

**IMPACT OF DIVIDEND POLICY ON SHARE PRICE
A STUDY ON THE LISTED COMPANIES IN THE BANK,
FINANCE AND INSURANCE SECTOR OF SRI LANKA**

By

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ABSTRACT

The health of the domestic and global economy has a fundamental influence on share prices because it is ultimately responsible for driving company profits. This is an empirical study that investigates the impact of dividend policy on share price in the Bank, Finance & Insurance Sector of Sri Lanka. A number of theoretical mechanisms have been suggested that dividend policy vary inversely with share price of the company. Dividend policy of the company is measured by using the dividend pay-out ratio and dividend yield ratio. Share price of the company is measured by using the market price per share. Data needed to the research were collected from 100 annual reports which are related to 20 companies listed in CSE from bank, finance & insurance sector of Sri Lanka for five years from 2010 to 2014. Researcher use correlation analysis and regression analysis to measure the impact of dividend policy on share price. According to the analysis there is a weak negative relationship between the dividend policy (determined by dividend pay-out ratio and dividend yield ratio) and share price of the company. Thus, the higher the payout ratio the less the share price likewise the higher the dividend yield ratio the less the share price of the company. This study highlights that dividend policy is insignificant impact on share price.

Key words: dividend policy, Share price, dividend pay-out ratio and dividend yield ratio

TABLE OF CONTENTS

Acknowledgement	I
Abstract	II
Table of Contents	III
List of Tables	VII
List of Figures	VIII
Abbreviations	IX

1. Chapter One- Introduction

1.1. Background of the Study	01
1.2. Problem Statement.....	03
1.3. Research Questions.....	03
1.4. Objectives of the Study.....	04
1.5. Significance of the study	04
1.6. Scope of The Study.....	05
1.7. Limitation of the study.....	05
1.8. Summary.....	06

2. Chapter Two-Literature Review

2.1. Chapter Introduction	07
2.2. The economy.....	08
2.3. Dividend policy and share price	10
2.4. Industry background	
2.4.1 Capital market supervisory & licensing authority	15
2.4.2 Securities presently traded at the CSE.....	15
2.4.3 What is share?.....	15
2.4.4 What is preference share?	17
2.4.5 Benefits from a share	17
2.4.6 Types of dividend	18
2.4.7 What are the primary market and primary issue?.....	21
2.5 Dividend policy.....	21
2.5.1.1 Categorizes of Dividend policy according to the application.....	22
2.5.1.2 Payment Procedure followed by Companies	23

2.6	The efficient market hypothesis	23
2.7	Summary	26
3.	Chapter Three- Conceptualization and Operationalization	
3.1.	Chapter Introduction	27
3.2.	Conceptualization	27
3.3.	Definition of variables	
3.3.1	Dividend pay-out ratio	28
3.3.1.1	Dividend per share.....	28
3.3.1.2	Earning per share.....	28
3.3.2.	Dividend yield ratio	28
3.3.2.1	Market per share	29
3.4.	Operationalization.....	30
3.5.	Hypotheses Development	31
3.6.	Summary.....	32
4.	Chapter Four- Methodology	
4.1.	Chapter Introduction	33
4.2.	Study setting, design, and method of survey	
4.2.1	Study setting.....	33
4.2.2	Study design.....	33
4.2.3	Method of survey.....	34
4.3.	Study population and sample.....	34
4.4.	Data collection.....	35
4.5.	Methods of measurements	36
4.6.	Method of data presentation	36
4.7.	Method of Data Analysis and Evaluation	37
4.7.1.	Univariate Analysis	37
4.7.2.	Bivariate Analysis	37
4.7.2.1	Correlation Analysis.....	37
4.7.2.2.	Regression Analysis	38
4.7.2.2.1	Simple regression analysis.....	38
4.7.2.3.	Hypothesis Testing	39
4.8.	Summary.....	39
5.	Chapter Five- Data Presentation and Analysis	

5.2. Data presentation	40
5.3. Data analysis.....	40
5.3.1. Univariate Analysis	40
5.3.1.1 Descriptive Analysis for independent variable	40
5.3.1.2 Descriptive Analysis for dependent variable	42
5.3.2 Bivariate Analysis.....	42
5.3.2.1. Correlation analysis.....	43
5.3.2.1.1 Correlation analysis for independent and dependent variables.....	43
5.3.2.2 Regression analysis	56
5.3.2.2.1 Simple regression analysis.....	46
5.3.2.2.1.1 Regression between Dividend pay-out ratio And share price	46
5.3.2.2.1.2 Regression between Dividend yield ratio and share price.....	48
5.4. Summary.....	49
6. Chapter Six - Discussion	
6.1. Chapter Introduction.....	50
6.2. Discussion on Univariate analysis.....	50
6.2.1. Discussion on dividend pay-out ratio based on dividend policy	50
6.2.2. Discussion on dividend yield ratio based on dividend policy	50
6.2.3. Discussion on market price per share.....	51
6.3. Discussion on Bivariate analysis	51
6.3.1. Correlation analysis	51
6.3.1.1 Discussion on correlation between dividend pay-out ratio and market price per share.....	51
6.3.1.2 Discussion on correlation between dividend yield ratio and market price per share.....	52
6.3.2. Regression analysis.....	52
6.3.2.1 Dividend pay-out ratio and market price per share	52
6.3.2.2 Dividend yield ratio and market price per share.....	52
6.4 Dividend policy and market price per share	53
6.3. Summary.....	53

7. Chapter Seven - Conclusions and Recommendations

7.1. Chapter Introduction	54
7.2. Conclusion	54
7.3. Recommendation	55
7.4. Limitation	55
7.5. Future research.....	56
7.6. Summary.....	56

References

Appendix

Appendix - 01: SPSS Output

Appendix – 02: Secondary Data

Appendix – 03: Sample 20 Companies