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Analysis of Corporate Actions and Effect on Stock Trading the Indonesia Stock Exchange

Fitriana, Tahmat, Abang Firdaus, Iskandar Ahmaddien

Prodi Manajemen, Universitas YPKP Sangga Buana, Indonesia

This study aims to look at the effect of the corporate action against trading on the Stock Exchange be something interesting to do research on five companies that perform corporate actions. Data were analyzed using descriptive methods and comparative analysis of the event study method with a different test two parties. Event windows use 15 days prior to the corporate action and 15 days after the corporate action. Results of research on five companies that perform corporate actions earned actions stock buy-backs, stock-dividend and stock split no significant effect on actual returns after the announcement date. On the trading frequency, action stock-buyback have significant differences, whereas stock dividend and stock-split not. On average trading value, action stock-dividend and stock-buyback not any significant difference, while stock-split showed a significant difference. The study results are not normal events of their return on stock dividends 7 days after the date of announcement of the action stock-split-return normal not occur on days 3 and 4, while on the corporate action buy-back not occur. Stock-dividend while the information content contained in stock-split and buy-back did not show a significant investor reaction.

Keywords: corporate action, stock trading

INTRODUCTION

The capital market has a major role for the economy because capital markets have two functions, namely the function of the economic and financial functions. The capital market is said to have an economic function for providing facilities or the vehicle that brings the two interests, namely those who have excess funds (*investors)* and those who need the funds (issuer). With the capital markets then the parties have excess funds can earn rewards (*return),* while those who need the funds (in this case) can use the funds for investment purposes without having to wait for the availability of funds from the company's operational activities. The capital market is said to have a financial function as the capital market provides the possibility and the opportunity to earn rewards (*return)* for the owner of the funds in accordance with the characteristics of the selected investments. Figure 1 shows the value of Composite Stock Price Index (CSPI) in the last 10 years. Value Composite Stock Price Index in the last 10 years has increased up to 388% or more than 30% per year. Stock price increase per year is much higher than the average annual inflation in the amount of 10%.

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***Correspondence:**

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In accordance with the principle of disclosure to the Indonesia Stock Exchange (IDX), the issuer shall submit openly throughout the corporate actions and policies, both directly and indirectly will affect to shareholders and *stakeholder* others, corporate actions undertaken by the company, for example *stock dividend, stock split,* and *stock buy back.*

Distribution of dividends in the form of stock value *plus* separately, namely the shareholders have extra stock, which means their ownership of the company will also increase. The greater portion of their holdings of a stock, then the greater the rights they have against the company. Division *Stock dividend* it does not make the company's assets is reduced. The company's net asset value remains as it was before the dividend distribution. Likewise, the composition of ownership. Transactions carried out by capitalizing retained earnings. This means that retained earnings (partial or total) was transferred to the capital account. Thus increasing the paid up capital, while retained earnings diminished or depleted. administration *Stock dividend* aim to meet the expectations of the shareholders to receive the dividend without spending cash, improve the marketability of the company's shares, as well as the pressing portion of shareholders' equity. Grullon and Michaely Grullon and Michaely (????) showed a substitution effect between *Stock dividend* and *stock repurchase* from time to time. In their study they concluded more and more companies are gradually making *stock repurchase / buy bac* k in lieu of dividends. This is corroborated by empirical evidence based on s *urvey* other researchers conducted over 384 financial executives to determine the factors that drive the decision *stock buyback* and dividends. Their findings concluded that many managers who prefer action *stock buyback* because it is considered more flexible than dividends and can be used in an attempt to increase earnings per share (EPS).

Other corporate action that is *Stock splits. Stock split* is the increase in the number of outstanding shares by reducing the par value of shares (Irham Fahmi, Fahmi (2013)). The activities carried out during the overvalued prices that will reduce the ability of investors to buy them. Because they assess if the stock price is too high then there will be investors who will buy the shares. By doing *stock split* then the stock price is relatively cheap and it can attract investors to buy them. Research conducted Widayanto and Sunarjanto Widayanto and Sunarjanto (2005) the analysis of the influence of the announcement of a stock split (*stock split)* the stock price. Volume stock trading and stock liquidity is measured by *bid-ask spread* some companies *go public* The results suggested that BEI *stock split* or a stock split resulted in a significant difference to a few stocks, stock trading volume and liquidity of the stock.

Based on the above, the researchers wanted to see how far the influence of the three corporate actions; *stock dividend, stock split,* and *stock buyback* of the stock trading at the Indonesian Stock Exchange (BEI). This research deals with flagship research universities where research is one of the leading capital market financing for good corporate governance, it relates to research topics concerning corporate action that consists of the distribution *Stock dividend,* stock split (*stock split),* and share buybacks (*buy-back).*

METHODS AND MATERIALS

Research Object

The object of this research is the corporate action activity consists of the distribution *stock dividend, stock split,* and *stock buy back.* The object to be examined is whether there is a difference *return,* frequency and *value* stock trading before and after the corporate action: *stock dividend, stock split and stock buy-back* conducted by the company with the data retrieval 15 days before and 15 days after the execution of corporate actions by using different test methods, while during the 22 days before and 22 days after the execution of corporate actions using *event studies.*

Research Methods

The method used in this research is descriptive correlational *event studies.* Correlational descriptive method which is a method that is explained, describe and analyze the relationship between the announcement of the division *stock dividend, stock split, and* repurchase of shares (*stock buy-back)* with stock trading, both in terms of

return, frequency and *value* commodity trading, so it can be concluded from the results of these studies. There are also methods *event studies* by hypothesis testing using *paired two sample for means.* Studies events (*event studies)* a study of the market reaction to an event (*event)* that information is published as an announcement.

Types and Sources of Data

Data used in this research is secondary data, ie data obtained not from the respective data sources but from institutions that had been collecting such data. Secondary data according to Sugiyono Sugiyono (2012) is "indirect sources provide data to data collectors, for example through others or through documents". In this case the data derived from PT. Indonesian *Capital Market Electronic Library* (ICaMEL) and Indonesia *Stock Exchange (*IDX).

Data Analysis

To answer the research hypothesis that dikemukanan in Chapter I, this study uses statistical analysis in data processing and hypothesis testing. There are two methods of testing are used; First, to answer hypothetical 1, 2, and 3 different test analysis method of data pairs to *return* Actual stock, trading frequency and *value* stock trading on the event period, the period prior to the corporate action and the period after the corporate action. Second, to answer the hypothesis 4, researchers used the event study method (*event studies).*

Different test

Used to calculate and prove the statistical significance of the correlation between *return,* frequency and *value* stock 15 days before and 15 days after the corporate action, then tested by t test (*t-test)* which is formulated as follows:

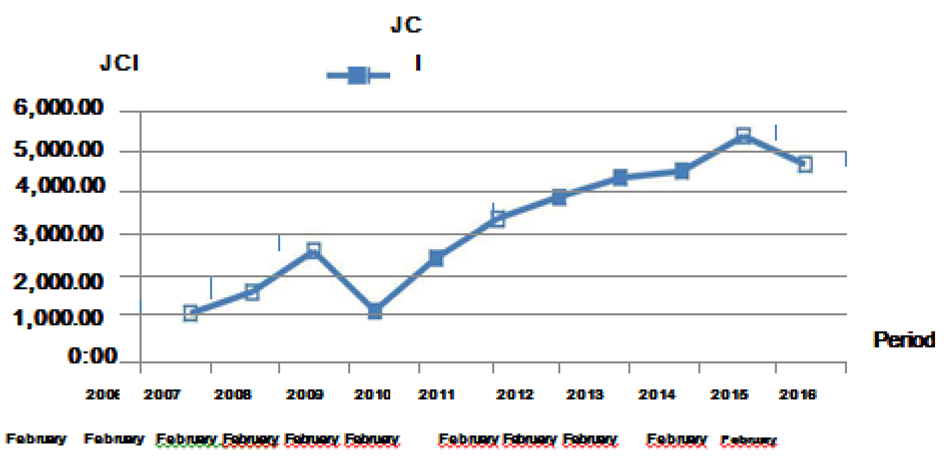

FIGURE 1 | JCI Growth of the Year 2006-2016

$$t = \frac{\overline{X1} - \overline{X2}}{s\sqrt{\frac{1}{n1} + \frac{2}{n2}}}$$

Where : t = calculated value

$\overline{X1} \;=\; On\ average\ X\ 1$

$\overline{X2} \;=\; On\ average\ X\ 2$

Furthermore, to determine whether the variable X 1 differences (significant) to variable X2 done by comparing the value of t-test with a t-table at a significant level (α) and the degrees of freedom (df) specific. Significant value used is 10% *degree of freedom (df) = n-2.*

Statistical hypotheses:

Ho accepted if t < t table

Ha accepted if t> t table

Hoi : X1 = X2 : The average value is the same (not different) before and after Companies do announcements *Stock dividends, stock splits,* and *Stock buy back.*

Hi : X1 $\neq$ X2: The average value is not the same (different) before and after Companies do announcements *Stock dividends, stock splits,* and *Stock buy back.*

When Ho is accepted, it can be concluded that there was no significant difference, whereas when Ho is rejected it means there is a significant difference. If there is continued by comparing the difference:

X1 > X2 : It emerges

X1< X2 : Going on the increase

Data processing using software Ms. Excel 2010 for Windows and statistical analysis using SPSS 20.

Event Study Analysis (*Event studies)*

The study refers to the effect of events events that impact on one particular group of companies that can be distinguished clearly by the market (Tandelilin, Tandelilin (2010)). The research methodology of an event as follows conventional procedures.

Identify the types, effects, and time of the event (i) any event which has the value of information; (ii) whether the value of information events have a negative effect or positively to *return* Abnormal particular company; and (iii) when events occur or published.

- Determine the span study of events including the estimation period and the period of the event. In this study, the estimation period (Tn until Tne) is the period used to forecast return expectations in the period of the event with a time interval n = 22. Period events (T- n until T + n) is the period surrounding the events (T0) which is used to test changes *return* abnormal. (Note: Assuming the number of intervals is equal to the time before and after the event, as many as n = 15).
- Determine the adjustment method return used to calculate return abnormal. In this study using a statistical model of the market model (market model). By using a market model would require the estimation period for calculation return not normal, which is 22 days before the event period.
- Determine the adjustment method return used to calculate return abnormal. In this study using a statistical model of the market model (market model). By using a market model would require the estimation period for calculation return not normal, which is 22 days before the event period.
- Counting return not normal around the event period (some time before and after the announcement event occurs). return not normal is return Actual around the event period is reduced return expectations or prediksian in that period based on the market model.

RTNit = Rit - E (Rit)

case:

RTNit = *return* abnormal stock i in period t R

it =*return* Actual stock i in period t E

(R it) =*return* expectations or *return* prediction

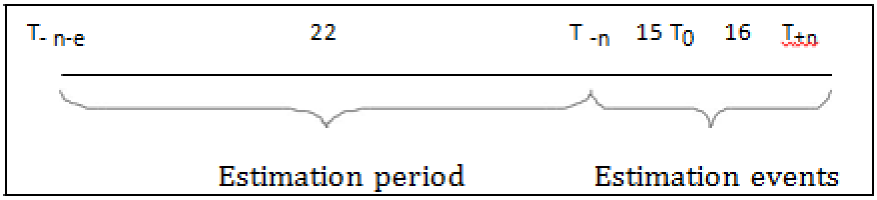

FIGURE 2 | Period Period Estimation and Events

Return expectations or *return* prediksian, E (Rit), estimated by the market model. This model predicts E (Rit) based on the estimation results for the period estimated as follows: $E(Rit) = \alpha i + \beta iRMt + \varepsilon\ it$

- Calculate the average return abnormal in the event period as following: *return* Abnormal average (*the mean abnormal returns)* arithmetic, *return* not normal average of all securities for each time interval in the event period:

$\overline{RTNit} = \frac{\sum_{RTNit}}{K^n}$

In this case:

$\overline{RTNt} = return\ not\ normal\ average\ at\ the\ time\ to\ t$

k = Number of securities

- Formulate statistical hypotheses, for the average *return* Abnormal: $\begin{matrix} Ho : \overline{RTN} = 0 \\ Ha : \overline{RTN} \neq 0 \end{matrix}$
- Test whether *return* not normal average has been calculated in step 5 is different from 0, or whether *return* no different from the normal prior to the event *return* after the event. Testing can be done with parametric test t test. Return abnormal standardized is the value of t for any securities.

$\overline{RTN}\ S = \frac{\overline{RTN}}{KSE\ (\overline{RTN})}$

To test the hypothesis, the t value can be obtained by:

$t = \sum \frac{\overline{RTNS}}{\sqrt{k}}$

Note: to perform a statistical test, the standard error estimates based on *return* prediction estimation period are:

$$KSE_i = \sqrt{\frac{\sum_{i-1}^{t-n}(R - E(R))}{T - n - 2}}$$

- Conclusion The study results are based on a probability of less significance than the probability required (using the value of α = 0.10). Related to move to 6, the procedure of calculation of t count can not be obtained from a standard computer program.

RESULTS AND DISCUSSION

Testing different test statistics Average Corporate Actions *Stock buyback*

Testing Top *return* Stock

T-count value of 0.653 with sig. 0.524> 0:10 we conclude that H0 is accepted, meaning that on average *return* before and after the corporate action *stock buyback* are the same (not different) thus declared, corporate actions undertaken by the company do not affect *return* shares traded in the capital market.

Upper Frequency Trading

T-count value amounted to 1,951 with sig. 0,071 <0:10 we conclude that H0 is rejected and Ha accepted, meaning that the average frequency of trading before and after the corporate action *stock buyback* is different (not equal) thus stated that corporate actions conducted by the company affect the frequency stock trading in the capital market.

Upper Frequency Trading

T-count value amounted to 1,197 with sig. 0.251> 0:10 we conclude that H0 and Ha accepted, meaning that the average frequency of trading before and after the corporate action *stock dividend* are the same (not different) thus stated that corporate actions undertaken by the company do not affect the frequency of trading in the stock market.

Testing Top *Value* Trading

T-count value of 0.698 with sig. 0.497> 0:10 we conclude that H0 is accepted, meaning that on average *value* stock trading before and after the corporate action *stock dividend* are the same (not different) thus declared, corporate actions undertaken by the company do not affect the trading value of shares in the capital market.

Testing Top *return* not Normal

T-count value amounted to 1,603 with sig. 0131> 0:10 we conclude that H0 is accepted, meaning that on average *return* abnormal stock before and after the corporate action *stock dividend* are the same (not different) thus declared, corporate actions undertaken by the company do not affect the *return* normal no shares in the capital market.

Testing different test statistics Average Corporate Actions *Stock Split*

Test Results Up *return* Stock

T-count value amounted to 1,562 with sig. 0.141 > 0:10 we conclude that H0 is accepted, meaning that on average *return* before and after the corporate action *stock split* are the same (not different) thus declared, corporate actions undertaken by the company do not affect *return* shares traded in the capital market.

Upper Frequency Trading

T-count value of -6.456 with sig. 0,000 < 0:10 we conclude that H0 is rejected and Ha accepted, meaning that the average frequency of trading before and after the corporate action *stock split* is different (not equal) thus stated that corporate actions undertaken by the company affect the frequency stock trading in the capital market.

Testing Top *Value* Trading

T-count value of -2.800 with sig. 0,014 < 0:10 we conclude that H0 is rejected, meaning that the average *value* stock trading before and after the corporate action *stock split* is different (not equal) thus declared, corporate actions undertaken by the company affect the trading value of shares in the capital market.

Testing Top *return* not Normal

T-count value amounted to 1,603 with sig. 0131 > 0:10 we conclude that H0 is accepted, meaning that on average *return* abnormal stock before and after the corporate action *stock split* are the same (not different) with Thus stated, corporate actions undertaken by the company do not affect the *return* normal no shares in the capital market.

Event Study Analysis (*Event Studies)*

Based on the analysis of events seen their studies *return* significant abnormal action *Stock dividend* 7 days after the date of the announcement. In action *stock split* there is *return* not normally occur on days 3 and 4 trading after the announcement. corporate actions *buyback* not indicate *return* not normal after the announcement date. Thus it can be said that the announcement of the action *Stock dividend* there is information content indicated by investor reaction in the form of their role in stock trading *return* abnormal happened. Action *stock split* and *stock buyback* did not show a significant investor reaction after the announcement of the action, so it can be said that. The announcement of the action do not contain significant information.

Content Information for Investors

The results showed that simultaneously from three independent indicator consisting of *buyback, stock split* and *stock dividend* no significant effect on stock trades. This shows the lack of information content for investors within the time period of the study. The content of the information is in a period long before the implementation of the announcement.

CONCLUSION

Based on the test can be concluded that:

1. From the sample top 5 companies that perform corporate actions shows that the action stock buy back, Stock dividend and stock split no significant effect on return Actual after the date of the announcement.
2. The average frequency stock trading in companies that take action stock buy back seem any significant difference (decrease) between before the date of the announcement to the date of announcement. Whereas in action Stock dividend and stock split danya showed no significant difference in the frequency of trading.
3. The average stock trading value before and after the date of announcement of the action Stock dividend and stock buyback showed no significant difference. Whereas in action stock split shows the difference in average trading value significantly.
4. Based on the analysis of the events seen their studies return abnormal significant action Stock dividend 7 days after the date of the announcement. In action stock return not normal after the announcement date. Thus it can be said that the announcement of the action Stock dividend there is information content indicated by investor reaction in the stock in the form of their return abnormal happened. Action stock split and stock buyback did not show a significant investor reaction after the announcement of the action, so it can be said that the announcement of such actions do not contain significant information.

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Conflict of Interest Statement: The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.