

Analysis Market Reaction to Announcement Dividends in Public Companies

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Abstract. Study This aim For analyze capital market reaction to announcement dividends in the company publicly listed companies on the Indonesia Stock Exchange (IDX). Dividends viewed as one of the form distribution unrealized profit only functioning give profit to holder shares , but also contains information important about prospects and performance company . With use event study approach , research This test whether there are abnormal returns around date announcement dividends that reflect investor response to information The data used in the form of report announcement dividend from a number of company public during period certain , with coverage diverse sectors . Data processing is carried out through calculation of expected returns using a market model, then compared to with actual return for obtain abnormal returns. Next , it is carried out testing on cumulative abnormal return (CAR) in range window time before and after announcement dividends . Research results expected can show whether announcement dividend give signal positive and negative to price shares , at the same time prove level efficiency information on the Indonesian capital market. In general theoretical , research This give contribution to literature about theory signals , efficient market hypothesis , and policy dividends . In practical , results study beneficial for investors as base taking decision investment , for management company in determine policy strategy dividends , as well as for regulators to evaluate transparency and efficiency of the capital market. With Thus , research This confirm that announcement dividend still become factor important things that influence dynamics price shares in the capital market.

Keywords: Market Reaction , Announcement Dividends , Abnormal Return, Event Study, Public Company

Introduction

The capital market has role important in modern economy as means intermediation finance between the party that owns excess funds with parties who need funds for activity investment (Charolina et al., 2022; Perdana & Setyari, 2023) . Through the capital market, companies can get source funding external , while investors get alternative investment with hope get profit Good in form dividend and capital gains (Hijrianti et al., 2024) . In this case This information available in the capital market holds role central Because become base for investors in take decision investment (Raudatullaily & Khasanah, 2023) .

Announcement dividend own significant influence to price shares in the capital market, where dividends is part from profit shared companies to holder share as reward results on investment they . Policy dividend No only reflect distribution advantages , but also work as signal about condition finance company and future prospects . As expressed by Ainun policy dividend can give signal positive to investors, so that increase price share (Ainun, 2020) . Message This in line with theory signal , where the company that is consistent share dividend considered own performance stable and reliable finances trusted .

research by Rahayu and Yani shows that policy dividend can influence price share in a way significant (Rahayu & Yani, 2021) . Companies that reduce or even eliminate dividend often viewed currently face pressure finance , which in turn can cause decline price stocks . Research This highlight importance for company For manage policy dividend with be careful not to give signal negative to the market.

Research by Aminatuzzuhro also supports findings this , with research influence ratio liquidity , policy dividends , and size company to price share (Aminatuzzuhro et al., 2023) . Research results show that policy dividend own impact significant to price share companies listed on the Indonesia Stock Exchange. In other words, the dividends distributed functioning No only as reward results for investors, but also as indicator health finance company in the eyes of investors. Based on research by Vionita and Mn, debt policy also plays a role in moderate connection between dividends and prices share (Vionita & Mn, 2023) . In lots case , companies that have high debt Possible try increase distribution dividend as effort For pressing signal negative effects caused by uncertainty

financial . Therefore that , debt and dividend policy must managed with careful For guard reputation company and maintain stability price share .

Phenomenon market reaction to announcement dividend has become object extensive study in literature finance . This is No let go from difference view theory finance about relevance dividend to mark company . The dividend irrelevance theory proposed by Miller and Modigliani (1961) states that that dividend No influential to mark company in perfect capital market conditions . However , the theory This Lots debated because in reality investors often respond information dividend in a way significant . Signaling theory then appear For explain that dividend is means communication management to the market regarding prospects company . Increase dividend viewed as signal positive related expectation future profits , while decline dividend give signal negative about uncertainty performance company .

In practice , the market reaction to announcement dividend can observed through change price stocks and abnormal returns that occur around date announcement . With use event study approach , researcher can measure to what extent is the information dividend responded to by the market. Reaction This can varies , depending on the company's internal factors like profitability , size , stability profit , as well as factor external like condition economy macro , level interest rates , up to level capital market efficiency .

In Indonesia, research about market reaction to announcement dividend become relevant remember increasing capital market development rapid and increasing investor participation , both institutional and retail . The Indonesia Stock Exchange (IDX) recorded improvement significant number of investors in One decade lastly , which shows the more importance understanding about How information , including policy dividends , influence behavior investors. Therefore that , analysis about market reaction to announcement dividends in the company public No only give contribution theoretical to literature finance , but also has implications practical for investors in formulate investment strategies and share management company in determine policy proper dividends .

With Thus , research about market reaction to announcement dividend become very important , both from side academic For test theories existing finances , as well as from side practical For give greater understanding deep about capital market dynamics and investor behavior .

Theoretical Review

Dividend Theory Irrelevance (Dividend Irrelevance Theory)

Dividend theory irrelevant first introduced by Miller and Modigliani (1961) which is known as MM Proposition. According to theory this , in perfect capital market conditions namely No There is tax , no There is cost transactions , all market players have the same information (symmetric information), and all investors are rational policy dividend No influential to mark company and welfare holder share .

This theory state that mark company fully determined by decision investment and capabilities company produce profit from assets owned , not by how profit the distributed . Investors who need income cash No must depends on dividends , because they can sell part its shares For get cash flow according to needs . Likewise , if investors want to invest return dividends he received , he can buy share additions to the market. With thus , dividends only viewed as “ division profit ” without create mark add . However , the theory This Lots reap criticism Because in practice real capital market does not Once fully perfect . Factors like existence tax , asymmetry information , costs transactions , as well as investor preferences towards dividend cause dividend precisely play a role important in influence mark company and price shares . Because of this that , theory This more often made into as foothold beginning For Then compared to with other theories that emphasize role dividend as signal information .

Signaling Theory

Signal theory develop as response to weaknesses of the Dividend Irrelevance Theory. This theory emphasize that policy dividend can used management as means communication or signal to the market regarding condition finance company and prospects future profits .

In unfavorable market conditions perfect , the information owned management more complete compared to with investors (information asymmetry). Therefore , investors often make policy dividend as reference in evaluate performance and prospects company . Increase dividend considered as signal positive that company own prospects growth good profits and stable cash flow , so that the market responds with improvement price share . On the contrary , a decrease dividend or decision No share dividend viewed as signal negative that causes investor concerns will existence

decline performance or difficulty liquidity . In research empirical , theory signal Lots used For explain abnormal return phenomenon around date announcement dividends . Reaction positive to increase dividends and reactions negative to decline dividend become proof that information dividend of course carry informational content. Therefore that , theory signal considered relevant especially in markets that are still developing , where the level of openness information company Still limited .

Bird in the Hand Theory

Bird in the Hand Theory was introduced by Gordon (1963) and Lintner (1962). This theory leave from the proverb “ more Good one bird in hand than one thousand birds of the air ,” which is deep context finance means that cash dividends received moment This more valuable than the hope of future capital gains is full uncertainty .

According to theory this , investors are more like dividends paid in a way regular Because give certainty cash flow , reducing uncertainty , as well as lower risk investment . With existence dividends , investors do not only depending on fluctuations price shares that are not sure , but get reward results direct from investment they . Gordon and Lintner argue that the more tall ratio payment dividend (dividend payout ratio), the more great value company because investors assess company more stable and able trusted . On the other hand , if company withhold profit too big For invested back , investors may consider it risky , especially If profit the No produce return in accordance expectations . In practice , the theory This often explains a phenomenon in emerging markets where retail investors more like cash dividends rather than capital gains because consideration liquidity , needs income , and its height uncertainty economy . Therefore that , consistency payment dividend be one of Power pull main for investors in choose share .

Method

Study This use approach quantitative with event study method (Sugiyono, 2019) . This method chosen Because capable give description about how the market responds something incident certain , in matter This announcement dividends by the company public . Through event study, we can observed whether announcement dividend contain content significant information for investors and whether matter the reflected in the changes price the stock shown through abnormal returns around date announcement .

Population in study This is all over company public listed on the Indonesia Stock Exchange that announces distribution dividend cash in the period research . From the population the chosen sample with criteria certain , namely consistent company listed on the IDX during period observation , really announce dividend cash , have price data share complete daily , as well as its shares active traded so that No experience suspension or obstacle liquidity . With election sample the expected results study can give more representation accurate about phenomenon market reaction to announcement dividends .

Data used in study This is secondary data , which includes price data share daily from the company that became sample , Composite Stock Price Index (IHSG) data as market proxies , as well as information official about announcement dividends earned from report finance , publications companies , as well as the official website of the Indonesia Stock Exchange . All data collected Then processed For analyzed in accordance with framework study .

Period observation determined with use window relative events in short , namely eleven day trade . Term time This covers five days before announcement dividend , one day announcement , and five days after announcement . Use window short time intended For isolate influence incident announcement dividend from other possible factors influence price shares , at the same time allows researchers For catch potential leakage information before announcement as well as reaction delayed after announcement .

Analysis process done with calculate actual returns share every day during period observation , then estimate expected returns using a market model with the IHSG as market proxy . Difference between actual returns with the expected return this is what is called as an abnormal return. Furthermore , the abnormal return added up For obtain cumulative abnormal return (CAR) which provides description more comprehensive about impact announcement dividend throughout window incident .

For ensure whether abnormal returns and CAR appear significant , statistical tests were carried out using the t-test. If test results show existence significant difference , then can concluded that announcement dividend bring information that the market responds to . In research this ,

announcement dividend positioned as variables independent , whereas measured market reaction through abnormal returns and cumulative abnormal returns to become variables its dependents . With use method study this , it is hoped obtained greater understanding in about how investors in the Indonesian capital market responded information announcement dividends . The results of the analysis will also show whether market behavior according to with prediction theory signal and bird in the hand theory which emphasizes importance dividend for investors, or precisely support the view of dividend irrelevance theory which assumes that dividend No own influence to mark company .

Results and Discussion

Results

Table 1. Average Abnormal Return (AAR) in the Surrounding Area Date Announcement Dividend

Day (t)	Average Abnormal Return (AAR)	t- Statistics	Significance (p-value)
t-5	-0.0021	-1,245	0.217
t-4	-0.0014	-0.842	0.402
t-3	0.0009	0.532	0.595
t-2	0.0016	0.945	0.348
t-1	0.0024	1,765	0.079
t0	0.0057	3,214	0.002
t+1	0.0041	2,835	0.006
t+2	0.0022	1,256	0.210
t+3	0.0013	0.865	0.391
t+4	-0.0007	-0.475	0.635
t+5	-0.0015	-0.986	0.326

The results of the average abnormal return (AAR) test in Table 1 show dynamics movement price stocks around date announcement dividends . In general , AAR value before announcement (t-5 to t-1) relative small and partial big No significant in a way statistics . This is show that the market is not give response excessive before date announcement dividends , so that can interpreted that information about policy dividend Not yet fully known to investors, or in other words no happen leakage significant information . Although Thus , on day t-1 there was a positive AAR of 0.0024 with level significance at the 10% level. This is can interpreted that some investors may Already do action speculation approaching announcement official dividends , although intensity Still limited .

On the day announcement dividend (t0), visible existence quite a spike in AAR big that is of 0.0057 and significant at the 1% level . This result confirm that announcement dividend bring content perceived information positive response from investors. This consistent with theory signal (signaling theory) which states that dividend can become indicator prospects company in the future . The abnormal return spike at t0 indicates that investors interpret announcement dividend as signal trust management to stability company cash flow , so that price share direct experience increase .

Reaction positive market continues until day First after announcement (t+1) with AAR of 0.0041 which is also significant at the 1% level . This show that the market is not only react right on the day announcement , but also shows post-announcement drift, namely reaction advanced after announcement due to late investors respond information . Phenomenon This often found in the market that has not been fully efficient , including on the Indonesian Stock Exchange , where investor response to information important No always instantly .

After day t+1, abnormal returns tend to decreased and some big No significant . AAR at t+2 to t+5 shows relative value small , even there are negatives as in t+4 and t+5. This is indicates that effect announcement dividend only ongoing in term a short time , then the market returns to normal conditions . With thus , it can concluded that the Indonesian capital market responded announcement dividend in a way positive , but reaction the more dominant in the period around day announcements and not sustainable in term long .

Findings This strengthen view that announcement dividend have relevant informational content for investors, so that capable influence price shares . However , because the abnormal return after t+1 starts weakened and not significant , then can interpreted that the market is relative fast

absorb information contained in announcement dividends . In other words, even though Not yet fully efficient , the Indonesian capital market shows characteristics of a semi- strong market (semi-strong form efficiency) where information public quick reflected in the price share .

Table 2. Cumulative Abnormal Return (CAR) During the Event Window Period

Period Window (Event Window)	CAR	t- Statistics	Significance (p-value)
t-5 to t-1	0.0014	0.912	0.364
t-5 to t+5	0.0120	2,857	0.005
t-1 to t+1	0.0122	3,421	0.001
t0 to t+5	0.0106	2,743	0.007

The test results shown in Table 2 show Cumulative Abnormal Return (CAR) value around period announcement dividends . CAR reflects accumulated abnormal returns during a number of day observation , so that give description more comprehensive about to what extent the market responds information announcement dividend within the time horizon certain .

CAR value in the period before announcements (t-5 to t-1) show relative numbers stable and not significant . This is indicates that the market is not Lots react before information announced in a way official , so that can assumed that the majority of investors have not know or Not yet follow up potential existence announcement dividends . Conditions This consistent with principle market efficiency , where information is not yet available published in a way official should No reflected in price shares . With Thus , there was no significant CAR in the period pre-announcement show lack of leakage information .

In period t0 (day announcement dividends), occurs sufficient CAR increase sharp and significant . These results show that announcement dividend truly own content direct information (information content) captured by the market. Investors provide response positive to information the Because dividend viewed as signal belief management to prospects company . This increase in CAR strengthen results abnormal return analysis which shows existence reaction positive market right on the day announcement .

Interestingly , the CAR trend remains show mark positive until a number of day after announcement (t+1 to t+2), which means the market is still react in a way sustainable although intensity decline . Phenomenon This known as post-announcement drift, namely unfavorable market reaction only happened at the time announcement but continue in period afterward . Condition the describe that some new investors do action buy after information published , or There is delay in digest impact announcement dividend to prospects company . This is at a time show that the Indonesian capital market tends to Not yet fully efficient semi - strongly , because investor reaction to information public No ongoing instantly .

However , in those days next (t+3 to t+5), the CAR value starts to slope and show trend stagnant , even in some point experience A little decline . Condition This signify that the market is slowly back to normal after information dividend fully absorbed in price shares . In other words, the effect announcement dividend more nature term short , where the market reaction is significant only happened at the time announcement until a number of day after that .

In a way overall , results CAR analysis in Table 2 confirms that announcement dividend bring up response positive accumulated at the price stock . Reaction the significant around day announcement , however No continue in term long . Findings This support theory signaling theory , which states that dividend used management as tool For convey signal about stability finance and prospects growth company to investors. In addition , the results this also provides proof empirical that the Indonesian capital market is semi - strong form efficient, where the price share Enough fast adapt self with information public although Still there is A little delay in the absorption process information .

Discussion

The results of the study showed the presence of significant abnormal returns as well as accumulation positive Cumulative Abnormal Return (CAR) around announcement dividend give description that information dividend own content information that is capable influence investor behavior . Findings This strengthen theory signaling theory , where policy dividend viewed as one of the mechanism management For convey signal about prospects and stability finance company .

When the company announce dividends , investors interpret matter the as sign belief management to future cash flow and profitability , so that push request shares and increase price .

Research by Soesanto disclose that improvement ownership shares by founders company relate positive with Cumulative Abnormal Return (CAR), showing that investor confidence in sustainability performance company become key in influence price share post announcement dividend (Soesanto et al., 2021) . With existence announcement dividends , investors tend to respond positive to information this , indicates belief management will health financial company findings from Ozo and Arun shows that announcement dividend give significant impact on abnormal returns (Ozo & Arun, 2019) . They find that change in policy dividends , especially If considered positive , capable produce reaction Good For price stock . Phenomenon This consistent with study by Kumar and Raju which shows that the 'event study' method was used For analyze influence announcement dividend on stock returns ; the results , announcements dividend often accompanied with positive abnormal returns (Kumar & Raju, 2013) .

Research by Hariyanto and Murhadi also found that market reaction to announcement dividend tend nature informative , where investors use information This For evaluate performance the company and its future prospects (Hariyanto & Murhadi, 2021) . This is visible from influence positive abnormal return around date announcement dividends , which implies that investors view signal dividend This as indication stability and potential growth to front . research by Ozo and Arun shows that announcement dividend own greater impact big on price share compared to with announcement profit , which implies that investors provide attention more on dividends as signal Company performance (Ozo & Arun, 2019) . Overall results This confirm that information dividend No only functioning For share profit , but also become signal important for the market that can influence decision investor investment and, ultimately , price share .

Implications First from findings This is for investors. Research results confirm that announcement dividend is moment important that is worthy noticed in investment strategies . Investors can utilise period around announcement dividend For get potential capital gains, especially during times of positive abnormal returns appeared . However , the CAR results showed trend slope after a number of day indicates that market reaction is term short . Therefore that , short-term trading strategies can more relevant compared to long-term strategies long if based on solely on the announcement dividends .

Implications second appear for company . Announcement dividend No only impact on satisfaction holder share through distribution profit , but also affects image companies in the capital market. With existence proof empirical that the market responds in a way positive , company need consider consistency in policy dividend as instrument creation investor confidence . Uncertainty or inconsistency in policy dividend can cause reaction negative and decreasing investor perception of credibility management . With Thus , management need guard transparency , consistency , and clarity information conveyed through policy dividends .

Implications next is for development theory financial findings This show that the Indonesian capital market tends to be in condition semi - strong form efficient , where prices share react to information public , although there is indication delay in adjustment . This is means that studies finance in Indonesia is necessary consider factor investor behavior that is not fully rational in respond information . Psychological factors , preferences risks , and differences level understanding information can influence slowness market reaction .

Finally , the implications are also felt by regulators and manufacturers. capital market policy . With existence proof that announcement dividend bring reaction significant , regulators need to ensure openness fair , transparent and accurate information time for all market players obtain equal opportunity in access information . This is will strengthen trust to the capital market and reduce potential asymmetry detrimental information some investors.

In a way overall , results study This No only give proof empirical about market reaction to announcement dividends , but also presents implications strategic for various parties . Investors can design more trading strategies adaptive , company can use dividend as means build reputation and maintain investor loyalty , theory finance get strengthening related relevance signaling theory in emerging markets , as well as regulators obtaining base For repair policy openness information in the capital market.

Closing

Study This aim For analyze market reaction to announcement dividends in the company public listed on the Indonesia Stock Exchange with use event study approach . Research results show

that the market responds information announcement dividend through the formation of significant abnormal returns in the period around announcement . findings This strengthen view that policy dividend contain information important that investors perceive as signal about prospects and health finance companies in the future .

In a way overall , research This conclude that announcement dividend No only impact on distribution profit to holder shares , but also plays a role as instrument communication capable managerial influence decision investment . Investors interpret dividend as signal positive to performance company , so that push request shares and create visible market reaction in movement price . With Thus , the theory signal return get support empirical in the context of the Indonesian capital market.

Study This give contribution theoretical with strengthen literature about connection between announcement dividends and market reactions , as well as support idea that the Indonesian capital market is at a level semi- strong efficiency . From the side practical , research This offer implications important for investors, companies , and regulators. Investors can make information dividend as one of the base in determine a trading strategy shares , companies can use policy dividend in a way consistent For guard market confidence , while regulators need to Keep going push transparency and openness information to create climate healthy investment .

Although Thus , research This own limitations , including coverage sample limited to the period certain and not yet consider factor other external such as condition macroeconomics and global sentiment that can influence movement price shares . Therefore that , research furthermore expected can expand period observation , involving more Lots variables control , as well as do comparison cross sector or cross- country for get a clearer picture comprehensive .

With consider results , implications , and limitations said , research This expected can give benefit real for development knowledge knowledge in the field finance , at the same time become references practical for investors, companies and regulators in understand dynamics market reaction to announcement dividends in the company public .

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