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The Role of Corporate Governance and Financial Performance in Influencing Stock Returns through Dividend Policy: Evidence from the Automotive Subsector in Indonesia (2014–2023)

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ABSTRACT

This study investigates the role of corporate governance and financial performance, as measured by Good Corporate Governance (GCG), Current Ratio (CR), Return on Equity (ROE), and Debt to Equity Ratio (DER), in influencing stock returns, with dividend policy acting as a mediating variable. Using panel data from 12 automotive and component manufacturing firms listed on the Indonesia Stock Exchange over the period 2014 to 2023, the study adopts a quantitative approach, employing panel regression techniques and the Sobel test for mediation analysis. The findings reveal that some of the research variables have a statistically significant and positive effect on stock returns, while one shows no significant direct impact. All the independent variables significantly influence dividend policy, which in turn has a positive and significant effect on stock returns. Furthermore, the mediation analysis confirms that dividend policy significantly mediates the relationship between the research variables and stock returns. These results highlight the important role of dividend policy as a transmission mechanism through which internal company factors affect market performance. The findings support both signaling and agency theories and offer practical implications for corporate managers and investors in aligning governance and financial strategies to maximize shareholder value.

Keywords: Good Corporate Governance; Current Ratio; Return on Equity; Debt to Equity Ratio; Dividend Policy; Stock Return

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INTRODUCTION

In an increasingly dynamic market, corporate governance (GCG) and financial performance play a crucial role in enhancing investor trust and firm value. GCG through transparency, accountability, and fairness can influence stock return directly or signal management quality. In Indonesia, government initiatives such as the KNKG and ASEAN Corporate Governance Scorecard have sought to strengthen governance practices post the 1998 crisis and the COVID-19 shock. However, governance quality across sectors remains uneven, with stock performance not always responding predictably to governance improvements.

Alongside governance, financial metrics such as Current Ratio (CR), Return on Equity (ROE), and Debt to Equity Ratio (DER) provide key indicators of a firm's liquidity, profitability, and capital structure. Yet, empirical findings remain inconsistent, companies with solid financial fundamentals do not always achieve higher stock returns. This suggests the presence of an intervening mechanism, one of which is dividend policy. Dividends can signal financial stability to the market, especially when earnings or governance signals are ambiguous. These relationships are anchored in signaling theory and agency theory, which provide a conceptual framework for understanding how internal financial and governance factors influence investor perception and market performance.

Although Indonesia's automotive-component firms have shown improving trends in governance and liquidity over the past decade, patterns between internal performance and market returns remain inconsistent. For instance, in 2020, GCG and DPR increased, yet ROE fell and stock return declined. Similarly, liquidity rose in 2019 but stock return dropped, while in 2021 liquidity declined yet stock return rebounded. These anomalies indicate that governance and financial fundamentals are not always translated directly into stock value suggesting the possible mediating role of dividend policy.

Previous studies rarely test GCG, CR, ROE, and DER simultaneously with Dividend Payout Ratio (DPR) as an intervening variable in capital-intensive sectors. Thus, this study positions DPR as a potential transmission mechanism that explains when and how internal corporate factors influence stock return. As a mediator, DPR functions as a signaling channel between internal firm conditions and market valuation. Well-governed firms or those with strong financial performance (e.g., high liquidity or profitability) are more likely to distribute dividends, which investors perceive as signals of financial stability and management credibility. This dividend signal, in turn, may enhance investor confidence, drive demand for the firm's stock, and ultimately improve stock returns. By examining both direct and mediated effects over the 2014–2023 period in the automotive and components subsector, this research addresses a key empirical gap and offers new insight into the dynamics between corporate fundamentals, dividend policy, and market valuation.

LITERATURE REVIEW

This study is grounded in two main theories: Signaling Theory and Agency Theory. Signaling Theory (Spence, 1973) suggests that companies use financial signals, such as dividend payments, to reduce information asymmetry between management and investors. Stable and high dividends are typically perceived as positive signals of a company's financial health and future prospects. Meanwhile, Agency Theory (Jensen & Meckling, 1976) highlights the conflict of interest between managers and shareholders, asserting that effective corporate governance (GCG) mechanisms can align managerial actions with shareholder objectives.

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Numerous studies have examined how corporate governance and financial performance influence dividend policy and stock returns. Suparlinah (2020) found that GCG affects returns indirectly through profitability. Similarly, Lestarianti and Sandari (2022) confirmed that strong governance contributes to better financial outcomes and enhances shareholder value. Conversely, Faisal Hernandi (2021) emphasized that governance disclosure alone may not be sufficient unless accompanied by solid internal performance.

Among financial performance indicators, Current Ratio (CR), a measure of short-term liquidity, has been shown to support dividend stability and investor confidence (Ramadhan & Pratama, 2023; Siregar, 2020). Return on Equity (ROE), as a key profitability metric, consistently demonstrates positive effects on dividend payouts and stock returns (Putri & Wahyudi, 2021; Goacademica, 2021). In contrast, a high Debt to Equity Ratio (DER) which reflects greater financial leverage is often perceived as a risk factor that may discourage dividend payments and reduce return potential (Zakiah Darajat, 2021; Dessriadi *et al.*, 2022).

Good Corporate Governance (GCG) encompasses a set of principles aimed at aligning managerial conduct with shareholder interests. Mechanisms such as independent boards, audit committees, and transparent disclosure practices help build investor trust, thereby positively impacting dividend policy and stock returns (Suparlinah, 2020; Lestarianti & Sandari, 2022). Current Ratio (CR) represents a firm's ability to meet short-term liabilities. Companies with stronger liquidity positions are generally more capable of distributing dividends; however, its influence on stock returns may be limited if not accompanied by strong earnings (Ramadhan & Pratama, 2023).

Return on Equity (ROE) reflects a company's efficiency in generating profits from shareholder capital. Prior studies consistently report a positive relationship between ROE, dividend policy, and stock returns, making it a widely recognized profitability metric among investors (Putri & Wahyudi, 2021; Goacademica, 2021). Debt to Equity Ratio (DER) measures financial leverage. A higher DER indicates increased financial risk, which may lower investor confidence and constrain dividend payments. This negative impact on dividend policy and stock returns is supported by findings from Zakiah Darajat (2021) and Dessriadi *et al.* (2022).

Stock return refers to the gain or loss investors realize from holding a company's stock over a specific period. It serves as a key indicator of how the market perceives a company's performance and governance quality. Damayanti & Firmansyah (2021) argue that high stock returns enhance investor confidence and strengthen market reputation. Similarly, Firmansyah & Suhanda (2021) emphasize that effective governance and operational performance increase investor trust and contribute to favorable stock price movements. Thus, stock returns reflect both internal performance metrics—such as profitability and liquidity and external factors, including investor sentiment and macroeconomic conditions.

The research model is illustrated in the following diagram:

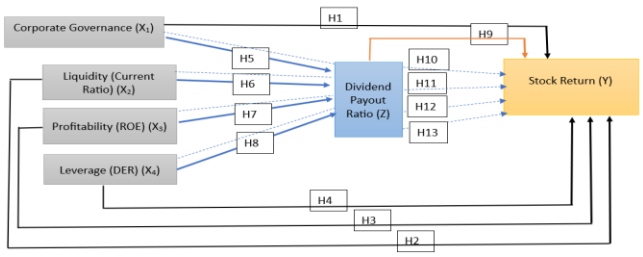

Figure 1. Framework of thinking
Source: Own compilation, 2025

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Based on the theoretical framework and prior studies, the following hypotheses are proposed:

H1: GCG positively influences stock returns
H2: CR positively influences stock returns
H3: ROE positively influences stock returns
H4: DER negatively influences stock returns
H5: GCG positively influences DPR
H6: CR positively influences DPR
H7: ROE positively influences DPR
H8: DER negatively influences DPR
H9: DPR positively influences stock returns
H10: GCG influences stock returns through DPR
H11: CR influences stock returns through DPR
H12: ROE influences stock returns through DPR
H13: DER influences stock returns through DPR

RESEARCH METHOD

This study employs a quantitative and explanatory research design to analyze the influence of corporate governance and financial performance represented by Good Corporate Governance (GCG), Current Ratio (CR), Return on Equity (ROE), and Debt to Equity Ratio (DER) on stock returns, with dividend policy acting as an intervening variable. The quantitative approach facilitates objective measurement and statistical analysis using numerical data obtained from the annual reports and publicly available financial disclosures of automotive and component manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2014-2023 period.

The population in this study comprises all automotive and component manufacturing companies listed on the IDX within the specified time frame. A purposive sampling technique was applied to ensure the selection of companies that met specific criteria: (1) consistently published complete financial and governance reports during the observation period, (2) used Indonesian Rupiah (IDR) as the reporting currency, and (3) distributed dividends at least once within the research window. Based on these criteria, 12 companies were identified as the initial population, with 5 companies meeting all requirements and thus serving as the final sample.

The study utilizes secondary data sourced from the official IDX website and the respective corporate websites. The data includes financial statements, annual reports, and governance disclosures, which were used to calculate quantitative indicators for liquidity, profitability, leverage, and dividend policy. Table 1 presents the operationalization of variables as a reference for measurement.

Table 1. Operational variable

Research Variable	Variable	Indicators	Measurement	Scale
Independent	Good Corporate Governance (GCG)	OECD Principles: Transparency, Accountability, Fairness, including: 1. Shareholders' Rights 2. Equal Treatment of Shareholders 3. Role of Stakeholders in Governance 4. Transparency and Disclosure	Self-assessment score (Scale 1-5) $\text{Total Skor GCG} = \sum_{i=1}^{n} (\text{Skor Prinsip}_i \times \text{Bobot Pri}$ n is the number of OECD principles (5 principles). Principle Score refers to the score assigned to the i-th	Interval > Ratio

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		5. Responsibilities of the Board of Directors and Commissioners	principle, usually on a scale from 1 to 5. Principle Weight refers to the weight assigned to the i-th principle. Each principle typically carries equal weight, i.e., 20% or 0.2. (OECD, 2015)	
Independent	Liquidity	Current Ratio (CR)	$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$ (Hery, 2016).	Ratio
Independent	Profitability	Return on Equity (ROE)	$\text{ROE} = \frac{\text{Net Income After Tax}}{\text{Total Equity}}$ (Jogiyanto, 2003).	Ratio
Independent	Leverage	Debt to Equity Ratio (DER)	$\text{DER} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$ (Brigham & Ehrhardt, 2014).	Ratio
Dependent	Stock Return	Change in stock price from previous to current period	$\frac{\text{Rit} = \text{Pt} - \text{Pt} - 1}{\text{Pt} - 1}$ (Brigham & Ehrhardt (2014)	Ratio
Intervening	Dividend Policy	Dividend Payout Ratio (DPR)	$\text{DPR} = \frac{\text{Dividend per Share (DPS)}}{\text{Earning per Share(EPS)}}$ (Carroll, 2016)	Ratio

Source: Own compilation (2025)

Data Analysis Technique

This study employs quantitative data analysis using panel data regression, assisted by EViews software. The analysis process involves several structured steps to ensure the accuracy and validity of the model:

1. Descriptive Statistical Analysis
   Descriptive statistics provide a general overview of the data, including measures such as the mean, standard deviation, minimum, and maximum values for each variable namely Good Corporate Governance (GCG), Current Ratio (CR), Return on Equity (ROE), Debt to Equity Ratio (DER), Dividend Payout Ratio (DPR), and Stock Return.
2. Classical Assumption Testing
   Before conducting regression analysis, classical assumptions are tested to ensure the model is free from statistical bias. These include: a Normality test using skewness-kurtosis or histogram methods; a multicollinearity test using the Variance Inflation Factor (VIF); an autocorrelation test using the Durbin-Watson statistic; and a heteroscedasticity test, such as the Breusch-Pagan-Godfrey test.
3. Panel Regression Model Selection
   To select the most appropriate panel data regression model, three estimation models are compared: Common Effect Model (CEM); Fixed Effect Model (FEM); Random Effect Model (REM); Model selection is guided by the Chow test, Hausman test, and Lagrange Multiplier (LM) test, based on the nature of the data and consistency of estimators.
4. Panel Data Regression Analysis

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The selected panel data regression model is subsequently used to examine the direct effects of the independent variables on both the dependent and intervening variables, in accordance with hypotheses H1 through H9. This study utilizes three regression models, as follows:

Model 1: Examines the influence of Good Corporate Governance (GCG), Current Ratio (CR), Return on Equity (ROE), and Debt to Equity Ratio (DER) on Stock Return.
(to test H1, H2, H3, and H4)

Model 2: Examines the influence of GCG, CR, ROE, and DER on Dividend Policy (DPR).
(to test H5, H6, H7, and H8)

Model 3: Examines the influence of Dividend Policy (DPR) on Stock Return.
(to test H9)

The results of each regression model indicate the direction (positive or negative) and strength of the influence exerted by each independent variable on the dependent and intervening variables.

5. Hypothesis Testing and Model Evaluation

Hypotheses are tested using t-statistics and p-values, with a significance level of 5% ($\alpha = 0.05$). An independent variable is considered to have a significant effect if the p-value is less than 0.05, indicating a statistically meaningful relationship with the dependent or intervening variable. For mediation hypotheses (H10–H13), the Sobel test is employed to assess whether Dividend Policy (DPR) significantly mediates the influence of GCG, CR, ROE, and DER on Stock Return. The Sobel test evaluates the significance of indirect effects by incorporating the coefficients and standard errors from the relevant regression paths. Following the hypothesis testing, the final model is evaluated using goodness-of-fit indicators, particularly Adjusted R-squared, to measure the explanatory power and robustness of the model. This step ensures the accuracy and reliability of the conclusions drawn from the empirical analysis.

RESEARCH RESULTS

Descriptive Statistics

The average stock return during the observation period was 0.0389, with a standard deviation of 0.2657, indicating moderate fluctuation. The average GCG score was 0.9071, suggesting relatively high corporate governance compliance across firms. The CR, ROE, and DER variables showed significant dispersion, reflecting differences in financial health. The average Dividend Payout Ratio (DPR) was 0.3893, with a minimum of -0.3267, indicating instances of dividend omission or losses in some firms.

Classical Assumption Tests

Normality tests using the Jarque-Bera statistic showed that the residuals of all models were normally distributed ($p > 0.05$). No multicollinearity was detected, as all VIF values were below 10. Heteroscedasticity tests (Breusch-Pagan) indicated homoscedastic residuals across models. Slight autocorrelation was observed in Models 2 and 3 (Durbin-Watson ~1.3), but within acceptable limits.

Model Selection

Model selection tests were conducted to determine the most appropriate regression models:

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- Model 1 (GCG, CR, ROE, DER → Stock Return): Common Effect Model (CEM) was selected based on the Chow and Lagrange Multiplier (LM) tests.
- Model 2 (GCG, CR, ROE, DER → DPR): Fixed Effect Model (FEM) was chosen based on the Chow and Hausman tests.
- Model 3 (DPR → Stock Return): Random Effect Model (REM) was deemed appropriate based on the Hausman test.

Panel Regression Results

Model 1: Determinants of Stock Return

The regression results for Model 1 using CEM are shown in Table 2. GCG (β = 0.5248; p 0.0047 < 0.05), CR (β = 0.2076; p 0.0000 < 0.05), and ROE (β = 1.0616; p 0.0000 < 0.05) had a significant positive effect on stock return. DER was not significant (p = 0.9937).

Table 2. Panel regression results

Method: Panel Least Squares				
Sample: 2014–2023 | Firms: 5 | Observations: 50				
Dependent Variable : Stock Return				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_GCG	0.524801	0.176203	2.978384	0.0047
X2_CR	0.207561	0.033437	6.207475	0.0000
X3_ROE	1.061621	0.125281	8.473939	0.0000
X4_DER	-0.000264	0.033539	-0.00789	0.9937
C	-0.653748	0.193151	-3.38465	0.0015
R-squared: 0.952189	Adjusted R-squared: 0.947939			
S.E. of regression: 0.066006	F-statistic: 224.0496	Prob (F-statistic): 0.000000		
Durbin-Watson stat: 2.081959	Mean dependent var: 0.038895	S.D. dependent var: 0.265749		
Sum squared resid: 0.165451	Log likelihood: 71.83067			
Akaike info criterion: -2.672327	Schwarz criterion: -2.482025	Hannan-Quinn criterion: -2.600416		

Model 2: Determinants of Dividend Payout Ratio

Model 2 was estimated using FEM are shown in Table 3. GCG (β = 1.5146; p 0.0000 < 0.05), CR (β = 0.1637; p 0.0000< 0.05), and ROE (β = 0.1524; p = 0.0167 <0.05) significantly increased DPR, while DER (β = -0.0638; p = 0.0019) had a significant negative effect.

Table 3. Panel regression results

Method: Panel Least Squares				
Sample: 2014–2023 | Firms: 5 | Observations: 50				
Dependent Variable: DPR				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1_GCG	1.51457	0.101179	14.9692	0.0000
X2_CR	0.163684	0.019812	8.261695	0.0000
X3_ROE	0.152349	0.06109	2.495339	0.0167
X4_DER	-0.063829	0.019217	-3.32145	0.0020

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C	-0.99391	0.101249	-9.82422	0.0000

R-squared: 0.995097	Adjusted R-squared: 0.994141	
S.E. of regression: 0.022712	F-statistic: 1024.849	Prob (F-statistic): 0.000000
Durbin-Watson stat: 1.595641	Mean dependent var: 0.389273	S.D. dependent var: 0.298856
Sum squared resid: 0.022465	Log likelihood: 140.2979	
Akaike info criterion: -4.555913	Schwarz criterion: -4.211774	Hannan-Quinn criterion: -4.424853

Model 3: Effect of DPR on Stock Return

Model 3 used REM estimation. DPR had a significant positive impact on stock return (β = 0.7583; p 0.0000 < 0.05), as presented in Table 4.

Table 4. Panel regression results

Method: Panel EGLS (Cross-section Random Effects) – Swamy and Arora Estimator				
Sample: 2014–2023 | Firms: 5 | Observations: 50				
Dependent Variable : Stock Return				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Z_DPR	0.758339	0.092517	8.196761	0.0000
C	-0.256306	0.050123	-5.11354	0.0000
Effects Specification				
Cross-section random (S.D.): 0.072851	Rho: 0.4083			
Idiosyncratic random (S.D.): 0.087701	Rho: 0.5917			
Weighted Statistics				
R-squared: 0.584074	Adjusted R-squared: 0.575409			
S.E. of regression: 0.087559	F-statistic: 67.40515	Prob (F-statistic): 0.000000		
Durbin-Watson stat: 1.762935	Mean dependent var: 0.018388			
S.D. dependent var: 0.134374	Sum squared resid: 0.367994			
Unweighted Statistics				
R-squared: 0.841961	Sum squared resid: 0.546893			
Mean dependent var: 0.038895	Durbin-Watson stat: 1.186242			

Bivariate Correlations

Pearson correlations indicate a strong positive association between stock return and (i) GCG ($r = 0.81, p\ 0.0000 < 0.05$), (ii) CR ($r = 0.89, p\ 0.0000 < 0.05$), and (iii) ROE ($r = 0.90, p\ 0.0000 < 0.05$). DER is negatively correlated with stock return ($r = -$

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0.77, p 0.0000< 0.001), confirming the expected inverse relationship between leverage and market performance.

Coefficient of Determination

- Model 1 (Stock-return equation, CEM): Adjusted $R^2 = 0.948$, indicating that GCG, CR, ROE, and DER jointly explain 94.8 % of the observed variance in stock return.
- Model 2 (Dividend-policy equation, FEM): Adjusted $R^2 = 0.994$, suggesting that the same set of predictors accounts for almost all variation (99.4 %) in the dividend-payout ratio.
- Model 3 (Stock-return equation with DPR, REM): Adjusted $R^2 = 0.575$; DPR alone explains 57.5 % of the cross-sectional and temporal variation in returns.

T-tests

The t-test was conducted to examine the partial significance of each independent variable in explaining the dependent variables across three panel regression models, using a 5% significance level ($\alpha = 0.05$).

Table 5. T-test results

Model 1: GCG, CR, ROE, DER - STOCK RETURN			
Variable	Coefficient	Prob	t-statistic
GCG	0,524801	0,0047	2,978,384
CR	0,207561	0,0000	6,207,475
ROE	1,061,621	0,0000	8,473,939
DER	-0,000264	0,9937	-0,007885
Model 2: GCG, CR, ROE, DER-DPR			
Variable	Coefficient	Prob	
GCG	1,514,570	0,0000	1,496,920
CR	0,163684	0,0000	8,261,695
ROE	0,152439	0,0016	2,495,339
DER	-0,063829	0,0019	-3,321,452
Model 3: DPR- STOCK RETURN			
Variable	Coefficient	Prob	
DPR	0,758339	0,0000	8,196,761

The t-test results from the panel regression models show that GCG, CR, and ROE have a positive and significant effect on stock return, while DER is not significant. All four variables, GCG, CR, ROE, and DER, significantly influence dividend policy, with DER exhibiting a negative relationship. Furthermore, dividend policy itself has a significant and positive impact on stock return. These findings highlight the importance of good governance, liquidity, and profitability in enhancing market value, while also confirming the mediating role of dividend policy in transmitting internal performance to investor returns.

Mediation Test (Sobel Test)

Sobel test results confirmed the mediating role of the dividend payout ratio (DPR) in the relationship between independent variables and stock return. The indirect effects of GCG ($z = 7.19$, $p < 0.05$), CR ($z = 5.82$, $p < 0.05$), and ROE ($z = 2.39$, $p < 0.05$) on stock return via DPR were statistically significant, indicating a strong mediation mechanism. Notably, although DER had no direct effect on stock return, its indirect effect through DPR was

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also significant (z = -3.08, $p < 0.05$), suggesting that dividend policy channels the impact of leverage on investor returns.

DISCUSSION

The findings indicate that Corporate Governance (GCG), Liquidity (CR), and Profitability (ROE) have significant and positive direct effects on stock return. This suggests that firms with better governance, strong liquidity positions, and high profitability are more likely to generate higher stock returns. These results align with stakeholder theory (Freeman, 1984) and signaling theory (Spence, 1973), both of which emphasize that transparency, financial health, and profitability send positive signals to the market and build investor trust.

The positive effect of GCG on stock return is consistent with prior studies such as Suparlinah (2020), Lestarianti & Sandari (2022), and Putri & Diandra (2023), which found that strong corporate governance practices reduce information asymmetry and improve investor confidence, leading to higher firm valuation. Additionally, Nuryaman (2013) and Situmorang & Panggabean (2019) also reported that GCG contributes positively to shareholder value, especially in manufacturing sectors.

Likewise, the significant positive relationship between CR and stock return supports the idea that liquidity is a key signal of a company's short-term solvency. This aligns with signaling theory, as well as findings by Siregar (2020), Susanti (2021), and Ramadhan & Pratama (2023), who argue that higher liquidity increases investor confidence due to the firm's ability to meet short-term obligations and sustain dividend payments.

The role of ROE as a strong predictor of stock return reinforces its position as a crucial measure of managerial efficiency and firm profitability. This result supports the findings of Fahmi *et al.* (2019), Putri & Wahyudi (2021), and Purnomo (2023), who found that investors prefer firms with higher ROE, as it indicates stronger earnings capacity and better prospects for growth and shareholder returns.

Conversely, Debt-to-Equity Ratio (DER) did not show a significant direct effect on stock return. This may imply that investors in the automotive and components subsector are less reactive to leverage ratios, possibly due to a general acceptance of debt usage in capital-intensive industries. This finding aligns with Lestari (2023) and Zakiah Darajat (2021), who noted that the impact of leverage on stock performance can vary depending on sectoral characteristics and financial management practices. However, the indirect effect of DER through dividend policy (DPR) was found to be significant, with a negative coefficient, suggesting that firms with high leverage may restrict dividend distribution to conserve cash for debt servicing—ultimately reducing investor appeal.

In terms of dividend policy, the results show that GCG, CR, and ROE have significant and positive effects on Dividend Payout Ratio (DPR). These findings confirm that firms with strong governance, adequate liquidity, and robust profitability are more capable and willing to distribute dividends. This is supported by Lestarianti & Sandari (2022), Oktavira (2024), Raisa Fitri (2017), Fong *et al.* (2017), and Armereo & P.F.R. (2019), who all emphasized that internal financial strength contributes positively to dividend policy decisions.

Meanwhile, DER negatively and significantly affects DPR, consistent with Bulutoding *et al.* (2020) and Wibisono *et al.* (2022), who found that higher leverage constrains dividend payments as companies prioritize debt obligations. This supports the pecking order theory, where firms with high debt levels rely more on internal funding and reduce dividend distributions to preserve liquidity.

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The mediation analysis using the Sobel test confirms that DPR significantly mediates the relationship between all four independent variables (GCG, CR, ROE, DER) and stock return. The indirect effects of GCG ($z = 7.19$), CR ($z = 5.82$), ROE ($z = 2.39$), and DER ($z = –3.08$) on stock return through DPR were all statistically significant ($p < 0.05$). These findings are consistent with dividend relevance theory (Lintner, 1956) and the bird-in-the-hand theory (Gordon, 1963), both of which argue that stable dividends reduce investor uncertainty and are valued more than retained earnings, particularly in markets with information asymmetry.

Taken together, the results emphasize that dividend policy plays a central role in translating internal corporate governance and financial performance into shareholder value. For investors, consistent and transparent dividend payouts are perceived as signs of financial strength and managerial discipline. This insight is particularly important for manufacturing firms in capital-intensive industries, where high fixed costs and financial risk can lead investors to prioritize dividend stability as a proxy for firm health and long-term viability.

CONCLUSIONS

This study aimed to examine the direct and indirect effects of Good Corporate Governance (GCG), Current Ratio (CR), Return on Equity (ROE), and Debt to Equity Ratio (DER) on stock return, with Dividend Payout Ratio (DPR) as a mediating variable. Using panel data from automotive and component manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2014-2023, the analysis yielded several key findings.

First, GCG, CR, and ROE were found to have positive and significant direct effects on stock return, emphasizing the importance of effective governance, liquidity strength, and profitability in enhancing investor trust and firm valuation. Conversely, DER had no significant direct effect, indicating that leverage alone may not influence stock returns directly in this capital-intensive industry.

Second, GCG, CR, and ROE significantly and positively influenced dividend policy, while DER had a significant negative effect. This suggests that companies with stronger fundamentals are more likely to maintain consistent dividend distributions, whereas firms with high leverage tend to adopt a more conservative payout strategy due to financial risk.

Third, DPR had a positive and significant effect on stock return, confirming that dividend policy is a key factor in investor decision-making. Furthermore, DPR significantly mediated the relationships between GCG, CR, ROE, and DER with stock return. Even for DER, which showed no direct effect, the indirect effect through DPR was statistically significant, demonstrating the critical role of dividends as a transmission mechanism for financial performance to influence market outcomes.

Overall, the results support stakeholder theory, signaling theory, and dividend relevance theory. Dividend policy emerges not only as a reflection of internal financial health but also as a strategic signal to the market. For firms operating in capital-intensive sectors, maintaining sound governance, robust liquidity, high profitability, and a balanced capital structure while implementing consistent and adaptive dividend policies is essential to strengthen investor confidence and sustain stock performance.

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