2 → Y2 = (0.023 x 0.065) = 0.001495, effect of variable

sales growth on share prices through dividend X3→ Y1 → Y2 = (-0.002 x 0.065) = -0.00013, Total Efect, effect Variable profitability on stock prices through dividend X1→ Y1→ Y2 = (0.051 + 0.065) = 0.116, variable - liquidity effect on stock prices through dividend X2→ Y1→ Y2 = (0.0023 + 0.065) = 0.0673, effect of variable sales growth on share prices through dividend X3 →Y1→ Y2 (-0.002 + 0.0065) = 0.0045

Figure 3. Model testing



Structural equation model is as follows:

Substructure 1: Y1 = 0.051 X1 - 0.0235 X2 - 0.002 X3 + €

Substructure 2: Y2 = 0.184 +0.144 X1 + X2 + Y1 0.065 €

From the above, it can be concluded as follows:

Effect of variable profitability of the stock price directly for 0.184, effect of growth variables on stock prices directly by 0.144, influence variable profitability, liquidity, sales growth and dividends on stock prices jointly by 0.097, the influence of other variables outside the model of the stock price of 0.903, effect of variable profitability of the dividend of 0.051, effect of variable liquidity for dividend of -0.22, sales Growth for variable dividend of -0.002 effect of variable

profitability, liquidity and growth in combined sales, amounted to 0.012, the influence of other variables outside the model to the dividend of 0.0988.

CONCLUSION AND SUGGESTIONS

A standard event study methodology is used to investigate the effect of dividend announcement on stock price. The findings accept our null hypothesis and provide no strong evidence that stock price reacts significantly on the announcement of dividend. This may be due to insider trade in the market, so, the information used to be adjusted with the stock prices before announcement and consequently the announcement of dividends do not carry any new information to the market. Furthermore insider trading causes asymmetric information in the market and as insider shave private information, so outsiders love to follow the insiders to buy and sell shares.

Therefore shareholders are always mislead because of asymmetric information and consequently positive information about dividend also become an ineffective device in the market. However it is notable that insiders, brokers and the exchange employees are the speculators of the market and as these informed speculators play their role in the market for short-term gain that causes dividend information ineffective. As a result announcement of dividend generates no significant impact on the movement of stock prices. A standard event study methodology is used to investigate the effect of dividend announcement on stock price.

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Stock prices affect profitability, liquidity, sales growth and dividends, as follows: Profitability has a significant positive effect on stock prices, and dividends have a significant positive effect on the value of the stock price. Liquidity has a significant positive effect on stock

prices. Sales growth has a significant negative effect on stock prices, profitability, liquidity, sales growth and dividends together or simultaneously have a significant effect on stock prices.

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