Abnormal Return and Stock Trading Volume Analysis on the Company Taking Stock Split at Indonesia Stock Exchange Period 2010-2013

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Abstract: ***The purpose of this study to analyze the differences in abnormal returns and trading volume activity before and after stock split event on the companies listed in Indonesia Stock Exchange period 2010-2013. The method used verification with event study approach. Observations were made for abnormal return average and trading volume activity average for 7 days before, the event date, and 7 days after the event. The population in this study is company that do stock split and listed on Indonesia Stock Exchange (IDX). Hypothesis testing used different test analysis model (T-test Paired Two Sample) with significant level of 5%. The results showed that there was no significant difference between the abnormal return and trading volume activity before and after stock split event on companies listed at Indonesia Stock Exchange period 2010-2013.***

Keywords: Abnormal return, stock split, stock trading volume

1. Introduction

Capital market as an institution that works to bring together the parties have excess funds and those who need funds to use in order to invest on asset in the operation of a company. For this purpose, the parties have excess funds or investors can choose investment alternatives that provide optimal returns by investing in stocks of the most productive companies in the capital market.

Stock that offer high return to investor will be much in demand by investor, so that the necessary funding needs will be met by issuer. Funding requirement of a company determined by total shares offered and stock prices are formed mainly as a result of demand and supply will be the stock price. The stock price will determine whether investor attitude are willing to invest or not. This is because, the higher the price, the greater share of funds to be provided by investor for investing. This situation causes a small capital investors do not have the opportunity to make an investment, so that company shares ownership will only be distributed to investors who have big capital. If ownership concentrated in a single party that has substantial capital, supervision of existing shareholders will be transferred to new shareholders who have a greater ownership concentration. Therefore, the company will attempt to distribute the shares become more widespread marketing that stock ownership is not concentrated on those who are not desired.

One way a company can do to avoid losing control shareholder with the stock split. Stock split will change shares ownership composition owned by shareholder. Stock split according to Halim (2005) is split into greater number of sheets using a lower nominal value per share proportionately. Stock split purpose in order to keep stock price not too high so it’s more popular in the community and the more trafficked. With stock split, shareholder must convert its new shares have a nominal value lower. For if specified time limit exceeded exchange the old shares with a nominal value can’t be traded on an exchange.

Stock split doing by splitting the nominal par value shares into smaller according to the specified stock split ratio, where the nominal value changes only resulted additional total share, but does not change total issued and aid-up capital or will not decrease or increase the investment value from shareholder or investor (Hamzah, 2006).

Stock split publication very important information to shareholder and prospective investor. Information obtained from companies that do stock split, may be used by shareholder for consideration in the preparation portfolio and potential investor can use to consider the decision whether to buy or not to buy shares for optimal benefit to risk as low. Besides stock split information to attract investor and provide a return for investors if the dividend paid greater (Ahmad, 2004).

Sizeable dividend payment from investment in stock an expectation for investor. In addition to dividend, investor expect obtain return from it’s investment. Received a positive return investor earned from stock price increases. Large positive return indicate that investor gain abnormal return. Abnormal return usually obtained because of a rapid response information by investor, causing share price increase is very large. According to Samson (2008) that abnormal return is difference between actual return and the expected return that can occur before information published, or there has been a leakage of information after official information published. Bodie, et al (2006) report that abnormal return as the yield above what would be predicted from market movement alone.

Stock split information is one of corporate action hich aims to increase company value. Stock split provides information to investor about prospect of substantial future returnn increasing return can be predicted signal on short-term and long-term profit. Stock split announcement considered as a signal given by management to the public that a company has good prospect in the future. (Marwata, 2001). Study result conducted by Miliasih (2000), Sutrisno (2000), Fatima

(2010), Sadikin (2011), and Astuti (2012) does not support this theory. Study result conducted did not find any abnormal return associated with stock split announcement. But the other study results conducted by Sudiro (2000), Kurniawati (2003), Rusliati and Farida (2010), and Sadikin (2011) showed that around tstock split announcement showed abnormal stock price behavior due to the market participant's response on the Stock Exchange.

Additional information can be obtained after stock split is information about stock trading activity. Information held by investor will be transformed in the form of rise and fall daily transaction volume and transaction frequency. Volatility occurs because there is some private information that revealed through the transaction process and not due to increase public information dissemination. (Wibowo, 2004). Investor also can make observation about trading volume information associated with stock prices. Stock with high trading volume will result in a high stock return (Chordia, 2000).

Slightly more stocks traded can be seen from the large trading volume activity (TVA) namely a comparison between total shares traded with total shares outstanding. Stock split by issuer making a lower stock price and total shares to more thus expected to respond positively with buying shares that can be seen from TVA increased, thereby increasing stock liquidity (Jogiyanto, 2008). Stock liquidity is one of indicator to see market react to an announcement. Stock liquidity can be seen from trading volume that occurs on a stock. Trading volume is the ratio between total shares traded at any given time with total shares outstanding at any given time (Husnan, 2005).

The main purpose of stock split liquidity to make more liquid stock company, it's mean ease to peddle copies and more frequently traded stocks on the exchange. Illiquid stock often caused by two things namely the stock price is too high and total shares traded too little. Therefore, the stock split strategy to make total shares outstanding and the share price more cheaply. So expect potential investors interested to invest (Muharram 2009).

Trading range theory (Marwata , 2001) stated that stock split will increase stock trading liquidity. According to this theory, stock prices are too high lead to less active stocks traded. But in some cases stock split that occurred in Indonesia there is not support this theory, such as the research of Kurniawati (2003), Fatima (2010), Sadikin (2011), and Astuti (2012) which states that there is no significant difference to stock trading volume and stock returns before and after stock split. While the study result that support the trading range theory is research conducted by Sutrisno (2000), Rohana et al (2003), Pavabutr (2008). Then Rusliati and Farida (2010) study result indicate a change in abnormal return and trading volume activity and examine stock split influence to liquidity and stock return that obtained result that significantly influence to stock trading volume and stock return. Thus, their results support the differences are significant trading volume activity before and after stock split event.

Based on the result, indicate that there are inconsistencies in the study result, resulting in different conclusion. Therefore, the authors are interested to review about stock split event association with abnormal return or trading volume.

2. Literature

Company's goal to increase company's value that can be achieved through financial management functions implementation. Financial management functions can demonstrate corporate actions undertaken by financial managers in order to make informed investment decisions and funding. Corporate action is an event initiated by a company that affects the company's stock (Maguire, 2007). Corporate action is interesting news mostly related parties in the capital market, especially shareholder. (Darmadji and Fakhruddin, 2001). The decision to do issuer corporate action to meet specific objectives, such as increasing capital, stocks trading liquidity, or other corporate purposes.

Corporate action generally have a significant effect on the shareholder interest, because the issuer corporate action undertaken will affect to total share outstanding, shareholding composition, total share to be held by shareholder, and its influence on stock price movement. Accordingly, shareholder should examine the corporate action impact or result so as to obtain benefit from doing the right decision or anticipation.

One of corporate action taken by the company is a stock split. Stock split was carried out by a company with the aim to improve company's share liquidity on the trading session at exchange. Stock Split is corporate action to increase total share outstanding as doubling total share outstanding by giving to each shareholding two strands of new shares for one share previously held (Brigham, 2001). Stock split are breaking the sheet into the sheet stock more using lower nominal value per strand shares proportionately. Stock split purpose in order to keep the stock price is not too high so that shares more public and more widely traded. With a stock split, shareholders must exchange their shares with new shares having a nominal value lower (Halim, 2005).

Stock split does not change company value or total value of shares owned by shareholder. Sometimes a stock split made to expand the market from company stock, so after doing the stock split, there will be a cheap stock price and total shares of the lot to invite investor to make transaction. Growth companies might also announced such as a stock split as substitute for cash dividend because then detention in the company capital will make the capital can be used for operational purposes, research and development efforts and strategic acquisition that promise to improve shareholder value in the long term.

2.1 Types of Stock Split

Stock split change the total share outstanding either increases or decreases. The type of stock split can be done according to Samson (2008):

1. Split up, lowered amount per share which resulted in increase the total share outstanding. For example, a stock split with a splitting factor of 1:2, 1:3, 1:10 and so on.
2. Split down, actions decrease the total share outstanding. Split down purpose to increase the stock price in the

market in order to increase company image. Split down do by pulling back the total share outstanding and replaced with the new share higher nominal, but does not change the total paid in capital and total equity. Split 5:1 means five old shares replaced with one new share.

2.2 Stock Split Purpose

In conducting a stock split decisions every company must have a reason and purpose to be achieved. According Nany (2004), that in general the purpose of the company do a stock split to increase total share outstanding by making a cheaper stock prices so as to attract investors and companies become more liquid stocks traded on the stock exchange. The general objective is obtained from the stock split is a decrease in stock prices which further adds to the appeal to have these shares so as to make more liquid shares traded and changed the investor add lots into round lots. Add the lot is a condition in which investors buy shares below 500 pieces (1 lot), while the round lot is the investor who bought the stock at least 500 sheets (1 lot).

Meanwhile, Fahmi and Hadi (2009) states that there are some goals of a company do a stock split, namely:

1. To avoid stock price are too high so burdensome public to buy/own the stock
2. Maintain stock liquidity level
3. Attract more potential investors to own the stock
4. Attract small investors to own the stock because if it is too expensive then ownership from small investors will not be affordable
5. Increase the total share outstanding
6. Minimize risks will occur, especially for investors who want to own the stock with a low stock price condition because it is broken then it means that there has been an investment diversification
7. Implement an investment diversification.

2.3 Stock Split Advantage

The effect of stock split decision (stock split) expected to provide positive benefits to the company. According to Hanafi (2007) stock split carried out by the company with the hope can provide the following advantage:

1. Lowering stock price, make the stock more liquid to be traded, raises marketability and market efficiency
2. Changing the odd lot investors (buying shares below 500 pieces) into a round lot (buy stocks at least 500 sheets)
3. Utilizing investor psychology about higher profit level due to lower base price
4. Enhance public attractiveness to invest
5. Signaling good firm condition.

2.4 Share Return

The main investor motivation to invest is to get optimal return on investment. Return is the profit earned by investor from its investment. General sense the return is a result of return that obtained from a fund or capital invested on investment, either in the form of real assets or financial assets. Return is the result obtained from investment. Jogiyanto (2008) states that return is one factor making investor motivated to continue invest and at the same time as a reward for all the courage in investing and risk. The source of investment return consists of two main components, namely yield and capital gain/loss. Yield is return component which reflects the cash flow or income derived by investment periodically. Jogiyanto (2008) explain that return can be divided into two, namely:

1. Realized return, return that has happened. Realized return calculated based on historical data. Realized return important because it is used as one of measuring performance of company, can be calculated by the formula:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

2. Expected return, would be obtained by investor in the future. There are three models that can be used to measure expectation return, namely:

a. Mean adjusted model, assume that expectation return constant value equal to the average realized return earlier during estimation period. In this model, expected return of securities at certain period obtained by distribution realized return of securities with the length of the estimation period, common period ranged from 100 to 300 days to obtain daily data and from 24 to 60 months for monthly data.

$$E(R_{i,t}) = \frac{\sum_{j=ti}^{t2} R_{i,j}}{T}$$

b. Market model, doing calculation in two stages, namely forming expectation model using realization data during estimate return period. Then use the model to estimate the expected return on the window period. Expectation model can be formed by OLS regression techniques (Ordinary Least Square) with the equation:

$$R_{i,j} = \alpha_i + \beta . R_{mj} + e_{ij}$$

c. Market adjusted model, this model assumes that the best estimator to estimate return of a securities is market index return at the time. By using this model it is not necessary to use estimated period to establish estimation model, because securities return estimated is the same as the market index return.

$$E(R_{i,t}) = Rm_{it}$$

2.5 Abnormanl Return

Abnormal return is difference between realized return with expected return. Abnormal returns generally into focus in the study were observed price reaction or market efficiency. In other words, abnormal return is excess of realized return to normal return. Abnormal return calculated by the formula:

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

2.6 Stock Trading Volume

Trading volume is measure the volume of a particular stock traded, indicates the ease of stock trading. The amount of trading volume variable determined by observing stock trading activity that can be seen through indicator Trading Volume Activity (TVA). According Widayanto and Sunarjanto (2005), TVA is an indicator that can be used to look at the stock market reaction to information through motion parameter stock trading volume activity in the capital market.

TVA calculation doing by comparing total share traded in a given period with total share outstanding of the company at the same time (Wismar'ien, 2004). After TVA each stock is known, then calculated the average TVA for the period surrounding the announcement date:

$$X\ TVA = \frac{\sum_{i=1}^{n} TVA_i}{N}$$

2.7 Relationship between Stock Split with Abnormal Return

Stock split event believed would change company stock price. Relationship between before and after stock split event with abnormal return by Halim (2007) and Marwata (2001) is a signaling theory. Signaling Theory, stating that stock split gives a positive signal because management will inform the future prospect of both companies to public who do not know. This premise supported by the fact that companies that do a stock split is a company that has a good financial performance conditions. Not all companies can do a stock split, stock split for cost to be borne and the only company that has a good prospect who can bear the cost. This is why the market reacted positively. (Halim, 2007). Then Marwata (2001) stated that the stock split to provide information to investors about the prospects for future substantial return improvement. Increasing return can be predicted is short-term profit and long term signal. Stock split announcement considered as a signal given by management to the public that the company has good prospect in the future. Kurniawati research results (2003) show that stock split significant effect on abnormal return. Likewise Rusliati and Farida (2010) that stock splits have a significant effect on stock return. Based on the literature study above, then it can be a hypothesis that:

H_1 : There is difference between abnormal return before and after stock split event.

2.8 Relationship between Stock Split with Trading Volume

Stock split event believed would change company's stock volume composition relationship between before and after stock split event to trading volume according to Halim (2007) and Marwata (2001) is trading range theory. Trading Range Theory stated that management reason do a stock split driven by market behavior which is consistent with the assumption that the stock split, it can keep the stock price that is not too expensive. With the stock split, stock nominal value was split thereby increasing investor purchasing power, with the aim to keep a lot of market players who want to trade in the stock in question. Stock prices are too high lead to less active stocks traded. Through a stock split, the stock price becomes too high so that more investors are able to trade. (Halim, 2007).

Trading Range Theory is a tool to reorganize the share price at desired price range and the more possible for investor to buy in large number. Trading Range Theory states that stock split will increase stock trading liquidity. Stock market price reflects company value. The higher the stock price, the higher the company value and vice versa. However, if the stock price is overvalued will affect investor ability to buy the stock, causing the effect as if the stock price is hard to increase further. According Trading Range Theory that stock price is overvalued will cause a reduction in trading activity for the stock. With the stock split, stock price will be judged to be too high, so it will increase investor ability to make transaction, especially small investor (Marwata, 2001).

3. Method

This research is explanatory research using event study approach. Event study method to determine market reaction can be indicated by the change in stock price is increased or decreased after or before event. The event in this study is stock split announcement were carried out by issuer during period 2010-2013 in IDX (Indonesia Stock Exchange). While the research method used is a comparative method that aims to compare the abnormal stock returns and trading volume on the stock split companies in Indonesia Stock Exchange. So which is variable in this study is the abnormal return represented by the average abnormal return (AART) and stock trading volume proxied by the average trading volume activity (XTVA). Abnormal return measurement and XTVA done seven days prior to the stock split and seven days after stock split.

As for population in this study all of companies that do stock splits during study period, as many as 33 companies. To simplify the study from population taken samples by purposive sampling method. Criteria set out in the sampling withdrawal is only company did a stock split policy and other policies do not perform as rights issue, stock dividend, and other announcement. In this study the stock split date does not coincide with other events that can directly affect the price and stock trading volume. Based on the criteria of 33 companies whose stock split in the year 2010 to 2013, only one company that does not meet criteria to be sampled. This is due to company's conduct policy Cum Ex bonus shares on the regular market and market negotiation dated June 27, 2013 along with the dates company conduct a stock split policy, so that became the study sample there were 32 companies. Statistical data analysis for hypothesis testing used different test analysis (T-test Paired Two Sample), to test whether there is any difference in abnormal returns and trading volumes around each stock split announcement date.

4. Result and Discussion

Abnormal return is the difference between realized return with expected return.

No	Stock code	AAR Before	AAR After
1	CPIN	-1.002	-1.010
2	CTRA	-0.988	-1.023
3	DILD	-0.995	-0.985
4	TURI	-0.994	-1.008
5	AUTO	-0.997	-0.973
6	BBRI	-1.010	-1.000
7	BTPN	-0.994	-1.009
8	INTA	-0.993	-1.012
9	JTPE	-1.004	-1.017
10	LSIP	-1.009	-0.990
11	MAIN	-1.003	-1.006

12	MTSM	-1.012	-1.015
13	PBRX	-0.990	-0.997
14	SSIA	-1.004	-0.997
15	ACES	-0.994	-1.003
16	ASII	-0.999	-1.001
17	DKFT	-0.974	-1.013
18	IDKM	-1.000	-1.019
19	IMAS	-1.009	-1.008
20	KLBF	-0.987	-0.996
21	KREN	-0.997	-0.999
22	MDRN	-1.007	-0.978
23	PTRO	-0.986	-1.021
24	PWON	-0.999	-1.005
25	AMRT	-0.998	-0.994
26	ARNA	-0.991	-1.018
27	BATA	-1.000	-0.985
28	JKON	-0.990	-0.991
29	JPFA	-0.998	-1.002
30	JRPT	-0.999	-0.998
31	TLKM	-0.996	-1.012
32	TOWR	-1.008	-1.000

Source: Data processing

Based on the average abnormal return calculation result seen on the table that abnormal returns before and after stock split event indicate negative values. The decrease in the average abnormal return after stock split occurred on 21 companies or 66 % of the company decreased abnormal return after stock split event. Besides, as many as 11 or 34 % of companies experienced an increase abnormal return after the stock split. Rise and fall abnormal return after stock split shows that these evens responded differently by existing investor in the capital market. The decline in abnormal return after stock split indicates that investor are pessimistic on the listed companies performance, as investor judged that stock split event has no added value for existing shareholder, so that stock split will not affect shareholder wealth. While the increase in abnormal return after stock split shows that investors have expectations are optimistic that the event will be assessed as a stock split, an effort to increase the liquidity of the issuer's stock to shares of the company will be in demand by investor who will have an impact on the increase in the stock price, so that this condition can deliver value shareholder in the form of increase in the value of its assets.

Average abnormal return before stock split of -0.9977 and -1.0027 after stock split. Abnormal return value after stock split 0,49 % decreased compared with before stock split. Abnormal return largest value before stock split was obtained by issuer DKFT -0,974. Abnormal return after stock split DKFT decreased by 4 %, while the largest abnormal return value after stock split was obtained by AUTO issuer. AUTO issuer increased abnormal return of 2.4 % compared to before stock split. While the lowest abnormal return value before stock split was obtained by MTSM issuer of -1.012. Abnormal return for firm value after stock split decreased by 0.3 %. Then the lowest abnormal return value after stock split was obtained by CTRA issuer -1.023. When compared with pre-stock split abnormal return CTRA value decreased by 3.5 %. This indicates that stock split event responded negatively by investor.

Another impact from stock split event is any change in the stock trading volume, which is a measure given the large volume of shares traded and indicates the ease in the stock trade. The amount of trading volume variable determined by observing the stock trading activity that can be seen through indicator trading volume activity (TVA). Transaction volume and company total share outstanding is the daily trading volume during 7 days prior to the stock split and 7 days after stock split. Here is stock trading volume analysis through Trading Volume Activity indicators before and after stock split event on companies listed at Indonesia Stock Exchange in 2010-2013:

No	*Stock code*	*XTVA Before*	*XTVA After*
1	CPIN	0.0000101204	0.0000041283
2	CTRA	0.0000051539	0.0000075073
3	DILD	0.0000035928	0.0000049462
4	TURI	0.0000057791	0.0000080200
5	AUTO	0.0000000884	0.0000001825
6	BBRI	0.0000108091	0.0000085968
7	BTPN	0.0000003123	0.0000002004
8	INTA	0.0000082093	0.0000054459
9	JTPE	0.0000031925	0.0000011599
10	LSIP	0.0000059407	0.0000038641
11	MAIN	0.0000014390	0.0000012423
12	MTSM	0.0000000014	0.0000000004
13	PBRX	0.0000039976	0.0000020891
14	SSIA	0.0000056168	0.0000103846
15	ACES	0.0000011788	0.0000021597
16	ASII	0.0000093860	0.0000102904
17	DKFT	0.0000114385	0.0000036511
18	IDKM	0.0000009452	0.0000006842
19	IMAS	0.0000004869	0.0000007849
20	KLBF	0.0000137390	0.0000068157
21	KREN	0.0000004511	0.0000000879
22	MDRN	0.0000003073	0.0000011987
23	PTRO	0.0000004349	0.0000013295
24	PWON	0.0000098910	0.0000036362
25	AMRT	0.0000010806	0.0000000677
26	ARNA	0.0000015405	0.0000017616
27	BATA	0.0000000087	0.0000000885
28	JKON	0.0000001362	0.0000003383
29	JPFA	0.0000007455	0.0000006950
30	JRPT	0.0000000381	0.0000000246
31	TLKM	0.0000213640	0.0000204717
32	TOWR	0.0000000865	0.0000000336

Source: Data processing

Based on the average trading volume activity calculation result seen on the table that trading volume activity before and after stock split event indicates a positive value. This means companies share which became the analysis unit still in demand by investor as a vehicle to invest. Although the value of trading volume activity showed a positive value, but when compared before and after stock split event shows that the company which into analysis unit decreased trading volume activity after stock split event. The decrease in the average trading volume activity after stock split occurred on 19 companies or 59% companies trading volume activity decreased after stock split. Besides, as many as 13 or 41 % of companies experienced an increase in trading volume activity after stock split. Rise and fall of trading volume activity after stock split shows these events are perceived differently by existing investor in the capital market. The fall in trading volume activity after stock split indicates that investor are pessimistic to listed companies performance, as investor judged that stock split event has no added value for existing shareholder, so the stock split will have no impact on earning for shareholder. While the increase in abnormal return after stock split show that investor have expectation are optimistic that stock split event will be assessed as an issuer effort to improve shares liquidity so that the company's shares will be preferred by investor who will have an impact on the stock price increases, this condition can provide added value to shareholder in the form of increase in asset value due to rising stock prices due to increased demand for the company's stock.

Average trading volume activity before stock split of 0.00000429725 and 0.00000349647 after stock split. Trading volume activity value after stock split has decreased by 19 % compared with before stock split. largest trading volume activity value before stock split was obtained by TLKM issuer of 0.000021364000. So is the largest trading volume activity value after stock split of 0.00002047170 still held by TLKM. However, trading volume activity before and after stock split decreased by 4%. While the lowest trading volume activity value before and after stock split was obtained by MTSM issuer by 0.000000001400 before stock split becomes 0.000000000400 after stock split or decreased by 71%. This suggests that company's stock before stock split less attractive to investors, as well as when there is a stock split event company trading volume activity has decreased significantly. This mean that investor assess the performance MTSM not good enough, so it becomes less appropriate investment choices of investors.

5. Conclusion

Based on the discussion above, the study aimed to analyze the differences in abnormal return and trading volume before and after stock split event on the companies listed in Indonesia Stock Exchange in 2010-2013 can be concluded that average abnormal return and stock trading volume activity during event period, obtained result that there is no significant difference between abnormal return and stock trading volume activity before and after doing a stock split on the companies listed in Indonesia Stock Exchange 2010-2013. This indicates that market participant (investor) are less interested in the stock split event because does not guarantee it will give larger return than ever before. Besides, investor perceive that stock split event do not provide added value in the form of an increase in welfare or shareholder asset value, so the stock split event are not attractive for investor to invest.

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