



**THE IMPACT OF DIVIDEND POLICY ON SHARE PRICES
VOLATILITY: EMPIRICAL EVIDENCE WITH COLOMBO
STOCK EXCHANGE IN SRI LANKA**

*This dissertation is submitted as a partial fulfillment of the degree of Bachelor of
Business Management in Entrepreneurship and Management*

Index number: UWU/EX/10/0412

Name of the candidate: G.A.D.K Pushpakumara

Year 2014

ABSTRACT

Title of dissertation : The impact of dividend policy on share prices volatility:
Empirical evidence with Colombo stock exchange in Sri Lanka

Index number : UWU/EX/10/0412

Degree programme : Entrepreneurship and Management specialized in
Insurance and Actuarial Science

This study analyzed the relationship between dividend policy and share price volatility across companies listed in the Colombo Stock Exchange (CSE).

Despite of theoretical and empirical research, it has proven that there are many controversial aspects on dividend policy including the relationship between dividend policy and stock price volatility. Therefore it is important to establish a relationship between dividend policy and share price volatility. Hence this study was carried out to investigate current situation and pattern of dividend policy and share price volatility in 2008-2013 period, impact of dividend policy on stock price volatility and strength of the relationship between dividend policy and stock price volatility in Sri Lanka.

Sixty (60) companies were randomly selected from all listed companies in CSE during the period of 2008 – 2013. The descriptive, correlation and regression analysis was conducted together with multicollinearity, autocorrelation, normality tests and etc. using Minitab 15 statistical software.

Finding indicated that dividend yield exerted a weakly negative and significant influence on share price volatility of firms while dividend payout exerted a negative weak influence on share price volatility. Earnings volatility and debt showed weakly positive and insignificant influence on share price volatility. Growth in assets and firm size indicated weakly negative but significantly positive strong influence on share price volatility. Relationship between dividend policy

and share price volatility in Sri Lankan context was almost same to the United Kingdom context according to the empirical results. This study recommended, firm's directors or managers should maintain high level dividend payment, firm's management should give great influence to the factors that have an impact on the share prices. Emerging markets can also adopt the policies similar to those of the more developed markets to enhance their growth. Companies should be consciously meticulous in their thoughts on efficient approach to maximizing the wealth of shareholders and simultaneously meeting the company's needs to finance its investments.

Key Words: *Dividend Policy, Share Price Volatility, Colombo Stock Exchange*