

INVESTOR REACTION TO DIVIDEND ANNOUNCEMENT DURING THE COVID-19 PANDEMIC

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Abstract

The research problem is the decline in JCI and dividends under negative sentiment of pandemic. This study aims to analyze how the Covid-19 pandemic affected investor responses to dividend announcements. With a population of 771 shares overall from all shares listed on the IDX in 2019–2020, this study employs the event study methodology. The sample based on purposive sampling criteria is 178, divided across 9 company sectors, with 64 dividends up, 90 dividends down, and 24 constant dividends. The study was conducted for 46 days so that there were 8,188 days of observation. Data analysis used parametric tests (paired sample t-test and one sample t-test) and nonparametric tests (Wilcoxon test and one sample Wilcoxon signed-rank test). The results of this study are: (1) The announcement of dividends responded positively, (2) Announcements of increasing dividends responded positively, (3) Announcements of constant dividends responded positively, (4) Announcements of decreased dividends responded negatively, (5) Only the agricultural sector, the consumer goods sector, and the trade, services, and investment sectors responded positively significantly. The agricultural sector showed the best performance. Investors should be more careful in responding to dividend announcements. Moreover, if dividends become the investment target, investors must prepare investment psychology and exit strategies. The agricultural sector showed the best performance. Investors should be more careful in responding to dividend announcements. Moreover, if dividends become the investment target, investors must prepare investment psychology and exit strategies. The agricultural sector showed the best performance. Investors should be more careful in responding to dividend announcements. Moreover, if dividends become the investment target, investors must prepare investment psychology and exit strategies.

Keywords: negative sentiment, investor reactions, dividend announcements, stocks, Indonesian stock exchange.

INTRODUCTION

The phenomenon of the Covid-19 pandemic does not only have an impact on the world of health, but also has an impact on various sectors, one of which is the economic sector (Sumarni, 2020). In Year on Year (YoY) data, Indonesia's economic growth in the second quarter of 2020 even decreased to -5.32%, this decline was the worst since 1999 (BPS, 2020). As an indicator of economic growth, the condition of the stock market in Indonesia has also experienced a significant decline. It was recorded on March 24 2020 that the JCI experienced its lowest point with a decrease of 37.49% compared to the end of 2019, with a closing price of 3,937 (RTI Business, 2020).

This situation is an obstacle whose impact will be felt by companies in Indonesia (Setiawan, 2022). These obstacles have the potential to reduce the company's performance to generate profits. Finally, the company's profitability decreased and forced the company to reduce the amount of dividends for its investors (Ratnasari & Purnawati, 2019).

In 2020 the majority of companies adopt a lower dividend policy, or set a lower dividend amount than the dividend in the previous year. Even for companies with high liquidity and good performance on the LQ-45 index, the company sets a dividend policy down to 49%. Of course this will cause a reaction from investors.

Announcement of dividend policy is a source of information for investors regarding company prospects (Yonatan, 2017). This relates to the company's decision in determining the amount of use of profits. Company profits can be distributed to investors in the form of dividends, or these profits are retained for additional company investment (Harjito and Martono, 2012: 270).

In responding to dividend announcements, investors are categorized into two according to their preferences in generating profits. The theory explaining investor preference is first, the bird-in-hand theory which states that investors prefer dividends over capital gains because dividend profits are more certain (Gordon, 1959). Second, the tax preference theory states that investors prefer capital gains to dividends because capital gains taxes are lower than large dividend taxes (Bhattacharya, 1979).

When there is information content in dividend announcements, investors will react or respond which will cause price changes (Hidayat, 2019). Therefore, to detect the presence or absence of information content in dividend announcements, abnormal returns can be used as a benchmark (Satish Kumar, 2017).

Abnormal returns is the difference between expected return or expected return and actual return (Jogiyanto, 2009). Abnormal returns usually occur around important events related to the company. The better the information contained in the event (good news) will have the potential to cause positive abnormal returns, and vice versa (Hong, 2016). Abnormal return is the main variable for examining investor reactions to dividend announcements.

There are several methods for calculating the expected return, namely the mean-adjusted model, market-adjusted model, and market model. This study uses the Market Model (MM) as a method for calculating the expected return because it is considered better and stronger under various market conditions (Brown and Warner, 1985; Noor Alam et al, 2020; Satish Kumar, 2017).

There are several previous studies that examine investor reactions to dividend announcements. Research from Pandey & Kumari (2021), Amrulloh & Muis (2019), Azizah (2020), and Larasati & Nuraya (2018) concluded that there was no significant reaction from investors to dividend announcements. In contrast, research by Shu-Hui Su et al (2021), Hariyanto & Murhadi (2020), and Khanal & Mishra (2017) concluded that there was a significant reaction from investors towards dividend announcements. This shows the inconsistency of research results.

Research on investor reactions to dividend announcements is very important to do. Moreover, economic crises have occurred many times, such as in 1998, 2008, and most recently, the economic crisis due to a pandemic. With the economic crisis, of course there is a change in behavior and decision making of investors. Therefore, researchers are interested in examining how investors react to dividend announcements during the Covid-19 pandemic in 2020.

This research covers 9 company sectors listed on the IDX to add to the knowledge and information obtained based on data for each sector (Robiyanto & Yunitaria, 2022). In addition, the company will also be divided into several categories based on its dividend policy. These categories are increasing dividends, constant dividends, and decreasing dividends. That way, it will be known what dividend policy is good news and bad news for investors (Satish Kumar, 2017).

This study aims to analyze investor reactions to the announcement of dividends as a whole, increasing dividends, constant dividends, decreasing dividends and reactions in 9 industrial sectors listed on the IDX during the economic crisis period due to the Covid-19 pandemic.

The results of this study are expected to be a source of reference and can contribute to making dividend distribution decisions, as well as new input considering the lack of research on investor reactions to dividend announcements in 9 industrial sectors. Theoretically, the research results are expected to provide empirical evidence and become additional literature regarding investor reactions to dividend announcements.

With this research, it is hoped that investors will know more about how to respond to dividend announcements in order to obtain maximum profits and avoid dividend traps which can exacerbate stock price conditions amid negative pandemic sentiment. In addition, with daily data on abnormal

returns and trading volume activity from each industrial sector, investors are expected to be able to determine investment strategies according to their respective risk profiles.).

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

1. Signaling Theory

Signaling theory is based on the information asymmetry that occurs between managers and investors. Spence (1973) introduced the signaling theory for the first time, which states that a party with more information sends the information to a party with less information (the receiving party) to explain the condition of the company. In developing signaling theory, Ross (1977) stated that company managers tend to have more information than investors, so managers send information to investors to increase the company's stock price. Therefore, to bridge this information gap, managers use dividend announcements. In dividend announcements, managers reveal how the company is currently performing, and what the company's prospects are in the future.

2. Bird-in-hand Theory

The Bird in the hand theory was first developed by Gordon (1959). This theory suggests that it is better to get dividends than capital gains. This theory explains that it is better to get a more certain dividend (bird in the hand) than to expect retained earnings (bird in the bush) which are not necessarily distributed as dividends in the future (it can fly away). So that in this theory, investors are better off aiming for a definite dividend.

3. Tax Preference Theory

The theory of tax preference was first developed by Battacharya (1979). This theory discusses the comparison between dividend tax and capital gains tax, where the tax on dividends is higher than the capital gains tax. Dividends will be taxable when the dividends are received by investors, while capital gains will be taxable only if the shares have been sold. Investors who adhere to this theory prefer capital gains to dividends. The main reason is because the tax on capital gains is lower than the tax on dividends. Especially in the case of unsold shares, capital gains cannot be considered for taxation. In addition, in the case of shares that are owned and not yet sold, capital gains also cannot be considered for taxation. Therefore, investors prefer to buy a stock that has the potential to increase in price in the future and sell it when it reaches its profit target.

4. Dividend Irrelevance Theory

The Dividend Irrelevance Theory (Miller and Modigliani, 1961) is based on the assumption that reinvesting net income for better growth will lead to increased capital gains for investors through increased stock prices. They argue that the value of a company is determined by its investment policy and profits, not by its dividends. Similarly, Black and Scholes (1973) also agree on the irrelevance of dividend policy.

5. Share

Rusdin (2008) defines shares as a certificate of proof of ownership of a shareholder in a company. Shareholders have rights that must be fulfilled by the company. People who invest their funds in a company in the form of shares are called investors. Later investors will get several rights,

such as attending the General Meeting of Shareholders (GMS), and are entitled to receive dividends if the company during that period decides to distribute dividends.

6. Dividend Policy

To gain profits in the capital market can be done in two ways, namely through capital gains and dividends. Capital gains are obtained from selling the shares they own with the profit from the difference between the selling price and the purchase price of the shares. While dividends are the distribution of profits generated by the company concerned (Wiyono & Kusuma, 2017). The amount of dividends distributed depends on the company's dividend policy. Dividend policy is a company decision in determining what portion of income will be distributed as dividends and how much portion of profits will be retained (Ayem & Nugroho, 2016). However, the formulation of the dividend policy must be approved by the shareholders and discussed at the General Meeting of Shareholders (GMS). All decisions made must be transparent, bearing in mind that companies listed on the Indonesian stock exchange are companies that have gone public.

7. Returns and Abnormal Returns

Someone investing their funds in a company in the form of shares certainly has a goal, the main goal is to get a profit from the funds invested. The profits earned from stocks are often referred to as stock returns. Ang (1997) defines stock return as the level of profit that can be enjoyed by shareholders on funds invested in a company. Arista and Astohar (2012) state that there are two types of stock returns, namely actual returns and expected returns. Actual return is the level of profit that has been realized or has occurred, while expected return is the level of profit expected by shareholders in the future. Abnormal returns is the difference between the expected return and the actual return (Jogiyanto, 2009). This abnormal return usually occurs because of an event or event that can affect the company's business activities, one of which is corporate action. Abnormal return will be said to be positive if the actual return is greater than the expected return of the stock.

In developing signaling theory, Ross (1977) stated that company managers tend to have more information than investors, so managers send information to investors to increase the company's stock price. In dividend announcements, managers disclose the company's current performance, and the company's prospects in the future. In this study, constant dividend announcements are interpreted as good news, because during this pandemic the company experienced various obstacles. Good news will be attractive to investors, because it contains information that the company has good prospects (Pandey & Kumari, 2021). Satish Kumar (2017) translates the announcement of an increasing dividend as good news, a decreasing dividend is translated as bad news. Khanal & Mishra (2017) found that investors react positively and significantly to dividend announcements even though they are under pressure from an economic crisis.

In this study, researchers proposed the following hypothesis:

H1: There is a positive and significant abnormal return around dividend announcements as a whole

H2: There is a positive and significant abnormal return around the announcement of an increased dividend

H3: There is a positive and significant abnormal return around constant dividend announcements

Investors will translate bad news as the company is experiencing a decline in performance, and it is less attractive to buy these shares in the long term. Therefore investors will sell their shares which will cause a decrease in price and produce a negative stock return. Research by Satish Kumar (2017) found that the announcement of a reduced dividend will be responded to significantly negatively by investors. The research hypothesis is;

H4: There is a negative and significant abnormal return around the announcement of a decreasing dividend

RESEARCH METHODS

This study uses an event study to determine investor reactions to dividend announcements. The variable studied is abnormal return by analyzing its significance. As subjects in this study, the researchers chose a population of all companies listed on the IDX for the 2019-2020 period by selecting a purposive sampling sample. The conditions for the selected sample are registered on the IDX in 2019-2020 and always distribute dividends in these two periods. From these criteria, there were 178 selected companies consisting of 64 dividends increasing, 90 dividends decreasing and 24 dividends constant spread across 9 company sectors or as many as 8,188 days of observation.

Observation Period

The observation period in the event study is divided into two periods, namely the estimation period and the incident period. To detect whether there is an abnormal return, the difference between the estimated return period and the event period is used.

The research period uses 30 days of estimation period and 16 days of observation period with details of 5 days before dividend announcement, dividend announcement day, and 5 days after dividend announcement period, and 5 days post dividend announcement period. Figure 1 shows the time period of this study t-5 to t+10. The time period (-5, +5) is to detect whether there is an abnormal return around the dividend announcement day, while the time period (+6, +10) is additional information on investor reactions after the dividend announcement or after the cum date.

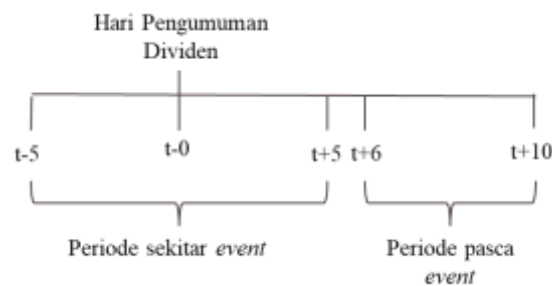


Figure 1. Significance Test Observation Period

Abnormal Return Analysis

Abnormal returns is the difference between the expected return and the actual return (Jogiyanto, 2009). Abnormal return is used to determine the effect of an event on the company. Actual return is calculated by finding the difference between today's stock price and the previous day's stock price and dividing it by the previous day's stock price, as follows:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}} \quad (1)$$

Information:

Rit = Actual return from stock i on day t

Pit = Price of stock i on day t

$P(i,t-1)$ = Price of stock i on the day before ($t-1$)

To calculate market return using the Composite Stock Price Index (IHSG). The formula is as follows:

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}} \quad (2)$$

Information:

- R_{mt} = Market Return on day t
- $IHSG_t$ = Composite Stock Price Index on day t
- $IHSG(t-1)$ = Composite Stock Price Index on day $t-1$

To count expected returns, this research uses market models. This is because of the method market models considered better and stronger under various market conditions (Brown and Warner, 1985; Noor Alam et al, 2020; Satish Kumar, 2017). Calculation expected returns can use the following formula:

$$E(R_{it}) = a_i + \beta_i R_{mt} \quad (3)$$

Information :

- $E(R_{it})$ = Expected return on company i and on day t
- a_i = company intercept i
- β_i = Beta company i using the slope coefficient
- R_{mt} = market returns

To calculate the existing abnormal returns, a calculation is performed. The formulation for calculating abnormal returns based on research from Satish Kumar (2017) is as follows:

$$AR_{it} = R_{it} - E(R_{it}) \quad (4)$$

Information:

- AR_{it} = is the abnormal return that occurs in the i th security, and in the t th event period
- R_{it} = is the actual return that occurs in the i -th security, and occurs in the t -event period
- $E(R_{it})$ = is the expected return that occurs in the i -th security, and in the t -event period

Researchers use market models to calculate expected return like Loipersberger (2018) as follows:

$$AR_{it} = R_{it} - a_i - \beta_i R_{mt} \quad (5)$$

Information:

- AR_{it} = is the abnormal return that occurs in the i th security, and in the t th event period
- R_{it} = is the actual return that occurs in the i -th security, and occurs in the t -event period
- R_{mt} = Market Return on day t
- A_i = company intercept i
- B_i = Beta company i using the slope coefficient

Hypothesis testing

Abnormal return significance test is carried out to find out the significance on a daily basis, so that it can be concluded when investors have a significant reaction. In accordance with the research

of Pandey & Kumari (2021), the formulation for finding the significance value of abnormal returns per day provided that the data is normally distributed is as follows:

$$t_{AAR} = \frac{AAR_{p,q}}{\sigma_{Ne} \cdot \sqrt{T}} \quad (6)$$

Information :

t_{AAR} = calculated t value

$AAR_{p,q}$ = The average abnormal return of the company p to q

σ_{Ne} = Standard deviation

t = number of days

Abnormal return significance test is as follows:

H_0 : There is no significant abnormal return

H_a : There is a significant abnormal return

In this study using a significance level of 5% or 0.005. H_0 is accepted if the significance is > 0.05 or $t \text{ count} < t \text{ table}$. That is, there were no significant abnormal returns on that day or it could be interpreted that on that day investors did not react significantly. H_0 is rejected if the significance is < 0.05 or $t \text{ count} > t \text{ table}$, which means that the abnormal return is significant on that day or on that day there is a significant reaction. When the data is not normally distributed, the researcher uses an alternative calculation of the one sample Wilcoxon signed-rank test through SPSS software. If the significance is < 0.05 , then there is a significant abnormal return. Conversely, if the significance is > 0.05 then there is no significant abnormal return.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

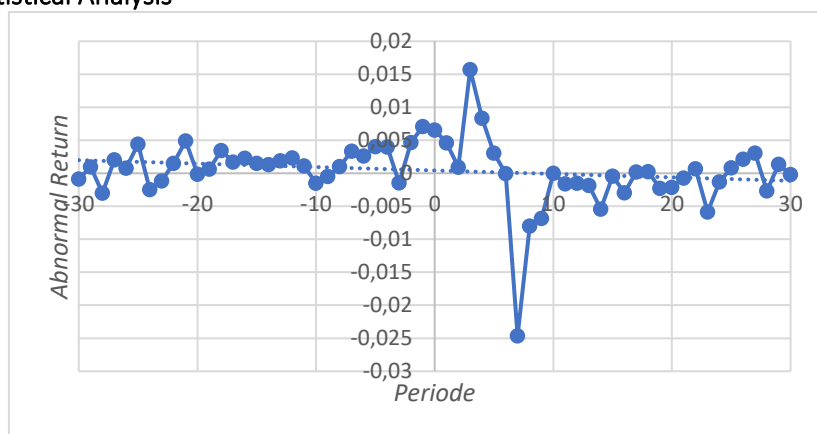


Figure 2. Graph of Average Abnormal Return Movement

Figure 2 shows the movement of the average abnormal return for all companies in 9 company sectors on the Indonesia Stock Exchange (IDX). The graph includes companies that set an increasing, constant, or decreasing dividend policy. From the graph it can be seen that the biggest increase is at $t+3$ with an average abnormal return of 1.57%. Conversely, the biggest decline occurred at $t+7$ with an average abnormal return of -2.5% or coincided with the dividend announcement exdate. The movement of abnormal returns tends to fluctuate, but if a trend line is drawn, it can be seen that there has been a downward trend after the dividend announcement.

Normality test

Based on the results of the classical assumption test for data normality per day, it was found that only T+3 and T+7 constant dividend announcements had significance > 0.05 . So it can be concluded that only T+3 and T+7 are normally distributed, while the rest are not normal. Data with normal distribution were analyzed using one sample t-test, while data with non-normal distribution were analyzed using the Wilcoxon signed-rank test.

Abnormal Return Significance Test

To detect the information content of dividend announcements, it is necessary to test the significance of abnormal returns around the dividend announcement day. Abnormal return is said to be significant if the significance of the abnormal return is < 0.05 . The results of the analysis of the significance of abnormal returns can be observed in table 1. Abnormal returns in the period around the dividend announcement (t-5, t+5):

- a. All sample companies; significant abnormal return at t-4 (0.4%), t-2 (0.47%), t-1 (0.71%), and t+3 (1.57%). This shows that investors have a significant positive reaction. Significant reactions before dividends are announced indicate there is a possibility of information leaks being used by investors.
- b. Sample dividend rises; significant abnormal return at t-0 (1.78%) and t+3 (2.58%). This shows that investors respond quickly to information indicated by a significant positive abnormal return on the day of the dividend announcement. However, the reaction at t-0 is still weak so that investor reactions reappear at t+3 as evidenced by significant positive abnormal returns. Therefore it can be concluded that there is information content in the announcement of an increasing dividend.
- c. Constant dividend sample; significant positive abnormal return at t+3 (2.46%). This indicates that investors respond slowly to information in constant dividend announcements, on the day of the dividend announcement there is no reaction. Even though the market responds slowly to information, the existence of a significant positive abnormal return at t+3 indicates that there is information content in constant dividend announcements.
- d. Dividend sample fell; significant negative abnormal return occurs at t-3 (-1.01%). This shows that investors react negatively to the information contained in the announcement of a falling dividend. However, the reaction occurred before the announcement of the dividend, indicating the possibility of information leakage.

Table 1 Results of Significance Test of Abnormal Return on Dividend Policy Increase, Constant, Decrease and All Samples

Period	T-5	T-4	T-3	T-2	T-1	T-0	T+1	T+2	T+3	T+4	T+5	T+6	T+7	T+8	T+9	T+10
Go on	0.0038 (.952)	0.00341 (.255)	0.002698 (.992)	0.0040 (.117)	-0.001 (.964)	0.01783 (.003)*	0.01166 (.334)	0.0053 (.897)	0.0258 (0.00)*	0.0197 (.146)	0.0079 (.460)	0.0035 (.848)	-0.0259 (0.00)*	-0.0110 (0.00)*	-0.0143 (0.00)*	-0.0069 (0.04)*
Constant	0.0163 (.123)	-0.0013 (.819)	0.00962 (.153)	0.0065 (.331)	0.0159 (.179)	0.00474 (.864)	-0.0027 (.710)	-0.0108 (.059)	0.0246 (.033)*	0.0076 (.797)	-0.0005 (.290)	-0.0106 (.024)*	-0.0296 (.000)*	-0.0061 (.587)	0.00228 (.278)	0.00895 (.361)
Down	-0.001 (.207)	0.00334 (.089)	-0.01011 (0.002)*	0.0031 (.384)	0.0066 (.094)	-0.0039 (.327)	-0.0025 (.289)	-0.002 (.921)	0.00245 (.399)	-0.002 (.614)	-0.0034 (.490)	-0.0039 (.918)	-0.025 (0.00)*	-0.0097 (0.036)	-0.0083 (.333)	0.00068 (.238)
Whole sample	0.0041 (0.829)	0.00398 (0.04)*	-0.00145 (0.090)	0.0047 (0.03)*	0.007 (0.04)*	0.00655 (0.202)	0.00463 (0.784)	0.00093 (0.681)	0.01573 (0.00)*	0.0083 (0.38)	0.00304 (0.334)	-0.0001 (0.675)	-0.0247 (0.00)*	-0.008 (0.00)*	-0.0069 (0.00)*	-0.0000 (0.082)

Description: p-value is in parentheses; ** denotes a significance level of 1%; * denotes a significance level of 5%

Table 2 Abnormal Return Significance Test Results per Sector; Agriculture Sector, Mining Sector, Basic Industry and Chemical Sector, Miscellaneous Industry Sector, Consumer Goods Sector, Property Sector, Real Estate & Building Construction, Infrastructure, Util

PERIOD	AGRICULTURE	MINING	BASIC & CHEMICAL INDUSTRY	VARIOUS INDUSTRIES	CONSUMPTION GOODS INDUSTRY	PROPERTY & REAL ESTATE	INFRASTRUCTURE, UTILITIES & TRANSPORTATION	FINANCE	TRADE, SERVICES AND INVESTMENT
T-5	0.007909 (.075)	0.008399 (.328)	0.010023 (.949)	-0.00375 (.814)	-0.00548 (.153)	0.008392 (.711)	-0.01009 (.177)	-0.00631 (.620)	0.004476 (.934)
T-4	0.013445 (.249)	0.008071 (.594)	-0.00118 (.849)	-0.01668 (.209)	0.005178 (.107)	0.009932 (.231)	0.005907 (.381)	-0.00862 (.131)	0.005709 (.281)
T-3	0.031635 (.600)	-0.00235 (.859)	0.00035 (.424)	-0.0054 (.937)	0.004031 (.447)	-0.01139 (.031)*	-0.00952 (.039)*	0.003869 (.694)	-0.00012 (.167)
T-2	0.001089 (.917)	0.0177 (.248)	-0.00101 (.675)	0.007275 (.308)	0.001326 (.670)	0.008085 (.372)	0.000586 (.586)	0.005564 (.182)	0.010595 (.093)
T-1	0.033418 (.046)*	0.003778 (.594)	-0.00054 (.790)	0.033452 (.071)	0.010291 (.114)	0.004085 (.811)	0.007976 (.149)	-0.00334 (.694)	0.002635 (.402)
T-0	0.00178 (.600)	0.011193 (.328)	-0.00676 (.062)	-0.00113 (.875)	0.001622 (.903)	0.010379 (.420)	0.003158 (.906)	-0.01411 (.316)	0.015734 (.021)*
T+1	0.011026 (.600)	-0.02495 (.006)*	-0.00638 (.144)	0.021566 (.937)	0.001239 (.412)	0.014876 (.049)*	0.009934 (.981)	-0.0132 (.869)	0.001051 (.656)
T+2	0.001914 (.917)	-0.00022 (.722)	-0.00865 (.078)	-0.00755 (.583)	-0.00157 (.236)	0.005066 (.936)	-0.00187 (.795)	0.005927 (.367)	0.015934 (.029)*

PERIOD	AGRICULTURE	MINING	BASIC & CHEMICAL INDUSTRY	VARIOUS INDUSTRIES	CONSUMPTION GOODS INDUSTRY	PROPERTY & REAL ESTATE	INFRASTRUCTURE, UTILITIES & TRANSPORTATION	FINANCE	TRADE, SERVICES AND INVESTMENT
T+3	0.009295 (.600)	0.022812 (.182)	0.000637 (.603)	0.015431 (.158)	0.016747 (.016)*	0.003977 (.520)	0.004253 (.868)	-0.00743 (.174)	0.023189 (.058)
T+4	0.016231 (.249)	0.023725 (.110)	0.003136 (.638)	-0.01039 (.209)	-0.00185 (.181)	-0.00758 (.064)	0.014876 (.076)	-0.01593 (.603)	0.023295 (.182)
T+5	0.004081 (.345)	0.002821 (.374)	-0.007040 (.144)	-0.00155 (.937)	0.002446 (.274)	-0.0045 (.126)	0.0093 (.723)	-0.00025 (.657)	0.012301 (.970)

Note: The significance test was carried out for a period of five days before the announcement day and five days after the dividend announcement day k(t-5; t+5). p-values are in parentheses; ** denotes a significance level of 1%; * denotes a significance level of 5%

Abnormal returns after the announcement of dividends (t+6, t+10), both in the announcement of dividends for all samples, dividends increase, are constant, or decrease, indicating that there is Abnormal Returns significant negative. This was caused by the activity of selling the majority of investors' shares after obtaining dividend rights. so after cumdate happen abnormal returns negative.

In order to obtain more informative analysis results, the research was continued with an analysis per industrial sector. The results of the analysis can be seen in table 2. The detailed results are as follows:

- Abnormal returns significant positives were found in the agricultural sector in the t+1 period (3.3%), the consumer goods sector in the t+3 period (1.7%), the property sector t+1 (1.49%), and the trade, service and investment sector in the T- 0 (1.57%) and t+2 (1.6%).
- Abnormal returns significantly negative in the property sector in the t-3 period (-1.14%), the infrastructure, utilities and transportation sectors in the t-3 period (-0.95%), and the mining sector in the t+1 period (2.5%).

Investor Reaction to Dividend Announcement in all samples

The results of the study show that there is a significant positive abnormal return on dividend announcements as a whole. This indicates that there is information content in the dividend announcement. By continuing to distribute dividends when the economic situation is not good, it shows the company's loyalty to its investors. In addition, continuing to distribute dividends indicates that the company still has optimism and a stable financial condition.

The information content is responded quickly by investors which can be seen from the significant positive abnormal return value even before the dividend is announced. Significant abnormal returns occurred in the period t-4 (0.4%), t-2 (0.47%), t-1 (0.71%), and t+3 (1.57%). This indicates that investors are responding positively to the information content contained in dividend announcements even though the majority share price is experiencing a downtrend

due to the Covid-19 pandemic. The existence of a significant reaction before the dividend announcement also indicates that there is a possibility of information leaks.

The results of this study are in line with research from Khanal & Mishra (2017) which supports signaling theory, in which dividend announcements carry positive information content from management to investors. However, this research is not in line with research from Pandey & Kumari (2021) which actually supports the dividend irrelevance theory, in which there is no reaction to dividend announcements.

Investor Reaction to the Announcement of an Increase in Dividends

The results of the study show that there is a significant positive abnormal return on the announcement of an increase in dividends. This indicates that there is information content in the announcement of an increasing dividend. Especially during the pandemic, many companies found it difficult to run their businesses. That way, the announcement of an increase in dividends shows information that the company is doing well and management is optimistic about the company's future performance.

The information content was responded quickly by investors which can be seen from the significant positive abnormal return value of 1.78% right on the day the dividend was announced. However, this reaction was still weak so that investor reactions reappeared at t+3 marked by a positive abnormal return value of 2.58%. This indicates that investors are responding positively to the information content contained in dividend announcements even though the majority share price is experiencing a downtrend due to the Covid-19 pandemic.

The results of this study are in line with research from Satish Kumar (2017) which supports the signaling theory. This research concludes that the announcement of an increased dividend brings positive information content from management to investors which is reacted by investors.

Investor Reaction To Constant Dividend Announcements

The results of the study show that there is a significant positive abnormal return on constant dividend announcements. This indicates that there is information content in constant dividend announcements. Constant dividend announcements are considered good news considering that during the pandemic, almost all companies experienced difficulties. That way, constant dividend announcements show information that at least the company can overcome the problems it is facing and management is optimistic about the company's sustainability and performance during a pandemic.

Investors respond slowly to this information content, which can be seen from the significant positive abnormal return value of 2.46% at t+3 constant dividend announcements. Even though investors responded slowly, investor reactions remained significantly positive to constant dividend announcements. The results of this study are in line with research from Khanal & Mishra (2017) which concluded that dividend announcements received a positive reaction from investors. Thus this research supports the signaling theory, in which the announcement of an increasing dividend brings positive information content from management to investors.

Investor Reaction To Declining Dividend Announcement

The results of the study show that there is a significant negative abnormal return on the announcement of a decreasing dividend. This indicates that there is bad information content in the

announcement of a decreasing dividend. The announcement of a decrease in dividends is seen as news that the company is experiencing difficulties during the Covid-19 pandemic. This causes unfavorable prospects for the company's future performance.

The information content was responded quickly by investors which can be seen from the significant negative abnormal return value of -1.01% even before the dividend was announced, namely at t-3. After that, there is no significant abnormal return even when dividends are announced. This indicates that there is an indication of information leakage regarding the announcement of a decreasing dividend. Therefore investors respond significantly negatively before dividends are declared. The results of this study are in line with research from Satish Kumar (2017) which concluded that a decrease in dividends brings bad information about the company's future prospects. That way, this research also supports the signaling theory, in which dividend announcements fall bringing negative information content from management to investors.

Investor Reaction to Dividend Announcement in Every Industrial Sector

From the results of the research on the significance of abnormal returns per sector, only the agricultural sector, the property sector, the consumer goods sector, the mining sector, the trade, services and transportation sector, as well as the infrastructure, utilities and transportation sectors. Significant negative abnormal returns were found in the mining sector as well as the infrastructure, utilities and transportation sectors. Significant positive abnormal returns were found in the agricultural sector, the consumer goods sector, as well as the trade, service and investment sectors. Meanwhile, in the property sector, abnormal returns were found that were significantly negative and significantly positive.

The infrastructure, utility and transportation sectors are less attractive to investors. With various restrictions during the pandemic, transportation companies experienced a decline in performance. This has made investors optimistic about the prospects for this sector, which is illustrated by the significant negative abnormal returns in the infrastructure, utilities and transportation sectors of -0.95% at t-3.

The mining sector is also less attractive to investors as reflected in the significant negative abnormal return at t+1 of -2.5%. This happened because several mining company projects were stopped. Moreover, mining companies usually distribute jumbo dividends, but in 2020 the majority of companies implement a decreasing dividend policy.

The sector that has received a significant positive reaction from investors is the basic industrial sector that is always needed by the community. Even though it was during a pandemic, the agricultural sector, the consumer goods sector, as well as the trade, service and investment sectors remained a basic need for the community. Therefore, investors are optimistic about the company's prospects as reflected by significant positive abnormal returns around dividend announcements in the agricultural sector (3.34%), the consumer goods sector (1.67%), and the trade, services and investment sectors (1.59%).

CONCLUSION AND IMPLICATIONS

Conclusion

- a. Overall, investors reacted positively to the dividend announcement.
- b. Investors reacted positively to the dividend increase announcement.
- c. Investors react positively to constant dividend announcements.

- d. Investors reacted negatively to the announcement of a falling dividend.
- e. Investors reacted positively to the announcement of dividends in the agricultural sector, consumer goods sector, as well as the trade, services and investment sectors

Implications

- a. Investors are advised to focus more attention on the announcement of dividends in the agricultural sector, consumer goods sector, as well as trade, services and investment sectors. This is because the three sectors consist of companies that produce products that meet the basic needs of everyday society, so they tend to survive in unfavorable market conditions.
- b. For adherents of bird in the hand theory, investors can still get profitable dividends during the Covid-19 pandemic. To get profitable dividends, investors are better off focusing on the stocks of companies with constant, rising dividend policies. This is because the announcement of an increasing and constant dividend contains good news and is responded positively by the market. The increase in dividends and constant dividends accompanied by low stock prices due to a downtrend makes dividend yields higher, this is profitable for dividend hunter investors. Investors are expected to be more careful in responding to share prices after the distribution of dividends. This is because when the dividend announcement increases and is constant in the post-announcement period ($t+6$, $t+10$) the price decreases as indicated by the significant negative abnormal return value. Therefore, investors who want dividends must prepare an exit strategy so as not to suffer losses.
- c. For investors adhering to the tax preference theory, who prefer capital gains, it is better to focus on stocks with an increasing and constant dividend policy. This is due to the positive market response to the dividend policy. By buying shares at the time of the announcement of dividends, investors gain potential profits from rising stock prices. Investors are cautious when trading short around dividend announcements due to the significant drop in price after the cumdate. Therefore, it is better for investors to sell shares (taking profit) at the cumdate, otherwise investors who like dividends will buy shares to get dividends.

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