CHAPTER II

THEORITICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

A. Bird in the Hand Theory

Investor income may be obtained from two sources, such as capital gain and dividend paid by the company. According to Bhattacharya (1979), "Bird in the hand" theory is when agents must realize their wealth for consumption and dividends are "superior" compared to capital gains. Investors prefer to get investment income from dividends, since it offers more sense of certainty, compared to capital gain. This theory is called 'bird in hand theory' because, capital gain is described as birds flying freely on the air. Meanwhile dividend is described as the bird on the stockholders' hand. Compared to chasing the other bird flying in the air, it is risky, if stockholders hold on to the bird in the hand, that we know as a dividend. Investors may be able to catch the flying bird, but it is nothing compared to the bird in hand. This theory emphasizes that capital gain is full of uncertainty, whereas dividends offer the market a greater sense of certainty.

Hartini (2009) written that if investors have other alternatives besides using the dividends, they receive such as investing in lower risk assets, then the bird-in-the-hand theory can apply as well although it depends on the extent to which shareholders' perceptions of the risks involved in reinvesting the company by reinvesting dividends elsewhere. This theory asserts that investors are the risk avoider and choose to invest in things that have a lower risk than other forms of investment.

B. Signaling Theory

According to Godfrey (2006) signalling theory is how accounting information can be used to signal information about the firm. Due to the asymmetric information between

management and investors, people outside the company take every company's published information as a signal. Any information such as market and fundamental information can serve as a signal. As a result, it is hard for investors to be completely objective, due to the lack of information. At the same time, it is easier but also tricky for companies to convey the signals they want to convey to outsiders.

This theory applies in, for instance, when company published a financial report or announce a dividend payment, those can serve as signal to the market. In addition, financial report will be assessed by investors as a signal before they have any transactions regarding the shares. Another example, after investor analyze company financial statements and it does not seem promising in the future, investor may let go of the stocks. Concurrently, for creditors, the company's financial statements are useful to assess the company's ability to pay its obligations, both the ability to pay interest on the loan or the ability to pay the loan principal. Company report such as dividend policy, asset growth, earnings, and stock prices are also tools that help investors to judge the company overall performance.

Take dividend policy for example, it is a signaling devices that is only used by companies that have satisfactory performance, which is the company can still generate profits and fund their investment activities even though they pay high dividends, and it is hard for other company to copy this signaling method (Hartini, 2009). If the company is willing to pay higher dividends than the previous year, investors will take this information as a signal that the company is more advanced and developing so that it can distribute high and frequent dividends. If it goes down, investors will consider the company's performance to decline so that the company must finance its investment activities to earn more profits in the future. Hence, if the company choose to distribute dividend after no dividend

payment in previous years, it can indicate that the company is performance is increased and wealthy enough that it can distribute dividends to investors. In conclusion, when dividend is announced, the percentage of dividend payment, nominal, and changes in dividends, decreasing nor increasing in the form of per share, are considered to give a signal about the company's financial performance in the future (Hartini, 2009). In addition, a high dividend policy will attract potential investors to invest because investors see that the company has sufficient profit to finance its company and manage to pay high dividends to shareholders.

Asset growth is also an important signaling devices in the company. It can determine investors investment decision. An increase in assets followed by an increase in operating results will further increase investor trust in the company (Suweta and Dewi, 2016). Increasing asset growth can serve as positive signal to outsiders, it reflects that the company is in a satisfactory performance so that the asset is experiencing growth. In this case, investors can become more interested to invest and investors have a sense of safety, knowing that the company they invest is in a good condition. Furthermore, a positive asset growth means that company operating there will be an increase in operating results, this will increase profits. The higher the asset growth ratio of a company, the better the condition of the company and the prominent level of profit (Ihwandi & Rizal, 2017). Positive asset growth indicates that the company's operational activities are supported by the total assets, and help company to obtain positive earnings, and maintain the activities so that company will have positive future earnings.

Earnings or profit can also serve as a signaling devices, and it is important for investors to know the company's profit because profit is one of the signalling tools

regarding the company's welfare. The earnings in current year can be a forecast to earnings next year and company who are forecasted to increase in earnings can be more appealing to investors. Also, obtaining profit is the main objective of every company. The profits obtained by the company are used for various purposes, one of which is to increase the welfare of the company and investors in the short and long run.

Those fundamentals signaling devices explained in the previous paragraph may influence investment decision making. However, market information such as stock risk cannot be ignored by investors. Positive fundamental signals can be useful but also can be worthless if it can't contribute to investor. There are several factors that can cause stock risk to increase, they are classified into internal factors and external factors. Internal factors (fundamental) are factors that arise from within the company. While external factors cannot be controlled by companies that affect market assumptions and ultimately affect stock prices, such as government policies, certain news can trigger panic in the market, market manipulation, macroeconomic conditions, fluctuations in the rupiah exchange rate to foreign currencies exchange. Investment decisions will be reflected in the stock price, stock trading volume or volatility (Anastassia & Firnanti, 2014). In conclusion, any published information can affect market and investor sentiment towards the investment decision making.

C. Efficient Market Hypothesis Theory

In general terms, the efficient market is where the stock prices provide accurate signals for resource allocation; that is, a market in which firms can make production-investment decisions, and investors can choose among the securities that represent

ownership of firms' activities (Fama, 1969). Efficient market theory is a hypothesis which shows that the price of an asset reflects all the information contained in it.

Regarding the definition according to Beaver (1968) it cannot be denied that information that is believed to be attention of many interested parties in the capital market. These parties include policy makers (government, capital market supervisory bodies or accounting policy-making associations), company management as financial report makers, accountants (auditors) as parties providing certification, and information intermediaries, such as customers and competitors, and investors.

It is debatable whether efficient market is applicable in real life. Some argue that markets are not efficient, including the top investor, Warren Buffet. According to Agfiyatno (2021), there are following conditions should ideally be met:

1) There are many rational (not emotionally, irrationally, greed) investors who actively participate in the market by analysing, valuing, investing, and trading stocks.

2) Investors are a price taker, means that the investor cannot influence the security price.

3) All market participants obtain information at the same time and at no cost.

4) Information that occurs is random and unpredictable

5) Investors react quickly and fully to new information that comes in the market, which causes the price to fluctuate. This is in accordance with Beaver (1968) in Lai *et al* (2009), Ball and Brawn (1968) and Fama *et al.* (1969), namely stock prices will move when useful information is published to the market (Agfiyatno, 2021).

Unfortunately, in reality, it is difficult to find either a truly efficient market or a completely inefficient market. In general, the market will be efficient, but only to a certain degree (Mesran, 2021). Hence, Fama (1969) divides the capital market efficiency model into three forms based on the information used in decision making:

1. Weak form

   Capital market efficiency in its weak form implies that the prices of securities reflect all information contained in the prices of securities in the past. In this condition, no investor can obtain a profit level above normal by using guidelines based on past price information. The weak form implies that there is no information that can show how the market and stock prices move. Fundamental analysis in stock investment can indeed provide information for investors so that they can get profits above the market average in the short term, but there is no particular pattern for this (Ramadhani, 2020). In addition, fundamental analysis also does not provide long-term benefits. Likewise with technical analysis. Which means, nothing can predict the stock price because the stock price itself is random.

2. Semi - Strong Form

   Capital market efficiency in semi-strong form implies that securities prices not only reflect past prices, but also all published information, such as published financial statements or analysis, earnings, dividends announcements, mergers, and so on. In this condition, no investor can get a profit level above normal by utilizing published information sources. This theory implies that the stock value

is a description of all relevant information that can be known by the public. This information includes financial statements, interest rates and other matters relating to the company. From this hypothesis, it can be concluded that stock prices can be predicted by the public by looking at the available information. The use of fundamental nor technical analysis are done in order to obtain maximum profit. By using fundamental analysis, investors can find out the value of stocks and buy undervalued stocks. This step is used by the world's famous investor, Warren Buffet to choose which stocks are worth buying.

3. Strong form

Strong form implies that the securities price reflects not only all published information but also unpublished information. Investors can get a level of return above normal by observing the signs of other investors who have information. This theory states that all publicly accessible nor confidential information can reflect stock prices (Ramadhani, 2020). This means that all relevant information circulating in the public or information from insider information (such as management and the board of directors) can be a way for investors to determine their investment steps.

D. Financial Reporting

1. Financial Report Definition

Financial reporting is a report consisting of company financial performance at certain period. Based on IAS 1, financial statement is a structured representation

regarding company's financial position and financial performance. The objective of financial statements is to provide information about company financial position, financial performance, and cash flows of an entity that is useful to every user in making decisions economically (IAS 1). Financial statements provide information regarding company's asset, liabilities, equities, income, and expenses including gains and losses, contributions by and distributions to owners in their capacity as owners, cash flows, provide additional information in the notes part.

2. Financial Statement

Financial statements aim to inform user and the entity themselves regarding the entity overall financial performance. Meanwhile, according to PSAK no.1 Financial Accounting Standards (2000), is:

> *"Providing information about the company's financial position, performance and cash flow that is useful for a large number of report users in the context of making economic decisions and shows the accountability of management for the use of resources entrusted to them."*

Financial statements act as a fundamental company performance. Because the financial statements contain accounting information published by the company during a certain period. Also, fundamental give insight about historical side of a company, which can predict the company's prospects in the future from its current fundamental condition. For investors, this fundamental information is important to help make investment decisions, whether selling shares, maintaining ownership, or buying shares. Fundamental analysis is based on various conditions a company in the past to predict

its condition in the future by focusing on analysis of accounting information contained in the report finance (Puspitaningtyas, 2015).

E. Earnings

1. Earnings Definition

The definition of earnings or income according to 4.25(a) of the Conceptual Framework in Rankin (2012):

> *"Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants."*

Earnings refers to the total of company profit or net income for certain period, in quarter or fiscal year. Earnings are the main determinant of a public company because they can be used in two ways: they can be re-invested in the business to boost its earnings in the future period, or they may be used to pay dividend to stockholders (Tuovila & Scott, 2021). Companies most likely to have short-term and long-term strategy on how to distribute their earnings. For instance, company may distribute the earnings to purchase asset or another investment activity, also known as asset financing. Also, company may distribute its earnings to stockholders as dividend so that as a signalling device that it will not be hoarding cash by cutting down agency costs and enhancing shareholder wealth (Ross, Westerfield, & Jordan, 2018).

The income statement reports income and expenses, as well as profit or loss over a specified period (Tobing & Kharisma, 2020). The information of earning in go public company are stated in the financial statement, in the income statement part. Earnings

is a crucial part to determine company overall performance, and usually used as a base measurement for profitability ratio. Although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities (IASB, 2018).

2. The Importance of Profit

Earnings or profit is important to both investor and company because profit is a tool to measure success in a business and profit as a basis for decision making for management nor investors. Firstly, to investor, it is important for investors to know the company's profit because profit is one of the signalling tools regarding the company's welfare. Aligned with signalling theory, investor confidence in the company will automatically increase. Investors do not want to invest in companies that is not profitable, because they will perceive it as a risky investment. Company earnings can measure company performance and will also affect the company's profits in the future.

Secondly, to company, obtaining profit is the main objective. The profits obtained by the company are used for various purposes, one of which is to improve the welfare of the company and investors. Profit can affect the welfare of companies and investors. If the company does not have enough profit, slowly the company's activities will be hampered. Likewise with investors, the company will automatically not be able to prosper investors through dividends. Also, earnings can measure company performance and can affect the company's profits in the future.

3. Future Earnings

Future earnings refer to the total income that company obtain in the future. In most cases, a company that goes beyond analysts' earnings estimation is considered as

favorable by investors, whereas a company that consistently fails earnings estimates may be considered as a risky investment (Tuovila & Scott, 2021). Because in that case, investors are unable to predict the earnings and historical earnings can be a determinant for expected future earnings.

According to Ross *et al*. (2018), financial manager responsibility is to maintain steady earnings growth with legal and ethical actions. Positive earning is crucial for investors' judgement of the company and the company's wellbeing itself. Besides, earnings are related to profitability ratio, such as Profit Margin, Return on Assets (ROA), Return on Equity (ROE), and the like. On the investor's behalf, earnings are strongly related to Dividend Policy which indicated by dividend payout ratio from the earnings.

4. Retained Earnings (RE)

Retained earnings (RE) is the amount of net income left for the company after it has paid out dividends to its shareholders. It contains historical profits earned by a company, minus any dividends paid in the past (Fernando, 2021). The word "retained" exist since the earnings were not paid out to shareholders as dividends and retained by the company. Retained earnings is a reported in the shareholders’ equity section of the company balance sheet. Although retained earnings are put in the balance sheet as an asset, it is considered as internal financing for a company. They can be used to purchase assets such as, equipment, inventory, or other investments. Investors will react positively if the retained earnings because it conveys that company is able to produce sufficient cash flow for their funding (Bernawati and Fikasari, 2021).

F. Dividend

1. Definition of Dividend

Dividend is a part of the company's net profits that are paid to investors, which are usually distributed in the form of cash, called cash dividends. The payment of dividends by the corporation is not considered as business expense and dividends are paid out of the profit after tax (Ross, Westerfield, & Jordan, 2021). The share of dividends distributed from the annual profit (pay out ratio) is determined in the General Meeting of Shareholders (GMS). Dividend payments has timeline so that investor can still receive the dividend.

2. Cash Dividend Payment Chronology

When the company announces that it will pay cash dividends, it becomes an obligation for the company that must be fulfilled. In general, cash dividend payments are expressed in the form of dividend per share. Ross, Westerfield, and Jordan (2021:581) classify cash dividends payments into four dates, as follows:

1. Declaration Date

   Declaration date is the date on which the board of directors announces will pay dividends to shareholders as of that date.

2. Ex-dividend Date

   The ex-dividend date is the date on which the company ensures that the dividend will be distributed to the precise investors. If investors purchase the stocks before this ex-dividend date, then they are entitled to receive dividend. Meanwhile, if an investor buys shares after this date, then the previous owner is entitled to dividends.

3. Date of Record

   Date of record is the date on which the company prepares the list of shareholders who are entitled to receive dividends.

4. Date of Payment

   Date of payment is the date on which a check for dividend payments is sent to the eligible shareholders.

3. Importance of Dividend

Both investors and company are profit oriented. Company seek profit from its business activities, while investors seek profit from their investments. Dividend can benefit both investors and company. These are some of the advantages of dividend to investors:

a) Measurement of company performance

   The company's financial statements can potentially be manipulated or use misleading accounting method to show an increase in the company's performance to investors. As with dividends, which are more credible, it shows whether the company is performing well or poorly. Because to make dividend payments, a company must have 'real' cash flow. Historical dividend payout gives investors a firm reference point in basic fundamental analysis of the strength of a company (Maverick, 2021).

b) Lowering investment risk

   Stock prices fluctuate due to various factors. External factors that cannot be controlled by the company make investors not rely solely on capital gains. Cash dividends can offer guaranteed return from an investment. High dividends are able

to compensate the potential risk that may be occurred or has occurred from declining stock prices.

c) Preventing effect of inflation on investment returns

The investment must first provide sufficient returns to overcome the loss of purchasing power caused by inflation so that investor can realize a true net return on an investment (Maverick, 2021). For instance, if an investor owns a stock that increases in price 4% over the course of a year, but inflation is at 5%, then in terms of the purchasing power of his capital, the investor has actually beared a 1% loss.

Not only for the investor, dividend can also benefit the company. The benefits of paying dividends to company are as follows:

a) Attract investors

Many investors like the steady income associated with dividends, so they will be more likely to buy that company's stock (Fontinelle, 2021). Investors use dividend as a measurement to company performance. When a company agree to pay dividend, especially a high dividend, it can attract and give signal to investors that the company is prosperous and confident about their performance. Paying dividends sends a clear, powerful message about a company's future prospects and performance, such as positive expectations for future earnings (Fontinelle, 2021).

b) Increase Stock Price

Dividend policy has been proven to have a positive and significant effect on stock prices (Fitri & Purnamasari, 2018). The higher the dividend policy, the higher the stock price. An increase in stock prices can increase the value of the company. Trust from external parties will also increase, such as creditors and investors. Because

high company value will be followed by high shareholder prosperity. This can benefit company's management (career and compensation), funding (to raise capital and borrow money), and business operation (investment, partnership).

4. Definition of Dividend Policy

Dividend policy is the amount of cash company thinks is necessary and appropriate to pay shareholders (Ross, Westerfield, & Jordan, 2018). When company receive earnings, they will make decisions, whether to retain to company further investment or they may distribute as dividend to shareholders. Dividend policy is the policy a company uses to manage its income to dividend payout to shareholders.

Each company has a different dividend policy strategy. Not every company choose to pay dividend. Even though investors know companies are not required to pay dividends, many consider it a bellwether of that specific company's financial health and often part of company strategy (Chen & Scott, 2020). In addition, dividend policy may be used as a signal that the company puts investors needs forward. Regardless of the dividend policy strategy, investors and companies are both profit oriented. High dividend policy is information that can be attractive signal for investors about the company, and for the company itself, there are considerations and consequences of its dividend policy.

Companies that obtain high earnings is more likely to pay high dividend since their sense of safety from their wealth is ensured. In study of Jiraporn *et al.* (2015) concluded that more talented executives have higher tendency to pay dividends, because they are more confident in their ongoing abilities to generate future earnings. This proves that companies can agree to pay high dividends because they are already

prosperous, confident in generating positive future earnings, and able to prosper the investors as well. However, it is feared that high dividend policy will influence company future earnings negatively.

Aligned with Henny (2017) study, high dividend policy can result in a decrease of future profitability. This is because, when company decides to pay high dividends every year, the retained earnings that will be used in the next year's activity capital will decrease and reduce the future earnings. High dividend policy will inflict in lack of resource needed to support company development and generating future earnings. Therefore, it can be concluded that if the dividend policy is high, the future earnings will decrease as well (Henny, 2017). In measuring dividend policy, there are two most common ways, namely dividend yield and dividend payout ratio.

5. Dividend Policy Indicators

To measure dividend policy that is widely used there are two types, namely:

a) Dividend Yield

Dividend yield is a ratio that connects dividends when paid at the common stock price. According to Ross, Westerfield, & Jordan (2021), dividend yield is a stock’s expected cash dividend divided by its current price. Investors prefer company that is high in dividend yields, since it can measure how much dividend they can obtain with the market price they will pay or have paid to obtain the stock. Therefore, the higher the dividend yield, the more attractive it is for the investors.

b) Dividend Payout Ratio (DPR)

Dividend payout ratio is the amount of cash paid out to shareholders from company net income (Ross, Westerfield, & Jordan, 2018). It is measured to calculate how much company pay dividend based on its net profit. Investors wish to know the dividend payout ratio since it offers overview how much return investor will get.

Company earnings are not consistently used for reinvestment and asset growth. According to Yasfi and Fahruddin (2014) in Anugrah (2019), companies can reduce agency costs through paying dividends, since they reduce the amount of company cash flow that is often used by managers to be wasteful.

6. Dividend Paying Method

Companies that decide to pay a dividend might use one of the three methods outlined, as follows:

a. Hybrid

Combines the residual and stable dividend policies. Companies also can offer an extra dividend only when income exceeds certain management goals.

b. Stable

Under the stable dividend policy, companies consistently pay a dividend each year regardless of earnings fluctuations and market volatility.

c. Residual

Residual dividend is a dividend policy that dividends are paid if there are residual earnings after the company has fulfilled its investment needs (Ross, Westerfield,

and Jordan, 2018). The dividend policy of residual dividend company are as follows:

1. Maintaining an optimum capital structure such as debt to equity ratio in financing future investments.
2. Accept an investment if the net present value (NPV) of the investment is positive and aligned with the targeted expected return.
3. Investment financing is prioritized from internal financing. Only if this capital has been fully utilized and is still insufficient, the company can use external financing from liability and equity such as, issue new shares or borrowing.
4. If the internally generated funds are still left after financing the investment, the company can pay it out as dividends to investors. However, if all internal capital is required to finance the investment, then dividend payments do not need to be made. Maintaining optimum debt ratio in financing future investment.

G. Capital Structure

1. Definition of Capital Structure

The capital structure describes how the company manage its financial proportions, namely between owned capital originating from long-term debt and own capital which is a source of financing for a company. The capital structure of a firm is important since it is related to the ability of the firm to reach its goal to sustain in the market.

2. Types of Capital Structure

According to Petty *et al*. 1992 in Untari (2019), the division of capital structure can be divided into two, as follows:

a) Simple capital structure: when the company uses a its own capital such as retained earnings, common stock (ordinary shares) that cannot be changed to debts or preference shares, non-convertible preferred stock, company reserve funds.

b) Complex capital structure: when the company not only uses its own capital but also uses borrowed capital and or convertible security.

3. Objectives of Capital Structure

Capital structure is important for company and has several purposes written as follows:

a) Earning maximization: With a good capital structure, it will help increase company profits. Therefore, the company can make a higher return to shareholders, namely an increase in earnings per share. Also, the company can increase its earnings to sustain in the market.

b) Minimize financial risk: Finance is the key to every and each company. And each company have the risk to face financial risks or distress. However, this can be minimized through a good control or capital structure plan to minimize financial risk. A healthy corporate capital structure can help company for expansion, growth, generate earnings, and reduce excessive debt.

c) Utilization of available funds: With a good capital structure, it can allow a company to take full advantage of the available funds, whether from the asset, liability, and equity. Because when the debt component increases in the capital structure, financial risks, for instance, such as payment of fixed interest costs and timely payment of the principal amount of debt, will increase (Safitri, 2020).

d) Solvency or liquidity position: Companies must have a healthy capital structure management and avoid raising excessive debt capital. This is because, when the income is low, solvency will be disrupted for mandatory interest payments to debt suppliers (Safitri, 2020). For this reason, it is better for company to manage its simple capital structure to generate earnings. In conclusion, a healthy capital structure management can protect firms from such financial risks through a prudent asset, debt, and equity in the capital structure.

H. Asset Growth

1. Definition of Asset

According to International Financial Reporting Standards/IFRS (2018), the latest revised definition of asset:

> "Asset is a present economic resource controlled by the entity as a result of past events and an economic resource is a right that has the potential to produce economic benefit."

From the definitions above, it can be concluded that asset that company or an individual currently have is a result of past economic events. And the amount of asset

owned by company or individual is serve as economic resource to produce economic benefit in the present and in the future.

2. Definition of Asset Growth

Asset growth is defined as the difference in percentage of the total asset annually. Cooper et al. (2008) in Triyani et al. (2018) defines asset growth as the percentage change in total assets from the end of the previous calendar fiscal year, to the end of the current calendar year.

3. Importance of Asset Growth

Asset growth is strongly related to company performance since it exhibits how capable the company to grow its assets. In accordance with the signaling theory, asset growth is a fundamental information that is an indicator the company performance and therefore can influence investor investment decisions. If asset growth is positive, outsider will perceive it as increase in company performance and vice versa. A high growth rate of the company will increase the source of funds needed to finance the company growth. This is a positive signal for potential investors to invest in the company stock.

If asset increase, it means company has much more resources to operate the business in order to generate profit (Triyani *et al.,* 2018). This can increase investor confidence in the company because with positive asset growth, it is expected that the greater the operational results generated by the company, which is to get profit. With the greater the profit, the company can survive for a long time and more likely to prosper investors through paying cash dividend.

An increase in assets followed by an increase in profit will increase the confidence of outsiders to invest in the company stock (Suweta & Dewi, 2016). This means that investors view these stocks as lower risk than stocks whose asset growth weakens or falls drastically. It is important for investors to know asset growth so that they can predict future risks.

I. Stock Risk

Investment decisions are the courage to use current resources to attain expected yet uncertain returns in the future. Stock risk is when the possibility or actual return from the stock investment differ from the expected return. The relationship between the expected rate of return and the level of risk is positive and linear. That is, the higher the level of return expected from an investment, the higher the level of risk that will be faced (Puspitaningtyas, 2015). The fluctuation of stock prices on the stock exchange market is the volatility of stock prices. To measure the risk of a stock, it can be seen from the volatility of the stock price. Greater volatility indicates a higher probability of making gains or losses in the short term (Ilmiyono, 2017). Investors are willing to purchase a security, if the expected return is adequate to compensate for the risk, but they must understand that there might be a possibility that the expectation regarding return may not be achieved. If not, the realized return will differ from the expected return. In fact, realized returns on securities show considerable variability sometimes they are larger than expected, and other times they are smaller than expected, or even negative.

Not only expecting the amount of return that investors will receive, but it is important for them to estimate whether the risk is bearable. Hence, investor needs to predict the risk

as well. Puspitaningtyas (2015) added that prediction of the level of risk in investment is needed to minimize losses that will occur or optimize returns by taking advantage of movement trends or changes in influence variables. According to Agfiyatno (2021), here are several sources of risk, as follows:

a) Interest Rate Risk The variability in a security's returns resulting from changes in interest rates.

b) Market Risk: The variability in a security's returns resulting from fluctuations in the aggregate market.

c) Inflation Risk: This risk is related to interest rate risk, since interest rates generally rise as inflation increases, because lenders demand additional inflation premiums to compensate for the loss of purchasing power.

d) Business Risk: The risk of doing business in a particular industry or environment.

e) Financial risk: associated with the use of debt financing by companies. The larger the proportion of assets financed by debt (as opposed to equity), the larger the variability in the returns, other things being equal.

f) Liquidity risk: the risk associated with the secondary market in which a security trade.

g) Currency Risk (Exchange Rate Risk): All investors who invest internationally face the prospect of uncertainty in the returns after converting their foreign gains back to their own currency.

h) Country risk, also referred to as political risk: more important now than in the past.

J. Previous Research

The following is a table consisting of previous studies that are related to the title of the author's research topic. The table consists of the name of the previous researchers and the years of research published, the title, the variables used, along with the research results.

Table 1: Previous Research

Researcher	Title	Variables	Findings
Arsyah (1999)	Influence of Changes in Dividend on Future Earnings	Dependent: Earnings (before extraordinary items) Independent: Dividend Changes	Dividend changes are not significant with earnings changes. There is no evidence to support that dividend changes affect future earnings, both in the category of dividends that experience changes and dividends that do not change.
Gultom (2008)	The Relationship of Changes in Dividends with Changes in Profit Companies Listed on IDX	Dependent: Net Income Changes Independent: Dividend Changes	There is a relationship between dividend changes and changes in earnings that occur one year after the change in dividends: strong negative correlation between dividend changes with subsequent earnings changes.
Yuliafitri (2011)	Analysis of Factors Affecting Future Profit	Dependent: Net Income in the future and Cash Flow in the future	Cash dividend has insignificant positive impact towards future earnings and significantly

	and "Cash Flow" in Go Public Manufacturing Companies in Indonesia	Independent: Net income, cash flow, cash dividend	positive impact towards company future cash flows.
Nizzim and Ziv (2001)	Dividend Changes and Future Profitability	Dependent: Future Profitability, Independent: Dividend Changes	Dividend changes are positively related to earnings changes in each of the two years following the dividend change. For full sample, dividend increases are associated with future profitability at least 4 years after the dividend changes, whereas dividend decreases are not related to future profitability after controlling for current and expected profitability.
Huang *et al.* (2009)	Dividend payout ratios and subsequent earnings growth:	Dependent: Subsequent Earnings Growth (also use ROE & ROA)	High dividend payout ratios have a positive correlation with subsequent earnings growth

	evidence from Taiwanese stock-listing companies	Independent: Dividend Payout Ratio Control: Firm size, ROA, Beta, Current Earnings Growth, Dividend yield	
Hartini (2009)	The Influence of Dividend Policy on Future Earnings and Profitability: A Dividend Signaling Theory Perspective	Dependent: Future Abnormal Return and Future Profitability Independent: Dividend Changes, Dividend Payout Ratio Control: Investment Opportunity, Cash flow, Debt to Equity Ratio, and Company Size.	Dividend payout ratio (DPR) has a negative and significant effect to future CAR and future profitability

Anastasia & Firnanti (2014)	Factors That Affect Stock Price Volatility in Non-Financial Public Company	Dependent: Stock Price Volatility Independent: Dividend Yield, Dividend Payout Ratio, Firm Size, Asset Growth, BV per share	-Dividend yield has significant positive effect on share price volatility. -Dividend payout ratio, firm size, asset growth and book value per share has significant negative effect on share price volatility.
Prasetyanta (2014)	Impact of Dividend Changes towards Future Profitability	Dependent: Future Profitability, Independent: Dividend Changes Control: Return on Equity (ROE), Book Value of Equity (BVE), Market Value of Equity (P)	Dividend changes hold positive stronger correlation to profitability in the 4th year after the dividend announcement.
Untari (2015)	The Effect of Asset Growth on Profitability in PT.	Dependent: Profitability (ROA) Independent: Total	Asset growth has an insignificant positive effect on profitability.

	Telekomunikasi Indonesia (Persero) Tbk	Asset Intervening: Profitability	
Al-Shattarat *et al.* (2017)	Do dividends announcement signal future earnings changes for Jordanian firms?	Dependent: Future Earnings, Independent: Dividend announcements	Dividend announcements have strong relationship with profitability in the year of announcements and the subsequent year, whereas this relationship does not exist in the second year. there is value-relevance for dividends, suggest that investors recognize the signaling purpose and discern those dividends announcements are useful in predicting favorable and unfavorable future earnings in the short run (the same year and subsequent year) and showed that managers may use dividends to signal earnings prospects in anticipation of expected future market benefits.

Manurung & Kartikasari (2017)	Effect of Dividend Policy and Income Growth to Profit Growth in Manufacturing Companies	Dependent: Profit growth Independent: Dividend Policy and Income Growth	Dividend policy (measured by the dividend payout ratio and dividend yield) both have a partially insignificant effect to earnings growth
Esana & Darnawan (2017)	The Effect of Dividend Policy and Investment Decisions on Company Value and Their Impact on Profitability t+1 (Study on the Consumer Goods Industry Sub-Sector Listed on the IDX	Dependent: Profitability t+1 Independent: Dividend Policy and Investment Decisions	These results indicate that the dividend variable has a significant positive relationship and effect on the profitability of t+1, while investment variable has no significant effect to profitability t+1 in sector consumer goods industry listed on the Exchange Indonesian Securities for the period 2006 to 2016. for the goods industry sector.

	2006-2016 period)		
Henny (2017)	Influence of Dividend Policy, Leverage and Sales Growth on Profitability in the Future	Dependent: Profitability in the Future Independent: Dividend Policy, Leverage, and Sales Growth	Dividend payout ratio has negative impact towards future profitability using Net Income per share (EPS). Leverage has a positive impact on future profitability. Sales growth has a positive impact on profitability in the future.
Rowena and Hendra (2017)	Earnings Volatility, Dividend Policy, And Assets Growth Affect Stock Price Volatility in Manufacturing Companies listed in IDX 2013 - 2015	Dependent: Stock Price Volatility Independent: Earnings Volatility, Dividend Policy, And Assets Growth	-Earnings volatility have significant influenced on stock price volatility. -DPR and assets growth does not have a significant influence. -EV, DPR, and growth simultaneously affect to stock price volatility.

Tandi *et al.* (2018)	The Influence Capital Structure and Asset Growth on the Profitability of Automotive Companies Listed in IDX 2013 -2016	Dependent: Profitability, Independent: Capital Structure and Asset Growth	Asset growth has an insignificant influence on profitability
Ilmiyono (2017)	The Effect of Financial Performance & Macroeconomic Factors in Predicting the Volatility of Share Prices of F&B Industry Subsector Companies	Dependent: Share price volatility Independent: Financial Performance and Macroeconomic Factors	Financial performance partially has no significant effect on stock price volatility and macroeconomic partially has no significant effect on stock price volatility.

Rosyida *et al.* (2020)	Stock Price Volatility: Leverage, Firm Size, Asset Growth	Dependent: Stock Price Volatility Independent: Leverage, Firm Size, and Asset Growth	-Leverage has a positive effect on stock price volatility -Company size has a negative effect on stock price volatility -Asset growth has no effect on stock price volatility.
Artikayana and Gayatri (2020)	Effect of Asset Growth, Leverage, and Dividend Payout Ratio on Stock Price Volatility in LQ 45 2014-2018	Dependent: Stock Price Volatility Independent: Asset Growth, Leverage, Dividend Payout Ratio	-Asset growth and dividend policy have partial negative effect to stock price volatility -Leverage has positive effect to volatility
Wendy and Kharisma (2020)	Effect of Total Assets on Company Profit on the LQ 45 Index Listed on IDX 2018-2019	Dependent: Company Profit, Independent: Total Asset	Total of assets has a significant effect on profit in company listed on IDX LQ 45 index (2018-2019)

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K. Hypotheses Development

1. High dividend Policy has Impact on Company Earning in the Next Year

According to signaling theory, cash dividend can give user information about future earnings, which means high dividend policy have positive associations with future earnings. Investors will perceive this as companies' confidence to generate future earnings. Company who agrees to pay high dividends not because they are confident of their capabilities to earn high earnings in the future with the resource owned, but it reflects the company is confident about their retained earnings.

At the same time, dividend payout ratio can have negative effect towards future profit. When a company pays out high dividends, it can decrease the company's retained earnings, even has no retained earnings as company's financial ability to make earnings in the future. Hence, might result in reduction of the company's future earnings, especially the company that paid high dividend or more than 100% of their earnings subsequently. Eventually, companies will have less retained earnings to be distributed to company growth and future earnings may be affected.

According to Ross *et al.* (2013), and study by Henny (2017) stated that dividend payout ratio has negative effect towards future profit. Based on the argument above and the formulation of the problem in this study, the author proposed the first hypothesis as below:

H1: High dividend policy has negative impact on company future earnings

2. Asset Growth has impact on Company Future Earnings

According to Martani (2012:139), assets are resources controlled by the entity as a result of past events and from which future economic benefits are expected to be obtained. Assets owned by the company objective is to support its operational activities to generate future earnings. This is aligned with simple capital structure theory, where company use its internal funding to generate earnings and increase company growth. Asset growth reflects the company in the success of its operational activities to generate profits and the availability of internal company funds (Untari, 2019). Asset growth shows the amount of funds allocated by the company into its assets. The objective of company assets is used to support the company's operational activities and operational activities are the company's efforts to earn income. Therefore, the number of assets owned by the company can affect the company's income in the future positively. Some researchers have found assets can affect net income (Tandi *et al.* (2018), Untari (2019), Fadillah (2020)). Meanwhile Wendy & Kharisma (2020) have found that total assets have a positive significant effect on profit in company listed on IDX LQ 45 index 2018-2019. Based on the argument above and the formulation of the problem in this study, the author proposed the second hypothesis as below:

H2: Asset growth has positive impact on company future earnings

3. High Dividend Policy has effect on Stock Risk

According to signalling theory, every information of the company can be interpreted by investors. Dividend policy is one of crucial information to investor, especially a high dividend payment. Investor reacts to any information quickly. The

market will react positively if there is an increase or high dividend payment, and the market will react negatively if there is a decrease or low dividend yield dividends. This is aligned with Gordon (1963) theory stated that dividend policy has negative effect on stock risk, and stated that if a firm paid higher dividends, it could reduce volatility. Mestel and Gurgul (2003) in Anwar *et al.* (2015) study, they concluded that the volatility of stock returns increased more with the announcement of unpleasant news and can lead to uncertainty to the investors. Those negative reactions can cause the stock price to fluctuate, therefore affect stock price volatility. Similar in a paper of Docking *et al.* (2005), they found higher volatility in response to changes in dividend payment patterns, when the changes were not in line with recent market trends and/or when they took place in volatile times. Acker (1999) reported that volatility may be expected to peak on those days when company announce lower dividend or dividend reduction compared to last year. In the research of Artikayana & Gayatri (2020), they found that, dividend payout ratio has a negative effect on stock price volatility.

Aligned with Efficient Market Hypothesis theory, where the dividend policy is one of company published information, especially company listed in IDXHIDIV20, can take advantage of the published news and high dividend policy, which can positively influence investor's investment decisions. It can be said that a high dividend policy will lead to investors gain relevant information that investor need. And when the investor can gain information through IDXHIDIV20, they will believe the company is less risky and the stock price of company relatively stable. In conclusion, if dividend policy is high, it will lower the stock risk. Based on the

argument above and the formulation of the problem in this study, the author proposed the third hypothesis as below:

H3: High dividend policy has negative effect on stock risk

4. Asset Growth has effect on Stock Risk

In signaling theory approach, asset growth is one of signaling devices about company's development and it is one thing among others to consider in investment decision making. The greater the company's asset growth, it signals that the company's asset are increasingly able to finance the company's operational activities to generate profits in the future. By making a profit, the company can continue its business activities and survive in the market. Thus, the level of investor trust in the company will increase as well. When the level of trust increases, the risk of the stock will be more likely to decrease, because the volatility of the stock price will decrease as well, unless influenced by external factors that cannot be controlled by the company. As the level of trust from investor increase, investors are more likely to hold the stock in long term investment. As a result, the stock price volatility will decrease as well, which means asset growth can decrease effect on stock risk. This is supported by research conducted by Artikayana & Gayatri (2020) showing that the higher asset growth, the lower stock volatility.

Based on efficient market hypothesis theory, stock prices can be predicted by the public by looking at the available information, fundamental nor technical. Fundamental information such as asset growth can appear in public whether published by a company or stated in news. Positive asset growth serves as good news to investor and hence will gain investor trust, and the stock price will be more

stable. Therefore, positive asset growth policy can reduce stock risk. Based on the argument above and the formulation of the problem in this study, the author proposed the fourth hypothesis as below:

H4: Asset growth has negative effect on stock risk

L. Research Model

The logical relationship between the variable in this research will be explained and described in the following sub-chapters of the framework.

Figure 1 Research Model