CHAPTER I

INTRODUCTION

1.1 Research Background

The price drop ratio (PDR) is a significant metric which is used to measure the impact of dividend payment to stock prices around the cum-dividend date and ex-dividend date. It is calculated based on the price change during the ex-dividend date in comparison to stock prices on the previous date which is recognized as cum-dividend date. This ratio shows the market response toward dividend payment since investors adjust stock prices to account for cash dividends.

Cum-dividend date is defined as the last day for investors to still be eligible for receiving dividend. The Clientele Effect Theory proposes that in an ideal frictionless economy, the stock prices must rise in cum-date and fall amount the exact value of dividend in ex-date when the stockholder lose their right to dividend (Miller & Modigliani, 1961). This is because the company's equity must be subtracted by the amount of dividend those shared to shareholders, causing the stock price to adjust downwardly. Thus, a higher price drop ratio indicates the higher diminishes stock prices due to the dividend payment, while lower price drop ratio suggests that stock prices has alleviated from smaller dividend amount.

Kadioglu & Kirbas (2021) analyze the effect of ex-dividend date to the share distributions in Turkish stock market, find there is a positive abnormal return in ex-day, as price is consistently escalated 10 days before the ex-day, and subsequently decline afterward. Lestari et al. (2018) conduct research in the Indonesian Stock Exchange (IDX) with a sample from 37 manufacturing companies, encounter that stock prices in cum-dividend date are significantly higher in comparison to both the days preceding and subsequent it. The high tax-bracket investors prefer to sell stocks in cum-date and buy stocks on the ex-dividend day, while low-tax bracket investors are likely to do the opposite direction, thus it suits to clientele hypothesis (Chen et al., 2013). The stock prices of German stocks (XETRA) are declined amount dividend paid to the shareholder on the ex-dividend date, and this result is most consistent within the clientele effect (Kreidl, 2020). Furthermore, Ainsworth & Lee (2014) examine the stock prices and trading behaviour around the ex-dividend day by using stocks listed in Australian market, find that domestic investors intent to acquire stocks during cum-dividend and sell them in ex-dividend date. Hence, shares which are mostly held by local stakeholders suffer for higher price behaviour-off ratio and support the clientele effect hypothesis.

However, the reality might happen differently as well documented in early existing literatures those explain this phenomenon with vary results. Hence, the anomaly of stock prices around cum dividend date and ex-dividend date has been an attractive phenomenon for researchers. There is "money left on the table" since the stock prices drop might be less than dividend amount. This phenomenon states the inefficiency of market hypothesis which can lead to the arbitrage profit(Tamara et al., 2020).

Started with (Campbell & Beranek, 1955) who conduct the research to find the stock prices behaviour in ex-date and discover that share prices drop averaged by 90% amount dividend payment while the market condition remain stable. Moreover, the price fluctuation which is affected by the small dividend can be hard to notice, while the effect on stock prices from greater dividend happen vice versa. Al-Yahyaee (2014)investigates the Omani stocks, find that stock prices drop around the ex-dividend date is smaller than dividend paid by shareholder due to illiquid market condition and lack of order limitation. Due to the adjustment for dividend payment during the ex-dividend date, the price of Athens Stock Exchange (ASE) behaviours between 65% and 69% from the total of dividend payment to the shareholders (Asimakopoulos et al., 2015).

The anomaly of this phenomenon is noteworthy for the financial market as it possesses to challenge the market hypothesis efficiency. It reveals that stock prices reflect all given information and must instantly adapt to new information. The stock prices drop around ex-date should not be recognized as negative, since it shows the adjustment for dividend payment. The anomaly suggests that market efficiency might be compromised during cum-date and ex-date, reflecting the investor's opportunity to conduct the suitable strategies which aim to capitalize this market inefficiency situation (Bennett, 2023). The investors might accomplish higher profit through combining the market anomaly which can be detected by machine learning with the traditional investment strategies such as value investing and fundamental analysis.

Dividend policy refers to the company's decision regarding the distribution of company's income to the stockholders, in terms of cash payment or additional stocks (Kalay, 1982). Dividend policy aims to increase the welfare of stockholders as they bear the investment risk due to uncertain future profit or loss (Adrianto, 2022). There are three types of dividend policy, those are recognized as stable, constant, and residual. The stable dividend policy is a condition where companies decide to pay a fixed dividend. The constant dividend policy is a circumstance in which corporations opt to pay a fixed percentage of dividends, depending on their earnings. The residual dividend policy is a condition where companies decide to pay dividends after fulfilling all their obligations. The amount of dividend shared is determined by the company's board of directors as suitable to its earnings, and can be delivered on a regular schedule, such as quarterly, annually, or one-time special dividend.

Several factors have affected the firm's sustainability in paying dividends and size of dividend payout toward shareholders. First and foremost, the firms which paid their dividends in previous year, are likely to pay their dividends than those who did vice versa (Dewasiri et al., 2019). This decision depends on the company's profitability, so that it supports the signalling theory which states that dividends are used to communicate the company's financial health. Hence, the others which do not share the dividend are recognized as the low performance company. This decision is in line to the Lintner (1962) model, which suggests that past dividend provides the significant effect toward the current dividend policy. Moreover, dividend plays the important role in affecting stock prices index in IDX, since the regular dividend payment to investors significantly increases the share market value (Singh & Tandon, 2019).

The stock prices behaviour around the ex-dividend date also has proven to cause the abnormal return. Thus, the stock prices movement and change in trading volume activity reflect the strong relationship between stock prices and macroeconomic performance (Sharif et al., 2015). Moreover, dividends influence the stock prices by being incorporated to the share prices, so that the announcement of dividend payout gives specific and predictable effect on market prices. Before the ex-dividend date, investors tend to sell stocks aiming to capture dividend, so the demand is hereby reduced and drive the price drop. Amin & Soekarno (2023) discover that stock return of companies remains positive, particularly around the announcement date. This is because the consistency of dividend distribution indicates the managers capability in managing the company, and escalating dividend payment is a sign of organization's financial sustainability in the future (Yuliana et al., 2021). Moreover, dividend also change the relationship between negative financial ratios and stock prices, alleviating the investors uncertainty and impacting share prices.

Dividend yield and dividend growth are important metrics to assess the effect of dividend policy toward the stock prices (Black & Scholes, 1974). The dividend yield is an indicator of the expecting return which might be accomplished by investors, with the assumption of constant dividend. The dividend growth model which was introduced by Myron J. Gordon and Eli Shapiro in 1956 reflects the company's ability to increase their dividend consistently. Other than that, the firm boards of stock index play a crucial role in examining the effect of dividend policy toward stock prices through influencing the corporate governance, investment decisions, and financial strategy (Naheed et al., 2022). These boards are important in assessing stock prices movement as it helps the companies in developing their strategic direction including investment growth opportunities, financial management, and overall governance. Furthermore, free float will gain the understanding regarding the influence of dividend policy toward the stock prices movement as it serves as a role of market liquidity (Ardelia & Sari, 2020). A higher free float suggests the greater market liquidity and it happens vice versa. It is crucial for the investors since it is correlated with lower trading costs.

Market index is a statistical measure which reflects the composite value of certain group of stocks, which is designed to represent a particular market or economic sector. Thus, the market index is recognized as an indicator of the overall market performance, aim to help the investors regarding their investment decisions in capital market (Santoso et al., 2023). A study which determines the Indonesian composite index, discovers if market index is influenced by various factors such as inflation, exchange rates, and Dow Jones Index (Fauzi & Wahyudi, 2016). These listed factors discover to significantly affect the stock price movement. For instance, the Rupiah depreciation against US Dollar might pressure the Indonesian composite index movement, resulting to decrease the investors tendency to invest in Indonesian market and likely to choose the stock market from other countries. Hence, incorporating the market index as a moderating variable in this research will isolate the influence of dividend policy toward the stock prices from a broader market movements, allowing for a more precise assessment.

The inclusion of company size and industry period as the control variable is indispensable to analyze the influence of dividend policy toward stock prices. firms with larger size are likely to have more predictable earnings, resulting in more consistent dividend policy (Al Masum, 2016). On the other hand, the smaller companies tend to have a greater volatility in dividend policy, aim to perceive a higher growth opportunity and mitigate the risks. Industries are known to have different condition in their capital intensity, growth prospects, and earnings stability, which shapes the company's decision regarding the dividend policy The companies in mature industry are considered to have more stable dividend policies in comparison to those small firms in growing phase, where dividend payment is less expected by investors.

The previous research has explored the impact of market structure, tick size, and price adjustment methods on ex-dividend day stock prices behaviour (Mortal et al., 2017). The effect of dividend payout, firm size, and other variables on stock prices during the cum-date and ex-date have been investigated by focusing on academic inquiries. Hence, it clearly defines the suitable and proper foundation for this research, which investigates the anomaly of stock prices behaviour around cum-date and ex-date in the Indonesian market.

Indonesian economic currently in a good condition as the currency remain stable, and inflation is likely in declining trend (Boediono, 2023). Although the GDP (Gross Domestic Product) growth in the year of 2024 – 2026 is projected to slightly decrease from 5% in 2023 to an average of 4,9%, it is still declared as a good number after suffering from the COVID-19 pandemic. This condition is predicted to be primarily driven by the private consumption, as the Indonesian citizens is well known to have the high purchasing tendency. Indonesia currently has the fourth largest population and the tenth highest purchasing power capabilities in the world. During the pandemic situation, the Indonesia's consumer spending in GDP significantly increases with 58% spending from household products, since local aim to decrease their dependency toward imported products (Ridhwan et al., 2023). The investors also find Indonesia appealing to stablish factory aim to decrease the production costs. The low currency causes them to pay lower for the materials, labour wages, etc, resulting to support the Indonesian commodity export. Indonesian inflation is projected to decimate from 3,7% in 2023 and to 3,2% in 2024. Hence, it can be concluded that Indonesia is a good object to be investigated as it provides a good economic prospect.

The IDX (Indonesian Stock Exchange) which is also known as the JSX Composite previously, provides measurements of overall market performance and reveal investors tendency of a high-level liquidity and wide range companies in Indonesia. Though the other countries in Southeast Asian such as Singapore, Thailand, and Philippines also experienced the positive economic growth even in the post COVID-19 Pandemic situation, the Indonesian Stock Exchange accomplish the highest growth rate for over 20 years (Sinaga et al., 2022).

The data from the period of 2018 to 2022 is selected since it encompasses the spectrum of economic conditions, including the economic growth, recession, and subsequent recovery due to the pandemic of Covid-19. The World Bank (2022) reports that the global economic growth is 3.9% in 2018, before slowing to 3.0% in 2019. The presence of the pandemic of COVID-19 causes a robust economic downturn amount 5.9% in 2020, before it increases amount 3.2% in 2021 due to the economic recovery. However, the pace of growth is slowed to 1.8% in 2022. Additionally, selecting the data from 2018-2022 is pragmatic, since the data from 2023 is still incomplete and might still subjected to revision.

Based on the research background, the researcher is intended to investigate and analyze the influence of dividend policy to the stock prices movement in the Indonesian stock market at ex-dividend day. With market index as the moderating variable, and company size and industry period as the control variables, the suitable title for this research is: **The effect of Dividend Policy to the Stock Prices Movement at Ex- Dividend Day (Evidence from the Indonesian Stock Market)**

1.2 Research Questions

Based on the background outline above, several research questions are outlined as follows:

1. What does the influence of dividend yield the stock prices movement at the ex-dividend day?

2. What does the influence of dividend growth to the stock prices movement at the ex-dividend day?

3. What does the influence of firm board to the stock prices movement at the ex-dividend day?

4. What does the influence of free float to the stock prices movement at the ex-dividend day?

5. What does the role of market index in moderating the relationship between dividend yield and stock prices movement at the ex-dividend day?

6. What does the role of market index in moderating the relationship between dividend growth and stock prices movement at the ex-dividend day?

1.3 Research Objectives

Based on the research question above, the objective of this research as follows:

1. To examine the effect of dividend yield to the stock prices movement at ex-dividend day.
2. To examine the effect of dividend growth to the stock prices movement at the ex-dividend day.
3. To examine the effect of firm board to the stock prices movement at the ex-dividend day.
4. To examine the effect of free float to the stock prices movement at the ex-dividend day.
5. To examine the role of market index in moderating the relationship between dividend yield and stock prices movement at the ex-dividend day.
6. To examine the role of market index in moderating the relationship between dividend growth and stock prices movement at the ex-dividend day.

1.4 Contributions of the Research

The contribution of the research as follows:

1. Knowledge contribution, this research contributes to knowledge enrichment in terms of additional knowledge and concentration about financial management which is related to the stock prices movement. This research provides insights into dynamics of stock prices in the Indonesian market, particularly at the ex-dividend day.

2. Practical contribution, this research provides information for the investors, market participants, and policymakers regarding the factors which influence the stock prices behaviour in the Indonesian market. It's hereby helping in investment decision as well as constructing the relevant market policies, leading to capital gain for investors in the Indonesian stocks market, especially at the ex-dividend day.

1.5 Scope of the Research

This research examines the factors affecting the stock prices movement at ex-dividend day. The factors are being analyzed are limited to dividend yield, dividend growth, firm board, floating rate, market index, firm size, and industry period. The object of this research is shares in the Indonesian stock market. The type of data which is used to conduct this research is the secondary data, that is derived from the Indonesian Stock Exchange (IDX).

1.6 Outline of the Research

This research consists of five chapters while each chapter contains of subsection with the following systematization of writing:

CHAPTER I INTRODUCTION

This section comprises of six subsections namely research background, research question, objective of the research, contribution of the research, scope of the research, and outline of the research.

CHAPTER II LITERATURE REVIEW

This section comprises of the theory used and the explanation of each variable of this research. Moreover, the hypothesis development, previous studies, and the research framework are hereby explained in this chapter.

CHAPTER III RESEARCH METHOD

This section includes the explanation of the method used in this research, the population sample, they type and source of data, the measurement and definition of the study variables, and the data analysis tools.

CHAPTER IV RESULT AND DISCUSSION

This section contains the results of the data analysis, the discussion, and the explanation about the research hypothesis of whether they are accepted or denied, and comparison with the theory utilized and previous studies.

CHAPTER V CONCLUSION

This chapter contains the summary of the research, its limitations, and recommendation for further research.