

CHAPTER I

INTRODUCTION

A. Research Background

The number of investors continues to grow, since the real sector is less profitable due to social restrictions amid the pandemic. As a result, people try to make a profit in the capital market sector. In investing, one of investors main goal is to obtain profit from the investments. In the stock market transactions, profit may be obtained from two sources, such as capital gain and dividend paid by company. According to bird in hand theory, most investors are more interested to dividend, since it is less risky and more certain compared to capital gain (Bhattacharya, 1979). Therefore, dividend policy and the stock risk are crucial for investors.

The bird in hand theory in Bhattacharya (1979) made it clear that company who pay high dividends attract more investors since it gives more certainty rather than capital gain. Also, investor perceive high dividend as prosperous company and can sustain in the market. Furthermore, this assumption is supported with the emergence of the IDX High Dividend 20 (IDXHIDIV20), which stocks listed by Indonesia Stock Exchange (IDX) that consists of 20 stocks that paid high dividends for the last 3 years. It is known that some companies in Indonesia have paid dividend over than 100 percent of the net income, moreover, still pay quarter dividend as well.

While company main objective is to attain profit and maximizes stockholders' wealth (Ross, Westerfield, & Jordan, 2018), herein lies a difficult challenge for the company, which to balance its own welfare nor investors'. Consequently, when company fund is allocated on high dividend payment, company's main objective is threatened. It is feared

high dividend policy, can inflict in lack of resource needed to support company development and or generating future earnings, hence can influence their ability to generate profit, decrease the ability to grow asset to support operating activities, since the earnings are allocated to pay dividends. If operational activities are hampered, the company's ability to make a profit will more likely decreased. And when profit and asset growth decrease, it can signal investors that company's performance is decreasing, which can affect investor decision making and stock price volatility.

Although high dividend policy is attractive to investors, it is not the only benchmark for making investment decisions. Investors are eager to know regarding company fundamental (Puspitaningtyas, 2015). Financial report can be a signaling tool about company future prospect and risk. Earnings is considered one of the most essential information for investors because they need to assess the company's ability to finance the company activities and make sure the company to keep it running. Without earnings, company will not be able to operate and sustain in the long run. Investors can evaluate company performance through financial report that is based on applicable accounting standards. However, since company can use certain accounting practices to increase profits, investors also pay attention to other factors in the stock market, such as market stock risk.

Besides the fundamental, market risk is important as well. Investors are eager to know the market risk of the stock, regarding the amount of return that will be obtained to offset the risk of the stock. Every investor wants the return to outweigh the risk. Primarily, investors invest to get return and minimize risk. Therefore, it is important for investors to estimate the risk of the stock to avoid risk outweighs the return. Beaver (1968) believes

that investors react quickly to any information spread in the market, which causes the stock to perform immediately adjustment so it can make the stock price more responsive and affect stock risk. In conclusion, company fundamental and technical information can serve as device to predict stock risk and help investor make investment decision.

As far as the author's concerns, there has no studies regarding the impact dividend policy and asset growth towards company future earnings and stock risk. There are previous similar studies yet results inconsistently and limited. For this reason, the author is interested to examine this topic. The purpose of this study is to provide empirical evidence on the impact of dividend policy and asset growth to company future earnings and stock risk. The object of this research is companies listed in Indonesia Stock Exchange High Dividend 20 (IDXHIDIV20) 2018-2020. This research uses future earnings (historically) and stock risk as the dependent variable, while dividend policy and asset growth as the independent variable, and lastly, cash flow, firm size, ROA as the control variable.

B. Problem Formulation

The formulation of the problem in this study are as follows:

1. Does high dividend policy have an impact on the company earnings in the next period?
2. Does asset growth have an impact on the company earnings in the next period?
3. Does high dividend policy have an impact on stock risk?
4. Does asset growth have an impact on stock risk?

C. Research objectives

The objectives of this research are as follows:

1. To give empirical evidence on the impact of high dividend policy on company future earnings.
2. To give empirical evidence on the impact of asset growth on company future earnings.
3. To give empirical evidence on the impact of high dividend policy on stock risk.
4. To give empirical evidence on the impact of asset growth on stock risk.

D. Research Contribution

1. Theory Contribution

The results of this study are expected to explain and prove existing theory regarding the phenomenon related to this research. Also, the results of this study are expected to become a reference and may provide additional library materials for developing theories in the future research, especially related to the impact of High Dividend Policy and Asset Growth to Future Earnings and Stock Risk.

2. Practical Contribution

The results of this study are expected to be practiced in real life that can be used to fix the practice in better ways.

a) For Investor

The result of this research is expected can help the investor or potential investor to analyze and make a worthwhile investment decision in the stock market based on their preferences so that investors or potential investors may purchase a good prospect stock and maximize stockholders' wealth. It

can also give investor insights, especially for those who take part in the General Meeting of Shareholders (RUPS), so the investor can understand how high dividend policy and asset growth may impact company future earnings and stock risk. Through proper understanding, investors in the General Meeting of Shareholders (RUPS) may be more considerable to vote for the dividend payout. And those who don't participate in RUPS not only attracted on stock with high dividend yield or payout, but to give investor information about the risk of stocks that comes with high dividend payment. Also, it gives investor insight about investing in company who offers high dividend yield.

b) For Management

The result of this research is expected to help the management in understanding high dividend policy and asset growth may impact company future earnings and stock risk. Therefore, through this research result, the author expects to help management to manage the capital structure more carefully, so that the company can maximize earnings, maximize stockholders' wealth, and have satisfactory performance in the short nor long run. It can also be a reference for the management in making decisions about the company strategy on dividend policy and asset growth. Furthermore, the result of this research may be used to know the effectivity of the implementation of high dividend policy and asset growth may impact company future earnings nor stock risk, so the management can optimize

the dividend policy and manage the asset growth to maximize the company future earnings and maximize stockholders' wealth at the same time.

c) For Government

The result of this research is expected to give empirical evidence about the effectivity of the regulation issued by government and government financial institutions regarding the importance of transparency of financial statement, so that both investor and management can benefit from the stock market. Hence, it will encourage the practice of investing in Indonesia and develop Indonesia economy. Moreover, this research is expected to encourage governments to continue to improve the regulations associated with assets and dividends, so that both investors and management may benefit fairly and reduce information asymmetry.

E. The Scope

The scope in this study are as follows:

1. Empirical study of companies listed on the Indonesia Stock Exchange High Dividend 20 (IDXHDIV20) period 2018-2020.
2. High dividend policy measurement in this study is taken from the Indonesia Stock Exchange (IDX) website.
3. Company future earnings and assets growth in this study are taken from company financial statement. Firstly, company earnings are measured from Earnings Before Interest and Tax since tax regulations changed overtime. Whereas asset growth is

measured from total asset in the statement of financial position section, by comparing previous year to next year balances.

4. Stock risks are calculated with standard deviations from stock actual return for a year.

F. Data Analysis Technique

The following are the stages of data analysis that will be carried out on this research:

1. Gather companies' data from Indonesia Stock Exchange from year 2017-2020.
2. Do a purposive sampling to select the companies based on the criteria established.
3. Conduct a sample selection process, namely companies that are included in IDXHIDIV20 2018-2020.
4. Calculate research variables
 - a) Dividend policy
 - b) Asset Growth
 - c) Net Income
 - d) Stock Risk
 - e) Leverage
 - f) Firm Size
 - g) ROA
5. Conduct statistical test, namely:
 - a. Classical Assumption Test, including normality test, multicollinearity test, autocorrelation, and heteroscedasticity test.
 - b. Hypothesis Test using multiple linear regression analysis using t-test, Coefficient of Determination, and F-Value test.

6. Interpret and analyse the statistical test.

G. Writing Systematic

This research is prepared systematically as follows:

CHAPTER I

INTRODUCTION

Chapter I is the introduction of the research that includes: research background, research problem, research objectives, research contributions, scope, data analysis technique, and writing systematic.

CHAPTER II

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Chapter II is the theoretical background and hypothesis development, which consist if literature review that consist of previous research that related with this research, hypothesis development, and theoretical background that consist of bird in hand theory, signaling theory, efficient market hypothesis theory, capital structure, financial reporting theory, dividend policy, asset growth, future earnings, stock risk, development of hypotheses, and research model.

CHAPTER III

RESEARCH METHODOLOGY

Chapter III is the research methodology used in the research, which includes type of research; research

object; population and sample criteria; data collection techniques; research variable; data analysis techniques; and hypothesis testing method.

CHAPTER IV

RESULT AND DISCUSSION

Chapter IV is the result and discussion, which includes descriptive statistics, classic assumption test, hypothesis testing, and discussion.

CHAPTER V

CONCLUSIONS

Chapter V is the conclusion, which includes conclusion, limitation, and suggestion.

