IMPACT OF DIVIDEND ANNOUNCEMENTS ON SHARE PRICE PERFORMANCE: EVIDENCE FROM SRI LANKAN LISTED COMPANIES

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ABSTRACT
The research analyses the share price performance of companies between the periods immediately prior and post their announcing of dividend announcement to have a better understanding of the relationship between dividend announcement and share price performance, which will be critical for every listed company. The impact of dividend was uncovered with the help of two variables; Actual Stock Return and the market return. The date of company announcements and daily share prices were extracted from Colombo Stock Exchange (CSE) data library. Data includes observations from 2016 January to 2018 June. The research method was event study method. According to the research findings, there is a positive significant impact from dividend announcements on share price performance in Sri Lankan listed companies. The contemporary existing ideology of positive impact between dividend announcement and Share Price in Sri Lankan financial market could be re-confirmed through the finding. As the practical implication of the research, strategic decision-makers may utilize the findings to ascertain equilibrium for profit distribution through dividends and retain profit for future investments in order to derive short term and long-term growth of the entity.

Keywords: Daily share Price, All share price index, Actual stock return, Market return, abnormal return, Cumulative abnormal return.

Introduction
The goal of a firm is to create the maximum value for its shareholders and is commonly expressed as the maximization of shareholder wealth or maximization of shareholder value, which will be quantified by virtue of long-run ordinary share price in the Secondary Financial Market i.e. Share price at CSE. Hence, it is vital to understand that, does the firm's dividend policy affects to the company's stock price before deciding whether they should distribute the earnings among shareholders, in the term of dividend or not. As much as distribution will result in increasing the cash flow of the shareholders whilst causing a reduction in financial resources of the firm. Many of the prior researchers in developed markets revealed that dividend announcements and stock market reactions are positively correlated. However, skepticism may prevail whether the payment of dividend would alter value of shareholders or Shareholders' wealth. "Are there any price reactions in CSE due to corporate announcement? Is the problem statement. To examine and evaluate if the announcement of dividend has any impact on the share price of the company and to establish the direction of the impact will be the core objectives. The effort is significant in a way that will bridge the literature on the value relevance of the dividend announcement in CSE.

Review of literature
For a long time, theoretical and empirical evidence has been accumulating pertaining to this study. Dividend relevant and dividend irrelevant is the main school available under theoretical background. "Subject to several assumptions, investors should be indifferent on whether firms pay dividends or not", was the key argument of Franco Modigliani and Merton Miller (1958, 1961) who were the fathers of MM theory, and were key figures in 19th century in dividend irrelevant school , whilst, "dividend is favorable and will lead to an increase in the wealth of shareholder through its influence on stock price", was the ideology of Bird in hand theory (Gordon, M., and Lintner, J, 1963, 1962; Modigliani and Miller, 1958, 1961). Additionally, "event study in economic and finance (Walter, 1963), which investigated the affect of publicly available information. It was investigated the effect of

publicly available accounting information to the market place using the market model and constant mean model was the main empirical evidence, it was found that there is a positive correlation between dividend declaration and share price. The significance of this relationship still remains for the argument and further researchers.

Numbers of studies have been done on dividend declaration & share price in Sri Lanka. It was analyzed by Abeydeera (1988) the relationship in between dividend policies of sri Lanka Companies and major economical variables such as GDP, treasury bill rates, inflation and money supply etc and it was concluded that there is a positive correlation and that positive correlation is significant than to dividend policies. Further, in between dividend policies and money supply growth, current GDP growth, and projected GDP growth, a positive significant connection exists.

A study on the relationship among company profitability and their dividend policies has been done by Gunasekara (2000) .The relationship between those two factors is significant. Further it was relevant that all contemporaneous including lag and lead earning per share (EPS) has a positive and significant relationship with dividend variables. On the contrary only one variable has very weak impact on dividend policies and its return on investment.

An investigation by Dissabandara (2001) found that the market reacted positively to announcement of dividend increase and negatively to the announcement of dividend decrease. For constant announcements, it did not show any significant reaction in CSE. Further, the results showed that some important differences between CSE and develop markets. The results of the overall sample clearly supported the dividend-signaling hypothesis. Finally, their findings showed that CSE did not support semi-strong form efficient market hypothesis.

There are various theoretical frameworks in related to dividend policies and different companies have different considerations when setting dividend policies. The relationships in between these two factors in the context of Sri Lankan companies were examined by Nandana & Samanthi (2000). The investigation concluded that there are specific factors that affect dividend policies and these factors are company profitability, Available investment opportunities, Method of financing, Lag and the Company Liquidity. It was also reported that companies are much keen on preference of investors for high yield of dividend information on dividend declaration at the time of formulating dividend policies.

The responses of announcement period price to stock dividend reported from 1998 to 2007 Sri Lanka were examined and empirical test was done by Pathirawasam (2009). In order to test the price reaction to stock dividend declaration, standard event analysis methodology was developed. Using another three models, Market model, Market deducted model and adjusted return model unusual returns are created. The information that provide alerts to hypotheses of stock dividends in Sri Lanka, were broadly tested by the study. There are major findings; over 10% of statistically significant average abnormal return on the declaration day was generated by all three models. Abnormal return on impair sample highly exceeded the pure stock dividend samples on the day of announcement. Abnormal return uncontaminated samples are statistically significant and much higher that the same reported on international studies. The preliminary stock dividend shows a higher stock price reaction that the price reaction of later stock dividends. Though, there is not a statistically significant from each of them. However providing the hypothesis is cored a clear positive relationship between the size of the stock dividend and abnormal returns on the event day were found. Even after the total sample for other contaminated information were controlled, that relationship was existed. Eventually it was revealed by pre and post stock announcement period cumulative return that in post announcement period that are no delays in relation to stock dividend declarations. In generally it is summarized that this study strongly supports the consistence of information signaling hypotheses with other developed markets. Further it was revealed that price reaction of Sri Lankan international level on the date event. Finally it was concluded that a semi strong form of efficient market hypotheses is supported by the CSE.

The efficiency of the information is another factor should be taken in to the consideration when dividend announcement is discussed .The stock price reaction to dividend announcement and the impact of information efficiency in Sri Lankan share market were examined by Dharmarathne (2013). Market model when creating abnormal returns surrounding ensuing dividend declaration were employed. It was revealed that a huge information content of dividend announcement on CSE exists. Dividend announcement is a favourable news for investors. On following dividend announcement in Sri Lankan share market, stock price positively impacts explicitly, dividend increase announcements aids the information content of dividend hypotheses. Further dividend reduction announcement and constant dividend announcements has a negative relationship with information content on dividend hypotheses. Moreover it was revealed that in general, the capital market adapts in a good manner to new information and the results in the study proved that the relationship between semi strong form of the efficient capital market hypotheses.

The stock price reaction to the Dividend declaration in the Sri Lankan stock market from 2018 to 2012 has been tested by Manike (2014). This study has been done with the aim of analyzing the information content of dividend announcement and providing the test of semi strong form market efficiency of CSE. In order to examine the stock price reaction on dividend announcement, standard event study methodology was used. The study concluded that the dividend announcement has information content and on the date of announcement, there is a positive market response. However the market response on the pre and post announcement, which means the Colombo stock exchange, does not confirm the semi strong form of market efficiency.

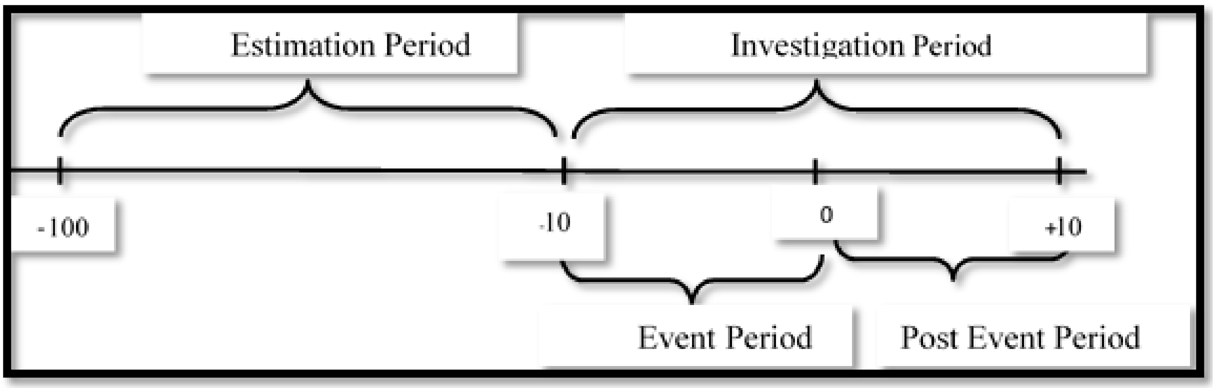
Methodology

Research data for this study is basically focused on the impact of the dividend announcement. Impact of dividend announcement is found out with the help of two variables which are Actual Return and Market Return derived from the daily share price and All Share Price Index (ASPI) respectively. The date of the company announcements, daily share prices, and ASPI were extracted from the CSE data library. Data include observation from 2016 January to 2018 June. After selecting overall sample, the daily closing price and ASPI were collected for selected period of past 111 days for each dividend announcement. According to the research objectives for further analysis each and every selected company's Earnings per Share (EPS) details were obtained via financial statements. As per Table 01, 59 dividend announcements for 30 companies from 12 sectors were selected as the sample of the research and were divided into 09 subsamples under the dividend direction and earning direction.

Table 01: Sub Samples

	Dividend Increase	Dividend Decrease	Dividend No Change	Total Events
EPS increase	15	9	7	31
EPS Decrease	10	9	9	28
No change	0	0	0	0

The basic research method used in this study is "Event Study Method". For the calculation of abnormal return during the investigation window, Actual Return and Expected Return were considered. The expected Return was calculated based on the data available during the estimation window.



On the basis of pre and post announcement date, a return on stock dividend announcement, average abnormal return and cumulative average abnormal return are calculated with the aim of analysis the market.The following formulas were used to calculate daily share return, market return, Expected return, and abnormal return. The study calculates daily share return for the sample of firms by using collected day-end prices. The daily share return of individual firms was calculated according to the following formulae.

$R_{it} = (P_{it} - P_{it-1}) / P_{it-1}$..Equation 01

Where, R it is Actual return on the share I on day t, Pit is the Closing price of share I at the end of day t and Pit-1 is Closing price of share I at the end of day t-1. Since the most popular market model used in estimating market returns, they are calculated using the formulae given below.

$R_{mt} = (ASPI_t - ASPI_{t-1}) / ASPI_{t-1}$........................Equation 02

Where Rmt is the Market return on day t, ASPIt is ASPI for day t and ASPIt-1 is ASPI for the day before day t. Once calculate the market return, next need to be required to calculate expected return to measure the abnormal return Therefore it requires to calculate expected return also for the test period using the following formulae.

E (R_{it}) = α_i - $\beta_i R_{mt}$..Equation 03

Where, E (Rit) is Expected a return on the share I in day t in the test period, αi is Estimated regression intercept of share I, βi is Estimated systematic risk of share I and Rmt are Return on the market portfolio. Here ά and β parameters are ascertained using the data for the estimation period through Ordinary Least-Square (OLS) regression. For this purpose 90 observations of previous daily share returns (from day t -11 today t - 100) were used. The abnormal return of individual firms was estimated according to the following formula.

AR_{it} = R_{it} – E (R_{it}) + e_{it}...Equation 04

Where, ARit is Abnormal Return on the share I in the test period, E (Rit) is Expected Return on firm I on day t in the test period and eit Standard error term. To get the overall view of share market reaction to dividend announcements, total sample of 59 events were tested. For this purpose the average return which was calculated for 59 events for the period from t-10 to t+10 are average across firms and t- statistics were calculated. The Abnormal Returns (AR) is the estimated impact of the event on the share price. It is computed as the estimated Expected Return (ER) subtracted from the actual return. After the calculation of Expected return and actual return, abnormal return needs to be derived for the test period of 21 days. In this study well-known market model was used to calculate the Abnormal Returns of shares around the test period (21 days test period).Following formulae were used for this purpose

$AAR_{it} = \frac{1}{n}\sum_{i=1}^{n} AR_{it}$. ....Equation 05

Where AAR it is Average abnormal return for day t, n is Number of events in the sample and ARit is abnormal returns of the firms during the event period. Finally, to measure the impact of changes in dividends on share prices need to be derived cumulative average abnormal return. CAARs were calculated using the following formulae.

$CAAR_{it} = \Sigma AAR_t$ ....Equation 06

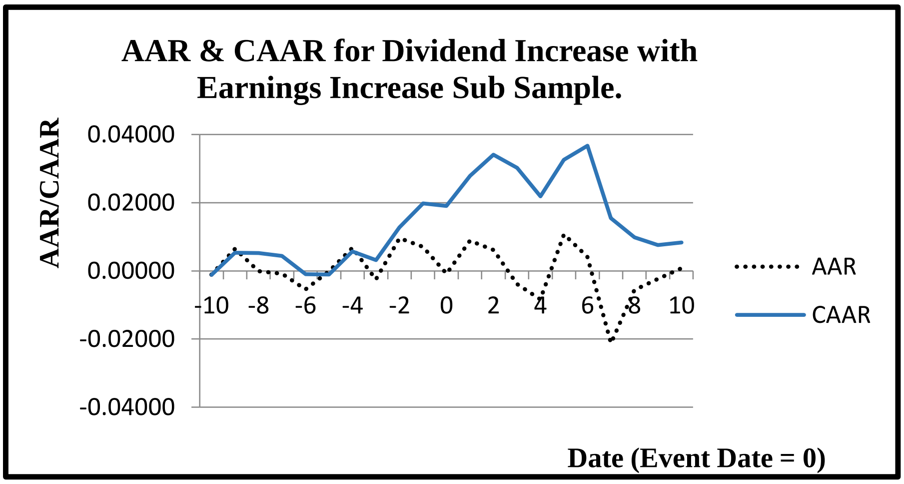
Where CAARit is Cumulative abnormal average returns up to day t, t is Time number of days over which abnormal returns are calculated and AARt is AAR on the day. Finally the t- value was calculated to examine the statistical significance of the AAR and following formulae are used.

***t*-Value = AAR / σ(AAR_t) ....Equation 07**

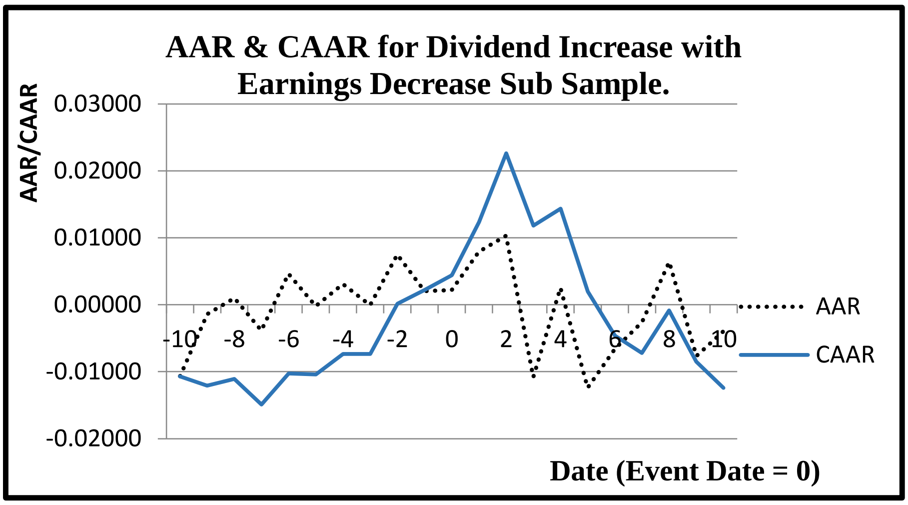
Where AAR is abnormal returns and σ(AARt) is Standard Deviation of Average Abnormal Returns.

4. DATA ANALYSIS AND RESULTS

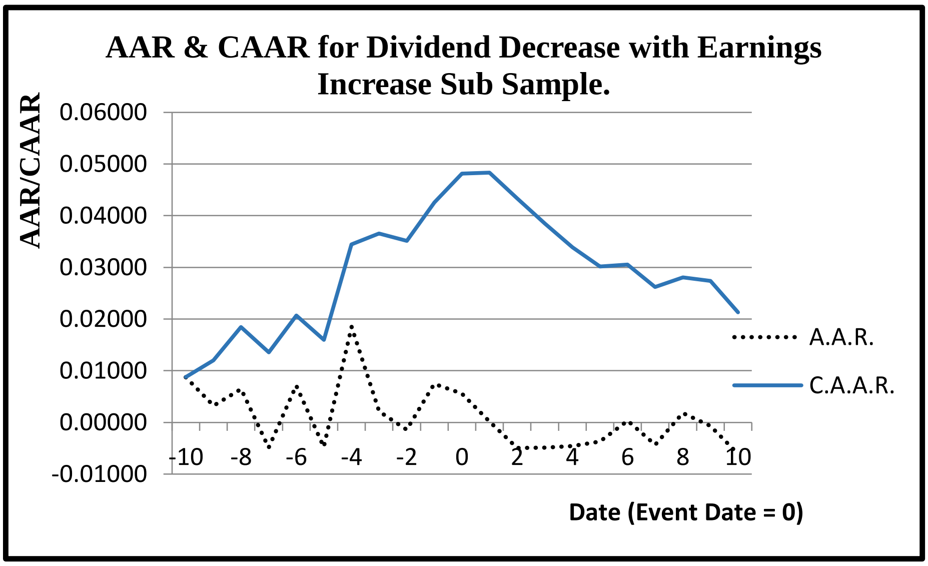
Here the results of the study are explained, on price reaction of the Colombo Stock Exchange before and after the dividend announcement for the period of the year 2016 to the year 2018 of selected sample firms. The results will be discussed under each sub-samples in below.



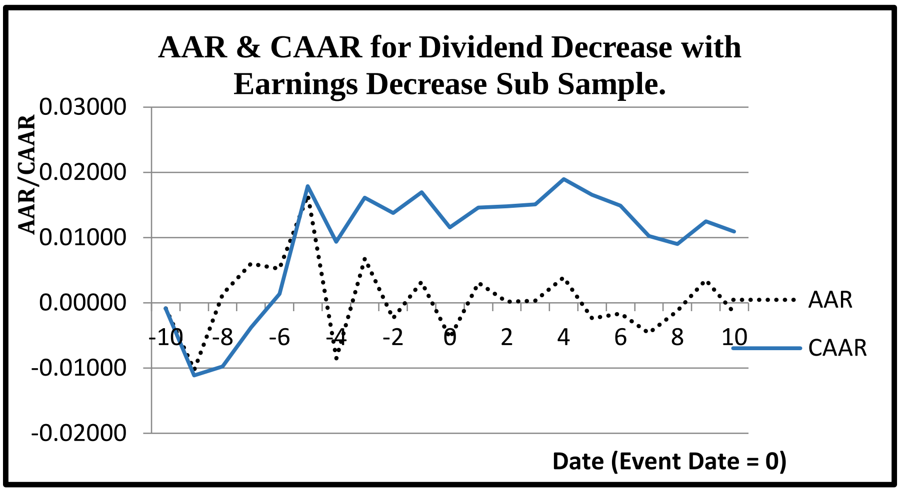
According to figure 2, it can be seen a slight increase in the CAAR in the 3rd, 2nd and 1st day of pre-announcement period. And also on the day of the dividend announcement, the CAAR is 0.01904 and in the first and second days of the post-event period it has increased to 0.02792 and 0.03408 respectively. Therefore a positive incidence of the cumulative average abnormal return was noticed around two days 2 before and after the dividend announcement. So the result under the "dividend increase with earning increase" sub-sample confirms that there is a significant impact of dividend announcement on share price performance and respond of the market on pre and post dividend declaration dates, which means that the semi strong form of the market efficiency confirms by the CSE.



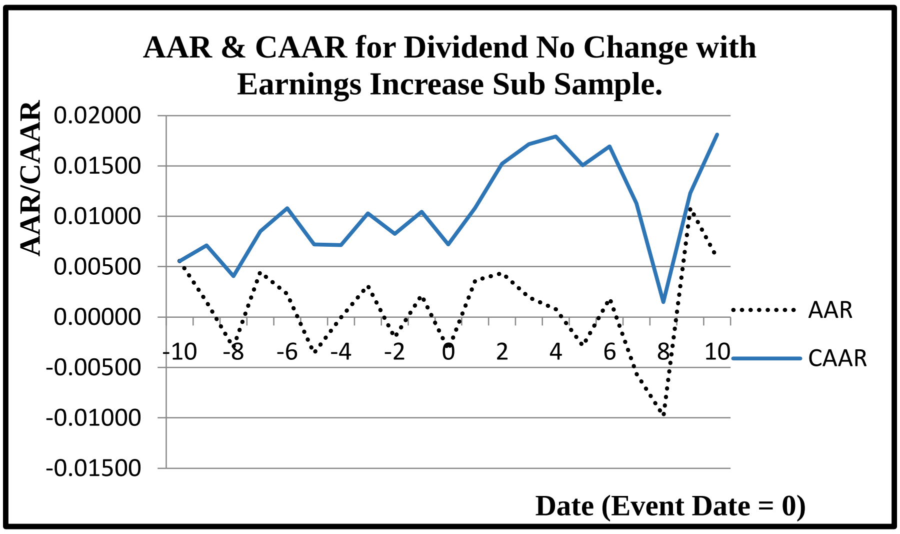
In figure 3 also the CAAR was increased gradually after the 2nd day of the pre-event period. On the day of Dividend announcement it was 0.00441 and 1st and 2nd day it has increased to 0.01235 and 0.02265 respectively. Therefore in this category also positive incidence of the cumulative average abnormal return was noticed around two days before and after the dividend announcement. So the result under the "dividend increase with earning decrease" sub-sample confirms that there is a significant impact of dividend announcement on share price performance and respond of the market on pre and post dividend declaration dates, which means that the semi strong form of the market efficiency confirms by the CSE.



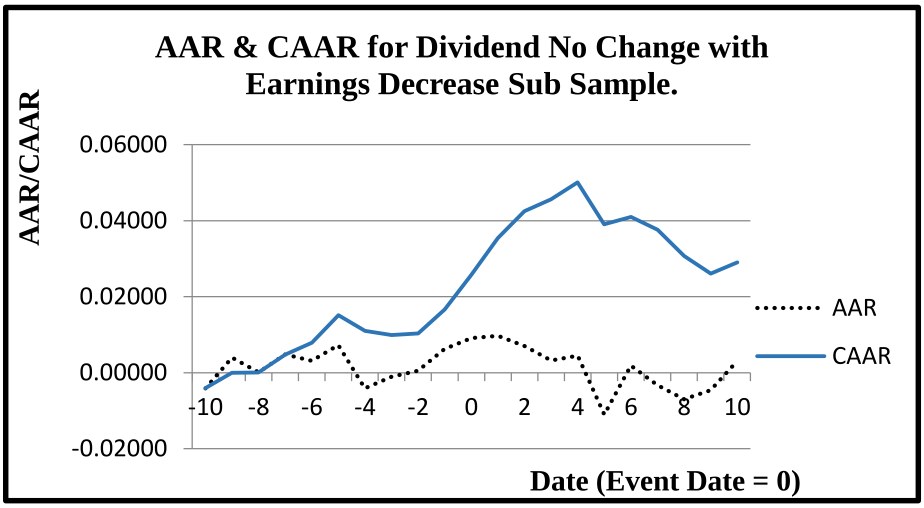
As per figure 4, CAAR has been increased gradually after the 2nd day of the pre-event period and on the day of the dividend announcement, it was 0.04816.But after the first day of dividend announcement it was continually decreased up to 5th day of post-event period. Therefore a negative incidence of the Cumulative average abnormal return was noticed 5 days after the dividend announcements. So the result under the "dividend decrease with earning increase" sub-sample confirms that there is a significant impact of dividend announcement on share price performance and respond of the market on pre and post dividend declaration dates, which means that the semi strong form of the market efficiency confirms by the CSE.



In figure 5, the CAAR is 0.01696 in the day before the dividend announcement and it has decreased to 0.01158 on the day of the dividend announcement. But in post-event window it there are small increases and decreases can be seen in CAAR, Therefore a negative incidence of the Cumulative average abnormal return was noticed on the day of dividend announcement. So the result under the "dividend decrease with earning decrease" sub-sample confirms that there is a significant impact of dividend announcement on share price performance and respond of the market on pre and post dividend declaration dates, which means that the semi strong form of the market efficiency confirms by the CSE.



According to figure 6, the CAAR is 0.01044 in the day before the dividend announcement and it has decreased to 0.00722 in the date of dividend announcement. And after the dividend announcement date it has again increased to 0.01716 around 4 days after the dividend announcement. Therefore a negative incidence of the Cumulative average abnormal return was noticed in pre-event window and positive incidence was noticed in post-event window. So the result under the "dividend no change with earning increase" sub-sample confirms that there is a significant impact of dividend announcement on share price performance and respond of the market on pre and post dividend declaration dates, which means that the semi strong form of the market efficiency confirms by the CSE.



When considering figure 7, the CAAR was increased gradually after the 3rd day of pre-event period. On the day of Dividend announcement, it was 0.02572 and after the dividend announcement also it has increased up to 0.05012 up to 5th day in post-event window. Therefore in this category positive incidence of the cumulative average abnormal return was noticed around 3 days in pre-event window and 5 days in post-event window. So the result under the "dividend no change with earning decrease" sub-sample confirms that there is a significant impact of dividend announcement on share price performance and respond of the market on pre and post dividend declaration dates, which means that the semi strong form of the market efficiency confirms by the CSE.

5. DISCUSSION AND CONCLUSION

As discussed in the literature review there were number researches relating to the "Impact of the dividend announcement on share prices" and some of them were confirmed that the dividend announcements are irrelevant and some are confirmed dividend announcement is relevant to the share prices in financial market. Based on that argument, the research was conducted using the 59 dividends of announcements of 30 companies covering the period of 2016 January to 2018 June to test the existing finding in Sri Lankan financial market. The result was same as the previous research which was confirmed that the dividend announcements are relevant to the share price performance. Based on research findings, followings conclusions can arrive.15 dividend announcements were categorized as dividend increase with earnings increase sub-sample. Due to both dividends and earnings were increased, there was significant positive impact on stock prices before and after the announcement of dividends. The second subsample was categorized as "dividend increase with earnings decrease". It consisted of 10 final dividend announcements. Although the earning was decreased it also revealed that there was a significant increment on CAAR before and after the dividend announcement. The third subsample was categorized as "dividend decrease with earnings increase". It consisted 9 final dividend announcements and after the dividend announcement the CAAR was decreased suddenly due to the dividend decrease information. The fourth sub-sample was categorized as "dividend decrease with earnings decrease". It consisted of 9 final dividend announcements. Due to dividend decrease information the CAAR was suddenly decreased in the day of dividend announcement. The fifth sub-sample was categorized as "dividend no change with earnings increase". It consisted of 7 final dividend announcements. Although the dividend has not changed, the CAAR was increased after the day of dividend announcement. The sixth sub-sample was categorized as "dividend no change with earnings decrease". It consisted of 9 final dividend announcements. Here also CAAR has increased with the information on dividend no change. So it can be summarized there is a positive impact on share price through dividend increase information and dividend no change information and dividend decrease information will effect on share price negatively.

The findings were confirmed that there is a significant impact of dividend announcement on share prices in CSE and market response before and after the announcement, which means that CSE confirms the semi-strong form of market efficiency. Therefore, according to the findings of the research it can be confirmed further previous research, which was found out the significant impact of dividend announcement on share price in Sri Lankan Financial market.

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