

The Relationship between Dividend Policy and Share Price Volatility: A Comparison between the Sri Lankan Banking Sector and Diversified Financial

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Abstract

This study aimed to investigate how dividend policy affects the share price of the Sri Lankan banking sector and diversified financial markets for the period 2018–2022. This study mainly focuses on dividend decisions, as they are considered a significant factor in examining the share price volatility of a company. Shareholders' wealth directly relates to the value of the firm, measured using the market price of shares. There are thirty (30) banks and sixty-six (66) diversified financial sector companies. The study is based on a sample of twelve (12) listed licensed commercial banks, two (2) listed licensed specialized banks under the banking sector, and the diversified financial sector, which selected eighteen (18) licensed finance companies considering market capitalization. This research used secondary data and data taken from the annual reports during the six years (2018–2022). The independent variables are dividend payout ratio, dividend yield, and dividend per share. The dependent variable is share price volatility. Panel data was used to analyze the impact of dividend policy on firms' share price volatility in the Sri Lankan banking sector and the diversified financial sector. Dividend payout ratio, dividend yield, and dividend per share have a significant positive impact on share price volatility in the banking sector. Dividend payout ratio, dividend yield, and dividend per share have a significant positive impact on share price volatility in the diversified financial sector.

Keywords: Dividend Payout, Dividend Yield, Dividend Per Share, Share Price Volatility, Banking Sector, Diversified Financial Sector