International Journal of ACCOUNTING AND MANAGEMENT RESEARCH

E-ISSN : 2721-1126, P-ISSN : 2721-1118
Available online at:
https://ejournal.itbwigalumajang.ac.id/index.php/ijamr

Factors Determining Stock Prices: Financial Performance Perspectives and Management Strategy

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ARTICLE INFO

Date of entry:
27 February 2025
Revision Date:
6 March 2025
Date Received:
28 March 2025

ABSTRACT

The purpose of this research is to investigate the extent to which financial indicators and managerial policies affect stock valuations among consumer goods sector firms listed on the Indonesia Stock Exchange (IDX) over the 2018 to 2022 period. The variables analyzed include Debt to Equity Ratio (DER), Return on Equity (ROE), Current Ratio (CR), Price to Earnings Ratio (PER), Firm Size, and Dividend Payout Ratio (DPR). This study uses multiple linear regression methods to test the relationships between variables. The results showed that DER, ROE, Firm Size, and DPR had a significant effect on stock prices, while CR and PER had no significant effect. In theory, variables such as ROE and firm size reflect the company's managerial performance and stability, which are the main considerations for investors. The practical implications of this study provide guidance for investors to focus on these variables in investment decision-making. Meanwhile, companies need to pay attention to their capital structure and dividend policy to attract investor interest and increase the attractiveness of stocks in the market.

Keywords: Debt to Equity Ratio (DER), Dividend Payout Ratio (DPR), Firm Size, Return on Equity (ROE), Stock price.

Cite this as: Mukhsin, M., Lukiana, N., & Prasetyo, A. (2025). Factors Determining Stock Prices: Financial Performance Perspectives and Management Strategy. *International Journal of Accounting and Management Research*, *6*(1), 8–14. https://doi.org/10.30741/ijamr.v6i1.1572

INTRODUCTION

The capital market serves a vital function in fostering national economic development by acting as a financial intermediary that connects surplus fund holders with entities in need of capital for investment and business growth. Within this framework, stock prices emerge as a key benchmark utilized by investors, financial analysts, and other stakeholders to evaluate a company's overall performance, financial well-being, and future outlook. Stock prices not only capture the firm's present financial status but also embody market participants' expectations regarding its future achievements.

Especially in the consumer goods sector, stock prices have a strategic role because this sector is known to be relatively stable. Products from this sector are generally needed regularly by the public, so the demand tends to be consistent and not too sensitive to economic fluctuations. This makes the consumer goods sector an attractive investment option, especially for investors looking for stability and long-term returns. However, the stability of this sector does not mean that the share price of companies in the sector does not experience dynamics. Various internal factors, such as financial performance and managerial policies, as well as external factors such as macroeconomic conditions, continue to influence stock price movements.

Therefore, it is important for investors, investment managers, and academics to have an in-depth understanding of the factors that influence stock prices in the sector. This understanding is not only useful for improving accuracy in investment decision-making, but can also be used by the company's management to formulate financial strategies that are more responsive to market needs and investor expectations.

Various previous studies have highlighted the importance of financial indicators as a determinant of stock prices. Research by Gbanador, (2021) examined the influence of economic policy announcements on stock prices in Nigeria and found that economic information conveyed to the public can trigger a significant response from the capital market. The results of the study show that the stock market is very sensitive to macroeconomic information, as investors tend to adjust their investment decisions based on expectations of future economic conditions. These findings are in line with studies in Indonesia that also examine how information, both in terms of company fundamentals and external conditions, affects stock price movements.

In the Indonesian context, several studies confirm that stock prices are not only influenced by macro conditions, but are also closely related to internal factors of the company. Junaid et al., (2021) shows that the company's financial performance has a significant influence on the stock price. Indicators such as Return on Equity (ROE), Debt to Equity Ratio (DER), and Current Ratio (CR) are often used as representations of a company's financial strength and stability. Sulistiani, (2020) reinforcing these findings by showing that investors consider fundamental indicators in investment decision-making, especially in strategic industrial sectors. In addition, research by Indriastuti & Nafiah, (2017) It found that macroeconomic conditions such as inflation and interest rates also play an important role in shaping investors' expectations of stock values.

Further, a study by Dewi & Artini, (2014) Highlighting the role of the company's earnings announcement in influencing market perception. Significantly announced earnings are often used as a benchmark for a company's performance and are a key consideration in assessing a company's future prospects. In this context, earnings announcements can be a positive signal that increases buying interest in the company's shares. The same thing was also expressed by Kurniawati & Lestari, (2011) which suggests that earnings announcements, especially if there is a significant increase compared to the previous period, can increase the stock price as it is considered a reflection of an increase in the value of the company.

In addition to profits, dividend policy is also a concern in the financial literature because it can affect the expected returns of investors. Tjandra et al., (2006) It shows that the dividend announcement has a significant impact on stock returns. Dividend announcement is often interpreted as a positive signal regarding a company's financial condition, as only a company with good liquidity and performance is able to consistently distribute dividends to shareholders. Nevertheless, although there have been many studies that have examined the relationship between each of these indicators and stock prices, most previous studies have tended to address these factors separately.

The limited number of studies that comprehensively combine various financial performance indicators and managerial policies in one analytical framework shows that there are gaps in the literature that should be filled. Most previous studies tend to examine factors that partially affect stock prices, either in terms of financial fundamentals, technical factors, or corporate policy aspects. As a result, the understanding of stock price dynamics is often fragmented and does not reflect the complexity of the relationships between the variables that affect it simultaneously. Therefore, a more holistic and integrative research approach is needed in order to provide a more comprehensive and relevant picture, especially in the context of Indonesia's dynamic and growing capital market.

This study aims to fill this gap by designing an analysis model that integrates six main variables. These variables consist of five financial performance indicators, namely current ratio (CR), debt to equity ratio (DER), return on equity (ROE), price to earnings ratio (PER), and firm size, as well as one managerial strategy indicator, namely dividend payout ratio (DPR). These six variables were chosen because they have been theoretically and empirically proven to be related to stock prices, although the available evidence still shows mixed and inconsistent results, depending on the industry sector and market conditions.

The integration between financial indicators and managerial strategies makes this research an original contribution, because it does not only rely on financial approaches alone, but also considers aspects of corporate policy that have the potential to affect investor perceptions and expectations. Using a multiple linear regression approach, this study seeks to uncover the simultaneous relationships between variables and evaluate the extent to which each indicator contributes to explaining the company's stock price movements. The use of this statistical method allows for more accurate and measurable analysis, as well as providing strong validity to the findings produced.

Especially in the context of the consumer goods sector, this approach is becoming increasingly relevant. This sector is known to have unique characteristics in the form of demand stability and business cycles that are relatively not too volatile. However, this stability does not guarantee that the share price of a company in the sector is free from external or internal influences. In fact, because of its defensive nature, investors tend to be more thorough in evaluating the company's financial performance and strategy before making investment decisions. Therefore, research targeting this sector can make a significant practical contribution to market participants.

Overall, the purpose of this study is to analyze the influence of financial performance indicators and managerial strategies on the stock prices of companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) during the period 2018–2022. The findings of this study are expected not only to enrich the literature in the field of finance and strategic management, but can also be used as a reference for investors, analysts, corporate managers, and policymakers in formulating strategies that are data-based and value-oriented to the company.

METHODS

This research employs a quantitative approach utilizing an explanatory method, which is intended to empirically examine the causal relationship between the independent and dependent variables. This methodological choice is deemed appropriate for analyzing how fundamental aspects of a company affect its stock valuation.

The study population comprises all companies listed on the Indonesia Stock Exchange (IDX) over the 2018–2022 period. A purposive sampling technique was used to determine the research sample, based on specific criteria. The selected sample includes companies operating within the primary and non-primary consumer goods sectors. This sector was selected due to its substantial representation on the IDX, accounting for 29.44% of the total listed companies, making it sufficiently representative of the broader market behavior. A total of 174 companies fulfilled the predetermined criteria and were included in the final sample.

This research utilizes secondary data in the form of quantitative information, sourced from the annual financial reports of each company and official publications provided by the Indonesia Stock Exchange. The study investigates several independent variables, which include financial performance metrics such as the current ratio (CR), debt to equity ratio (DER), return on equity

(ROE), price to earnings ratio (PER), company size, and a managerial policy variable represented by the dividend payout ratio (DPR). The dependent variable assessed in this analysis is the company's stock price. To assess the influence of each independent variable on the stock price, the data was processed using the Multiple Linear Regression Analysis technique, which enables the identification of the contribution and significance level of each factor in explaining stock price fluctuations.

RESULTS AND DISCUSSION

The data used in this study has been processed and analyzed using multiple linear regression to determine the influence of financial performance variables and management strategies on stock prices. The results of the analysis are presented in the form of a table so that it is easy for readers to understand.

Table 1. Multiple Linear Regression Results

Independent Variables	Coefficient	Significance
Constant	-3,490	0,001
Current Ratio (CR)	0,198	0,843
Debt to Equity (DER)	2,960	0,003
Return on Equity (ROE)	3,788	0,000
Price to Earnings (PER)	0,770	0,442
Firm Size	9,275	0,000
Dividend Payout Ratio (DPR)	2,353	0,019

Source: SPSS output (data processed)

Based on the regression results, it is known that the variables Debt to Equity Ratio (DER), Return on Equity (ROE), Firm Size, and Dividend Payout Ratio (DPR) have a significant effect on stock prices with a significance value of below 0.05 each. Meanwhile, the Current Ratio (CR) and Price to Earnings Ratio (PER) had no significant effect because their significance value exceeded 0.05.

In more detail, the DER variable, which has a positive coefficient of 2.960 and is significant ($p = 0.003$), shows that the higher the debt-to-equity ratio, the stock price tends to increase, as long as the company is able to manage its debt efficiently. These results reflect that the market may assess debt-based funding structures as a potential expansion signal.

An ROE with a coefficient of 3.788 and a very high level of significance ($p = 0.000$) indicates that high profitability is highly valued by investors. High ROE reflects effective managerial performance in utilizing one's own capital to generate profits, making it a key consideration in investment decisions.

Firm Size has the greatest influence on stock prices, with a coefficient of 9.275 and a significance level of 0.000. Large company size tends to be associated with business stability, ability to survive difficult economic conditions, and access to broader resources and financing. Therefore, large companies are more trusted by investors.

The DPR, with a coefficient of 2.353 and a significance of 0.019, shows that the dividend distribution policy gives a positive signal to investors. The dividends paid are considered an indicator of management's confidence in the company's future cash flow and financial stability.

On the other hand, the insignificant CR variable ($p = 0.843$) indicates that short-term liquidity is not considered crucial by investors in assessing stock prices. This may be because investors are more focused on long-term prospects than the company's ability to meet short-term obligations. Likewise, an insignificant PER ($p = 0.442$) indicates that the market valuation ratio to earnings per share does not necessarily reflect the company's intrinsic value in the context of the sector and period being analyzed.

Theoretically, capital structure and financial ratios provide an important picture of a company's financial condition and how the market responds to those conditions through the stock price. One of the significant findings in this study is the positive effect of the Debt to Equity Ratio (DER) on stock prices. A high DER generally reflects a company's reliance on debt as a source of funding. However, when a company is able to demonstrate good financial performance and maintain stable cash flow, the market can interpret this debt-based capital structure as a signal of management's confidence in managing leverage effectively. Therefore, a positive significant DER indicates that the market can tolerate high levels of debt as long as the company is able to generate profits and demonstrate solid business prospects.

Furthermore, Return on Equity (ROE) has also been proven to have a significant effect on stock prices. ROE shows how efficient a company is in generating a return on capital invested by shareholders. This ratio is the main indicator that investors look at to assess the extent to which the company is able to create added value from available equity. A high ROE indicates good managerial efficiency and strong competitiveness, thereby increasing investor interest and positively impacting the stock price. In other words, ROE reflects a company's ability to provide returns on shareholders' investments, making it one of the main factors in investment decision-making.

Firm size also shows a strong and positive influence on stock prices. Companies of large size generally have more resources, wider diversification of businesses, and easier access to financing and markets. This makes large companies tend to be perceived as more stable, have higher resilience to market turmoil, and are able to maintain operational continuity in the long term. Therefore, a significant positive firm size indicates that investors value large companies as prospective entities, thus driving an increase in demand for the company's shares.

In addition, the Dividend Payout Ratio (DPR) was also found to have a significant influence on stock prices. Dividend distribution is a form of signal sent by management to the market regarding the company's financial condition and prospects. When a company distributes dividends consistently and in attractive amounts, investors tend to interpret the policy as a sign that the company is in a healthy financial condition and has confidence in future profits. Therefore, a significant increase in the number of DPRs shows that the market is responding positively to the company's dividend distribution policy.

On the other hand, the Current Ratio (CR) and Price to Earnings Ratio (PER) variables did not show a significant influence on stock prices in this study. The insignificance of CR can be caused by differences in liquidity needs between companies, as well as the fact that investors are more focused on long-term prospects than short-term liquidity conditions. Whereas the insignificance of the PER may reflect that this ratio does not always accurately reflect the fundamental condition of the company, or that the value of the PER has been discounted by the market based on varying growth expectations. This suggests that not all financial indicators have the same predictive power on stock prices, and the relevance of each variable may differ depending on the sectoral context and prevailing market conditions.

The findings of this study show consistency with a number of previous studies, which strengthens the validity of the relationship between certain financial indicators and the company's stock price. For example Courtesy & Karyadi, (2023) Noer Azilla et al., (2023) revealed that Return on Equity (ROE) and company size have a significant influence on stock prices, indicating that investors pay greater attention to their own return on capital efficiency as well as the scale of the company's business. Lombogia et al., (2020) It also found that firm size has a positive correlation with stock prices, indicating that larger firms are seen as more stable, credible, and have greater growth

E-ISSN : 2721-1126, P-ISSN : 2721-1118
Available online at:
https://ejournal.itbwigalumajang.ac.id/index.php/ijamr

potential than smaller-scale firms. These results reinforce the findings in this study, where ROE and firm size contribute significantly to the formation of stock market value.

However, the findings regarding the Debt to Equity Ratio (DER) are different from the results of the study Dika & Pasaribu, (2020), which states that DER has no significant influence on the stock price. This difference suggests that the influence of DER on investor perception can be highly contextual and influenced by a variety of factors. Industry characteristics, asset structures, operational risks, and managerial strategies in managing debt can influence how the market interprets a company's use of leverage. In addition, different observation periods can also result in non-uniform financial dynamics, such as differences in macroeconomic conditions, regulations, and market sentiment at certain times. Therefore, the inconsistencies in these findings do not necessarily indicate weaknesses, but rather reflect the complexity of the relationship between financial indicators and capital market reactions.

The theoretical implications of the results of this study confirm the importance of managerial efficiency, a healthy capital structure, and a credible dividend distribution policy in shaping the market's perception of the company's intrinsic value. ROE as an indicator of capital management efficiency itself has proven to be a major concern for investors, as it reflects management's ability to generate profits from available equity. The size of the company is also a benchmark of stability and competitiveness, which is considered a reflection of the sustainability of the business in the long term. In addition, the Dividend Payout Ratio (DPR) is an important signal that shows management's confidence in cash flow and the company's future profitability, as well as a means of indirect communication to the market regarding its prospects.

From an applied standpoint, these findings offer valuable direction for investors in enhancing their investment evaluation and strategic decision-making processes. Investors are encouraged to focus more on indicators such as Return on Equity (ROE), firm size, and Dividend Payout Ratio (DPR), as these variables have demonstrated a strong influence on stock price movements. On the other hand, company executives can utilize these insights to design strategic initiatives aimed at boosting the appeal of their shares to the investing public. Strategic management of capital structure, improved profitability performance, and the establishment of a reliable and transparent dividend policy are crucial elements in fostering investor trust and elevating corporate value in the capital market.

CONCLUSION

This paper investigates the relationship between financial performance and managerial strategies with stock price movements among consumer goods firms listed on the IDX. Based on the results of multiple linear regression analysis, it was found that the variables Debt to Equity Ratio (DER), Return on Equity (ROE), Firm Size, and Dividend Payout Ratio (DPR) had a significant effect on stock prices, while Current Ratio (CR) and Price to Earnings Ratio (PER) had no significant influence. The findings indicate that investors tend to prioritize factors such as sound capital structure, strong profitability, large firm scale, and consistent dividend policies when making investment decisions. In contrast, short-term liquidity and market-based earnings valuations appear to have less influence in their considerations. These results align with the principles of market efficiency and offer valuable implications for both investors and corporate decision-makers in formulating strategies within the capital market. The study underscores the importance for companies to manage their financial performance in an effective and transparent manner—particularly regarding profitability and dividend distribution—to enhance investor confidence and elevate their stock value.

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