Bonus Share Issues and Announcement Effect in Indonesia Stock Exchange

Ani Pinayani
Universitas Pendidikan Indonesia, Jl. Dr. Setiabudhi 229, Bandung, Indonesia
ani_pinayani@yahoo.co.id

Keywords: Bonus Share, Trading Volume, Stock Return.

Abstract: The purpose of this study is to find out the bonus effect of stock announcement events on stock trading volume and stock returns in Indonesia Stock Exchange (IDX). The research method used in this study is event study. The research population consisted of companies that made the announcement of bonus shares for the period January 2001 - January 2013, the research sample was selected from 23 companies by using purposive sampling technique. Data analysis techniques to test the hypothesis using t-test with One-Sample Test, Paired-Sample Test and One-Way Anova Test. The result of the research shows that (1) The announcement of bonus shares has no effect the stock trading volume; (2) The announcement of bonus shares has no effect the stock returns; (3) The average value of trading volume of shares prior to the announcement of bonus shares is equal to after the announcement of bonus shares; (4) The average return value of shares prior to the announcement of bonus shares is equal to after the announcement of bonus shares; (5) The average value of stock trading volume is relatively the same among each industry sector that has announced bonus shares; (6) The average value of stock returns is relatively the same among each industry sector that has announced bonus shares.

1 INTRODUCTION

The results of research in Australian, Indian, Chinese, USA and Indonesia capital markets show some differences or gaps of research results, among others, the announcement of bonus shares supports signaling hypothesis means that the announcement of bonus shares shows a positive and significant price reaction by market participants (Balachandran and Tanner, 2001; Lukose and Rao, 2002). While the results of research Miller and Rock (1985), Mishra (2005), Suganda (2007) showed that the distribution of bonus shares provide a negative signal. This indicates that the publication of bonus shares is considered as an anticipative measure against the company's bad cash flow. The announcement of bonus shares based on the theory described by Miller and Modigliani (1961) shows that the company does not receive cash flow so that the company's financial position remains or does not change.

The results of Barnes and Ma (2002) research on the influence of bonus stocks on market reaction in China are counter to Miller and Modigliani theory (1961) the companies that distribute bonus shares with small ratios do not affect shareholder wealth while companies that distribute bonus shares with medium and large are tend to increase shareholder wealth.

The results of Ardiansyah's research (2002) showed a significant difference between stock trading volume before and after the announcement of bonus shares. The market responded negatively to the announcement of bonus shares indicated by the average trading volume of shares before the announcement is greater than the average trading volume of shares after the announcement of bonus shares. In the manufacturing industry, the market does not react to the announcement of bonus shares, while in the non-manufacturing industry, the market responds to the announcement negatively and significantly. Based on the pre-crisis period of 1993-1997, the market did not react to the announcement of bonus shares, while in the company that announced bonus shares in the crisis (1997-1999), the market showed a significant negative reaction.

The results of Lasrado and Rao research (2009) show that firms that distribute bonus shares with a 1:1 ratio are significantly reacted by market participants, while the ratio is 1:2, 2:1, and otherwise has no significant difference before and after the announcement of bonus shares.

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Signaling hypothesis explains that the announcement of bonus shares is a positive signal which is given by management to the public because the company is considered to have good prospects in the future (Megginson, 1997). Investors gave a positive response to the announcement of this bonus stock with the expectation of a larger return in the future. There are controversy between the theory with the results of the research mentioned above, the writer are interested in conducting further analysis of the effect of the announcement of bonus shares made by the company against the capital market reaction, especially against Volume of stock trading and stock return on Indonesia Stock Exchange.

Corporate action by sharing bonus shares will create different interpretations for each market participant. Bonus share distribution announcements can have both positive and negative information. The positive content of information occurs when investors respond to the information as a good signal because it assumes that a company with good prospects is able to distribute bonus shares to its shareholders. Negative information content occurs because investors think that companies are not able to distribute bonuses in the form of cash due to financial problems which is facing by the company. Corporate action is the activity of issuers that affected the number of shares in circulation and the stock price in the market (Basir and Fakhrudin, 2005).

The purpose of this research is to know (1) The effect of bonus stock announcement on stock trading volume and return value of shares in the company that make announcement of bonus shares during the event period; (2) The average difference between the stock trading volume before and after the announcement of bonus shares; (3) The average difference between stock returns before and after the announcement of bonus shares; (4) The differences in the average value of trading volume of shares of each industry sector during the period of bonus stock announcement events; (5) Differences in the average return value of shares of each industry sector during the period of bonus stock announcement events.

2 METHODS

The method used in this research is Event Study. Testing information content is purposed to see the reaction of an event. If the announcement contains any information, then the market will react at the time the announcement is received. Market reaction is indicated by changes in stock prices. Investors always use the benchmark return is the comparison between the current stock price with the previous stock price. Especially in the event study that studies the specific event, the benchmark used is the abnormal return. The population in this study is a company listed on the Indonesia Stock Exchange which made the announcement of bonus shares for observation period from January 2001 to January 2013 as many as 42 companies. Samples of 23 companies were selected using Purposive Sampling technique. This research data is secondary data from IDX statistics, daily stock price list from www.yahoofinance.com, corporate action schedule from www.ksei.co.id. Data analysis techniques to test the hypothesis using t-test One-Sample Test, t-test Paired-Sample Test, and One-Way Anova Test.

Based on theoretical framework, hypothesis in this research are as follows:

1. The announcement of bonus shares influences the stock trading volume.
2. The announcement of bonus shares affect the stock return.
3. There is an average difference between the stock trading volume before and after the bonus stock announcement event.
4. There is an average difference between stock returns before and after the announcement of bonus shares.
5. There is a difference in the average value of trading volume of shares of each industry sector that announces bonus shares.
6. There is a difference in the average value of stock returns from each industry sector that announces bonus shares.

3 RESULTS AND DISCUSSION

3.1 Results Study

The object of this research is a company listed on the Indonesia Stock Exchange and announcement of bonus shares during the observation period from January 2001 to January 2013 of 42 companies. Based on sample selection which refers to Purposive Sampling technique, 23 companies are selected as sample because there are companies that do not meet the criteria.

Results of hypothesis testing 1 and 2 in Table 1 obtained the value of t -1.119 and -.512 with significance levels .275 and .614 (> .05) hypothesis testing results are not significant meaning the

Table 1: One-Sample Test Trade Volume and Stock Return

	t	df	Sig.
Trade Volume	-1.119	22	.275
Stock Return	-.512	22	.614

Information content in the announcement of bonus shares has no effect on stock trading volume and stock returns.

Table 2: Paired Samples Test Trade Volume and Stock Return

	Paired Differences				
	Mean	SD	t	df	Sig.
Volume	-7.07 E-2	.339	-1.00	22	.328
Return	-1.2 E-3	.049	-.119	22	.906

Results of hypothesis 3 testing in Table 2 obtained the value of t - 1,000 and the level of significance .328 (> .05). Hypothesis testing is not significant means there is no difference in average trading volume of stock before and after the event of bonus stock announcement. Result of hypothesis test 4 is obtained t -0,0119 and significance level of .906 (> .05) means there is no difference of stock return average before and after bonus bonus announcement event.

Table 3: Anova Trade Volume among Industry Sectors

TVA Saham	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.543	6	.757	.995	.428
Within Groups	257.109	338	.761		
Total	261.652	344			

The result of hypothesis testing of 5 in Table 3 obtained the value of F - .995 and significance level of .428 (> .05), hypothesis test result is not significant mean that the average value of trading volume of shares for the seven industrial sectors is identical or no significant difference The average value of stock trading volume among the seven industry sectors that make bonus share announcements.

Results of hypothesis testing 6 in Table 4 obtained value 1.919 and significance level .077 (> .05), the results of hypothesis testing does not significantly mean the average value of stock returns for the seven industrial sectors is identical or no significant difference in the mean value of return shares among the seven industry groups announcing bonus shares.

Table 4: Anova Return Stocks among Industry Sectors

Return Saham	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.010	6	.002	1.919	.077
Within Groups	.304	338	.001		
Total	.314	344			

3.2 Discussion

The results of hypothesis testing 1 shows that the information content in the announcement of bonus shares has no effect on stock trading volume activity. Although judging from the average trading volume of stocks rose and gave a positive signal.

The results of this study do not match the results of Balachandran and Tanner (2001) research, Lukose and Rao (2002) that support signaling hyphothesis that bonus stock announcements show positive and significant price reactions around the time of announcements, bonus stock announcements bring good information to the market.

The results of hypothesis 2 testing shows that the information content in the announcement of bonus shares has no effect on the returns. The result of the average of abnormal return of stock has increased during the observation period.

The results of this study were counter productive with Balachandran and Tanner (2001), but in accordance with Miller and Rock (1985), Mishra (2005) and Suganda (2007) found that bonus share distribution gave negative signals. When a company announces bonus shares, it does not actually change shareholder value. The announcement of bonus shares based on the theory described by Miller and Modigliani (1961) shows that the company does not receive cash flow so that the company's financial position remains or does not change. Companies that announce bonus shares based on this theory are rated negatively by the public. This indicates that the publication of bonus shares is considered as an anticipatory action against the company's bad cash flow.

The result of hypothesis test 3 shows that there is no difference of average stock trading volume before and after bonus stock announcement event. This happens because of the anticipated bonus announcement event bonus shares by investors.

The results of this study are counter to the results of Balachandran and Tanner (2001) research, Lukose and Rao (2002) that support signaling hyphothesis that bonus stock announcements show a positive and significant price reaction around the time of the announcement, bonus stock announcements bringing good information to the market. Results of this study also counter with the study Ardiansyah (2002) who found a significant difference between stock trading volume before and after the announcement of bonus shares.

Result of hypothesis 4 test shows that there is no difference of stock return average between before and after bonus share announcement event. This happens because of the investor has anticipated the bonus shares announcement event. Results of this study are appropriate and support the research of Miller and Rock (1985) that the distribution of bonus shares gives a negative signal. When a company announces bonus shares, it does not actually change shareholder value. The announcement of bonus shares based on the theory described by Miller and Modigliani (1961) shows that the company does not receive cash flow so that the company's financial position remains or does not change. Companies that announce bonus shares based on this theory are rated negatively by the public. This indicates that the publication of bonus shares is considered as an anticipatory action against the company's bad cash flow. This research is in accordance with the research of Lasrado and Rao (2009) found that firms that distributed bonus shares with a 1: 2, 2: 1 ratio did not have significant differences before and after the announcement of bonus shares, while companies that distributed bonus shares with 1: 1 ratio reacted Significant by market participants.

Results of hypothesis testing 5 shows that the average value of stock trading volume is relatively the same for the seven industrial sectors or there is no significant difference average value of stock trading volume among the seven industry sectors that make the announcement of bonus shares. Results of this study counter the results of research Balachandran and Tanner (2001) that supports signaling hyphothesis that bonus stock announcements show a positive and significant price reaction around the time of the announcement, bonus stock announcements bring good information to the market, bonus stock announcements bring good information to the market. The study was conducted in the Australian Capital Market with a sample of financial firms, non-financial and mining companies 1992-2000.The results of this study also counter with the study Ardiansyah (2002) who found a significant difference between stock trading volume before and after the announcement of bonus shares. The market responded negatively to the announcement of bonus shares indicated by the average trading volume of shares before the announcement is greater than the average trading volume of shares after the announcement of bonus shares. Results of this study are in accordance with Ardiansyah (2002) especially in the manufacturing industry, the market does not react to the announcement of bonus shares, while in the non-manufacturing industry, the market responds to the announcement negatively and significantly. Results of hypothesis testing 6 indicate that the average value of stock return is relatively the same for the seven industry sectors or there is no significant difference in average stock value among the seven industry groups that make bonus share announcements. Results of this study were counter to the results of Balachandran and Tanner (2001) research that supported signaling hyphothesis that bonus stock announcements showed a positive and significant price reaction around the time of the announcement, bonus stock announcements brings good information to the market. The existence of a positive abnormal return is only for non-financial companies and mining in contaminated or uncontaminated conditions. Results of this study fit and support the research of Ardiansyah (2002) found that in the manufacturing industry, the market does not react to the announcement of bonus shares, while in the non-manufacturing industry, the market responds to the announcement negatively and significantly.

4 CONCLUSIONS

The result of the research shows that (1) The announcement of bonus shares has no effect on stock trading volume; (2) The announcement of bonus shares has no effect the stock returns; (3) The average value of trading volume of shares prior to the announcement of bonus shares is equal to after the announcement of bonus shares; (4) The average return value of shares prior to the announcement of bonus shares is equal to after the announcement of bonus shares; (5) The average value of stock trading volume is relatively the same among each industry sector that has announced bonus shares; (6) The average value of stock returns is relatively the same among each industry sector that has announced bonus shares.

Based on the limitations of this study, for further research it is advisable: (1) Extend the observation period, the longer the observation period, the more number of companies will be used as research samples; (2) Group companies that make bonus share announcements with companies that do not perform stock splits to compare, in order to more clearly illustrate the effect of bonus share announcement decisions; (3) In subsequent research research can be extended by using research for similar industries only because similar industries have more similar properties; (4) Using control variables by dividing the two economic conditions the pre-crisis period 2007 and the crisis after 2007.

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