ATLANTIS
PRESS

Advances in Social Science, Education and Humanities Research, volume 570
Proceedings of the International Conference on Economics, Business, Social, and Humanities (ICEBSH 2021)

A Study on the Relationship Between Enterprise Risk Management, Free Cash Flow, and Dividend Payout Ratio on Stock Price of Consumer Goods

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ABSTRACT
The purpose of the study is to observe verifiable evidence about the effects of Enterprise Risk Management, Dividend Payout Ratio, and Free Cash Flow on the Stock Price of manufacturing companies in the consumer goods sector listed in the Indonesia Stock Exchange for the 2017-2019 period. The independent variables are Enterprise Risk Management, Dividend Payout Ratio, and Free Cash Flow Ratio, while the dependent variables are the Stock Price. The research method used is causal research using quantitative data and purposive sampling techniques. The research sample consisted of 30 companies with 90 observational data. Data analysis was performed using a panel regression model using E-Views V.11 software. The results of the research are based on the tests that have been conducted. It is found that free cash flow and dividend payout ratio affect significantly stock price, while enterprise risk management does not affect the stock price.

Keywords: *Enterprise Risk Management, Dividend Payout Ratio, Free Cash Flow, Stock Price*

1. INTRODUCTION

The stock market is considered to be one of the main indicators of the economy. Stocks have clear regulations, a high level of security, and easy access to the stock market, making stocks an investment instrument that is not only in demand by high-end investors, but also attracts small investors. The stock price on the stock exchange is not only fixed at a price point, but the stock price will always change at any time, whether it is experiencing an increase or a decrease. Changes in the stock price of companies are caused by several factors, both internal and external to the company.

Based on the increase and decrease in stock prices in manufacturing companies listed on the Indonesia Stock Exchange from 2017 to 2019, stock prices were taken in this study and will discuss several indicators that affect changes in the stock price of companies listed on the Indonesia Stock Exchange in 2017-2019. Some of the indicators used as references in this research journal include Enterprise Risk Management, Dividend Payout Ratio, and Free Cash Flow from manufacturing industries. The impact of these indicators will be on changes in the company's stock price, whether the impact will be to increase the stock price, whether to reduce the stock price, or maybe the indicator will not have an effect on changes in the company's stock price.

Rapid progress has occurred in the company's external and internal environment resulting in the emergence of uncertainty and complexity of business risks. Companies need to implement Enterprise Risk Management in carrying out their activities as a solution when they have to deal with uncertain conditions that are thought to affect the success of achieving company goals [1]. Companies that implement ERM are seen as companies that can anticipate and manage risk to increase share value, compared to companies that do not implement ERM, therefore this can attract investors to purchase shares on the Stock Exchange so that the stock price of companies that apply ERM will go up. Many previous studies about the association between ERM and company stock prices have been conducted by several researchers, but have not yet shown consistent results. Research by Iswajuni et al.; [2] states that ERM has a positive and significant influence on stock prices. Besides, there is also research by Mulyasari & Muharam [3] which states that there is no significant influence between Enterprise Risk Management (ERM) and stock prices.

Lang et al.; [4] found that companies with high Free Cash Flow show strength in expansion. but instead, it reflects the low level of the stock price. Contrary to Jensen's opinion in Mundia [4], which says that managers assigned to manage FCF are likely to invest in company development and return a high rate of return to shareholders, therefore increasing the stock price. Free cash flow can lead to agency conflict. Most managers tend to manipulate free cash flow because they have different goals than shareholder goals. Where shareholders want dividends that will affect the demand of company shares and in turn affect the stock price of companies. Information in free cash flow can affect stock

movements. But management tends to prefer to invest cash in other projects to generate profitability which will affect management performance results. Oroud et al.; [5] found that free cash flow has affected the stock price significantly. Ninth et al.; [6] concluded a positive relationship between free cash flow and stock prices in the banking sector in Nigeria. Meanwhile, Khanj & Siam [7] found no significant relationship between stock price and cash flow from the three activities.

Talking about the Dividend Payout Ratio (DPR), according to Shah et al.; [8] a higher DPR means that the profit-sharing by the company is very high so that it will increase investors' interest in buying company shares with the expectation of receiving the company's dividends, this leads to higher market demand later resulted in increasing stock prices. Meanwhile, according to Syarif et al.;[9], there is no relationship between dividends and stock prices. He stated that investors do not pay attention to whether their returns from holding shares arise from dividends or capital gains. The significant influence of the Dividend Payout Ratio on stock price is supported by Ali et al.; [9], and Ponsian et al.;[10].

From the explanation and previous research that has been described above, it seems that there is still a gap, where the findings of researchers regarding the effect of Enterprise Risk Management, Free Cash Flow and Dividend Payout Ratio on stock prices have not yielded consistent results. Therefore, this study wants to further investigate the relationship between the three research variables on stock prices in the consumer goods sector.

2. THEORETICAL BACKGROUND

2.1. Grand Theory

2.1.1. Signaling Theory

Signaling theory according to Brigham & Houston [11] is the perspective of shareholders regarding the company's opportunities to increase company value in the future, where the information is provided by the company management to shareholders.

One of the independent variables used in this study is the dividend_payout_ratio. When dividend_payout_ratio is linked with signaling theory it becomes an information signal which concerned investors need to consider as well as in determining whether or not investors will invest their shares in the company. Managers will submit their company's financial information in the form of financial reports on the IDX, as well as analysis of dividend payout ratios as a form of signals that potential investors will receive to determine the next investment steps taken.

After receiving a signal on the financial report and ratio analysis, investors or potential investors will give a return signal from the financial statement information to be a positive and negative response. A positive response will reflect the influence on his decision to invest his investment capital in the form of shares in the company so that the company's stock price will be higher. Conversely, a negative response reflects the effect on his decision, namely not to invest in the stock or selling the shares, which causes the stock price company to decline.

2.1.2. Agency Theory

According to Zahran [12], a company is the interaction of several parties who have heterogeneous relationships, consisting of management, shareholders, stakeholders, and workers. These different interests can create conflicts of interest, which have the potential to encourage company management to disclose information that is more supportive of their interests. Management tends to convey information that shows company performance and high revenues. They reasoned that management awards were often judged based on good performance and established standards. On the other hand, shareholders and potential investors, as well as other interested parties, expect to get real, positive, or negative information about the actual condition of the company. This is known as agency theory.

Saedi [13] said that the cognitive concept of agency theory potentially triggers a conflict of interest between the agent and the client because each party wants to maximize the benefits they get. Therefore, it is necessary to limit the role of managers that are irrelevant to their position as agents and the existence of a sign in the company to achieve the optimum conformity of interests between agents and clients, such as investors, by overcoming the problem of information asymmetry.

2.2. Operational Theory

2.2.1. Enterprise Risk Management

Enterprise Risk Management (ERM) is the organization's ability to understand and control the level of risk taken in managing business strategy, coupled with accountability for the risks taken. The main benefit of ERM is to add perspective and focus on risk management across all lines of the company. Enterprise risk management is based on managing the risk in a form of uncertainty that could occur in the future (when making decisions. Therefore, a good strategy could consider the possibility of the risk occurring in both the internal and external environment of the organization and anticipates risk management when risks become reality. The company cannot avoid risk, so it is necessary to take action to predict the risk. These steps are called Enterprise Risk Management [14].

It can be concluded that ERM is a corporate strategy that implements strategies applied to manage risk and provides sufficient confidence in achieving company goals [15].

2.2.2. Free Cash Flow

Free cash flow is used to check the financial flexibility of companies. Free cash flow is a company's cash flow that can be used to purchase additional investments, buy back treasury shares, pay off debt, or increase liquidity [16]. Free cash flow describes net cash obtained from activities

in the company's operations after adjustments have been made concerning dividend requirements and capital expenditures.

Components in free cash flow are:

1. Operating Cash Flow. According to PSAK 2 about Cash Flow Statement is "the main revenue-producing activity of the entity and other activities that are not investment activities and financing activities".
2. Capital expenditures. According to [16] Capital expenditures are the additions and improvements, namely material costs, and rarely occur to increase operating efficiency, productive capacity, or the useful life of assets that add asset value.
3. Cash Dividend, is a distribution in the form of cash to shareholders under the shareholder ownership percentage[16]

2.2.3. Dividend Payout Ratio

The dividend payout ratio is a measuring tool to see the proportion of income brought in cash. The calculation formula is in the form of a comparison between cash dividends declared in common shares and net income [16]. According to Ilyas Sharif [9] Dividend Payout Ratio is a measure in the form of the percentage of income distribution in the form of cash dividends under the ratio between declared dividends of common shares and net income. Sheilla and Natsir [17] stated that "Dividend policy is a decision whether the profits earned by the company will be distributed to shareholders as dividends or will be retained in the form of retained earnings to finance investment in the future which can be measured by the Dividend Payout Ratio." The dividend payout ratio is the relative amount of profit distributed by any company in the form of dividends to the total amount of net income for any business.

Investors pay attention to the dividend payout ratio when deciding whether to buy shares of a company that distributes dividends that generate profits or a company that generates profits with high prospects for future growth. In short, the dividend payout ratio considers a stable income and reinvestment for potential future income [9].

2.3. Research Hypothesis

2.3.1. The relationship between Enterprise Risk Management and Stock Price

Research conducted by Agustina & Baroroh [18] found that Enterprise Risk Management has a positive effect on firm value because risk management is also non-financial information that can provide signals to investors about the safety of their investment funds. The higher the information conveyed by the company, the greater investor confidence in the safety of invested funds.

Another case with research conducted by Sanjaya and Linawati [1] states that ERM does bot affect stock prices. The factors that cause ERM not to affect the stock price, is

because ERM is only limited to the company's obligation to control existing risks and is detrimental to the implementation of the system.

2.3.2. The linkage between the free cash flow and the Stock Price

Based on research conducted by Khanji and Siam [7] and Al-Khalaileh in Mundia [4], the conclusion is that there is no statistically significant relationship between free cash flow and stock price. This happens due to the inadequate culture of financial awareness regarding free cash flow as an instrument of financial analysis and determination of the stock price of commercial banks in Jordanian.

Asif et al.; [19] examined the relationship between free cash flow and the stock price of Pakistani companies listed in the KSE-30 index from 2006 to 2013. Regression modeling showed result that free cash flow has a significant positive relationship with the stock price of sample companies. Etale and Bingilar [6] concluded that there was an influence between free cash flow and stock prices in the banking sector in Nigeria during the period 2005-2014. Mundia [4] found there is a positive and significant relationship between FCF and the stock price of companies listed on the Tehran Stock Exchange. This shows a strong relationship between stock price and free cash flow.

A high amount of FCF allows the company to expand operations. Therefore, companies with a higher FCF can encourage higher company's stock prices [4].

2.3.3. The relationship between the dividend payout ratio and the Stock Price

The Dividend Payout Ratio is a signal read by investors as an indication that the company is compliant in implementing good corporate governance. Compliance in implementing good corporate governance is certainly very beneficial for the company since it means that the company can raise funds from the capital market with attractive requirements. The policy to distribute dividends can attract investor confidence and have a good impact on increasing the company's stock price[9].

Other findings were obtained from research conducted by Ponsian et al,; [10], where they found the dividend payout ratio is positively related to stock prices although not significant, this is because investors do not pay attention to whether their returns from holding shares arising from dividends or capital gains.

The framework of this study can be figured as follow:
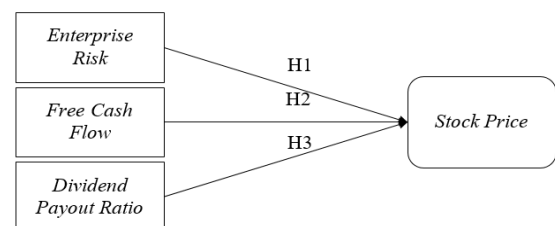
Figure 1 Research Model

Based on the research model, the hypotheses in this study are:

H₁ : Enterprise Risk Management has a significant and positive effect on the stock price of manufacturing companies in the consumer goods sector.

H₂ : Free Cash Flow has a significant and positive effect on the stock price of manufacturing companies in the consumer goods sector.

H₃ : Dividend Payout Ratio has a significant and positive effect on the stock price of manufacturing companies in the consumer goods sector.

3. RESEARCH METHOD

3.1. Population and Samples

This research was conducted at the Indonesia Stock Exchange (BEI) by accessing the IDX website. The objects of this research are stock prices, ERM disclosure, Dividend Payout Ratio, and Free Cash Flow in the annual reports of companies in the Consumer Goods sector from 2017 to 2019.

3.2. Operationalization of Variables

The operationalization of this research variable is described as follows:

Stock Price. According to Musdalifah Azis et al.;[20], the stock price is "The price on the real market, and is the price that is easiest to determine because it is the price of a share in the ongoing market or if the market is closed, the market price is the closing price." The stock price is taken from the closing price of the stock per year, this is because stock prices can change due to many factors, or depending on other variables. The stock price data is measured in IDR.

Enterprise Risk Management. The Enterprise Risk Management (ERM) variable in this study is measured using the ERM disclosure index. The checklist of ERM disclosure items in [21] was used in this study because it was considered to be following the 8 dimensions of the 2004 COSO framework. The eight dimensions of ERM are internal environment, goal setting, risk assessment, event identification, risk response, activity control, information and communication, and monitoring.

The approach in data collection for the analysis of ERM disclosure in this study is a dichotomy scale, where the items disclosed in the company's annual report are given a score of one (1) and zero (0) if not disclosed.

Referring to [22] and [23], the ERM Disclosure Index is calculated by the formula:

$$\text{ERMDI} = \frac{\text{The total score of ERM items disclosed}}{\text{The total ERM items that should have been disclosed}}$$

Free Cash Flow (FCF). FCF is used to check the company's financial flexibility. FCF is defined as cash generated by a company after cash flows out to support operations and maintain capital assets. [24].

FCF = Net Cash from Operating Activities - Investing Activities

Dividend Payout Ratio.
The Dividend Payout Ratio (DPR) is defined as the company's net profit distributed in the form of cash dividends in the form of a percentage to shareholders which is calculated based on the amount of dividends per share divided by profit per share. [9]. The formula for calculating the Dividend Payout Ratio is as follows

$$\text{DPR} = \frac{\text{DPS}}{\text{EPS}} \text{, Source : [25]}$$

whereas: DPS is the value of Dividend-per-Share and EPS as a value of Earning per Share.

4. RESULTS AND DISCUSSION

4.1. Statistical Analysis

4.1.1. Multicollinearity

The multicollinearity test is carried out to find out whether there is intercorrelation among independent variables in a regression model. The result showed in Table 1 below.

Table 1 Multicollinearity-Test Results

	FCF	ERM	DPR
FCF	1.000000	-0.079602	-0.088877
ERM	-0.079602	1.000000	0.118796
DPR	-0.088877	0.118796	1.000000

The correlation between the two independent variables is > 0.8 indicating the occurrence of multicollinearity in the regression model. From the results of the test data above, it can be seen that no correlation has a value of more than 0.8. So, it can be concluded that the enterprise risk management (ERM), free cash flow (FCF), and dividend payout ratio (DPR) variables do not experience multicollinearity.

4.1.2. Selecting the Best Model

In Panel Data Estimation, there are three models used, namely Common Effect Model, Fixed Effect Model, and Random Effect Model. Among the models were compared and one best model was selected through three model tests, namely the Chow test, Hausman test, and Lagrange Multiplier Test. Chow Test Result is presented in Table 2.

Table 2 Chow-Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	30.795061	(29,57)	0.0000
Cross-section Chi-square	253.212344	29	0.0000

The Chow-Test is used to pick out whether the Fixed Effect Model is better than the Common Effect Model. The test result data shows the Prob. value of the cross-section F is 0.0000 and the Chi-square cross-section Prob. value is 0.0000 which is smaller than the significance value of 0.05. Therefore, it can be said that the better regression model according to the Chow test is a fixed-effect model.

The next step is to conduct the Hausman test to determine which model is right between the random effect model and the fixed effect model. Hausman's test result is presented in Table 3.

Table 3 Hausman-Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.055512	3	0.0181

From the test results, it can be seen that the probability value of the random cross-section is 0.0181 which is less than the significance value of 0.05. Therefore, the decision chosen from the Hausman test is a fixed-effect model.

From the two tests of Chow test as well as Hausman tests, it is found the most suitable model is fixed-effect model. Therefore, the Lagrange Multiplier test is no longer needed and the most suitable estimation for research data is the Fixed Effect model.

4.1.3. Hypothesis Testing

The t-test is conducted based on the model selected, which is the Fixed Effect regression model. The aim is to find out the influence of independent on the dependent variables. In this calculation the variable share price is logged, the aim is to maintain the balance of the research data. A variable that is proxied by its logarithmic value will not change the trend curve of the variable. The t-test results are shown in Table 4 below.

Table 4 t-Test Results Against Log (Stock Price)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FCF	8.32E-15	1.14E-15	7.268712	0.0000
ERM	0.282972	0.267447	1.058047	0.2945
DPR	-0.343529	0.015503	-22.15867	0.0000
C	7.394078	0.091536	80.77762	0.0000

The result shows that the enterprise risk management (ERM) has a Prob. has a value of 0.2945, which is bigger than 0.05. So, hypothesis H_1 is rejected, which means there is no significant influence between enterprise risk management on stock prices The variable Free Cash Flow (FCF) has a probability value of 0.00002 <0.05. So, H_2 is accepted, which means that Free Cash Flow significantly influence the stock prices. The Dividend Payout Ratio variable has a probability value of 0.0000 < 0.05. So, H_3 is accepted, which means that there is significant influence between the Dividend Payout Ratio on stock prices.

4.1.4. Coefficient-of-Determination Test (R^2)

The coefficient of determination testing or R^2 test is carried out to see how much change in the variation of the dependent variable can be explained by variations in the independent variable. The results of the determination coefficient test are shown in the following table.

Table 5 The Result of the R-Squared Test

R-squared	0.998212
Adjusted R-squared	0.997208

Based on the R-squared test were found from the table above, adjusted R squared in this study was 99,7% of the dependent variable in this study, meaning that the Enterprise Risk Management, Free Cash Flow, and Dividend Payout Ratio variables can explain the value of the stock price variable of 99.7%, while the remaining 0.3% of the stock price can be explained through factors outside the variables of this study. The adjusted R squared value which is closer to number 1 means that the independent variables (ERM, FCF, and DPR) are better at explaining the variation of the dependent variable (stock price).

4.2. Discussion

4.2.1. The Effect of Enterprise Risk Management on Stock Price

First Hypothesis: Enterprise Risk Management (ERM) has a positive relationship to stock prices in manufacturing companies in the sector of consumer goods. It is rejected because the significance value of the probability for the Enterprise Risk Management (ERM) variable in this study amounted to 0.2945 or > 0.05, which indicates that the effect of ERM on stock prices is insignificant and the coefficient value is 0.282972 which indicates Enterprise Risk Management (ERM) has a positive effect on the stock price. This result is in line with research according to Iswajuni et al.; [2] where the Enterprise Risk Management ratio gives positive results on stock prices. The factors that cause ERM do not affect the stock price, because ERM is only limited to the company's obligation to control existing risks and is harmful to the implementation of the system. However, the results of this study are not in line with research according to Sanjaya and Linawati [1], which states that ERM has no significant effect on the stock price.

4.2.2. The Effect of Free Cash Flow on Stock Price

Second Hypothesis stated that Free Cash Flow has a significant positive relationship to stock prices in manufacturing companies in the consumer goods sector. It is accepted because the probability significance value for the Free Cash Flow (FCF) variable in this study amounted to 0.0000 or < 0.05. So that the proposed hypothesis is accepted. The results of this study are in line with previous

research conducted by Asif et al.;[19] which states that the relationship between free cash flow has a significant positive relationship with the stock price of the sample companies. Etale and Bingilar [6] concluded that there was an influence between free cash flow and stock prices in the banking sector in Nigeria during the period 2005-2014. Mundia [4] found that FCF had a positive significant relationship to the stock price of companies on the Tehran Stock Exchange. This shows a strong relationship between stock price and Free Cash Flow. This is due to the adequate culture of financial awareness regarding Free Cash Flow as an instrument of financial analysis and determination of the stock price. The results of the study are not in line with research conducted by Khanji and Siam [7], and Al-Khalaileh in Mundia, [4]) resulting in a conclusion that free cash flow does not have a statistically significant relationship with stock prices.

The manager assigned to manage the FCF is likely to invest in company development and return a high rate of return to shareholders thereby increasing the stock price. Free cash flow can lead to agency conflict because most managers tend to abuse free cash flow because they have different goals than shareholders' goals.

4.2.3. The Effect of Dividend Payout Ratio on Stock Price

The significance value of the probability for the Dividend Payout Ratio (DPR) in this study is 0.0000 or < 0.05 which shows that the dividend payout ratio has a significant effect on the stock price. The coefficient value is -0.343529 which shows that the Dividend Payout Ratio has a negative effect on the stock price. This study gave different results from the research conducted by Ilyas Sharif et al.; [9] where the Dividend Payout Ratio gives a significant positive result with the stock price. The study conducted by Ponsian et al., [10], showed the results that the Dividend Payout Ratio is positively related to stock price although not significant. The negative relationship in the results of this study shows the failure of the company in managing dividend policy so that investors are less interested in investing and lowering stock prices.

Associated with the signaling theory, the negative effect of the dividend payout ratio means that investors think that a poor historical record of dividend payout is one of the signals and information about the existence of risk on their investment so that investors are less confident about the company and low investor confidence can suppress the increase in share prices.

5. CONCLUSION

After conducting a series of statistical tests on sample data in the consumer goods sector for the period 2017-2019 with the results, as shown above, the conclusions obtained are:

a. The independent variable Enterprise Risk Management (ERM) has a positive and insignificant effect on stock prices

b. The independent variable Free Cash Flow (FCF) has a positive and significant effect on the company's stock price

c. The Dividend Payout Ratio (DPR) has a negative and significant effect on company stock prices.

Some of the limitations and suggestions in this research include: The time frame carried out in this study is too short, because it only uses a period of 3 years, the population of the data sample used is limited to manufacturing companies in the consumer goods sector. Besides, this study only uses a sample of companies that generate profits continuously during the research period. Due to the limitations in this study is expected for the next researchers to further expand the study population, extend the research period and also investigate the effects of companies that sometimes do not generate profits on stock price trends.

The results showed that Enterprise Risk Management had a positive effect, although not significantly, on stock prices. For this reason, it is recommended that companies implement Enterprise Risk Management (ERM) in managing the company's business risks to increase share prices

It is expected that the company can provide high free cash flow so that the company can expand its operations and in turn can encourage an increase in stock prices.

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