

THE INFLUENCE OF FIRM FINANCIAL PERFORMANCE ON DIVIDEND POLICY AND ITS EFFECT TO THE FIRM VALUE (Study at Manufacturer Companies Listed in Indonesia Stock Exchange for the Period of 2010-2012)

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ABSTRACT

The objectives of this research are to analyze the influence of firm financial performance on dividend policy and its effect to the firm value of manufacturer companies listed in Indonesian Stock Exchange (IDX) for the period of 2010-2012 and give recommendations as the completion upon this research. By applying Generalized Structured Component Analysis (GSCA) of 19 sample used, the analysis attempts to examining the influence among variables. This research uses current ratio (CR), debt to equity ratio (DER), return on common equity (ROE), earning per share (EPS), and price to book value (PBV) as the variables of firm financial performance, dividend payout ratio (DPR) as the variable of dividend policy, and closing stock price as the variable of firm value. Result of the research reveal that CR has no significant influence on DPR, however CR has a positive and significant influence on stock price. DER has no significant influence to the DPR and also to the stock price. ROE, EPS, and PBV has a positive and significant influence to the DPR and also to the stock price. Furthermore, DPR has a positive and significant influence on stock price. The present research confirms that firm financial performance, dividend policy, and firm value is the essential and important aspect for the investors in determining the profitable stocks. Therefore, it is very useful for investors to considerate these variable of research in order to make the right investment decisions and do stock trading confidently.

Keywords: Financial Ratios, Dividend Payout, Stock Price, Manufacturer Companies, IDX, GSCA

I. INTRODUCTION

Nowadays, stock market plays an important role in economic prosperity in order to support capital formation and sustain economic growth. Stock markets are more than a place for trading securities, but stock market facilitates savers and users of capital by fund pooling, risk sharing, and transferring wealth (Nisa and Nishat, 2012). Many people believe that a stock market is just a place for trading securities between buyers and sellers. Actually, a stock market allocates savings efficiently to ultimate users, so it enables the economic units to use more than their total savings for investing in real assets. A stock market enables lenders and users of money to satisfy their own needs. Moreover, a stock market provides the essential requirements of investments because users of money will use these extra amounts in producing goods and services. In addition of satisfying the needs for money to investors and the need for

return for those who have extra amounts of money, stock market plays an important role in economic growth.

Firm fundamental relates with firm's financial performance (White et al., 2003). Assessment of financial performance is normally based on financial statements that periodically issued by a business, whether that business is publicly traded or private. These financial statements, prepared according to commonly accepted accounting principles, reflect past, and current effects of the decisions made by management. Commonly, financial ratios are used to measure firm's financial performance.

Brigham and Ehrhardt (2005) stated that the primary objective of the firm is value maximization. Firm value is investors' perception on company and also means the price was paid by the prospective buyer if the company is sold. Firm value commonly related with stock price, because the higher stock price, it can lead to the higher firm value. The higher

firm value also indicate the higher prosperity of shareholders. Assessment of stock price is basically in order to determine fair value and then it can be assessed whether the stock price is undervalued or overvalued. Low stock price in the certain period would have increased, while the higher stock price in the certain period will decrease until it reaches equilibrium, namely its market price. The market price is the stock price that mostly investors observe in the financial markets (Brigham and Ehrhardt, 2005). Stock investment promise a high rates of return from dividend payment and capital gain that will be accepted by investors as shareholders of company and company's ownership. Stock investments also have a high risk investment like the principle of "*low risk low return, high risk high return*", therefore company's management have to be able to keep balance between maintaining the profit and minimizing the risk.

Mostly firms are generally to select the issue of dividend policy, although factors such as legal requirements, debt covenants, and the availability of cash resources impose limitations on this decision. The issue of dividend policy is a very important one in the current business environment. Dividend policy remains one of the most important financial policies, not only from the firm's viewpoint but also from the investors, consumers, employees, and government. For company, dividend policy is important because it is used to determine what funds flow to the investors and what funds are retained by the firm for investment. Moreover, dividend policy provides information for stakeholders related with the firm's financial performance. For investors, dividend payment is their main focus because generally the firms who can pay dividend are the firms who can earn profit consistently.

This research only focus on manufacturer companies listed in Indonesian Stock Exchange (IDX) for the period of 2010-2012. Two sectors of the Indonesian economy stand out as most popular destinations of foreign investments in the first six months of 2013. These are

Indonesia's manufacturing sector and the construction, property, and real estate sector, which grew 46.7% and 100.6% respectively compared to the same period in 2012. Based on data of the Indonesia Investment Coordinating Board (BKPM), foreign direct investments in Indonesia increased 23% to USD \$14.1 billion in the first semester of 2013. Foreign investors were particularly interested in investments in Indonesia's automotive (and components) industry, machinery, and electronics. The automotive sector was target of most investments with USD \$1.9 billion in the first semester of 2013. Indonesia's manufacturing sector has seen growing foreign investments in recent years. The manufacturing sector's contribution towards total foreign investments was about 35% between 2010 and 2012 but grew sharply to 56% in 2013. For the country this constitutes a good development as it lacks a high quality manufacturing sector and, such as needs to import higher quality manufactured products from foreign countries.

According to the results showed by some previous researches and in order to see the empirically facts about the relationship of firm's financial performance, dividend policy, and firm value, so this research use some financial variable that can describe overall firm's financial performance such as CR, DER, ROE, EPS, and PBV in order to investigate further its influence on dividend policy and firm value. Understanding of this relationship is very useful for investors in order to make the right investment decisions. Investment decision is always a risky decision, so the right identification of these aspect can make the investors do stock trading confidently.

1.2. Formulation of Problems

1. How is the influence of current ratio (CR) on the dividend payout ratio (DPR) of manufacturer companies listed in IDX for the period of 2010-2012?
2. How is the influence of debt equity ratio (DER) on the dividend payout ratio (DPR) of manufacturer

companies listed in IDX for the period of 2010-2012?

3. How is the influence of return on common equity (ROE) on the dividend payout ratio (DPR) of manufacturer companies listed in IDX for the period of 2010-2012?
4. How is the influence of earning per share (EPS) on the dividend payout ratio (DPR) of manufacturer companies listed in IDX for the period of 2010-2012?
5. How is the influence of price to book value on the dividend payout ratio (DPR) of manufacturer companies listed in IDX for the period of 2010-2012?
6. How is the influence of current ratio (CR) on the closing stock price of manufacturer companies listed in IDX for the period of 2010-2012?
7. How is the influence of debt to equity ratio (DER) on the closing stock price of manufacturer companies listed in IDX for the period of 2010-2012?
8. How is the influence of return on common equity (ROE) on the closing stock price of manufacturer companies listed in IDX for the period of 2010-2012?
9. How is the influence of earning per share (EPS) on the closing stock price of manufacturer companies listed in IDX for the period of 2010-2012?
10. How is the influence of price to book value (PBV) on the closing stock price of manufacturer companies listed in IDX for the period of 2010-2012?
11. How is the influence of dividend payout ratio on the closing stock price of manufacturer companies listed in IDX for the period of 2010-2012?

II. THEORETICAL BACKGROUND AND HYPOTESIS

2.1. Firm Financial Performance

Business performance is the result of many individual decisions made continually by its management. To assess business performance, therefore, involves analyzing the financial and economic effects of these decisions and judging the results through the use of comparative measures. In essence, management makes decisions to deploy resources

for economic gain. Performance assessment is normally based on an examination of financial statements periodically issued by a business, whether that business is publicly traded or private. These financial statements, prepared according to commonly accepted accounting principles, reflect past, and current effects of the decisions made by management. Commonly, financial ratios are used to measure firm's performance. According to Keown, Martin, and Petty (2008:96), the key financial relationship in the form of ratios to understand three basic attributes of the firm's performance:

- (1) The ability of the firm to meet its current liabilities as they come due, or what financial analysis refer to as liquidity
- (2) Whether the firm's managers deliver acceptable, and hopefully, even superior profits on the capital entrusted to the firm
- (3) Whether the firm's managers create or destroy shareholder value

According to Gitman (2003:53), financial ratios can be divided for convenience into five basic categories: liquidity, activity, debt, profitability, and market ratios. Liquidity, activity, and debt ratios primarily measure risk. Profitability ratios measure return. Market ratios capture both risk and return. This research uses some of financial ratios, they are:

(1) Current ratio (CR)

The **current ratio**, one of the most commonly cited financial ratios, measures the firm's ability to meet its short-term obligations. According to Gitman (2003:54), it is expressed as follows:

$CR = \frac{\text{Current assets}}{\text{Current liabilities}}$

(2) Debt to equity ratio (DER)

According to White, et al. (2003:130), Debt to equity ratio is a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets

- (3) Return on common equity (ROE)
According to Keown, et al. (2008:109), "Return on equity is a firm's net income divided by its common book equity. This ratio is the accounting rate of return earned on investment".

$$\text{ROE} = \frac{\text{Earning available for common stockholders}}{\text{Common stock equity}}$$

- (4) Earning per share (EPS)
According to Gitman and Zutter (2012:81), the firm's earnings per share (EPS) is generally of interest to present or prospective stockholders and management. EPS is closely watched by the investing public and is considered an important indicator of corporate success.

$$\text{EPS} = \frac{\text{Earning available for common stockholders}}{\text{Number of shares of common stock outstanding}}$$

- (5) Price to book value (PBV)
According to Gitman and Zutter (2012:83), the price to book value (PBV) or also called market/book (M/B) ratio provides an assessment of how investors view the firm's performance. It relates with the market value of the firm's shares to their book value.

$$\text{PBV} = \frac{\text{Market price per share of common stock}}{\text{Book value per share of common stock}}$$

2.2. Dividend Policy

Goal of the a firm should be maximize the value or price of the

policies regarding dividends and internal financing (how much of the company's financing comes from cash flows generated internally). The firm's dividend policy must be formulated with two basic objectives in mind: providing for sufficient financing and maximizing the wealth of the firm's owners. Three different dividend policies are described in the

following sections:

- (1) Constant-payout-ratio dividend policy
- (2) Regular dividend policy
- (3) Low-regular-and-extra dividend policy

2.3. Firm Value

Investor's decision within choosing stock as an investment object requires historical data toward the stock movement of outstanding shares. The stock price can be defined as a selling price for other investors. Price is going after the stocks are listed in stock exchange. The market stock price

indicates how well management is doing their duties based on shareholder's name. Shareholders who are not satisfied with the company's

performance may sell their shares and invest their money in other companies, moreover it will impact on decreasing of market stock prices. Basically, the high and low stock prices are influenced by buyers and sellers' consideration of internal and external company's conditions. This is in line with the security analysis that commonly was conducted before the investors buy or sell shares. Stock

price reflect firm value. If the firm achieved a good performance, the firm's stock will be in great demand by investors.

It is important for managers to take

also stated that firms should pursue nobler goals, such as the maximization of social well-being. Certainly stock price maximization must be constrained by state and federal laws, but subject to those constraints, actions to maximize shareholder wealth will be focused on the long-term. This is because stock price is based primarily on expected cash flow projected out into the distant future, and these expectations are based on the information that is available in the market at that time. Hence, good managers focus on long-term, not short-term results, and they release accurate information so the market can accurately value the shares.

Conceptual Framework and Hypothesis

A conceptual framework is used in research to outline possible courses of action or to present a preferred approach to an idea or thought. Conceptual framework can describe a phenomenon clearly and understandable about research object. Commonly, concept is used to explain and predict, but in a scientific definition, concept should have the right criteria in explaining variable research.

According to the previous descriptions, so the conceptual and hypothesis model are arranged. This hypothesis model can explain the influence of CR, DER, ROE, EPS, and PBV on dividend payout ratio and also its effect to closing stock price of manufacturer companies listed in IDX for the period of 2010-2012. The hypothesis model can be shown in the Figure 1.

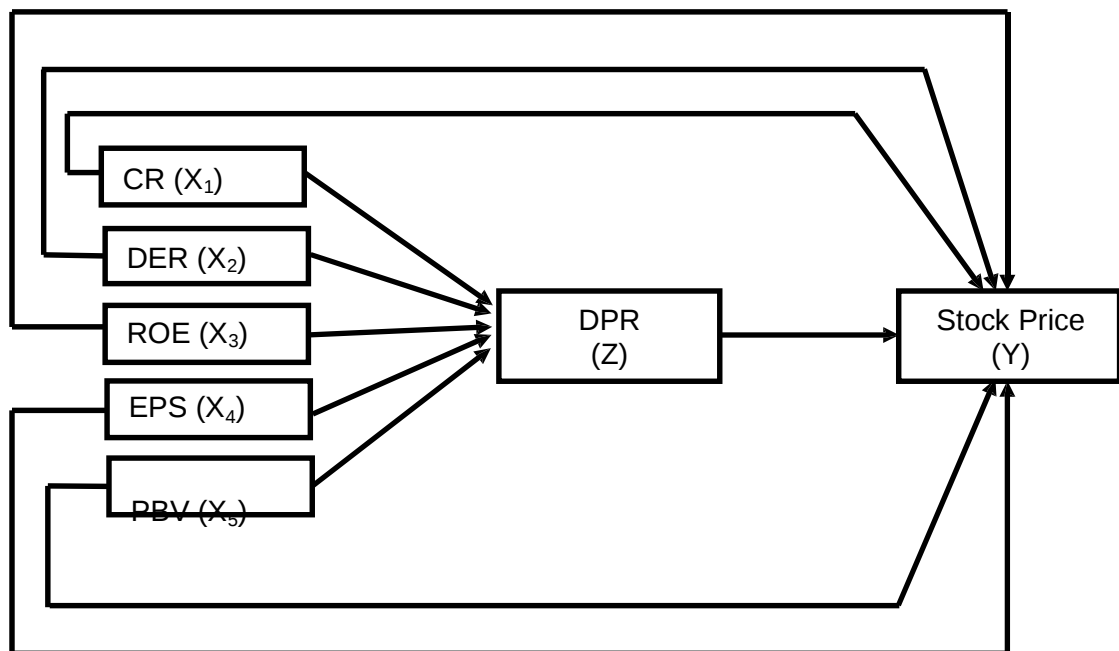


Figure 1 Hypothesis Model

Based on the concept of the research above, the hypothesis framework in this research are as follows:

H₁ : CR has an influence on DPR.

H₂ : DER has an influence on DPR.

H₃ : ROE has an influence on DPR.

H₄ : EPS has an influence on DPR.

H₅ : PBV has an influence on the DPR.

H₆ : CR has an influence on stock price

H₇ : DER has an influence on stock price.

H₈ : ROE has an influence on stock price.

H₉ : EPS has an influence on stock price.

H₁₀ : PBV has an influence on stock price.

H₁₁ : DPR has an influence on stock price.

III. METHOD

Before conduct a research, the researcher must consider the method to be adopted for the research. The researcher needs to choose an approach to investigate

the topic of interest. Referring to the background, formulation of the problems, and the theories that have been described previously so the research approach used in this research is explanatory research. According to Riley, Wood, Clark, Wilkie, and Szivas (2000:9), "Explanatory research goes beyond this and is concerned with why and how questions. Explanatory research is directed towards exploring the relationship between concepts and phenomena and explaining the causality and/or interdependency between these". Moreover, explanatory research studies about the relationship between two or more variables. These variables can be measured, typically on instruments, so the numbered data can be analyzed using statistical procedures.

Population used in this research is manufacturer companies listed in IDX for the period of 2010-2012. This research use purposive sampling based on some criteria:

- (1) The company has listed as manufacturer companies in IDX continuously during the period of January 2010 until December 2012.
- (2) The company has been publicly traded on the IDX listed as issuers from 2010-2012, continuously and never experienced delisting. The company also issued and published annual financial statements completely during period of 2010-2012.
- (3) The company issued financial statements ending on December 31 and used Indonesia rupiah (IDR) as the reporting currency.
- (4) The company's profit and EPS should not in negative during the period of 2010-2012.
- (5) The company distributed dividend in IDX during the period of 2010-2012 continuously.

The list of chosen sample are as follow:

Table 1 Sample of Manufacturer Companies Listed in IDX

No.	Name of company	Code
1.	JAPFA Comfeed Indonesia Tbk	JPFA
2.	Charoen Pokphand Indonesia Tbk	CPIN
3.	Surya Toto Indonesia Tbk	TOTO

4.	Asahimas Flat Glass Tbk	AMFG
5.	Holcim Indonesia Tbk	SMCB
6.	Indocement Tunggal Prakarsa Tbk	INTP
7.	Delta Djakarta Tbk	DLTA
8.	Gudang Garam Tbk	GGRM
9.	HM Sampoerna Tbk	HMSP
10.	Indofood Sukses Makmur Tbk	INDF
11.	Merck Tbk	MERK
12.	Tempo Scan Pasific Tbk	TSPC
13.	Unilever Indonesia Tbk	UNVR
14.	Astra International Tbk	ASII
15.	Sepatu Bata Tbk	BATA
16.	Supreme Cable Manufacturing & Commerce Tbk	SCCO
17.	Selamat Sempurna Tbk	SMSM
18.	Darya-Varia Laboratoria Tbk	DVLA
19.	Gajah Tunggal Tbk	GJTL

In this research, data analysis method consist of two, descriptive analysis and inferential analysis, by using Generalized Structured Component Analysis (GSCA). Hwang, et.al. (2010) noted that Generalized Structured Component Analysis (GSCA) is a component-based approach to structural equation modeling. In practice, researchers may often be interested in examining the interaction effects of latent variables. However, GSCA has been geared only for the specification and testing of the main effects of variables. Thus, an extension of GSCA is proposed to effectively deal with various types of interactions among latent variables. In the proposed method, a latent interaction is defined as a product of interacting latent variables. There are three measurements of overall model fit and the number of free parameters, which consist of FIT, AFIT, and NPAR.

V. RESULT AND DISCUSSION

5.1. Descriptive Analysis

One of the data processing in an explanatory research is descriptive analysis. Descriptive analysis is used to describe the raw data into a form that will make them easy to understand and interpret. Some measures that are commonly used to describe data set are measures of central tendency and measures of variability or dispersion. Measures of central tendency include the mean, median and mode,

while measures of variability include the standard deviation (or variance), the minimum, and maximum values of the variables.

Table 2 described about the descriptive analysis of all sample used are as follow:

Table 2 Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
CR	57	66.83	757.31	284.1884	174.62625
DER	57	.15	2.02	.7425	.50872
ROE	57	9.80	151.45	35.3623	25.74339
EPS	57	99.00	12997.00	1942.1614	2858.79646
PBV	57	.95	38.97	5.7075	7.72576
DPR	57	3.68	151.49	48.6311	35.62749
STOCK PRICE	57	1070	255000	27794.21	47632.372
Valid N (listwise)	57				

Findings from the descriptive analysis as presented in Table 5.1. According to Table 5.1, CR is an indication of a firm's market liquidity and ability to meet creditor's demands. Based on Table 5.20, the CR's range is between 66,83%-757,31%. The average value CR of manufacturer companies for the period of 2010-2012 is 284,1884%. It indicates that overall the firms are generally indicate a good short-term financial strength, because acceptable CR for healthy business are generally between 150%-300% (1,5 - 3). However, low value for CR (less than 100%) do not always indicate a critical problems. In other hand, if CR is too high, then the firms may not be efficiently using its current assets or its short-term financing facilities. The standard deviation of manufacturer companies is 174,62625, indicate that during the period of study, the CR of firms is fluctuate.

DER is a financial ratio indicating the relative proportion of shareholder's equity and debt used to finance a firm's assets. DER range is between 0,15-2,02. The average value of DER for the period of 2010-2012 is 0,7425. It indicates DER manufacturer companies are generally in the good condition, because equity is more than debt ($DER < 1$). The standard deviation of manufacturer companies is 0,50872, indicate that during the period of research, DER of firms is fluctuate between the a firm with the lowest DER and a firm with the highest DER.

ROE shows how well a firm uses investment fund to generate earnings growth. Based on Table 5.20, ROE's range is between 9,80%-151,45%. The average value of ROE of manufacturer companies for the period of 2010-

2012 is 35,3623%. It indicates that overall ROEs manufacturer companies are in the good condition, because ROEs at least 15% are generally considered good. The higher ROE, the more easily the firm will be able to raise money for growth. The standard deviation of manufacturer companies is 25,74339, indicate that during the period of study, the ROE of firms is fluctuate between the a firm with the lowest ROE and a firm with the highest ROE.

EPS is closely watched by the investing public and is considered an important indicator of firm success. EPS is also generally considered to be the single most important variable in determining a firm's stock price. The higher EPS, the more profitable company to be. EPS's range of manufacturer companies for the period of 2010-2012 is between Rp 99,00–Rp 12.997,00. The average value of EPS is Rp 1.942,16. Moreover, the standard deviation of manufacturer companies is 2858,79646, indicates that during the period of study, the EPS of firms is fluctuate between the a firm with the lowest EPS and a firm with the highest EPS.

PBV provides an assessment of how investors view the firm's performance. The stocks of firms that are expected to perform well (improve profits, increase their market share, or launch successful products) typically sell at higher PBV than the stocks of firms with less attractive outlooks. PBV's range of manufacturer companies for the period of 2010-2012 is between 0,95–38,97. The average value of PBV is 5,7075. Moreover, the standard deviation of manufacturer companies is 7,72576, indicate that during the period of study, the PBV of firms is fluctuate

between the a firm with the lowest PBV and a firm with the highest PBV.

DPR indicated the percentage of money earned that a firm distributes to the investors in the form of cash. Investors seeking high current income and limited capital growth prefer companies with high DPR. However, the investors is seeking capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero payout ratios. As they mature, they tend to return more of the earnings back to investors. DPR's range of manufacturer companiesfor the period of 2010-2012 is between 3,68%-151,49%. The average value of DPR is 48,6311%. Moreover, the standard deviation of manufacturer companies is 35,62749, indicate that during the period of study, the DPR of firms is fluctuate between the a firm with the lowest DPR and a firm with the highest DPR.

Last, stok price's range of manufacturer companiesfor the period of 2010-2012 is between Rp 1.070,00–Rp 255.000,00. The average value of stock price is Rp 27.794,21. The standard deviation of manufacturer companiesis 47632,372, indicate that during the period of study, the stock price of firms is fluctuate between the a firm with the lowest stock price and a firm with the highest stock price.

5.2. GSCA (Generalized Structured Component Analysis)

Hwang, et.al., (2010) noted that Generalized structured component analysis (GSCA) is a component-based approach to structural equation modeling. In practice, researchers may often be interested in examining the interaction effects of latent variables. However, GSCA has been geared only for the specification and testing of the main effects of variables. Thus, an extension of GSCA is proposed to effectively deal with various types of interactions among latent variables. In the proposed method, a latent interaction is defined as a product of interacting latent variables.

According to GSCA, the full model measurement illustrates the variance and effect of variables. There are five independent variables, one intervening variable, and one dependent variable in this research. The full model measurement is imperative in order to

know the significance of all variables of the research model. In GSCA, there are three measures of overall model fit and number of free parameters, they are FIT, AFIT, and NPAR. FIT indicates the total variance of all variables explained by a particular model specification. The values of FIT range from 0 to 1. The larger this value, the more variance in the variables is accounted by the specified model (Hwang, 2011). While AFIT or adjusted FIT is similar to FIT, but takes model complexity into account. The AFIT may be used for model comparison. The model with the largest AFIT value may be chosen among competing models (Hwang, 2011). NPAR refers to the number of free parameters estimated, including weights, loadings and path coefficients. Weight is composite of observed variables, while loading is specified components affect on the observed variables, and path coefficients comprise all observed variables that regarded as reflective indicators influenced by their components (Hwang and Takane, 2004). In other word, NPAR is reflective or formative indicator simply formed by observed variables. The bootstrapped standard errors or confidence intervals can be used to assess the reliability of the parameter estimates (Hwang and Takane, 2004). Hereby the result of full model measurement after analyzed with GSCA program:

Table 3 Goodness of Model Fit

Model Fit	
FIT	0.206
AFIT	0.168
NPAR	18

According to Table 3, homogeneity that can be explained by all variables on the model is 20,6%. It can be said that this model is good because able to explain more that 20% of the data homogeneity. While homogeneity that can be explained by AFIT value is 16,8%. Free parameters estimated by NPAR value is fit to 18. It indicates that the formative indicator simply formed by observed variables, which are assosiated with seven variables involved in this model are relevant, they are CR, DER, ROE, EPS, PBV, DPR, and STOCK PRICE.

Furthermore, Table 4 shows the estimates of path coefficients, bootstrap standard errors (SE), and critical ratios (CR). The "absolute" bootstrap critical ratio (CR) is

obtained by dividing a parameter estimate by its bootstrap standard error (SE). The CR is used for testing the significance of an estimate. The estimation is significant at 0.05 level, indicating if its bootstrap critical ratios (CR) is equal to or larger than two in absolute value

under the assumption that the bootstrap distribution of the estimate is roughly normal. The CR which is marked with a star sign (*), it shows that those variables are significant and reliable.

Table 4 Structural Model

Path Coefficients				Null Hypothesis Testing	Information
	Estimate	SE	CR		
CR->DPR	0.175	0.143	1.22	Not significant	Accepted
CR->STOCK PRICE	0.179	0.086	2.07*	Significant	Rejected
DER->DPR	0.070	0.147	0.48	Not significant	Accepted
DER->STOCK PRICE	0.065	0.057	1.14	Not significant	Accepted
ROE->DPR	-0.863	0.351	2.46*	Significant	Rejected
ROE->STOCK PRICE	-0.503	0.240	2.1*	Significant	Rejected
EPS->DPR	0.388	0.118	3.28*	Significant	Rejected
EPS->STOCK PRICE	0.769	0.085	9.0*	Significant	Rejected
PBV->DPR	1.369	0.389	3.52*	Significant	Rejected
PBV->STOCK PRICE	0.513	0.246	2.08*	Significant	Rejected
DPR->STOCK PRICE	0.181	0.086	2.1*	Significant	Rejected

CR* = significant at .05 level

In addition, Table 5.4 depicts that the value of R-square on DPR reach 0,567. It is also shown that variable of CR, DER, ROE, EPS, and PBV contribute 56,7% to the DPR, while the rest which is 43,3% is contributed by other variables which have not been studied yet. Furthermore, the value of R-square on stock price reach 0,872. It is good, because variable of CR, DER, ROE, EPS, PBV, and DPR contribute 87,2% to the stock price, while the rest 12,8% is contributed by other variables which have not been studied yet.

Table 5 R square of Latent Variable

R square of Latent Variable	
CR	0
DER	0
ROE	0
EPS	0
PBV	0
DPR	0.567
STOCK PRICE	0.872

5.3. Discussion

The GSCA results reveal that CR has no significant influence on DPR. Keown's theory also supports this result of research. Keown et

al. (2008:424) stated there are practical considerations that is important to the firm's dividend policy, such as liquidity constraints. The mere fact that a firm shows a large amount of retained earnings in its balance sheet does not indicate that cash is available for the payment of dividends. The firm's liquid assets, including its cash, are basically independent of its retained earnings account.

However, CR has a positive and significant influence on stock price, because its critical ratios (CR) is larger than two and also marked with star sign (CR*). The outcome implies that the higher CR, the more liquid the firm is considered to be, and the higher stock price will be achieved. This result supports the previous research by Ali and Razi (2012), which is also said that there is positive impact CR on closing stock price.

Furthermore, DER has no significant influence on DPR. It can be seen from its critical ratios (CR) is lower than two and do not marked with star sign. DER has no influence on DPR, indicating that the firm do not really consider DER in establishing a dividend payout decisions. This result of research supports the previous research conducted by Appannan and Lee (2011), and Uwuigbe (2012). In contrast, this result of

research unsupports the previous research by Moradi et al. (2010), which stated there is a direct and significant influence DER on DPR. It can be happen in the firms with very high DER, but in the firms with low DER, the relationship is reverse. Moreover, DER also has no significant influence towards stock price. DER is not influential on stock prices, indicating that most investors want short-term profits in the form of capital gains so in order to consider the purchase of firm shares, they are not really considered DER, but follow up the trend in the market. The study of Uwuigbe et al. (2012) supports this research, because in fact, a small DER is not necessarily better than that of the higher DER. DER ratio can has a positive or negative influence on stock price, because the value of DER depends on company's situation and condition.

ROE has a negative and significant influence to the DPR and closing stock price, with estimate of path coefficient of ROE to DPR -0,863 and ROE to stock price -0,503. It shows that the value of ROE towards DPR is greater than the value of DER towards stock price, indicating DPR can give contribution to strengthen the influence of ROE to the stock price. The outcome implies that the firm with higher ROE pay less dividends, furthermore the lower stock price will be achieved. There are some reasons why the firms pay less dividends. The firm decided not to pay any cash shareholders, preferring instead to reinvest the cash in order to expand their business, such as build and operates new factory. Commonly, rapidly growing firms generally do not pay out cash to the shareholders. As the firm matured, managers decided that cash flow from operations was sufficient to continue to reinvest in growth and return some cash to shareholders as dividends. This result outcome is in accordance with the findings of Mehta (2012), which is also stated that ROE has negative relationship with DPR.

EPS has positive and significant influence to the DPR and closing stock price. It can be seen that EPS is the most important variable which influence stock price with estimate of path coefficient EPS to stock price 0,769. This outcome implies that the firm with higher EPS will be willing to pay higher dividends to their shareholders, the higher stock price will be achieved. EPS is closely watched by the investing public and is considered an important

indicator of firm success. Ideally EPS increase from year to year. Even if there is a decrease, it is a result of the atmosphere of the unprofitable business. This result supports the previous research by Pasaribu (2008), Obeidat (2009), Chowdury (2010), Chugh and Meador (2010), Seetharaman and Raj (2011), Sharma (2011), and Srinivasan (2012). Mostly research find out there is significant influence EPS on stock price, it indicates that stock price are strongly determined by EPS.

PBV has positive and significant to the DPR and closing stock price, with estimate of path coefficient of PBV to DPR 1,369 and PBV to stock price 0,513. The value of PBV towards DPR is greater than the value of PBV to the stock price, therefore, DPR can strengthen the influence of PBV to the stock price. This outcome implies that the higher financial performance (proxied by PBV), market became more confident about the prospect of firm, the firms will be willing to pay higher dividends to their shareholders, and the stock price will also increase. The stocks of firms that are expected to perform well (improve profits, increase their market share, or launch successful products) typically sell at higher PBV than the stocks of firms with less attractive outlooks. This result outcome supports the previous research by Chugh and Meador (2010), Nisa and Nishat (2011), and Srinivasan (2012).

Finally, GSCA's results indicates that there is positive and significant influence DPR to the stock price, with estimate of path coefficient of DPR to stock price 0,181. The change in dividend payment will affect stock price. In other words, investors view a change in dividends, up or down, as a *signal* that management expects future earnings to change in the same direction. Investors view an increase in dividends as a *positive signal*, and they bid up the stock price. They view a decrease in dividends as a *negative signal* that causes investors to sell their shares, resulting in the stock price decreasing. This result is in accordance with the "dividend relevance theory by Myron J. Gordon and John Lintner and also the agency cost theory, both of them stated that there is direct relationship between the firm's dividend policy and its firm value. Another studies also support this result, they are Moradi et al. (2010) and Uwuigbe, et al. (2012). In contrast, Nisa and Nishat (2011),

Sharma (2011), Srinivasan (2012) stated that DPR has no influence on stock price, because many firms in Pakistan did not pay dividends regularly.

V. CONCLUDING REMARK

Conclusion

The research examines the influence of firm financial performance on dividend policy and its effect to the firm value. The research used data from 19 manufacture firms listed in Indonesia Stock Exchange (IDX) from the period of 2010-2012. The empirical result reveal that CR has no significant influence on DPR, however CR has significant influence to the closing stock price. The findings also reveal that DER has no significant influence on DPR and DER has no significant influence on closing stock price. Interestingly, ROE has negative and significant influence on DPR and stock price, indicating that mostly firms pay less dividend and decide to reinvest the cash in order to expand their business, such as build and operates new factory or stores. The findings indicate that EPS is being a significant influence in establishing DPR. Moreover, EPS positively influence closing stock price of manufacture industry. Also, the findings indicate that PBV has significant influence on DPR and also PBV has significant influence on closing stock price. Last, it is shown that there is positive and significant influence DPR on stock price. The present research confirms that firm financial performance, dividend policy, and firm value is the essential and important aspect for the investors in determining the profitable stocks. Therefore, it is very useful for the investors to considerate these aspect in order to make the right investment decisions and do stock trading confidently.

Remark

Based on the conclusion above, hereby some recommendations as the completion upon this research:

1. Related to the finding of this research, there are some variable of firm financial performance do not have significant influence on dividend policy and firm value. They are current ratio (CR) and debt to equity ratio (DER) do not have significant influence on dividend payout ratio (DPR), moreover, debt to equity ratio (DER) does not have significant influence

on stock price. So, it will be better if the firm's including CR and DER in establishing their dividend payment decisions in order to have the right financing decisions. For investor, it will be better if the investor's including DER aspect when considering to purchase firm's stocks.

2. This current study suggests further research to include macroeconomic variable, such as Central Bank of Indonesia (BI) rate, inflation, GDP growth, interest rate, and so on) to determine its influence to the firm financial performance, dividend policy, and firm value. Furthermore, the result of this study can be used as a reference for other studies.

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