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Impact of Dividend Announcements on Share Prices: Evidence from Material Sector Companies Listed on the Colombo Stock Exchange

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ABSTRACT

Purpose: Dividend announcements play a significant role in the financial market as it provides important information to investors regarding the financial health and future prospects of a company. The major aim of the study is to investigate the impact of dividend announcement on share prices and the informational content of dividend announcements pertaining to the listed material sector companies in Sri Lanka.

Design/Methodology/Approach: A sample of 21 companies from the material sector was selected for the study. The daily closing stock prices and first and final dividend announcements for the period from 2017 to 2021 were used as the dependent variables and independent variables respectively. The event study method was employed to reach the findings.

Findings: The findings of the study reveal that the dividend announcement leads to a positive market reaction and it supports the signaling theory. This study will be particularly useful to prospective investors in making decisions aligned with the dividend announcement pertaining to listed material sector firms in Sri Lanka.

Originality: This study intends to examine the market reaction to dividend announcements specifically for material sector firms listed on the Colombo Stock Exchange in Sri Lanka, while previous studies have explored the signaling theory and market reactions to dividend announcements across all sectors in Sri Lanka. Further, it is unique in that it analyzes data collected during an abnormal situation in the country.

KEYWORDS

Abnormal return,
Colombo Stock Exchange,
Dividend announcement,
Event study, Share prices



JEL CLASSIFICATION

G14

I. Introduction

Maximization of shareholders' wealth is the ultimate financial goal of the companies. Therefore, managers strive toward this financial goal through their choices of investments, financing, and dividends. The financing decision focuses on selecting a capital structure that would lower the firm's cost of capital and raise its value. Investment decisions are related to selecting projects with positive net present value. Dividend decision belongs to the concept that management must periodically determine whether to distribute earnings to

shareholders as dividends in order to reduce the agency problem. Dividend is a key element in the financial profile of the company and the primary force behind price changes. Its steady rise over the long run makes it a good indicator of the company's valuation and a source of total return for investors. One of the most crucial financial policies is the dividend policy, which is viewed from the perspectives of the company, shareholders, customers, employees, regulatory agencies, and the government. It acts as the center of gravity for the business, around which all other financial policies revolve. Dividends have a

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big impact on the value of corporate shares. Thus, they should be properly taken into account when choosing the company's financial structure. As a result, investors will focus on particular information that the company discloses Saragih (2015). The stock price movement in a stock exchange is the only source of information about a company's internal state. Therefore, dividend announcements are crucial bits of information, this requirement helps investors to make decisions about whether to purchase or sell these shares (Hariyanto and Murhadi, 2021).

The signaling theory states that the release of dividends serves as a signal for investors to project company profitability, which in turn affects short-term price fluctuation. A common practice among investors is to track changes in dividend distributions, viewing them as either good or negative indicators. According to the research done by Mubaraq (2013), a rise in dividend payments over the previous year was viewed by the market as an indication of improvement in investor expectations regarding future corporate profitability. Investors see dividend payments that are lower than they were a year ago negatively, believing that the company's profitability would diminish (AlQudah and Yusuf, 2015; Gebka and Wohar, 2019).

Numerous studies were carried out to examine the impact of dividend announcements on share prices around the globe under the theories behind this concept. However, the findings are unclear due to the inconsistent nature of the results. According to Harbi and Bujang (2016), there is still no agreement regarding the impact of dividend declaration on share prices in developed and emerging markets. The stock markets of established and emerging countries behave differently for a variety of causes and logical reasons. The markets in industrialized nations are extremely receptive to information, liquid, and responsive. However, the stock markets of emerging nations displayed unusual behavior, which

mostly appeared unsophisticated and illiquid, the poor performance of laws and regulations, and various operational and institutional tactics (Osei, 2002).

Limited research has been discovered in Sri Lanka to examine the impact of dividend declaration on share price movement. Pathirawasam (2009) asserted that Sri Lanka had a higher price reaction to dividend announcements than the other countries based on his study done to examine the relationship between dividend announcements and share price changes of the companies listed on the CSE using the data collected from 1998 to 2007. Dharmarathne (2013) carried out a study by employing the data of 27 stock dividend announcements of the companies listed on the CSE for the period from 2004 to 2014 and revealed that share price is impacted by dividend announcements. However, Dedunu (2018) conducted a study to investigate the impact of dividend announcements on the share prices of listed companies on the CSE for the period from 2016 to 2017 using the data extracted from 45 companies and found that dividend announcements do not have positive or negative market reactions towards share price in CSE. Existing studies have yielded conflicting results. Further, most of the researchers considered overall companies regardless of particular sectors listed on the CSE for their research.

Over the past five years, Sri Lankan businesses have faced numerous challenges due to unexpected circumstances such as the Easter Sunday attack, the COVID – 19 pandemic, political unpredictability, foreign intervention, volatility in foreign exchange rates, and economic crisis. These challenges have resulted in significant fluctuations in dividend distribution behavior between 2017 and 2023. In light of this, the purpose of this study is to investigate how dividend announcements impact the share price of Sri Lanka's material industry. The significance of the study is crucial for both investors and companies operating in this sector. This

study can help investors to make decisions regarding investment in material industry companies based on dividend announcements.

The material sector plays a crucial role in Sri Lanka's economic growth by providing employment opportunities, supporting infrastructure development, fueling manufacturing, increasing exports, attracting foreign direct investment, and effectively utilizing natural resources. Additionally, the sector is closely linked to the tourism industry and fulfills the domestic consumption needs of the population. However, in order to meet the growing demand and expand their businesses, material sector companies need to generate funds from investors. The findings of this study can provide guidance to material sector companies on strategic decisions related to dividend distribution and the potential effects on their share prices.

The following article is structured in the following order: an overview of the relevant literature, the data and methodology, the presentation of empirical results and their implications, and finally, the conclusions of the study.

II. Literature Review and Hypothesis Development

Theoretical Review

Numerous scholars in the past have formulated various theories to explore the relationship between dividend announcements and share price reactions. These theories provide frameworks for understanding how dividend announcements impact the valuation and behavior of share prices in the financial markets. Modigliani and Miller theory on dividend policy is in sharp contrast to the dividend relevance theory, which depicts that payouts have a major impact on a company's valuation. The Modigliani-Miller hypothesis was proposed in 1961 by Merton Miller and Franco Modigliani. They are the first to propose that dividends and capital gains are comparable

when considering returns on investment. Profits are the only thing that influences a company's valuation and are a direct result of its investment strategy and long-term prospects. This hypothesis states that after learning about the investing philosophy, an investor will not be interested in learning more about the dividend history of the company. Consequently, the choice to invest is based on the company's investment strategy rather than its dividend policy. Information asymmetry between insiders (managers) and outsiders (investors) is the foundation of signaling theory. It claims that managers send signals to investors through the financial decisions made by firms to frighten them. It was first presented by Michael Spence in 1973. According to Karasek and Bryant (2012), the signaling hypothesis describes a company's management activity that tells investors how the management monitors the company's prospects. This could be a positive or negative signal.

In addition to that, the information content of the dividend hypothesis was initially proposed by Lintner (1956), then it was expanded by Fama et al., (1969). It is a firm-specific claim that states that managers utilize the dividend to transmit asymmetric information about the firm's potential future profitability. It provides a variety of information to market participants (Vazakidis and Athianos, 2010; Ngoc and Cuong, 2016). Further, it is clear that an increase in dividends conveys positive information while a drop-in dividend transmits negative information, and that will ultimately cause the market to learn about the firm's future prospects. Therefore, it might be stated that a higher dividend announcement causes positive news, which in turn motivates higher share prices, whereas a lower dividend announcement compels a decline in market prices due to bad prospects. According to Dasilas and Leventis (2011) and Mehndiratta and Gupta (2010), there is a favorable market response to dividend announcements even when they have an informational substance.

Empirical Review

Numerous empirical studies examined the association between dividend announcements and stock price changes in various periods and several countries; those have produced conflicting results. Ali, Mohamad and Baharuddin (2018) analyzed the capital market's response to the simultaneous announcement of dividends and earnings on the Malaysian Stock Exchange. They discovered that higher dividend announcements led to positive abnormal returns and lower dividend announcements led to negative abnormal returns, while dividend payments that remained the same earned normal returns. Thus, it was concluded that dividend and earnings announcements are crucial and serve as early warning signs of changes in the firm's prospects. A similar finding was revealed in another study done by Pournima and Huma (2021) in India employing event study methodology. They systematically reviewed the impact of dividend announcements on the stock prices of service providers listed in the National Stock Exchange of India and discovered that stock prices respond when a company announces a dividend, and this significant reaction within the event window results in abnormal returns. In addition to that, the findings of Chou et al. (2021) unveiled a robust connection between strong dividend signaling and market reaction. These findings were supported by their comprehensive study, which analyzed data from 358 companies listed in the Vietnamese Stock Market spanning the period from 2016 to 2018. Another researcher examined how stock prices behave following cash dividend announcement in the Indian equity market considering 3671 cash dividend announcements for the period from 2012 to 2019 in an emerging market and explored that abnormal stock return is generated immediately after the dividend announcements, however, this reaction is only temporary and prices of stock

consequently return to normal (Chatterjee et al., 2021).

Nevertheless, Alaeto (2018) supported the MM dividend irrelevance theory with the evidence of his study conducted on the London Stock Exchange by employing event study methodology using data of dividend announcements of 100 companies over a period of 5 years from 2010 to 2014. Nidar and Maraya (2021) carried out a study to analyze the reaction of returns to the announcement of dividends and revealed that there is no significant impact of dividend announcement on abnormal returns around the event period. According to Tahtamouni (2020), the majority of the banks' dividend payments in Nepal have little effect on stock prices. It might be difficult and unpredictable to forecast bank dividend policies as the financial sector is still growing slowly in the country. Based on the research findings, Kadioglu and Ocal (2015) concluded that the abnormal return and dividend per share had a bad association following the dividend announcement in the Turkish stock market. Further, it indicates that most investors started selling their shares after the announcement of the cash dividend to lower their tax obligations. As a result, there was a negative correlation between the dividend per share and the abnormal return following the division announcement.

In Sri Lanka, Manike (2014) examined the stock price response to dividend declarations in the Sri Lankan stock market from 2018 to 2012 utilizing event study methodology. The purpose of this study is to evaluate the semi-strong form market efficiency of the CSE and analyze the informational content of dividend announcements. Further, it indicated that the dividend announcement contains information, and the market reacts favorably on the day of the announcement. Mallawa et al. (2019) examined the relationship between dividend announcements and share price in the Sri Lankan financial market with 59 dividend announcements of 30 companies covering

the period of 2016 January to 2018 June by employing event study methodology. They discovered that there is a positive significant impact of dividend announcements on share price listed companies on the CSE, Sri Lanka. Sampath and Rasika (2023) investigated the stock price reactions to earnings announcements of listed banks and insurance companies on the Colombo Stock Exchange (CSE). In order to assess the informational value of earnings announcements and market efficiency, the event study method was used for selected 71 companies for the period of 2015 to 2019. The study conducted by Sampath and Rasika (2023) concluded that the market demonstrates an immediate positive response to favorable earnings announcements. This finding confirms that earnings announcements, particularly those conveying positive news, possess informational value for investors. A similar result was discovered by Sampath et al. (2023) who investigated the reactions of stock prices to earnings announcements of the companies listed on the Colombo Stock Exchange (CSE), Sri Lanka. The traditional event study method was applied to confirm the market efficiency and informational value of announcements. The findings suggested that investors react positively and swiftly to good news announcements while negatively and slowly to bad news. Further stated that the market had an abrupt response the day before the announcement of the positive news.

Dharmarathne (2013), Dissabandara and Samarakoon (2002), and Menike (2014) suggested that dividend announcements have a positive impact on share prices. These studies indicate that dividend announcements carry favorable information to the market. Additionally, it is important to note that these studies have taken samples from overall companies without considering specific sectors. However, Dedunu (2018) presents contrasting findings, demonstrating that dividend announcements do not have a significant impact on share prices as supported by the evidence uncovered in their

findings of the research conducted utilizing the data from 45 companies listed on the CSE for the from 2016 to 2017. These varying findings highlight the importance of further research to gain a comprehensive understanding of the relationship between dividend announcements and share prices in Sri Lanka.

According to the current literature, the prediction that dividend announcements have a significant effect on share prices formulates the basis for the development of the following hypotheses.

H₁: Dividend announcements significantly impact on share prices.

H₀: Dividend announcements do not significantly impact share prices.

III. Methodology

Population

Among the 20 sectors in the CSE under the Global Industry Classification Standard (GICS), the Material sector was chosen for this study. Although there are a total of 23 companies within this sector, only 21 companies satisfied the specific conditions and were consequently included in the sample. The sample selection process involved the implementation of the following three criteria, which were used by Dissabandara and Samarakoon (2002), Dedunu (2018), and Rupasinghe and Deepal (2022) for their study in Sri Lanka.

- I. The company should have been listed in the CSE throughout the research period.
- II. The daily share prices should be accessible, and the companies' shares should actively be traded in the market.
- III. From 2017 to 2021, the sample period, the corporation should have paid dividends regularly and without interruption.

Data Collection

The following secondary data was collected from CSE and are pertinent and trustworthy.

1. The final dividend announcement dates for each company within the selected sample were retrieved from publicly available sources, specifically the CSE data library and website and covered the period from 2017 to 2021.
2. Daily adjusted closing prices of each company's final dividend announcements around each announcement day during the test period.
3. Value of the ASPI for event window day from 2017 to 2021.

According to Dharmarathne (2013) During the data collection process, the researcher diligently addressed the potential impact of capital-based data, specifically the dates of

bonus issues and ex-bonus dates. Special attention was made to remove or account for these factors to minimize their influence on the results of the study.

1. Announcement dates of right issue, rate, and right share price, price of ex right and date of ex right.
2. Announcement dates of the new issue, issue price, number of new shares issued, immediately prior to newly issued number of shares outstanding, quoted date and price before the quoted date.

Conceptual Framework

Based on the empirical review, a research model was formulated to answer the research question. The model is presented below demonstrating the relationship between the variables.

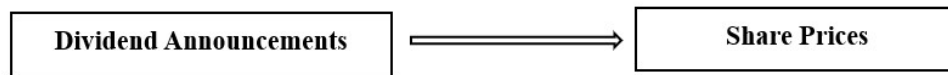


Figure 1. Conceptual Framework

Method of Analysis

The event study approach which was utilized by Dissabandara and Samarakoon (2002), Menike (2014), Dedunu (2018) and Rupasinghe and Deepal (2022) is employed to analyze the data in this study. The market model is utilized to estimate the Abnormal Returns (ARs) of the selected companies for the event period of 2017- 2021, ARs are computed separately for each day. The study used a 21- days short event window with 10 days before (t-10) and 10 days after (t+10) the dividend announcement date. Most of the previous researchers (Halife and Karroum, 2023; Nii 2018; Abbas, 2015) used a similar event window in their study. Moreover, Rupasinghe and Deepal (2022) used an event window with 5 days before and 5 days after the date of announcement

and suggested employing an expanded event widow in further research. The CSE does not have data on share returns on a daily basis. Therefore, according to Dissabandara and Samarakoon (2002), ASPI was used as market indices in the event window during the testing period and daily share prices were utilized to compute daily share returns (Rit) and market returns (Rmt).

Initially, the study estimated the alpha (α) and beta (β) coefficients for the sample firms during the event window from 2017 to 2021 using Excel INTERCEPT (alpha) and SLOPE (beta) Functions. In this estimation, the dependent variable was the daily share returns (Rit), while the independent variable was the market returns (Rmt). The Excel-derived alpha and beta values were then utilized to determine the Expected Returns

(ERs), Abnormal Returns (ARs), and Average Abnormal Returns (AARs) for the study. Additionally, the market model was employed to calculate the t-statistics of the event window, and a one-sample t-test with a significance level of 5% was used to assess the statistical significance. The associated t-values of the AARs were utilized to draw

conclusions from the study. A similar analysis was used by previous researchers (Rupasinghe and Deepal, 2022; Hannon et al., 2016; Nii, 2018) to test the hypothesis to determine whether or not the values of AAR hold a significant statistical difference between share price before and after the announcement date.

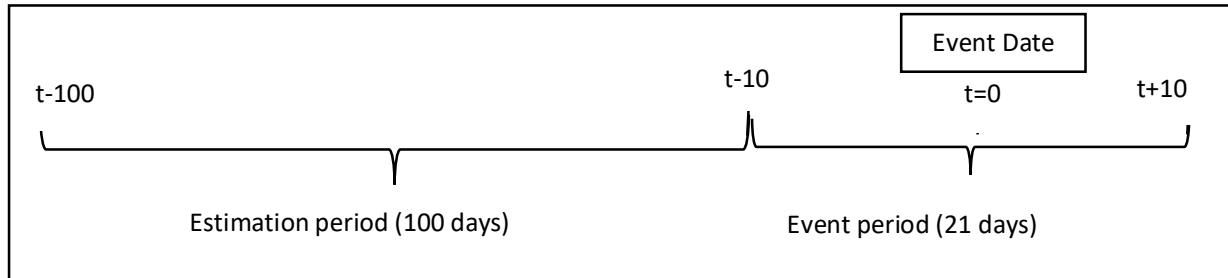


Figure 2. Event and Estimation window

Measurements of the variables

Table 1. Measurements of Variables

Variables	Measurements
01 Daily Share Return (Rit)	$Rit = \frac{Pit - Pit-1}{Pit-1}$ Pit : Closing share price on day t (Current day) Pit -1: Closing share price on day Pit-1 (Previous Trading Day)
02 Market Return (Rmt)	$Rmt = \frac{ASPIit - ASPIit-1}{ASPIit-1}$ ASPIit : ASPI for day t (Current Day) ASPIit-1: ASPI for day t-1 (Previous Trading Day)
03 Expected Return (ERit)	$E(Rit) = \alpha_i + \beta_i * Rmt$ α_i : The estimated market model intercept (alpha) of stock i β_i : The estimated market model systematic risk (Beta) of stock i Rmt : The rate of return of the market on day t
04 Abnormal Return (ARit)	$ARit = Rit - E(Rit) + eit$ Rit : Actual Return on share i on day t E(Rit) : Expected Return on share i on day t eit : The Regression error term of stock i on day t (Standard error term)
05 Average Abnormal Return (AARt)	$AARt = \frac{1}{N} \sum_{i=1}^n ARit$ N : Number of events in the sample

06	Cumulative Average Abnormal Return (CAARt)	$CAARt = \sum_{t=1}^T AARt$ T : Number of days AARt : Average abnormal return on day t
07	Significance of AARs for event window period is assessed using t-statistics at 5% significance level. H0 - Mean of AAR = 0 H1 - Mean of AAR \neq 0	$T(AARt) = \frac{AARt}{SE(AARt)}$ $SE(AARt) = \frac{1}{N} \sigma(AARt)$ SE (AAR t) : Standard Deviation of AARt N : Number of sample σ (AARt) : Standard Deviation of Art

Source: Rupasinghe and Deepal (2022)

IV. Data Analysis and Discussion

This study intends to examine the hypothesis based on the values of Average Abnormal Returns (AARs) and t values of AARs. The market has created the following significant

reactions on an individual year basis. (Significance at 0.05 level = critical value 1.96)

Result of t- value of AAR for Individual Years

Table 2. Result of t- value of AAR for Individual Years

Event	2017	2018	2019	2020	2021
t-10	-0.1538	0.4970	-0.1195	-0.2874	-0.0848
t-9	0.1188	-0.3910	1.3630	-0.0664	-1.3178
t-8	0.6112	0.5706	-0.7969	-0.0039	-1.5642
t-7	-0.0828	1.1646	2.8597**	0.7055	-0.9236
t-6	-0.2386	0.0954	0.9975	1.2391	-0.5249
t-5	-0.1090	1.7632	1.3411	1.3369	-0.8109
t-4	-0.6138	0.0644	-1.4879	0.5010	-1.7512
t-3	1.9745**	0.2453	0.5659	0.5832	-1.6626
t-2	0.1592	-0.3260	1.2370	0.1351	-0.0712
t-1	0.5311	-0.5365	-0.3946	0.3328	-2.0057**
t-0	2.2786**	2.6199**	2.2539**	1.9252	1.6918
t+1	-1.1009	-1.2821	-1.1640	-0.1323	1.8532
t+2	-0.6935	2.0934**	-0.9032	0.0802	2.5282**
t+3	-0.5255	-2.2115**	-6.7526**	0.0801	2.6438**
t+4	0.1600	1.7313	3.2198**	0.5427	3.6209**
t+5	-1.2146	2.8941**	2.0376**	0.5011	1.7663
t+6	1.9880**	-2.0782**	1.4149	0.0041	3.3625**
t+7	-0.6113	-0.3396	-0.2492	1.4182	2.0908**
t+8	1.4709	0.6973	0.5898	0.2172	1.9618**
t+9	-0.3703	0.2481	-0.1215	-0.1313	3.7606**
t+10	1.3841	0.2365	1.0363	-0.1812	4.3228**

Source: Survey data

The findings for the year 2017 analysis indicate that the t-values of AAR are statistically significant on days t-3, t-0, and t+6. The values exceed the critical value of +/- 1.96 which corresponds to a significance level of 0.05. Thus, it depicts that alternative hypothesis is supported by the findings. This suggests that the market reacted significantly on the day prior to the announcement, on the announcement date itself and the day following the dividend declaration. For the year 2018, the analysis revealed that the t value of AAR is statistically significant on the event day (t=0) as well as on days t+2, t+3, t+5 and t+6 indicating that the market responded both on the day of the announcement and several days following the dividend declaration. The results for the year 2019 indicate that the market exhibited reactions both before and after the event. A statistically significant reaction is observed on day t-7, which suggests that there may have been leaked insider information prior to the official announcement. Other days in the pre-event period did not show significant reactions. However, significant reactions are identified on the day of the event (t=0) and the subsequent days in the post-event period (t+3, t+4 and t+5). The findings for the year 2020 indicate that the t-value of AAR is not

statistically significant during the event window period. However, the event day itself generated a higher t value of AAR (1.9252) compared to other days. This suggests that the announcement of the dividend does not come as a surprise to investors. It is possible that other external factors, such as economic, social, and political considerations, as well as agent activities apart from dividend announcements, influenced the share price. The findings for the year 2021 indicate that during the pre-event period, the t-values of all the AAR are negative, with only the t-value for one day prior to the announcement being statistically significant. In the post-event period, significant reaction of the market is observed on most days except for t+1 and t+5, where ARR are not statistically significant. This indicates a notable market reaction following the announcement. Interestingly, no significant reaction occurred on the event day itself, suggesting that the dividend announcement does not have an immediate impact on the share price.

One sample t test for individual years

Table 3. One sample t test for individual years

		One Sample t Test					
		Test Value = 0					
		t	Df	Std.Dev	Mean	95% Confidence Interval of the Difference	
						Lower	Upper
2017	AAR	-0.265	20	0.0089	-0.0005	-0.0045	0.0035
2018	AAR	1.080	20	0.0142	0.0033	-0.0031	0.0098
2019	AAR	0.727	20	0.0248	0.0039	-0.0073	0.0152
2020	AAR	0.715	20	0.0861	0.0596	0.0204	0.0988
2021	AAR	3.171	20	0.0116	0.0018	-0.0034	0.0071

2021 AAR 3.171 20 0.0116 0.0018
-0.0034 0.0071

According to the result of one sample t-test presented in the above table, the dividend announcement does not have a significant impact on share prices in 2017, since the t-

value (-0.265) is lesser than the critical value of +/- 1.96, which corresponded to a significance level of 0.05. It leads to the rejection of the alternative hypothesis for 2017. For the year 2018, the analysis revealed that the t-value (1.080 < 1.96) does

not indicate a significant impact on the dividend announcement on share prices, leading to the acceptance of the null hypothesis for the year. Additionally, the t-values from one sample t-test for 2019 and 2020 (0.727 and 0.715, respectively, both < 1.96) also indicated that the announcement

of the dividend declaration does not have a significant impact on share prices. Therefore, the null hypothesis is accepted for both 2019 and 2020. However, the t-value (3.171 > 1.96) depicts a significant impact of the dividend announcement on share prices in 2021.

Table 4. Result of AAR, T(AAR) and CARR for overall years

Event	AAR	T(AAR)	CARR
t-10	-0.0078	-0.2726	0.0390
t-9	-0.0014	-0.0506	0.0375
t-8	0.0001	0.0033	0.0376
t-7	0.0305	1.0642	0.0681
t-6	0.0381	1.3285	0.1062
t-5	0.0660	2.3035**	0.1722
t-4	0.0079	0.2759	0.1801
t-3	0.0204	0.7121	0.2005
t-2	0.0092	0.3216	0.2097
t-1	0.0050	0.1741	0.2147
t-0	0.0773	2.6986**	0.2920
t+1	-0.0114	-0.3987	0.2806
t+2	0.0046	0.1605	0.2852
t+3	-0.0197	-0.6886	0.2655
t+4	0.0984	3.4338**	0.3638
t+5	0.0179	0.6236	0.3817
t+6	0.0019	0.0677	0.3837
t+7	0.0752	2.6249**	0.4589
t+8	0.0059	0.2055	0.4648
t+9	-0.0010	-0.0366	0.4637
t+10	0.0015	0.0525	0.4652

Significance level 0.05**

To obtain a comprehensive understanding, it is necessary to integrate the impact of dividend announcements on share prices across all firms for selected five years together. In the post-announcement period, the t-value of AAR on day t-5 (2.3035 > 1.96) is statistically significant. This finding is consistent with the result of Chavali and Nusratunnis, (2013). The event day (t-0) exhibited statistically significant results with a t-value of 2.6986. This suggests that the dividend announcement provides valuable information to market participants, resulting in an immediate reflection of share prices. The highest t-value for AAR is 3.4338, corresponding to three days after the event date, and this was also found to be

statistically significant. Furthermore, day t+7 shows statistical significance with a t-value of 2.6249. This delay in reaction may be attributed to investors' limited knowledge and delays in disseminating information throughout the market (Menike, 2014; Dharmarathne, 2013). The AARs, as well as the CAARs, are mostly positive for all companies except for the AARs on days t-10, t-9, t+1, t+3, and t+9, which have negative values. This suggests that the market reacts positively to the dividend announcement on the event day and in the periods before and after the event for the selected window from 2017 to 2021. These results are consistent with the literature, indicating that dividend announcements

serve as a means of conveying information to the market, leading to a positive response and support for the signaling theory. As per the findings, both the values of AAR and CAAR demonstrate that the announcement of dividends has a statistically significant

impact on share prices. The market reacts before and after the event, and investors positively respond to the news, confirming the value of dividend announcements as an information dissemination mechanism.

Table 5. One Sample t Test for overall Years

One Sample Test						
Test Value = 0						
	t	df	Std.Dev	Mean	95% Confidence Interval of the Difference	
					Lower	Upper
AAR	2.8001	20	0.3261	0.0199	0.0050	0.3477

The overall t-value of 2.8001 exceeds the significance level of 0.05 (critical value = 1.96), indicating that the dividend announcement has a favorable impact on the stock performance of the selected companies throughout the research period. These results align with previous studies conducted by Rupasinghe and Deepal (2022), Nii (2018),

Hannon et al. (2016), Menike (2014), Dharmarathne (2013) and Dissabandara and Samarakoon (2002).

Patterns of AAR and CAAR for the year 2017-2021

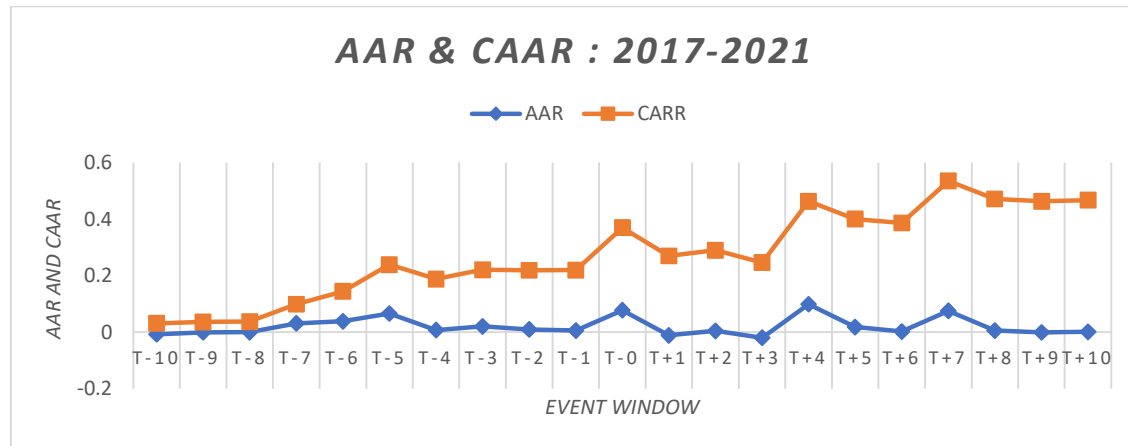


Figure 3. AAR and CAAR trends for the year 2017-2021

The above line chart illustrates that, during the event period, there are fluctuations in the trend that coincide with important announcements or developments related to the event. These fluctuations indicate that the market is highly responsive to any new information or updates. Additionally, after the event, there is typically a return to the baseline trend, indicating that the initial reaction was temporary and the market has

absorbed the event's impact. Overall, the trend suggests that the event has a significant impact on market sentiment and investor behavior, at least in the short term.

Conclusion

This study aimed to investigate the impact of dividend announcements on the share prices of listed material sector companies in Sri

Lanka. Data were collected for the selected material companies listed on the Colombo Stock Exchange (CSE) from 2017 to 2021. The empirical results of this study indicated that dividend announcements have a positive market reaction, supporting the signaling theory. Financial managers of material sector firms can utilize the findings of this study to shape future dividend policies, while financial experts can offer services to develop optimal dividend policies. This research also contributes to the understanding of the impact of dividend announcements on share prices for future researchers and students interested in the subject. Investors can consider the favorable market response observed in this study as an indication of potential investment opportunities. Dividend announcements can be used as a signal to evaluate the financial health and future prospects of material industry companies. Furthermore, companies can strategically employ dividend announcements to attract investors, enhance shareholder value, and improve market perception of their financial performance. The study emphasizes the importance of careful planning and effective communication of dividend policies to elicit favorable market reactions, ultimately contributing to the overall growth and success of material industry companies.

However, it is important to consider the limitations of this study. One key drawback is related to the timing of dividend announcements. Some of the listed corporations did not regularly announce final dividends without any breaks, which could impact the results. Additionally, the reliance on past data may not accurately reflect future economic conditions, as they are constantly changing. Future studies could explore alternative methodologies, sample sizes, or industry-specific analyses to reconcile any contradictory results and provide a clearer understanding of the impact of dividend announcements on share prices in the Sri Lankan context.

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