

## Examining the Mediating Role of Dividend Policy in the Relationship between Earnings Per Share and Stock Prices: Evidence from Indonesian Category 4 Commercial Banks

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**Abstract.** This study examines the influence of earnings per share (EPS) on stock prices, and the potential mediating role of dividend policy in this relationship, within the context of Indonesia's Category 4 commercial banks. Using data from six listed banks over the period of 2017-2022, a structural equation modeling approach was employed. The results indicate that EPS has a significant positive effect on stock prices, but no significant impact on dividend policy. Furthermore, dividend policy did not mediate the relationship between EPS and stock prices. These findings suggest that investors in Category 4 Indonesian banks prioritize earnings performance over dividend payouts when making investment decisions. The study contributes to the understanding of the determinants of stock prices in the Indonesian banking sector and provides insights for investors and bank management regarding the relative importance of EPS and dividend policy in influencing stock valuations.

**Keywords:** earning per share, dividend policy, stock price, commercial bank, group 4 banking

## **1. Introduction**

Stocks are one type of investment that benefits investors, so the value of stock price seems important to consider before making an invest. Stock prices are determined by supply and demand. Stocks are proof of ownership of shares/funds of a company. A paper that clearly states the nominal value, company name, and rights and obligations stated to each owner (Halim, 2018). Stock prices are an important benchmark for investors to make investment decisions. Investors who buy and sell stocks need to know the basic reasons for choosing a company. There are two types of analysis available when choosing stocks: technical analysis and fundamental analysis. Technical analysis is carried out by considering occasional changes in the inventory itself. Fundamental analysis, in the other hand, are compares the intrinsic value of a stock with the market price to determine whether the market price reflects the intrinsic value (Halim, 2018).

Investment decisions are decisions to use funds that can benefits the owner of the funds. This investment decision is a decision to choose the company's investment in carrying out its operational activities. The funding decision or the decision to fulfill the need for funds is a decision to choose a policy on the type of funds to be used in the company's operational activities. The decision to fulfill the need for funds is considered correct if it can reduce the capital power used by the company. Dividend policy decisions are decisions to distribute profits to stockholders or company owners called dividends, or to hold profits for the purpose of being reinvested in the company. This dividend policy can be said to be appropriate if the policy can make the owner of capital, in this case the owner of the company, become more prosperous (Musthafa, 2017).

It can be said that the purpose in making financial decisions is to be able to increase the value of the company, which means that it can increase the prosperity of the owner from the company, in this case the shareholders of the company itself, for companies that go public (Musthafa, 2017). In the implementation of efficient financial management, it is necessary to have predetermined goals and objectives as a standard in assessing the level of efficiency of financial decisions. Therefore, company managers are required to have the ability to set strategies and carry out their functions properly in order to achieve the company goals. One of the factors that are considered for investors to buy a stock is the company's performance.

The stock influencer phenomenon has led to a significant increase in the number of investors. It was identified based on what is known as the single investor identification number or SID, which was recorded at 3.87 million in December 2020 and said to increased 56 percent since in the end of 2019. From this figure, the number of stock investors increased 53 percent to 1.68 million SID (Tahir et al., 2021). Beginner stock traders want big and quick profits with the idea that they will enter the stock market to play stocks. This high growth in the number of investors can be used by certain parties to influence the public in using influencers by promoting certain stocks and generating significant profits (Zakaria, 2021). However, this phenomenon is also have the negative impact for not realizing the average inexperienced investor who is not familiar with equities may not yet have qualified with analytical skills. Therefore, advertised stocks are not necessarily said as stock and investors would experienced potential losses which basically and technically enough.

The results from the research on the influence of Earning Per Share on stock prices shows different results. In the research conducted by Amaliyah et. al. (2017); Cahyaningrum & Antikasari (2017); Ariyani et al. (2018); Fajrian & Sumawidjaja (2018); Prayogo & Lestari (2018); Wibowo & Sukoco (2019); Zakaria (2021); Riwayati & Aviliani (2022). Earning Per Share has a positive affect on stock prices. Meanwhile, in the research conducted by Alfiah & Lestariningsih (2017); Wibowo et. al. (2018), Earning Per Share has no significant affect on stock prices. Research conducted by Hartanti et. al. (2019), regarding the affect of Earning Per Share on dividend policy, the results obtained stating a fact that Earning Per Share has a positive affect on dividend policy. Meanwhile, the research results conducted by Lestari & Susetyo (2020) stated that If Earning Per Share has no significant affect on dividend policy. Conducted Rahmadewi & Abundanti (2018) a study towards the impact of dividend policy on stock

prices with research results stating that dividend policy has a significant positive impact on stock prices. In contrary to the results from Zakaria (2021) which defined that dividend policy has a significant negative influence on stock prices.

The influence of Earning Per Share on stock prices with dividend policy as a mediating variable whom performed by Ariyani et al. (2018) was indicated that dividend policy can mediate the impact of Earning Per Share on stock prices. Meanwhile, in the research conducted by Lestari & Susetyo (2020) stated it was happened the other way. Based on those previous research there are completely research gap on stock prices. In addition, there are also variable from dividend policy that is capable to strengthen the mediate from the influence of Earning Per Share on stock prices.

Bank Indonesia has issued a regulation that classifies commercial banks into special categories which are part for the restructuring of the Indonesian banking industry with the aim of increasing competitiveness, consolidating the banking industry and governance and reducing risks which associated with banking. In the regulation of the Financial Services Authority (OJK) Number 6/POJK.03/2016, it has been regulated relates to the grouping of banks based on business activities in accordance with the amount of core capital. The core capital in question is a capital consisting of paid-in capital and reserves formed from profits earned after tax calculations. Commercial Banks are divided into four categories, including Commercial Banks Business Group 1, Commercial Banks Business Group 2, Commercial Banks Business Group 3 and Commercial Banks Business Group 4. The grouping are based on the amount of core capital and business activities performed by the bank. Bank Group 1 has a core capital of up to less than IDR 5 trillion; Group 2 has a core capital of at least IDR 1 trillion to less than IDR 5 trillion; Group 3 has a core capital of at least Rp5 trillion to less than IDR 30 trillion; and Bank Group 4 has a core capital of at least IDR 30 trillion.

This research are purpose to analyze the affect of Earning Per Share which mediated by dividend policy on stock prices. The research object were includes banking companies in the Group 4 banking. These banks are one of the largest conventional banks in Indonesia and the general public is attracted to leading banking companies because they notice risks borne by the bank. With a core capital of more than IDR 30 trillion, Group 4 banking can absorb potential risks that are greater than other banking groups. The study contributes to the understanding of the determinants of stock prices in the Indonesian banking sector and provides insights for investors and bank management regarding the relative importance of EPS and dividend policy in influencing stock valuations.

## **2. Literature Review**

Based on Brigham & Houston (2018), signal theory is an company size that provides clues to investors about how management views the company's prospects. This signal is in the form of information about what management has done to fulfill the owner's expectations. Information disclosed from outside the company is important because it can influences the external investment decisions. Information is an important factor for investors and business people, because in essence it is information, display or description of past, present and future conditions for the survival of the company. Capital market investors need complete, relevant, accurate and timely information as an analytical tool for making investment decisions.

Earning Per Share is the ratio or also called as book value. Earning Per Share is a ratio to assessing the success of management in achieving profits for shareholders (Kasmir, 2019). Earning Per Share or income per share is in a form of profit given to shareholders or investors for each share owned (Fahmi, 2020). Earning Per Share is a ratio that indicates how much profit the investor or shareholder earned per share. A large Earning Per Share are indicates a larger company's ability to generate net profits from each share/stocks. The increase in Earning Per Share shown that the company has succeeded in increasing the level of prosperity of investors and this will encourage investors to increase the amount of capital invested in the company. The purpose in calculating earnings per share is to reveal the

progress of the company's success in determining profits for shareholders and also as an assessment of the share price that will be selected as an investment option (Fakhrudin, 2018).

Dividend Payout Ratio or dividend policy is an indicator of the company's policy in dividing its profits in the form of dividends. Dividends are part of the profits or benefits that are distributed to shareholders in a certain percentage. The financial percentage can be determined from the results of the General Meeting of Shareholders (GMS). The scale used is a ratio scale. Any other profits that are not shared will be reinvested in the company. Dividend policy is an inseparable part of company's funding decisions. Dividend policy is a decision whether the profits earned by the company at the end of the year will be distributed to shareholders in the form of dividends or will be retained to increase capital in order to financing the investment in the future (Sartono, 2015).

Stocks are one of the most sought after capital market instruments by investors because they are able to provide a high rate of return. Shares are papers that clearly state the nominal value, company name, and are followed by rights and obligations that have been explained to each holder (Fahmi, 2020). Investment is an investment for one or more assets owned and usually for a long period of time in the hope of getting profits in the future. A share states that the owner or shareholder is a partial owner of the company (Hartono, 2017). A share states that the shareholder is also a shareholder of the company, so the investor who buys the shares is also the owner or shareholder of the company. Meanwhile, the other definition of shares is proof of ownership of the assets of the company that issued the shares. By owning shares of a company, investors will have rights to the company's income and wealth, after deducting the payment of all company obligations (Tandelilin, 2017).

Theoretically reasonable economic conditions, the stocks price index is always above its base price. But it can also happen in an economy that is experiencing a depression, the stock price goes down below its base price, or the stock price index is below 100. Changes in the index number are influenced by so many factors, especially economic conditions in that country and globally that affect investor behavior towards the stock exchange. This will impact to the transactions in the capital market and will affecting an individual share prices. The stock price index is in charge of recording how big the changes in market prices are (Sunariyah, 2011). The composite stock price index of all shares describes a series of historical information regarding the movement of the combined share price from all shares up to a certain date. Usually the stock price movements are presented every day based on the closing price on the stock exchange per day. The index would be presented for a certain period. The composite stock price index reflects a value that serves as a measurement of the performance from joint stock in the stock exchange (Sjahrial, 2019).

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gap on stock prices. In addition, there are also variable from dividend policy that is capable to strengthen the mediate from the influence of Earning Per Share on stock prices.

The Investors in funding their capitals need a variety of useful information to predict the results of their investments in the capital market. There are two types of information that can be used by investors, namely technical information and fundamental information. Investors should check and analyze the type of investment that will be chosen because there are many types of investment. They also need to ensure that they chooses the correct type of investment that can bring profitable results in the future before investing in stocks (Riwayati et al., 2022).

Referring to the theoretical research and the results from previous studies that have been described previously, so that several hypothesis formulations are proposed. The hypothesis from the analysis of the affect of earnings per share which mediated by dividend policy on stock prices of banking companies in the Group 4 banking during research period could be drawn as follows:

H<sub>1</sub>: Earning per share has a significant positive affect on stock prices.

H<sub>2</sub>: Earning per share has a significant positive affect on dividend policy.

H<sub>3</sub>: Dividend policy has a positive affect on stock prices.

H<sub>4</sub>: Earnings per share mediated by the dividend policy has a significant positive effect on stock prices.

### 3. Methods

This research type were included in quantitative associative research. According to Sugiyono (2022), quantitative associative research are the research that aims to determine the correlations between two or more variables.

Table 1. Variable Operationalization

Variable	Variable Concept	Scale	Measure
Earning Per Share	Describe the amount of net profit ready company shared to shareholders company.	Ratio	$EPS = \frac{\text{Net profit}}{\text{Outstanding share}}$
Dividen Payout Ratio	Describe the amount withtainable Profit as a source funding and show percentage old company that paid to the stock holders in cash	Ratio	$DPR = \frac{\text{Dividen per share}}{\text{Earning per share}}$
Stock Price	A price that applies to a stock that is usually determined by actors on the exchange or capital market at a certain time.	Rupiah	Average monthly stock price listed in IDX's Group 4 Banking Company Performance Summary

Source: Researcher

There is one independent variable which examined in this study, namely earnings per share and one dependent variable, namely stock prices, while the mediating variable is dividend policy (dividend payout ratio). The purpose of this research is to examine the hypothesis and explain the direct affect

which causing from the earning per share variable on stock prices and its indirect effect from the earning per share variable towards stock prices. The type of data used in this study is secondary data in the form of annual financial reports published by the company during the period 2017-2022. The data is sourced from the official website of the Indonesia Stock Exchange (IDX) and the official website of each company.

Based on theoretical research and strengthened by the results from previous research, it is suspected that the factors that influence stock prices are Price Book Value, Dividend Payout Ratio (DPR) and Earning Per Share (EPS). As could be drawn in this research framework in Figure 1.

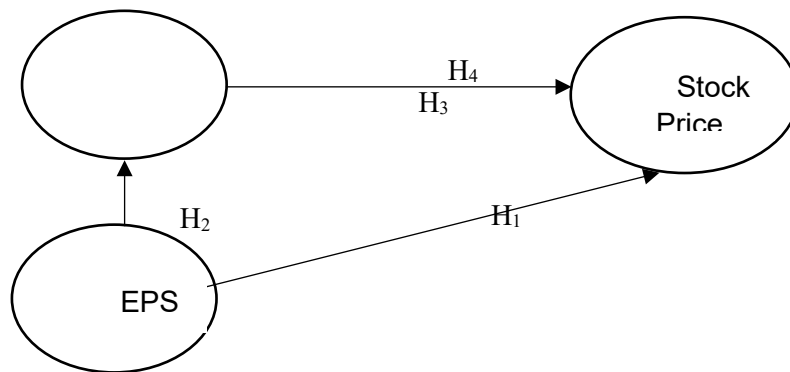


Fig. 1: Research Framework

The population in this research are includes Group 4 banking companies traded on the Indonesia Stock Exchange (IDX) during the period 2017-2022. Not all of the population in this research were became the object, so it was necessary to take samples. The sampling method that used are purposive sampling method, namely the deliberate sampling according to its purpose. The goal is that this researchers get a sample according to what the researcher wants, so that it would make it easier to do. The sample selection was based on the sample criteria in Table 2.

Table 2. Sample Criteria

No.	Criteria	Number of Companies
1.	Group 4 banking companies that have been traded from 2017-2022 and were listed on the Indonesia Stock Exchange.	10
2.	Group 4 banking companies that distribute dividends during 2017- 2022.	6
3.	Goup 4 banking companies that did not experienced lost money during this observation year.	6

Source: Researcher

Referring to the sample criteria, 6 (six) of banking companies were obtained from the Group 4 banking business group. During the period of 2017-2022, 108 sample data were obtained for the examination. The correlation between the research variables in this study indicates a complex and tiered causal relationship. These relationship involves the dependent variable, namely stock prices; The independent variables are earnings per share, and dividend policy as a mediating variable.

The problems which has the similar characteristics of a tiered relationship and can be use as technical analysis using equations with the structural equation modeling (SEM) method. Structural

Equation Model (SEM) is a combination of two separate statistical methods, namely factor analysis (factory analysis) developed in psychology and psychometrics and simultaneous equation modeling (simultaneous equation modeling) developed in econometrics (Ghozali, 2017). According to Ghozali (2017), the Structural Equation Model (SEM) can be used to analyze research models with several independent and dependent variables and intervening variables. The results of testing the feasibility of the research model indicate that this model is in accordance with the data or fit to the data used in the study.

The AMOS version 24 application program was applied in order to assist in analyzing the data used in this research. The structural model to be tested to answer the hypothesis is formulated as follows:

$$\text{Sub Structure 1: } DPR = \alpha + \beta_1 X_1 + \varepsilon_1 \dots \dots \dots (1)$$

$$\text{Sub Structure 2: } \text{Stock Price} = \alpha + \beta_2 X_1 + \beta_3 X_2 + \varepsilon_2 \dots \dots \dots (2)$$

#### 4. Results and Discussion

As information relates to the characteristics of the research variables, the descriptive statistical tests were carried out. Descriptive statistics are focused on the maximum, minimum, mean (mean) and standard deviation values. The descriptive statistics in this research are presented in Table 3.

Table 3. The Descriptive Statistics of Research Variables

Variabel	Mean	St. Dev	Minimum	Maximum
EPS	483.49.00	343.47.00	80	1159
DPR	00.38	0.10972	0.019	0.45486
SP	5469.98	3747.29.00	708.25.00	19614.58

Source: Output AMOS

The average value of Earning Per Share in Group 4 banking companies on the Indonesia Stock Exchange in 2017 - 2022 is 483.49 and the standard deviation is 343.47 where the standard deviation value is smaller than the average value. This condition shows that there are no large fluctuations in Earning Per Share in the Group 4 of banking companies listed on the Indonesia Stock Exchange as samples. Table 2 shows the lowest Earning Per Share value of 80 and the highest value of 1159. This shows that most of the BUKU 4 group banking companies listed on the Indonesia Stock Exchange have above average Earning Per Share values and have good performance.

Dividend Payout Ratio is a decision made by the company to determine how much profit is distributed in the form of dividends or kept by the company as retained earnings. In Table 2 it can be seen that the average value of the Dividend Payout Ratio in banking companies in the Group 4 banking for the 2017-2022 period is 0.38 (38 percent) and the standard deviation is 0.158 (15.8 percent) where the standard deviation value is smaller than the average value. This condition shows that there is no large fluctuation in the dividend payout ratio in the Group 4 of banking companies listed on the Indonesia Stock Exchange. The lowest dividend payout ratio value is 0.019 (1.9 percent) and the highest value is 0.655 (65.5 percent). This shows that most companies have a dividend payout ratio value above the average.

The stock price is a price that applies to a stock which is usually determined by the actors on the stock exchange or capital market at a certain time. In Table 2 it can be seen that the average value of stock prices in banking companies in the Group 4 on the Indonesia Stock Exchange during period 2017-2022 is Rp 5469.98 and the standard deviation is Rp 3747.29 The standard deviation value is smaller than the mean value. This condition shows that there are no large stock price fluctuations in Group 4

banking companies in Indonesia. The lowest share price is Rp 708.25 and the highest is Rp19614.58. This shows that most of the Group 4 banking companies listed on the Indonesia Stock Exchange have above average stock price

Analysis of the data used in this study is the Structural Equation Model (SEM). Structural Equation Model (SEM) is a combination of two separate statistical methods, namely factor analysis (factory analysis) developed in psychology and psychometrics and simultaneous equation modeling (simultaneous equation modeling) developed in econometrics (Ghozali, 2017). According to Ghozali (2017), the Structural Equation Model (SEM) can be used to analyze research models with several independent and dependent variables and intervening variables. The results of testing the feasibility of the research model indicate that this model is in accordance with the data or fit to the data used in the study.

Table 4 is the result of the model's feasibility test, the evaluation of the model using eight indicators consisting of: chi-square, CMIN, CMIN/DF, CFI, RMSEA, TLI, NFI, and PNFI. The test results show that there are five indicators that have met the set cut of value, and there are three indicators that are declared not to meet, namely RMSEA, TLI, and PNFI. These results indicate that the model in this study is feasible for further testing.

Table 4. Evaluation of the Goodness of Fit Index Full Structural Model

<b>Goodness of Fit Index</b>	<b>Cut-off Value</b>	<b>Analysis Results</b>	<b>Model Evaluations</b>
Chi-square (df = 1)	Mendekati 0	0	Marginal Fit
CMIN	≤ 2.00	0	Good Fit
CMIN/DF	≤ 5.00	0	Good Fit
CFI	> 0.90	1	Perfect Fit
RMSEA	≤ 0.08	0,31	Poor Fit
TLI	> 0.90	0	Poor Fit
NFI	≥ 0,90	1	Good Fit
PNFI	0 - 1	0	Poor Fit

Source: Output AMOS

The next stage is testing the hypothesis of the direct effect of earnings per share on stock prices and dividend payout ratios. As well as testing the direct effect of dividend payout ratio on stock prices. The indicator to determine whether the effect is significant or not can be seen from column P which is the p-value, compared to the significance level of alpha = 0.05.

Table 5. Parameter Estimation of Full Regression Weight Model

<b>Variabel</b>	<b>Standardized</b>		<b>Regression Weights</b>		
	<b>Est.</b>	<b>Est.</b>	<b>S.E.</b>	<b>C.R.</b>	<b>P</b>
EPS → HS	0,3708	5,843	1,61	3,629	***
EPS → DPR	-0,213	0	0	-1,29	0,197
DPR → HS	0,1236	4202,5	3484,1	1,206	0,228

Source: Output AMOS

Table 5 shows the regression coefficient values, namely unstandardized and standardized. The critical value (CR) is the same value as the t value in the OLS regression and P is the probability level

of significance with \*\*\* meaning by default significant at 0.05. It can be seen in Table 5, Earning Per Share has a significant positive effect on stock prices with a standardized coefficient of 0.3708 with a p-value of 0.000 which is smaller than 0.05. These results indicate that hypothesis 1 ( $H_1$ ) is accepted. The higher the earnings per share of a company, the higher the share price of the company. In this study, the results obtained that Earning Per Share has a significant positive effect on stock prices. This shows that each company increasing net profit will increase the stock price of banking companies in the Group 4 banking listed on the Indonesia Stock Exchange. The company is able to increase the profits of investors so as to encourage investors to increase the capital invested in the company. The higher the Earning Per Share value, the higher the profit provided to shareholders. The results of this study are in accordance with the results of research conducted by Zakaria (2021); Amaliyah et. al. (2017); Cahyaningrum & Antikasari (2017); Ariyani et al. (2018); Fajrian & Sumawidjaja (2018); Prayogo & Lestari (2018); Wibowo & Sukoco (2019); Riwayati & Aviliani (2022). This is different from the research conducted by Alfiah & Lestariningsih (2017); Wibowo et. al., (2018), which show that Earning Per Share has no effect on stock prices.

The effect of Earning Per Share on the Dividend Payout Ratio obtained a standardized coefficient value of -0.213 with a p-value of 0.197 greater than 0.05, so hypothesis 2 ( $H_2$ ) is rejected. These results indicate that Earning Per Share has no effect on the Dividend Payout Ratio. The fluctuation in Earning Per Share at Group 4 banking does not affect the dividend policy of the bank. Any increase in profit generated by the company does not affect the dividend policy of the Group 4 banking companies in Indonesia. A large Earning Per Share indicates a larger company's ability to generate net profits from each share. The higher the value of the company's Earning Per Share, the higher the profit provided to shareholders. In Group 4 banking groups in Indonesia, this condition cannot affect the amount of dividends distributed by the company. This is because the company's profits can be played back as capital to develop the company rather than being distributed to shareholders. These findings suggest that investors in Category 4 Indonesian banks prioritize earnings performance over dividend payouts when making investment decisions. These results suggest that investors in Category 4 Indonesian banks place greater emphasis on earnings performance than dividend payouts when making investment decisions. This could be attributed to investors' perceptions that reinvesting earnings may be more beneficial for long-term growth and profitability in the banking sector, rather than distributing dividends. The results of this study are in accordance with the results of research conducted by Lestari & Susetyo (2020) which states that Earning Per Share has no significant effect on dividend policy. In contrast to the research results of Hartanti et. al. (2019) which states that Earning Per Share has a significant positive effect on dividend policy.

The results of testing the effect of the Dividend Payout Ratio on stock prices obtained a standardized coefficient value of 0.1236 at a p-value of 0.228 greater than 0.05. The test results can be interpreted that hypothesis 3 ( $H_3$ ) is rejected, which means that the Dividend Payout Ratio has no effect on stock prices. The dividend policy of Group 4 banks in Indonesia cannot influence the stock prices of BUKU 4 banking companies. This shows that the amount of dividends set by a company cannot affect the stock prices of Group 4 bank companies in Indonesia. Investors in Indonesia believe in Group 4 banks so they do not pay attention to the dividend that will be distributed. Thus, whatever dividends are distributed does not affect the stock price. These findings suggest that investors in Category 4 Indonesian banks prioritize earnings performance over dividend payouts when making investment decisions. The results of this study are different from the results of research by Rahmadewi & Abundanti (2018) which states that dividend policy has a significant positive effect on stock prices. Likewise with the results of research from Zakaria (2021), which states that dividend policy has a significant negative effect on stock prices.

Tests on the ability of dividend policy to mediate the effect of earnings per share on stock prices (hypothesis 4), in this study using the path analysis test in Table 6. The results of the path analysis coefficient from the structural equation can measure the magnitude of the direct and indirect effect of the variable earnings per share, dividends payout ratio and stock price.

Table 6. Coefficient Value of Direct Effect, Indirect Effect and Total Effect

Variable			Total Effect	Indirect Effect	Direct Effect
EPS	→	HS	5,429	-0,414	5,843
EPS	→	DPR	0	0	0
DPR	→	HS	4202,52	0	4202,52

Source: Output AMOS

Indirect effect means the influence of an independent variable on the dependent variable through the intervening variable. While the total influence is the result of the sum of direct and indirect effects. Table 6 shows the indirect effect of Earning Per Share on Stock Prices through the Dividend Payout Ratio. In this study, the Dividend Payout Ratio acts as an intervening variable.

Based on Table 6, it can be explained that the direct effect of earnings per share on stock prices is 5.843 while the indirect effect is -0.414. These results indicate that there is no direct and indirect effect of earnings per share on stock prices. The coefficient value of the effect of earning per share directly or indirectly on the dividend payout ratio is 0.000. This means that earnings per share directly or indirectly have no effect on the dividend payout ratio. The coefficient value of the direct effect of dividend payout ratio on stock prices is 4202.52 while the indirect effect is 0.000. This value indicates that there is a direct effect between the two variables but no indirect effect. Judging from the value of the total effect of the influence of the dividend payout ratio variable on the stock price of 4202.52. Based on these results, it can be stated that the direct effect of earnings per share on stock prices is greater than the indirect effect through the dividend payout ratio. This shows that the dividend payout ratio is not able to mediate the effect of earnings per share on stock prices. Thus, hypothesis 4 (H<sub>4</sub>) is rejected.

This result contributes to the understanding of the determinants of stock prices in the Indonesian banking sector. It provides insights for investors and bank management regarding the relative importance of EPS and dividend policy in influencing stock valuations.

## 5. Conclusion

This study investigated the influence of earnings per share (EPS) on stock prices and the potential mediating role of dividend policy in the context of Indonesia's Category 4 commercial banks. The findings reveal that EPS has a significant positive effect on stock prices, highlighting the importance of earnings performance in driving stock valuations in this sector. However, EPS did not significantly impact dividend policy, and dividend policy itself did not mediate the relationship between EPS and stock prices.

These results suggest that investors in Category 4 Indonesian banks place greater emphasis on earnings performance than dividend payouts when making investment decisions. This could be attributed to investors' perceptions that reinvesting earnings may be more beneficial for long-term growth and profitability in the banking sector, rather than distributing dividends.

The study contributes to the existing literature by providing empirical evidence on the determinants of stock prices in the Indonesian banking sector, specifically for Category 4 commercial banks. It highlights the relative importance of EPS over dividend policy in influencing stock valuations, which has implications for bank management and investment strategies.

However, it is important to acknowledge the limitations of the study, such as the focus on a specific category of banks and the relatively short time period examined. Future research could expand the scope to include other categories of banks or extend the time frame to capture potential long-term effects. Additionally, incorporating other potential determinants of stock prices, such as macroeconomic factors or bank-specific characteristics, could provide a more comprehensive understanding of the drivers of stock valuations in the Indonesian banking sector.

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