

Chief Executive Officer's Turnover Announcements and Stock Return: A Case of Sri Lankan Stock Market


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Abstract

This study investigates Chief Executive Officer's Turnover Announcements and Stock Return, employing a sample of 89 CEO turnover events from the Colombo Stock Exchange (CSE) that represent various industrial sectors from 2015 to 2019. The results are obtained using standard event research methods. The results show the biggest impressive negative AARs of -0.14% and a strong negative significant ($t=-3.9$) at the 1% level obtained on the event date. This result demonstrates that the CEO's change announcements include considerable negative information for the CSE. The market, on average, reacts negatively to a firm's unique informative event. Furthermore, throughout the 21-day window period, negative cumulative average abnormal returns (CAARs) of -0.26 percent were discovered. According to these negative CAARs, investors anticipate that this incident will result in incrementally negative future cash flows for the CSE. In addition to these findings, the rapid market reaction lends credence to the efficient market theory and the efficient information transmission mechanism to investors, since stock prices adapt extremely fast to changes in CEO information. Furthermore, participants in the stock market cannot gain abnormal profits by trading in the stock on and after the event day. Despite the fact that the event day is unprofitable, the market is informationally efficient as a result of the companies' connected informational events.

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