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The Effect of Profitability and Leverage on Stock Return Rate Mediated by Dividend Policy (Empirical Study of Banks and Financial Institutions Listed on the Indonesia Stock Exchange)

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ABSTRACT

This study aims to examine the effect of profitability and leverage on stock returns with dividend policy as a mediating variable in banking sector companies and financial institutions listed on the Indonesia Stock Exchange (IDX). Profitability is measured using Return on Equity (ROE) and leverage is measured through Debt to Equity Ratio (DER). This study uses a quantitative approach with the path analysis method to identify direct and indirect relationships between variables. The data used is secondary data from the company's annual financial statements for the period 2016-2022. The results show that profitability has a significant positive influence on the rate of return on stocks, while leverage has no significant effect on the rate of return on stocks. Profitability also has a significant effect on dividend policy, indicating that the higher the profitability, the greater the dividend distributed. Conversely, leverage has a significant influence on dividend policy, which indicates that companies with high levels of leverage tend to distribute larger dividends. However, the dividend policy does not have a significant influence on the rate of return on shares. In addition, neither profitability nor leverage had a significant effect on the rate of return on shares through dividend policy mediation. This research makes a theoretical contribution by enriching the literature related to the influence of financial factors on stock performance. Practically, the results of this study are expected to provide insight to investors in making investment decisions by considering profitability and dividend policy as the main indicators.

INTRODUCTION

Investment is quite an interesting thing to discuss today. Awareness of the usefulness of investment in the future has made many people start to learn about the importance of investing. According to OJK data in 2019, only 38% of Indonesians understand financial literacy. This is because public education is still low and access to financial institutions is difficult. According to data from BPS, currently there are 190 million Indonesians who are included in the productive age category out of a total of 279 million Indonesians. The productive age in question is 15-64 years old. Of the 279 million people in Indonesia, only 13 million people are stock investors and already have a *single investor identification* (SID). From this data, public interest in stock investment is still quite low.

In practice in society, investment is not only in the form of stocks. Investments can be classified in several aspects. In general, investments can be classified based on time frame and assets. Based on the time period, there are long-term and short-term investments. However, based on assets, investments can be divided into stocks, bonds, mutual funds, property, commodities and time deposits. However, regardless of the form of investment, there is a risk of loss in it which is directly proportional to the rate of return. For investments that have a high rate of return, but also high risk are stocks and stock mutual funds. Meanwhile, bonds are investments with moderate rates of return and risk. Meanwhile, like deposits and money market mutual funds, it is a type of investment with a low rate of return and risk.

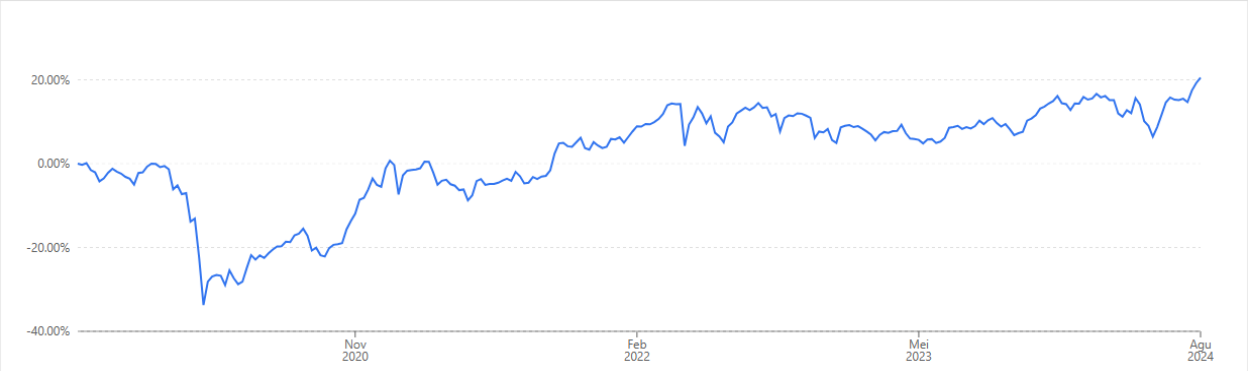
Investors are in principle looking for *high returns* by minimizing risk. In stock investment instruments, the rate of return can be seen from how many dividends are received each year plus capital *gains* from the stock. The dividend distribution in each company depends on several things such as the company's financial performance, external conditions, the company's liquidity reserves to the company's *leverage conditions.* The company's financial performance can be seen from many aspects, such as the comparative value of profitability, *leverage*, and liquidity. A company's financial performance is a reflection of how the company manages its resources and

operational activities to achieve its financial goals. By analyzing financial statements, financial ratios, trends, and market indicators, companies can evaluate their strengths and weaknesses, as well as make informed strategic decisions for the future. Investors and other stakeholders also use this metric to assess a company's growth potential and profitability. The better the company's financial ratio, the more it should make the company distribute dividends.

Capital gains are also the *returns* desired by investors. *Capital gains* can be calculated by subtracting the current stock price by the previous year's stock price. There are several factors that affect the increase in stock prices, such as the company's financial condition, the company's growth prospects, market and investor sentiment, and the external conditions of the industry. *Stock returns* will be high if *capital gains* and dividend payments are also high.

Stocks are one of several types of investments that are easy to obtain, buy, and sell. The Jakarta Composite Stock Price Index (JCI) regulates stock investment in Indonesia. JCI (Composite Stock Price Index) is a stock market index that measures the overall performance of stocks traded on the Indonesia Stock Exchange (IDX). This index is a measure of how stock prices in the Indonesian capital market as a whole change. JCI is lowered using the market capitalization value of stocks listed on the IDX, so that changes in JCI can provide a broad picture of the trend of the Indonesian stock market, whether it is rising (bullish) or declining (*bearish*). The following is a table of JCI fluctuations from 2019 to 2024.

JCI Movement Table 2019-2024



The stock exchange in Indonesia is the Indonesia Stock Exchange (IDX) with a www.idx.co.id portal. In the portal, all shares of domestic companies that have IPOs are sold. IPO or *Initial Public Offering* is the process by which a company's shares are sold to the public for the first time. By conducting an IPO, the status of the company, which was initially private, changed to public. This move allows companies to raise capital from public investors to fund expansion, pay off debt, or other needs. To date, there are 936 issuers listed on the IDX, with 11 sector classifications as follows:

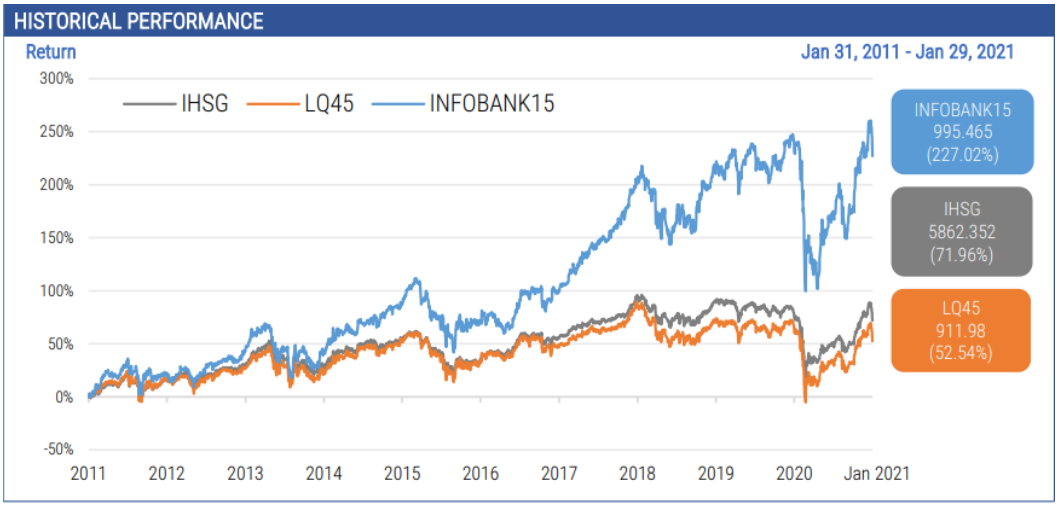
Table 1. Classification of Business Sectors on the IDX

No	Sector Classification	Number of Issuers
1	Health	34
2	Base material	108
3	Finance	104
4	Transportation and logistics	37
5	Technology	47
6	Non-cyclical consumers	129
7	Industry	66
8	Energy	87
9	Consumer cycle	163
10	Infrastructure	69
11	Property and real estate	92
	TOTAL	**936**

Of the 11 sector classifications on the IDX, one of the interesting sectors is the financial sector which amounted to 104 issuers or 11% of the total issuers on the IDX. This is because the financial sector has a vital role in the economy because it is a financial mediator and a driver of economic growth. A healthy and efficient financial sector supports economic growth by providing businesses and consumers with access to capital. Financial sector conditions are often an important policy-making tool for central banks and governments. And currently the financial sector is the sector that follows the most digital developments, with the existence of digital banks and digital financial services. The financial sector consists of issuers in the form of banks, financing institutions (*leasing*), insurance, and securities companies. One of the indices on the IDX related to the financial sector is the infobank15 index. The Infobank 15 Index is an index where measurement is based on price performance against 15 banking stocks that have strong fundamentals and high trading liquidity. This index was introduced and

managed in collaboration with PT Info Artha Pratama, which is the publisher of Infobank Magazine. (source: idx.co.id). The following are the movements of the infobank 15 index from 2011 to 2021:

Table 2. Movement of Infobank15 Index 2011-2021



Based on the table above, the infobank 15 index has fluctuated from 2015 to 2021. Compared to the JCI, the infobank 15 index is seen above the average JCI from 2011 to 2021. In 2020 the index decreased due to the Covid19 pandemic, but it was still higher than the JCI and LQ45 index. The financial sector, especially banks and financing institutions, has been quite resilient during the Covid19 pandemic. The above explanation is the basis for conducting research on the financial sector, especially banks and financial institutions.

The rate of return on shares can be analyzed using the company's financial performance. The profitability ratio and *leverage* are two measures of a company's financial success. Brigham believes that profitability is an important component in determining the financial health and operational performance of a company. Brigham emphasized that profitability is more than just making money, it is also about managing resources effectively and efficiently to create value for shareholders. Meanwhile, *leverage* allows business owners to use borrowed capital (debt) as an additional asset of the company, such as a source of financing, to generate or increase the company's revenue. (Makhija & Trivedi, 2021)found that profitability (ROA and ROE) and *leverage* (DER) affected the overall rate of shareholder return in Indian non-financial companies in the Nifty Midcap index between 2012 and 2019. However, according to research by (Hertina & Saudi, 2019)profitability has no effect on the rate of return on shares, but *leverage* has an effect on the rate of return on shares in the *real estate sector*. According to the findings of (Musallam, 2018)profitability (ROE) and *leverage* have a insignificant effect on the rate of return on shares in manufacturing companies.

Dividend policy is one of the elements that affects stock *returns* and is directly proportional to it. Meanwhile, the company's financial position provides an overview of its dividend policy. If the company's finances are in good condition, then the dividends distributed will be more. Research by (Angelia & Toni, 2020)) shows that profitability and *leverage* affect dividend policies in manufacturing organizations. (Pattiruhu & Paais, 2020)research on real estate companies found that the value of profitability has no effect on dividend policy, even though the value of *leverage* has an effect. According to the findings of (Angelia & Toni, 2020)) and (Pattiruhu & Paais, 2020), there are still variations in profitability and *leverage* in dividend policies.

Based on the results of previous research that there are still inconsistencies and different research objects, so there are still *gap research* which allows for re-research. However, in this study, dividend policy variables will be added to be variables that mediate profitability and *leverage* to the rate of return on shares. The dividend policy variable was chosen to be mediated because with profitability and *leverage* which is good, it is considered to affect the dividend policy of a company, where the company's dividend policy taken will affect the rate of return on the company's shares. Thus *Novelty* What can be proposed from this research is to test the influence of profitability and *leverage* against the rate of return on shares mediated by dividend policy. This study uses *Theory Portfolio* ((Markowitz, 1952)as a reference. Portfolio theory uses several basic statistical measurements to design an investment plan, including *expected return* (expected returns), Standard deviation (to measure risk on both individual securities and portfolios as a whole), as well as correlations between *return.* This theory integrates two main elements in investing, namely *return* and risk. Risk can be minimized by diversifying, namely by combining different investment instruments in one portfolio. In this way, investors can reduce the potential losses that may occur on one type of investment, while maximizing *return* overall ((Hartono & Nugrahanti, 2014)). In addition to portfolio theory, signal theory is also used in this study. According to (Saputro & Hartono, 2017)), signal theory states that events that contain certain information will provide positive or negative clues (signals) for investors in making investment decisions. This theory assumes that investors make decisions based on the information they receive, both transparent and hidden, that leads to their investment behavior. In other words, the signals received can influence investors' perceptions and decisions, such as when it comes to assessing a company's performance

or prospects. *Trade off theory* (1963) is also used to explain the capital structure by determining the balance between the benefits and costs incurred from debt policy. In addition to the three theories mentioned above, the bird in hand theory is also used which focuses on investors' preferences for dividends compared to potential future capital gains.

The object of this research is 63 issuers in the special financial sector of banks and financial institutions (*leasing*). The selection of research objects for banks and financial institutions is because the two sectors have many similarities in business processes and financial ratios. In addition, banks and financial institutions have high *leverage* because the business model of banks and financial institutions inherently relies on the use of borrowed funds (from depositors or investors) to generate income. The years chosen for this study are from 2016 to 2022, excluding 2020 and 2021 due to the Covid19 pandemic in those years.

According to (Priatna, 2016)), there are 8 company objectives in using Debt to Equity Ratio (DER), namely:

1. Assessing the company's position regarding obligations that must be met to creditors.
2. Assessing the ability to meet a company's fixed obligations, such as loan installments and interest
3. Assessing the balance between asset value, especially fixed assets, and company capital.
4. Assessing the extent to which company assets are financed by debt.
5. Assessing the effect of debt on the management of company assets.
6. Assessing how much of each rupiah of equity is used as collateral for long-term debt.
7. Assessing the amount of loan funds that will soon mature and the extent to which equity can cover these obligations.
8. Other objectives related to the company's financial analysis.

Despite extensive research on the influence of financial ratios such as profitability and leverage on stock returns, there remains a gap in understanding the mediating role of dividend policy in the financial sector. Previous studies have primarily focused on either direct relationships or industry-specific contexts, leaving limited insights into how dividend policies function as mediators, particularly in banking and financial institutions. Additionally, the exclusion of pandemic-affected years from existing research has hindered a comprehensive analysis of financial performance during volatile economic periods.

This study uniquely integrates dividend policy as a mediating variable between profitability, leverage, and stock returns within the banking and financial sector. It employs a robust dataset spanning from 2016 to 2022 while excluding pandemic years to isolate non-recurring economic impacts. By adopting theories such as portfolio theory and signaling theory, this research provides a nuanced understanding of how financial metrics influence stock performance, offering fresh insights tailored to the characteristics of the Indonesian financial market.

The primary objective of this research is to evaluate the direct and mediated relationships between profitability, leverage, and stock returns with dividend policy in the banking and financial sector. The study aims to provide theoretical contributions by enriching the literature on financial performance and dividend policy interactions. Practically, it offers actionable insights for investors to make informed decisions and for financial institutions to optimize dividend strategies, thereby enhancing shareholder value and improving market confidence in the sector.

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METHOD

This study aims to test and explain the significant influence between profitability and leverage on stock returns and dividend policies in banking companies and financial institutions listed on the Indonesia Stock Exchange (IDX). The details of the specific objectives of this study include testing the effect of profitability on stock returns and dividend policies, as well as the effect of leverage on stock returns and dividend policies. In addition, the study also explores how dividend policy can mediate the relationship between profitability and leverage on

stock returns. Thus, this study seeks to provide a comprehensive picture of the relationship between the main financial factors that affect the performance of stocks in the banking sector and financial institutions.

This research has two main benefits, namely theoretical and practical benefits. From a theoretical perspective, the results of the study are expected to be a reference for future studies related to the influence of profitability and leverage on stock returns mediated by dividend policy. With this finding, it is hoped that it can provide comparison and enrichment of literature in the realm of finance and investment. Meanwhile, from a practical perspective, this research is expected to provide insight to investors and potential investors in making investment decisions. Understanding the influence of profitability, leverage, and dividend policies on stock returns can be the basis for consideration in choosing stocks of banking companies and financial institutions that have better profit potential. This will help investors in mitigating risks and maximizing profits from the investments made.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

The descriptive statistical test provides detailed information about the data, including mean values, standard deviations, variances, maximum and minimum values, total, range, kurtosis, and skewness (Ferina & Nurcahaya, 2014) Before proceeding with additional analysis to test the hypothesis, a descriptive statistical analysis was carried out to explain the sample data. Table 5.1 displays the descriptive statistics for the variables used in the panel data model in this study.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Median	Standard Deviation
Profitability	80	.0047	.65	.0970	.0783	.10282
Leverage	80	.14	24.00	5.4708	4.9110	4.24145
Dividend Policy	80	.0027	2.81	.3899	.3159	.42132
Return on Stock	80	-.48	4.22	.1995	.0246	.65134

Source: processed data (2024)

Profitability measured using *Return on Equity* (ROE) shows that the average ROE is 9.7%. This means that the average rate of return generated from the company's capital is 9.7%. During the five-year period, the lowest ROE was recorded at 0.47% from the issuer PT Bank Bumi Artha (BNBA) in 2022, while the highest ROE was recorded at 65% from the issuer PT Bank Negara Indonesia (BBNI) in 2016. The median value for profitability is 7.8%, which indicates a significant difference between the ROE of bank companies and financing institutions, based on maximum, minimum, and average values.

The average *Debt to Equity Ratio* (DER) is 547%, which means that the company's total debt is 5.47 times the total capital. The lowest DER was recorded at 14% by PT Panin Financial Tbk in 2022, while the highest was 2400% by PT Bank Negara Indonesia (Persero) Tbk in 2017. Although there is a large variation between the minimum and maximum values, the median score of 491% is proportional to the average value of 547%.

The dividend policy assessed by *the Dividend Payout Ratio* (DPR) shows a minimum value of 0.27% from PT Bank Danamon Indonesia (Tbk) in 2022, and a maximum value of 281% from PT Bank Tabungan Negara Tbk in 2018. the average DPR is 38.99%, which means that issuers usually distribute almost 39% of earnings per share as cash dividends every year. The median of the House of Representatives is 31.59%, not much different from the average.

The share return rate shows a minimum value of -48% from PT Bank Danamon Indonesia (Tbk) in 2018, and a maximum value of 422% from PT Bank Central Asia Tbk in 2016. The average value (mean) for the rate of return on shares is 19.95%, which is calculated by the *formula of capital gain/loss* plus stock *yield* from the 2016-2019 and 2022 periods. The median value for the return on stock was 2.46% of the total 80 samples analyzed.

Inferential Analysis

Inferential analysis is a statistical method for drawing conclusions or generating broad generalizations about a population based on sample data. The main objective of this study is to find out whether the patterns seen in the sample can be generalized to the general population. In this study, inferential analysis begins with classical assumption testing and then continues to model correctness and determination coefficients. This study uses two analysis models, which are as follows:

a. Model 1 : $Z = \alpha + \beta 1X1 + \beta 2X2 + \varepsilon$
   The influence of profitability (X1) and *leverage* (X2) variables on dividend policy (Z).
b. Model 2: $Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3Z + \varepsilon$
   The influence of the variables profitability (X1), *leverage* (X2), and dividend policy (Z) on the rate of return on shares (Y).

Normality Test

The normality test ensures that the confounding or residual variables in the regression model have a normal distribution as shown by the shape of the line pattern on the histogram graph. The results of the classical assumption test, model accuracy test, and determination coefficient below show the feasibility of the two models used in this study.

Normality Test Results

Information	Model 1	Model 2
Average	0.00	0.00
Standard Deviation	0.16875730	0.32955711
Absolute Value	0.104	0.082
Positive	0.104	0.082
Negative	-0.074	-0.054
Statistical tests	0.104	0.082
2-tailed	0.200	0.200

Source: processed data (2024)

Based on the results of the normality test on both models, model 1 has *a 2-tailed* of 0.2, which is greater than 0.05. This shows that the data on model 1 follows a normal distribution. Similarly, in model 2, the *2-tailed value* is 0.2 which is greater than 0.05, indicating that the data distribution is normal.

Multicollinearity Test

The multicollinearity test is a regression analysis tool that identifies significant relationships between independent variables (predictors) in a regression model. Multicollinearity occurs when two or more independent variables have a very strong relationship that affects the predicted regression coefficient. As a result, the regression coefficient becomes unstable so that the results are less reliable.

Multicoleniaritas Test Results

Information	Variable	Beta	t	Signifikan	Tolerance	BRIGHT
Model 1	Constant		4.343	0.000		
	Profitability	-0.367	-3.206	0.002	0.821	1.217
	Leverage	0.396	3.458	0.001	0.821	1.217
Model 2	Constant	0.314	0.085		3.697	0.001
	Profitability	0.936	0.511	0.298	1.832	0.076
	Leverage	-0.009	0.013	-0.119	-0.682	0.500
	Dividend Policy	-0.238	0.181	-0.229	-1.315	0.198

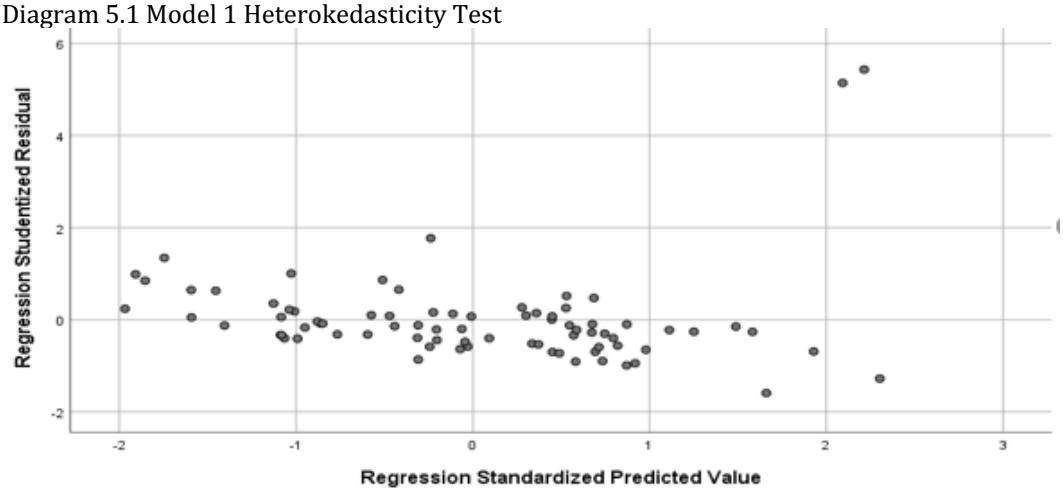
Source: processed data (2024)

Based on the results in Table 5.3, the VIF value for the independent variables (profitability and *leverage*) is 1,217 which indicates a low VIF value. This low VIF number indicates a high tolerance value, so that model 1 is free from multicollinearity problems. Table 5.3 shows the VIF values for profitability, *leverage*, and dividend policy of 1,380, 1,406, and 1,203, respectively. This low VIF value also implies that the model 2 lacks multicollinearity.

Heterokedasticity Test

The heteroscedasticity test determines whether there is a heteroscedasticity problem in the regression model. Heteroscedasticity occurs when the variance of an error or residue does not remain constant at all levels of observation. If this problem arises, the resulting estimates become inefficient, thus affecting the conclusion of the analysis. Scatter plots are a popular visual tool for detecting heteroscedasticity because they can reveal patterns that indicate inconsistencies in residual variances.

Diagram 5.1 Model 1 Heterokedasticity Test

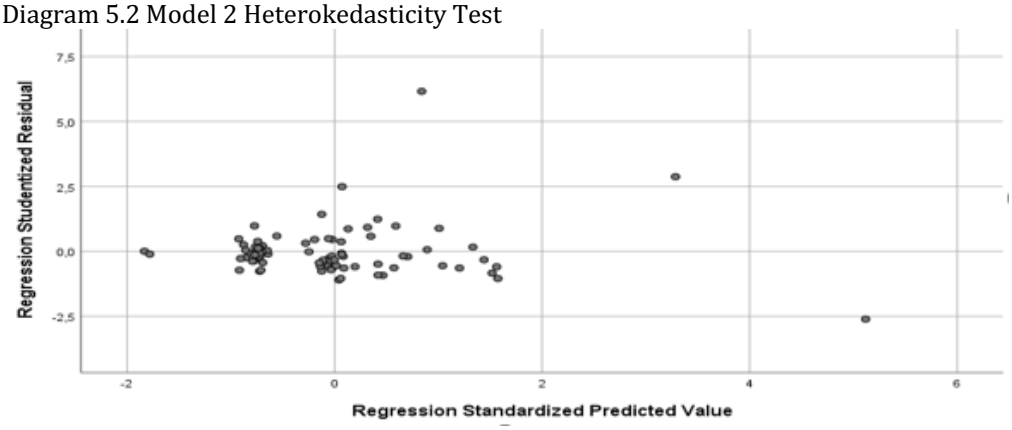


Source: processed data (2024)

Scatterplots that indicate heteroscedasticity usually show specific patterns, such as cone or fan patterns, which indicate that the residual variance changes as the independent variable or prediction value changes. Based

on Figure 5.1, which shows the results of the scatterplot in model 1, there is no specific pattern, which means that there is no heteroscedasticity problem in the model. This indicates that the residual variance is relatively constant across the prediction value range, and the regression model satisfies the assumption of homoscedasticity.

Diagram 5.2 Model 2 Heterokedasticity Test



Source: processed data (2024)

In the diagram 5.2 above, it can be seen that in the equation of model 2, the distribution of data is uneven, which indicates that there is no heterokedasticity in the model.

***Goodness of Fit* (Uji F)**

The model accuracy test, also known as *Goodness of Fit*, determines how well the regression or statistical model fits with current data. The F test is a commonly used method to evaluate the suitability of a model. The F test is used in linear regression analysis to determine whether the independent variable has a significant influence on the dependent variable. The F test for both models used in this study produced the following results:

Table 8. Test Results F

Information		Sum of Squares	df	Mean Square	F	Signifikan
Model 1	Regression	2.370	2	1.185	7.831	0.001b
	Residual	11.653	77	0.151		
	Total	14.023	79			
Model 2	Regression	0.840	3	0.280	3.157	0.036b
	Residue	3.194	76	0.089		
	Total	4.035	79			

Source: processed data (2024)

The significance value provides information about the results of the model accuracy test (Test F). If the significance level is less than 0.05 then the model is considered feasible for use. Based on the results of the testing of the two models, the first model that tests the influence of profitability and *leverage* variables on dividend policy has a significance level of 0.001, which is less than 0.05. Thus, the first model is considered worthy of use. Similarly, the second model that incorporates profitability, *leverage*, and dividend policy variables into *stock returns* has a significance value of 0.036 which is also smaller than 0.05. As a result, the second model is also considered worthy of investigation.

Coefficient of Determination (R^2)

The determination coefficient is a statistical measure that assesses how well the linear regression model is in explaining the variation of bound variables. The R^2 coefficient indicates how much variance of the dependent variable can be explained by the model's independent variable. A higher R^2 value indicates a stronger model's ability to explain data variance.

Coefficient of Determination Results

Information	R	R Square	Adjusted R Square	Error Standards
Model 1	0.411a	0.169	0.147	0.38902
Model 2	0.456a	0.208	0.142	0.29788

Source : processed data (2024)

Path Analysis

Path analysis is a statistical tool to determine the cause-and-effect relationship between variables in a model. This technique develops linear regression by assessing not only the direct correlation between independent and dependent variables, but also the indirect influence caused by the mediating variables. Path analysis allows us to detect and measure the degree and direction of relationships between variables, including direct and indirect impacts.

In this study, based on the two models that have been described earlier, the following are the results of path analysis for model 1 and model 2:

Results of Path Analysis

Information	Variable	B	Error Standards	Beta	t	Signifikan
Model 1	Constant	0.3206	0.0738		4.3426	0.0000
	Profitability	-1.5055	0.4696	-0.3674	3.2057	0.0020
	Leverage	0.0394	0.0114	0.3963	3.4580	0.0009
Model 2	Constant	0.0650	0.1343		0.4837	0.6300
	Profitability	1.8331	0.8152	0.2894	2.2486	0.0274
	Leverage	-0.0027	0.0200	-0.0179	-0.1375	0.8910
	Dividend Policy	-0.0723	0.1858	-0.0468	-0.3893	0.6982

Source: processed data (2024)

The results of the path analysis for model 1 show a significance value for the profitability variable of 0.002 and a *leverage* variable of 0.001. Both figures are smaller than 0.005, indicating a considerable influence of profitability and *leverage* on dividend policy.

In model 2, shown in Table 5.6, it is seen that only the profitability variable significantly affects the rate of return on stocks. In contrast, *leverage* variables and dividend policies do not show a significant influence on the rate of return on stocks.

Sobel Test

The Sobel test is a statistical technique used to test whether the effect of mediation in a model is significant. Mediation occurs when an independent variable influences a dependent variable through a mediator variable. This test is used to find out whether the mediation effect is significant or not. Based on the calculation of the Sobel test for the existing hypothesis, here are the results:

Sobel Test Results

Information	p-value
Profitability (X_1)	0.450
Leverage (X2)	0.408

Source: processed data (2024)

The results of the Sobel test can be seen in the p-value which is a measure of probability in statistics used to determine the significance in the hypothesis test. The P value measures the strength of the evidence against the null hypothesis (H_0), which states that there is no impact or difference between the variables studied. Based on the results of the calculation of the Sobel test, a p-value for the profitability variable (X_1) was obtained of 0.450 and for the *leverage* variable (X2) of 0.408. Because the p-value of the two variables is greater than 0.05, the dividend policy variable (Z) does not significantly moderate the effect of profitability (X1) and *leverage* (X2) on stock *returns*.

Discussion

The Effect of Profitability on Stock Return

The results of hypothesis testing show that profitability has a considerable positive influence on the rate of return on stocks. This validates the first hypothesis, which states that profitability drives the rate of return on stocks, with greater profitability resulting in a higher rate of return on stocks.

The findings are also in line with *signaling theory*, which helps reduce uncertainty and risk in economic decision-making. With the right signals, the less informed party can be more confident in assessing the quality or characteristics of the other party, so that the market can function more efficiently. In investment, companies that are transparent in their financial statements and audited by third parties can provide positive signals related to management and healthy financial condition. In contrast, companies that cover up information or don't have a clear audit tend to be perceived as less trustworthy. This result is also consistent with the research of (Makhija & Trivedi, 2021), which found that profitability (ROA and ROE) has a significant positive effect on the rate of return on stocks.

Effect *of Leverage* on Stock Return

The results of the hypothesis test show that *leverage* has an insignificant negative influence on the rate of return on stocks. These findings do not support the second hypothesis that leverage has a significant positive effect on the rate of return on stocks. A negative direction of influence indicates that increased *leverage* tends to lead to a decrease in the rate of return on stocks.

In this hypothesis, the influence of *leverage* It is not significant to the rate of return on shares. This shows that the rise and fall of *leverage* It has no effect on the rise and fall of stock returns. Bank companies and financial institutions are types of companies that have *leverage* high according to his business. Not necessarily with an increase *leverage*, leading to an increase in the return on shares. Other factors such as the company's growth prospects, macroeconomic conditions, management performance, and product innovation can be more dominant in influencing the rate of return on stocks. The results of this hypothesis are different from the research of (Makhija & Trivedi, 2021)which found a significant positive influence *leverage* to the rate of return on shares. In the

research of (Marindra et al., 2021)), it was also found that *leverage* with proxies *debt to equity ratio* (DER) also has a non-significant effect on the rate of return on shares.

The Effect of Profitability on Dividend Policy

The results of the hypothesis test show that profitability has a considerable negative influence on dividend policy. This research contradicts the third hypothesis which states that profitability has a significant positive effect on dividend policy. The direction of this negative relationship indicates that profitability growth will decrease the dividend distribution ratio.

This finding contradicts the research of (Paais & Pattiruhu, 2020)which found that profitability has a considerable beneficial impact on dividend policy. However, these findings complement the research of (Wahyudi, 2018)) which found a strong negative relationship between profitability and dividend policy, as well as the results of research by (Sari & Hermuningsih, 2020)) which stated that profitability with *Return* on Equity (ROE) proxies is not significant to dividend policy. Profitability indicates the profits earned from the operations of a company, which is usually used to determine the distribution of dividends to shareholders. Rather than distributing dividends, some corporations prefer to invest in business expansion or increase stock prices (*capital gains*). Companies with high levels of profitability may choose to maintain profits to increase the value of their shares, which helps shareholders when they sell their shares.

These findings do not support the *bird-in-the-hand* theory, which states that investors prioritize dividends today over future profits. According to signal theory, dividend decisions may inform the market about the future of the company. Thus, the choice to withhold dividends may indicate management's confidence in the company's future prospects, even if it conflicts with investors' preferences for immediate payments as shown in the *bird-in-the-hand theory*.

Effect of *Leverage* on Dividend Policy

The results of the hypothesis test show that *leverage* has a significant positive influence on dividend policy, which supports the fourth hypothesis about the influence of *leverage* on dividend policy. This positive direction of influence indicates that an increase *in leverage* tends to be followed by an increase in the dividend distribution ratio.

This finding is in line with the research of (Pattiruhu & Paais, 2020)), who also found that *leverage* has a positive effect on dividend policy. Although the effect of *leverage* on dividends is generally negative, dividend payments by highly leveraged companies can be considered a positive signal in the market, indicating management's confidence in future cash flows despite large debt obligations.

Leverage has a significant impact on dividend policy because it affects the company's risk, liquidity, and capital structure. Companies with high *leverage* must meet their debt service obligations, which can limit cash funds for dividends as cash is prioritized to avoid the risk of default.

This hypothesis supports *the bird-in-the-hand theory*, which states that investors tend to prefer dividends on high-risk companies, as dividends provide certainty compared to riskier reinvested returns. However, in the context of high-leverage companies, an increase in dividends can increase the risk of bankruptcy if the company's cash is not enough to meet its debt obligations.

Effect of Dividend Policy on Stock Return Rate

Based on the results of hypothesis testing, the dividend policy has a negligible negative influence on the rate of return on shares. These findings do not support the fifth hypothesis that dividend policy has a significant positive influence on stock returns. This negative consequence shows that an increase in the dividend payout ratio can lower the rate of return on shares.

This finding contradicts previous research conducted by (Musallam, 2018)) and (Amidjaya & Widagdo, 2020)) which found that dividend policy has an effect on stock performance. However, these findings are in line with research by (Wahyudi, 2018)which states that dividend policy has no significant effect on the rate of return on shares.

In general, dividend policies have the potential to affect the rate of return on stocks because dividends are an important part of the total return for investors, apart from stock price appreciation. Dividend policy is often considered a signal regarding the company's financial stability and prospects. If a company maintains or increases dividends amid uncertain economic conditions, this can be a positive indication of strong cash flow and stable future prospects. This decision can increase investor confidence, which in turn can affect the stock price and the overall rate of return on the stock.

The Effect of Profitability on Stock Return Rate is mediated by the Dividend Policy

The results of the hypothesis test show that profitability has an insignificant negative influence on the rate of return on shares due to the dividend policy. Thus, the sixth research hypothesis that profitability has a great positive effect on the rate of return on stocks through dividend policy is rejected. Dividend policies have been proven not to mediate the relationship between profitability and stock returns. This is because the level of profitability has no effect on the number of dividends distributed, as well as the rate of return on shares.

This situation can be explained by the impact of the Covid-19 pandemic, which made many companies withhold dividend distribution to maintain liquidity. Moreover, because the research sample consists of banks and financing institutions, there are policies to ensure liquidity remains stable amid economic uncertainty during

the pandemic. As a result, even though profitability is maintained, the decision not to distribute dividends results in a decrease in the rate of return on shares.

Effect of *Leverage* on Stock Return Rate mediated by Dividend Policy

The results of the hypothesis test show that *leverage* has a negative and insignificant effect on the rate of return on stocks if mediated by dividend policy. Thus, the seventh research hypothesis that the leverage has a considerable beneficial influence on the rate of return of stocks through dividend policy is rejected. The relationship between *leverage* and the rate of return on stocks is not mediated by dividend policy. This happens because the level of *leverage* does not affect the number of dividends distributed, so it does not affect the rate of return on shares.

In this study, the sample consisted of banks and financial institutions that generally have high *leverage*. In the financial industry, the relationship between *leverage* and stock returns tends to be stable and independent of dividend policy. Investors prioritize *capital gains,* an increase in stock value as an indicator of improving the company's financial fundamentals over time, rather than relying on dividends distributed.

CONCLUSION

Based on the results of the analysis, this study concludes that profitability has a significant influence on the rate of return on shares as well as dividend policies in banking companies and financial institutions listed on the Indonesia Stock Exchange (IDX), showing that the higher the profitability, the greater the rate of return on shares and dividend distribution. In contrast, leverage does not have a significant effect on the rate of return on stocks, although it does have a significant influence on dividend policy, which indicates that high leverage is directly proportional to the dividend distribution but does not affect the rate of return on stocks. Dividend policy also does not have a significant influence on the rate of return on shares, which shows that the size of the dividends distributed does not necessarily affect the performance of the stock. In addition, neither profitability nor leverage has a significant influence on the rate of return on shares through the mediation of dividend policy. This study has limitations in the observation period which only lasted for five years and was hampered by the Covid-19 pandemic in 2020-2022, with a limited sample focus on the financial sector, especially banks and financing institutions, as well as research variables that only include profitability, leverage, stock return rate, and dividend policy. Therefore, it is recommended that further research expand the scope of the sample by including companies from other sectors on the IDX and extend the observation period to obtain more comprehensive results.

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