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Management

A STUDY ON DIVIDEND ANNOUNCEMENT IMPACT ON MARKET CAPITALIZATION ACROSS VARIOUS SECTORS OF NSE.

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ABSTRACT **Purpose:** The purpose of this research paper is to analyse the effect of dividend announcements on market capitalization of companies.

Design/Methodology: Based on sample of 25 companies belonging to different sectors mean closing prices, 20 days pre and 20 days post dividend announcements were compared using event window study. The significance of difference between them was also measured using paired/dependent t-test.

Findings: The results of research showed than pre announcement mean closing prices were different from post mean closing prices thus impacting the firm's market capitalization to a large extent.

Practical implications: The dividend announcements and its impact on value of firm has always been a puzzle. The results will help in better understanding the impact of dividend announcements on market capitalization of companies in a more simple and concrete manner. The findings of the study have implications for directors, mangers, investors and other participants in stock markets.

Originality/Value: The area of dividend announcement effects has been extensively and intensively researched. One of its kinds, this study will be helpful in abridging the literature gap in exploration of dividend announcement effect in elaborative and sectoral form.

KEYWORDS : Value of firm (Market capitalization), Dividend announcements, Mean closing prices, Investment experience, NSE, Sector, India.

1. Introduction

One of the foremost objectives of every decision taken by a financial manger is maximization of shareholder wealth and value of firm. Wealth of the shareholders and value of firm is represented by the share price of company prevailing in the market. Dividend announcement have significantly high level of bearing on the market prices of the shares, so optimal dividend policy should be designed to enhance value of firm. It is often believed that if companies reduce the amount of dividend or don't pay as per preferences and expectations of the shareholders, share prices gets negatively affected and on the other hand increased dividends cause a positive movement in the share prices. Financial markets positively interpret unexpected dividend changes along with prices, which have been corroborated by so many empirical studies carried to analyze the effects of dividend announcements on share prices. Dividend announcements are a unique and valuable information signal, which has effects on wealth of shareholders. These upward and downward movements are because of signalling effect, which means that the dividends are perceived as signals of future prospects of the company by the investors. The study is two dimensional in the sense that firstly, it examines the relationship between dividend announcements and share prices. Secondly the effects have been reported in sectoral manner.

This paper is organized as follows: Section 2 presents the literature on dividend announcements effect on value of firm, with regard to the various parameters, techniques, impact and findings of the studies related to dividend announcements. Section 3 presents the research methodology used in this study and the results of the study in tabular manner and Section 4 discusses the results. Section 5 concludes the study and gives the future directions of research in this area.

2. Review of literature

Miller and Modigliani's (1961), two noble laureates gave the view that the dividend policy does not affect the market value of shares and favoured the dividend irrelevance thought. Dividends have signalling power about future income, investment prospects and it leads to movement of share prices but do not have any bearing on firm's value. They said that value of shares depends upon the investing pattern and earnings of the firm. **Gordon (1963)** opined his view by presenting the concept of dividend relevance theory. He said that dividends declared do affect the value of the firm and the market price of shares. Investors always prefer current return in the form of dividends rather than future returns in form of capital appreciation. **Black & Scholes (1974)** neglected any kind of relevance and relationship between the dividend and stock prices, supporting dividend irrelevance theory. **Basith abdul momin (2013)** in his paper undertook the review of detailed models regarding dividend puzzle. In his study the focus was mainly on three emerging sectors namely information technology, FMCG and service. The study mainly focused on the importance of dividend factors in Indian context. He opined that the studies conducted till now, dividend announcements and its determinants were unable to reach a unanimous decision. **Dasilas Apostolos (2008)** investigated the stock market reaction of the Athens Stock Exchange to cash dividend announcements for the period 2000-2004. In particular, the study examined both the stock price and trading volume response to company announcements about dividend distributions. The dividend distribution in Greece featured remarkable differences from those of US, UK and other developed markets. **Mahmood sahid, sheikh fayyaz Muhammad and ghaffari qayyam abdul (2011)** undertook the study to explore the effects of cash dividend on stock prices. They undertook study from period of 2005 to 2009 on popular stocks of Karachi stock exchange. Event study methodology was used to analyze the data of near about 100 announcements made. Time estimation frame of 250 days was used to measure results. Market model was used for application of event study. The study found and established (advocated) dividend relevance theory. The dividend announcements generated positive abnormal returns and dividend are very powerful announcements. Abnormal return was found during both pre and post announcement periods. **Eyup Kadioglu (2008)** in his study analysed and studied 330 events of cash dividend declaration of 88 companies from period 2003 to 2007 on Istanbul stock exchange. The market adjusted model was used to compute abnormal returns around announcement days. The abnormal stock returns of the stocks were adjudged with the tool of event window and regression analysis during pre and post announcement period. Window of t-5 and t+15 days was used in event window to test this effect. Negative relationship was observed in the study between cash dividends and abnormal returns during the announcement period.

3. Research methods

To achieve the objective of **investigating the impact of dividend announcements on market value of firm (market capitalization) of selected companies listed on NSE in India** following methodology was adopted:

Null hypothesis (H0): Pre and post dividend announcement Mean closing prices are same.

The literature is not consistent with respect to selection of period of event window. Different researchers have taken different time periods for their studies such as 21 days (Apostolos Dasilas), 41 days (Dar-Hsin Chen), 71 days (E.B. Del Brio et al). So there is no criterion for selection of time frame for the event window. Indian markets are highly speculative, volatile in nature and there seems to be large scale