

Impact of Dividend Announcements on Stock Price in Emerging Stock Market: A Study of Colombo Stock Exchange of Sri Lanka

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Theoretically, there are numerous components which have predictable influence on share price of the company including company's performance, industry's performance, investors' sentiment and economic factors. Precisely the company's performance components include announcement on earnings, profits and dividends, and future estimated earnings that drive stock prices. These components help to improve the market efficiency of the company. This study focuses on impact of dividend announcement on share price and test market efficiency in emerging Stock market of Sri Lanka by using sample of 67 events from 25 major companies from those listed on the Colombo Stock Exchange (CSE) during the period of 2010-2014. The study employs event study methodology in examining the effect of dividend announcement on stock price surrounding the twenty days of announcement. The empirical results show that dividend announcement have a significant signal and information content in the Colombo Stock Exchange (CSE). The stock price reacts positively to dividend announcement day. The major finding of this study supported that CSE is semi strong form efficient resulting in the conclusion that investor can not earn an abnormal return by trading in stock following the dividend announcement day. Decision of investors in selecting shares may be influence by accounting information. But this study considers signaling effect of dividend announcement.

Keywords: *Dividend Announcement, Share Price, Event Study, Market Efficiency*

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