INFLUENCE OF DIVIDEND ANNOUNCEMENT IN LQ45 COMPANY TOWARD SHARES RETURN BEFORE AND AFTER EX-DATE DEVIDEND IN INDONESIA STOCK EXCHANGE (IDX)

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Abstract

The research's aim is to analyze whether announcement of dividend increase and decrease will be positively influence to the shares return before and after ex-dividend date in the Indonesia Stock Exchange (IDX). In this research, the samples used consist of 24 companies which incorporated in LQ45 group for the period of August 2008 until January 2009 in IDX. Testing the influence of dividend announcement have done by observing the abnormal return during the period 11 days, which are 5 days before the dividend announcement and 5 days after the dividend announcement. The research results show that on the significance level 5% exist the weekdays which produce significance abnormal return. The company which announce the increase of dividend having significance abnormal return, it can be found on (t+3) days after the announcement. The company which announce the dividend decrease, the significance abnormal return existed at the (t+1) day after the announcement.

Key Words: Dividend, Shares Return, Indonesia Stock Exchange (IDX)

INTRODUCTION

Since the crisis that occurred in 1997 in Indonesia, it makes Indonesia the nation more active and careful in carrying out economic transactions. One of the institutions that play an important role in Indonesia's economy is capital market. Principally in capital markets performed two functions, the first is a funding vehicle for business or as a means for companies to obtain funds from investors, and the second is a means for communities to invest in financial instruments such as stocks, bonds, mutual funds, and others. Thus, the public can place funds in accordance with the characteristics it has advantages and risks of each instrument.

At this moment in Indonesia only has one capital markets which is Indonesia Stock Exchange (IDX) or often known as IDX. Activity in IDX trade turnover is dominated by stocks, followed by bonds, derivatives and other instruments. In addition, there are several kinds of stock price index such as the IHSG or JCI (Composite Stock Price Index), Sector Index, Index of Islamic /
Sharia and Individual Stock Price Index.

In capital markets, there are two parties that are crucial which are the emiten (issuers) and investor. The emiten is a company that sells ownership (security) to the community in order to obtain additional funds that can be used in the extended enterprise, attempt to alter or improve the composition of capital and to transfer the stock holder. While the investors are entities or individuals who buy property (securities) of a public company in order to obtain dividends or capital gains. In real life capital gains frequently used by speculators because it fluctuates depending on the price of shares traded each day on the stock exchange. Stock prices are formed from the process of supply and demand that occurred in the stock exchange market. The stock prices will be fluctuated according to information from within and outside the company. Information originating from within companies such as the company’s performance appraisal, the company earnings announcement, management turnover, the announcement distribution of dividends and other information concerning the operational activities of the company, and information from outside the company are political issues, the security situation city or country, the development of a competitor and so on. Based on these backgrounds, in this case the authors wanted to examine one of the factors that could affect the stock prices of dividend announcements made by companies incorporated in LQ45 group, would make an impact or not to return the company's stock.

LITERATURE REVIEW

Capital Market

Capital markets can be defined as the market for various financial instruments (securities), long-term can be bought and sold, either in the form of debt and own capital, whether issued by governments, public authorities, and private companies (Husnan, 2001:4).

In carrying out its economic function of capital market intermediaries to act as an agent, meaning the stock market as an intermediary institution in the provision of facilities to transfer funds from the lender to the borrowers (debtors). By investing their funds, lenders expect compensation from the fund transfer. Conversely, from the borrowers of the availability of external funds enable them to make investments without having to disrupt the availability of funds from operations of their own company.

Own capital markets consist of primary and secondary markets. The primary market is the prime market or the beginning of all new securities issued. In this market funds invested coming from the buyer of securities to the company which published these securities (investment sector), while in the secondary market place selling existing securities (Van home and Wachowicz, 1997:528). Transactions that occurred in this market do not provide additional funds to finance capital investment, and this market better known as the Stock Exchange.

Investment

Investment can be interpreted as a way of investment, either directly or indirectly in order to obtain certain benefits or advantages as a result of such investment (Sri Handaru Yuliati, 1996:23).
Investments consist of two classes of direct investment and indirect investment. Form of investments consists of investment in the form of real assets and investments in the form of financial assets or securities. According to Hasan Zein, factors that can determine an investment decision, consisting of state investors, investment patterns, investment media, techniques and analysis, and investment strategies.

**Stocks**
Shares (stocks) are the evidence of ownership of the capital of a limited liability company. In a transaction on the stock exchange known as the common stock shares, which is a notabenya most dominant instruments traded in capital markets.

According to Jogiyanto, shares can be divided into two, namely Ordinary Shares (Common Stocks) and Preferred Stocks. Ordinary shares (Common Stocks) Holders of shares of this type is the owner of a company that represents the management company to run operations. The Preferred Stocks have combined properties of bonds and common stocks. Like Bonds, preferred stock gives interest on loans, and provides a permanent form of preferred dividends. And like ordinary shares, in the case of liquidation of a claim under the claims of bondholders.

**Dividends**
Dividends are distributed by the company's profits to all shareholders in proportion (Kieso Weygandt, 2002: 602). The types of dividends is Dividend Cash (cash), Dividend Property (assets), Liquid Dividend (agio reduce stocks), Stock Dividend (stocks), and the Scrip Dividend (IOU).

**RESEARCH METHOD**

**Variable Data and Research**

This study uses secondary data taken from the Indonesia Stock Exchange and some media published by the Indonesia Stock Exchange, such as the Fact Book, IDX Statistics, the official website of Indonesia Stock Exchange www.idx.co.id and finance.yahoo.com. While companies will be samples, taken from the population affiliated companies within the group LQ45 period August 2008-January 2009, that share in cash dividends during the year, the number fluctuates each year dividend, do not stock split and right issue, and have complete data.

The provisions of the above elected 24 companies will be used as samples in this study. Of these 24 samples there were 14 companies that announced a dividend increase and 10 dividends decrease company.

Research conducted during the period of 11 trading days i.e. 5 days before, day of the announcement dividends, and 5 days after the dividend announcement. While stock prices used in this study is the closing stock price (closing price).

**Stages of Research and Analysis Tool**
Phases of activities undertaken in this research include the search for actual return; market return expected return, abnormal return and average abnormal return, as well as test average abnormal
return by using the One Sample T-test. Analytical tools and models used in the calculation of this study was abnormal returns and test-t. The following is the actual determination of return, market return expected return, and abnormal returns, as well as testing of the average abnormal return is:

1) Calculating the Actual Return (Return Lo)

\[ R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \]

Where Rit is the Actual return or return a realization of the stock i at time t, Pit is the price of stock i at time t, and Pit-1 is the stock price i at time t-1.

2) Calculating the Market Return (Market Return)

\[ R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}} \]

Where RMT is the market return at time t, IHSGt is the composite stock price index at time t, while IHSGt-1 is a composite stock price index at time t-1.

3) Calculating the Expected Return (Expected Return)

\[ E(R_{it}) = \alpha_i + \beta_i R_{mt} \]

Where E (Rit) is the expected stock return, \( \alpha_i \) is the Intercept for stock I, and \( \beta_i \) is the coefficient of the slope which is the beta of the stocks I, and the RMT is the market return at time t.

4) Calculating Abnormal Return

\[ AR_{it} = R_{it} - E(R_{it}) \]

Where is the abnormal return sickle stock i at time t, Rit is the Actual return or return a realization of the stock i at time t, and E (Rit) is the expected stock return.

5) Calculate Average Abnormal Return

\[ AR_{it} = \frac{\sum_{t=1}^{n} AR_{it}}{n} \]
Where is \( \text{the average return is the amount Abnormal Return, and } \sum_{i=1}^{n} A_{i} \) is the number of data.

6) Testing Average Abnormal return with One Sample T-test with 95% confidence level (\( \alpha = 0.05 \)) and with the following hypothesis:

**Hypothesis:**
Hypothesis is performed to determine or establish whether there is a significant difference in average abnormal return on the 5 days before and 5 days after the announcement dividend. And the hypothesis to be tested as follows:

**First Hypothesis:**
H1: The announcement increase in dividends has a positive effect on stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX).

This hypothesis states that, if the company has made announcements and the distribution of cash dividends per share, the number is greater than the previous period (up), then the return will happen also increase the time before and after ex-dividend date dividend in Indonesia Stock Exchange (IDX)

Operational Hypothesis:
(Ho1): The announcement does not affect the increase of positive dividends on stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX).
(Ha1): The announcement increases the positive impact of dividends stock return before and after the ex-dividend date in Indonesia Stock Exchange (IDX).

**Second Hypothesis:**
H2: The announcement dividend reductions (decrease) positively affect the stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX).

This hypothesis states that, if the announcement of the distribution companies and the amount of cash dividends per share, lower than the previous period (down), then the return will happen down the time before and after ex-dividend date dividend in Indonesia Stock Exchange (IDX)

Operational Hypothesis:
(Ho2): dividend reduction announcement is not a positive influence on stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX).
(Ha2): Announcement dividend reductions positively affect the stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX).

With hypothesis testing criteria as follows:
Testing hypotheses for the average abnormal return done by comparing the \( t-calculated \) with \( t-table \).
DISCUSSION

This research discussed regarding the company which announced a dividend increase and decrease happened on 24 companies. The process undertaken to obtain the abnormal return between the two type of announcement (increase or decrease) is equal. And calculations to find the abnormal return on the day they made the day -5 to +5 (for 11 days). Below is a calculation of abnormal stock return of ANTM Company, for the calculation of other companies using the same way, namely:

Actual Return

Actual return -5 days before the ex-date of ANTM dividend are:

\[ R_{i-5} = \frac{P_{ANTM-5} - P_{ANTM-6}}{P_{ANTM-6}} \]

\[ R_{i-5} = 3.000 - \frac{3.025}{3.025} \]

\[ R_{i-5} = -0.0083 \]

Market Return

\[ R_{m-5} = \frac{P_{ANTM-5} - P_{ANTM-6}}{P_{ANTM-6}} \]

\[ R_{m-5} = 2.276.85 - 2.276.23 \]

\[ R_{m-5} = 0.0003 \]

Expected Return

<table>
<thead>
<tr>
<th>Coefficients (^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unstandardized Coefficients</strong></td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>-.016</td>
</tr>
<tr>
<td>1.939</td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: Ri

\( \alpha_i : -0.016 \)

\( \beta_i : 1.939 \)
Thus, the regression equation to find the expected return on ANTM companies are:

\[ E(R_{it}) = -0.016 + 1.939R_{mt} \]

\[ E(R_{it}) = -0.016 + 1.939 \times (0.0003) \]

\[ E(R_{it}) = -0.016 + (0.5817) \]

\[ E(R_{it}) = -0.0155 \]

**Abnormal return**
The abnormal return ANTM company is calculated as follows:

\[ AR_{it} = R_{it} - E(R_{it}) \]

\[ AR_{it} = -0.0083 - (-0.0155) \]

\[ AR_{it} = 0.0072 \]

**Average Abnormal Return**
Based on the above calculations, the following is a list of average abnormal return on the 14 companies that announced a dividend increase and 10 companies that announced a dividend reduction.

<table>
<thead>
<tr>
<th>Day</th>
<th>Dividend Increase</th>
<th>Dividend Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>-0.0039</td>
<td>-0.0216</td>
</tr>
<tr>
<td>4</td>
<td>0.0196</td>
<td>-0.0030</td>
</tr>
<tr>
<td>3</td>
<td>0.0099</td>
<td>-0.0329</td>
</tr>
<tr>
<td>2</td>
<td>0.0014</td>
<td>-0.0146</td>
</tr>
<tr>
<td>1</td>
<td>-0.0006</td>
<td>-0.0118</td>
</tr>
<tr>
<td>0</td>
<td>-0.0217</td>
<td>0.0767</td>
</tr>
<tr>
<td>-1</td>
<td>0.0016</td>
<td>-0.0215</td>
</tr>
<tr>
<td>-2</td>
<td>0.0009</td>
<td>0.0066</td>
</tr>
<tr>
<td>-3</td>
<td>0.0032</td>
<td>-0.0009</td>
</tr>
<tr>
<td>-4</td>
<td>-0.0084</td>
<td>0.0246</td>
</tr>
<tr>
<td>-5</td>
<td>-0.0097</td>
<td>-0.0033</td>
</tr>
</tbody>
</table>

**Hypothesis Testing**

According to the method research, the hypothesis of this research is divided into two; the first for testing the companies that announced dividend increase and the second to test the company announced the dividend reduction (decrease). And the following Table 3 is the result of hypothesis testing in One Sample T-test on the average abnormal return on the companies that announced dividend increases:
From the above test results, it can be seen, there are an average abnormal return is significantly positive, at 0.099 t +3 registration. The average abnormal return is located in areas where resistance Ho1 t-value of 2.075 was calculated is greater than t-table value is 1.771, this means it is rejected. The first null hypothesis (Ho1: Announcement increase in dividends is not a positive effect on stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX)) or in other words accepting Ha1 which is an announcement of increase in dividends has a positive effect on return stock before and after ex-dividend date in Indonesia Stock Exchange (IDX).

While in testing hypothesis One Sample T-test on the average abnormal return on the company's announced reduction in dividends, are as depicted in Table 4.
From the above test results can be seen, that there is an average abnormal return is significantly negative at day (t +1) after the announcement of registration which is -0.0118. Average abnormal returns are located in a reas of Ho2 resistance where the calculated value is -2.206 was smaller than the value of its t-table is -1.833. This means rejecting the second null hypothesis (Ho2: dividend reduction announcement does not affect the positive of stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX).) Or in other words, accept Ha2: dividend reduction (decrease) announcement has a positive impact on stock returns before and after the ex-dividend date in Indonesia Stock Exchange (IDX).

**CONCLUSION**

From the above test results, it can be concluded that, posting an increase in dividends provide a positive influence on stock returns after the ex-dividend date in Indonesia Stock Exchange (IDX) is on the third day after the announcement. Dividend reduction announcement while also providing a positive influence on stock returns after the ex-dividend date in Indonesia Stock Exchange (IDX) is the one day after the announcement.

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