

# Dividend Policy Analysis to Manufacturing Company Stock Price Changes Before and After Ex-Dividend Date in Indonesia Stock Exchange (BEI) Period 2008-2012

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**Abstract:** *This study aims to analyze the dividend policy (ex-dividend date) to manufacturing company share price changes listed in Indonesia Stock Exchange (BEI). Study period during 30 days, namely 15 days before and 15 days after dividend announcement date (ex-dividend date), analysis method using event study method through application paired sample T-test. Sample data in this study used were as many as 21 companies listed in Indonesia Stock Exchange that performs dividend announcements since 2008-2012. So that study result obtained showed share price average before and after announcement date (ex-dividend date) and abnormal return average before and after announcement date (ex-dividend date) that needs to be tested statistically. Based on data processing results indicate that no changes and stock price differences and significant abnormal returns during observation two periods which caused dividend announcement.*

**Keywords:** Dividend, ex-dividend date, stock price.

## 1. Introduction

Dividend announcement is an information source and led to a strong and positive market reaction (Asquith dan Mullins, 1983). Dividend policy has a wide appeal range as well as information transmission mechanism. Based on dividend announcement information to give a signal to changing company condition in the future. Dividend changes announcement expected to provide information signal whose influence on smaller market than earnings figure influence, as long as dividend decision just a mere management policy flexibility (Aharony and Swary, 1980).

Dividend payment announcement to seek investor because investor is one of thing which considered very important in go public company. Why so important because investors are sources of working capital of shares owned by investor. The capital owner or investors usually look for information in company before making decision to invest capital within company, that crucial information in ownership form as well as in other investment forms. From various important information that one of information which reflect internal condition within a company is a change or stock prices movement at stock exchange. While change or stock prices movement influenced by investor different perceptions. It is such a concern investors before making decision. One thing which considered important and reasonable if every company trying to show and creating a good performance and achievement in front of investors, resulting performance can provide greater hope to order investors to invest their capital on company through shares purchase listed in stock exchange.

The following are some finance experts opinion that company dividend policy may affect stock price still be a debate. As stated in Elton EJ et al theories (1980), explain that ex-dividend date phenomenon which tend to be based on tax rate difference to dividend an capital gain income for

marginal long-term investor. While Eades K.M et al (1984/94), stated that initial result on the study not clearly can interpreted as support to taxation as explanation variable in ex-dividend date observed, case study result from (R. Michaely dan Murgia 1986) who conduct research about dividend behavior in Milan Stock Exchange (MSE) with studied samples the investors who were divided into two groups namely stock trading grouped with different tax rate on their dividend income. Thus, in the study conclude that significant portion to stock trading on ex-dividend date which motivated by tax.

Next in Milan et al study can not fully explain cause of stock price decline on ex-ddividend date. However, in research Jagannathan and Frank (1997), Sularso (2003), Suharli (2005) etc has stated that based on certain reasons, some have argued that a company dividend policy has no effect on share price, but there is also an opinion contrary that dividend policy affect to stock price, thus it can be concluded that dividend policy closely linked to company stock price.

With respect to some descriptions and opinions that have been stated above, author considers that still needed support theory of events and phenomena that occur before and after dividend announcement date n (ex-dividend date) this. In addition, this study also aimed want to see how far events/phenomena that occur before and after dividend announcement date (ex-dividend date) in the Indonesian capital market condition. Therefore, focus study to analyze extent to which dividend announcement event to change or stock price movement especially before and after dividend announcement date (ex-dividend date). Based on some descriptions that have been mentioned above there are potential stock price differences and abnormal return companies listed in Indonesia Stock Exchange.

## 2. Literature

### Dividend Policy Theory

Dividend policy in this regard dividend announcement is a plan or action to be taken by management to make dividend decision. By thus dividend policy/dividend announcement can be interpreted as an action associated with information delivery about size of dividend payment by company, as well as size of company retained earnings. Here are range of expert opinion or theory about dividend policy, among others: According to Arie Afzal (2012) company net profit could be distributed to shareholder as dividend or retained earning to finance company investment Further Arie and Abdul Rahman (2012; 09) dividend policy involves decision about use profit to shareholder right. According to Modigliani and Miller (MM) a company value is not determine by size of earning percentage paid to shareholder in cash or DPR form, but determine by net profit before EBIT tax and corporate risk class.

Dividend policy according Sundjaja Barlian (2003; 309) is an action plan to be followed to make dividend decision. There are several factors that affect dividend policy, among others, as suggested by Riyanto (1995) that dividend policy influenced by liquidity position, funding need to pay the debt, bank growth rate and supervision to bank. Meanwhile, according to another opinion that dividend policy concern about use profits to be shareholder rights. Basically profits can be shared as dividend or retained for reinvestment. Thus, statement should be when (that is, under what circumstances) profit will be shared and when it will be on hold, with respect to corporate objectives which increases company value (Dr. Suad Husnan MBA; 1996; 381).

### Dividend policy in Signalling Theory Perspective

Signaling theory has been developed in economic and finance to account about fact that people in the company (insider) generally have better information and appropriate related to current state and company prospect if compared with investor (Meggison, 1997). This theory emphasizes that information released by company to investment decision of market participant. Such information is information concerning company condition description in the past, present and future as signal for investor to make investment decision.

Signaling theory often associated with asymmetric information, namely company management know more when compared with market participant, consequently occur information gap that allow market participant receiving abnormal return. Signal that insufficient information and available as well as uneven received by public resulted market participants provide their own interpretations and varied to make investment decision. An information/announcement considered to have information content if market participants can receive well abnormal return.

Abnormal Return, according Jogiyanto (2010) return is obtained result from investment, return can be realized return namely return that has been calculated based on historical data and expectation return namely expected return will

occur in the future are calculated by multiplying each outcome with event probability and summing. Abnormal return is difference between actual return and expectation return. Three abnormal return approach as follows: Mean-Adjusted Model, Market Model and Market-Adjusted Model (Jogiyanto, 2010).

Looking at various expert opinions that has been implicated in supply process and demand on the stock exchange, although basically determined by assets they represent and this can result equilibrium stock price or commonly referred to as market value. Equilibrium price reflect a collective action from buyer and seller based on available information. At the time of new information available, it can be assumed that buyer and seller immediately take action by considering information, resulting in a new equilibrium. According to Gitman (2000) market adjustment process to new information can be viewed from rate of return (required return). In Efficiency Market Hypothesis theory, stock prices react to information, which includes information about dividend distribution. Information about dividend distribution believed to be able to influence stock price behavior in stock result of investor action who want profit from the event.

Dividend policy is an action plan to be followed to make dividend decision (Gitment, 2000). Company policy to pay dividends in different. Contrast with preferred stocks, common shareholders (common stock) generally receive payment based on the one of three dividend policy types, namely: 1) Constant-Payout-Ratio Dividend Policy is dividend policy based on certain percentage of revenue, 2) Regular Dividend Policy is dividend policy based on dividend payment with rupiah that remain in each period. Often dividend policy regularly used by using dividend payout ratio target and 3) Low-Regular-an-Extra Dividend Policy is dividend policy based on low regular dividend payment, coupled with extra dividend if any income security. Financial decision by management may lead to changes company stock value.

In normal economic conditions, management actions that lead to increased dividend income (changes in expected return) will increase stock value. Instead, management actions that can increase risk (changes in risk) will increase required return and lowering stock value and otherwise. Because management decisions, especially relating to company financial problem, often affect both of risk and return simultaneously, then impact to share value depend on large-small variables change size. Other impact caused by dividend policy that the policy directly would negatively impact with company financial leverage (Pujiono, 2002). That is, debt to equity ratio will increase according to dividend proportion which will be distributed. Increased leverage value that assessment to company be bad which in turn will affect stock price in the market.

### Share Price and Ex-Dividend Date

Share Price is stock price that occurred in the stock at closing time (closing price) formed at the end of trading stock. Thus, data collected in this study is closing price for each stock before and after ex-dividend date during study

period in the Indonesia Stock Exchange (BEI). According to Miller and Modigliani, stock price (common stock) a company will fall by around dividend ex-dividend date. Meanwhile, Boyd and Jagannathan (1994) revealed about nonlinear relationship between stock price difference percentage with dividend yield that occur as due to transaction costs that affect stock pricing. Different things expressed by Bhardwaj and Brooks (1999) states that, in the short term there is difference between dividend income and stock price decline at ex-dividend date. Looking at these results at least have given an overview about different influence caused by dividend policy at ex-dividend date. Based on Campbell and Beranek research (1995), Michaely and Vila (1995), Sularso (2003), Pujiono (2002), and Gitman (2000), and taking into account Boyd and Jagannathan (1994) and Bhardwaj and Brooks (1999) arguments, it can be hypothesized, that first, there will be significant difference between stock price before ex-dividend date with stock price after ex-dividend date in the Indonesia Stock Exchange. Second, hypothesized, that difference between stock price will be proportional with dividend value per share to be distributed.

Whereas ex-dividend date is dividend payment date determined by dividend distribution procedure are generally, as follows: 1) Declaration Date the date when company director announced dividend distribution plan, 2) Record Date the date or last day when company booked all shareholders who have registered to be eligible for receive dividend, 3) Ex-dividend Date the date when dividend right released from its stock, and 4) Payment Date or also called distribution date the date when company actually sending dividend check to shareholder.

Dividend distribution procedure resulted difference investor response in capital market transactions. This may be indicated by stock price variation from declaration date until after ex-dividend date. In French and Moon (1999) study, which calculate stock return variance at declaration date and ex-dividend date, found significant increase variance at ex-dividend date. According to Campbell and Beranek (1995) cash dividends will lead to lower stock price at ex-dividend date. Furthermore, Michaely and Villa (1995) also concluded that stock price falling at ex-dividend date, heterogeneity and stock sales volume also decreased quite significantly. In his explanation Sularso (2003) states that, at ex-dividend date investors are generally predict the dividend will have an impact to stock price. This prediction based on logical reasoning that investor has lost right to return of dividend. Investor who wish to benefit, likely would choose to not be in long position. Thus, stock price will decrease proportional with value of return that has been lost. This in mind will drive the price or share value in the market has decreased to near value when dividend declared (Gitman 2000:542).

#### **Dividend Distribution Procedure**

Dividend distribution is one thing that anticipated by shareholders. Dividend payment decision contained in Rapat Umum Pemegang Saham (RUPS). Dividend distribution can be done in quarterly or yearly, depend on policy set by each company. Dividend distributed to shareholders registered at

appointed time. According to Weston and Brigham (1998), actual dividend distribution mechanism as follows:

1. Announce Date, when company director announces dividend distribution plan accordance with RUPS.
2. Holder of Record Date (shareholder registration date), last day to register as shareholder are eligible to receive dividend will be distributed enterprise. Investor who buy share after date are not entitled to receive dividend to be declared.
3. Ex-Dividend Date, the date when dividend right released from its current period, usually with four working days period before share listing date. Trading stock before ex-dividend date called cum dividend.
4. Dividend Payment (payment date), the date when dividend actually paid by company.

#### **Ex-Dividend Date Effect**

Investors at ex-dividend date announcement automatically will think that dividend will have an impact on stock price. These thought investors because have lost right of return from dividend and look at company future which paying dividend. In the first thought (Husnan 1998) investor who wish benefit from capital gain, prefer not to buy share. Thus stock price will decrease proportional with return value that has been lost. BEIn second thought also argued that investor view if company spent money to pay dividend to shareholder it will affect company cash flow which in turn can disrupt company operation. Based on the second thought, then if funds be spent will be able to disrupt company operation and automatically will have an impact to in financial difficulty. Therefore, in both thinking logically will drive stock price or stock value in the market has decreased.

Beside that also Elton, E.J et al (1980), explain that ex-dividend date phenomena be due to differences in tax rate to dividend and capital gain income for marginal long-term investor. However, Eades et al. (1994), state that initial study result not clearly can be interpreted as support to taxation as an explanatory variable in ex-dividend date phenomena observed.

Meanwhile, Frank and Jagannathan (1997) explained in detail that an effect from ex-dividend date strength in Hong Kong not caused by taxes imposition which different on dividend and capital gain. Dividend policy simultaneity and capital structure can be observed from company characteristic. Company characteristic influential to dividend policy simultaneity and capital structure are also different. Study result which support dividend policy simultaneity and capital structure. Another explanation based on short-term traders who try to take advantage in different dividend treatment and capital losses or utilization dividend capture strategy as performed by Michaely (1991).

Study result provide explicit instruction that dividend will have an impact to corporate funding, because companies spend big cash to shareholders. If dividend payment greater, overall capital position will decline. It is seen from emergence inverse relationship between dividend with equity. The greater dividend paid will reduce amount of retained earning, so that working capital position will drop.

This make investor negative thinking so that company stock price at ex-dividend date has decreased, resulting in negative abnormal return.

Based on finding of research which has been stated above, author consider that still necessary to support theory on phenomena that occur before and after dividend announcement date (ex-dividend date) this. In addition, this study also wanted to see how phenomena that occur before and after announcement date (ex-dividend date) on apital market condition in Indonesia. Therefore, this research focus will test about effect caused by dividend announcement to stock price change at ex-dividend date in Indonesia Stock Exchange.

### 3. Method

#### Object and Research Sample

Author takes the object in this research that all companies listed in Indonesia Stock Exchange (BEI) during 2008 to 2012 that meet following criteria:

1. Companies that pay cash dividend on 2008 to 2012.
2. Data dividend announcement date (ex-dividend date) available in stock or mass media.
3. Manufacturing company listed in BEI for 5 years and continuously never out from BEI, as for the reasons why manufacturing companies have been selected as sample because manufacturing company activities/production continuously so that it can be measured fairly and accurately.

#### Types and Data Collection Technique

Data used in this study is data that can be directly from Pusat Referensi Pasar Modal (PRPM) Bursa Efek Indonesia located on Jalan Sudirman South Jakarta, Stock Exchange Building and through <http://www.finance.yahoo.com> and <http://www.BEI.co.id/id/id/icamel.aspx>. The data in question as follows:

1. Dividend per share on 2008-2012.
2. Dividend Announcement Date (ex-dividend date).
3. Daily closing stock price (close price) period 2008-2012.

Data used in this study are included few trading days. By using historical data published by BEI, generally analysis model for the first problem can be described as follows:

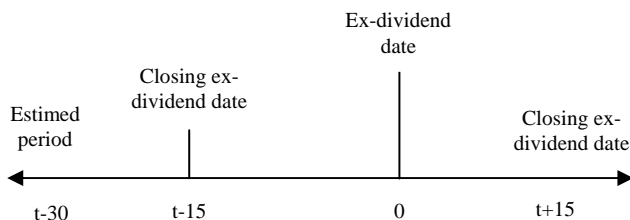


Figure 1: First Problem Analysis Model

Variables used in this study were: 1) Stock price changes variable measured by comparing daily stock price (in this case used closing price) for 15 days before ex-dividend date with closing price 15 days after ex-dividend date from all companies included study sample, and 2) Abnormal return average from share distributed by entire issuers sample.

Sampling was purposive sampling with following criteria: 1) Issuers listing in BEI between years 2008-2012, 2) Issuers selected is consistently and constantly dividends from period 2008 to 2012, 3) Data on dividend announcement date during period published in stock or mass media, and 4) Stock price data completeness and dividend per share distributed during period 2008-2012 from issuer who declare dividend. By considering sampling criteria, overall study sample known to amount only 25 issuers.

Manufacturing/industrial company is company whose activities processing raw material or into finished goods then sell it to another party. For example: textile industry, sack industry, tobacco industry, electronic industry, and so on. Manufacturing company characteristics including following: 1) The activity produces or manufactures finished goods; 2) The income derived from finished goods production sales to trading company or retailer; 3) There is production cost calculation to determine finished goods production; 4) There is goods sold cost to determine profit or loss amount; .5) Production cost consists of raw material cost, direct labor cost and factory overhead cost; 6) Operating expenses consist of selling expenses and administrative expenses.

Having regard to data normality through series of Kolmogorov-Smirnova testing, hypothesis testing was conducted using Paired Sample t-Test method to second problem with using 95% confidence level ( $\alpha = 0,05$ ). Paired Sample t-Test was performed to compare: 1) Closing price before ex-dividend date with closing price after ex-dividend date with  $H_0$  both of sample averages groups statistically did not different significantly, and 2) Amount of change share price average (closing price) at before and after ex-dividend date with dividend per share nominal value with  $H_0$  which states that stock price change value statistically proportional with amount of dividends per share value distributed.

### 4. Result and Discussion

#### Statistic Description

As this study purpose to analyze and determine whether there are stock price differences before and after ex-dividend date and abnormal return difference before and after ex-dividend date during event study for 15 days before and 15 days after ex-dividend date. Research objects used as samples in this study were companies listed in Indonesia Stock Exchange that performs dividend policy during observation period from January 2008 to December 2012 as many as 132 companies.

Based on sample selection refers to purposive sampling technique as many as 21 companies selected as sample because there are companies that does not meet criteria. Based on sample data as many as 21 companies so that raw data obtained from data collection which secondary data, analysis with comparing average value from each variable in the period before and after ex-dividend date, with period 15 days before and 15 days after ex-dividend date, has obtained stock price average processing result data shows that from 21 sample issuer companies during 30 days trading which divided in 15 days before stock dividend announcement and 15 days after stock dividend announcement (t-15 and t +15) for each variable, stock price variable tend to decrease both before and after announcement, whereas dividend

announcement impact to Average Abnormal Return (AAR) before announcement of 40% or negative 6 days (day 2,3,9,10,11,13) and 60% or 9 days positive (occurring on day 1, 4,5,6,7,8, 13,14 , and 15). While dividend announcement impact to AAR after announcement of 33.3% or negative 5 days (days +1, +3, +4, +8 and +13) and amounted to 72.7% or 10 day positive (days 2,5,6,7, 9,10,11,12, 14 and 15).

Based on data processing result that stock price and AAR did not change significantly after event. Supported by data processing result through statistical description test show number minimum, maximum, average and standard deviation of each variable. Statistical description analysis for stock price variable, abnormal return, before and after dividend announcement date, so as to give description of these variables, as shown and described in Table 1 below:

**Table 1: Statistic Descriptive**

Variable	N	Min	Max	Mean	Dev
Stock price after	15	141167,00	148243,00	146732,200	1115,36408
Stock price before	15	141355	1437158	1484500	1925,79104
AAR after	15	-01	0,01	0,0012	0,00734
AAR before	15	-0,01	0,01	0,0008	0,003306
Valid N (listwise)	15				

Source: processed with SPSS

**Data Analysis**

Normality test used to determine whether data population distributed normally or not, because it is a requirement in different test analysis for related samples (paired samples t-test) to hypothesis testing. In this study utilized data normality test (Kolmogorov-Smirnov test) intended to determine data normality of each variable, namely by comparing data distribution (to be tested normality) with standard normal distribution which data that has been transformed into Z-Score form and normal assumed. In this test, be appointed hypotheses formulation which will be tested as follows:  $H_0$ : Normal distribution data and  $H_a$ : Data are not normally distribution.

To test stock price variable data processed using SPSS application and obtained test result can be seen in Table 2:

**Table 2: Data Normality Test of Stock Price Variable Before and After Stock Split Announcement**

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
SP before	.175	15	.200	.889	15	.066
SP after	.197	15	.121	.921	15	.201

Source: processed with SPSS

Based on Table 2 shows that significant value for Stock Price variable before and after dividend announcement are 0,121 and 0,200 greater than confidence degree is 0.05, which means that data distribution for Stock Price variable is normal. Thus for first hypothesis testing can be used parametric test with Paired Sample T-Test because data normality assumption has been fulfilled.

For data testing average abnormal return processed using SPSS application and obtained test result as Table 3 below:

**Table 3: Data Normality Test of Average Abnormal Return (AAR) Variable Before and After Dividend Announcement**

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AAR after	.119	15	.200	.956	15	.626
AAR before	.221	15	.048	.848	15	.016

Source: processed with SPSS

Based on processing results on Table 3 shows that significant value for Average Abnormal Return variable before and after dividend announcement are 0,48 and 0,200 greater than confidence degree is 0.05, which means that data distribution for Average Abnormal Return variable is normal. Thus for first hypothesis testing can be used parametric test with Paired Sample T-Test because assumption requirement for data normality test average abnormal return has been fulfilled.

**Hypothesis Testing**

Based on normality testing result that data have shown normal distribution, for next step will be hypothesis testing using parametric test with Paired Sample T-Test to know and to determine whether two samples (share price and abnormal return average) related to different average value. Based on the average performed Different Test T-Test by comparing difference between average value with standard error from average sample differences. Hypothesis testing in this study as follows:

$$H_0 : \mu_1 = \mu_2$$

$$H_a : \mu_1 \neq \mu_2$$

**Testing Hypothesis 1**

$H_0: \mu = 0$  There are no stock price significant differences before and after dividend announcement manufacturing companies in BEI.

$H_1: \mu \neq 0$  There are stock price significant differences before and after dividend announcement manufacturing companies in BEI.

**Table 4**

	Test Value = 0.05					
	t	df	Sig	Mean	95% Difference Confidence Interval	
					Lower	Upper
A	1.055	20	.304	.001160365	-.00113486	.00345558

Source: processed with SPSS

Hypothesis testing results on Table 4 that stock price difference after dividend announcement obtained t value of 1.055 and significance level of 0.304 (> 0.05). Result showed that hypothesis testing result are not significant and  $H_0$  acceptable means that there is no significant dividend policy to stock price after dividend announcement.

**Table 5**

	Test Value = 0					
	t	df	Sig	Mean	95% Difference Confidence Interval	
					Lower	Upper
B	.624	20	.540	.000764968	-.00179392	.00332386

Source: processed with SPSS

Hypothesis testing results on Table 5 that stock price difference before dividend announcement obtained t value of

0.624 and significance level of 0.540 (> 0.05). Result showed that hypothesis testing result are not significant and  $H_0$  acceptable means that there is no significant dividend policy to stock price before dividend announcement.

**Testing Hypothesis 2**

$H_0: \mu = 0$  There are no difference stock return abnormal average between before and after dividend announcement event.

$H_1: \mu \neq 0$  There are difference stock return abnormal average between before and after dividend announcement event.

**Table 6: Paired Sample Statistic**

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 A	.00116036	21	.005042284	.001100317
B	.00076497	21	.005621534	.001226719

Source: processed with SPSS

**Table 7: Paired Sample Test**

		Pair 1
		A - B
Paired Differences	Mean	.000395397
	Std. Deviation	.005971397
	Std. Error Mean	.001303066
95% Confidence Interval of the Difference	Lower	-2.322750546E-3
	Upper	3.113543784E-3
T		.303
Df		20
Sig. (2-tailed)		.765

Source: processed with SPSS

Hypothesis testing results on Table 7 about difference stock return abnormal average between before and after dividend announcement event obtained t value of -0.303 and significance level of 0.765 (> 0,05). This suggests that hypothesis testing result insignificant and  $H_0$  accepted means there is no difference stock return abnormal average between before and after dividend announcement event.

Based on testing two hypotheses above that of 21 companies studied sample can be concluded that dividend announcement policy does not significantly affect to stock price and abnormal return before and after dividend announcement manufacturing companies in Indonesia Stock Exchange.

**5. Conclusion and Recommendation**

Main object in this study to analyze differences in stock prices and abnormal returns before and after dividend announcement. Based on analysis and discussion, it can be drawn some conclusions as follows:

1. The results showed that dividend announcement are not significant difference between stock price before and after ex-dividend date on manufacturing companies listed in Indonesia Stock Exchange (BEI). It can be seen from different test result during study period. Dividend payment is not necessary because it will not affect to shareholder prosperity and also will not raise company stock price. Thus, company should have profitable investment plan to be implemented throughout year.
2. There are no significant difference between abnormal return before and after dividend announcement on manufacturing companies listed in BEI based on statistical test result by the author. From obtained result

abnormal return difference before and after ex-dividend date is very small. It shows that dividend announcement by company through annual financial statement does not relevant information to shareholders to make investment decision, namely through shares buying and selling which traded in BEI. Many other factors did not investigated which more influence stock price changes outside announcement/dividend policy.

Dividend policy announcement did not cause significant difference to stock price and shareholder wealth, then manufacturing company should have more profitable investment plan to be implemented, for example focus on company expenditure needs.

Shareholders should observe that dividend policy announcement is not relevant information or the only one which gives advantage of shares number invested in the company, therefore shareholders should be able to focus its attention on total results will be obtained from investment in the company.

To develop further research the authors suggest this study tested that by increasing samples number which studied or input new variable in this study. Research model also needs to be tested further by using data and different periods, in order to get information that supports or fixing this study.

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