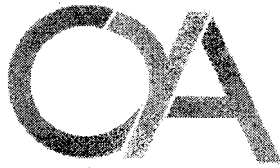


**STOCK MARKET REACTION TO DIVIDEND  
ANNOUNCEMENT IN INDONESIAN LISTED  
COMPANIES**

**By  
CYNTHIA SARI DEWI**

A Dissertation Submitted to the Center for Graduate Studies,  
Universiti Utara Malaysia  
in Fulfillment of the Requirement for the Master of Science



OTHMAN YEOP ABDULLAH  
GRADUATE SCHOOL OF BUSINESS  
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## ABSTRAK

Tujuan kajian ini dijalankan adalah untuk mengkaji reaksi harga saham terhadap pengumuman dividen. Selain itu, kajian ini juga menguji sama ada pembolehubah terikat (kumulatif abnormal return) dipengaruhi atau tidak dipengaruhi oleh pembolehubah bebas (saiz, dividen yield, perubahan pendapatan, perubahan dividen, pra-kumulatif abnormal return, volum perdagangan). Penyelidikan ini menggunakan dua kaedah untuk menganggarkan hipotesis. Teknik analisa data yang pertama adalah *event study* dan kaedah kedua adalah analisa regresi *Ordinary Least Squares* (OLS). Sampel untuk *event study* dan OLS adalah sebanyak 415 dan 243 jenis syarikat - syarikat yang tersenarai di Bursa Efek Indonesia (BEI) iaitu dari tahun 2006 - 2010. Keputusan yang diperolehi daripada kajian *event study* menunjukkan bahawa reaksi harga saham terhadap pengumuman dividen ialah positif apabila dividen meningkat dan negatif jikalau dividen menurun. Keputusan kajian regresi OLS menunjukkan pembolehubah PRECAR adalah positif dan signifikan, manakala pembolehubah yang lain adalah tidak signifikan.

**Kata kunci:** kumulatif abnormal return, pengumuman dividen, *event study*

## ABSTRACT

This study aims to investigate the share price reaction to dividend announcement. It also examines whether or not the cumulative abnormal return (CAR) is affected by control variables which are dividend change, earnings change, dividend yield, normal trading volume, pre-cumulative abnormal return (PRECAR) and firm size). This study uses two methods to estimate the model. The first method is event study and the second method is Ordinary Least Square (OLS) regression. The sample firms utilized the event study and OLS regression are 415 and 243 companies respectively which are listed on the Indonesia Stock Exchange (IDX) during 2006 – 2010. The findings from the event study analysis indicate the share price reaction to dividend announcement is positive for dividend increase and negative for dividend decrease. The OLS regression result shows that the PRECAR variable is positive and significant while the other independent variables are insignificant.

**Keyword: cumulative abnormal return, dividend announcement, event study**

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## LIST OF ABBREVIATIONS

AMEX	American Stock Exchange
ASSET	Total Assets
BETA	Systematic Risk
BLUE	Best Linear Unbiased Estimator
BOARD	Board Ownership
CAR	Cumulative Abnormal Return
CLT	Central Limit Theorem
DEBT	Total Debt
DIV	Dividend Change
DW	Durbin-Watson
DY	Dividend Yield
EARNCHG	Earnings Changes
EARNVOL	Earnings Volatility
IDR	Indonesian Rupiah
IDX	Indonesian Stock Exchange
INST	Institutional Holdings
JSX	Jakarta Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
KSE	Karachi Stock Exchange
LEV	Leverage
NASDAQ	NASDAQ Stock Market
NV	Normal Trading Volume
NYSE	New York Stock Exchange
OLS	Ordinary Least Squares
PRECAR	Pre-Cumulative Abnormal Return
PTB	Price to Book Ratio
Q	Tobin' Q Rate
ROA	Return on Assets
ROE	Return on Equity
RUPS	<i>Rapat Umum Pemegang Saham</i>
SIZE	Size of Company
SSX	Surabaya Stock Exchange
VIF	Variance Inflation Factor
YEAR	Year of Company

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

In the last decade, a company's dividend policy and its effects on the value of the company has generated interest among researchers in the field of finance. Accounting and financial analysts were more interested in corporate performance, cash flow analysis and solvency issue. The research on dividend policy today focuses more on the relationship between dividend policy and its effect on the price of the stock. This includes trying to come up with a model which would explain the relationship between the two variables. The researchers have formulated three assumptions about the issue. Firstly, dividend has a positive impact on stock price. Secondly, stock price is negatively related to dividend policy and finally, firms' dividend policy is irrelevant to stock price valuation.

Miller and Modigliani (1961) create an assumption based on perfect capital market situations which express an idea about how dividend affects the firm value. They postulate that dividends do not impact the firm value in a perfect capital market scenario. In other words, the value of a firm is independent of its dividend policy. Meanwhile, Gordon (1959) makes a statement on the dividend discount model which explains that the dividend payment augmentation should be accompanied by the increase in value of a company. The income generated by a company could be used to settle debt or allocate cash dividend to shareholders. The issues that have been discussed include whether a company should allocate its income to shareholders by

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