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How Does Stock Market React to Dividend Announcement?

An Empirical Evidence from Tanzania Listed Firms

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Abstract

This paper aimed at examining the reaction of corporate stock return on dividend announcement for listed firms in Dar Es Salaam Stock Exchange (DSE) between 2010 and 2019. The study employed the event study methodology to assess the impact of the information on the stock return. The results clearly show that the effect of dividend announcement on the stock return is positive around the announcement date, and that the stock price moves up as long as the announcement date approaches and then starts decreasing from this date onwards. This immediately confirms the consequence of dividend announcement, that the effect of dividend announcements is consistent with the informational content of the dividend hypothesis as well as with dividend signaling models. Clearly, the results of this study support the dividend relevance theory in which the dividend policy affects the firm value. Particularly, the findings would enhance current understandings of the dividend policy impact on the firm value, and this may allow financial managers to be able to determine an optimal dividend policy which improves the performance of the firms. Furthermore, the study encourages investors to benefit from dividend announcement as a guide towards buying and selling stocks to avoid unnecessary trading losses.

Keywords: Dividend Announcement, Abnormal Returns, Cumulative Abnormal Returns, Stock Prices

1. Introduction

One of the most interesting theoretical and empirical finances issues continues to be dividends policy (Dasilas & Leventis, 2011). Dividend decisions affect a company in a multitude of long-standing strategic implications by adding or diminishing the shareholder's value. As the company's dividend has been announced, it increases the firm share prices. On the basis of dividend announcements, investors, shareholders, and potential investors predict the position of company in context of profitability.

Some empirical facts supporting the view that dividends announcements with positive returns indicate good news to investors include Kale et al, (2012); Koch and Sun, (2004); Lyroudi et al, (2008) and Sylvester, 2015). Although, there is plenty of theoretical and empirical research on the relevance of and relationship between stock prices and dividends, there are still questions remaining unanswered.

Most studies in this area are conducted in developed economies with limited of them focusing in emerging markets, probably because most of the stock markets in developing economies are still in their infant stage in such a way

that information change may not be captured properly in the share prices. Literature such as Kowerski and Wypych (2016) insist that dividend payments are an attractive source of income to foreign investors. In the same context, Le and Le (2017) indicate that foreign investors prefer to pay more dividends in firms with poor corporate governance because the disclosed information about the performance of these firms and market changes is insufficient.

The DSE is currently a fast-growing stock market, which presents both foreign and local investors with massive bargaining opportunities. This is because since 2014, the Government of Tanzania allowed unrestricted foreign participation in capital markets by repelling the Capital Markets Foreign Investors Regulations (2003), which capped foreign investors' participation in listed securities to 60%. This allowed the market to offer foreign investors exposure to the Tanzanian economy, and because many listed firms have expanded beyond Tanzania's borders, it also serves as an entry point to the regional economy.

Therefore, announcement of dividend and subsequently payment of dividend may indicate future improvement of firm's value in Tanzania where corporate governance environment is relatively weak, like any other countries in emerging economies. On the other hand, examining the role of dividend announcements on an abnormal corporate return is of paramount importance to increase the attractiveness of the market in the eyes of potential investors who are apparently focusing on investing in DSE.

 Apparently, the researcher is not aware of any study focusing on effect of dividend announcement on stock return of firms listed in Dar Es Salaam Stock Exchange. As such, there is a research gap in this area. Hence, to the best of my knowledge this is the first study to be conducted in Tanzania, and therefore the results of the paper will shed more light to other researchers who would wish to do more research in this area. The objective of the study is, therefore, to uncover whether there is any reaction of stock return on dividend announcement in Tanzania stock market.

The results of the study reveal a positive market reaction around the announcement, and that the stock return increases as long as the announcement date approaches but starts decreasing from the third day after the announcement. This immediately confirms the consequence of dividend announcement, that the effect of dividend announcements is consistent with the informational content of the dividend hypothesis as well as with dividend signaling models which indicates that market captures the opportunities to take advantage of the moment.

2. Related Literature

2.1 Theoretical Underpinning

Theories have been propounded to offer explanations as the binding factors that firms consider in making dividends decisions and related investor sentiments in receiving the dividends visa a vie expected future prospect in the company. These theories have different approaches and propose different models in the spirit of providing better explanation of events surrounding dividends policy decisions of companies. This study will discuss three major theories which informs the phenomenon of dividend announcement in relation to corporate stock return. The theories include; Efficient Market Hypothesis, Dividend Signaling Theory

2.1.1. Efficient Market Hypothesis

The announcement of dividends and the related insight it brings in investors' minds are regularly discussed in the corporate finance literature. The discussions offer views that dividends have information content. Fama (1970) came up with the concept of efficient market system and analyzed the stock market in terms of how efficient market process information. This concept came up with three categories of market efficiency forms- weak, semi-strong, or strong where, according to Fama (1970) the forms imply how information is reflected in prices of stocks. According to Fama, (1970), in a weak form, the price of a security is fully reflected by past information which cannot be used to predict current prices while in the second form- a semi-strong form- all published information fully reflects a security price. In the third form, which he referred to as a strong market efficiency a security's price

is fully reflected in all available information, including private information from which no investor will never generate an abnormal return. This paper is built on the foundation of *efficient market hypothesis* which postulates that the effects of an event will be reflected immediately in the security's price as pioneered by Fama, (1970). The concern in efficient market measurement is the relationship between the price of a security and the available information.

2.1.2. Dividend Signaling Theory

According to Dividend Signaling Theory, a dividend becomes one of the ways to give a signal to the shareholders regarding the company's financial performance since there is asymmetric information between the management and the shareholders. Asymmetric information refers to the condition where the shareholders do not have access to the company's information that can influence its performance, Ozo and Arun (2019). In this situation, if the company announces a dividend, the shareholder will further analyze the dividend pattern whether it is dividend initiation, dividend omission, dividend increase or dividend decrease. Consequently, the shareholders might as well study the company's condition more thoroughly to make investment decisions. Frensidy et al. (2019) have found a significant abnormal return around the dividend announcement date as guided by the power of information attached into dividend announcement. This phenomenon lies on the foundation of two schools of thought namely dividend relevance and dividend irrelevance. One stream of thinking upholds that dividends represent an important increase in firm value, which is demonstrated by increasing in share prices (Gordon, 1959; Lintner, 1956) while the other view is that dividends do not have any relevance for firm value, and that they might destroy value, Black, (1976). In a world without taxes and transaction costs the postulation by Miller and Modigliani (1961) suggest that dividends are irrelevant for investors. They argue that the dividend distribution does not affect the value and share price of the Company. The value of the Company is based solely on the income force and its assets but not on the way in which income is distributed between retention and payout ratio.

2.1.3. Dividend Clientele Effect

The principle of dividends is based on the preference of buyers for such securities because of the existence of differential tax treatment between dividend and capital gains. Brennan (1970) shows how a creditor would be paid for tax disadvantages if the higher tax rate is used for dividend income than for capital gains. They claim that the rates of dividend yield rise with risks-adjusted rates. Moreover, risk-adjusted returns should focus on the ex-dividend period. In other words, higher dividend income could give an increase in the risk-adjusted return on the ex-dividend date for the dividend clients' impact hypothesis. Since the phenomena is triggered by stock demand swings in buyers with various low tax rates, no resulting market revolution can occur. This is what is referred to as *dividend clientele effect* which explains the movement in a company's stock price according to the demands and goals of its investors.

2.1.4. Agency theory

On the other hand, we have agency theory which is the basis of the corporate governance. Agency theory is based on the idea that managers pursue their interests by wasting free cash flows, to the detriment of their firms (Jensen, 1986). Howe et al., (1992), Gombola and Liu, (1999,) and Lie (2000) argue that shareholders view share repurchases and special dividends positively because they mitigate agency costs by reducing the funds available for projects with negative net present value. According to Jensen, (1986), firms have a positive regard for special dividend announcements because they reveal the mitigation of agency costs. However, the announcement sends a negative signal about the rival firm, suggesting that they face a potential free cash-flow problem

2.2 Empirical Review

Since the middle of the last century, the study of dividend policy has drawn significant interest amongst financial academics. They tried to understand dividend actions in corporations because the dividend seems a riddle in corporate finance. Indeed, Black (1976) described it as a puzzle and Allen *et al,* (2000) concluded: "One of the thorniest puzzles in corporate finance, while many hypotheses are placed in literature to explanate its general

existence, is still dividends. Although, there is plenty of theoretical and empirical research on the relevance of and relationship between stock prices and dividends, there are still questions remaining unanswered. Graham and Dodd (1951) insist that dividend is relevant in firm valuation and that investors prefer dividends to be paid. Unlike in Graham and Dodd, (1961), Modigliani and Miller (1961) advocate the notion that in a world of no taxes and transaction costs, dividends are irrelevant to investors. However, empirical research provides findings that support the relevance of the dividends proposition. According to Porterfield (1959 & 1965), payment of cash dividend is considered as a compensation for their investment which may be offset through fall of share price.

Afterward, this concept of relevance of dividend was further spearheaded by Walter (1956) & Gordon (1962) and been formalized into a theory of dividend relevance which postulates that current stock price would reflect the present value of all expected dividend payments in the future.

The empirical analysis of the impact of dividends on information quality is primarily performed to check the occurrence of irregular returns at the date of dividend return. In Kalay and Loewenstein (1986) the dividend declaration shows, for example, an abnormally high return and a systemic risk. An abnormal return from the forecast dividend period shall be focused on the date of dividend declaration to bear the information material hypothesizing. Furthermore, the reversing of the price does not occur since the declaration includes material that concerns the inherent meaning

There are different studies across the globe and across economies which advocate the impact of dividend announcement on stock return volatility.

2.2.1. Studies from Developed Economies

The existing literature available has shown that dividend announcements are value altering events and can alter the expected returns of firms (Brown et al., 1988 &1993; Brennan and Copeland, 1988; Otchere, 2004). Dasilas and Leventis (2011), focusing on stock market and trading volume reaction to cash dividend announcements from the Athens Stock Exchange (Greece), revealed that significant market reaction is observed on the dividend announcement day and the market incorporates dividend news in an efficient manner.

Borges (2009) examined the ex-dividend day behavior of stock prices in the Lisbon Stock Market (Portugal), and found that on the ex- dividend day stock prices fall by the amount less than the dividend, which could be treated as an anomaly thus reflecting a less than efficient market with low liquidity levels, price stickiness, and insipid arbitrage trading

Hu and Ahmed (2010) investigated the impact of dividend announcements on the Shanghai stock exchange. The results revealed that, on the day the dividend reduction was announced, no negative abnormally high profits occurred on the market, which means that Shanghai Stock Market investors had not interpreted a decrease in dividends as misinformation. Furthermore, big raises in dividends appeared to have a stronger effect on the irregular returns.

Michayluka (2019) examined the dividend history of Australian firms to investigate whether the signaling power of a dividend increase varies with the frequency of repetition. The study find that the first three consecutive dividend increases are associated with significantly positive abnormal returns, and subsequent increases are generally not significant, even after controlling for the interaction effect with the simultaneously announced earnings information.

2.2.2. Studies on Emerging and Frontier Markets

Uddin (2005) studied the effect of dividend announcements on stockholders' values and the results show that the dividend does not contain any detail on equity values and returns of the Dhaka market affirming the dividend irrelevance theory.

Irum et al. (2012) studied the market response to dividend announcements in Pakistan Stock Market, and the analytical results suggest that no meaningful and important effect on equity prices can be achieved with the dividend declaration.

While Dharmarathne (2013) reports a positive effect of dividend announcement on the stock price in Sri Lankan stock market, a contradicting result from Borsa Istanbul Market is reported by Kadioglu et al. (2015). According to Kadioglu et al. (2015) the links between anomalous returns and cash dividends were negative and meaningful, and the findings confirm the theory of the tax-customer effect.

Ngoc *et al.* (2016), investigated reaction of the stock price on both the dividend announcement date and the ex-dividend date, and found a positive effect of dividend announcement on the stock return around the announcement date, and that the stock price moved up as long as the ex-dividend date approaches and then starts decreasing from this date onwards.

Khan *et al* (2016), investigated the information content of dividend announcements by firms listed on the Karachi Stock Exchange (KSE), and report that no significant unexpected returns can be earned on the announcement date by trading on dividend news in Pakistan.

Budagaga (2020) examined the impact of cash dividends on the market value of banks listed in Middle East and North African (MENA) emerging countries, and the results revealed that current dividend payouts and dividend yield do not provide information relevant to the establishment of market values in MENA emerging markets; thus, they have no material impact on MENA banks' market values.

Pratama et al. (2020) in their attempt to examine the stock market reaction in Indonesia towards presidential election in 2019, and Putra and Badjra (2021) with their research on the market reaction toward 2019's stock split announcement, found that no abnormal returns are have been resulted from such crucial events.

The study by Robiyanto and Yunitaria, (2022) on dividend announcement effect before and during the COVID-19 pandemic in Indonesia discovered that in 2019, the Indonesia capital market presented a weak response toward the event, indicated by the inexistence of abnormal return. Moreover, in 2020, the dividend announcement effect caused negative insignificant abnormal returns and the number of companies with low volatility increased, implying that the stock market was more pessimistic during the pandemic period. Even when the dividend amount increased from the previous period, the market still shows a negative reaction to it in 2020.

Samsul (2006) reveals that abnormal returns occur every day on each stock type, which is the difference between the actual return and expected return calculated daily. Thus, observations of these abnormal returns can be seen at the highest and lowest abnormal returns values that occur during the observation period (window period) to determine the stock price reaction trend due to an event. On the other hand, cumulative average abnormal return is the cumulative calculation result of AAR within a period.

In general, a handful studies support the information content of dividend hypothesis which indicates that market captures the opportunities to take advantage of the moment. Based on the efficient market postulation the competition between investors seeking abnormal profits drive prices to their "correct" value. According to Kurniasih *et al* (2011), if the dividend announcement provides positive information, it is possible that shareholders will get a positive abnormal return, and vice versa.

Formally, the market is said to be efficient with respect to some information set, if security prices would be unaffected by revealing that information to all participants. Moreover, efficiency with respect to a particular information set, implies that it is impossible to make economic profits by trading on the basis of this set of information. Therefore, from the preceding arguments one may put forward the following hypothesis;
*H*0: There is no significant effect of dividend announcement on stock return.
*H*1: There is a significant effect of dividend announcement on stock return

More specifically, the hypotheses are designed as follows;

    i.   *Abnormal return testing H0: AAR/CAAR = 0*

H1: AAR/CAAR $\neq$ 0

If H_1 is accepted and H_0 is rejected, it can be interpreted that a market positively reacts to dividends announcement (market registers abnormal returns after dividend announcement)

    ii.   *Different abnormal return testing H0: AAR_1 /$CAAR_1$= $CAAR_2$/AAR_2*

H2: $CAAR_1$/AAR_1 $\neq$ $CAAR_2$ /AAR_2

If H_2 is accepted and H_0 is rejected, it can be interpreted that stock market positively reacts to dividends announcement (there is a difference in abnormal return/cumulative average abnormal return before and after the dividend announcement)

3. Methodology

3.1 Data and Approach

The aim of the study was to analyze the impact of dividend announcement on the stock return of listed non-financial companies in Dar es Salaam Stock Exchange. In order to achieve this goal, the market reaction to the announcements of dividend was carefully studied. The study employed secondary data from the Dar es Salaam Stock Exchange (DSE) covering 10-year (2010-2019) daily business and related dividends history, and in which case only 170 observations were gathered from 11 companies. Among all 29 companies listed in DSE only 11 companies had records of actual dividend announcements, which were all related to dividend increase and therefore were considered in the study. Principally, companies in Tanzania announce and pay dividend semi-annually. The sample is such that only 6 companies were able to announce dividend semiannually throughout the study period, while 5 companies were able to announce the dividends only once every year for the entire period of the study. Based on the financial reports of the listed companies in Tanzania stock market, the daily stock price of target firms was obtained to calculate the stock return. In this study the event study methodology, as developed by Bowman (1983), Brown and Warner (1980, 1985), Fama (1991) and MacKinlay (1997), was employed to measure share abnormal returns at the time when information regarding g dividends events are released in public. The abnormal returns are estimated over the event windows for each transaction.

3.2. Variable Description

Event Day

In this study, the event is referred to as a dividend announcement. The dividend event day is the day the stock exchange-DSE advised the dividends board and informed the public about the issues surrounding the company's dividend declaration.

Estimation Period

According to Creswell, (2014), the estimation period specified as the period before and after the event windows is occasionally 120 days, although there can be cycles before and after an event window. Usually, the event window is omitted from the calculation of duration, in order to prevent event parameters from being distorted. The predicted returns are determined by a period other than the incident window (also called standard returns). This study used estimation window of 180 business days before the event window from 10 to 190 days in advance of the incident window

Event Window

An incident window is the time of the event; the safety prices of the companies concerned are investigated during that time. To calculate the irregular rates during dividend announcements, it is necessary to decide the event window. According to efficient market theory, due to buyers' sensible behaviors, there is more risk of equity prices moving in the short term. The study has set the event window at ten (10) days before and ten (10) days after the

dividend announcement day. The announcement day is represented by day zero (0). Due to the nature of the information environment in developing stock markets such as DSE, it is unlikely that the market reaction begins long before the actual announcements. The selection of a wide event window (-10, +10) is made in order to detain this potential pre and post-event reaction. Estimation window is 180 days before the event window

3.3 Model Specification

The study employed the market model for return estimation: the market model refers to the return of protection to a large market portfolio. The 'natural' protection return is described as:

$$R_{it} = \alpha + \beta R_{mt} + \varepsilon_{it}$$

Where R_{it} and R_{mt} are the company return and market return (DSE all share index) respectively while α and β are the parameters of the market model, and ε_{it} is the zero mean error term. Under this model abnormal return is defined as:

$$AR_{it} = R_{it} - (\alpha + \beta R_{mt})$$

In this approach the market model parameters, are estimated using the observations from the 'estimation period'. After returns being estimated, the study aggregated excess (abnormal) returns across the sample firms and over-time by following Brown and Warner (1985) approach.

The analysis was improved by calculating the average abnormal returns (AAR_t) for each day in the event window. This aggregates the abnormal returns for all firms (N is number of firms) to find the average abnormal return at each time. This mitigates the noisy component of returns, which might affect the individual firm level. The average abnormal return for each day (by using daily data) in the sample (estimation window as well as event window) was estimated as follows;

$$\overline{AR}_t = \frac{1}{N} \sum_{i=1}^{N} AR_{it}$$

$$\overline{CAR}(t_1, t_2) = \sum_{t=t_1}^{t_2} \overline{AR}_t$$

Where N is the number sample companies.
Cumulative Average Abnormal Return is calculated by adding Average Abnormal Return for each day from -10 to +10 or simply described in the following formula;

The Cumulative Average Abnormal Return is a useful statistical analysis in addition to the AAR because it represents the average total effect of the event across all firms over multiple time windows. If the influence of the event during the event window is not limited to the event date itself, the Cumulative Average Abnormal Return can be particularly useful.

4. Analytical Results

The analytical part of this paper started by calculating Average Abnormal Return (AAR) which was followed by conducting t-tests to check the significance of AAR each day during the event window, and the results are presented in table 1 below. Table 1 shows Average Abnormal Return (AAR) and Cumulative Average Abnormal Return (CAAR) together with the t-values obtained from conducting a one-sample t-test.

In Table1 a positive incidence of abnormal return was noticed around announcement date. Table 1 shows that around the announcement date there was a t-value of average abnormal return, which is positive and statistically significant at 5% significant level on D-2 before announcement and on D+1 and D+2 after the announcement. It is also apparent from Table 1 that the cumulative average abnormal return turned out to be statistically significant at 1% significant level between D+3 and D+10 after dividend announcement day.

Table 1: One-Sample T-Test Results for AAR and CAAR

Day-	AAR	Sig. 2-Tailed	CAAR	Sig. 2-Tailed
− 10	0.530	0.508	0.663	0.508
− 9	0.437	0.984	0.546	0.585
− 8	0.226	0.836	0.282	0.778
− 7	0.966	0.073	1.208	0.228
− 6	1.377	0.318	1.721	0.086
− 5	1.178	0.979	1.472	0.142
− 4	1.546	0.181	1.732	0.154
− 3	1.620	0.648	1.251	0.143
− 2	2.834**	0.035	1.703	0.088
− 1	1.451	0.062	1.806	0.094
0	1.273	0.146	1.818	0.095
+ 1	2.924**	0.027	1.807	0.084
+ 2	2.753**	0.042	1.864	0.0680
+ 3	1.750	0.227	4.383**	0.000
+ 4	1.836	0.680	4.203***	0.000
+ 5	1.782	0.892	4.352***	0.000
+ 6	1.550	0.204	4.432***	0.000
+ 7	1.465	0.991	4.331***	0.000
+ 8	1.290	0.268	4.115***	0.000
+9	1.122	0.563	3.904***	0.000
+ 10	1.725	0.194	3.406***	0.002

*Notes: *, **, *** significant at 10%, 5%, 1% respectively*

The pattern of average abnormal returns is also depicted in graph 1. Graph 1 displays the average abnormal returns movement that occurred 10 days before to 10 days after the dividend announcement. Reaction to stock prices that moved significantly immediately after the announcement occurred on the D-2, D+1, and D+2 as presented in graph 1. In graph 1, it is clearly observable that the abnormal return is reported to have a random fluctuation up to a day after announcement- day zero- where an abrupt jump is recorded and a sharp rise in AAR is subsequently observed. Similarly, graph 2 shows the tendency of CAAR movement. The graph shows that 3 days after the announcement day, there seems to be a significant increasing pattern in CAAR until day 7 after announcement where the trend slightly started falling at a lower rate. In essence from the 3rd day to the 10th day after announcement the increase in CAAR became positive and statistically significant at 1% significant level.
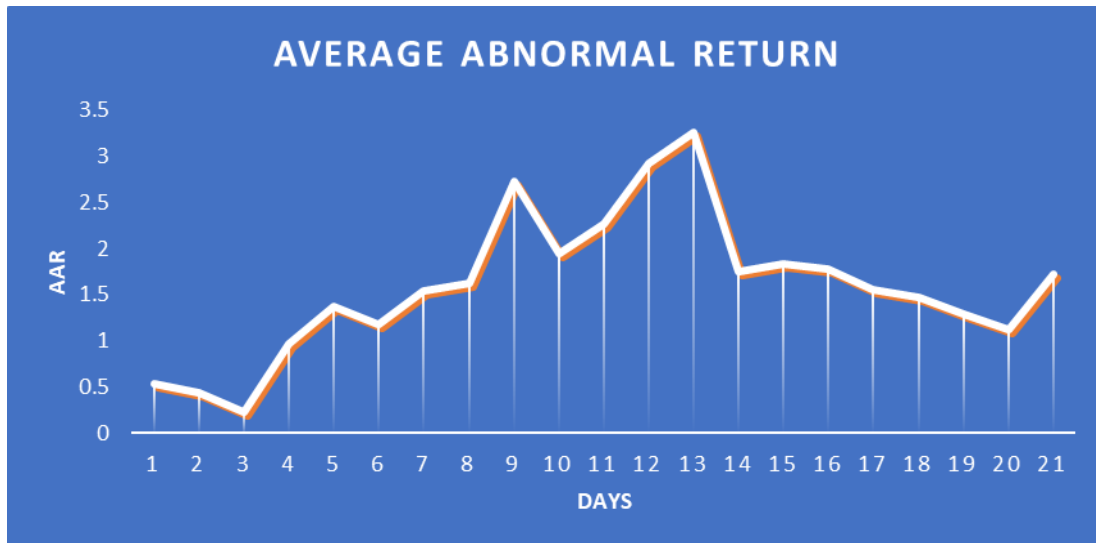
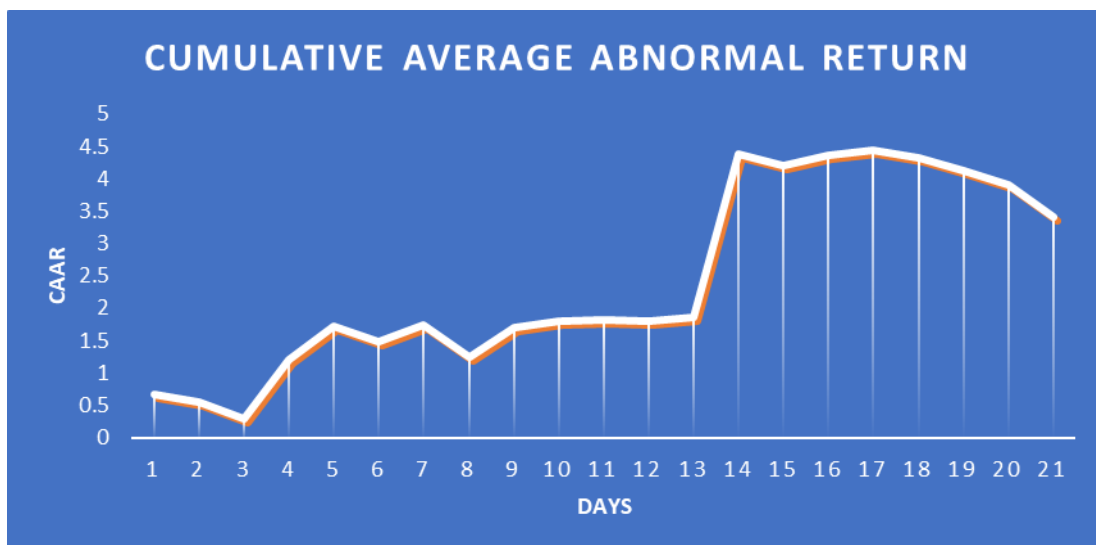Figure 1: Average Abnormal Return Around Dividend Announcement

Figure 2: Average Abnormal Return Around Dividend Announcement

Generally, the results reveal a positive AAR 2 days before dividend announcement and on day 1 and day 2 after the announcement consistent with the dividend signaling theory as advocated by Miller and Rock (1985). The results, further, shows that the average cumulative abnormal returns around the dividend announcement date from day 3 all the way to day 10 after announcement are positive and statistically significant at 1% level as previously reported.

In other words, the impact of dividend announcement on the performance of companies is strongly positive around the announcement date. It is useful to recall that according to the dividend signalling theory, a company decides to announce its dividend pay-out policy to signal its future prospects to the market, leading to a change of its stock prices. The results of this study show that the market reacts favourably to the announcements of dividend of the companies listed on the Dar es Salaam stock market as explained in the efficient market hypothesis. These results, which are also consistent with the previous studies, e.g., Scott and Keith (1996), Aharony and Swary (1980) and Dharmarathne (2013), support the information content of dividend hypothesis which indicates that market captures the opportunities to take advantage of the moment.

The results are also aligned with Doddy and Jogiyanto (2003), Sularso (2003), and Siaputra and Atmadja (2006) who found significant abnormal return around the announcement date implying that dividend announcement

carries useful information for investors. Furthermore, the result implies buying pressure on the part of short-term traders in the pre-ex-date period and selling pressure in the post-ex-date period.

Other several studies are in line with the results of this study, including Amin et al. (2015) and Weng et al. (2011) who exposed that dividend announcements could signal company's prospects in Malaysia market.

However, the results of this study are not consistent with some previous studies. Indeed, both Romon (2000) and Ngoc and Cuong (2016) doubted about the dividend clientele hypothesis when examining the Malaysian stock price reactions at the ex-dividend date. These authors claim that the dividend clientele effect seems to be extremely limited because the market knows the firm dividend policy level before the ex-dividend dates.

5. Robustness Check

To check whether the results of the paper are robust or not, a different model for abnormal return estimation was employed. The assumption was that no significant results are expected from changing an estimation method. The alternative estimation method employed is market adjusted model. In the market adjusted model, the observed return of the market on day t, R_{mt} is subtracted from the return R_{it} of the observation i on day t. The model takes the following form;

$AR_{it} = R_{it} - R_{mt}$

Where; AR_{it} = Abnormal Return; R_{it} = Stock return observed on day t and R_{mt} = Market or Index return observed on day t

Like in the market model estimation technique, a use of market adjusted model produced more or less similar results with the major results discussed in section 4 above except with some slight variation in significance levels. Table 2 presents the results of the market adjusted model. The results show that there is a positive incidence of abnormal return around announcement date, and that around the announcement date there was a t-value of average abnormal return, which is positive but not statistically significant on D-2 before announcement but there was a positive and statistically significant t-value of average abnormal return, which is positive and statistically significant at 5% significant level on D+1 and D+2 after the announcement. It is also clear from Table 2 that the cumulative average abnormal return is also observed to be statistically significant at 5% significant level between D+3 and D+10 after dividend announcement day. Generally, the results are, therefore, fairly robust regardless of the estimation method used to estimate stock abnormal return.

Table 2: One-Sample T-Test Results for AAR and CAAR

Day-	AAR	Sig. 2-Tailed	CAAR	Sig. 2-Tailed
− 10	0.4240	0.4572	0.5171	0.408
− 9	0.3496	0.8856	0.4263	0.3856
− 8	0.1808	0.7524	0.2202	0.3657
− 7	0.7728	0.0657	0.9424	0.2352
− 6	1.1016	0.2862	1.3425	0.1576
− 5	0.9424	0.8811	1.1484	0.1542
− 4	1.2368	0.1629	1.3513	0.1854
− 3	1.2960	0.5832	0.9762	0.1445
− 2	1.2672	0.0315	1.3283	0.1345
− 1	1.1608	0.0558	1.4094	0.194
0	1.0184	0.1314	1.4185	0.195
+ 1	2.3392**	0.0243	1.4096	0.084
+ 2	2.2024**	0.0378	1.4547	0.068
+ 3	1.4000	0.2043	2.9192***	0.000

+ 4	1.4688	0.612	2.9782***	0.000
+ 5	1.4256	0.8028	3.1231***	0.000
+ 6	1.2400	0.1836	3.1422***	0.000
+ 7	1.1720	0.8919	3.111***	0.000
+ 8	1.0320	0.2412	3.5124***	0.000
+9	0.8976	0.5067	3.1714***	0.000
+ 10	1.3800	0.9889	2.9067***	0.004

*Notes: *, **, *** significant at 10%, 5%, 1% respectively*

6.   A Concluding Remark

This study examined the influence of the dividend announcement on the corporate stock returns for firms listed in DSE. The stock returns were examined following the dividend announcements, and it is verified that the dividend announcement influences the firm stock return in the context of Tanzania. It is revealed, in the study, that the market reaction is observed to be positive and statistically significant around the announcement day (two days before announcement and a days after the announcement date). Additionally, it is revealed that the stock return increases as long as the announcement date approaches but starts decreasing from the third day after the announcement. This immediately confirms the consequence of dividend announcement, that the effect of dividend announcements is consistent with the informational content of the dividend hypothesis as well as with dividend signaling models which indicates that market captures the opportunities to take advantage of the moment.

The existence of significant abnormal return on the second day before the announcement proves the existence of the information content, and that the market still accepts this as good news. This immediately proves the efficient market hypothesis which proposes that the market is efficient in information, and that all investors have received the information declared, and there is no chance for any investor to get privileged information which would grant them excess return.

 The findings would enhance current understandings of the dividend policy impact on the firm value, and this may allow financial managers to be able to determine an optimal dividend policy which improves the performance of the firms. Furthermore, the study encourages investors to take advantage of dividend announcement date as a guide towards buying and selling stocks to avoid unnecessary trading losses.

However, the study is limited to only available dividend announcement information from the Dar es Salaam Stock Exchange. Future study may obtain more information on dividend announcement to increase the number of observations which can improve the obtained results in this paper.

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