

Impact of Dividend Policy on Share Price Volatility in Listed Companies in Sri Lanka

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Abstract

The inherently dynamic and attractive financial sector is shaped by various factors that affect the performance and stability of global financial markets. One critical determinant is the dividend policy of listed companies, a primary factor affecting corporate finance and stock valuation. This study examines the complex landscape of dividend policy in Sri Lanka's emerging stock market, its impact on stock price volatility. The objective in this research is to examine the impact of dividend policies on the stock price volatility of listed companies in Sri Lanka. The research traces the evolution of dividend policy from the seminal work of Lintner in 1956 and the seminal contributions of Modigliani and Miller in 1961. Focusing on Sri Lanka, the study aims to explore the relationship between dividend policy and stock price volatility. Dividend payout ratio and dividend yield are chosen as independent variables and stock price volatility is chosen as the dependent variable. The basis of this research is the data obtained from the carefully examined annual reports of 30 selected publicly listed companies on the Colombo Stock Exchange (CSE). Using a purposive stratified sampling methodology, the study investigates the complex interplay between dividend policy and stock price volatility in the context of Sri Lanka's financial sector. Findings supported by descriptive statistics, correlation analysis and regression results contribute to subtle insights. The observed negative correlation between dividend payout ratio and stock price volatility is consistent with expectations, indicating that higher dividend payouts can stabilize stock prices. Similarly, the negative correlation between dividend yield and stock price volatility supports the view that higher dividend yields are associated with lower volatility. Regression analysis confirms these relationships, underscoring the importance of dividend policy in influencing stock price volatility in Sri Lanka. While consistent with established literature, the study also highlights unique features of the Sri Lankan market that call for context-specific analyses. The results provide a valuable basis for further research and practical implications for understanding the dynamics of dividend policy and stock price volatility in Sri Lanka.

Keywords: Dividend Policy, Share Price Volatility, Dividend Yield, Dividend Payout Ratio