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Corporate Announcements on Stock Market Returns - A Quantitative Study

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Abstract

In the world of finance and business, future of a company depends a lot on its corporate announcements. Managers must have proper knowledge of lifecycle of corporate actions to have a clear insight to the financial health and business conduct of the company. The "Board of Directors" take initiatives in the form of corporate announcements with shareholders' approval of an organization. This critical stage brings a noticeable change to the stock prices of the company. These days, it can be something as small as changing company's name to something as important as announcing dividends.

This study adopts quantitative approach to explore the impact of corporate announcements on stock market returns for the shareholders. An online survey will be conducted using Google Form to be distributed among shareholders of companies which have announced stock market returns in recent years. A self-structured questionnaire will be prepared to ask basic details along with their opinions regarding corporate announcements. Before making corporate announcements, corporates are suggested to wait for the market recovery because negative responses may come out also in events with positive impacts.

Keywords: *corporate announcements, corporate activities, shareholders, Board of Directors, dividends, corporates*

1. Introduction

Corporate announcements are usually made to influence stock prices. There have been various effects of corporate announcements like stock-split, rights, bonus, and dividend on stock returns in various markets. Rise in dividend increases share price as it is a sign that business has positive prospects and enough earnings. On the other side, dividend omissions and cuts negatively affect share price (Mrzygłód& Nowak, 2017; Anwar et al., 2016; Al-Shattarat et al., 2018). Recent studies have also discussed positive impact of such corporate actions. For example, Pan et al

(2014) observed positive effect of announcement of dividends, Ogada (2014) observed positive effect of announcement of rights issue, Ahsan et al. (2013) observed positive effect of “bonus announcements, Hua and Ramesh (2013) observed positive effects of announcements of stock-split, and some researchers found positive effects of announcements related to “Mergers and Acquisitions” on target firms and no or negative effect on bidding firms (Chen et al., 2018; Diaw, 2011; Campa & Hernando, 2006)”.

1.1 Background

Corporate announcements are usually categorized into non-monetary and monetary in financial perspective. Some corporate announcements make a financial impact on stakeholders of the company, while others don’t. An example of non-monetary corporate announcement is changing the company’s name, while announcement of dividend is a monetary action which affects stock prices at the end. Some of the major corporate actions that affect stock prices are announcements of dividends, bonus issue, stock split, buyback of shares, and buyback of stocks (Groww, 2019).

Companies pay dividends to the shareholders as regular income from their reserves and profits time to time. Usually, it is paid as part of face value of share or “per-share basis.” Bonus shares are extra shares issued by the company to the shareholders. For example, an additional share is provided for every share a shareholder owns in case of “1:1 bonus issue”. As the per-share value is adjusted in proportion, there is no impact on total share value after bonus issue. For example, after “1:1 bonus issue”, if a shareholder has 50 shares costing Rs. 10 per share, they will hold 100 shares which will now cost Rs. 5 per share. But it still affects the per-share value, so that small investors can buy.

In case of stock split, the stock is split into multiple parts. The principle is similar to bonus issue. After stock split, share count increases, while keeping investment value intact. For example, if “1:2 stock split” is announced, the face value is Rs. 10 per share. If a shareholder had 25 shares before the announcement, they will now hold 50 shares after split. Then, the face value of each share will be Rs. 5 in order to keep the investment value same. When share prices are pretty high and company wants to attract more investors, they split shares to increase liquidity.

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A company also issues extra shares to its loyal shareholders through a rights issue, rather than common investors. Shareholders need to buy those shares at low price. For example, a shareholder can subscribe for every 5 shares they hold with 1 extra share in “1:5 rights issue”. A company may finance for debt reduction or expansion. In “buyback of shares,” a company acquires its own shares from its shareholders to combine its stakes in the company. Usually, they buy those shares at higher price to reduce outstanding shares out there to improve “earnings per share (EPS)” for shareholders. A company also does that to avoid their share price getting too low, avoiding other competitors from taking over, and improving confidence of investors.

All in all, it is important to know the impact of corporate announcements on stock market returns for shareholders to know the company’s worth. Shareholders must understand those corporate actions to decide whether to sell or buy their shares.

2. Literature Reviews

Corporate announcements are aimed to improve the capital structure of the company and share prices. A lot of studies have been conducted on major effects of corporate actions on shareholders. Some argue for positive effects, while others found negative effects of announcements. This section covers some of those studies which determined the effects of several corporate activities on stock market returns and share prices.

Pan et al. (2014) tested the “impact of announcement of dividends in China and reported positive returns around and on the date of announcement. Kumar (2017) tested the dividend influence on stock returns of NSE-listed companies in India from 2012 to 2014 and found significant and positive returns of dividend announcements. While the rise in dividend increases returns, decline in dividend affects returns negatively. Khanal & Mishra (2017) determined the impact of dividend announcement during the period when economy was struggling with daily returns of listed companies from 2012 to 2016 in the US an found significant positive returns. However, there was lower magnitude of significant returns than in earlier studies. It means the intensity of positive results was pretty less despite having positive impact during the poor economic period.

Rai & Silwal (2017) determined the impact of bonus issue announcement on stock prices of Nepal's commercial banks and observed positive impact of those activities on stock value. They found consistent results with developed countries. Alex (2017) found no impact of ex-bonus and bonus announcements on stock prices in India. In addition, Kumari and Pushpender (2019) found no major returns from 2014 to 2018 from bonus issue announcements.

Ogada&Kalunda (2017) determined the effects of rights issue on stock market returns from 2005 to 2012 in Kenya. The evidence of their analysis showed significantly higher returns during the period after announcement. Rohit et al. (2016) tested 29 announcements of rights issue and found positive returns on the date of announcement from 2011 to 2014. Kendirli & Elmali (2016) examined 5 announcements of rights issue and observed negative impacts by banks in Istanbul. Ramya & Bhuvaneshwari (2018) determined the effects of rights issues from 2006 to 2013 on CNX500 stock prices. They also observed negative effects around the period of announcement.

Hu et al. (2017) determined the effects of stock split from 1926 to 2012 by observing the stock market data in the US and observed significant positive effects of those announcements when market was bullish. Similarly, El Ansary and El-Azab (2017) evaluated the announcements of dividend and stock split from 1997 to 2014 in Egypt and found positive impact of these activities on stock returns. Yustisia (2018) evaluated the effects of "stock-split announcement" on manufacturing companies in Indonesia and observed no major impact around the period of announcement. There was also a lack of consistent results in case of those announcements. When the target firm faces positive significant returns, acquiring firm observes negative returns, according to a study on impact of announcements about mergers and acquisitions by Chen et al. (2016). A study was conducted by Pandey & Kumari (2017) which found "significant abnormal returns" around announcements of merger in the US and India. Indian stock market was found to be more sensitive for such updates.

2.1 Research Gap

Studies which have been discussed above were conducted on the impacts of announcements related to bonus issues, dividends, rights issues, mergers and acquisitions, and stock splits. They have found both negative and positive impacts". However, to the best of our knowledge, there is

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still lack of studies conducted after the recent economic crisis in India on the impact of corporate announcements. The above studies explored mixed market response to several corporate activities in various economies. Hence, this study will focus on opinion of shareholders about the impact of those announcements.

2.2 Research Question

- Is there an impact of corporate announcements made by companies on stock market returns?

2.3 Research Objectives

- To determine the impact of corporate announcements on stock market returns

2.4Hypothesis

H1 – There is a significant impact of corporate announcements on stock market returns

H0 – There is no impact of corporate announcements on stock market returns

3. Research Methodology

In order to fulfil the above objective, this study adopts quantitative study approach by collecting primary data from shareholders of companies listed in Indian stock exchanges to know their opinions about corporate announcements and their impacts on overall returns. Sample size for this study is 158 participants who have responded to invitations by filling survey form through online mode.

4. Analysis of Study

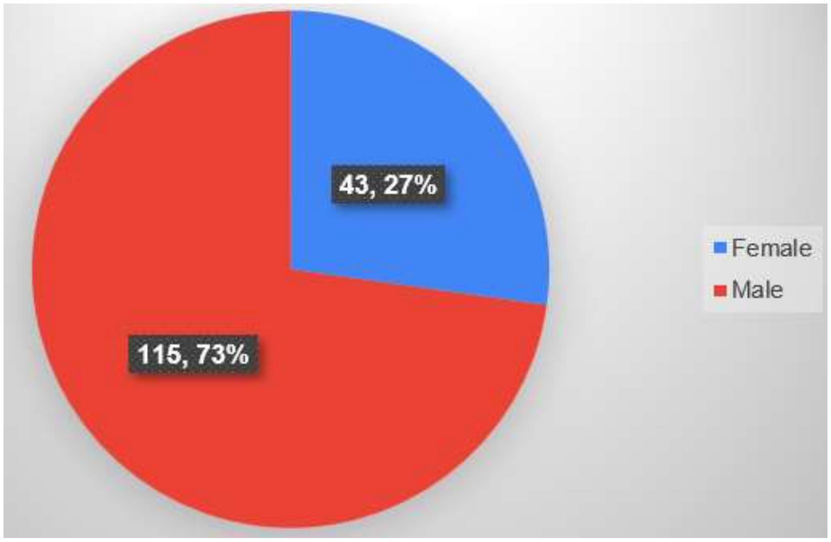
4.1. Demographics

In this study, out of 158 participants, 115 (73%) participants are male and 43 (27%) participants are female (Table 1) (Figure 1).

Table 1 - Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	43	27.2	27.2	27.2
	Male	115	72.8	72.8	100.0
	Total	158	100.0	100.0	

Figure 1 – Gender of the participants

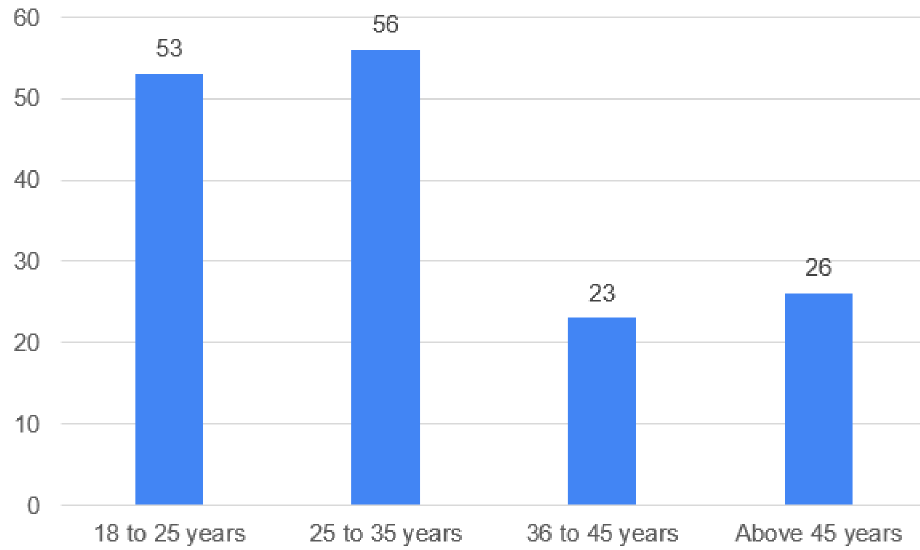


In this study, 56 (35%) participants are 25 to 35 years old, 53 (34%) participants are 18 to 25 years old, 26 (16%) participants are over 45 years old, and 23 (15%) participants are 36 to 45 years old (Table 2) (Figure 2).

Table 2 - Age Group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 to 25 years	53	33.5	33.5	33.5
	25 to 35 years	56	35.4	35.4	69.0
	36 to 45 years	23	14.6	14.6	83.5
	Above 45 years	26	16.5	16.5	100.0
	Total	158	100.0	100.0	

Figure 2 – Age of the participants



When it comes to occupation, 44 (28%) participants are business owners, 19 (12%) participants are public/private sector employees, 23 (15%) participants are self-employed, 24 (15%) participants are students, 29 (18%) participants are housewives or unemployed, and 19 (12%) participants are working professionals (Table 3) (Figure 3).

Table 3 - What is your occupation?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Businessman/businesswoman	44	27.8	27.8	27.8
	Public/Private sector employee	19	12.0	12.0	39.9
	Self-employed	23	14.6	14.6	54.4
	Student	24	15.2	15.2	69.6
	Unemployed/Housewife	29	18.4	18.4	88.0
	Working professional	19	12.0	12.0	100.0
	Total	158	100.0	100.0	

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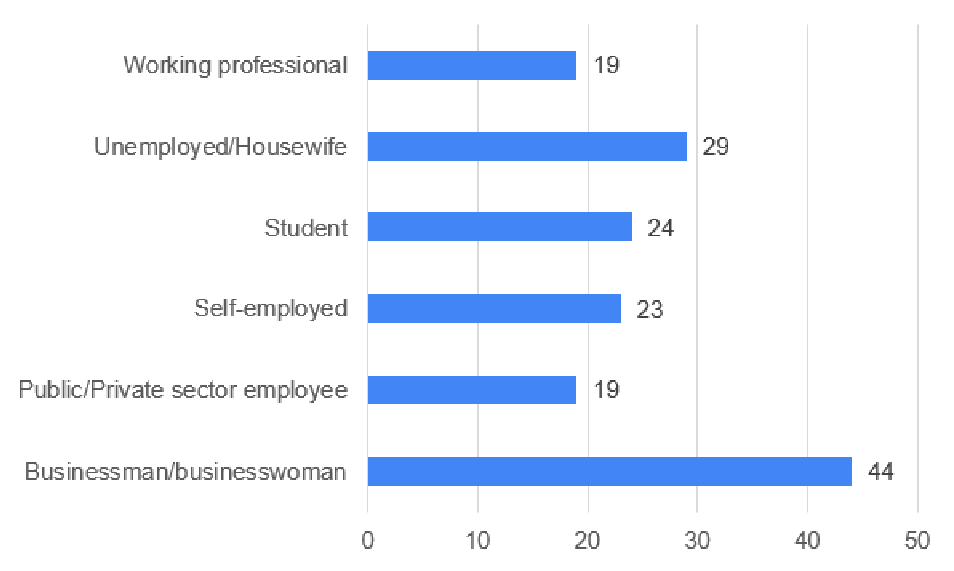
Figure 3 – Occupation of the participants

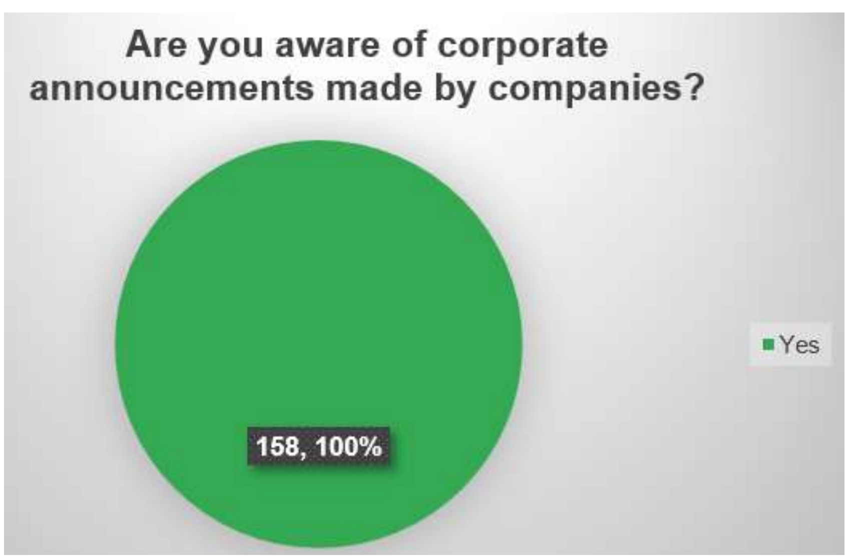


All the 158 participants in this study are aware of corporate announcements made by the companies in share market (Table 4) (Figure 4).

Table 4 - Are you aware of corporate announcements made by companies?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	158	100.0	100.0	100.0

Figure 4 – Awareness of corporate announcements



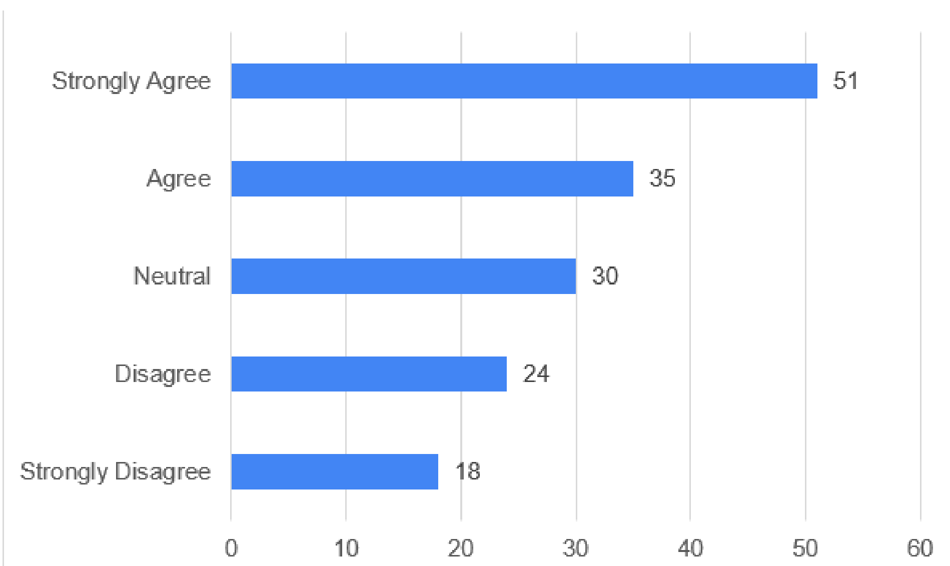
4.2. Impact of Corporate Announcements

There are 51 (32%) participants who strongly agree and 35 (22%) participants agree that they have noticed the growth in stock price when their company made corporate announcement, while 24 (15%) participants disagree, 18 (11%) participants strongly disagree, and 30 (19%) participants were not sure (Table 5) (Figure 5).

Table 5 - You noticed the rise in stock prices after corporate announcement by the company you invested in

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	18	11.4	11.4	11.4
	Disagree	24	15.2	15.2	26.6
	Neutral	30	19.0	19.0	45.6
	Agree	35	22.2	22.2	67.7
	Strongly Agree	51	32.3	32.3	100.0
	Total	158	100.0	100.0	

Figure 5 – You noticed the rise in stock prices after corporate announcement by the company you invested in



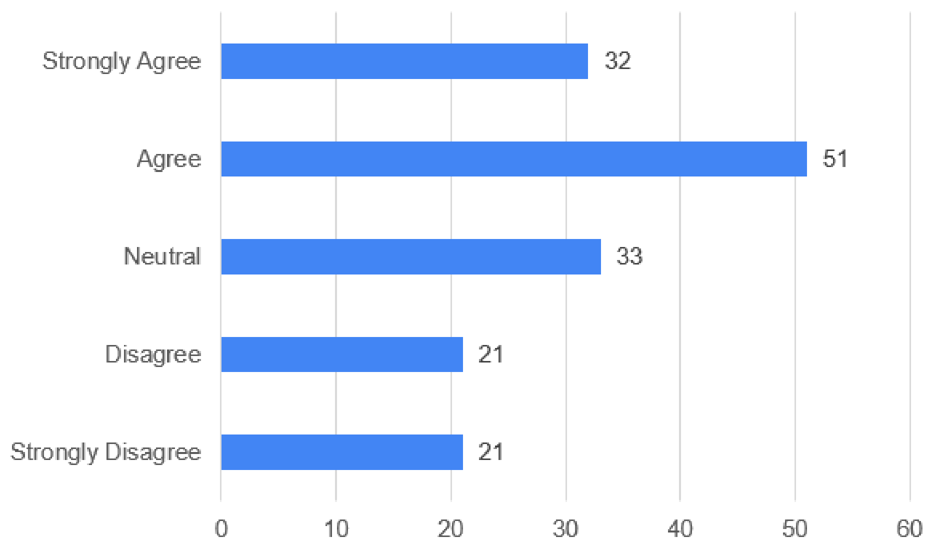
There are 51 (32%) participants who agree and 32 (20%) participants who strongly agree that they got bonus shares regularly from the company they have invested in, while 21 (13.3%)

participants disagree and strongly disagree, and 33 (21%) participants were neutral (Table 6) (Figure 6).

Table 6 - You got bonus shares regularly from the company you invested in

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	13.3	13.3	13.3
	Disagree	21	13.3	13.3	26.6
	Neutral	33	20.9	20.9	47.5
	Agree	51	32.3	32.3	79.7
	Strongly Agree	32	20.3	20.3	100.0
	Total	158	100.0	100.0	

Figure 6 – You got bonus shares regularly from the company you invested in



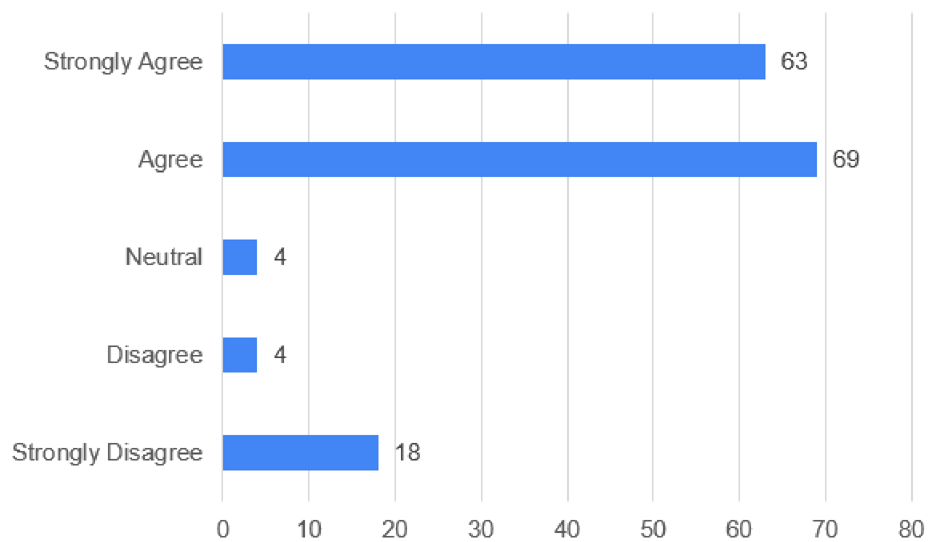
There are 69 (44%) participants who agree and 63 (40%) participants who strongly agree that stock-split announcement from the company has resulted in growth of company's profits, while 18 (11%) participants strongly disagree, 4 (2%) participants disagree, and 4 (3%) participants strongly disagree (Table 7) (Figure 7).

Table 7 - Stock-split announcement led to rise in company's profits

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	18	11.4	11.4	11.4

	Disagree	4	2.5	2.5	13.9
	Neutral	4	2.5	2.5	16.5
	Agree	69	43.7	43.7	60.1
	Strongly Agree	63	39.9	39.9	100.0
	Total	158	100.0	100.0	

Figure 7 -Stock-split announcement led to rise in company's profits



There are 63 (40%) participants who strongly agree and 48 (30%) participants who agree that corporate announcements helped companies to deal with shock led by economic crisis, while 33 (21%) participants were not sure, 7 (4%) participants strongly disagree and disagree (Table 8) (Figure 8).

Table 8 - Corporate announcements are helpful for companies to overcome the shock led by economic crisis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	7	4.4	4.4	4.4
	Disagree	7	4.4	4.4	8.9
	Neutral	33	20.9	20.9	29.7
	Agree	48	30.4	30.4	60.1
	Strongly Agree	63	39.9	39.9	100.0
	Total	158	100.0	100.0	

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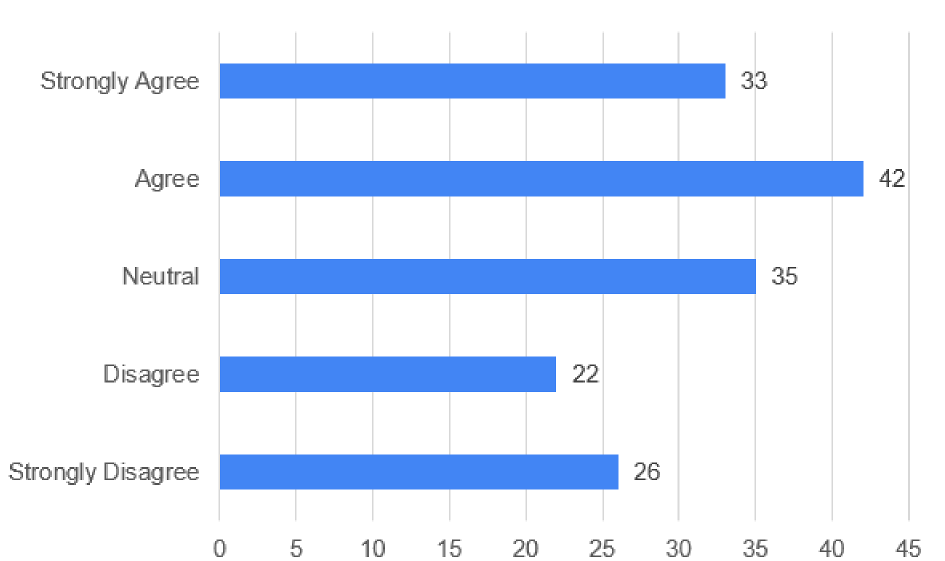
There are 42 (27%) participants who agree, 33 (21%) participants strongly agree, 22 (14%) participants disagree, 26 (16%) participants strongly disagree, and 35 (22%) participants were neutral with the statement that the “ex-bonus event has led to a positive impact in share value in the long term (Table 9) (Figure 9).

Table 9 - The ex-bonus event has led to positive impact in the long term in share value

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	26	16.5	16.5	16.5
	Disagree	22	13.9	13.9	30.4
	Neutral	35	22.2	22.2	52.5
	Agree	42	26.6	26.6	79.1
	Strongly Agree	33	20.9	20.9	100.0
	Total	158	100.0	100.0	

Figure 9 - The ex-bonus event has led to positive impact in the long term in share value



There are 70 (44%) participants who strongly agree and 38 (28%) participants who agree that they have observed positive sentiments in the market after bonus issue announcements, while 23 (15%) participants disagree, 10 (6%) participants strongly disagree, and 17 (11%) participants were neutral (Table 10) (Figure 10).

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Table 10 - You observed positive sentiments in the market after bonus issue announcements

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	10	6.3	6.3	6.3
	Disagree	23	14.6	14.6	20.9
	Neutral	17	10.8	10.8	31.6
	Agree	38	24.1	24.1	55.7
	Strongly Agree	70	44.3	44.3	100.0
	Total	158	100.0	100.0	

In order to conduct hypothesis testing, one-sample t-test was conducted using SPSS software version 22 (Table 11). It is observed that the value of significance (Sig.) was 0.000 for all the variables ($p<0.005$). Hence, it is inferred that there is a "significant impact of corporate announcements on stock market returns" according to the shareholders.

Table 11 - One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
You noticed the rise in stock prices after corporate announcement by the company you invested in	31.845	157	.000	3.487	3.27	3.70
You got bonus shares regularly from the company you invested in	32.095	157	.000	3.329	3.12	3.53
Stock-split announcement led to rise in company's profits	40.063	157	.000	3.981	3.78	4.18
Corporate announcements are helpful for companies to overcome the shock led by economic crisis	45.725	157	.000	3.968	3.80	4.14
The ex-bonus event has led to positive impact in the long term in share value	29.600	157	.000	3.215	3.00	3.43

You observed positive sentiments in the market after bonus issue announcements	37.246	157	.000	3.854	3.65	4.06

5. Results

In this study, 54% shareholders noticed growth in share prices when companies made corporate announcements and 52% participants got bonus shares regularly from the company that they have invested in. Majority (84%) participants found growth in company's profits with stock-split announcements and 70% participants found corporate announcements helpful for companies to deal with shocks led by economic crisis. There are 72% participants who found positive sentiments in the market after bonus issue announcements, while only 48% participants found that there is a positive impact of ex-bonus event in share value over the long term.” In addition, there is also significant impact of corporate announcements on returns for shareholders.

Shareholders are the ones who own the company but they cannot handle its daily operations. Company management has to achieve the goals of the company. Company’s future and share values ultimately rely on their decisions. Corporate announcements have a long-term impact that shapes the path or future of the company. Hence, investors need to understand those actions and their effect on stock prices of the company. There are different reasons behind corporate announcements like improving profitability, rewarding shareholders, and corporate restructuring. For example, companies announcing mergers and acquisitions may want to engage in corporate restructuring, while they may announce bonus issues, dividends, etc. for the benefit of shareholders.

Hence, it is important for the shareholders to know corporate actions as they affect stock prices and the way company will perform. A sudden decline or rise in stock price can often be the cause of corporate actions. In addition, they may cause short-term volatility on the basis of investors’ feeling about company’s decisions. They can take investment decisions by learning about corporate decisions. Shareholders and investors should track corporate actions as they show the financial status of the firm and its position.

Some of the corporate actions are proactive and aligned with vision of the company or response to microeconomic or macroeconomic conditions affecting the company. Hence, it is important for investors to understand those actions to get an insight to the ultimate growth and survival of the company. Every material action triggering a change in company's structure or its direction to achieve its goals reflects in a reaction from the market to a great extent, which affects its share prices. However, investors must know the basics before following the buzz related to any corporate announcements. This way, they can make objective decisions when it comes to find out if they can invest or not.

6. Conclusion

In their journey, companies take a lot of decisions to improve their profitability, build confidence for future growth, reward their shareholders, expand their operations, and impact their share price. Corporate actions consist of several actions that companies take after board's approval which is aimed to bring significant change to the organization. Those corporate announcements are made in advance by the stock exchanges and the company to inform common public and shareholders. The findings of the study will be helpful for policymakers to align share prices with several corporate announcements. The investors can understand the mechanism of stock market and make decisions wisely before investing in the period of economic crisis.

When the policymakers are anxious about share prices, investors are anxious about risk-return parameters. The study will help both as an investment tool. It contributes to existing knowledge about corporate actions to strengthen the findings. There is a lack of studies on the effects of corporate announcements after the recent economic crisis. This study examines the effects of announcements in Indian context. This way, future studies can focus on other announcements in other countries to know their effects.

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