

# THE IMPACT OF DIFFERENT CORPORATE EVENT ANNOUNCEMENTS ON SHORT-RUN STOCK RETURNS; EVIDENCE FROM COLOMBO STOCK EXCHANGE

Lakshmika Abeyrathna  
Faculty of Commerce and Management Studies  
University of Kelaniya  
Sri Lanka  
[lakshmikamadusanka27@gmail.com](mailto:lakshmikamadusanka27@gmail.com)

Sandali Sudasinghe  
Faculty of Commerce and Management Studies  
University of Kelaniya  
Sri Lanka  
[sandalis@kln.ac.lk](mailto:sandalis@kln.ac.lk)

**Abstract** - Publicly traded markets function as the base of our economic system. Efficiently valued financial markets power up national development according to Malkiel (2010). Market effectiveness shows precise security assessment results. When information travels rapidly into stock prices in an efficient market it won't help investors earn more than the market or find ways to get abnormal returns from what they already know.

This paper examines the efficiency of the market in relation to four prominent corporate events: We examine the information event impact of stock dividend announcements alongside bonus issues, rights issues, and stock splits under Sri Lanka's conditions. A sample of 13 stock dividend and 9 bonus issue releases formed the base data alongside 31 rights issue and 29 stock split announcements. This research uses market model event studies to track price reactions through Average Abnormal Returns and Cumulative Average Abnormal Returns calculations. The research discoveries question what current market efficiency stories tell us.

Investors in Sri Lanka currently lack complete data about stock price reactions to corporate news. Our study examines market reactions to corporate event announcements in CSE using 82 unique events across 14 economic zones between 2019 and 2021.

**Keywords**—*capital markets, corporate announcements, event study methodology, market efficiency, semi-strong form of efficiency, Colombo Stock Exchange (CSE).*

## Introduction

The capital market plays a fundamental role in economic growth across every nation. People see the capital market as the main indicator of how the economy performs. The Colombo Stock Exchange leads Sri Lanka's economic growth by playing a decisive role. Through its role as exchange manager the CSE emerges as both an important emerging market for its region and for developing countries. Fortune Magazine ranked Sri Lanka as the second global market showing great potential for growth in 2009.

Stock market performance reacts to different elements including business developments and results alongside market trends and investor beliefs alongside overall market conditions. The multiple influencing elements determine stock price changes so studying stock market movements helps discover what specifically drives these changes. Companies send out vital market information through their event announcements which merit special attention. The way corporate events affect stock returns depends on their type including bonus issues, rights offer, stock splits, revenue

releases, dividend payments, mergers, acquisitions, and share repurchases.

Studies find that stock market reaction to company news differs across business sectors. Research analyzes the impact of corporate events on stock returns by examining whether investors earn abnormal returns both before and after event announcements. Academicians Ball and Brown (1968) first established the "event study" technique which serves as the foundation of this research.

Several measures are commonly used in event study methodology to assess the impact of corporate event announcements: Investors use CAAR to measure stock performance alongside BHAR and existing market performance as WR. The CAAR tool tracks immediate trading responses yet BHAR and WR reveal persistent market impacts over time. Stock market reactions to announcement display quick shifts (short-term impact) over several days or weeks followed by sustained adjustments over several months (long-term impact).

To determine expected returns CAAR uses different asset pricing models. Stock valuation models predict returns by factoring in enterprise criteria together with economic elements. A common practice in stock market analysis depends on the Market Model as its single-index model. Research teams created updated models after 1964 which added elements from the Capital Asset Pricing Model (CAPM) (Sharpe, Lintner, Mossin) plus research by Fama, French, Carhart, Fama-French, and Fama-French.

Multiple studies now explore the quick effects that corporate event updates have on shareholder money using event study approaches and contrast how two corporate events affect stock values at once. Research in Sri Lanka lacks comprehensive analyses on the relation of stock dividend announcements to stock returns and it lacks studies comparing four corporate events' returns impacts across industry sectors. Sri Lankan researchers study short-term stock market effects of corporate events using only the Market Model in event methods.

When the Market Model arrived in 1960s it represented a single-index solution that overlooked key firm and macroeconomic influences. Advanced asset pricing models including the CAPM help explain stock return drivers better than use of simple market model. Our research community requires new studies that examine how various asset pricing theories produce expected returns when used in event study evaluation in Sri Lanka.

## A. Literature Review

A business adopts corporate actions to manage its financial arrangement while improving market value and performance. Business actions produce vital market results by influencing how investors think about stocks. Both past and present research studies support the strong stock market impact that corporate announcements produce. Recent research findings show that most corporate announcements either improve performance or maintain positivity while some investigations point to negative returns. This section reviews and examines published research that studies different corporate announcements and their effects on stock prices and returns.

### 2.1 Impact of Right Issue Announcement

Because existing shareholders receive discounted share offers in right issues analysts closely study this practice to determine its stock price effects. Levy, Haim, and Samat [1971] studied stock price changes when companies made public right issue announcements according to AliSabri et al. (2004). The research showed price fluctuations at right issue announcements stemmed mostly from the impact on future dividend predictions instead of the announcement itself. Right issue announcements produced erratic cost impact for investors that did not affect their stock returns.

Research teams including Scholes (1972) and White and Lusztig (1980) showed stock prices fell after companies announced right issue programs. Studies from Asquith and Mullins (1986) and Kit [1990 as cited in AliSabri et al. (2004)] reached similar results. The studies revealed price drops after announcement events yet Scholes and Asquith recognized lasting decrease while White's team found short-lived market impacts.

Ramesh and Rajumesh (2014) conducted a standard event study to assess the right issue impact on stock performance in their research. They tracked Abnormal Returns (AR) during the study period to reveal Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR). According to the research findings, the stock returns of shareholders experienced a positive impact of 1.54% on their investments immediately after the CSE right issue announcement.

### 2.2. A bonus issue proclamation revealed its results.

This research compares how stock prices react to bonus issue announcements when companies distribute free shares to shareholders. During 2005 Balachandiran studied the stock market reaction in Australian companies following bonus issue announcements. His research showed market-linked statistical evidence that stock prices grew by an average 2.37% when no error occurred and 2.11% when errors were present on the day of the announcement and the following day.

According to Dhar and Chhaochharia from 2008 they examined the market impact of bonus issues and stock splits on NSE-listed firms through event study analysis. Studies show bonus issues produce 1.8% positive stock returns

while stock splits create 0.8% growth in stock price over short-term periods.

Through standard event testing Raja and Clement Sudahar (2010) studied BSE IT company bonus issue news to measure market response in Indian capital markets. The research identified large positive Abnormal Returns at announcement time and throughout the next several days with Combined Average Abnormal Returns spiking from -2.11 to 17.16 by day two after the announcement. When companies announced bonus issues the market responded rapidly by boosting stock prices.

Ramesh and Nimalathasan (2011) studied how investors reacted to bonus issues in the CSE market during the period before formal announcements. Share prices showed greater market response before the official announcement than throughout or after the event took place. The study found evidence that information leaked earlier on which damaged Colombo Stock Market operations.

### 2.3. The Market Reaction to a Company's Public Declaration of its Stock Split Action

Research shows that analysts study stock split steps that companies take to make stocks more affordable for investors. Wolff (2002) determined German companies experienced positive investment gains when their executives announced stock splits and when splits finally took effect. His findings showed stock prices became more volatile after companies split their shares.

Grinblatt Masulis Titman's 1984 study in Gunnathilaka et al. (2009) shows stock splits boost prices when they demonstrate better liquidity and invite new investors. Amihud and Mendelson pointed out in 1986 (cited by Gunathilake et al. in 2011) that companies can use stock splits to communicate better financial liquidity performance.

According to Rajesh (2013), the Indian market demonstrated no reaction to stock split news both before and after the announcements when measured through event windows and market models. In 1999 Abeyaratna, Bandara, and Colombage evaluated the semi-strong market efficiency at the CSE using Granger causality tests. They showed stock split announcements created market reactions across sectors yet financial and manufacturing businesses did not change. Research by Gunathilake (2011) showed Sri Lankan stock markets reacted positively to stock split news by adjusting stock returns and having more trades on the day of disclosure.

### 2.4. The financial industry responds to information about stock dividend programs

Research shows that when companies pay dividends through new stock shares they impact stock market reactions. Based on New York Stock Exchange data from 1959 Barker discovered stock dividends lacked an impact on share price but benefited trading volume and market demand.

Adaoglu and Lasfer (2011) showed that markets reacted favorably to stock dividend news most strongly with financially weak companies yet less strongly with stronger companies. A study by Chavali and Nusratunnisa (2013) using 67 FMCG firms showed stock dividends positively impacted company returns and market value except when outside forces limited their effectiveness.

In 2002 Bandara and Samarakoon analyzed how cash dividend news affects Sri Lankan companies. Smaller companies and those who declared high dividend growth received pronounced market reactions according to their studies. Research showed investors in emerging markets start making decisions before company news is released.

Ramesh conducted research in 2012 on Sri Lanka's CSE by studying how manufacturers and non-manufacturers reacted to dividend news. His data showed strong positive stock return changes when dividend payments started on that day because investors obtained useful dividend information from Sri Lankan companies.

### B. Methodology

The study consists of all the companies listed on the Colombo Stock Exchange (CSE) representing 17 business sectors, excluding the banking sector and diversified financial sector insurance sector, due to the differences in reporting methods and capital structure as of 31st December 2019. The study's sample period is from 2017 to 2021. To find the current market situation of Sri Lanka, the year 2017-2021 is taken as a sample period.

Each event is analyzed separately for the study. For every event, the abnormal return in the price of all the sample firms will be computed for the days preceding and following the announcement day. There are 13 Stock dividends, 9 bonus issues, 31 right issues, and 29 stock splits event announcements throughout the study period. (Table 1 & 2).

To determine the expected return, the study is expected to use event study analysis together with a market model as the asset pricing model. However, the researcher will follow the subsequent steps to analyze the impact of corporate event announcements on stock returns. To begin with, the research period's event date—that is, the date on which corporate events are announced—is decided for every company that met the requirements and was chosen. This day is called "Day Zero". Second, the event window is determined, and it is determined to be an event window from -10 to +10 (ten days before the event date, "day zero", and ten days after). It is in line with many other event studies by Ramesh and Nimalathasan (2011), Gunasekara (2004), and Baharuddin and Teoh C Ying (2010). Third, the calculation of the daily return for the company's stock in the study years is estimated by the following equation:

$$R_{it} = \ln(P_{it}/P_{it-1}) \quad (1)$$

- $R_{it}$  = the actual return of the company stock  $i$  on the day  $t$ ,
- $P_{it}$  = closing price of the company's stock  $i$  at the end of the day  $t$ ,
- $P_{it-1}$  = closing price of the company's stock  $i$  at the day  $t-1$

Fourth, the expected return per stock for each company is calculated.

The Market Model & Quant:

$$E(R_{it}) + \beta_i(R_{mit}) + \epsilon_i \quad (2.1)$$

The asset pricing models work under the assumption that  $\epsilon_i$  has an expected value of zero and is unrelated to the market as a whole.

$E(R_{it})$  = Expected Return of Investment

$R_{mit}$  = The rate of return on the market on day 't' / The Market Index's Return

$\alpha_i$  = The return from the asset unrelated to the market's return.

$\beta_i$  = Slope of a straight line (beta coefficient) of stock  $i$

$\epsilon_i$  = Error term for past returns not explained by the regression equation.

Over a 200-day estimation period, from day  $t-210$  to day  $t-10$ , the market model's parameters were calculated. This 200-day duration falls within Strong's suggested range (1992). Market portfolio return will be proxied by the ASPI Index; Risk-free rate will be proxied by Treasury bill rates. The market capitalization of each company will be taken from the CSE data library on the 31st of December each year. Book Value of Equity (BV), Operating income, and Total Asset value will be taken from the company's annual report on the 31st of December each year.

Fifth, the study will have the actual return from the CSE Library and the expected return of the companies from the data set and equation (2). The next step is determining the abnormal return via equation (3); the study will have five (5) abnormal returns for each corporate event announcement.

$$A(R_{it}) = R_{it} - E(R_{it}) \quad (3)$$

Where:

$A(R_{it})$  = the abnormal return on day  $t$ .

$R_{it}$  = the actual return on the day  $t$ .

$E(R_{it})$  = the expected return on the day  $t$ : from equation (2).

The average abnormal return (AAR) will be calculated by averaging the abnormal returns of each stocks for each day in the event window before and after the event day. To remove the company-specific impact on information release, the abnormal return for each day is averaged over all the companies in the data set.

$$AAR = \sum AR_{it} * 1/N \quad (4)$$

Sixth, the Cumulative Average Abnormal Return (CAAR) for every day in the study window period. The CAAR will be determined using the formula.

$$CAAR = \sum_n AAR_{it} \quad (5)$$

Hence, the study has twenty-one (21) views for CAAR, depending on the number of window days.

Seventh, the test of the Research Hypothesis.

Hypothesis 01:

H01: There is no significant relationship between the Scrip dividend announcement and the Stock returns.

H02: There is no significant relationship between the Bonus Issue announcement and the Stock returns

H03: There is no significant relationship between Right Issue announcement and the Stock returns

H04: There is no significant relationship between Stock split announcement and the Stock returns

Hypothesis 02:

H1a: The CAAR around the event date is not different to the zero

### C. Results and Discussion

The right issue demonstrates that there is a positive and negative fluctuation yield in the value of AARs and CAARs. This makes it obvious that the day of the appropriate problem statement (Day 11=Day 0) is when negative major CAARs are earned. The market always sees right issue announcements as bad news for a company's future direction. After bonus issue announcements the market shows both positive and negative movements in average abnormal returns and cumulative averages before and after event day. Soon after CAAR grows from its bonus issue announcement it decreases while AAR shows consistent slow reductions. The event day shows positive and negative significant CAAR changes. Companies receiving bonus issues face a negative market perception about their upcoming direction. After an event day stock dividends show small but changing CAAR and AAR results. When stock dividends are announced there is a clear upward shift in both AAR and CAAR figures over a few days. The reported CAAR values on event day zero show both positive and negative patterns. The market reacts positively to stock dividend announcements because they indicate high future company expectations. After the news break companies experience steady growth in their daily stock earning numbers. After stock splits AARs and CAARs display small changes that move between positive and negative values across different time periods. The indexes CAAR and AAR rise after the news of a stock split but CAAR dips slightly at first before coming back up. Though CAAR decreases first it starts to grow steadily which brings negative returns back to zero.

### D. Descriptive Statistics

The table represents the descriptive statistics for cumulative average abnormal return for each announcement within the event period. The mean value, median, standard deviation, skewness minimum and maximum value for each announcement are included below. (see Table 3)

### E. CAAR and AAR Analysis

Used a two-sided t-test to investigate the daily and complete event period abnormal returns of the studied companies. Using 82 events from Sri Lankan companies between 2017 and 2021 the study analyzed how well investors were informed when companies issued right issue, stock dividend, stock split, and bonus stock announcements across multiple developing market sectors listed on CSE. Our analysis showed returns above normal levels throughout the evaluation window for all types of announcements. Right issue announcements on the event day produced an average abnormal return of -7.45% which failed to reach statistical significance by a t-value of 0.7892. On event days' public markets react slowly at best to right issue disclosures. During the (0 to +10) period the market generated 2% excess average earnings compared to regular

gains. Our findings show minimal market responsiveness following right issue announcements which confirms defects in both how information spreads and reaches investors. The slow market reaction to these companies' disclosures suggests internal market problems. Across all industries the market showed no reaction to new share offerings at the time of announcement according to this research.

The test results show a statistically insignificant decline in stock value (-1.36%) at the 5% level when companies announced stock dividends (Table 5). The market does not show immediate response to stock dividend disclosures made by companies on their event day. During these ten days the total average return difference totaled 10%. The study found that stock dividend announcements throughout all industries created no abnormal return on the event day.

During stock split announcement days an average return of -30.47% showed no significant market reaction ( $t=-1.2759$ ). The market showed no immediate reaction when companies announced stock splits on the event day. During the time window from zero to plus ten days the aggregate abnormal returns generated a negative return of three percent. Our findings showed that the CAAR for stock split news arrived across different sectors did not turn out to be zero.

The average abnormal return of bonus issue announcements measured 1.84% on the event day but this result was not statistically meaningful ( $t = 1.2277$ ) at the 5% level. The market showed only slow response to bonus issue news on the day of distribution. During our study period of 10 days after the market announcement we registered a small yet measurable return of 0.08% on average. This research found bonus issue announcements for all industries generated zero total market reaction on event day.

The results demonstrate that markets process information about stock returns slowly and inconsistently in the different industry groups. Please tell me if you want me to extend or enhance these findings. (See Table 4/5/6 /7)

### F. Figures and Tables

TABLE 1 - Number of Corporate Event Announcements for the period of 2017-2021

Event	2017	2018	2019	2020	2021	Total
Stock Dividend	2	2	4	2	3	13
Bonus Issue	4	4	0	0	1	9
Right Issue	3	8	7	8	5	31
Stock Split	2	2	1	1	23	29

TABLE 2 - Number of Corporate Events Announcements in each sector

Stock Dividend	2017	2018	2019	2020	2021
Consumer Services	1	1	-	-	-
Capital Goods	-	-	1	1	1
Utilities	-	-	1	1	1
Real Estate	-	-	-	-	1
Food Beverage and Tobacco	1	1	2	-	-
Total	2	2	4	2	3
Bonus Issue	2017	2018	2019	2020	2021
Utilities	1	-	-	-	-
Materials	1	-	-	-	-
Consumer Services	1	-	-	-	-
Consumer Durables & Apparel	-	1	-	-	-
Food Beverage & Tobacco	1	-	-	-	-
Food & Staples Retailing	-	2	-	-	-
Retailing	-	-	-	-	1
Real Estate	-	1	-	-	-
Total	4	4	0	0	1

Right Issue	2017	2018	2019	2020	2021
Capital Goods		3	1	2	2
Consumer Services			4	2	1
Real Estate	1	2	2	1	
Materials				1	
Food Beverage & Tobacco	1	1		2	1
Household & Personal Products	1	-	-	-	-
Retailing		1	-	-	-
Trading		1			
Utilities					1
Total	3	8	7	8	6
Stock Split	2017	2018	2019	2020	2021
Capital Goods			-	1	7
Consumer services					2
Consumer Durables & Apparel					4
Retailing	1			-	1
Materials	-		-	-	6
Real Estate	1	-	1	-	
Food Beverage & Tobacco	-	2	-		3
Total	2	2	1	1	23

TABLE 3 – Descriptive Statistics

	Right Issues	Stock Dividends	Stock Split	Bonus Issue
Mean	0.02492	-0.11101	0.02583	-0.00310
Std. Error of Mean	0.02027	0.01602	0.05734	0.00259
Median	0.02312	-0.11765	-0.03983	-0.00559
Std. Deviation	0.09291	0.07342	0.26274	0.01188
Skewness	0.01318	0.31660	0.20501	0.79604
Kurtosis	-1.31897	-1.22911	-0.91108	-0.15039
Minimum	-0.12315	-0.21296	-0.40254	-0.02027
Maximum	0.16702	0.00632	0.50453	0.02115

TABLE 4 – Right Issue announcement

Event Date	AAR	CAAR	t-stat	Sig. value
-10	0.0231	0.0231	1.8657	0.0719
-9	0.0236	0.0467	1.9361	0.0623
-8	0.0182	0.0649	1.8474	0.0746
-7	0.0168	0.0817	1.8741	0.0707
-6	0.0191	0.1007	1.9044	0.0665
-5	0.0191	0.1198	1.9389	0.0620
-4	0.0214	0.1412	1.9407	0.0617
-3	0.0153	0.1565	1.8976	0.0674
-2	0.0105	0.1670	1.7966	0.0825
-1	-0.0240	0.1430	1.5913	0.1220
0	-0.0745	0.0686	0.7892	0.4362
1	-0.0784	-0.0098	-0.0858	0.9322
2	-0.0434	-0.0532	-0.3954	0.6953
3	-0.0326	-0.0859	-0.7090	0.4838
4	-0.0217	-0.1076	-1.0826	0.2876
5	-0.0156	-0.1231	-1.4694	0.1521
6	0.0389	-0.0842	-1.4702	0.1519
7	0.0220	-0.0622	-1.6892	0.1016
8	0.0250	-0.0372	-1.5666	0.1277
9	0.0102	-0.0270	-1.8539	0.0736
10	0.0274	0.0004	0.0992	0.9217

Null Hypothesis	Sig.	Decision
The t0 equals to 0.000	0.347	Not Rejected

TABLE 5 – Stock Dividend Announcement

Event Date	AAR	CAAR	t-stat	Sig. value
-10	0.0044	0.0044	0.3057	0.7668
-9	0.0019	0.0063	0.2276	0.8251
-8	-0.0054	0.0009	0.0239	0.9815
-7	-0.0165	-0.0156	-0.3401	0.7416
-6	-0.0297	-0.0453	-0.8496	0.4176
-5	-0.0282	-0.0735	-1.1627	0.2749
-4	-0.0192	-0.0927	-1.2284	0.2504
-3	-0.0064	-0.0991	-1.1492	0.2801
-2	-0.0076	-0.1067	-1.0932	0.3027
-1	-0.0110	-0.1176	-1.0854	0.3060
0	-0.0136	-0.1312	-1.0968	0.3012

1	-0.0169	-0.1482	-1.1314	0.2871
2	-0.0145	-0.1627	-1.1318	0.2870
3	-0.0180	-0.1807	-1.1308	0.2874
4	-0.0045	-0.1851	-1.0831	0.3069
5	-0.0054	-0.1905	-1.0575	0.3178
6	-0.0014	-0.1919	-1.0353	0.3276
7	-0.0113	-0.2032	-1.0411	0.3250
8	-0.0098	-0.2130	-1.0331	0.3285
9	0.0671	-0.1459	-1.0320	0.3290
10	0.1058	-0.0401	-1.0427	0.3243

Null Hypothesis	Sig.	Decision
The t0 equals to 0.000	0.203	Not Rejected

TABLE 6 – Stock Split Announcement

Event Date	AAR	CAAR	t-stat	Sig. value
-10	0.0583	0.0583	6.5398	0.0000
-9	0.0584	0.1167	6.6471	0.0000
-8	0.0059	0.1227	1.9674	0.0591
-7	0.0688	0.1915	2.6588	0.0128
-6	0.0610	0.2525	3.2331	0.0031
-5	0.0654	0.3179	3.7568	0.0008
-4	0.0584	0.3763	4.3774	0.0002
-3	0.0681	0.4445	4.8982	0.0000
-2	0.0601	0.5045	5.3035	0.0000
-1	-0.3041	0.2005	2.5773	0.0155
0	-0.3047	-0.1043	-1.2759	0.2125
1	-0.2983	-0.4025	-3.7968	0.0007
2	0.0568	-0.3457	-3.2744	0.0028
3	0.0495	-0.2962	-2.7632	0.0100
4	0.0468	-0.2494	-2.2996	0.0291
5	0.0629	-0.1865	-1.7300	0.0946
6	0.0343	-0.1522	-1.5917	0.1227
7	0.0359	-0.1163	-1.2796	0.2112
8	0.0246	-0.0917	-0.9897	0.3308
9	0.0334	-0.0582	-0.7930	0.4344
10	0.0184	-0.0398	-0.7305	0.4712

Null Hypothesis	Sig.	Decision
The t0 equals to 0.000	0.001	Rejected

TABLE 7 – Bonus Issue Announcement

Event Date	AAR	CAAR	t-stat	Sig. value
-10	-0.0025	-0.0025	-1.0033	0.3451
-9	-0.0039	-0.0064	-1.2864	0.2343
-8	-0.0064	-0.0128	-1.6313	0.1415
-7	-0.0028	-0.0156	-1.5585	0.1577
-6	0.0018	-0.0137	-1.3139	0.2253
-5	-0.0008	-0.0146	-1.5282	0.1650
-4	0.0000	-0.0146	-1.5717	0.1547
-3	-0.0056	-0.0203	-1.8733	0.0979
-2	0.0096	-0.0107	-0.7187	0.4928
-1	0.0114	0.0006	0.0429	0.9668
0	0.0184	0.0191	1.2277	0.2544
1	0.0021	0.0211	1.5695	0.1552
2	-0.0029	0.0182	1.4403	0.1877
3	-0.0095	0.0088	0.7411	0.4798
4	-0.0038	0.0049	0.5259	0.6132
5	-0.0048	0.0001	0.0162	0.9875
6	-0.0037	-0.0036	-0.4849	0.6408
7	-0.0052	-0.0088	-1.1665	0.2770
8	0.0007	-0.0080	-1.2451	0.2483
9	0.0024	-0.0056	-1.2336	0.2524
10	0.0048	-0.0008	-1.1715	0.2751

Null Hypothesis	Sig.	Decision
The t0 equals to 0.000	0.441	Not Rejected

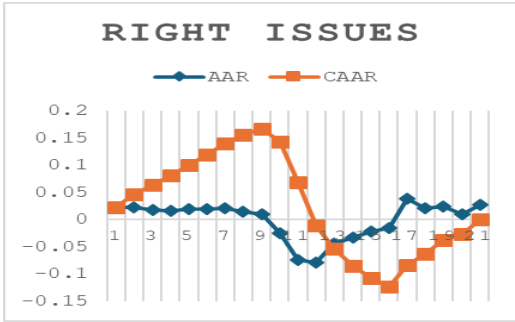


Fig. 1. Right Issue

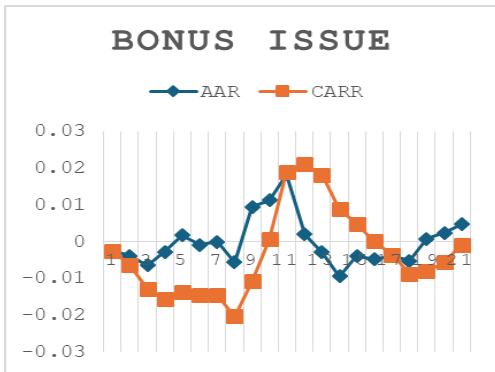


Fig. 2. Bonus Issue

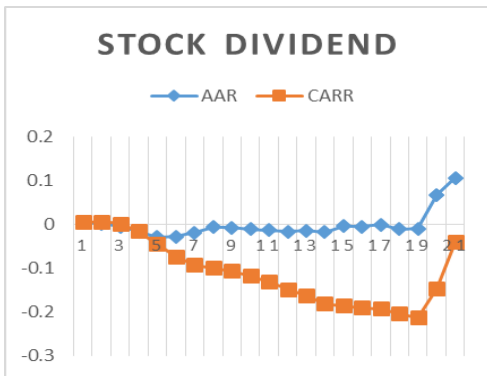


Fig. 3. Stock Dividend

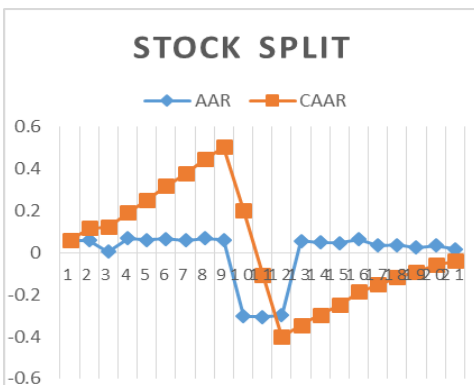


Fig. 4. Stock Split

## II. CONCLUSION

An economy's foundation depends on marketplaces for capital distribution so they need to work smoothly. According to Malkiel (2010) national economic growth

benefits from competitive financial market operations. The financial market uses security prices to track market trends. Research reveals conflicting opinions about market efficiency across different types of announcements in the Sri Lankan capital market.

This study analyzed four major announcements in Sri Lanka: Our research focuses on four main market events: right issue, stock dividend, stock split, and bonus issue. The research team analyzed the stock market movements following official releases through standard event methods. The market showed no noticeable changes during the event periods. The stock market analyzed all available event information during Day "0" which demonstrated that investors needed time to comprehend the announcement data. The measurements from event day results showed no relevant statistical differences at a 5% significance level.

Following right issue announcements investors earned 0.3% above-average returns five days later. During the 21-day observation period following the event day market participants experienced favorable average abnormal returns (AARs) in two-thirds of cases combined with negative results in one-third of cases. The period before (-10 to -1) right-issue announcements triggered a boost in stock performance that gave investors 14.30% returns. After (0 to +10) investors earned minimal returns of 0.04%. Research reveals a future opportunity for above-average returns from this information delay.

After receiving stock dividend news shareholders achieved positive returns of 0.9% on day eight. During the 21-day window period our research showed 81% of cases had unfavorable AARs before event day but 19% produced positive results. The period ten days prior up to the day before the announcement revealed a negative change in shareholder wealth at 11.76%. After the announcement shareholders did not show noticeable changes in their wealth during the next ten-day period.

When companies announce stock splits shareholders typically see returns rise 5.7% the following day. During the 21-day period that precedes the event date shareholders saw positive AAR results in 86% and negative AAR situations in just 14%. Prior to the disclosure (-10, -1) investors reacted positively with a 20% Capital Accumulation and Appraisal Response while the market showed little reaction following announcements during (0, +10) with -4% CAAR.

When companies declared bonus issues shareholders received a positive 0.2% market return on the event day before experiencing negative returns from day eight onward. The study repeated positive results of 0.0007 through subsequent observations. For 43% of the examples during the 21-day window period investors received positive AAR results while 57% saw negative AAR results because the forecasts before the event day failed. From 11 days before to 1 day before the event investors showed a 0.06% decline in market value while shares posted -0.08% loss during 10 days afterwards.

The study focused on companies traded on the CSE across 17 business sectors except banking which had unique financial reporting practices. The analysis was restricted to four announcement types: This study researched scrip dividend, bonus issue, right issue and stock split announcements. Both global economic conditions and trading expenses were omitted from our analysis of investment performance during the chosen time period.

Additional studies must examine how other financial company events impact stock performance of CSE-listed firms. Research focused on only eleven years from 2008 through 2019.

#### REFERENCES

- [1] Akbas, F., Armstrong, W. J., Sorescu, S., & Subrahmanyam, A. (2014). Capital Market Efficiency and Arbitrage Efficacy.
- [2] Anderson-Weir, C. H. (2010). How Does the Stock Market React to Corporate Environmental News? Undergraduate Economic Review, 6(1).
- [3] Ball, R. (2009). The Global Financial Crisis and the Efficient Market Hypothesis: What Have We Learned? Journal of Applied Corporate Finance, 21(4), 8-16.
- [4] Bandara, D., and Samarakoon, P. (2002). Dividend Announcements, Firm Size and Dividend Growth in the Sri Lankan Stock Market. Sri Lankan Journal of Management, 7(3), 228-245.
- [5] Barone, E. (1989). The Italian Stock Market: Efficiency and Calendar Anomalies. <http://dx.doi.org/10.2139/ssrn.512503>
- [6] Bechev, I. (2011). Efficient Market Hypothesis: Budapest, Prague and Warsaw Stock Exchange. SSRN Electronic Journal, 1-33. <https://doi.org/10.2139/ssrn.625901>
- [7] Chavali, K., & Zahid, Z. (2001). Impact of Stock Splits on Stock Price Performance of Selected Companies in Indian Context. Afro-Asian Journal of Finance and Accounting, 2(3), 270-282. <https://doi.org/10.1504/AAJFA.2011.041633>
- [8] Dasilas, A., & Leventis, S. (2011). Stock Market Reaction to Dividend Announcements: Evidence from Greek Stock Market. International Review of Economics and Finance, 20(2), 302-311. <https://doi.org/10.1016/j.iref.2010.06.003>
- [9] Degutis, A., & Novickte, L. (2014). The Efficient Market Hypothesis: A Critical Review of Literature and Methodology. Working Paper.
- [10] Dhar, S., & Chhaohharia, S. (2011). Market Reaction Around the Stock Splits and Bonus Issues: Some Indian Evidence. SSRN Electronic Journal, 9434139726(M), 1-24. <https://doi.org/10.2139/ssrn.1087200>
- [11] Dragota, V., Opera, D., & Brasoveanu, L. O. (2019). Market Efficiency, Prediction and Returns. Economic Computation and Economic Cybernetics Studies and Research, 53(3), 59-76.
- [12] Fama, E., & French, K R. (2000). Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay? AFA 2001 New Orleans; CRSP Working Paper No. 509. <http://dx.doi.org/10.2139/ssrn.203092>
- [13] Fama, E., Fisher, L., Jensen, M., & Roll, R. (1969). The Adjustment of Stock Prices to New Information. International Economic Review, 10(1), 1-21. <https://doi.org/10.2307/2525569>
- [14] Griffin, J. M., Kelly, P. J., & Nardari, F. (2011). Are Emerging Markets More Profitable? Implications for Comparing Weak and Semi-Strong Form Efficiency. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.959006>
- [15] Gunalp, B., Kadioglu, E., & Killc, S. (2011). The Announcement Effect of Cash Dividend on Share Prices and the Tax Clientele Effect: Evidence from Turkish Capital Markets. Euro Conference 2011: Crises and Recovery in Emerging Markets.
- [16] Guo, S., & Wang, Z. (2007). Market efficiency anomalies A study of seasonality effect on the Chinese stock exchange (pp. 1-64).
- [17] Gupta, S., Dogra, B., Vashisht, A. K., & Ghai, S. (2012). Stock Price Reactions to Dividend Announcements. International Journal of Management, 2(2), 23-31.
- [18] Hua, B. L., & Ramesh, S. (2013). A Study on Stock Split Announcements and its Impact on Stock Prices in Colombo Stock Exchange (CSE) of Sri Lanka. Global Journal of Management and Business Research Finance, 13(6), 25-34.
- [19] Jarrow, R. A., & Larsson, M. (2011). The Meaning of Market Efficiency. Johnson School Research Paper Series No. 07-2011. <http://dx.doi.org/10.2139/ssrn.1781091>
- [20] Kulakarni, V., & Chandani, A (2020). A Study to Analyse Effect of Corporate Actions on Stock Market Returns of Selected Indian IT Companies. e-journal-First Pan IIT International Management Conference – 2018.
- [21] Kumar, H., & Jawa, R. (2017). Efficient Market Hypothesis and Calendar Effects: Empirical Evidences from the Indian Stock Markets. Business Analyst, 37(2), 145-160.
- [22] Lakshmi, V., & Roy, B. (2012). Price Earnings Ratio Effect: A Test of the Semi Strong Form of Efficient Market Hypothesis in Indian Stock Market, XI Capital Markets Conference, 21-22 December 2012, Indian Institute of Capital Markets (UTIICM). <https://dx.doi.org/10.2139/ssrn.2255389>
- [23] Los, C A. (2004). Measuring the Degree of Financial Market Efficiency: An Essay. <https://dx.doi.org/10.2139/ssrn.614544>
- [24] Malkiel, B. G. (2010). Bubbles in Asset Prices. CEPS Working Paper No. 200.
- [25] Marisetty, N., & Babu, S. (2017). Corporate (Dividend) Actions and Impact on Stock Abnormal Returns: A Study on Indian Context. International Journal of Management and Social Sciences Research, 6(11), 30-35.
- [26] Marisetty, N., & Babu, S. (2018). Impact of Corporate Action (different Stock Split Ratios) on Stock Price in India. International Journal of Research in Economics and Social Sciences, 8(1), 205-213.
- [27] Marisetty, N., & Pasha, A (2017). a Study on the Impact of Dividend on Stock Prices. International Journal of Management Studies, 4(1), 1-9.
- [28] Mishra, A. K. (2005). An Empirical Analysis of Market Reaction around the Bonus Issues in India. IIML Working Paper Series No: 2005-10.
- [29] Nishanthini A. & Nimalathan B. (2014). Market Efficiency and Its Impact on Share Price: A Study of Listed Manufacturing Companies in Sri Lanka. Asia Pacific Journal of Research, I(XX), 111-120.
- [30] Rao, K. K. (2014). Corporate Actions and Impact on Stock Prices – An Empirical Study of Indian Markets. Galaxy International Interdisciplinary Research Journal, 2(1).
- [31] Rozeff, M. S., & Zaman, M. A. (1988). Market Efficiency and Insider Trading: New Evidence. In The Journal of Business, 61(1), 25. <https://doi.org/10.1086/296418>
- [32] Shirur, S. (2008). Dilemma of Corporate Action: Empirical Evidences of Bonus Issue vs. stock Split. Vikalpa, 33(3), 35-47. <https://doi.org/10.1177/0256090920080303>
- [33] Titan, A. G. (2015). The Efficient Market Hypothesis: Review of Specialized Literature and Empirical Research. Procedia Economics and Finance, 32(15), 442-449. [https://doi.org/10.1016/s2212-5671\(15\)01416-1](https://doi.org/10.1016/s2212-5671(15)01416-1)
- [34] Venkatesan, T., & Nagaraj, R (2018). Analysis of Corporate Actions and Market Efficiency in India. SJCC Management Research Review, 8(1), 75-89.