

The relationship between dividend policy and share price volatility: A case study on the Colombo Stock Exchange of Sri Lanka

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Abstract

The relationship between dividend policy and share price volatility is a problematic area which comes under different theories. Previous results indicated mixed findings under different time periods. Thus, the present study examines the relationship between Dividend Policy and Share Price Volatility. The sample includes 50 companies that have the highest share prices as at 31.12.2019 and data were collected for the period from 2017 to 2019 including three years. Share Price volatility is the dependent variable for this study while independent variables which represent the dividend policy include dividend yield and dividend payout ratio. T-Bill rates were used as the control variable. Descriptive analysis, correlation analysis, and panel data regression model were occupied for the analysis. The result of the correlation coefficient reveals that there is no significant relationship between dividend yield and share price volatility. Further, it reveals there is no significant relationship between dividend payout ratio and share price volatility. The random-effect model indicates an insignificant impact of dividend policy on share price volatility. These results are consistent with the dividend irrelevance theory. Investors as well as policymakers can use the findings of this study to make the necessary decisions.

Keywords: *Dividend irrelevance theory, dividend policy, share price volatility*