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MARKET REACTION ANALYSIS TO STOCK SPLIT ANNOUNCEMENT IN INDONESIA STOCK EXCHANGE**EDI SUMANTO****STUDENT****SCHOOL OF BUSINESS****BOGOR AGRICULTURAL UNIVERSITY****BOGOR, INDONESIA****SRI HARTOYO****LECTURER****SCHOOL OF BUSINESS****BOGOR AGRICULTURAL UNIVERSITY****BOGOR, INDONESIA****LUKYTAWATI ANGGRAENI****LECTURER****SCHOOL OF BUSINESS****BOGOR AGRICULTURAL UNIVERSITY****BOGOR, INDONESIA****ABSTRACT**

The objectives of the research were analyze the effect of stock split announcement to abnormal return, trading volume activity and also the relationship between stock price and volume of trading of companies in Indonesia Stock Exchange during period 2007 – 2015. The result showed that corporate actions cause abnormal return after the announcement was taken by companies, and mostly positive abnormal return. Paired t-test to average abnormal return showed that majority of stocks significantly difference in term of average abnormal return around stock split announcement. The stock split announcement have not significant impact on trading volume activities of majority companies in Indonesia Stock Exchange during period 2007 – 2015 and the relationship between stock price and trading volume of companies whose impose stock split policy is negative. Implications of this research are companies whose impose stock split policy should be able to determine the most optimal price reduction and also analyze the behavior of investors in addressing stock split policy.

KEYWORDS

abnormal return, paired t-test, stock split, trading volume activity.

INTRODUCTION

The capital market has a strategic role for the economy of Indonesia, the capital market is an institution of financing and investing for companies and investors. The capital market facilitating buying and selling activities and other related activities. There are fluctuations in the value of stock trading that occurred in the Indonesia Stock Exchange within the last 5 years, the phenomenon of fluctuations in the value of stock trading is also closely related to the liquidity of the shares of the issuers listed in BEI. Liquidity in the stock market is an indicator of the depth of the market and shows the market absorption of the burden of risk (risk premium). Market liquidity can also be regarded as one of the main factors that affect the function of the stock price. (Ray, 2011). Companies that have registered and listed on a stock market perform various activities to develop the company, the activity known as corporate actions. Stock split is one of the main forms of corporate actions, according to Sawir (2004) stock split is an activity undertaken by a publicly traded company to split the nominal value of shares into smaller value and increase the number of shares outstanding. The stock split is also one of the main strategies that can be management companies in order to increase the liquidity of stock trading (Fakhrudin, 2008).

The market's reaction that occurs as a result of stock split announcement is still a debate among investors and issuers in the stock market today, those who support the policy of stock split have a view that the lower share price will increase the activity of trading and also to increase the efficiency of the market, the share which has a lower price will attract small investors to invest and the increasing number of shareholders will have implications for the improvement of stock liquidity. Stock splits also reflecting a strong signal to the market that the issuer feels optimistic about his company's growth. On the other hand, there are another argument for this corporate action, some stakeholders believe that the current price level is not enough to guarantee the success of the stock split because of the uncertainty of the business environment, in addition to the level of stock prices after the stock split announcement, it will put the company on a group of stocks with low value and it caused decreasing of investors' confidence on the stock. Therefore, it very interesting to be studied and explored further, especially in terms of return and volume of stock trading changed, and also interesting to explore regarding the elasticity of trading volume due to changes in stock prices caused by stock splits announcement.

Research on the market reaction on stock split announcement in the Indonesian stock market has been done by some previous researchers, but studies that exist today are mostly using short event window such as 5 or 10 days before and after the corporate action is done, it is suspected may cause the results do not show the actual conditions, due to the characteristics of the capital market sometimes take a long time to adjust to a change. A long event window obtained a difference of abnormal return and trading volume activity and we can see how long the abnormal return will happen. Besides that, it is interesting to research also regarding the elasticity of stock trading volume as a result of the implementation of the stock split policy. The main objectives of this study are:

1. To analyze the effect of stock split announcement to abnormal return of companies in Indonesian Stock Exchange during period 2007 - 2015
2. To analyze the effect of stock split announcement to the volume of trading and the elasticity of volume of trading of companies in Indonesian Stock Exchange during period 2007 - 2015

REVIEW OF LITERATURE

The following are previous study that interesting and useful for this study:

Charitou et al. (2005) conducted a study on the impact of stock split announcement in Cyprus, the results of the research show that positive abnormal return appeared around past and future of the announcement in Cyprus. The influence of positive returns, in their opinion cannot be explained through proxy variables prevailing liquidity and signaling hypothesis for the activity of the stock split. The other study was conducted by Menendez and Anson (2003), they conduct a research on stock split in Spain, the results of their study showed that the main reason the company impose a stock split is liquidity. Before the announcement positive abnormal return occurred in the stock market in Spain, but that would be negative abnormal return after the announcement of stock split was done.

Elfakhani and Lung (2003) conducted research on market reactions around the announcement of a stock split in the Canadian stock market on 1977-1993 by using event study method. Research results show that the spread between the bid and ask prices is declining, although the trading volume and number of transactions has increased, it is proving that the stock split can improve the liquidity of the shares. Ballweiser (2002) research's showing the same result, he was conducted research on the effect of stock split announcement to stock liquidity in Germany, as a result there is an increment in the term of liquidity of shares after the stock split announcement.

Putri (2006) conducted a study on the liquidity of the stock split shares with accompanying changes in the fraction of the stock price on the Jakarta Stock Exchange. Research results show that the stock split announcement which followed by changes in fraction of the stock price, may decrease the liquidity of stocks and for stock split announcement without changes in fraction of stock price also did not improve the liquidity of the stock. Wafiyah (2005) also conducted research using a sample of 42 companies that impose a stock split policy, the research results also concluded that there was no significant difference between the average stock trading volume activity before and after the announcement of a stock split. Hypotheses of the research are formulated based on previous literature, as follow:

1. There is no positive abnormal return after the announcement of stock split.
2. There is a positive abnormal return after the announcement of stock split.
3. The average actual returns are not significantly different before and after the announcement of stock.
4. The average actual returns are significantly different before and after the announcement of stock split.
5. The average abnormal returns are not significantly different before and after the announcement of stock.
6. The average abnormal returns are significantly different before and after the announcement of stock split.
7. The averages of average abnormal returns are not significantly different before and after the announcement of stock.
8. The averages of average abnormal returns are significantly different before and after the announcement of stock split.
9. The average of daily trading volume activity was not significantly different before and after stock split
10. The average of daily trading volume of activity was significantly different before and after stock split

RESEARCH METHODOLOGY

This study used data of daily closed stock price, daily Composite Stock Price Index, and daily closed of stock trading volume from the Indonesia Stock Exchange and also from the Indonesian Central Securities Depository. The number of companies examined in this study was 30 companies whose was imposed stock split policy during 1997-2015. The Identification of abnormal return using event study method with some steps of calculation on return of stock during estimation period and event period, with details are as follow:

1. $R_{it} = \frac{Hit - Hit-1}{Hit-1}$
2. $R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$
3. $E(R_{it}) = \alpha_i + \beta_i (R_{mt}) + \varepsilon_{it}$
4. $AR_{it} = R_{it} - E(R_{it})$
5. $AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it}$

REMARKS

R_{it}	: The stock returns level
H_{it}	: Daily closed stock price
H_{it-1}	: Previous daily closed stock price
R_{mt}	: Market return
$IHSG_t$: Daily closed composite index price
$IHSG_{t-1}$: Previous daily composite index price
$E(R_{it})$: Expected return
α, β	: Coefficients
ε	: Error term
AR_{it}	: Abnormal return
R_{it}	: Actual return
$E(R_{it})$: Expected return
AAR_t	: Average abnormal return
$\frac{1}{N} \sum_{i=1}^N AR_{it}$: Total abnormal return during event period
N	: Number of event

A test using paired sample t-test was performed to determine significant differences between before and after the stock split. Hypothesis testing is done on the actual return, abnormal return and average abnormal return with event period as follow t-5, t-10, t-15, t-30, t-60 and t+5, t+10, t+15, t+30, t+60.

We are also calculating the activity of stock trading volume or we called Trading Volume Activity (TVA) with the following formula:

$$TVA_{it} = \frac{\text{Number of shares which traded on the market}}{\text{Total shares on the market}}$$

Hypothesis testing on the volume of stock trading at all event periods using paired sample t-test to determine significant differences between before and after the stock split. Hypothesis testing is done on the Trading Volume Activity with event period as follow t-5, t-10, t-15, t-30, t-60 and t+5, t+10, t+15, t+30, t+60.

The analysis of the elasticity of the volume of stock trading was also conducted to determine the relationship between the stock price changes as a major instrument of stock split policy to changes in the company's stock trading volume. The analysis was conducted by a panel regression of data with daily trading volume as the dependent variable and the stock price as explanatory variables, with the following function:

$$STV = \beta_0 + \beta_1 P + D$$

REMARKS

STV	: Stock Trading Volume
P	: Stock Price
D	: Dummy Variable (Before or After Stock Split Announcement)
β_0	: Constanta
β_1	: Stock Price Coefficient

RESULT & DISCUSSION

Stock split announcement have a different impact on the performance of each companies stocks. This condition depends on how investors look the corporate action undertaken by the company. Investors could consider the stock split as a positive or negative signal. If investors consider the stock split is a positive signal, then the stock price will increase and it means we can get a positive abnormal return during the corporate action. Conversely, if investors consider the stock split is a negative signal, then the stock price will decline and the investor will earn negative abnormal return.

In addition to measuring the abnormal return that occur as a result of stock split implementation and to look the difference of abnormal return around the corporate action. For this purpose paired difference test was taken at the time before and after the stock split announcement. The testing was conducted on the value of the actual return, abnormal return value, and the value of average abnormal return. The paired difference test results on the actual return and abnormal return have the same value, which is the majority of the actual return and abnormal return of each companies whose announcement the stock split do not have a significant difference before and after the corporate action.

TABLE 1: THE RESULT OF PAIRED T-TEST VALUE OF AVERAGE ABNORMAL RETURN BEFORE AND AFTER STOCK SPLIT ANNOUNCEMENT

Significances	Event Window and Number of Companies					Total
	I	II	III	IV	V	
Positive	9	11	10	12	12	54
Negative	7	10	8	14	14	53
NS	14	9	12	4	4	43

REMARKS

- Positive sign (+) indicates the real difference between before and after the stock split announcement in which the average abnormal return after stock split announcement has bigger value than before
- Minus sign (-) indicates the real difference between before and after the stock split announcement in which the average abnormal return after stock split announcement has smaller value than before
- NS showed no significant difference before and after stock split
- Event window I, II, III, IV, V = event window (-5,+5), (-10,+10), (-15,+15), (-30,+30), (-60,+60)

The impacts of the stock split on the value of average abnormal return around stock split announcement have diverse implications. Table 1 Total 30 companies were analyzed in each event window show that the average abnormal return after the stock split announcement is greater than before the stock split announcement, and it is dominating in every event window. The results of this study indicate that stock split announcement in Indonesia were able to create a greater average abnormal return for companies that perform this corporate action, it is different with the research result conducted by Menendez and Anson (2003) in Spain, where the results of their study showed that positive abnormal return was happen before stock split announcement and that would be a negative abnormal return after the announcement of stock split in Spain.

TABLE 2: THE TEST RESULTS PAIRED T-TEST VALUE OF THE TRADING VOLUME BEFORE AND AFTER STOCK SPLIT POLICY

Significances	Event Window and Number of Companies					Total
	I	II	III	IV	V	
Positive	2	5	6	4	7	24
Negative	2	2	3	3	7	17
NS	26	23	21	23	16	109

REMARKS

- Positive sign (+) indicates the real difference between before and after the stock split announcement in which trading volume after the announcement is has greater value than before
- Minus sign (-) indicates the real difference between before and after the stock split announcement in which trading volume after the announcement is has smaller value than before
- NS showed no significant difference before and after stock split
- Event window I, II, III, IV, V = event window (-5,+5), (-10,+10), (-15,+15), (-30,+30), (-60,+60)

Table 2 shows that the number of companies which has no significant difference of trading volume around the stock split announcement is dominating at any event windows, it indicates that stock split announcement in Indonesia was not impacted the level of stock liquidity, it is also consistent with research that has been done by Wafiyah (2005), where the results of the research concluded that there is no significant difference between the average activity of stock trading volume before and after the announcement of stock split, this led to the initial assumption that in Indonesian stock market cases, the stock split policy by lowering the price of the stock will not able to increase the demand for stocks significantly.

The study also tried to measure the elasticity between the prices of each share of companies that was announced the stock split policy to their stock trading volume. Panel regression analysis was taken where daily trading volume as the dependent variable and the stock price as explanatory variables. In this study there are two type of panel regression analysis equation, first type is trade volume function models with dummy and the second one is trade volume function without dummy. The dummy used in the function is a dummy between the period before and after the stock split announcement where the period before the stock split announcement rated by 1 (one) and the period after stock split announcement rated by 0 (zero).

TABLE 3: ELASTICITY OF STOCK TRADING VOLUME AROUND STOCK SPLIT ANNOUNCEMENT

EVENT WINDOWS	MODEL WITH DUMMY			
	Var	Koef	Prob	Chosen Model
I	Ln_P	-0.5375	0.0211	Fix Effect Model
	dummy	0.8088	0.0396	
	C	17.5503	0.0000	
II	Ln_P	-0.6337	0.0001	Fix Effect Model
	dummy	0.5709	0.0443	
	C	18.1858	0.0000	
III	Ln_P	-0.6378	0.0000	Fix Effect Model
	dummy	0.4148	0.0778	
	C	18.1213	0.0000	
IV	Ln_P	-0.6168	0.0000	Random Effect Model
	dummy	0.5292	0.0011	
	C	17.8579	0.0000	

Event Windows	Model with dummy			
	Var	Koef	Prob	Chosen Model
V	Ln_P	-0.5187	0.0000	Random Effect Model
	dummy	0.5624	0.0000	
	C	17.0609	0.0000	

REMARKS

Event window I, II, III, IV, V : Event window (-5,+5), (-10,+10), (-15,+15), (-30,+30), (-60,+60)
 Dummy : Before and after stock split announcement period
 P : Stock price of companies who's announced the stock split policy
 C : Constanta

Table 3 shows a summary of the panel regression analysis of stock trading volume function data on prices to various events windows. The analysis showed that by using a variety of functions and the time horizon used, the relationship between stock prices and trading volumes had a negative relationship. In addition, the negative relationship between the price and trading volume is statistically significant for almost all functions and time horizon. Based on these results, assumptions or common logic that says that the corporate action stock split could push up trading volume due to the decline in stock prices as the main instrument in the policy of stock split is true, where the results of the analysis showed that the coefficient on the dummy variables are statistically significant at function trading volume and positive values that range between 0.5292 (event windows 30) to 0.8088 (event windows 5). Table 3 shows that the coefficient of stock price mostly below 1 (one) or we can have said that the elasticity of volume of trading is inelastic, its mean that percentage of changes in term of stock trading volume is less than the percentage changes in term of price, for example if the price is decreasing 1 % the volume of trading is increasing less than 1 %.

CONCLUSIONS

Based on the analysis of abnormal return and trading volume activity and also elasticity of stock trading volume due to the effect of the announcement of stock splits can be concluded that:

1. Implementation of corporate actions such as stock splits varying impact on the performance of each stock. Announcement of stock split provides more significant impact on the abnormal return at any event window after the announcement by the company, while the most common of abnormal return is positive abnormal return. In addition, by comparing the actual return and abnormal return between before and after the stock split announcement, the analysis shows that there are only a few stocks that have real difference value in term of actual return and abnormal return around stock split announcement. But the different results shown when we are testing the value of average abnormal return with paired t-test analysis, where the majority of stocks studied had the real difference and statistically significant from the average abnormal return.
2. The majority of trading volume do not have difference value on every event window around the stock split announcement, this indicates that stock split in Indonesia does not cause a change in the level of stock liquidity. Through the analysis of elasticity to trading volume and stock prices, we can see that the elasticity of stock trading volume is inelastic and the relation between the stock trading volume and stock price is negative.

The suggestion to complete the limitations of this study is as follow:

1. It could be considered by the management of the company regarding the fundamentals condition of the company before they are taking stock split policy. This is very important due to the effects resulting by stock split policy are very diverse and cannot be predicted, so if the policy is not taken on the right momentum, it can worsen the performance of their stock
2. The other external factors that happen at the same time with the stock split announcement is also need to be considered and studied further, so it can make the research results in the future will be more comprehensive in terms of the determinant factors that affect the movement of the price and the return of listed companies in Indonesia Stock Exchange

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APPENDIX

APPENDIX 1: THE TEST RESULTS PAIRED T-TEST VALUE OF AVERAGE ABNORMAL RETURN BEFORE AND AFTER STOCK SPLIT POLICY

Stock Code	Event Window				
	I	II	III	IV	V
LTLS	-	-	-	-	-
INAI	+	+	TB	+	+
ALMI	TB	-	-	-	-
TOTO	-	-	-	-	TB
CMPP	-	TB	TB	TB	TB
MLBI	-	TB	TB	TB	TB
JPFA	-	-	TB	TB	+
AMRT	-	TB	TB	TB	TB
TLKM	-	-	-	-	-
MDLN	+	-	+	TB	TB
BATA	+	+	+	+	+
ROTI	+	+	+	+	+
HERO	TB	+	+	+	+
ASII	-	-	-	TB	TB
IMAS	-	-	TB	-	TB
ACES	+	+	TB	TB	TB
BBRI	+	+	+	+	+
LSIP	+	TB	+	+	TB
INTA	-	-	-	-	-
DILD	TB	+	+	+	+
DVLA	+	+	+	+	TB
CPIN	-	-	-	-	TB
CTBN	-	-	TB	TB	TB
DOID	TB	+	TB	+	TB
PANR	+	-	-	-	-
BBCA	+	+	+	+	+
PGAS	+	+	+	+	+
ANTM	+	+	TB	TB	-
AKRA	-	-	TB	-	TB
SMGR	-	-	TB	-	-

APPENDIX 2: THE TEST RESULTS PAIRED T-TEST VALUE OF THE TRADING VOLUME BEFORE AND AFTER STOCK SPLIT POLICY

Stock Code	Event Window				
	I	II	III	IV	V
LTLS	-	-	TB	TB	TB
INAI	TB	TB	TB	TB	TB
ALMI	TB	TB	TB	TB	TB
TOTO	-	TB	TB	TB	TB
CMPP	TB	TB	TB	TB	TB
MLBI	TB	TB	TB	TB	TB
JPFA	+	TB	TB	TB	TB
AMRT	-	TB	TB	TB	TB
TLKM	-	TB	TB	TB	TB
MDLN	-	-	-	-	TB
BATA	+	+	+	+	+
ROTI	TB	TB	TB	TB	TB
HERO	+	+	+	+	+
ASII	TB	TB	TB	TB	TB
IMAS	+	TB	+	+	TB
ACES	+	TB	TB	TB	TB
BBRI	TB	TB	TB	TB	TB
LSIP	+	TB	TB	TB	TB
INTA	TB	TB	-	TB	-
DILD	+	+	+	+	TB
DVLA	TB	+	+	+	TB
CPIN	TB	TB	TB	TB	TB
CTBN	TB	TB	TB	TB	TB
DOID	TB	TB	TB	TB	TB
PANR	TB	TB	TB	TB	TB
BBCA	-	TB	+	TB	TB
PGAS	TB	TB	TB	TB	-
ANTM	TB	-	-	-	TB
AKRA	-	TB	TB	TB	TB
SMGR	TB	TB	TB	TB	TB

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