Impact of Corporate Dividend Policy on Share Price Volatility of Listed Companies in Colombo Stock Exchange

R.A.D.N.Nuwani

Department of Finance, University of Kelaniya, Sri Lanka

nuwaninadeesha@gmail.com

Abstract

The purpose of this research is to investigate the impact of dividend policy on share price volatility in Colombo Stock Exchange (CSE). A sample of 83 listed companies in non-financial sector from CSE is examined using multiple regression models for a period from 2012 to 2014. The key dividend policy measures are dividend yield and dividend pay-out which are explanatory variables of the study after controlling for asset growth, company size, financial leverage and earning volatility. As per the regression analysis, only 14% of the movements in share prices are explained by the dividend yield and dividend pay-out. Dividend yield presents significant positive impact on share price volatility by indicating shares of large dividend paying companies are more risky to hold as an investment. Company size shows significant positive influence on share price volatility by indicating greater the size of companies share price volatility is high. Other explanatory variables of dividend pay-out, asset growth, financial leverage and earning volatility are insignificantly influence on share price volatility. As per the overall findings it can concluded that dividend policy has an impact on share price volatility in Sri Lankan context. Corporations have an ability to use the corporate dividend policy as a controlling mechanism to control share price volatility which best suit for their future targets. The findings of the research are support for the dividend relevance theory.

Keywords: Share price volatility, Dividend yield, Dividend pay-out, Non-financial sector.