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Dividend Policy, Profitability and ERP Implementation as Determinants of Stock Price Volatility: Evidence from Indonesia

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

Aims: This study examines the effect of Dividend Payout Ratio (DPR), Enterprise Resource Planning (ERP) implementation, and profitability measured by Return on Assets (ROA) on stock price volatility in companies listed on the Indonesia Stock Exchange (IDX).
Study Design: A quantitative approach with panel data regression is applied to firms observed during 2022–2024.
Place and Duration of Study: Sample: The study was conducted on IDX-listed companies across all sectors during the 2022–2024 observation period.

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Methodology: the sample consists of firms with available secondary data on ERP, ROA, DPR, and stock volatility. Data analysis was performed using descriptive statistics, classical assumption tests, and panel regression with E-views 12.
Results: The findings show that higher DPR is associated with lower stock volatility, supporting the dividend signaling theory that dividends convey stability and positive prospects to investors. ERP implementation has no significant effect, yet its role in enhancing transparency and operational efficiency highlights potential contributions to market efficiency. ROA also shows no significant impact, suggesting that profitability is not a primary driver of volatility.
Conclusion: Dividend policy emerges as the most relevant factor in reducing volatility, while ERP provides a non-financial perspective on risk through improved disclosure. These insights benefit both managers in strategy formulation and investors in assessing risk-return trade-offs.

Keywords: Enterprise resource planning; dividend payout ratio; profitability; return on assets; stock price volatility; Indonesia stock exchange.

1. INTRODUCTION

In the last three years, the Indonesian capital market has shown quite volatile dynamics. Based on data from Bloomberg and the Indonesia Stock Exchange (2024) the average annual volatility of the Jakarta Composite Index (JCI) was recorded at 23.65% in 2022, decreased to 20.8% in 2023, but increased again to the range of 21-22% until mid-2024. This condition reflects that the stability of the Indonesian stock market is still vulnerable to various changes, both economic and geopolitical in nature. High volatility not only reflects increased uncertainty among investors, but also increases the potential for systemic risk to listed companies. Volatile investor sentiment tends to exacerbate market stress, increasing the likelihood of systemic disruptions, especially in the event of a crisis or external stress (Escobari & Jafarinejad, 2019). Although high volatility is often perceived as a signal of instability, some investors actually see it as an opportunity to achieve greater capital gains (Handayani et al., 2018)

One example of a sector on the Indonesian Stock Exchange that exhibits volatile stock price movements is IDXTECHNO. The IDXTECHNO Index Fact Sheet published by the Indonesia Stock Exchange in December 2024 shows that the technology sector continues to exhibit very high volatility. This is reflected in the 3-year annualized standard deviation value of 27.31%, as well as the spread of monthly performance between index constituents, which ranges from +166.23% to -258.92% in just one trading period. This finding confirms that the technology sector in Indonesia has a much greater degree of risk and price volatility compared to other sectors in the capital market (IDX, 2024).

Fig. 1 shows the movement of the IDXTECHNO index over the period 2018 to the end of 2024, displaying a much more extreme fluctuation pattern compared to other benchmark indices such as JCI and LQ45. A dramatic spike occurred in 2021, when IDXTECHNO recorded an annual increase of +707.6%, driven by the post-pandemic digitalization euphoria and the listing of several new technology companies.

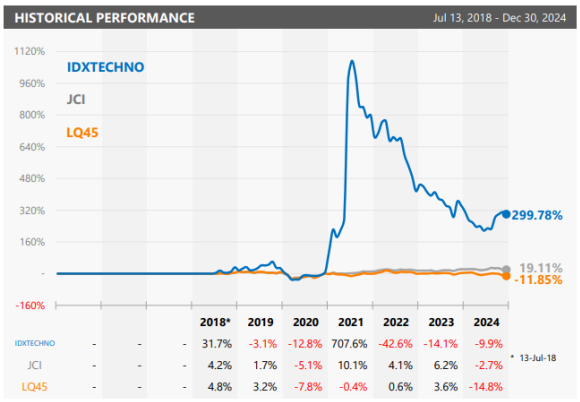

Fig. 1 Share price movement from 2018-2024

However, this rally was short-lived, as the index experienced a sharp correction in 2022 (-42.6%) and continued to decline in 2023 (-14.1%), reflecting profit-taking and waning investor interest in technology stocks. Entering 2024, the index moved into a stabilization phase with a relatively smaller decline (-9.9%), indicating that market participants began to reassess sector valuations more cautiously. Compared to the relatively stable JCI and LQ45 over the same period, these fluctuations confirm that the technology sector is highly sensitive to shifting sentiment and external shocks.

The sharp movements that occur in the technology sector reflect the high level of volatility that is strongly influenced by external factors such as global macroeconomic dynamics, regulations, and rapidly changing market expectations. The high volatility that occurs in the technology sector indicates that investors' perceptions of the value of technology companies tend to be unstable and vulnerable to temporary changes in information. The high volatility of stock prices also reflects the non-optimal internal information and financial management system of the company, therefore increasing uncertainty for investors in decision making(Shaker et al., 2023). Therefore, it is important to analyze the factors that influence corporate policies, such as dividend policy, profitability, and the implementation of the latest systems, to understand their influence on market perceptions and stock price stability (Josua Sirait et al., 2021). The relevance of this study is even stronger considering that the technology sector has a strategic role as the main driver of Indonesia's digital economic growth in the post-pandemic era (Purba et al., 2025).

In line with these developments, advances in information technology play an important role in improving the effectiveness of fund management and company operational activities. One of the main innovations is the implementation of Enterprise Resource Planning (ERP), which is a software-based integrated management system that covers various core business functions, ranging from finance, production, marketing, to supporting functions such as procurement, distribution, cash flow management, human resources, quality control, and electronic services (Abdelall & Wu, 2023; Roup & Purwanto, 2022). ERP implementation has the potential to reduce stock price volatility because it can improve the quality, transparency, and speed of providing financial information, thereby reducing information asymmetry and uncertainty in the market (Cao et al., 2024). With more reliable and transparent financial reports, investor confidence will be stronger, which in turn suppresses the risk of excessive speculation and market reactions to unclear rumors and promotes stock price stability. Abdelall & Wu, (2023) research in Egypt also proves that ERP adoption significantly lowers stock price volatility through improved information quality, transparency, and operational efficiency that reduces uncertainty in the eyes of investors.

The company's financial performance represented through Return on Assets (ROA) plays an important role in shaping investors' perceptions of the company's risk and stability (Sukmawati & Garsela, 2016). A high ROA indicates management's ability to optimize assets to generate profits, so the company is considered healthy and has a positive outlook, which in turn increases investor confidence and suppresses stock price volatility (Baillie & DeGennaro, 1990; Kasmir, 2012). Conversely, a decline in ROA raises concerns over the effectiveness of asset management and triggers market uncertainty (Garg & Gupta, 2024). However, the relationship between ROA and volatility is not always consistent as it is influenced by external factors and investor sentiment (Balcilar et al., 2019). Meanwhile, dividend policy also serves as an important signal to investors (Bhatta & Duwal, 2021). Dividend Payout Ratio (DPR) is often used to assess the stability of the company; the higher the DPR, the lower the stock volatility because dividends provide certainty and reduce investor uncertainty (Angelina et al., 2023; Azhariyah et al., 2021; Hussainey et al., 2011).

Although the effect of ERP, ROA, and DPR on stock price volatility has been widely studied, there is still a research gap in the Indonesian capital market. Most previous studies focus on developed countries or specific sectors, so the results cannot be generalized to all sectors on the IDX. In addition, studies that integrate information technology factors (ERP) with financial indicators (ROA and DPR) are still rare, even though the combination has the potential to provide a more comprehensive understanding of the dynamics of stock volatility. The lack of studies in the post-pandemic period of COVID-19 with a high level of market fluctuations also strengthens the urgency of this research. Therefore, this study aims to analyze the effect of ERP, ROA, and DPR on stock price volatility in all sectors on the IDX, with the hope of making a

theoretical contribution to emerging market literature as well as practical implications for company management and investors.

2. REVIEW OF LITERATURE

2.1 Agency Theory

Agency theory explains the contractual relationship between shareholders as principals and management as agents, where management is authorized to make decisions in the interests of shareholders (Eisenhardt, 1989; Jensen & Meckling, 1976). Agency conflicts arise when the principal has difficulty ensuring that the agent acts to maximize his welfare, resulting in information asymmetry that provides opportunities for managers to behave opportunistically, for example through earnings manipulation (Oriekhoe et al., 2024; Zhou, 2023). In this context, Enterprise Resource Planning (ERP) systems play an important role because they improve internal control, data integration, and transparency so as to reduce agency costs and potential report manipulation (Devi & Aryani, 2024). Opportunistic managerial practices and low information quality can increase stock price volatility and market risk, while the implementation of ERP and consistent dividend policies, such as Dividend Payout Ratio (DPR), are believed to reduce uncertainty and align the interests of agents and principals (Eka et al., 2021).

2.2 Signaling Theory

Correspondingly, signaling theory (Spence, 1973) states that companies disclose information as a signal to investors regarding the company's performance and condition, where financial statements serve as a signal that can affect the value of shares and assist investors in making decisions (Marundha et al., 2022). In the context of dividend policy, signaling theory explains that a company's prospects are reflected through dividend announcements. Ross, (1977) asserts that an increase in dividend payments will increase investor valuations, while a cessation or cut in dividends will decrease these valuations. Therefore, the market responds to dividend announcements as financial signals, where the dividend payout ratio represents managers' predictions of the firm's future cash flows.

2.3 Perception of Dividend Payout Ratio

Dividend Payout Ratio (DPR) is the ratio of net income distributed as cash dividends and according to signaling theory Spence, (1973) serves as a signal of the company's financial stability (Dwi Tamam & Nahda, 2024). A high DPR reflects stable performance and cash flow so that it can reduce market uncertainty and reduce stock volatility (Heliani et al., 2021). Empirical research supports this, such as Angelina et al (2023); Hashemijoo et al (2012); Siti Maysaroh & Handayani (2025) who found a significant negative relationship between DPR and volatility, while Trihadiyanti et al., (2023) showed that low DPR actually increases volatility. Therefore, a high DPR gives a positive signal, lowers risk, and suppresses stock price volatility (Naz & Siddiqui, 2020). Based on these arguments, the hypothesis is formulated as follows:

H_1: Dividend payout ratio affects stock price volatility.

2.4 Perception of Return on Assets

According to Signaling Theory Spence, (1973) Return on Assets (ROA) signals profitability which reflects the efficiency of the company in generating profits. High ROA provides a positive signal to investors about the company's prospects and stability, which can affect stock price volatility. Empirical findings are mixed, with some studies showing a significant effect and others not (Subadriyah et al., 2022). In the context of this study, ROA is expected to influence investor perceptions and impact stock price volatility (Putri & Syaichu, 2023; Rompas, 2022). Based on these arguments, the hypothesis is formulated as follows:

H_2: Profitability as measured by return on assets affects stock price volatility.

2.5 Perception of Enterprise Resource Planning

According to Jensen & Meckling, (1976) agency theory explains the relationship between shareholders (principal) and management (agent) which often creates information asymmetry, because management has more control over internal information than shareholders. This condition can lead to agency problems and supervisory costs (agency costs). The implementation of enterprise resource planning (ERP) is an important instrument to reduce information asymmetry by presenting integrated, accurate, and timely financial and operational data (Sri et al., 2024; Yoro, 2024).

More transparent and reliable information will reduce investor uncertainty, thereby reducing the potential for overreaction to new information that often triggers stock price volatility (Caporale & Plastun, 2019). This is reinforced by research by Abdelall & Wu, (2023) which shows that ERP adoption in Egypt significantly reduces stock price volatility, especially in companies with weak governance and high levels of information asymmetry. Therefore, ERP implementation plays a role in improving information quality and suppressing market uncertainty, which in turn can reduce stock price volatility. Based on these arguments, the hypothesis is formulated as follows:

H_3: Enterprise resource planning affects stock price volatility.

3. RESEARCH METHODOLOGY

This study employs a population consisting of all companies listed on the Indonesia Stock Exchange (IDX) during the period 2022–2024. The selected timeframe is considered relevant as it represents a phase of heightened market volatility following the substantial index surge in 2021, the subsequent correction in 2022–2023, and the stabilization period in 2024. Thus, it provides an appropriate context for examining the role of firm-specific internal factors in mitigating stock price fluctuations. The sample was determined using a purposive sampling technique based on the availability of data on Dividend Payout Ratio (DPR), Return on Assets (ROA), Enterprise Resource Planning (ERP) implementation, and stock price volatility, resulting in 166 eligible firms or 498 firm-year observations (Sugiyono, 2018). Secondary data were collected through documentation of annual reports and IDX publications. The analysis was conducted using panel data regression with the assistance of EViews software. Model selection was performed through the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test, while classical assumption tests such as multicollinearity and heteroskedasticity were applied to ensure the validity and reliability of the estimated model.

Table 1. Operational definitions and measurements

Variable	Description
Dividend Payout Ratio (DPR)	Percentage of net income distributed to shareholders in the form of cash dividends (Ajao & Robinson, 2022; Husna & Satria, 2019; Smith, 1992)
Return On Assets (ROA)	A ratio that shows the company's ability to generate net income based on its total assets (Hanafi, 2008; Hery, 2014; Trihadiyanti et al., 2023).
Enterprise Resource Planning (ERP)	An integrated information system used by a company to manage and coordinate all resources, information, and business functions (Abdelall & Wu, 2023)
Stock Price Volatility (PV)	The level of stock price fluctuation, calculated by the standard deviation of daily stock price returns (Hull, J. C. 2018).

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The descriptive statistics of the variables indicate that stock price volatility has an average of 0.245, suggesting a relatively low fluctuation in the sample firms (Ghozali, 2018). The dividend payout ratio averages 0.445 with a wide dispersion, reflecting that while most firms distribute moderate dividends, a few distribute exceptionally high or even negative payouts (Khan, 2020). Around 34.6% of the firms have implemented ERP systems, while the rest have not. Return on assets shows a relatively low mean (0.077), indicating modest profitability. The high skewness and kurtosis values in stock price volatility and dividend payout ratio suggest the presence of outliers, implying heterogeneous firm characteristics.

4.2 Model Selection and Assumption Tests

4.2.1 Model Selection

In this study, to determine the best panel regression model, three tests were used, namely the Chow Test, the Hausman Test, and the Lagrange Multiplier (LM) Test.

A. Chow Test

The Chow test is used to select between the common effects and fixed effects models. The test results show:

Table 2. Chow Test Results

Redundant Fixed Effects Tests Equation: Untitled Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.938833	(165,327)	0.6738
Cross-section Chi-square	192.344754	165	0.0714

The Chow test results show a cross-section F-probability value of 0.6738, which is greater than 0.05. Therefore, the fixed effect model is not superior to the common effect model. This indicates that differences in characteristics between companies are not significant enough to influence the relationship between the independent and dependent variables. Therefore, the common effect model is more appropriate than the fixed effect model.

B. Hausman Test

The Hausman test is used to select between the fixed effect and random effect models. The test results show:

Table 3. Hausman Test Results

Correlated Random Effects - Hausman Test Equation: Untitled Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.577108	3	0.9017
** WARNING: estimated cross-section random effects variance is zero			

The Hausman test results show a probability value of 0.9017 (>0.05), indicating that the random effects model is more appropriate than the fixed effects model. However, the final decision is not based solely on the Hausman test but also takes into account the results of the Chow and LM tests.

C. Lagrange Multiplier (LM) Test

The LM test is used to compare common effects and random effects. The test results show:

Table 4. Lagrange Multiplier (LM) Test Results

Lagrange Multiplier Tests for Random Effects Null hypotheses: No effects Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives			
Test Hypothesis			
	Cross-section	Time	Both
Breusch-Pagan	0.247847	0.069693	0.317540
	(0.6186)	(0.7918)	(0.5731)

The LM test yielded a Breusch-Pagan probability value of 0.6186 (>0.05), indicating that the Random Effects model was no better than the Common Effects model.

Based on the three tests above, both the Chow Test and the LM Test indicated the Common Effects Model as the best model for this study. Therefore, subsequent regression estimation was performed using Panel Least Squares (PLS) on the Common Effects model.

4.2.2 Classical Assumption Test Results

A. Multicollinearity Test

One of the assumptions of classical linear regression is the absence of multicollinearity, indicating that there is no relationship between variables in a regression model. A good regression model should be free of multicollinearity, as indicated by a correlation coefficient value of <0.8, indicating no symptoms of multicollinearity. However, a correlation coefficient value of >0.8 indicates the presence of multicollinearity.

Table 5. Multicollinearity Test Results

	DPR	ERP	ROA
DPR	1	0.02736898999429406	0.1530494972697536
ERP	0.02736898999429406	1	0.07027532077037049
ROA	0.1530494972697536	0.07027532077037049	1

Based on Table 5 above, it shows that all variables have coefficient values <0.8, which can be concluded that the model does not experience symptoms of multicollinearity.

B. Heteroscedasticity Test

The heteroscedasticity test is used to determine whether the residuals from the model have constant variance. A good model is one in which the variance of each disturbance or residual is constant. The required result in this test is that the independent variable has a probability value (p-v-value) above the 0.05 or 5% significance level.

Table 6. Method of Heteroscedasticity Test

Dependent Variable: ABS(RESID)
Method: Panel Least Squares
Date: 08/09/25 Time: 10:39
Sample: 2022 2024
Periods included: 3
Cross-sections included: 166
Total panel (unbalanced) observations: 496

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.057518	0.009266	6.207679	0.0000
DPR	0.005343	0.011295	0.473079	0.6364
ERP	0.003034	0.010979	0.276351	0.7824
ROA	-0.110999	0.072035	-1.540915	0.1240

Based on the heteroscedasticity test results using the Panel Least Squares method on the absolute residual variable (ABS(RESID)), it can be interpreted that all independent variables have probability values (p-values) above the 0.05 significance level. Specifically, the Dividend Payout Ratio (DPR) has a p-value of 0.6364, Enterprise Resource Planning (ERP) has a p-value of 0.7824, and Return on Assets (ROA) has a p-value of 0.1240. A p-value greater than 0.05 indicates that each independent variable has no significant effect on the absolute residual value.

Therefore, it can be concluded that the panel regression model used does not experience heteroscedasticity, or in other words, the error variance in the model is relatively constant (homoscedastic). This condition indicates that the model meets one of the classical assumptions, making the resulting coefficient estimates more reliable because they are not biased by variance inhomogeneity.

4.3 Regression Results

4.3.1 The panel regression results

The panel regression results are presented in Table 7. The coefficient of DPR is negative (-0.0239) and close to statistical significance (p =

0.055), indicating that higher dividend payouts may reduce stock volatility, although the evidence is not strong. ERP implementation shows a positive but insignificant effect (p = 0.324), suggesting that ERP adoption is not directly associated with market stability. ROA also has a negative but insignificant effect (p = 0.692), implying that profitability alone does not reduce stock price volatility. The model's explanatory power is low (R^2 = 0.01), meaning that most variations in volatility are driven by other factors outside the model.

4.4 Discussion

4.4.1 The Effect of Dividend Payout Ratio (DPR) on Stock Price Volatility

Based on the results of statistical testing, the dividend payout ratio (DPR) has a negative influence on stock price volatility, although the effect is relatively weak. DPR describes the company's policy of distributing profits to shareholders and is an indicator of financial stability (Husna & Satria, 2019). In line with signal theory, dividend payments are seen as a form of management communication to investors regarding the prospect of stable cash flow and healthy performance (Farida et al., 2024). The greater the proportion of profit distributed, the more positive the market perception of the company's prospects, so that stock price volatility tends to decrease. This finding is consistent with the research of Allen & Rachim (1996); Devi & Aryani (2024); Eka et al (2021); Hashemijoo et al (2012) & Hussainey et al (2011). However, this result is different from (Naz & Siddiqui, 2020) who found a positive relationship between DPR and stock price volatility.

4.4.2 The Influence of Enterprise Resource Planning on Stock Price Volatility

The test results show that ERP implementation does not have a significant effect on stock price volatility. Theoretically, according to agency theory, ERP should be able to increase transparency and reduce information asymmetry between management and shareholders, thereby potentially reducing volatility (Boshkoska, 2015). However, these empirical findings indicate that investors have not fully taken into account the benefits of ERP. Limited public disclosure regarding the success of ERP implementation and the dominance of external factors such as macroeconomic conditions and market sentiment are likely the main causes. Thus, although ERP is expected to reduce uncertainty, its effectiveness in reducing volatility in the Indonesian capital market is still unclear.

Table 7. The panel regression results

Dependent Variable: PV
Method: Panel Least Squares
Date: 08/09/25 Time: 10:14
Sample: 2022 2024
Periods included: 3
Cross-sections included: 166
Total panel (unbalanced) observations: 496

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.254178	0.010194	24.93429	0.0000
DPR	-0.023905	0.012426	-1.923703	0.0550
ERP	0.011924	0.012078	0.987205	0.3240
ROA	-0.031456	0.079251	-0.396913	0.6916
R-squared	0.010082	Mean dependent var		0.245246
Adjusted R-squared	0.004045	S.D. dependent var		0.127953
S.E. of regression	0.127694	Akaike info criterion		-1.270332
Sum squared resid	8.022399	Schwarz criterion		-1.236408
Log likelihood	319.0424	Hannan-Quinn criter.		-1.257016
F-statistic	1.670207	Durbin-Watson stat		2.325258
Prob(F-statistic)	0.172506			

4.4.3 The Effect of Profitability (ROA) on Stock Price Volatility

Based on statistical testing results, it is stated that Return on Assets has no effect on stock price volatility. Return on Assets (ROA) is a profitability ratio that measures a company's ability to utilize all of its assets to generate net income. In the framework of signal theory, ROA represents management efficiency in utilizing assets to generate profits (Jonnius & Marsudi, 2021). In theory, a high ROA should send a positive signal to the market that the company is managed efficiently, so that the risk is considered lower (Dina Sentika et al., 2024). However, these results show that the market does not respond significantly to changes in ROA. This can occur when investors view ROA information as a historical indicator that is less relevant for predicting future performance, or when this information is already reflected in the stock price prior to the observation period.

This study is in line with research conducted by Assous (2022) & Crisanti et al (2024) which states that ROA values can be a positive signal, but the study shows that investors do not really use it as a benchmark or main determinant in investment decisions. Thus, in this context, ROA loses its signaling function because it is considered less relevant and less influential on market expectations.

5. CONCLUSION

The results show that the Dividend Payout Ratio (DPR) has a negative effect on stock price volatility, although the effect is relatively weak. This suggests that higher dividend distribution reduces uncertainty in stock prices, consistent with signaling theory which posits that dividends provide positive signals about a firm's stability and future prospects. In contrast, ERP implementation does not significantly affect stock price volatility, indicating that investors may not yet fully consider ERP adoption in their decision-making due to limited transparency and disclosure of its outcomes. Furthermore, Return on Assets (ROA) also shows no significant influence, implying that profitability information may already be reflected in stock prices.

These findings highlight the role of dividend policy as a more relevant factor for investors in mitigating volatility in the Indonesian technology sector. Companies are encouraged to maintain a consistent and transparent dividend payout to strengthen investor confidence. In addition, firms should improve disclosure related to ERP implementation, for example through annual reports or public exposures, so that its potential benefits are more visible to the market. Investors, on the other hand, should prioritize DPR in investment analysis while also considering broader fundamental and external factors implementation, for example through annual reports or public exposures, so that its potential benefits are more visible to the market. Investors, on the other hand, should prioritize DPR in investment analysis while also considering broader fundamental and external factors.

This study is limited by its focus on a narrow set of variables and a relatively short observation period. Future research could extend the analysis by incorporating macroeconomic variables such as interest rates, exchange rates, and market sentiment, as well as applying longer observation periods to capture long-term dynamics. Comparative studies across different industrial sectors would also be valuable in assessing the generalizability of the results within the Indonesian capital market.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that generative AI technologies such as Large Language Models, etc have been used during writing or editing of this manuscript. This explanation will include the name, version, model, and source of the generative AI technology and as well as all input prompts provided to the generative AI technology.

Details of the AI usage are given below:

1. ChatGPT (GPT-5, OpenAI, 2025) was used for paraphrasing and improving sentence clarity.
2. Consensus AI was employed to assist in identifying and verifying prior research articles.
3. DeepL Translator was used to support translation and language polishing.

These tools were applied only to enhance readability and efficiency in literature search and translation. All research ideas, data analysis, theoretical frameworks, and conclusions are entirely the responsibility of the authors.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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