The Impact of Dividends Announcement on Share Prices of Public Quoted Companies in Sri Lanka

A Thesis submitted in partial fulfillment of the requirements
for the degree of Master of Commerce
at the University of Keleniya

By

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M.Com /2003 /07

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Master of Commerce Degree Programme
University of Kelaniya
Sri Lanka
October, 2007

Abstract

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In Sri Lanka, there is very less evidence related to dividend announcement and share prices available to financial planners. Even there is no guidance for financial managers to make dividend decision which is one of the most important decisions of financial management. Therefore this study definitely contributes to support to top management for their decision making of public quoted companies as well as investors, security market analysts and stock market regulators in Sri Lanka.

This study examines the share price reaction to dividends announcement by firm size and manufacturing versus non-manufacturing companies using a sample of 40 listed companies from different sectors of the emerging market of Colombo Stock Exchange (CSE) in Sri Lanka during the period from 2000 to 2005. Standard event study methodology of Brown and Warner (1985) is employed to find the results. The results show that positive Average Abnormal Returns (AARs) earn 90% of the window period and AARs is strongly significant at 1% level on the dividend announcement date. This study finds that dividends have a stronger signal and significant information content in the CSE. On average, market reacts positively to dividend announcement. Further the dividends announcement are stronger for manufacturing companies, non- manufacturing companies, smallest firms, third largest firms, and largest firms. The findings justify that information leakage is evident before the dividend announcement in manufacturing companies. We also find a considerable anticipatory effect for manufacturing companies, smallest size firms, third largest size firms, and largest size firms. The market takes considerable time to fully incorporate information contained in dividend announcements made by the non-manufacturing companies, smallest size firms, third largest size firms, and largest size firms. Overall, the results show that market is not informationally efficient and CSE is not efficient in the semi-strong form.