

Impact of Dividend Announcement on Share Prices of Listed Public Quoted Companies on ASPI in Sri Lanka

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The impact of dividend announcements on share prices has become a contentious issue in the extant literature over the years since it has not been sufficiently investigated. Further, it is evident that different results have been found in different studies. Hence, the objective of this research is to investigate the impact of dividend announcement on share prices and the informational content of dividend announcement pertaining to the listed companies in Sri Lanka. A sample of 15 companies from ASPI was selected on purposive sampling method for the study. The daily closing stock prices and published first and final dividend announcements data for the period from 2014 to 2018 were used as the dependent variables and independent variables respectively. The standard event study method was employed as the methodology. The Ordinary Least Square Regression Model was used to ascertain alpha (α) and beta (β) of sample companies for event window for the years of 2014-2018. Subsequently, the Market Model was applied to compute the Excess Returns, Abnormal Returns, and t-values surrounding the testing period. The findings confirmed that t- values of Average Abnormal Returns on days for year of 2014-2017 were statistically significant at 5% except for the AARs on days in 2018. Finally, the dividend announcement also showed a substantial impact on share prices based on the descriptive analysis of overall years from 2014 to 2018. Thus, the conclusion of the study reveals that the dividend announcement leads to a positive market reaction by supporting the signaling theory. Furthermore, the results show that dividend announcement has informational content whereas dividend announcement is perceived as favorable news by the investors. This study may specially be useful to prospective investors to make decisions aligning with the dividend announcement pertaining to the listed corporate firms in Sri Lanka. Finally, this study recommends expanding event window or time period pertaining to further studies.

Keywords: *Abnormal returns, ASPI Companies, Dividend announcement, Information content, Share prices*

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