

Relationship Between Dividend Policy and Volatility of the Share Price: Evidence from Sri Lanka

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Abstract

In corporate finance literature, dividend policy is always a controversial factor and Firm's value and shareholders' wealth are directly impacted by it. It is revealed from various researches that the relationship between dividend policy to Share Price reflect in conflicting results. However, there are no any specific indicators among researchers to depict the relationship between dividend policy and share price. So, the aim of this study was to examine the relationship between dividend policy and Volatility of the Share Price (VSP) in the Colombo Stock Market (CSE). This study was carried-out to cover the time gap of empirical evidence and lack of literature reviews in the Sri Lankan context. This research also discussed certain theories and determinants of dividend policy, as well as theories of risk and dividends. The VSP is regressed against the six independent variables namely dividend yield, dividend payout, earnings volatility, firm size, long term dept and growth in assets. The data applied for the study consist of 244 Companies listed in CSE which were selected during a period of five years between 2014/15 and 2018/19, which makes up 1220 company-year observations. In order to explore the association between VSP and independent variables, six hypotheses have been developed. The results of this study will suggest to the Firms in Sri Lanka how to maintain a dividend policy that will fit existing and prospecting investors. Also, this study will help to fill the empirical gap prevailing.

Keywords: Colombo Stock Market (CSE), Dividend Payout, Dividend Policy, Dividend Yield, Volatility of the Share Price (VSP).