

Impact of Dividend Announcement on Share Prices in Colombo Stock Exchange

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ABSTRACT

Introduction: Dividend announcement plays a potential role in seeking investment by various investors. Investors who are interested in buying shares primarily consider stock price, risk, leverage, company dividends, profitability, and other factors. The share price is very important to make a decision regarding buying and selling shares. As well as the Dividend announcement is a crucial factor influencing investor decision-making. This study was undertaken due to the inconclusive findings regarding the impact of dividend announcement on share price in the Sri Lankan context.

Design/Methodology/Approach: The standard event study methodology was used to examine the stock market response to dividend announcements for the event period of 21 days which is 10 days prior to the announcement date, 10 days after the announcement date, and the announcement date. Both event study method and regression analysis methods were applied to analyze collected data in relation to computing the abnormal return, excess return, cumulative average abnormal return, and t values surrounding the dividend announcement day.

Findings: The finding shows that Dividend Announcements lead to positive market reactions towards Market Prices in the Colombo Stock Exchange.

Conclusion: When using the descriptive analysis, the dividend announcements show a significant impact on the share prices. As a result, it can be concluded that dividend announcements lead to positive market reactions.

Keywords: *Dividend announcement, Stock Prices, Abnormal Return, Colombo Stock exchange*