The Role of Risk in the Association of Company Growth Signals and Investor Response

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ABSTRACT

This study aims to examine the role of risk factors in the relationship between investor responses and company growth signals through capital expenditure measures.Research respondents are segmented, only companies with the best stock performance in each sector in 2017. The observation period is 2017 to 2019. In this research, the companies selected are the top 10 companies in each sector with the best stock performance in companies listed on the Indonesia Stock Exchange. The main variables are a growth signal which is proxied by growth in capital spending and capital expenditure, risk and investor response, which is proxied by CAR. Financial performance as measured by ROA is a control variable in this study. The results show that the signal of growth as measured by capital expenditures responded positively by the market, the risk moderates this influence, companies with high risk will be responded negatively by investors and vice versa. This finding corrects previous findings that only looked at the signal aspect of growth, without linking it to risk. In addition, these findings reinforce the argument that investors buy the future of the company, not a momentary financial performance. This can be seen from the absence of ROA influence on investor response. This study provides an insight that companies need to manage risk appropriately, because the risk aspect of the company is a crucial factor for investors. High risks will eliminate the benefits of strategic decisions in this case in the form of capital expenditures.

Keywords: Growth Signals, Capital Expenditure, Risk, Investor Response