Review Article
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The impact of dividend announcement on stock prices in Muscat securities market, Muscat

Abstract

The economic growth of country is linked with the financial market of the country and stock market is used as indicator of nation's economy. Capital market is an integral part of financial system and its plays a strategic role in a country's economic growth by witnessing a tremendous growth. It facilitates the exchange of funds between company as demander and investor as supplier by believing that the overall growth of economy depends on how efficiently the stock market performs.

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Introduction

The existence of capital market enables company to obtain an alternative source of fund. On the other hands, it gives flexibility for investor to choose investment based on their preference. The company and investor who are involved in the capital market, understanding about capital market condition becomes matter in order to understand how the market is actually works. Shares of companies traded in the financial markets and where is the market value of the shares is determined by supply and demand, and so by selling and buying in the financial market. The investors are evaluated the stocks of companies based on many financial factors, including: Earnings per share and dividend policy. In addition to many other factors, as there are non-financial factors, such as the news circulating in the market and the administration's reputation and the nature of the activity of the company. It is also considered the financial markets indicators of important measures that indicate the size of the economy and its kind and the availability of liquidity in the market, transparency and efficiency, so is the market value of the shares of the most important financial market indicators.

About Muscat security market

Muscat Securities Market was established by a Royal Decree 53/88. The decree issued in June 1988. The market was consisted of two parts; the regulatory part and the executive part. These two parts were working together as a one unit. They were responsible of implementation of trading, clearing as well as controlling the dealers of the market through issuing the laws and regulations. However, their role in this way led for the weakness of the supervisory role of the market. Therefore the two parts separated. Two Royal Decrees (80/ 98) and (82/ 98) were issuing to restructure the securities market into three main entities; Capital Market Authority, Muscat Securities Market and Muscat Clearing and Depository Company. Capital Market Authority is for the legislative, regulatory and supervisory entity. Muscat Securities Market is for listing and trading of the securities. Muscat Clearing and Depository Company is the central entity for moving ownership of securities and protecting the related documents. The development of the capital market has three stages. The first stage: Prior of the establishment of Muscat Securities Market (1970-1989). The 1971 was the start point for the Omani Capital market, when Oman Hotels Company floated the first share of subscription and it becomes the first company in Oman which contributed in the capital market establishment. There were 71 companies joined the stock; 23 closed joint stock companies and 48 public joint stock companies. The equity of the shareholders was of RO 269.9 million and it was distributed among 17,000 shareholders.

In this stage the dealing in the securities market was unorganized and there is lack of information for the investors and companies. Thus the studies were recommended to make a great capital stock in the sultanate with clear and good information for the investors as well as to keep the work in the stock more organized and planned. The second stage: The Establishment of Muscat Securities Market (1989- 1998). In this stage the development of the capital market was noticed through establishing the Muscat Securities Market in 1989 and it becomes the responsible body for organizing the capital market and give protection for the investors, as well as it improves all the ways for investing the savings for productive investment for the investors and the national economy in general, because organized capital market is essential to achieve the economic development. In 1997 the electronic trading was established, thus it was a big move from the manual trading to the electronic trading. Electronic leading makes the transactions and work more rapid and organized and it was the first Arab stock to use the electronic trading.

Literature review

Gordon Newlove Asamoah (2010) studied the impact of dividend announcement on share price behavior in Ghana. The study support the Efficient Market Hypothesis theory as share prices reflect all available information. He studied the divined announcement impact of selected three companied from Ghana Stock Exchange in the year 2005.in this study the author tried to explore whether the Ghana Stock Exchange did not recognize company-specific information in pricing share. The study was to determine whether there was any immediate reaction of the selected companies' share price in order to dividend announcement for proving or disproving the Efficient Market Hypothesis theory. He applied the event study methodology and Wilcoxon Matched-Pair signed-Ranked Test. The study documented

Ghana Stock exchange was not semi strong efficient resulting in the conclusion. Saeidi et al.,[1] study aimed to test the relationship between market and market share prices in the Tehran stock market. The multiple regression method was used to find the relationship between independent and independent variables. The study sample was 159 companies from 2003 to 2009, and it was concluded that the market rates are intrinsically related to the share price, in addition to the fact that earnings per share and earnings per share have a significant impact on the share price. Tamimi (2011) aimed to identify the main factors that determine the share price in the stock market. The study period was from 1990 to 2005. The sample consisted of 17 companies. The multiple regression models was used to analyze the variables, And there was a strong correlation between earnings per share on the UAE stock market.[2,3] Studied an impact of Dividend Announcement on Stock Return. He studied the impact of dividend announcement of financial industry which is listed in the stock exchange of Thailand. The sample is 60 Thai companies and the period is 2005-2010. The study applied event study methodology for examining the impact of dividend announcement on the stock price. The event period of the study was forty days. He determined the reaction of stock prices to the dividend announcement. The study shows the result of stock prices move upward significantly after dividend announcements. The author applied the statistical tools namely abnormal return and cumulative abnormal return. The study results confirmed the dividend signaling theory as the dividend announcements have significant impact on share prices. The Yang and Wu study (2015) aimed to test the impact of the announcement of cash dividends before and after the date of loss of the right to profit. The study sample was composed of companies listed on the Taiwan stock market during the period from 2001 to 2012, And the methodology of the event was used for this purpose, and there was a significant increase in the share price during the ten days preceding the date of the loss of the right to receive dividends, greater than the period of ten days following the date of loss of the right to dividends.

Objectives of the study

To investigate the impact of dividend announcement by examining the reaction of stock price to dividend announcements using event study methodology. To explore stock returns around the dividend announcement date.

Hypothesis of the study

The following are the research hypotheses that are planned and verified based on the above mentioned objective to discover the impact of dividend announcement on the selected companies share price return. Ho: Dividend announcement does not have any statistically significant impact on share price behavior. Hl: Dividend announcement have statistically significant impact on share price behavior.

Data collection

Name of the company	Dividend date	Event period(-10 to + 10) days
Ahli Bank	27.03.17	MAR 07, 2017 to APR 23, 2017
Bank Dohar	27.03.17	MAR 13, 2017 to APR 20, 2017
HSBC Oman	30.03.17	MAR 16, 2017 to APR 16, 2017
Bank Sohar	30.03.17	MAR 15, 2017 to APR 16, 2017
National Bank of Oman	26.03.17	MAR 12, 2017 to APR 09, 2017
Bank Muscat	19.03.17	MAR 05, 2017 to APR 02, 2017

Source and collection of data

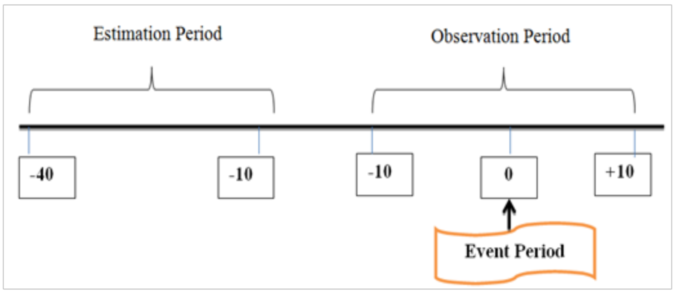
The study mainly depends on secondary data. The required data for the study is daily closing price of MSM Financial and Banking sector companies. Data was collected from MSM website.[4]

Event study methodology

The event study methodology is intended to investigate the effect of an event on a specific dependent variable. A commonly used dependent variable in event studies is the stock price of the company. The definition of such an event study will be 'a study of the changes in stock price beyond expectation (Abnormal returns) over a period of time (event window). We attribute the abnormal returns to the effects of the event.' The event study methodology seeks to determine whether there is an abnormal stock price effect associated with an event. In this study considered event is Dividend announcement.

Even study time line

An "event" is the public announcement of a (usually voluntary) corporate action. In this considered corporate action is dividend announcement. The abnormal return is calculated form 10 days prior to the event and 10 days post to the event. This period is called as observation period. Each day's abnormal return is calculated in the observation period. The estimation period contain 30 days closing price of the selected companies prior to the observation period. The estimation period each day's selected companies return as well as MSM 30 index return is calculated. These values are used to measure the AR and CAR in the observation period.



Abnormal return (AR)

The Abnormal Return (AR) is the difference between the firm's actual return and the predicted return on a specific date. It is computed using the following equation:

$$AR_{it} = r_{i,j} - \left(\alpha_i + \beta_i r_{m,t}\right)$$

α_i = Intercept of a straight - line or alpha coefficient of i[th] share.

β_i = Slope of a straight - line or beta coefficient of i[th] share

$R_{m,t}$ = Expected return on index (MSM 30 Index in this study) during period't'

Cumulative abnormal return (CAR)

Cumulative Abnormal Return (CAR) is the measure of the total abnormal returns during the event period; it is calculated as the sum of the ARs during the event period.

Data analysis and interpretation

Table 1 shows the abnormal return of Ahli Bank around the dividend announcement. The study consider 11 days event window comprising

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5 days prior to annual dividend announcement and 5 days post annual dividend announcement. There is no positive abnormal return found in pre-announcement period. The abnormal return is found in the post announcement period, very next day of dividend announcement; 7% positive abnormal return was recorded. The second day of the dividend announcement -3% negative abnormal returns was recorded in the Ahli Bank. A little abnormal return is found during the first two days after the announcement of dividend results. After that abnormal return is reduced. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the post event period (0, 1 and 2 days) at 5% levels; which leads to rejection of the null hypothesis. The cumulative abnormal return for the event period is -1%. R-squared value indicates the percentage of the Ahli banks stock price return movements that could be explained by price return movements of MSM 30 index. Figure 1 graphs shows return of Ahli bank around the event period; in which there is no appears of general trend. The trading strategy is only viable if the nature surprise is known and most noticeable movement is the return of Ahli bank rises considerably on the 1st day of post announcement period for a positive surprise. Table 2 shows the abnormal return of Bank Dhofar around the dividend announcement. The study consider 11 days event window comprising 5 days prior to annual dividend announcement and 5 days post annual dividend announcement. There are negative abnormal returns found in pre-announcement period. In the post announcement period, very next day of dividend announcement; 12% positive abnormal return was recorded. The second day of the dividend announcement 2% positive abnormal returns was recorded in the Bank Dhofar. A considerable abnormal return is found during the first two days after the announcement of dividend results. After that abnormal return is reduced and 6th day of post announcement negative abnormal return is recorded. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis. The cumulative abnormal return for the event period is -1%. R-squared value indicates the 36 % of the Bank Dhofar stock price return movements that could be explained by price return movements of MSM 30 index.[5]

Table 1 AR, CAR and T Test values of Ahli Bank

Pre-announcement					Post –announcement				
Days	**AR**	**T-Test**	**CAR**	**T-Test**	**Days**	**AR**	**T-Test**	**CAR**	**T-Test**
-10	0%	0.18124	-1%	-0.29879	0	0%	0.33107	7%	3.03396*
-9	-1%	-0.93649	0%	0.01929	1	7%	7.33798*	4%	1.67318
-8	1%	0.98525	1%	0.35442	2	-3%	-3.10863*	-2%	-0.84991
-7	0%	-0.08937	0%	-0.05475	3	1%	0.96029	1%	0.49205
-6	0%	-0.04901	0%	0.08597	4	0%	0.28348	0%	0.15095
-5	0%	0.26632	0%	0.22176	5	0%	0.09808	1%	0.28608
-4	0%	0.29422	1%	0.3955	6	1%	0.62504	1%	0.40423
-3	1%	0.70551	1%	0.25008	7	0%	0.39674	1%	0.24034
-2	0%	-0.07338	0%	0.02013	8	0%	0.21077	-1%	-0.25085
-1	0%	0.12426	0%	0.18013	9	-1%	-0.84486	-1%	-0.25093
0	0%	0.33107	-1%	-0.29879	10	0%	0.21059	0%	0.08331
Intercept -0.00186									
Slop 0.348782									
Standard Error 0.008889									
R square 0.02247									

*Significant at 5% level

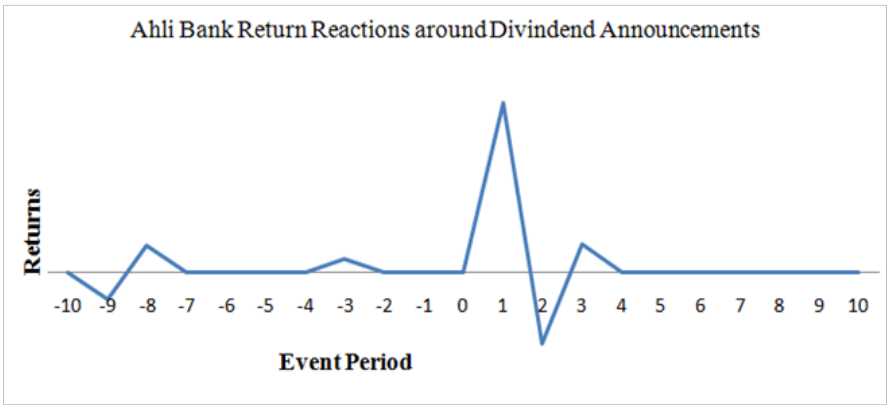

Figure 1 Ahli Bank return around event period.

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Table 2 AR, CAR and T Test values of Bank Dhofar

Pre-announcement					Post –announcement				
Days	**AR**	**T-Test**	**CAR**	**T-Test**	**Days**	**AR**	**T-Test**	**CAR**	**T-Test**
-10	0%	-0.06866	-1%	-0.90289	0	0%	-0.38616	11%	13.50339*
-9	-1%	-0.83423	-1%	-0.78126	1	12%	13.88955*	14%	16.48066*
-8	0%	0.05297	0%	0.00756	2	2%	2.59111*	2%	2.39433*
-7	0%	-0.04541	0%	0.52126	3	0%	-0.19678	1%	0.99823
-6	0%	0.56667	-1%	-1.47349	4	1%	1.19501	1%	1.08852
-5	-2%	-2.04016*	-3%	-3.07259*	5	0%	-0.10649	-4%	-4.48275*
-4	-1%	-1.03242	-1%	-1.20509	6	-4%	-4.37626*	-4%	-4.36882*
-3	0%	-0.17266	0%	0.07337	7	0%	0.00744	-1%	-0.82396
-2	0%	0.24604	-2%	-2.29581*	8	-1%	-0.8314	-1%	-1.67936
-1	-2%	-2.54184*	-2%	-2.92800*	9	-1%	-0.84797	-1%	-1.26599
0	0%	-0.38616	11%	13.50339*	10	0%	-0.41802	0%	-0.41802
Intercept-0.00165									
Slop 1.416796									
Standard Error 0.008301									
R square 0.36029									

*Significant at 5% level

Figure 2 graphs shows return of bank Dhofar around the event period; in which there is no appears of general trend. The trading strategy is only viable if the nature surprise is known and most noticeable movement is the return of Bank Dhofar rises considerably from 1st to 3rd day of post announcement period for a positive surprise. Table 3 shows the abnormal return of HSBC Oman around the dividend announcement. The study consider 11 days event window comprising 5 days prior to annual dividend announcement and 5 days post annual dividend announcement. There is no Hugh positive abnormal returns found in pre-announcement period but 3% negative returns was record. In the post announcement period, very next day of dividend announcement; only 2% negative abnormal return was recorded but there is no large changes in abnormal return of HSBC Oman. A considerable cumulative negative abnormal return is found from the seventh day to tenth day of dividend announcement. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis. The cumulative abnormal return for the event period is -1%. R-squared value indicates the 42 % of the HSBC Oman stock price return movements that could be explained by price return movements of MSM 30 index. Figure 3 graphs shows return of HSBC Oman around the event period; in the pre-announcement dividend period zigzag trend is appeared form -10th day to 0th day. This irregularity of price movement is reduced in the post dividend announcement period. The trading strategy is only viable if the nature surprise is known and most noticeable movement is the return of HSBC Oman is constant from 3rd to 7th day of post announcement period for a negative surprise.[6,7]

Table 4 shows the abnormal return of Bank Sohar around the dividend announcement. The study consider 11 days event window comprising 5 days prior to annual dividend announcement and 5 days post annual dividend announcement. There are 3% negative abnormal returns found in pre-announcement period (5 days prior to the event). In the post announcement period, very next day of dividend announcement 9% positive abnormal return was recorded but on the second day of the dividend announcement 3% negative abnormal returns was recorded in the Bank Sohar. A considerable abnormal return is found during the second day of dividend announcement. After that abnormal return is reduced and from 8th day to 10th day of post announcement negative abnormal return is recorded. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis. The cumulative abnormal return for the event period is 10%.[8] R-squared values indicates the 29 % of the Bank Sohar stock price return movements that could be explained by price return movements of MSM 30 index. Figure 4 graphs shows return of Bank Sohar around the event period; in which there is no appears of general trend. The trading strategy is only viable if the nature surprise is known and most noticeable movement is the return of Bank Sohar rises considerably on the first day of post announcement period for a positive surprise. Table 5 shows the abnormal return of National Bank of Oman around the dividend announcement. The study consider 11 days event window comprising 5 days prior to annual dividend announcement and 5 days post annual dividend announcement. There is no significant abnormal return found in pre-announcement period. In the post announcement period, very next day of dividend announcement 12 % positive abnormal return was recorded but on the second day of the dividend announcement 1% negative abnormal returns was recorded in the National Bank of Oman. A considerable abnormal return is found during the first and fifth day of dividend announcement. After that abnormal return is reduced in post dividend announcement period.

The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels. This leads to rejection of the null hypothesis. The cumulative abnormal return for the event period is 12%. R-squared value indicates the 89 % of the National Bank of Oman stock price return movements that could be explained by price return movements of MSM 30 index. Figure 5 graphs shows return of National Bank of Oman around the event period; in which there is no appears of general trend. The trading strategy is only viable if the nature surprise is known and most noticeable movement is the return of National Bank of Oman rises considerably on the first day of post dividend announcement period for a positive surprise.[9] Table 6 shows the abnormal return of Bank Muscat around the dividend announcement. The study consider 11 days event window comprising 5 days prior to annual dividend announcement and 5 days post annual dividend announcement. There is 4% positive abnormal returns found in pre-announcement period (4 days prior to the event). In the post announcement period, very next day of dividend announcement; only 8% positive abnormal return was recorded but on the second day of the dividend announcement 1% positive abnormal returns was recorded in the Bank Muscat. A considerable abnormal return is found during the first day announcement of dividend results. After that abnormal return is reduced in post announcement divided dates. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis. The cumulative abnormal return for the event period is 10%. R-squared value indicates the 25% of the Bank Muscat stock price return movements that could be explained by price return movements of MSM 30 index. Figure 6 graphs shows return of Bank Muscat around the event period; in which there is no appears of general trend. There is little high return are recorded in the pre-announcement period form -7th day to -1st day. The trading strategy is only viable if the nature surprise is known and most noticeable movement is the return of Bank Muscat rises considerably on next day of post announcement period for a positive surprise.[10]

Table 3 AR, CAR and T Test values of HSBC Oman

Pre-announcement					**Post –announcement**				
Days	AR	T-Test	CAR	T-Test	Days	AR	T-Test	CAR	T-Test
-10	0%	-0.38852	0%	0.23444	0	1%	0.70833	-1%	-1.11843
-9	1%	0.62296	0%	-0.34384	1	-2%	-1.82676	-1%	-0.63286
-8	-1%	-0.9668	-1%	-1.14332	2	1%	1.19389	3%	2.42401*
-7	0%	-0.17652	0%	0.13677	3	1%	1.23011	2%	1.35888
-6	0%	0.31329	1%	1.15445	4	0%	0.12876	0%	-0.17093
-5	1%	0.84117	1%	1.04655	5	0%	-0.29969	-1%	-0.80261
-4	0%	0.20538	0%	-0.34592	6	-1%	-0.50292	-1%	-1.18281
-3	-1%	-0.55131	-3%	-2.95983*	7	-1%	-0.67989	-2%	-2.14481*
-2	-3%	-2.40852*	-2%	-1.84915	8	-2%	-1.46492	-2%	-2.10339*
-1	1%	0.55937	1%	1.2677	9	-1%	-0.63847	-4%	-3.38714*
0	1%	0.70833	-1%	-1.11843	10	-3%	-2.74867*	-3%	-2.74867*
Intercept -0.00138									
Slop -2.615236									
Standard Error 0.011255									
R square 0.423704									

*Significant at 5% level

Table 4 AR, CAR and T Test values of Bank Sohar

Pre-announcement					**Post –announcement**				
Days	**AR**	**T-Test**	**CAR**	**T-Test**	**Days**	**AR**	**T-Test**	**CAR**	**T-Test**
-10	0%	-0.41037	0%	0.49655	0	0%	0.53203	10%	11.28079*
-9	1%	0.90692	2%	1.95082*	1	9%	10.74876*	7%	7.58419*
-8	1%	1.04391	1%	0.58484	2	-3%	-3.16457	-3%	-3.23011*
-7	0%	-0.45907	-2%	-2.33628*	3	0%	-0.06555	0%	-0.1983
-6	-2%	-1.87721*	-5%	-5.30399*	4	0%	-0.13276	0%	0.20352
-5	-3%	-3.42678*	-2%	-2.18111*	5	0%	0.33628	0%	-0.29988
-4	1%	1.24567	1%	0.99525	6	-1%	-0.63617	2%	2.85532*
-3	0%	-0.25042	-2%	-2.40521*	7	3%	3.49149	2%	2.14179*

Table Continued

Pre-announcement					Post –announcement				
Days	AR	T-Test	CAR	T-Test	Days	AR	T-Test	CAR	T-Test
-2	-2%	-2.15479*	-3%	-3.48378*	8	-1%	-1.3497	-5%	-5.48480*
-1	-1%	-1.32899	-1%	-0.79696	9	-4%	-4.1351	-6%	-6.89523*
0	0%	0.53203	10%	11.28079*	10	-2%	-2.76013	-2%	-2.76013*
Intercept 0.001201									
Slop 1.614676									
Standard Error 0.00872									
R square 0.298083									

*****Significant at 5% level

Table 5 AR, CAR and T Test values of National Bank of Oman

Pre-announcement					Post –announcement				
Days	AR	T-Test	CAR	T-Test	Days	AR	T-Test	CAR	T-Test
-10	0%	0.05083	1%	1.04104	0	0%	0.0133	12%	13.46551*
-9	1%	0.99021	0%	-0.17896	1	12%	13.45222*	11%	12.36320*
-8	-1%	-1.16917	-1%	-1.33155	2	-1%	-1.08901	-1%	-0.787
-7	0%	-0.16238	0%	0.09199	3	0%	0.30201	-1%	-0.6717
-6	0%	0.25437	0%	0.12765	4	-1%	-0.97371	-3%	-3.62425*
-5	0%	-0.12672	-1%	-1.58299	5	-2%	-2.65054*	-3%	-2.87156*
-4	-1%	-1.45627	-2%	-2.14480*	6	0%	-0.22102	0%	0.39537
-3	-1%	-0.68854	-1%	-1.27969	7	1%	0.61638	1%	1.69518
-2	-1%	-0.59115	0%	-0.15707	8	1%	1.0788	1%	0.97818
-1	0%	0.43409	0%	0.44738	9	0%	-0.10062	0%	-0.2965
0	0%	0.0133	12%	13.46551*	10	0%	-0.19587	0%	-0.19587
Intercept-0.00086									
Slop 0.963529									
Standard Error 0.008847									
R square 0.89418									

*Significant at 5% level

Table 6 AR, CAR and T Test values of Bank Muscat

Pre-announcement					Post –announcement				
Days	AR	T-Test	CAR	T-Test	Days	AR	T-Test	CAR	T-Test
-10	1%	0.46798	1%	0.6597	0	2%	1.39301	10%	7.19581*
-9	0%	0.19173	0%	-0.12418	1	8%	5.80280*	9%	6.33511*
-8	0%	-0.31591	2%	1.45313	2	1%	0.53231	3%	2.10435*
-7	3%	1.76903	3%	1.94573	3	2%	1.57205	2%	1.64118
-6	0%	0.1767	0%	-0.20526	4	0%	0.06914	0%	0.17727
-5	-1%	-0.38196	3%	2.27332*	5	0%	0.10813	0%	0.15962
-4	4%	2.65527*	1%	0.45715	6	0%	0.05149	1%	0.59133

Table Continued

Pre-announcement					Post –announcement				
Days	AR	T-Test	CAR	T-Test	Days	AR	T-Test	CAR	T-Test
-3	-3%	-2.19813*	-2%	-1.71477	7	1%	0.53984	1%	0.88358
-2	1%	0.48336	1%	0.38426	8	0%	0.34374	3%	2.02182*
-1	0%	-0.0991	2%	1.29391	9	2%	1.67808	0%	0.3018
0	2%	1.39301	10%	7.19581*	10	-2%	-1.37628	-2%	-1.37628
Intercept -0.00342806									
Slop 0.543546653									
Standard Error 0.014343198									

*Significant at 5% level

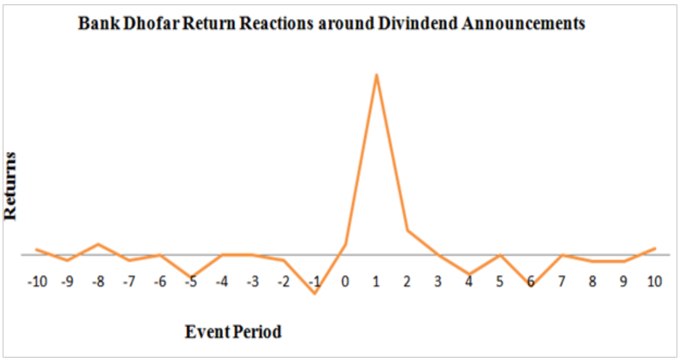

Figure 2 Bank Dhofar return around Event Period.

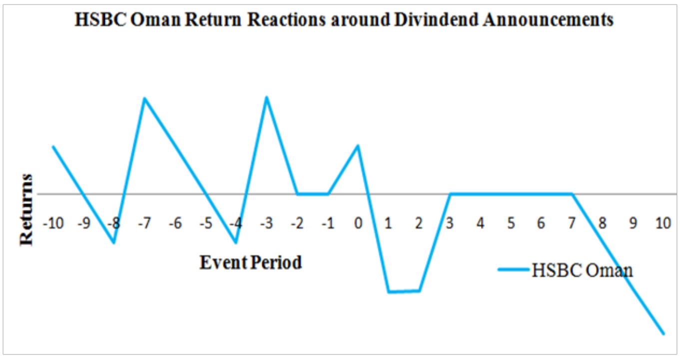

Figure 3 HSBC Oman return around Event Period.

Major findings of the study

Ahli Bank

There is no positive abnormal return found in pre-announcement period. The abnormal return is found in the post announcement period, very next day of dividend announcement; 7% positive abnormal return was recorded. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the post event period (0, 1 and 2 days) at 5% levels; which leads to rejection of the null hypothesis.

Bank Dhofar

There are negative abnormal returns found in pre-announcement period. In the post announcement period, very next day of dividend announcement; 12% positive abnormal return was recorded. The second day of the dividend announcement 2% positive abnormal returns was recorded in the Bank Dhofar .The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis

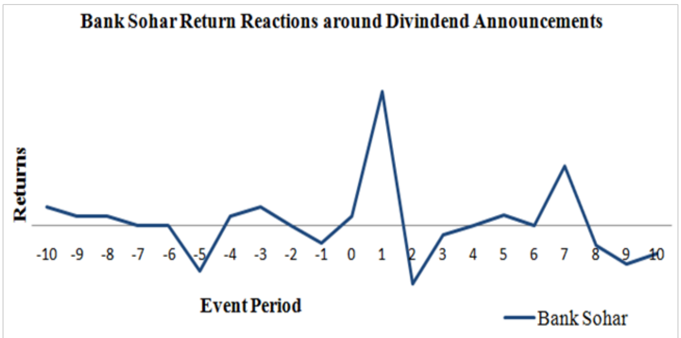

Figure 4 Bank Sohar return around event period.

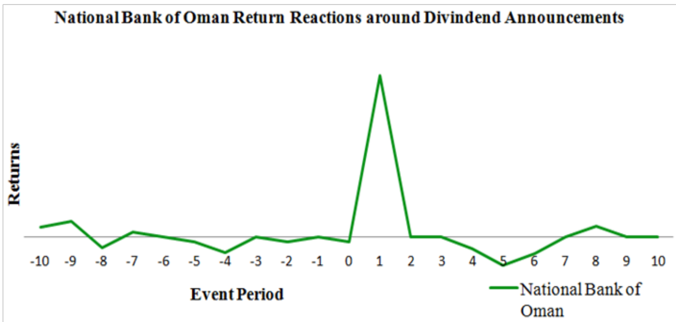

Figure 5 National Bank of Oman return around event period.

HSBC Oman

There is no Hugh positive abnormal returns found in pre-announcement period but 3% negative returns was record. In the post announcement period, very next day of dividend announcement; only 2% negative abnormal return was recorded but there is no large changes in abnormal return of HSBC Oman The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis.[11]

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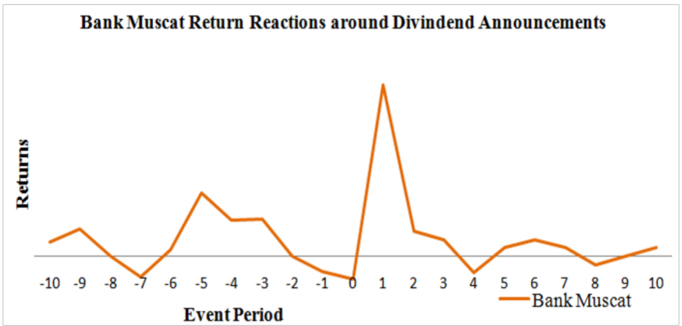

Figure 6 Bank Muscat return around event period.

Bank Sohar

There are 3% negative abnormal returns found in pre-announcement period (5 days prior to the event). In the post announcement period, very next day of dividend announcement 9% positive abnormal return was recorded but on the second day of the dividend announcement 3% negative abnormal returns was recorded in the Bank Sohar. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis.[12]

National Bank of Oman

There is no significant abnormal return found in pre-announcement period. In the post announcement period, very next day of dividend announcement 12 % positive abnormal return was recorded but on the second day of the dividend announcement 1% negative abnormal returns was recorded in the National Bank of Oman. The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels. This leads to rejection of the null hypothesis.[13]

Bank Muscat

There is 4% positive abnormal returns found in pre-announcement period (4 days prior to the event). In the post announcement period, very next day of dividend announcement; only 8% positive abnormal return was recorded but on the second day of the dividend announcement 1% positive abnormal returns was recorded in the Bank Muscat The t-test statistic value for abnormal return and cumulative abnormal returns has statically significant on the pre and post event period at 5% levels; which leads to rejection of the null hypothesis.[14–17]

Recommendations

Considering the finds of the study and observation made from the referring other related studies, the following measures are suggested to improve the performance of banking players and finance companies in Oman in dividend policy measures. The study indicates that payment of dividend make significant influence the investment behavior of the shareholders in Oman. The companies are suggested to pay the dividend with regular periodic internal, should increase the shareholder wealth. Dividends are usually paid in cash, but it may also issue in the form of additional shares, which increase the investor loyalty and also decrease the sudden share price fluctuation the post announcement period. Banking sector and financial companies in Oman are advised to consider steadily changing dividend policy. As per this policy, when a firm retains earnings in good years for this purpose, it allocates this surplus as dividend equalization reserve. These funds are invested in current assets like marketable securities, so that they may easily be converted in to cash at the time of paying dividends in bad years. To enhance the corporate governance in Oman banking and financial companies as well as providing clear signal to investors about the future financial position of the firm by improvising corporate decision on distribute or retain the profit. Banking and financial players in Oman are requested to preserve proper combination of the share price and dividend payment because retention of earnings would adversely affect the market price of the shares.

Conclusion

The empirical result of the study shows that the considered 9 companies' stock price movement is upward significantly after the divided announcements. Abnormal return and cumulative abnormal return from the analysis are statistically significant. The result of the study confirms the dividend signaling theory as the dividend announcements has significantly impact the share prices of the company. Event study method of this study reveals that, the investors not gaining significant return/ profit in the pre-announcement periods as well as on the day of dividend announcement. They are gaining in the post announcement day especially next trading day of dividend announcement. Investors switching their share positions at the time of dividend announcement, which denotes information efficiency in the post announcement period of MSM 30 index. The result of the study indicates trading strategy is only viable if the nature surprise is known which supporting the Efficient Market Hypothesis.

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Conflict of interest

The author declares there is no conflict of interest.

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