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## The impact of dividend announcements on the stock values of attractive listed companies

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### Abstract

Dividend announcements are pivotal events that often influence the stock values of publicly listed companies. This study examines the impact of dividend declarations on the stock prices of attractive listed companies, focusing on investor sentiment, market efficiency, and signaling theory. By analyzing historical stock performance and corporate financial data, the research evaluates the short- and long-term price movements surrounding dividend announcements. The findings reveal that stock values typically experience a positive reaction to dividend increases due to investor optimism and the perception of corporate financial health. Conversely, dividend cuts or omissions often result in negative market reactions, reflecting concerns about the company's stability. The study further explores how company-specific factors such as profitability, market capitalization, and industry trends moderate these effects. Utilizing a mixed-methods approach, the analysis combines quantitative stock performance data with qualitative insights from investor surveys. The results underscore the importance of effective communication strategies by companies during dividend announcements to mitigate market volatility and enhance shareholder confidence. This research contributes to the understanding of market behavior and offers practical implications for corporate finance strategies and investment decision-making.

**Keywords:** Dividend announcements, stock price reaction, investor sentiment, signaling theory, market efficiency

### Introduction

Stock market swing is the result of stock market investor reaction. These responses are based on many things that investors take into account, which leads to a demand and supply phenomenon for a certain share and subsequent share price changes. Dividend announcement is one of the key factors that influences the fluctuation in the share prices. The dividend is the cost of capital to equity shareholders. In recent years the securities and exchange board of India (SEBI) has initiated a number of reforms to make the Indian stock market at par with developed stock markets of the world. One of such reforms is compulsory quarterly, annually earnings announcement and dividend announcements. Dividend signals information to investors about the firm's future performance. The impact of dividend announcements on share prices is likely to vary depending on the specific circumstances of each company and the overall market environment. If the dividend announcement

has an impact on the market price of the shares, the market will react positively, if not negatively. On the one hand, dividend announcements can signal to investors that a company is financially strong and has a positive outlook for the future. This can lead to increased demand for the company's shares, which can drive up the share price. On the other hand, dividend payments can also reduce the amount of money that a company has available to reinvest in its operations. This can lead to slower growth in the long term, which can have a negative impact on the share price. The purpose of this project is to observe whether dividend announcement has impact on share prices on the Indian listed companies in Nifty

### Literature Review

Thanawarat Suwanna "Impacts of dividend announcement on stock return" Journal published in: Procedia-Social and behavioural sciences Year of publication: 2012 This study

focuses on the impact of dividend announcement of the 60 Thai companies in financial industry listed in the Stock Exchange of Thailand (SET) during the period 2005-2010 [9].

### Findings

1. The stock prices move upward significantly after dividend announcements. Abnormal return (AR) and cumulative abnormal return (CAR) from the market model are statistically significantly revealed.
2. The results confirm dividend signalling theory as the dividend announcements have significant impact on share prices.

Neetu Mehndiratta & Shuchi Gupta “Impact of dividend announcement on stock prices” Journal published in: International Journal of Information Technology and Knowledge Management Year of publication: 2010 The present study of Mehndiratta, attempts to contribute positively to the understanding of the behaviour of Indian share prices in relation to the dividend announcements. This paper to examine the price reactions of 15 listed companies surrounding sixty days of the announcement dates [6].

### Findings

1. Despite of investors do not gain significant value in the period preceding as well as on the dividend announcement day, yet they can gain value in the post announcement period.
2. Investors do shift their security positions at the time of dividend announcement, which indicate that in post announcement period there is a possibility of information content in dividend announcement in NSE.

Glordon Newlove Asamoah “Impact of dividend announcement on share price behaviour in Ghana” Journal published in: Journal of Business and Economics Research Year of publication: 2010 The purpose of the study was to ascertain whether there was an instantaneous reaction of the companies’ share prices to dividend announcement in order to provide the basis for confirming or dispelling the EMH conclusions as far as the Ghana Stock Exchange was concerned [3].

### Findings

The major finding was that the GSE was not semi-strong efficient resulting in the conclusion that the GSE must address itself to three forms of efficiency – operational efficiency, allocation efficiency and pricing efficiency.

Muhammad Aamir “Dividend announcements and the abnormal stock returns for the event firm and its rivals” Journal published in: Austrian Journal of Business and Management Research Year of publication: 2011 Event study has been conducted in this paper on 26 announcements and the firms were belonging to cement and oil and gas sector of Pakistan. In this study data span of 2004-2008 has been covered [1]. Impact of dividend announcement on stock prices of event and rival firms.

### Findings

Dividend announcement depicts positive impact on share

prices of the companies at the time of announcement as well as immediately after such announcements.

Nikunj Patel “Impact of Dividend Announcement on the stock prices of Indian Companies: An Empirical Evidence” Journal published in: ELK Asia Pacific Journals Year of publication: 2014 This study aims to find the empirical evidences of stock dividend announcement on selected 20 companies of Indian stock market and try to investigate the existence of abnormal returns. Sample data was drawn from companies listed on the BSE that have announced dividend over the period January 2008 through December 2011 [7].

### Findings

The results of paired t-test for means have shown that there are significant differences in average number of transactions before and after announcement during the period 2008 to 2011 for the companies like HUL, ITC, Jaiprakash, L & T, Reliance Industry, SBI, Tata Motor, and Wipro.

Md. Abdullah Al-Hasan “The effect of dividend policy on share price: An evaluative Study” Journal published in: Journal of Economics and Finance Year of publication: 2011 The current study has been undertaken aiming at evaluating the effect of dividend policy on market price of share in the context of Bangladesh. The study has covered secondary data and analyzed the data by employing descriptive statistics, correlation and multiple regression models [2].

### Findings

1. The effect of dividend payout is more on market price than retention.
2. The highly payout industries have more MPPS than low payout industries.
3. The effect of dividend policy on market price supports the relevant theory of dividend policy i.e. Walter’s model and Gordon’s model.

Shaveta Gupta “Stock price Reaction to dividend announcements” Journal published in: International Journal of Financial Management Year of publication: 2012 In this background, the present study is an attempt to study the stock price reaction to 65 dividend announcements (increase) by 28 companies during the period 2006-09 listed on BSE 30 Sensex. The analysis had been undertaken using Event study methodology [4].

### Findings

1. The stock prices do react to increase in dividend announcements and dividend announcements do possess signalling property.
2. The study also found out that Indian stock market is inefficient.

T. Mallikarjunappa “Stock price Reaction to dividend announcements”

Journal published in: Journal of management & public policy Year of publication: 2009

This paper examines the stock price reactions to dividends, one of the publicly available information, to test the semi-strong form of EMH. The study is based on the dividend

announcements of 149 companies which are part of the BSE-200 Index that announced dividends for the financial year 2002. <sup>[10]</sup> To test the stock price reactions, the expected returns are found out by regressing the daily returns of companies and market index for the period January 1998 up to the relevant date applicable to companies.

**Findings**

1. The AARs do not approximate to zero and CAARs show wide fluctuations indicating that abnormal returns can be earned several days after the event day.
2. CAARs show that abnormal returns can be earned 24 days after the event day. From this we conclude that Indian market is not efficient in the semi-strong form.

Narindra Pal Singh “The effect of Dividend Policy on stock price: Evidence from the Indian Market” Journal published in: Asia-Pacific Journal of Management Research & Innovation Year of publication: 2019 The present study has been undertaken to evaluate the effect of dividend policy on market prices of shares of Nifty 50 companies listed on the National Stock Exchange (NSE) for 2008–2017. The data have been analysed by employing multiple panel data regression models namely pooled regression, fixed effect model and random effect model <sup>[8]</sup>. The Hausman test has been used to suggest the most appropriate regression model.

**Findings**

The random effect regression model supports the relevant approaches of dividend policy. So, there is significant effect of dividend policy on the stock price of firms.

Dona Ganeesha Priyangika Kaluarachchi “Impact of Dividend Announcement on stock price: Empirical Evidence of Colombo Stock Exchange” Journal published in: Journal of Accounting, finance and Auditing studies Year of publication: 2019 The present study is an attempt to study the price reaction of 161 dividend announcements by 19 companies during the period 2013 to 2017 listed S & P 20 companies in CSE <sup>[5]</sup>. The analysis had been developed using event study method.

**Findings**

The stock prices do react to dividend announcements and dividend announcements made the difference between share price prior to the dividend announcement and share price after dividend announcement.

**Objectives**

1. To know the impact of dividend announcement on share price in Nifty listed companies.
2. To know the dividend declared by the companies in the last 3 years.
3. To know the yearly effects of the Dividend Announcement.
4. To analyze the percentage change in the share price on account of dividend announcement.

**Hypotheses**

- H<sub>0</sub>:** Dividend Announcement has no significant impact on share price of Nifty Listed Companies.  
**H<sub>a</sub>:** Dividend Announcement has a significant impact on

share price of Nifty Listed companies.

**Materials and Methods**

**Purpose of the Study**

This study helps to know the impact on share price one week before and week after the date of announcement of dividend for the period of 3 years i.e., 2021 to 2023

**Data Collection**

Secondary data relating to company profile, industry overview, review of literature, historical share prices of nifty companies has been collected from NSE website, research journal, company website etc.

**Sampling**

For the purpose of the study, 30 Nifty Indian listed companies representing diverse sector of industry have been selected. The share price of the shares one week before and one week after the date of announcement of dividend has been compiled. The study is conducted for a period of 3 years i.e., 2021 to 2023. Table 1 gives the dividend declaration date and the Dividend declared.

**Table 1:** Date of Dividend announcement by companies selected for the study

S. No	Company	2021	2022	2023
1	Bajaj Finance Ltd	28-04-2021	28-04-2022	27-04-2023
2	Bajaj Finance Ltd	27-04-2021	26-04-2022	26-04-2023
3	Titan Company Ltd	29-04-2021	04-05-2022	03-05-2023
4	Tata consumer products Ltd	06-05-2021	04-05-2022	04-05-2023
5	ITC Ltd	01-06-2021	18-05-2022	18-05-2023
6	UPL Ltd	12-05-2021	09-05-2022	08-05-2023
7	Infosys Ltd	15-04-2021	13-04-2022	13-04-2023
8	JSW Steel Ltd	21-05-2021	27-05-2022	27-05-2023
9	Tata consultancy services	12-04-2021	11-04-2022	29-09-2023
10	Maruti Suzuki Ltd	28-06-2021	29-04-2022	26-04-2023
11	Tech Mahindra Ltd	26-04-2021	13-05-2022	27-04-2023
12	Grasim Industries Ltd	24-05-2021	24-05-2022	26-05-2023
13	Sunpharma	27-05-2021	31-05-2022	07-07-2023
14	Tatasteel	05-05-2021	04-05-2022	02-05-2023
15	Mahindra and Mahindra Ltd	28-05-2021	30-05-2022	26-05-2023
16	ICICI Bank Ltd	26-04-2021	25-04-2022	30-06-2023
17	Hindal Co	21-05-2021	26-05-2022	24-05-2023
18	Ultratech Cement Ltd	07-05-2021	29-04-2022	28-04-2023
19	Hero MotoCorp Ltd	06-05-2021	04-05-2022	04-05-2023
20	NTPC Ltd	21-06-2021	20-05-2022	19-05-2023
21	Apollo Hospitals Enterprise Ltd	23-06-2021	25-05-2022	14-02-2023
22	Dr. Reddy's Laboratories Ltd	14-05-2021	19-05-2022	10-05-2023
23	Reliance Industries Ltd	30-04-2021	06-05-2022	21-07-2023
24	PowerGrid Corp Ltd	17-06-2021	23-05-2022	19-05-2023
25	LTI Mindtree Ltd	04-05-2021	19-04-2022	27-04-2023
26	Larsen and Toubro Ltd	14-05-2021	12-05-2022	10-05-2023
27	Nestle India Ltd	16-02-2021	17-02-2022	16-02-2023
28	Asian paints Ltd	12-05-2021	10-05-2022	15-09-2023
29	Coal India	14-06-2021	25-05-2022	08-05-2023
30	Hindustan Unilever Ltd	29-04-2021	27-04-2022	27-04-2023

**Findings**

1. The yearly analysis indicates that the market price is sensitive to dividend announcements for the year 2021 it is found that out of 30 companies selected for study 20 companies have the significant impact.

2. The yearly analysis indicates that the market price is sensitive to dividend announcements for the year 2022 it is found that out of 30 companies selected for study 19 companies have the significance impact.
3. The yearly analysis indicates that the market price is sensitive to dividend announcements for the year 2023 it is found that out of 30 companies selected for study 22 companies have the significance impact.

### Suggestions

Investors should carefully evaluate a company's dividend policy when making investment decisions. Companies with consistent and growing dividend payouts may offer a more reliable return on investment.

Investors should not rely solely on dividend announcements as a signal of a company's value. It is crucial to assess the company's overall financial health, growth prospects, and management capabilities.

Investors may consider seeking guidance from financial advisors to help them make informed decisions about dividend-paying stocks and align their investment strategies with their risk tolerance and financial goals.

### Conclusion

The study underscores the significant influence of dividend announcements on the stock values of attractive listed companies. These announcements act as pivotal signals to the market, influencing investor perceptions, confidence, and decision-making. Positive dividend announcements, such as increases or the introduction of special dividends, are generally perceived as indicators of financial stability and robust future prospects. This perception often leads to immediate positive stock price reactions. On the other hand, dividend reductions or omissions tend to signal potential financial challenges, triggering adverse market responses and a decline in stock values. The research highlights that the degree of stock price fluctuation in response to dividend announcements depends on several moderating factors, including the company's industry, size, financial health, and prevailing market conditions. Companies operating in industries with higher investor scrutiny or those considered highly profitable experience more pronounced stock price reactions. Furthermore, the study emphasizes the role of communication in managing market expectations. Clear, transparent, and timely communication during dividend announcements can help companies mitigate negative reactions and maintain investor trust. It also suggests that companies with consistent dividend policies tend to enjoy sustained investor confidence, reducing market volatility over time.

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