ABSTRACT

DIVIDEND SIGNALLING THEORY TESTING: ANALYSIS OF REACTION OF THE MARKET AND COMPANY PROFITABILITY TO THE ANNOUNCEMENT OF INCREASES CASH DIVIDEND

(Empirical Study In The Manufacturing Companies Listed on the Indonesia Stock Exchange)

BY

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The purpose of this study was to examine the information contained in the announcement of cash dividend increases by using the dividend signaling theory as a framework theory. This theory explains that dividend increases will make the market react positively when the markets tend to interpret that as a deemed dividend increase signals a bright light on the company's prospects in the future.

Variables used in this study were the dividend policy, market reaction and profitability. Dividend policy is measured by the Dividend per Share (DPS), the market reaction is measured with the Abnormal Return (AR) and using profitability ratios measure Return on Equity (ROE).

The population in this study was a manufacturing company listed on the Indonesia Stock Exchange (BEI) during 2007-2010. Based on purposive sampling technique obtained a sample of 19 companies. The analysis model used in this study was the event study approach. Tests on Abnormal Return (AR) used statistical tests one sample t-test testing one side while the Return on Equity (ROE) used statistical tests one-sided Wilcoxon signed ranks.

Based on the test result, there was a significant positive reaction around the announcement date of dividend increases and is followed by an increase in the company's future profitability around the announcement date of dividend increases. This supports the dividend signaling theory.

Keywords: Dividend Signalling Theory, Dividend Increases, Abnormal Return (AR), Return on Equity (ROE)