RESEARCH ARTICLE

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Comparative Study of Abnormal Return on Dividend Distribution in Companies in the Indonesia Stock Exchange

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ABSTRACT

The aim of this study is to explain the existence of significant differences in abnormal returns before and after the dividend announcement. This study uses an event study approach. The research locations used are companies that announce their dividends on the IDX for the 2016-2020 period. a sample of issuers from all sectors with representatives of 5 issuers from 9 existing sectors who announced their dividends at the time the event occurred. The analytical technique used in this study is the paired sample t test. Based on the results of the discussion in the previous chapter, the conclusion in this study is that there is a significant difference between abnormal returns before and after dividend announcements.

Keywords: Dividend Announcement, Event Study, Market Reaction.

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I. Introduction

The current Covid-19 pandemic has had an impact on almost all industrial sectors. What's more, the imposition of the development of the world economy that continues to grow is due to the interrelationships of the economic actors in it and one of them is the company that plays a role in the economy. Companies as actors in the economy are required to be able to compete in an advanced economy. Company management must be able to determine the right strategy for the continuity of a company (Bhuiyan & Ahmad, 2022).

One way that can be done is to invest by utilizing the capital market. The developments of the capital market is strongly influenced by supply and demand as well as supporting institutions and existing legal instruments. In the capital market, information becomes very important for investors in making investment policies. The main requirement that investors want to be willing to spend their funds through the capital market is a feeling of security in their investment. The feeling of security, among other things, is obtained by investors from clear, fair, and timely information as a basis for making investment decisions. Financial reports as the result of the accounting process are indeed designed to provide the information needs of potential investors, creditors, and other external users for making investments, credit, and other decision making (Koo & Chae, 2020)

The capital market has an important role in the economy of a country, which has function as a means for business funding or as a means for companies to obtain funds from investors. The funds obtained can be used for business development, expansion, and additional working capital as well as a means for the public to invest in financial instruments such as stocks, bonds, mutual funds, and others. Thus, the public can place their funds to invest according to the characteristics of each instrument. Investors who choose to invest their funds in shares of companies that have gone public will receive income or profits in the form of capital gains and dividends. Capital gain is a profit gained from investing in securities or securities such as stocks and bonds. The dividend is the distribution of income to shareholders based on the number of shares owned (Saragih, 2019).

The distribution of dividends originating from the company's income distributed to shareholders is the main function of the company's financial manager. There are two types of dividend distribution based on the form of dividends paid, namely cash dividends and stock dividends. Cash dividends are dividends paid in cash, while stock dividends are dividends paid in shares. The distribution of dividends in the form of shares is carried out because the company's financial liquidity condition does not allow it to distribute dividends in cash (Isiker & Tas, 2021).

A dividend announcement is one of the many events that can affect the market, which is an event where the company provides information to the public that profits will be shared with shareholders. Often dividend announcements are considered to have information content if the market reacts when the announcement is received by the market. This information affects investors' decision making and, in the end, the market reacts to this information to reach a new balance. The reaction can be a positive reaction or a negative reaction. These positive reactions and negative reactions can

be used as a basis to find out whether this supports the dividend signaling theory (Pandey *et al.*, 2022).

Different perceptions of each investor will give a different reaction from each investor and the combination of all these investor reactions will cause a market reaction, which will be reflected in changes in stock prices. The market reaction that occurs can be reflected in obtaining positive or negative abnormal returns. Abnormal return is the difference between the actual return and the expected return which can occur before official information is published or leakage of information has occurred after official information has been published. The faster new information is reflected in security prices, the more efficient the market is (Nawangsari & Iswajuni, 2019). Cash dividends are an issue that often becomes a topic of discussion among shareholders and also the management of issuer companies. Sometimes this creates controversy between shareholders and the company (Liu *et al.*, 2022).

This research was conducted at the Indonesia Stock Exchange in all sub-sectors. Of the various business sectors in Indonesia, one of the properties and real estate sub-sectors is one of the business sectors that experiences very significant fluctuations in its dividend payout as measured by the dividend payout ratio. Fig. 1 shows the data on the dividend payout ratio of companies in the property and real estate sub-sector from 2016-2020.

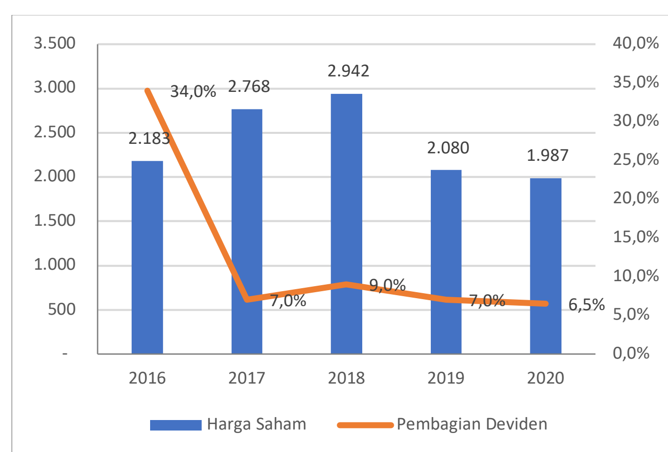

Fig. 1. Comparison of Company Dividend Distribution with Average Share Price of property and real estate sub-sector companies in 2016-2020.

Based on Fig. 1, dividend distribution by property and real estate sub-sector companies in 2016 is very promising with a dividend payout ratio (DPR) percentage of 34%. However, in 2017 the average share price increased, while dividend distribution 2017 decreased by 7%. Various kinds of obstacles can be faced by companies so that they cannot pay dividends to shareholders, this has an impact on a decrease in the percentage of the dividend payout ratio.

As an example of the phenomenon that occurred at PT Intiland Development Tbk (DILD), namely due to a decrease in profits, PT Intiland Development Tbk (DILD) did not distribute dividends to shareholders. The General Meeting of Shareholders (GMS) of PT Intiland Development Tbk decided not to distribute dividends per share from profits achieved throughout 2017. From the company's performance throughout 2017, net profit was recorded at IDR. 297 billion, down compared to 2016, which at that time was IDR. 299 billion. In terms of operating income, Intiland recorded that in 2017 it earned IDR 2.203 trillion, while in 2016 it was IDR 2.276 trillion

Inefficient market conditions, the announcement of stock dividends will be reacted quickly by investors. Investor interest in buying shares of companies that declare stock dividends is a signal that the company has good performance and bright prospects in the future. As a result, the stock price of the company that issued the dividend distribution announcement also increased. With the increase in stock prices, it means that the announcement of stock dividends has important information for investors to get abnormal returns. Meanwhile, the return will be positive if the return obtained is greater than expected or the calculated return.

Information is one of the key factors for investors in the capital market to realize their goal of obtaining a return on their investment. Based on the available information, investors will decide when to buy shares or retain the shares they already own or when to release shares, or not to make a purchase at all. One of the pieces of information that reflects the internal condition of a company is the movement of stock prices and the announcement of dividends. Stock price movements and announcements of dividend payments are information for investors that the company has good performance and finances.

Based on the Signaling theory, dividend announcements are important information and can influence investors because they contain signaling information about profits and prospects for the company. Dividend announcement information is related to company profits and cash flow to pay dividends. This is due to conditions where investors are faced with uncertainty about the results of their investment work. This thinking arises because management generally will not take the risk of paying high dividends at a certain time if according to their estimation the company is unable to maintain it in the future (Bon & Hartoko, 2022).

Announcement of an increase in cash dividends will result in abnormal returns earned by investors will also experience a positive response by investors because they think the company has prospects for the company in the future generating profits will increase. Conversely, if the company announces a decrease in the distribution of cash dividends, it will result in the returns earned by investors also experiencing a negative response by investors because they consider the company's prospects in the future to generate profits will decrease. Judging from this theory, the announcement of dividends indicates good prospects and company performance. So it is hoped that investors will think positively about the company's performance and this will be seen in the reaction to changes in stock prices (Gul *et al.*, 2020).

The results of Khoirunnisa *et al.* (2019) found that the announcement of dividends does not provide information that affects investors and does not have a significant effect on the market. Amrulloh (2019) states that there is no significant difference between abnormal returns before and after the announcement of dividend

Seeing these results has at least illustrated the existence of different effects or gaps caused by dividend announcements. Based on the different findings from the studies that have been conducted, the authors view that empirical studies are still needed on the event study phenomenon of market

reaction to this dividend announcement. Apart from that, this research also wants to see how the market phenomenon relates to dividend announcements. So the purpose of this study is to explain the difference in abnormal returns before and after dividend announcements.

II. Literature Review

A. Signaling Theory

Signal theory illustrates that a signal or cue is an action taken by company management that gives instructions to investors about how management views the company's prospects. This theory reveals that investors can distinguish between companies that have high value and companies that have low value. When the information is announced and all market participants have received the information, market participants first interpret and analyze the information as a good signal (good news) or a bad signal (bad news). The results of the interpretation of this information will later affect demand from investors. If many investors have a pessimistic view due to bad news from the information received, it will reduce the number of purchases that occur and will increase the supply in the market so that prices will be pushed down. Conversely, if investors look optimistically as a result of good news from the information received, it will increase the number of purchases that occur and will reduce the supply in the market so that prices will be pushed up (Yasar *et al.*, 2020).

B. Dividend

Dividends are part of the profits distributed to investors in the form of cash dividends or stock dividends. Dividends are profits or losses that the company gets during its business in a period that is reported to the board of directors or at the General Meeting of Shareholders (GMS). This dividend is distributed to shareholders as a profit from the company's profits. Decisions regarding the amount of retained earnings and dividends to be distributed are decided in the GMS (General Meeting of Shareholders) (Sari *et al.*, 2017).

C. Dividend Announcement

A dividend announcement is a day on which the company provides information to the public regarding dividend distribution, the company also sets a certain date that determines which shareholders will receive dividends. If the company decides to share profits in dividends, then all shareholders get the same rights. The issuer's announcement of dividends to be paid to shareholders is also known as the dividend announcement date. one implication of the announcement of dividends will cause an increase in the company's stock price and the announcement of a decrease in dividends will cause a decrease in the company's stock price (Felimban *et al.*, 2018).

D. Abnormal Returns

Abnormal return is the difference between actual return and expected return. Realized returns are returns that occur and can be calculated using historical data. The expected return is the return expected by investors in the future.

In contrast to realized returns, this expected return has properties that have not yet occurred and use realized returns as the basis for measuring expected returns (Doryab & Salehi, 2018).

E. Research Hypothesis

This research is an event study research regarding market reaction to dividend announcements which is aimed at the existence of abnormal returns on corporate dividend announcement events on the Indonesian stock exchange. Khoirunnisa *et al.* (2019) found that dividend announcements do not provide information that affects investors and do not have a significant effect on the market. Amrulloh (2019) states that there is no significant difference between abnormal returns before and after the announcement of dividends. Concerning the literature review, namely the theoretical basis and previous research, it can be formulated as follows:

H1: There are significant differences in abnormal returns before and after dividend announcements.

III. Research Method

This study uses a quantitative approach, namely a comparative form that compares and contrasts two or more facts and the properties of the object under study based on a certain frame of mind. A quantitative approach is research that is used to examine a particular population or sample to test a predetermined hypothesis. The research design used in this research is descriptive research conducted to determine the value of independent variables without making comparisons or connecting with other variables. This study uses an event study approach. The research locations used were companies that announced their dividends on the IDX for the 2016-2020 period. The location of this research can be accessed on the official website of the Indonesia Stock Exchange, namely www.idx.co.id. which provides the necessary information for this study. Data were obtained from the Indonesian Capital Market Directory (ICMD) and other historical reports on the IDX for the 2016-2020 period.

This study uses the object, namely a capital market reaction to the announcement of dividends, to test the market reaction by showing an abnormal return on these stocks during the pre-event period to the post-event period. Variables were observed during the window period, namely 11 days including the day of the announcement (5 days before, day d, and 5 days after the stock split).

The population in this study are companies listed on the Indonesia Stock Exchange in 2016-2020 with a total of 539 companies from 9 sub-sectors. Company data was obtained through the website www.idx.co.id. The sampling method used in this study is the purposive sampling method, which is a method of selecting samples based on criteria, where the sample criteria are companies registered with Indonesian Securities in 2016-2020 and distributing their dividends successively in the 2016-2020 period. From these criteria, this study used 27 research samples for 5 years on 11 days of observation, 5 days before dividend distribution, 1 day when dividends were distributed, and 5 days after dividend distribution day. The data collection method in business research is in terms of the non-participant observation process. This data collection is a structured observation method because this observation has been systematically designed regarding the object of research. This study used

data analysis techniques to find out the hypothesis test, namely using the t-test and data analysis using SPSS version 25.0 and Microsoft Excel.

IV. Result And Discussion

A. Data Analysis

Based on Table I, 27 companies are used as sample categories with 11 days of observation time before and after dividend distribution. Based on these data, it is known that the abnormal return before dividend announcement has a value of N = 675 which consists of 5 days of observation before dividend distribution for 27 companies for 5 years which shows a minimum value of -0.8924 and a maximum value of 8,707. The mean value is 0.011474 with a standard deviation of 0.3209579. Meanwhile, the abnormal return after the dividend announcement has a value of N = 810 which consists of 6 days of observation, namely 5 days after dividend distribution and the day when the company distributes dividends. For 27 companies for 5 years, it shows a minimum value of -0.9461 and a maximum value of 15.6786, the mean value is -0.026493, and a standard deviation of 0.6697670.

TABLE I: Descriptive Statistics for Abnormal Returns

	N	Min.	Max.	Mean	Std. Dev.
Prior to Dividend Distribution	675	-0.8924	8.2707	0.011474	0.3209579
After Dividend Distribution	810	-0.9461	15.6786	0.026493	0.6697670

Based on Table II, Asymp. Sig. (2-tailed) shows a value of 0.000, which means it is smaller than the significant value (5% = 0.05). Then the abnormal return value before and after the dividend announcement is not normally distributed. And it can be concluded that the abnormal return sample data for 5 (five) days before and 5 (five) days after the announcement of dividends is not normal, so it is feasible to use the Wilcoxon signed ranks test statistic.

TABLE II: Abnormal Return Normality Test

		Before	After
N	-	675	810
Normal Parameter	Mean	0.011474	0.026493
	Std. Deviation	0.3209579	0.6697670
Most Extreme Differences	Absolute	0.427	0.464
	Positive	0.427	0.464
	Negative	-0.418	-0.432
Test Statistic		0.427	0.464
Asymp. Sig. (2-tailed)		0.000	0.000

Based on the results of the non-parametric test in Table III, namely by using the Wilcoxon Signed Rank Test, it can be seen that the Asymp.Sig. (2-tailed) abnormal return value before and after the dividend announcement is more than a significant value (5% = 0.05), the value of Asymp.Sig. (2-tailed) is 0.000 then H1 is accepted and H_a is rejected. And it can be concluded that there is a difference in the average abnormal return before and after the dividend announcement.

TABLE III: Wilcoxon Signed Ranks Test

	N	Mean Rank	Sum of Ranks
Negative Ranks	368	340.68	125369.00
Positive Ranks	284	308.13	87509.00
Ties	23	-	-
Total	675	-	-
Z	-3.934	-	-
Asymp. Sig. (2-tailed)	0.000	-	-

B. Discussion

The results of this test show that there is a significant difference between abnormal returns before and after dividend announcements in companies listed on the Indonesia Stock Exchange in 2016-2020. The mean value on the day before dividend distribution has an abnormal return value of 0.011474 whereas after dividend distribution the average abnormal stock return becomes 0.026493. This indicates that the actual return assessment after dividend distribution has increased from before dividend distribution resulting in abnormal return positive in companies listed on the Indonesia Stock Exchange in 2016-2020.

Abnormal return is the difference between actual return and expected return. realized returns are returns that occur which can be calculated using historical data. The expected return is the return expected by investors in the future. this expected return has properties that have not yet occurred, and use realized returns as the basis for measuring expected returns. If the abnormal return is positive, then it is said that it can provide above-normal profits to investors, and vice versa if the abnormal return is negative, it indicates that the profit earned is below normal.

Broadly speaking, the average abnormal return before the announcement of stock dividends is mostly positive, but some days are negative, which indicates an information leak, where investors already know there are rumors about the distribution of stock dividends, which could be the date of the announcement, the amount of the dividend. to be shared or other information that has an impact on the company's stock price. This situation can also be caused by asymmetric information dissemination, in which some market participants (such as investment managers who have better information access to companies) have been able to predict or know plans to issue stock dividends so that they anticipate dividend announcements by reacting negatively. before the announcement is made. The average abnormal return after the announcement of stock dividends is mostly negative, where which is due to investors taking profit-taking actions by selling stocks whose prices have increased considerably as a result of the announcement of stock dividends to obtain a sizable gain. The significant negative average abnormal return at t0 and the significant positive average abnormal return at t+1 indicate investors overreact to the announcement of stock dividends on the announcement day and also regret the negative response made by investors to the announcement on the announcement day.

V. Conclusion

There is a significant difference between the abnormal return before and after the dividend announcement. results indicate that the corporate action of dividend announcements

is only to attract investors because after the announcement there is a significant average decrease compared to before the dividend announcement. This can be caused by the announcement of dividends at the same time other events are more influential on stock returns. Investors must be more careful in determining their decisions on the investments they carry out to take profits or avoid losses from announcements/events that occur that can affect share prices in the market.

For investors, there are several aspects that investors and old shareholders need to pay attention to when they want to buy shares of companies that pay dividends. In this study, the average abnormal stock return of companies that make dividend announcements tends to increase. This is good information for investors to invest in companies that pay dividends in the financial sector. Old shareholders are expected to hold their shares for a long period to benefit annually in the form of dividends and a fairly high increase in share price. For further research, it is expected to conduct research with different corporate actions. Such as a stock split or stock buyback.

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