



Market Reaction to Announcement Pay &Not-Pay Dividend

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Abstract

Dividend policy became an important element because that is what shareholders hoped, either in the form of investment returns or capital gain. This paper tried to evaluate the market reaction toward the publication of dividend payments and the signal conveyed by a company. The study adopted the market model Brown and Warner (1985) provided by using the abnormal return parameter. The result showed that the market/investors had negative responses/reactions toward company publications that decided not to pay a dividend. On the contrary, the market/investors positively responded to company publications that decided to pay a dividend. It was also found that the market did not react based on the profit volume of the company, but it was focused more on signals conveyed by the company. The signal was in the company's decision on whether it would or would not pay the dividend.

Keywords: *dividend payment, signaling theory, market reaction, Event Study*

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1. INTRODUCTION

Dividend policy is essentially a decision taken by the company to determine the portion of profits to be distributed to shareholders and profits to be retained by the company as part of the company's equity addition (Samratun, 2015). On the other hand, currently, many companies earn profits. However, they do not pay dividends (Baker & Kilinchard, 2019), and companies that earn profits should distribute dividends to reward shareholders for their investments.

Table 1. Profit Companies Do Not Pay Dividends

	2013	2014	2015	2016	2017	2018	2019
% do not pay dividends	7%	66%	61%	48%	55%	54,4 %	62%

Source Processed from Indonesian Capital Market Directory 2013-2019

Table 1 explains a decline in companies that earned profits but did not pay dividends



for 2013-2019. In 2013, companies that earned profits and did not pay dividends were only 7%, but for the following years, the profit companies that did not pay dividends experienced a very drastic decline. The decrease averaged more than 50%.

Profit companies' phenomenon decline is for not paying dividends which appeared in 2014 by 66%, in 2015 by 61%, and in 2019 which was still down by 62%.

For public companies listed on the capital market, dividends are a traditional way to provide rewards by giving the company's financial assets to shareholders. Furthermore, companies pay dividends to reward existing shareholders and encourage other investors (new investors to buy new shares at high prices. According to Kent Baker and Kilincarslan (2019), investors pay attention to dividends because only through dividends do investors receive returns for those who invest, or simply through the prospect of dividends, and investors have the opportunity to sell their shares at a higher price in the future.

An explanation of the dividend policy phenomenon has been proposed by financial researchers from various perspectives and then divided into three schools of thought (Damodaran, 2001), namely irrelevance dividends (Miller & Modigliani, 1961), good school of thought for paying dividends and bad school of thought for paying dividends (Lintner, 1956).

First, Miller & Modigliani (1961) argue that in perfect capital market conditions, it is assumed that there are no transaction costs and no taxes, information is free and easy to obtain, and market participants are very rational. Dividend policy does not affect the company's value,

so it is called "irrelevance." the dividend policy."

If dividends are not relevant, then the equity value of a company will never change, even if the dividend policy changes. It does not mean that the company's stock price is not affected by the size of the dividends paid because if the dividends paid are large, the stock price will not increase. Several financial researchers as supporters of irrelevance dividend policy include (Black & Scholes, 1974; Jose & Stevens, 1989; Martin et al., 1991; Galai & Wiener, 2018; Koussis, Martzoukos, and Trigeorgis, 2017)

Second, the Bad School of thought hypothesizes that dividends pose an unfavorable tax for investors because investors will bear a higher tax than the tax on capital gains. From the investor's point of view, dividend payments will reduce the total return he receives after calculating his income tax. Consequently, they are better off not paying dividends and buying back the outstanding shares. (Lintner, 1956).

Third, the School of thought hypothesizes that companies that pay dividends can increase their firm value. There are several reasons why companies always pay dividends even though they have to pay dividend tax because these investors want to get regular cash flow with low tax rates. The second reason is that investors believe dividend payments signal to market participants that the company is confident about future cash flow prospects. So that companies that feel confident about their cash flow prospects tend to increase the amount of dividend distribution (Yeo, 2018). Besides that, companies can also use dividend policy to change the capital structure and lead to the target capital structure.

Based on the data in Table 1 and a



description of the good school of thought for paying dividends, it is assumed that the market will react positively if the company pays dividends and vice versa; the market will react negatively to the company's decision not to pay dividends. Studies on market reactions to company decisions to pay dividends have been widely carried out by financial researchers such as Yu and Webb (2017). Likewise, financial researchers such as (Khanal& Mishra, 2017; Mrzyglod& Nowak, 2017; Wesson et al., 2018) have also conducted many studies on dividend changes.

Haqueet et al. (2018), in their research on the Dhaka Stock Exchange, found that the publication of dividend payments can bring information to the market, and stock prices can change. He also stated that investors do not benefit from dividend publications. In comparison, Abdin et al. (2017) argue that investors determine the purchase of shares based on their interests. However, they did not buy all of the attractive shares. In this case, certain preferences have an effect. There is already research on the Indonesian stock exchange on dividends, such as the factors influencing market reactions to dividend announcements [(Hesniati&Hendra, 2019; Taher& Al-Shboul, 2022)]. *The Impacts of Non-Performing Loan on Profitability: An Empirical Study on Banking Sector of Dhaka Stock Exchange (DSE)* (Akter& Roy, 2017). **However, there has been no study on the market reaction to the decision to pay and not to pay dividends in companies that earn profits on the Indonesia Stock Exchange.**

This study aims to verify how the market reacts to the decision to pay and not to pay dividends in companies that earn profits on the Indonesia Stock Exchange. Problem-solving using the

Signaling Dividend theory approach.

2. RESEARCH THEORY

2.1. Dividend decision

Dividend decision is related to the dividend policy made by the company. Based on the dividend policy, the company makes its dividend decisions. A dividend decision is the company's decision to pay dividends or not to pay dividends for financial and non-financial reasons, even though the company gets profits after tax (Pinto et al., 2022).

There is a relationship between market reaction and the company's decision to pay or not pay dividends. The dividend signals that dividend publications can affect stock price movements (Farooq et al., 2019).

2.2. Market Reaction (Market Reaction)

Market reaction is proxied by stock prices (Damodaran, 2001). The share price is the selling price per share. By comparing the increase or decrease in stock prices to the initial stock price, we will know the company's stock returns. According to research results (Nissim & Ziv, 2001; Farooq et al., 2019), there is a positive relationship between dividend changes and stock returns on the day the dividend payment is published.

By measuring stock returns, we can determine whether the market reaction will be positive or negative to the decisions of companies that pay or companies that do not pay dividends. In calculating stock returns, a standard event study methodology with the market model of Brown & Warner (1985) is used, namely:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt})$$



2.3. Dividend Signaling Theory

The basis for trust in the signaling model is that managers have private information about the company's prospects and the choice of dividend payout rate is a sign that managers want to provide private information they have to convey to the market.

In the early 1980s, financial researchers began to pay attention to the issue of signaling the effect of dividends on stock prices. Investors believe that dividends convey inside information that is very relevant to them. Investors also believe that company executives have private information about the company's prospects.

This theory provides a rationale for dividends, especially dividend changes, and generates hypotheses about the effect of dividend publications on stock prices that have been empirically tested. The popular signaling models are (a) the Bhattacharya model (1979), which states that an increase in the number of dividends paid by the company will increase the company's stock price, (b) the John and William model (1985), which states that the positive effect of the announcement of dividend payments on the price company shares (c) Miller and Rock model (1985) which states that dividend publication is to be used to convey information on the company's profit allocation to increase stock prices so that investors do not sell their shares. Empirical evidence provided by several financial researchers shows that, in general, the company's stock price will rise when the number of dividends also paid increases, even though it was not previously predicted to increase. On the other hand, the stock price will decrease if the dividend is cut or smaller than last

year's dividend.

Although the technical details of the signaling model are different in each model, the main idea of this model can be represented by one of the signaling models. DeAngelo et al. (1996) questioned the motivation for signaling behind dividend publications using a more specialized test. His findings emphasize that the motivation for signaling is particularly relevant in special payment events such as dividend decrease publication, dividend omission, and stock repurchase.

2.2. Market Reaction to Dividend Payment Publication

There are three possible market reactions to the dividend announcement. First, investors in the capital market responded positively to the announcement of dividend distribution, so it positively affected stock prices. The company's stock price increase indicates a positive effect. Second, the announcement of dividend distribution was responded to negatively by investors by selling shares so that the stock price fell. Third, the announcement of the distribution of dividends does not react to investors, so it does not affect stock prices.

Pieloch and Babiarz (2015) re-examined the relationship between unexpected dividend changes and financial performance on dividend initiation and omission. They found that dividend changes were positively associated with changes in past earnings (Lintner, 1956). Dividend initiation shows a significant increase in earnings, while dividend omission publications indicate a decrease in earnings from the previous year. Ryan and Lee (2002) say there is a positive relationship between stock price reactions



and changes in dividend publications. In particular, the argument about signaling that managers try to provide clear information about the company's prospects in the future by announcing their decision to pay or not to pay dividends.

Hannah (2018) finds the advantage of the signal conveyed by the information carried by the dividend announcement. It should be of greater use for the characteristics of companies with more asymmetric information. Private information or asymmetric information will occur if management does not fully convey all the information it gets about everything that can affect the company's value to the capital market. So, suppose management submits information to the market. In that case, the market will generally respond to the information as a signal of certain events that can affect the company's value, which can be reflected in the trading volume and changes in stock prices.

Furthermore, empirical studies by (Farrukh et al., 2017; Duygun et al., 2018; Aslan & Kumar, 2015) have found that negative abnormal returns during the announcement period are associated with adding new shares by the company. This empirical finding is consistent with a model that assumes asymmetric information between management and various participations in the capital market.

The research conducted by (Devos et al., 2017; Galai& Wiener, 2018; Mili et al. | 2017), and Zebua (2018) investigated the relationship between unexpected dividend changes and financial performance on dividend initiation and omission. According to findings, they found dividend changes were positively associated with changes in past earnings (Lintner, 1956). Dividend initiation shows a significant increase in earnings, while

dividend omission publications show a decrease in earnings from the previous year.

Ashraf and Zheng (2015) researched dividend omission. Ashraf and Zheng found a significant decline in stock prices on the day of the publication of dividends not being paid. It indicates that the market reacts negatively to the company's decision not to pay dividends. The decline was caused by the consequences of poor earnings, violation of debt covenants, insufficient funds for capital investment, and mergers and acquisitions.

They are followed by Devos et al. (2017), who found a positive (negative) market reaction to the publication of dividend initiation (omission). Devos also emphasized that dividend omission and dividend initiation publications have rich information content for companies that make these announcements and companies in other industries. Observing how investors react to dividend publications will show how information is transmitted between industries and the investor psychology that drives these reactions. This paper analyzes the impact of dividend policy on market reaction.

3. RESEARCH METHOD

Primary data collection from respondents, especially company executives, was obtained through direct interviews (face-to-face interviews). Meanwhile, secondary data collection in the form of individual financial reports of companies that do not pay dividends that enter the capital market, which is sent to the Jakarta Stock Exchange, Journals, and Bulletins, is carried out utilizing a



documentation study. The population in this study is a company that made a profit in 2019 and has a listed position on the Jakarta Stock Exchange. The population characteristics of this study are all companies categorized as having a profit after tax, both companies that pay dividends and companies that do not.

Public companies that had profits in 2019 were 193 companies, where the number of companies that paid dividends was 73, and companies that did not reach 120 companies. In this study, several companies were included in the sample twice, and even companies were included in the sample three times. Researchers do not include companies in the financial and banking sectors because the dividend policy of this type of industry is very limited by regulations and external forces. This study uses the census method because the entire population is used as the object of research. The population in this study are all companies that have profits in 2019, both companies that pay dividends and companies that do not.

Market reaction is proxied by stock prices. The definition of the share price is the selling price per share. The stock price is used as an indicator of the market's assessment of the company's condition and prospects. According to dividend signaling theory, stock prices should decrease after the company reduces dividends, and vice versa; stock prices should increase after the company decides to increase dividends (Muna&Rafik, 2015). By comparing the increase or decrease in stock prices to the initial stock price, we will know the return obtained from the sale of company shares.

In a study on dividend resumptions, Mrzyglod& Nowak (2017) stated that there was no evidence of a

negative effect on the company after the announcement of stock returns.

According to the research results of Devos et al. (2017), there is a positive relationship between dividend changes and stock returns on the day the dividend payment is published. Nissim & Ziv's research supports the information in the dividend hypothesis studied by Miller & Modigliani (1961), which states that dividend changes drive stock returns because dividend changes convey new information about future company profits.

Khan et al. (2017) argued about the relationship between stock returns and several internal company factors. His research says that certain independent variables influence stock returns, such as dividends, income, and several other independent variables.

By measuring stock returns, we can see whether the market reaction will positively or negatively affect the company's decision to pay and not pay dividends. As Mrzyglod& Nowak (2017); Chatterjee & Dutta (2017), their research used abnormal returns as a measure of market influence. Mrzyglod& Nowak (2017); Chatterjee & Dutta (2017) also argue that abnormal return measurements adjust information in the form of stock splits and dividend distributions.

Obtaining abnormal returns can be used in various ways. The model that is often used is the market model of Brown & Warner (1985). Researchers can see how the market reacts to dividend publications by measuring abnormal returns. Measurement of abnormal return that produces a positive value indicates that the market reacts positively to the publication of the company's decision to pay dividends. Measurement of abnormal return that produces a negative value



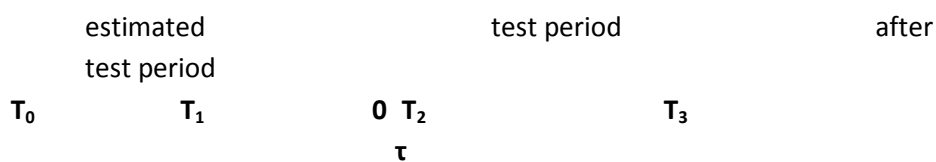
indicates that the market reacts negatively to the publication of the company's decision not to pay dividends.

In calculating stock returns, a standard event study methodology with the market model of Brown and Warner (1985) is used. An event study finds abnormal profits when the dividend news is published. In analyzing the event study, the following steps are carried out:

1. Identify events of interest, namely news of the company's decision to pay and not to pay dividends on public companies listed on the Jakarta Stock Exchange.
2. Determine the sample criteria to be used in the analysis. The researcher investigated the information content of the publication of dividend payments on profit companies that announced to pay dividends and which announced not to pay dividends in 2019.

Information content was analyzed by looking at stock price fluctuations for 41 days, from 40 before the dividend was published to the day after.

3. Estimating abnormal profits. The market reaction to the company's decision to pay and not pay dividends, the news of dividend payments is associated with abnormal profits of the entire sample.
4. To estimate the abnormal profit of shares, the following steps are taken:
 - a. Determines the test period and estimation period. The estimation period is set -10 to -40 days before the test period, and the test period is set 1 day before the publication and one day after the announcement of dividend payment news (regarding the event dates);



with description:

τ = publication day /at event date

T_0-T_1 = estimation period /as event estimation

T_1-T_2 = test period /as event window

T_2-T_3 = after the test period /as post event window

- b. Looking for the actual profit (actual return) of each company's shares during the estimation and test periods.

In getting an unbiased level of stock profit based on the level of prices, the calculation is carried out with the equation:

$$R_{jt} = \ln (P_{jt} / P_{jt-1})$$



With description:

R_{jt} = actual profit rate of shares on day t

P_{jt-1} = share price on the previous day; and

P_{jt} = share price today;

- c. Find the market return during the test period and the estimation period, which is obtained through the same approach to calculating R_{jt} , namely:

$$R_{mt} = \ln (JCI_{jt} / JCI_{jt-1})$$

With description:

R_{mt} = market profit rate on day t;

JCI_{jt-1} = on the previous day

JCI_{jt} = today

The calculation of stock returns and market returns using logarithmic as above, according to Strong (1992) and Fama (1965), is preferable to discrete returns. The theoretical logarithmic return is analytically more controlled (easily managed) when connecting sub-periods to form returns in long intervals. Empirically, logarithmic returns are more normally distributed and thus meet the assumptions of statistical testing techniques.

- d. By subtracting the normal profit rate from the actual stock profit rate, we get the abnormal profit rate. The equation obtains the normal profit rate:

$$\text{Normal Return} = \alpha_j + \beta_j R_{mt}$$

So, the abnormal profit rate is the residual (error terms) in the Market Model equation. The equation obtains the abnormal return profit rate:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \epsilon_{jt} \quad \text{Abnormal Return} = R_{jt} - (\alpha_j + \beta_j R_{mt})$$

With description:

AR_{jt} = Abnormal Return of stock j in period t

R_{jt} = Return of stock j in period t

α_j = Constant

β_j = Beta of stock j

R_{mt} = Market return (JCI)

R_{jt} is an estimate of the expected rate of return on stock j at time t. R_{mt} is the market portfolio profit rate, j indicates the sensitivity of the stock profit rate j to the market profit rate, and j is the expected value of stock profits j; the coefficients j and j are



obtained from the regression equation above. j and j are used to calculate the expected return in period t_2 using the market model. In connection with the calculation of abnormal returns, Beaver (1980) added the advantages of using the market model, the variance of abnormal returns will be smaller and more significant in statistical testing, and the correlation of abnormal returns between stocks is more in line with standard statistical tests.

4. RESEARCH RESULTS

The researcher examines the market reaction to the effect of dividend decisions, which only relate to two types of dividend payment publications: publications from companies that pay dividends and publications from companies that do not pay dividends. According to Alangar et al. (1999), there are four dividend announcement publications: dividend initiation, a dividend increase, a dividend decreases and dividend omission.

In this study, researchers used absolute values to capture the effects of dividend announcements for three reasons: First, information related to dividend publications should be positive (negative). Previous researchers said that dividend initiation and dividend increase (dividend omission and dividend decrease) were associated with positive (negative) company prospects. In table 2 below, the results of this study show that 72% of the number of companies that publish their dividend payments show a positive market reaction, and 81% of the number of companies that publish their decision not to pay dividends show a negative market reaction.

Table 2. Comparison of Positive and Negative Reactions

	Positive Reaction	Negative Reaction	Total
Pay Dividend	72%	28%	100%
Not Paying Dividends	19%	81%	100%

Source: Processed from the results of the calculation of the market model data for 2019

Second, by looking at stock price reactions, researchers can examine the information brought by the publication of dividend payments. This stock price reaction is used as a proxy for market reaction. This reaction will affect the decision considerations that the company will take. In examining the implications of the publication of companies that pay dividends and the publications of companies that do not pay dividends, the researchers found differences in the responses to the two events. In particular, publishing companies that do not pay dividends negatively impact the market reaction.

Third, the market reaction depends on the circumstances and the company's experience communicating or sending complete and clear information to the market. The lack of clarity in the information communicated will cause a negative market reaction.



Increasing the effectiveness of the communication strategy and improving the company's management toward market expectations is necessary. An effective communication strategy is to use a communication strategy about uncertainty, which consists of underscore and explore. Underscore is a communication goal related to developing a few care messages. While exploring is monitoring market anticipation related to *intensive listening for potential misunderstandings and unrecognized obstacles*. In implementing this strategy, the role of the Chief Financial Officer (CFO) as a communicator is required.

The emphasis on the new role of the CFO as a communicator is very important because a CFO can convey clear and complete information about the company's strategic position, prospects, and conditions of the company now. Moreover, in the future, provide clear reasons for the decision taken by the company to pay or not to pay. dividend

The CFO must do several things in his role as a communicator so that the market reaction will be positive: (a) If communication is transparent, then maintaining high standards of the firm's disclosure is very important. CFOs must control the accuracy of earnings forecasts to keep information from company disclosures reliable. Differences in forecasting results between stock analysts and fluctuations in forecast improvements. In addition, the most important thing is to underline the factors that the company considers in making the company's dividend decisions in the company's disclosures. So, investors are expected to make rational decisions, especially using working capital investment as the main basis for analyzing company dividend decisions which are then combined with the operating and financing decisions of the company. (b) As a communicator, the CFO must find out what investors expect and whether they will get it. If investors get what they expect, the CFO must immediately explain why they are not getting what they are entitled to. An explanation of these reasons is very important because the explanation will be taken into consideration by investors to make a buy or sell decision.

In addition, the CFO must also explain the numbers, including the company's long-term strategy, outline the company's market opportunity points, underline its competitive advantages, and tell what it has achieved and wants in the future. (a) The CFO must keep the information flowing to investors so that investors are aware of the progress of their investments, for example, actively holding meetings with investors; develop a reciprocal relationship (feedback channel) with investors so that CFOs can quickly find out misunderstandings with investors. (b) CFOs must be able to communicate information the company holds to the market to avoid wrong decisions made by investors. Is means that the CFO must be able to provide relevant and reliable information. Information that predicts the company's economic prospects in the future, while reliable information, will be able to provide something precise, correct, and unbiased by manipulation by other managers. (c) most importantly, the CFO must know and understand "how information work" and the right time to provide important information to investors and the media to know whether he will win or lose.

Table 3. Market Reaction of Non-Dividend-Paying Companies

	MEANS	STD	MIN	MAX	t-stat	P-value
AR (T=-1)	-0.0056	0.0364	-0.0965	0.0878	-0.860	0.397
AR (T= 0)	-0.0140	0.0348	-0.1400	0.0373	-2.242	0.033



AR (T=+1)	-0.0130	0.0376	-0.1055	0.0807	-1.928	0.063
CAR (0+1)	-0.0271	0.0337	-0.1034	0.0170	-4.465	0.000
CAR (-1,0,+1)	-0.0327	0.0452	-0.1175	0.0653	-4.024	0.000

Source: Processed from the results of the calculation of the market model data for 2019

The average abnormal return for companies that do not pay dividends on day t-1 until day t+1 is shown in Table 3. For the 120 companies that announced not to pay dividends, the most prominent share price response was on the day the announcement was published, with an average abnormal return of -1.40%, which was statistically significant at the 5 percent level with a value of -1.40%. t-statistic -2.242, and the probability value is 0.033.

Cumulative abnormal returns are quite large, with a value of -2.71% on day t0 and t+1, which is statistically significant at the 1 percent level with a t-statistic of -4.465 and a probability value is 0.000. On average, significant levels on the two days surrounding the dividend publication indicate that there is a shock on the day surrounding the publication.

Furthermore, there does not appear to be any market anticipation of the dividend publication information the day before (t-1) the dividend is announced. The average value of abnormal returns the day before the company announced not to pay dividends is -0.56%, which is not statistically significant. The probability value is 0.397, and the t-statistic value is -0.860.

Overall cumulative abnormal returns on day t-1, plus day t0, and t+1 are -3.27% significant at 1 percent level with t statistic -4,024 and probability value is 0.000. The average value of CAR is significant around publications for three days, namely the day before publication, the day it is published, and the day after. It indicates a shock around before and after the dividend publication.

The findings of this study are consistent with those of Ghosh & Woolridge (1991), Sant and Crown (1994); Hu & Wu (2001); Dasilas&Leventis (2011); Prakash et al. (2022), who found a negative and significant market reaction to the publication of the company's decision not to pay dividends. Palepu & Haley (1988) and Jin (2000) assert that companies that decide not to pay dividends are consistent with the dividend signaling hypothesis, resulting in a significant negative abnormal return.

Table 4. Market Reactions of Profitable Companies Paying Dividends

	MEANS	STD	MIN	MAX	t-stat	P-value
AR (T=-1)	0.0006	0.0363	-0.1665	0.1223	0,109	0.913
AR (T= 0)	0.0187	0.0409	-0.0409	0.2106	3,195	0.002
AR (T=+1)	0.0106	0.0297	-0.0407	0.1290	2,510	0.015
CAR (0+1)	0.0293	0.0440	-0.0289	0.1887	4,667	0.000
CAR (-1,0,+1)	0.0299	0.0446	-0.0437	0.2173	4,687	0.000

Source: Processed from the results of the calculation of the market model data for 2019



Table 4 describes the average abnormal return for each day around the publication of companies that pay dividends (from day t-1 to day t+1). For the 73 companies that announced to pay dividends, the most prominent stock price response was on the day the announcement was published, with an average abnormal return of 1.87%, which was statistically significant at the 1 percent level with a t-statistic value of 3.195 and a probability value is 0.002.

Cumulative abnormal returns are quite large, with a value of 2.93% on day t0 and t+1, which is statistically significant at the level of 1 percent with a t-statistic of 4.667 and a probability value is 0.000. On average, significant levels on the two days surrounding publication indicate that a shock occurred on the day of publication.

Furthermore, there is no market anticipation of the dividend publication information on the day before the dividend publication is announced. The average value of abnormal returns the day before the company announced to pay dividends is 0.06%, which is not statistically significant; the probability value is 0.913, and the T-statistic value is 0.109.

Overall cumulative abnormal returns have a fairly large value, namely 2.99% on day t-1, plus day t0, and t+1 is statistically significant at the 1 percent level with a t statistic of 4,687, and the probability value is 0.000. Judging from the average significant level for three days, the day before the publication, and the day published. The day after the dividend publication indicates a surprise before and after the dividend publication.

The findings of this study are consistent with those of Sant & Crown (1994); Hu & Wu (2001); Dasilas&Leventis (2011); Prakash et al. (2022), who found a positive and significant market reaction to the publication of the company's decision to pay dividends. Palepu and Haley (1988); Jin (2000) assert that companies that decide to pay dividends are consistent with the dividend signaling hypothesis, which will result in a significant positive abnormal return.

“The market will react positively to announcements of companies paying dividends and negatively to announcements of companies not paying dividends.”

The researcher tested the effect of the dividend publication period to confirm documentation of abnormal returns associated with 4 (four) types of dividend publication changes. In this study, researchers only focus on two types of changes in dividend publications, namely publications that pay dividends and publications that do not pay dividends. The two panels in table 5 show the two-day cumulative abnormal returns around publication for the sample of firms that pay dividends and firms that do not.

Table 5. Abnormal Returns Around Dividend Publication

CAR (%)	t-statistics	p-value	n	n+	n-
Two-day dividend-paying Abnormal Returns publication period					
2,93%	4,687	0,000	49	37	12
Two days non-dividend-paying Abnormal Returns publication period					
-2,71%	-4,465	0,000	31	7	24

Source: Processed from the results of the 2019 market model regression

CAR is cumulative abnormal returns for two days around the dividend publication, the day of



publication, and the day after (0,+1). The t-statistic is to test that the CAR is significantly different from zero. N is the number of dividend publications in the sample, N+ is the number of dividend publications in the sample that have positive abnormal returns, and N- is the number of dividend publications in the sample that have negative abnormal returns.

Companies Paying Dividends

For companies that pay dividends, the cumulative abnormal return is 2.93%, statistically significant at the level of =1 percent. The proportion of shares showing a positive CAR is 76%, and a negative is 24%, indicating that the publication of dividend payments describes a positive event that is considered "good news," so the market will also react positively.

The findings of this study are consistent with a significant share of the results of the published findings of Farrukh et al. (2017); Prakash et al. (2022), who found a significant positive two-day abnormal return on the response to the publication of dividend payments. The findings of this study also support the findings of Draganac (2017), where research results show that the category of companies that declare dividends and profits will provide significant excess returns.

Likewise, the results of this study support the dividend signaling hypothesis, especially in the context of short-run share price performance, that the publication of dividend payments will provide a positive abnormal return. According to Saez & Gutierrez (2015); McCluskey et al. (2007), there is a systematic relationship between changes in dividend payments and stock prices, thus motivating insiders to choose a dividend change strategy to signal the company's prospects, of course, at the same cost to themselves and shareholders.

Positive abnormal returns indicate a positive market reaction; the research results confirm this by Kadioglu et al. (2015), who found strong evidence that dividends carry positive market stock information. Furthermore, they found that the market has captured changes in the publication of dividend payments by looking at changes in stock prices. In this case, investors believe that dividend policy will affect stock prices (Chaabouni, 2017; Murtaza et al., 2018) because abnormal returns are usually related to overall market movement and are often influenced by the business cycle.

Companies Not Paying Dividends

For companies that do not pay dividends, the cumulative abnormal return is -2.71%, which is statistically significant at the 1 percent level. The proportion of shares showing a positive CAR is 22% and a negative 78%, indicating that the publication of not paying dividends represents a negative event, which is considered "bad news," so the market will also react negatively. The findings of this study are consistent with the findings of Ghosh and Woolridge (1991); and Sant & Cowan (1994), who found a significant negative reaction to dividend omission announcements in their research.

Zebua (2018) found that the average change in stock prices before the dividend omission was all negative and statistically significant. Also consistent with



the dividend signaling hypothesis, companies that decide not to pay dividends provide significant negative abnormal returns (Khanal& Mishra, 2017; Zebua, 2018). This abnormal return indicates a negative relationship between publications not paying dividends and stock prices. This negative relationship will lead to a negative market reaction. Felimban et al. (2018) emphasized that the negative market reaction was due to the market responding more strongly to bad news than good news. Mryglod and Novak (2017) say that the market reaction will be negative to a decrease in dividend payments resulting in changes in abnormal returns so that investors consider it bad news.

Overall abnormal returns from dividend publications are consistent with those of previous researchers. So, it can be bad earnings or a violation of debt covenants. It is concluded that the allegation "the market reacts positively to the announcement of the company's decision to pay dividends and the market reacts negatively to the company's decision not to pay the dividend announcement" has been proven. This finding is consistent with the notion that investor view dividend publications as an information delivery mechanism.

Beginning with research from Miller & Modigliani (1961) and Battharcarya (1979), as well as other researchers such as (Miller & Rock, 1985), have found strong theoretical evidence about dividend publications bringing information to the market. Several other researchers, such as Farrukh et al. (2017); McCluskey (2007); Dielman& Oppenheimer (1994), found that the increase/decrease in dividend payments around the day of a publication generally indicates a positive

(negative) abnormal return. The research of Kohers (2003), Jin (2022), and Dasilas&Leventis (2011) found a positive (negative) market reaction to the publication of the first-time dividends were paid and the publication of companies not paying dividends.

Kohers (2003) and Jin (2022) also assert that the publication of dividend omission and dividend initiation has high information content, not only for companies that make these announcements but also for companies in other industries. Furthermore, Koher explained that observing how investors react to dividend publications will explain how information is transmitted between industries and the psychology of investors that drives this reaction. The findings of this study are also consistent with research by Zebua (2018) and Jin (2022), who found that there was a significant decline in stock prices on the day of the publication of dividends not being paid. It indicates that the market reacts negatively to the company's decision not to pay dividends. The decline was due to the consequences of poor earnings, violation of debt covenants, insufficient funds for capital investment, and mergers and acquisitions.

The uniqueness of the results of this study is that the market reacts not based on the company's profit but more on the signals conveyed by the company through the publication of the company's decision to pay and not pay dividends. The signal conveyed by the dividend is the key to the market reaction.

The company's ability to signal its information through the publication of dividends will help investors make rational decisions. This finding supports the notion (Spence, 1974) that signals can be used to convince the opponent (opposite) about



the value or quality of the product to avoid the wrong choice.

The market response to the publication of non-paying and dividend-paying companies depends on the circumstances and experience of the company to send complete and clear information to the market. The incompleteness and ambiguity of the information conveyed to the market cause a higher number of market participants to respond negatively to the signals conveyed by the company.

Communication strategy with uncertainty is used to reduce the negative market reaction. This strategy is a problem-solving contribution that will be useful for companies that want a positive market response to publish their dividend decisions.

Market reaction is also influenced by different types of businesses in the capital market. Each type of business will produce a different market reaction. The market reaction is highly dependent on investors' interpretation of each type of company's opportunities for future growth. The market can react positively to companies that do not pay dividends if the market knows that the company's profits are used to spur company growth. The market can also react negatively if the market knows that the company's profits are used for purposes that hinder the company's growth or if the signals received do not indicate the company's growth opportunities. The negative market reaction to the decision not to pay dividends can be caused by the company's failure to communicate important variables that form the basis of its dividend decision analysis.

The results of this study provide a new view that even though the company

makes a profit when it does not pay dividends, the market reaction remains negative. It is due to the lack of information signaled to the market.

6. CONCLUSIONS AND SUGGESTIONS

Conclusion

From the research results on market reactions, conclusions can be drawn, among others: (a) Investors react positively to the publications of companies that decide to pay dividends. (b) Investors react negatively to the publication of companies that decide not to pay dividends. (c) The uniqueness of the results of this study is that the market reacts not based on the company's profit but more on the signals conveyed by the company through the publication of the company's decision to pay and not pay dividends.

Suggestion

The most important suggestion is the strategy used by profit-making companies that do not pay dividends so that the market is positively assessed or interpreted by investors as good news. The market reaction depends on the circumstances and the company's experience communicating or sending complete and clear information to the market. The lack of clarity in the information communicated will cause a negative market reaction.

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