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The Influence of Dividend Policy, Earnings Volatility and Leverage On Volatility of Jakarta Islamic Index (JII) Stock Prices

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ABSTRACT

This research aims to determine the effect of dividend policy, earnings volatility, and leverage on stock price volatility. Stock price volatility is the movement of stock prices up or down. The population of this research is shares of companies in the Jakarta Islamic Index. The sample for this research was eight companies taken using the purposive sampling method. This research uses secondary data sourced from financial reports, dividend distribution reports, and the Indonesian Stock Exchange website. The data analysis technique uses multiple linear regression. Based on the test and analysis results, it was found that only leverage had a negative effect on stock price volatility, while dividend policy variables and earnings volatility did not affect stock price volatility in companies included in the Jakarta Islamic Index. Thus, investors and company management should pay more attention to the leverage variable in making investment and financial decisions.

INTRODUCTION

The establishment of a company is carried out to obtain profits and certain goals. Company profit is the company's net income after deducting expenses. Company profits can only be obtained from good performance from the company. A profit-making company means a company that has paid all its expenses within a certain period and produces net cash flow for shareholders. For this reason, assessing company performance is very important for all parties with an interest in the company concerned (Brigham and Houston 2014).

Good company performance will be reflected in a continuous increase in share prices resulting in positive capital gains over a certain period. Apart from providing capital gains, good company performance can also make the company generate quite large profits

continuously so that the company can distribute dividends to its shareholders. Dividend policy is the decision whether profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance future investments (Budiati, 2013). An increase in dividends paid is considered a favorable signal, giving rise to a positive stock price reaction, and vice versa. *Capital gains* and the dividends that investors receive from their investments are stock returns. Dividend distribution can maximize shareholder value because dividend policy can only be implemented by companies that generate profits. The dividend payout ratio is an important indicator that always receives attention from investors and management. dividend payout ratio is the percentage of net profit paid as cash dividends. Dividend distribution policy is influenced by earnings volatility.

Earnings volatility shows the rise and fall of profits generated by the company. (Bathala and Rao 1994). Earnings Volatility is an indicator that measures how stable the company's profits are each year (Khurniaji, 2013). Companies that have unstable income levels give a signal to investors that the company has a high risk to invest in. Earnings Volatility is a proxy for business risk. Business risk is a risk faced by a company where the company is unable to cover operational costs (Gitman 2003). Meanwhile, the higher the level of asset growth of a company, the lower the risk that investors will face because the funds provided by investors can be guaranteed by the size of the assets owned by the company. So investors tend to choose to maintain the shares they own. This can cause share sales to occur infrequently so that the level of share price volatility is low. (Rowena 2017). To reduce earnings volatility, company management can expand by adding debt. The amount of company debt is determined by the leverage ratio.

Leverages show how much the company's debt is compared to the equity owned by the company or its shareholders. Lashgari (2014) and Zakaria (2012) state that leverage influences stock price volatility. Leverage in this study is measured using the Debt to debt-equity ratio (DER) measurement. The higher the DER figure, it is assumed that the company has a higher risk to the company's liquidity. According to Brigham and Houston (2011), a company's share price is influenced by the level of debt using the debt-to-equity ratio measurement. The debt-to-equity ratio shows the portion of each rupiah of own capital that is used as collateral for the total debt owned by the company. The inability to achieve profits and cover company debts is something that investors do not expect and influences investors' behavior in selling or buying shares. (Jannah and Haridhi 2016).

Volatility Stock prices are a statistical measurement of price fluctuations during a certain period (Firmansyah, 2006). Stock price fluctuations are a phenomenon that often occurs on almost all stock exchanges in the world. This measure shows price decreases and increases in the short term. On the other hand, volatility is a systematic risk faced by investors who invest in ordinary shares. High volatility reflects unusual demand and supply characteristics (Hugida, 2011).

Several factors can cause volatility in share prices, including the amount of dividends per share that the company distributes to shareholders, changes in company profits, and the amount of debt the company has. It can be concluded that these three factors, namely dividend policy, earnings volatility, and leverage are factors that can influence the volatility of company share prices in the capital market.

Based on the description therefore, researchers are interested in selecting shares of companies that are members of the Jakarta Islamic Index (JII) with the variables dividend policy, earnings volatility, and leverage with the title The Effect of Dividend Policy, Earning Volatility and Leverage on the Volatility of Jakarta Islamic Index (JII) Share Prices in the 2014-2018 period.

Referring to the problem formulation, research framework, as well as several previous studies, the hypothesis or temporary conjecture proposed in this research is:

1. H1: Dividend Payout Ratio has a positive effect on company share price volatility
2. H2: *Earnings Volatility* has a positive effect on the volatility of the Company's share price
3. H3: *Leverage* has a negative effect on the volatility of the Company's share price

The influence of dividend policy, earnings volatility, and leverage on stock price volatility is described in the research model as follows.

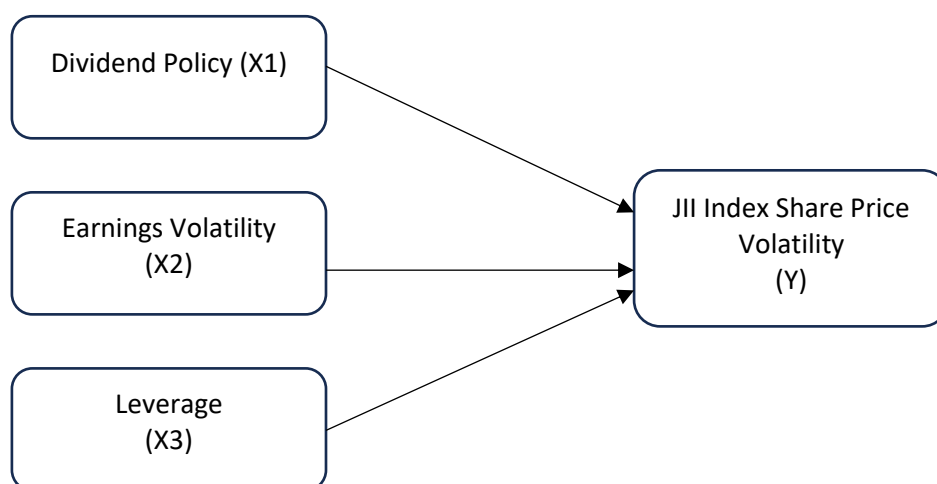


Figure 1. Research Model

RESEARCH METHOD

This research approach uses associative research. Associative research is research that aims to determine the relationship between two or more variables. Associative research has the highest level when compared to comparative descriptive research. With this associative research, a theory can be built that can function to explain, predict, and control a phenomenon (Sugiyono, 2015). In the title of this research, the researcher explains whether there is an influence of Dividend Payout Ratio, Earnings Volatility, and Leverage on share price volatility in companies listed on the Jakarta Islamic Index (JII).

The population used are all companies included in the Jakarta Islamic Index (JII) index, namely 30 companies, average stock price data, average Dividend Payout Ratio data, Earnings Volatility, and Leverage on the Jakarta Islamic Index (JII) in the 2014-2018 period. The sampling technique used in this research was purposive sampling. The data source used in this research is secondary data containing financial reports, financial data, and ratios on companies listed on the Jakarta Islamic Index with a research period of 5 years,

namely 2014-2018, obtained from the official internet (www.idx.co.id) Indonesian Stock Exchange (BEI) and also from various collections of journal literature obtained. The analysis technique used in this research is multiple linear regression.

RESULTS AND DISCUSSION

To produce an unbiased estimation model, classical assumption analysis is carried out, including the normality test, heteroscedasticity test, and multicollinearity test.

Table 1
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

Description	Unstandardized Residuals
Statistical Tests	,139
Asymp. Sig. (2-tailed)	,050c

Source: Data Analysis Results

The results of normality testing with Kolmogorov-Smirnov in Table 1 show a significant value of 0.050 ($0.050 > 0.05$). So the data can be stated to be normally distributed.

Table 2
Multicollinearity Test Results
One-Sample Kolmogorov-Smirnov Test

Variables	Tolerance	VIF
Dividend Payout Ratio	,800	1,251
Earnings Volatility	,680	1,471
Leverage	,758	1,320

Source: Data Analysis Results

The results of the multicollinearity test in Table 2 show that each variable has a Tolerance value above 0.1 and a VIF value above 10, so it can be concluded that there is no multicollinearity in the resulting regression model. The respective Tolerance values are as follows: dividend payout ratio of 0.8, earnings volatility of 0.680, and leverage of 0.758. The VIF value of each variable is as follows: dividend payout ratio of 1,251, earnings volatility of 1,471, and leverage of 1,320.

The heteroscedasticity test tests the occurrence of differences in residual variance from one observation period to another observation period. There is a way to predict whether there is heteroscedasticity in a model, it can be seen with a scatterplot image pattern, a regression where heteroscedasticity does not occur if: 1) The data points are spread above and below or around zero, 2) The data points do not collect. only above or below, 3) The distribution of data points must not form a wavy pattern that widens then narrows and widens again, 4) The distribution of data points has no pattern.

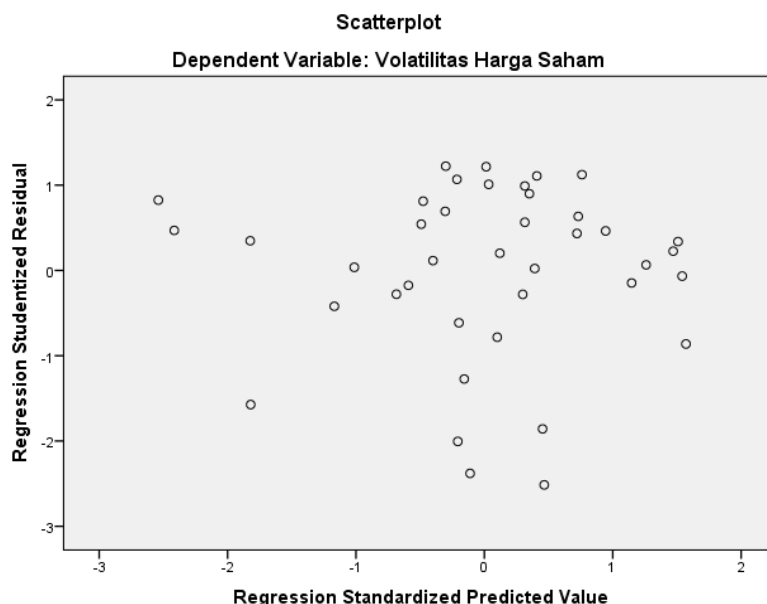


Figure 2: Heteroscedasticity Test Results

Figure 2 shows that there is no clear pattern, and the points are spread above and below the number 0 on the Y-axis, so it is concluded that heteroscedasticity does not occur.

Table 3
Partial Test Results with T-Test

Model	Unstandardized Coefficients		Standardized Coefficients	Q	Sig
	B	Std. Error	Beta		
(Constant)	414,018	40,808		10,145	,000
Dividend Payout Ratio	.031	.071	.073	,445	,659
Earnings Volatility	.104	,140	.132	,742	,463
Leverage	-.100	.031	-.538	-3,199	,003

Dependent Variable: Stock Price Volatility

Source: Data Analysis Results

The Effect of Dividend Payout Ratio (DPR) on Share Price Volatility

Based on the results of partial statistical testing in Table 3, the dividend payout ratio variable does not affect share price volatility in companies on the Jakarta Islamic Index. This can be seen from the significance value of the dividend payout ratio, namely 0.659 which is above the significance level of 0.05. The positive coefficient of 0.445 indicated by the dividend payout ratio on share price volatility means that the higher the dividend payout ratio in a company, the higher the volatility of the company's share price, according to signal theory which states that cash dividend distribution announcements have information content that results in there is a positive reaction in stock prices. The results of this research are in line with the research results of Santioso and Angesti (2019), Sutandijo (2019), Dominika and Yanti (2019). Where a stable and continuously increasing dividend policy will be followed by an increase in the company's share price.

The Effect of Earnings Volatility (E.Vol) on Stock Price Volatility

Based on the results of statistical testing, partially variable *earnings volatility* does not affect share price volatility in companies on the Jakarta Islamic Index. This can be seen from the significance value, which is 0.463 or above the 0.05 significance level. The positive coefficient of 0.742 shown by earnings volatility on share price volatility means that the higher the earnings volatility of a company, the greater the volatility of the company's share prices. Earnings volatility is the level of profit fluctuation that reflects the risk of the company's operating activities. The company's share price will fluctuate due to investors' decisions to sell or buy shares.

The results of this research are in line with the results of research by Dominika and Yanti (2019), where *earnings volatility* is calculated by looking at the standard deviation of the comparison of company profits before income tax (EBIT) with total company assets. Earnings volatility describes the increase and decrease in profits generated by a company in a certain period. The increase and decrease in profits generated by this company is considered an unstable condition.

Jannah & Haridhi (2016), explained that companies that have unstable income levels give a signal to investors that the company has a high risk to invest in. The signal given by the company regarding the instability of company profits will influence investors to sell company shares in a short period.

The Effect of Leverage (DER) on Stock Price Volatility

Based on the results of statistical tests, the leverage variable partially has a negative effect on share price volatility in companies on the Jakarta Islamic Index. This can be seen from the liquidity significance value, which is 0.003 or below the 0.05 significance level. The negative effect of -3.199 shown by leverage on share price volatility means that the higher a company's leverage, the lower the share price volatility. This result is by the trade-off theory that the amount of debt at a certain level can save taxes and increase company profits, thereby increasing company value. An increase in company value can reduce share price volatility. The results of this research are in line with the research results of Jannah

and Haridhi (2016), Selpiana and Badjra (2018), Marini and Dewi (2019), and Sova (2013) which stated that DER hurts stock price volatility.

The Influence of Dividend Payout Ratio (DPR), Leverage (DER), and Earnings Volatility (E.Vol) Together on Stock Price Volatility

Based on the results of the F test or simultaneous test, it can be concluded that dividend policy, earnings volatility, and leverage influence share price volatility in companies in the Jakarta Islamic Index for the 2014-2018 period. The results of this research are in line with research by Rowena and Hendra (2015), Jannah and Haridhi (2016), and Selpiana and Badjra (2018). By Signaling Theory, dividend policy, earnings volatility, and leverage can be signals for investors in making investment decisions. The coefficient of determination in this research model is 77.2%, which means that 77.2% of changes in stock price volatility are determined by dividend policy, earnings volatility, and leverage, the remaining 22.8% is determined by other variables not included in the research model.

CONCLUSION

Based on the results of testing, analysis, and discussion, dividend policy can be concluded *Andearnings volatility* does not affect share price volatility, the prices of the company shares included *Jakarta Islamic Index (JII)* 2014-2018 period. The leverage variable influences the price volatility of company shares included in the Jakarta Islamic Index (JII) for the 2014-2018 period. Simultaneously, dividend payout ratio, earnings volatility, and leverage can explain changes in stock price volatility by 72.2 percent, and the rest is explained by variables not included in the model. Thus, investors and company management should be more careful in taking policies regarding leverage so that the debt composition can reduce the volatility of the company's share price.

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