

# Stock Price Reaction to Stock Splits Announcements and Information Efficiency in Sri Lankan Share Market

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This study attempts to examine the reactions of the stock market, as soon as the information of stock splits is published over the Colombo Stock Exchange (CSE) and how the Semi-strong Form Efficient Market Hypothesis acts according to the information of stock splits announcements with a sample of 35 major companies from those listed on the CSE, which have made 35 stock split announcements for the period of 2009-2013. This study employs event study methodology, specifically, the Mean Adjusted Model, the Market Adjusted Model, the Market Model and Time Series Model along with different proxies of the CSE All Share Price Index, Sector Price Indexes, Total Return Index and Sector Return Indexes in generating abnormal returns surrounding subsequent stock split announcements. Overall calculated results of the market response to stock split announcements based on each model along with each proxy show that stock price reacts positively to subsequent stock split announcements on the event day which is not statistically significant. It evidences that there is no impact to stock return on the subsequent stock split announcements on event day in Sri Lanka Share Market. In addition, the findings show that the market has reacted even before the actual announcement of split, as well as after the announcement. These results prove that the share price does not seem fully and instantaneously reflect the information contained in the announcement of the splits. This fact suggests that the Semi-strong Form Efficient Market Hypothesis does not act according to the information of the stock split announcements in CSE. These results confirm that the Sri Lankan Share market is inconsistent with information efficiency. This research will be important to all parties interested in the share market. Especially, it is more important to the investors, managers of the companies and the stock exchange regulatory agencies in their decision-making.

**Key words:** *Announcements; Event Study; Information Efficiency; Market Model; Split; Stock Price.*