CHAPTER I

INTRODUCTION

1.1 Research Background

Capital market is a place where companies and investors do monetary transaction. Companies assume capital market as a place to earn money to pay its operational cost by selling some shares. In another side, investors assume capital market as a place to invest their money through buying several securities, i.e. shares and bonds which can give them good return.

In capital market, securities prices are affected by information available about the companies. The information include company’s current financial performance and future events that will happen in the company. These information are important for investors when analyzing shares to predict return value in the future. When new information in capital market suggests that owning the securities of a particular company will be profitable, then number of investors will increase since investors who already have the securities will not sell their stocks while people who do not have the shares will try to buy it. On the other hand, when new information suggests that owning the securities of a particular company will result in a loss, investors who own the securities will sell their shares while people who do not own the shares will not buy these securities, so the value of firm’s securities will decrease even the company may face bankruptcy (Rizkianto, G. D. and Budhi A. S., 2014).

One of many available information in the capital market which investors can obtained is about stock split. Stock split is the event where companies divide one particular stock into several stocks with smaller value. Usually, companies conduct stock split when the price of their stock is too high so investors will not interested to buy those securities since it is too expensive. After companies have conducted stock split, the value of one stock become smaller and the proportion of available stocks for investors will increase, so stock split will attract new investors to invest in that company. Besides that, investors who already have securities of that company will own more proportion of stocks.

Theoretically, stock split will not result in changes to the amount of capital and cash flow of the company, so we can say stock splits event do not have economic value (Dwimulyani, Susi. 2008). Although the theory said that stock split has no economic value, there are many companies who do stock split in the capital market. This shows that stock split is an important tool in the practice of capital markets.

Stock split still becomes a puzzle in financial world since there are two sides related to stock split, where one side shows support to stock split and the other side shows opposition to stock split. Supporting parties believe that stock split makes stock price becomes lower, increase liquidity of stock (the ability to be traded at any time) and improve market efficiency. Besides that, stock split also attract small investors to invest so company will be able to pay dividends to investors. The party also believes that stock split is a strong signal when a company is confident about their growth. In another side, parties who oppose stock split assume that stock split will put the company in the group or list of companies with low shares value so investors will be doubt to invest in that stock. Additionally, the increased number of shares due to the stock split will increase the service cost to shareholders.

It is explained above that securities price are affected by information. When information fully reflects securities prices in the market, then the market itself can be said as efficient. In efficient market, investors are assumed to have same level of information so they do not have ability to get stock return with higher value than average return, which is commonly said as abnormal return.

Recently, Indonesian capital market is in a condition known as bullish market, which means the capital market is facing uptrend. Bullish is a condition where the value of domestic currency becomes stronger toward foreign currency. This bullish condition is affected by economic condition in Indonesia, where the government is quite strict in managing the country's financial condition so the value of Rupiah can be stronger.

As the impact of this bullish market, the value of securities owned by firms listed in IDX increased. In IDX itself, there are some companies who have good reputation due to their financial performance and liquidity. As investors are interested to invest in those companies, their stock prices can increase up to thousand rupiah so they need to conduct stock split to cut securities price and keep their liquidity. Before stock split event is being held, companies will give an announcement to public and investors that there will be stock split in the future so public and investors can expect to that new information.

Since companies announce the upcoming event to public, there is a chance for investors to find special information from inside the company which can make them get abnormal return. In another side, there is also a chance that the information about upcoming event will affect securities prices immediately before investors are able to get abnormal return, which also known as efficient market. These potential possibilities make researcher want to analyze stock price movement of several companies listed in Indonesian Capital Market which conduct stock split during 2006-2016, whether there is abnormal return during stock split event and whether specific information about upcoming event affects Indonesian securities prices immediately.

1.2 Problem Statement

The problem of the research is the performance of Indonesian securities prices in the context of stock split. This study focuses to analyze the abnormal return and testing whether Indonesian capital market follows semi-strong market efficiency. The problem statement of this research will be as follows:

a) Is there abnormal return in Indonesian securities prices in the context of stock split announcement?
b) Does Indonesian capital market follows semi-strong form of market efficiency?

1.3 Research Objective

Based on the problem statement above, the research objectives of this study are listed as

a) To examine whether there is abnormal return on Indonesian securities prices as impact of stock split announcement.
b) To test whether Indonesian capital market follows semi-strong form of market efficiency.

1.4 Research Scope

Research scope is added in this study to tighten the scope of study so it will not too broad or too complex. The scope in this study is:

1. This study refers to earlier research made by Chakraborty, Prithul (2011) which analyze the semi-strong from efficiency in the context of stock-split announcement, also the research made by Yolsal, Handan (2011) about the implementation of parametric and nonparametric tests for event studies. Chakraborty examines Indian stock market (NSE) in the period from 2000 to 2010 with risk-adjusted event study method. On the other hand, Yolsal uses Istanbul stock market in the period 2005-2011 as the sample. This study will analyze semi-strong form efficiency in Indonesian Stock Exchange in the period 2006-2016.
2. Sample of this study will be companies listed in IDX who conduct stock split during observed period.

3. This study will adopts the methods used in earlier researches. Cumulative Abnormal Return developed by Fama et al. (FFJR) in 1969 is used to calculate the abnormal return, while to find the distribution type of securities prices, researcher will use Shapiro-Wilk normality test. As next steps, parametric test which will be applied if all data are normally distributed is paired sample t-test. In another side, Wilcoxon Signed Ranks Test will be applied if all data are not normally distributed.

1.5 Benefits of Study

The benefits of this research study will be able to:

a. For Companies

Managers can understand the impact of stock split event on securities prices so they can make more proper financial decision.

b. For Investors

If a capital market is said as efficient, any new released information will affect securities prices immediately. Through this study, hopefully investors can understand when to invest in capital market in order to get good value of returns.

c. For Researcher

This research study can give a better understanding in part of financial aspect, which focuses on abnormal return and the impact of stock split announcement event to securities prices.

1.6 Research Report Outline

The explanation of this research study is divided into five chapters, and each of them will explain different parts of this research.

Chapter I: This chapter provides the introduction to the study which consists of research background, problem statement, research scope, research objective, and research report outline.

Chapter II: This chapter explains the theoretical background of efficient market hypothesis, signaling theory, and event study. EMH theory consists of market reactions to new information, the requirements of market efficiency, forms of market efficiency, also the implications of market efficiency. Besides theoretical background, this chapter also explains the research hypotheses.

Chapter III: This chapter provides information about the research design, population and sample used in this study, process of data collection, process of data analysis, also several methods used to analyze the data.

Chapter IV: This chapter presents hypotheses testing and explain about data result in the study.

Chapter V: This chapter explains the conclusion of study and suggestion for further research.