

The Effect of Financial Performance and Firm Size on Stock Prices, with Dividend Policy as a Moderating Variable

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Abstract

This study aims to analyze the impact of financial performance and firm size on stock prices, with dividend policy as a moderating variable, among conventional banking firms listed on the Indonesia Stock Exchange (IDX) during the 2018–2024 period. Employing a quantitative research design, the study utilizes secondary data collected from the annual reports and financial statements of banking firms. The sample was determined through purposive sampling, resulting in 77 firm-year observations. Panel data regression were applied to test the proposed relationships. The results indicate that ROE has a positive and significant effect on stock prices, suggesting that higher corporate profitability leads to greater investor confidence and higher market value. Conversely, firm size does not have a significant effect on stock prices, suggesting that firm scale alone is insufficient to influence investors' investment decisions. Additionally, the DPR was found to moderate the effect of ROE on stock prices but failed to moderate the effect of firm size on stock prices. These findings suggest that banking sector investors place greater emphasis on a company's ability to generate profits and the consistency of its dividend payouts compared to company size when assessing investment prospects. The study's results support Signaling Theory, which asserts that profitability and dividend policy serve as relevant signals in stock price formation.

Keywords: Financial Performance; Return on Equity; Firm Size; Dividend Policy; Stock Price; Banking Sector.

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1. Introduction

The capital market serves a vital function in fostering economic development by facilitating the transfer of funds from investors to productive business sectors (Alya, 2026; Fathori, 2023; Purnamasari, 2025). Within this framework, stock prices (SP) are widely recognized as an important measure of corporate value, reflecting current performance and future growth potential. As a market-based indicator, stock prices capture investors' assessments and expectations regarding a firm's ability to generate sustainable returns (Agustin & Lestari, 2026; Herbowo & Inadi, 2025; Kristia & Lestari, 2026). Consequently, identifying and examining the determinants of stock price movements continues to be a significant area of inquiry in financial and investment research.

The banking sector occupies a pivotal position within Indonesia's financial system. Acting as financial intermediaries, banks mobilize funds from the public and redistribute them through lending activities to support national economic activity (Adzkiya, 2026; Muarief, 2024). The banking sector's significant contribution to the economy makes banking stocks one of the most sought-after investment instruments among investors. However, the stock prices of banking companies tend to fluctuate due to various internal and external factors. This trend became increasingly apparent during the 2019–2024 period, which encompassed the pre-pandemic stage, the COVID-19 crisis, and the post-pandemic economic recovery period.

The outbreak of COVID-19 exerted significant pressure on banking institutions by increasing exposure to credit risk, a decline in economic activity, and financial market uncertainty. In 2020, the Jakarta Composite Index (IHSG) experienced a sharp decline in tandem with the weakening of national economic growth. These conditions led to a decline in investor confidence across various sectors, including the banking sector (Arifah & Fitria, 2023; Hidayati, 2022; Sella & Ardini, 2022). However, with the implementation of various economic stimulus policies, credit

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restructuring programs, and the acceleration of national economic recovery, the banking sector's performance has begun to show improvement, marked by increased profitability and industry stability. These changes in economic conditions have encouraged investors to pay closer attention to companies' fundamental factors when making investment decisions (Lilla, 2025; Rimbawan, 2022; Sulistianingsih, 2025) .

Financial performance (FP) is among the key consideration investors rely on when evaluating a company's prospects. It reflects the effectiveness of a firm in utilizing its resources to generate earnings and sustain business growth. In this study, financial performance is measured by Return on Equity (ROE), a financial ratio that assesses a company's capacity to generate net income from shareholders' invested capital (Mulyani et al., 2024; Naftali et al., 2024; Pratama et al., 2025) . ROE is considered relevant because it directly reflects the rate of return investors receive on the capital they have invested. A higher ROE signals stronger profitability and greater value creation for shareholders (Anggrelia & Susila, 2026; Sitanggang et al., 2025; Syafar et al., 2025) .

Signaling Theory provides a theoretical foundation for explaining the link between profitability and stock prices. The theory argues that management has access to more complete and accurate information about a company's performance and their prospects than outside investors. Consequently, firms communicate relevant signals to the market through publicly available disclosures, including financial performance reports, to help investors assess the company's value and investment potential. A high ROE can be perceived as a positive signal about the firm's prospects, thereby boosting investor confidence and leading to an increase in SP. ROE represents the proportion of net profit after tax to shareholders' equity, which is used to assess how effectively a company generates returns from the capital invested by its shareholders (Kadar & Rikumahu, 2017). Several previous studies indicate that profitability has positively affects SP and stock returns (Aprillia & Amanah, 2023; L. A. Putri & Ramadhan, 2023; Wulan & Syahzuni, 2023). However, the study (Wahyudi, 2022) found different results, so this relationship still requires further testing, particularly in the banking sector during the post-pandemic period.

In addition to financial performance, firm size (FS) is another factor that investors frequently use to assess a company's quality. FS represents the magnitude of a company's operations and its overall capacity to conduct their business activities. FS plays an important role in profit generation because investors generally have greater confidence in large companies that possess substantial assets (Khaeria et al., 2025). In the banking industry, FS is generally measured based on total assets, as assets reflect a bank's ability to perform its intermediary functions and manage risk. Firms with considerable asset resources tend to have stronger financing capacity and easier access to other funding channels, better risk diversification capabilities, and higher levels of stability compared to smaller companies. These conditions can increase investor's trust positively affects stock prices (Pradanimas & Sucipto, 2022; Setiabudhi, 2022).

Nevertheless, research findings on FS and SP remain inconsistent. Several studies have reported that FS positively influences a company's market value and SP (Dina & Wahyuningtyas, 2022; Hidayat & Khotimah, 2022), while other studies suggest that firm size is not always the primary factor determining stock performance because investors also consider profitability (Fajriah et al., 2022; O. F. T. A. Putri, 2022). These differing research results indicate a research gap that requires further investigation, especially in the banking sector, which has distinct characteristics compared to other sectors.

In addition to financial performance and company size, investors also consider dividend policy (DP) as an important indicator make investment decision. Dividend policy refers to a company's strategic decision concerning the proportion of profits to be distributed to shareholders as dividends and the portion to be retained to support future investment needs (Fayyadh & Murti, 2025). According to Signaling Theory, dividend distributions serve as an important signaling mechanism through which management communicates favorable expectations about the company's future profitability (Sapna et al., 2025). In this study, DP is proxied using the Dividend Payout Ratio (DPR) is positioned as a moderating variable. The use of DPR as a moderating variable is based on the assumption that the influence of FP and FS on SP can be stronger or weaker depending on the dividend policy implemented by the firm. Firms with high profitability that consistently pay dividends tend to send a stronger signal to investors compared to firms that retain most of their profits. Similarly, large companies capable of maintaining a stable dividend policy can gain higher investor confidence compared to companies that do not consistently pay dividends.

Previous research indicates that dividend policies play varying roles in influencing FP and SP. Fitriyah (2022) found that the DPR moderates the effect of ROE on SP. Conversely, several other studies indicate that dividend policy does not always strengthen this relationship because investors are more focused on capital gains than dividends (Sihombing & Zakchona, 2024). These differing findings suggest that the role of DP as a moderating variable requires further empirical testing.

In Indonesian banking sector, the DP of publicly listed banks are affected by internal factors such as profitability and FS; therefore, the DPR is theoretically worth testing as a mechanism that can strengthen or weaken the influence of ROE and FS on SP. From the perspective of investor behavior, preferences for dividends versus *capital gains* can also change in response to market conditions; for example, studies of investor preferences around the ex-dividend date indicate relevant dynamics in investor preferences that can be linked to dividend signals. Thus, the DPR as a moderating variable provides a richer explanatory framework: not only whether ROE/size affects stock prices, but also when and under what dividend policy conditions that influence becomes stronger or weaker.

Based on empirical phenomena, theoretical foundations, and inconsistencies in previous research findings, this study aims to analyze the influence of financial performance—proxied by ROE—and FS on the SP of conventional banking firms listed on the IDX during the 2019–2024 period. Additionally, this study examines the role of DP, proxied by the DPR, in moderating the relationship between financial performance and FS on SP. The findings are expected to contribute to the development of financial literature, particularly regarding Signaling Theory in the banking sector, and provide useful information for investors, company management, and regulators in understanding the factors influencing stock price formation.

2. Literature Review

2.1. The Effect of FP on SP

FP is widely recognized as one of the primary indicators used by investors to assess a company's prospects. In this study, FP is proxied by ROE, which is used to help shareholders assess the extent to which their invested capital generates returns through the company's business activities (Hapsari et al., 2019). Therefore, it reflects the rate of return obtained from the shareholders' investment in the company. An increase in ROE signifies improved profitability and more efficient capital utilization, which can strengthen investor perceptions and enhance the company's appeal in the capital market (Mulyani et al., 2024; Naftali et al., 2024; Pratama et al., 2025).

According to Signaling Theory, a company's profitability provides valuable information to investors regarding its future performance and growth potential. A high ROE conveys a good sign to the market, indicating that the firm is capable of generating strong earnings and delivering attractive returns to shareholders. Such positive information can strengthen investor trust, and increase shares demand, and ultimately contribute to an increase in SP (L. A. Putri & Ramadhan, 2023).

In the banking sector, ROE is highly relevant because it reflects a bank's ability to manage shareholders' funds to generate profits. Investors generally view banks with high ROE as companies with strong operational efficiency and good growth prospects. Several previous studies have shown that ROE positively affects SP (Aprillia & Amanah, 2023; L. A. Putri & Ramadhan, 2023; Wulan & Syahzuni, 2023). Based on this description, the first hypothesis is as follows:

H1: FP positively affects SP.

2.2. The Effect of FS on SP

In the banking industry, firm size indicates a bank's capacity to mobilize funds, extend credit, and manage risk. Larger firms generally possess stronger resources and greater resilience in facing economic uncertainty (Pradanimas & Sucipto, 2022). According to Signaling Theory, FS can be viewed as a signal of its stability and financial strength. Investors tend to view large companies as entities with lower risk compared to small companies because large companies typically have better business diversification and higher market confidence. Therefore, larger companies have the potential to receive a better valuation from investors, so their stock prices tend to be higher (Setiabudhi, 2022).

Prior study found that FS positively affects SP (Dina & Wahyuningtyas, 2022; Hidayat & Khotimah, 2022). However, other studies have also found that firm size is not always a dominant factor in determining stock prices because investors also consider a firm's efficiency and profitability (Wahyudi, 2022). Nevertheless, in the context of the banking industry, which is highly dependent on asset scale and intermediation capacity, FS is expected to be as determinant of SP movements. Based on this argument, the second hypothesis is as follows:

H2: FS positively affects SP.

2.3. DP Moderates the Effect of FP on SP

According to signaling theory, dividend payments contain information regarding management's confidence in the company's future prospects (Sapna et al., 2025). A higher ROE demonstrates the company's effectiveness in generating profits from shareholders' equity. The credibility of this positive signal is further reinforced when the company distributes a portion of its earnings as dividends to shareholders. Investors tend to view companies that can generate high profits while paying dividends as having sound financial health and stable cash flow. Thus, a dividend policy can reinforce the positive impact of ROE on stock prices.

Empirical findings support this argument. Fitriyah(2022) found that the DPR strengthens the link between ROE and stock price. These results indicate that investors consider not only a company's profitability but also how those profits are distributed to shareholders. The third hypothesis of this study is as follows:

H3: DP enhances the positive effect of ROE on SP.

2.4. DP Moderates the Effect of FS on SP

Large firms are often perceived by investors as being better positioned to maintain stable performance and mitigate operational and financial risks. However, company size alone may not be sufficient to boost investor confidence if it is not accompanied by policies that demonstrate the company's commitment to shareholder welfare. One such policy that can reinforce this perception is a dividend policy (Febriani & Indrati, 2025).

Banks with substantial assets that consistently pay dividends tend to be perceived as having stable financial conditions. From the perspective of Signaling Theory, dividend payments by large companies can serve as an additional signal that reinforces investors' confidence in the company's ability to maintain profitability in the future. Therefore, dividend policy is expected to amplify the effect of FS on SP (Rusma et al., 2026).

The study by Febriani & Indrati (2025) shows that dividend policies can improve investors' perceptions of large companies by signaling stability and sustainable performance. Thus, the combination of large company size and high dividend payout rates has the potential to generate a more positive market response compared to large companies that do not have consistent dividend policies. Based on this discussion, the fourth hypothesis is as follows:

H4: DP enhances the positive effect of FS on SP.

3. Methods

3.1. Design

This study adopts a quantitative research design with an explanatory approach to investigate the influence of FP and FS on SP, while examining the moderating role of DP. The quantitative method is considered appropriate because the research seeks to analyze causal relationships among variables through statistical techniques applied to secondary data derived from corporate financial reports and capital market information. The study is anchored in Signaling Theory, which posits that corporate financial information functions as a signal that assists investors in evaluating a company's prospects and making investment decisions.

3.2. Population and Sample

The population of this study comprises all conventional banking firms listed on the IDX between 2019 and 2024. The banking industry was chosen as the focus of the study due to its strategic role in supporting the national financial system and its vulnerability to fluctuations in macroeconomic conditions. The sample was selected using a purposive sampling technique based on the following criteria:

- a. Conventional banking listed consecutively on the IDX during the 2019–2024 period.
- b. Banks that published complete annual financial reports during the study period.
- c. Banks with consistently available stock price data during the study period.
- d. Companies that consistently disclosed DPR data and distributed dividends during the observation period.

Based on these criteria, the following research sample was obtained that meets the requirements for analysis:

Table 1. Sample Selection

No	Description	Number of Companies
1	Companies in the banking subsector listed on the IDX	47
2	Sharia banking sub-sector companies	(4)
3	Companies that were not consistently listed on the IDX during the 2019–2023 period	(2)
4	Companies that did not pay dividends during the observation period	(22)
	Total	19
	Total Observations (19 companies × 5 years of observation)	95

3.3. Data Types and Sources

This study uses secondary data obtained from annual reports, financial statements of banking companies, as well as stock price data published on the IDX website, company reports, and other capital market data sources. The data used is panel data, which is a combination of cross-sectional data comprising several banking companies for the period 2019–2024.

3.4. Operational Definitions of Variables

The dependent variable is SP (Y). SP is measured using the annual closing price, which reflects the company's market value at the end of the observation period.

The independent variables are FP (X_1) and FS (X_2). FP is proxied using ROE and calculated using the formula:

$$\text{ROE} = \frac{\text{Laba Bersih}}{\text{Total Ekuitas}} \times 100\% \quad (1)$$

FS is proxied using total assets transformed into natural logarithms to reduce excessive data variation. FS is calculated using the formula:

$$\text{SIZE} = \ln(\text{Total Aset}) \quad (2)$$

The moderating variable is DP (Z), which is proxied using the DPR. The DPR is calculated using the formula:

$$\text{DPR} = \frac{\text{Dividen Tunai}}{\text{Laba Bersih}} \times 100\% \quad (3)$$

3.5. Data Analysis Techniques

Statistical data analysis was performed in several stages. Descriptive statistics were used to describe the characteristics of the variables through measures such as minimum, maximum, mean, and standard deviation. Since the dataset comprises panel data, integrating both cross-sectional and time-series observations, panel data regression was employed. The most suitable estimation model was subsequently selected based on the results of several model selection tests, including:

- The Chow test to determine the Common Effects or Fixed Effects model.
- The Hausman test to determine the Fixed Effects or Random Effects model.
- The Lagrange Multiplier test to determine the Common Effects or Random Effects model.

The model identified as the most appropriate through the selection process was subsequently used for hypothesis testing.

The moderating role of dividend policy was examined using Moderated Regression Analysis (MRA). Partial effects were assessed through t-tests, whereas the F-test was conducted to evaluate the simultaneous effects of the independent variables on stock prices. In addition, the R^2 was calculated to determine the explanatory power of the regression model. A significance threshold of 5% ($\alpha = 0.05$) was adopted, whereby a hypothesis was considered supported when the associated probability value (p-value) was less than 0.05.

4. Result and Discussion

4.1. Descriptive Statistics Results

Table 2. Descriptive Statistics Results

Statistics	X1	X2	Z	Y
Mean	0.116636	3,332,019	0.470247	0.003909
Median	0.124000	3,293,400	0.438000	-0.001000
Maximum	0.216000	3,521,400	1,327,000	0.663000
Minimum	0.025000	3,102,000	0.075000	-0.480000
Standard Deviation (SD)	0.049043	1,188,803	0.255590	0.212424
Skewness	0.003635	0.134906	1,157,887	0.546946
Kurtosis	2,123,692	1,811,924	4,488,032	3,616,353
Jarque-Bera	2,463,901	4,762,206	2,430,968	5,057,901
Probability	0.291723	0.092449	0.000005	0.079743
Sum	8,981,000	2,565,655	3,620,900	0.301000
Sum of Squared Deviations	0.182800	1,074,072	4,964,786	3,429,418
Observations	77	77	77	77

Based on Table 2, the descriptive statistics show that out of 77 observations, the FP variable (ROE) has a mean of 0.1166 with a SD of 0.0490, indicating that the banking companies are generally able to generate a return of 11.66% on equity with a low level of variation. The FS variable has a mean of 33.3202 with a SD of 1.1888, showing that the majority of banking firms in the sample have a relatively large asset scale and do not vary significantly. Meanwhile, the DPR has a mean value of 0.4702, meaning that on average, companies distribute approximately 47.02% of their net profit as dividends to shareholders, with fairly high variation as indicated by a SD of 0.2556. As for SP (Y), it has a mean of 0.0039 with a SD of 0.2124, indicating that there were significant SP fluctuations during the study period. The skewness values of all variables indicate a right-skewed distribution (positively skewed), while the results of the Jarque-Bera test show that the ROE, FS, and SP variables have probabilities above 0.05, suggesting they are normally distributed, whereas the DPR variable has a probability below 0.05, indicating its distribution is not normal. However, this condition is still acceptable in panel data analysis because the number of observations is relatively adequate, and regression testing places greater emphasis on the assumption of residuals than on the normality of each variable.

4.2. Results of the Classical Assumptions Test

Table 3. Multicollinearity Test

Variable	X1	X2	Z
X1	1,000,000	0.401118	-0.062176
X2	0.401118	1,000,000	0.171715
Z	-0.062176	0.171715	1,000,000

Based on the testing criteria, the correlation results between variables show a correlation value of X1 with X2 of 0.401118, while the correlation of X1 with Z is -0.062176. The correlation value between X2 and Z is 0.171715. As all intercorrelations among the independent variables are below 0.85, the model can be considered free from multicollinearity concerns.

Table 4. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.099914	0.463694	0.215474	0.8300
X1 (ROE)	-0.111919	0.347696	-0.321886	0.7485
X2 (Company Size)	0.002577	0.014532	0.177318	0.8597
Z (Dividend Policy)	-0.091493	0.062036	-1.474835	0.1446

Based on the Table 4, all variables have probability (Prob.) values greater than 0.05, namely ROE at 0.7485, firm size at 0.8597, and dividend policy at 0.1446. Thus, the regression model used is free from heteroscedasticity or has constant

residual variance (homoscedasticity). This condition indicates that the model has met one of the classical assumptions of regression, so that the resulting parameter estimates can be considered reliable and suitable for further analysis.

4.3. Results of Panel Data Regression Analysis

Based on the application of the Common Effect Model estimation, the following panel data regression equation is formed:

$$Y = -1.00100401077 + 1.37291019764 X_1 + 0.0282763034211 X_2 - 0.207104225729 Z + C$$

This mathematical equation indicates that if all independent variables are assumed to be constant (equal to zero), then the SP (Y) will intrinsically decrease by -1.001004. Furthermore, the direction coefficients for the FP (X1) and FS (X2) variables are positive, meaning that a one-unit increase in financial performance and firm size will boost the stock price by 1.372910 and 0.028276 units, respectively. Conversely, DP (Z) shows a negative coefficient of -0.207104, indicating an inverse relationship, whereby increases in this variable are followed by a reduction in the company’s SP.

4.4. Hypothesis Test Results

Table 5. Results of the F-Test

Notes	Value
F-statistic	7.029161
Prob (F-statistic)	0.000323

Source: Processed secondary data, 2026

Based on Table 5, the F-statistic value is 7.029161 with a Prob(F-statistic) of 0.000323 < 0.05, so the regression model is declared simultaneously significant. Thus, the ROE, FS, and DPR collectively influence the SP. The results indicate that the model has a satisfactory goodness-of-fit and can effectively explain the variation in the dependent variable attributable to the independent variables.

Table 6. R² Test Results

Description	Value
R-squared	0.224126
Adjusted R-squared	0.192241

As presented in Table 6, the adjusted R-squared value of 0.192 suggests that the independent variables account for 19.2% of the variation in the dependent variable. Consequently, approximately 80.8% of the variation is explained by other determinants outside the scope of this research that were not included in the regression equation.

Table 7. Results of the t-Test (partial)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Notes
C	-1.001004	0.657066	-1.523445	0.1320	Not Significant
X1 (ROE)	1.372910	0.492694	2.786538	0.0068	Significant
X ² (Company Size)	0.028276	0.020592	1.373145	0.1739	Not Significant
Z (Dividend Policy/DPR)	-0.207104	0.087907	-2.355956	0.0212	Significant

Based on the Table 7, the ROE has a probability value of 0.0068, which is less than 0.05, with a positive coefficient of 1.372910. These results indicate that ROE positively affects SP. Accordingly, banking companies that demonstrate a greater capacity to generate profits for shareholders tend to experience higher stock valuations. The FS variable has a p-value of 0.1739 > 0.05, indicating that FS have not a significant effect on SP. The results suggest that FS did not constitute a major determinant of banking stock valuation.

Meanwhile, the DPR has a probability value of 0.0212 < 0.05, with a negative coefficient of -0.207104. This result indicates that dividend policy has a negative and significant effect on stock prices. These findings suggest that an increase in the DPR tends to be followed by a decline in stock prices. This occurs because investors in the banking sector prioritize growth potential and capital gains over high dividend payouts; thus, profits distributed as dividends are perceived as reducing the company’s opportunities for future expansion and growth.

4.5. Discussion

4.5.1. The Effect of FP (ROE) on SP

The results of the hypothesis testing show that FP has a positive and significant effect on the SP. These findings suggest that a company's SP tends to increase as its ability to generate profits from shareholders' equity improves. This indicates that investors view higher profitability favorably, as a strong ROE signals management's effectiveness in utilizing shareholder capital to create earnings.

These research findings align with Signaling Theory, which states that information regarding a company's financial performance serves as a signal used by investors to assess the company's future prospects (L. A. Putri & Ramadhan, 2023). A high ROE signals that the company possesses strong profit-generating capabilities and is able to create value for shareholders. In the banking sector, profitability is a crucial indicator as it reflects a bank's ability to manage productive assets and maintain operational sustainability. Therefore, when ROE increases, shares demand also increase, thereby driving up SP. These results indicate that the Indonesian capital market still prioritizes profitability as one of the primary factors in the valuation process of banking stocks.

These research findings are also consistent with studies by (2023), L. A. Putri & Ramadhan (2023), and (Wulan & Syahzuni, 2023), which found that ROE positively affects SP. In the post-pandemic Indonesian banking sector, this indicates that investors are becoming increasingly selective in choosing stocks by focusing on companies' fundamental indicators. Banks capable of maintaining a high ROE tend to garner greater investor confidence as they are perceived to have strong growth prospects, better-managed risks, and a higher capacity to deliver returns to shareholders. Thus, improving ROE can serve as a key strategy for banking firms to enhance market value and attract investor interest.

4.5.2. The Effect of FS on SP

The results of the second hypothesis test indicate that FS does not have a significant effect on the SP. This finding suggests that the size of a banking firm's assets is not necessarily the primary factor investors consider when making investment decisions and evaluating a company's stock price. In the banking industry, large total assets can indeed reflect a broad operational scale, high intermediation capacity, and a strong competitive position in the market. However, large assets do not always guarantee a company's ability to generate optimal profits. Investors are more interested in the effectiveness of asset management in creating value for shareholders, as reflected through profitability indicators such as ROE. Thus, company size only provides information regarding the magnitude of the resources a company possesses, but is insufficient to serve as the primary basis for stock pricing if not accompanied by sound FP.

This finding aligns with the research by Wahyudi et al. (2022), which states that FS does not always correlate directly with rising stock prices because investors place greater emphasis on operational efficiency and the firm's ability to generate profits. The results of this study also support the view that in increasingly efficient markets, investors do not merely focus on firm size as an indicator of corporate strength but also evaluate the quality of performance and growth prospects. During the study period, which spanned the pandemic and economic recovery, banking investors appeared to be more responsive to information regarding profitability and a firm's ability to sustain performance compared to the size of its assets. Therefore, company size has not yet been able to serve as a factor that directly influences the SP of conventional banking on the IDX.

4.5.3. Dividend Policy Moderates the Influence of FP on SP

The results of the third hypothesis test indicate that DPR moderates the effect of FP on the SP. This finding suggests that the effect of ROE on SP is influenced not only by the level of profitability achieved by the company but also by the manner in which those profits are distributed to shareholders. When a company makes high profit and consistently pays dividends, investors tend to view the company more positively. Thus, dividend policy serves as a factor that reinforces the market's response to profitability information conveyed through ROE.

Signaling Theory explains that dividends are one of the signals used by management to communicate the company's prospects. High profitability inherently sends a positive signal regarding the company's ability to generate profits (Sapna et al., 2025). However, when such profits are accompanied by adequate dividend payouts, investors gain additional confidence that the generated profits are of high quality and supported by strong cash flow conditions. In the banking context, dividend distribution can also be interpreted as a form of management's confidence in the sustainability of the company's future performance. Therefore, investors tend to respond more positively to companies that not only have a high ROE but also maintain a stable DP.

The results of this study align with the research by (2022), which found that the DPR moderates the relationship between ROE and SP. These findings indicate that investors not only focus on the magnitude of a firm's profits but also on the direct benefits received through dividend distributions. During the study period, which covered the post-pandemic economic recovery phase, the certainty of dividend payments emerged as a key factor in reducing investment uncertainty and enhancing investor confidence in banking companies. Thus, DP acts as a mechanism that strengthens the influence of FP on SP, so that companies with high profitability and sound DP tend to receive greater market appreciation compared to companies that merely demonstrate high profitability without adequate profit distribution to shareholders.

4.5.4. Dividend Policy Moderates the Effect of FS on SP

The results of the fourth hypothesis test indicate that DPR fails to moderate the effect of FS on the SP. This finding suggests that the presence of a dividend policy neither strengthens nor weakens the relationship between firm size and stock prices. Thus, the size of a company's assets remains a factor that does not significantly influence stock prices, even if the company implements different dividend payout levels. These results suggest that investors do not consider the combination of firm size and dividend policy as the primary basis for evaluating banking company stocks.

According to Signaling Theory, firm size can indeed be viewed as a signal regarding a firm's operational capacity, stability, and financial strength (Sapna et al., 2025). However, in the banking industry, information regarding the size of a firm's assets tends to be widely known and easily accessible to investors, so it no longer provides a sufficiently strong signal to influence investment decisions. Furthermore, dividend policies also fail to enhance the relevance of firm size information because investors focus more on other indicators such as profitability and earnings growth. This suggests that dividend payouts do not alter investors' perceptions of large versus small firms, as firm size itself has not become a dominant factor in SP formation.

These research findings align with the study by Sihombing & Zakchona (2024), which shows that the moderating variable of the DPR does not always strengthen the relationship between a company's fundamental factors and stock prices. In the context of the Indonesian banking sector, investors appear to prioritize the quality of financial performance and a company's ability to generate returns over the size of its assets or the dividend payout rate. Therefore, DP cannot moderate FS on SP because investors perceive that firm size does not provide sufficiently strong signaling information to influence investment decisions and market valuation of banking stocks.

5. Conclusion

Based on the results, ROE positively affects stock prices, indicating that a company's ability to generate profits is a key factor in increasing its market value. Conversely, FS does not have a significant effect on SP, so the size of a company's assets has not yet become a primary consideration for investors in making investment assessments. Furthermore, DPR was found to moderate the effect of ROE on SP, making the relationship between profitability and stock prices stronger when companies implement sound dividend policies. However, the DPR does not moderate the effect of FS on SP, meaning that dividend policy cannot enhance the relevance of FS in influencing investment decisions. Overall, this study confirms that investors in the banking sector place greater emphasis on a company's ability to generate profits and the consistency of dividend distributions compared to the size of the company's assets. These findings support Signaling Theory, which explains that information regarding profitability and dividend policies serves as a stronger signal in influencing investor perceptions and stock price formation compared to firm size.

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