IMPACT OF FIRM-SPECIFIC NEWS RELEASES ON SHARE PRICES IN BANK, FINANCE AND INSURANCE SECTORS OF COLOMBO STOCK EXCHANGE

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Abstract

This paper examines the impact of firm-specific news releases on share price changes in bank, finance, and insurance sectors of the Sri Lankan stock market: Colombo Stock Exchange (CSE). The data is gathered from the CSE data base and annual reports for the daily share prices, All Share Price Index (ASPI), and news releases for the period from January 2017 to December 2018.

Two types of analysis were performed to identify the impact of firm-specific news releases on share prices, namely an individual company level analysis and industry level analysis. The findings of both the analysis indicate that relationship between firm specific information releases and changes in share prices is statistically insignificant except for dividend announcements. Further, research in this area is needed to substantiate the findings of this study using subcategories of the firm specific news releases.

Key Words: firm-specific news, share price, dividend announcements

Introduction

Firm specific news releases and macroeconomic information play an important role in stock markets. This information is important in the selection of portfolios of equity securities and other investments at both individual and institutional levels. Further, the role of firm specific information is indispensable in establishing equilibrium pricing in the capital market at the aggregate market level.

Numerous studies (Atiase, 1988; Berry & Howe, 1994; and Dye, 1985) investigated the market impact of individual firm-related news releases. Most of the market impacts were examined based on stock price movements. One main reason for that was the return and new relationships provide insight to the structure of financial markets. The movements in share prices reflect the changes in investors' expectations about future performance of the firm generated by news releases. Investors will change their expectations about the market whenever new information arrives to the market. This will cause the investor to forecast either positively or negatively based on the impact of information received. But sometimes the investors do not react either positively or negatively to information. Therefore, it can be seen that share prices do not always reveal information. Hence, studying of relative importance and the impact of information items on share prices is crucial. However, prior studies in this respect, in emerging markets are very limited and this research focuses on price reaction to firm specific information items.

Information is an important resource to various parties involved in the capital markets. Among them corporate management is highly concerned about issues regarding information since the discretionary power over timing and amount of information releases and sometimes whether the information such as forecasted earnings, dividend payout should be released is vested with the management. Apparently in setting integrated corporate disclosure policies, a proper understanding of how the capital market will react to the news releases is essential.

In addition, it is important to assist the parties that are involved in purchase of information and supervisory bodies such as the Securities Exchange Commission that are concerned with the capital markets and issue of information because they make decisions that affect the content and timing of information released to the capital markets. There are only few researches found on emerging markets, like Colombo Stock Exchange. Most researches incorporate new releases which are based on developed markets. However, Sri Lanka is an emerging stock market which is partly liberalized. In view of these, research that aims at examining impact of firm-specific news releases on market prices in CSE is important.

Information reflection of market prices is a major requirement to build efficient market. Therefore, it is important to invent new strategies to improve the efficiency of the CSE. Further, impact of firm-specific news releases on stock prices has not been identified in the Sri Lankan context although researches are available on testing the impact of isolate specific news events such as right issues, dividend effect etc., on stock prices. This study attempts to fill this existing gap. Accordingly the research questions of this study are identified as (1) what is the impact of firm-specific news on the stock prices and (2) what information events are key determinants of firm's price changes. Hence, the objective of this study was to examine the impact of firm specific news releases on share prices of companies listed under Bank, Finance and Insurance Sector in Sri Lankan stock market.

Literature Review

Overall information announcements

There are numerous empirical studies (Atiase, 1988; Berry & Howe, 1994) which discussed the association between information flow and market activity in developed markets. All those studies explained the link between information set and movements in stock prices which is a central issue in financial economics. However, considerable number of researches (Mitchell and Mulherin, 1994; Thompson et al. 1987) suggests that the association between information flow and movements in stock prices is not particularly strong.

But some researchers argued that there is a strong relationship between information flow and movements in stock prices (Ryan and Taffler, 2004; Aharony and Swary, etc. 1980).

First part of this section discusses the literature which examines the impact of overall information events and share price changes whilst the latter part of the section reports the empirical studies which were considered to have an impact of single information event on changes in market activity especially relating to stock prices.

Mitchell and Mulherin (1994) examined the relationship between a number of news announcements reported and aggregated measure of stock market activity including trading volume and market return. They supported the argument that relationship between information flow and movements in market activity is not particularly strong. They observed that although there is direct relationship between Dow Jones announcements and stock market activity, the relationship is weak whereas the measure of market and firm-specific return are not significantly related to the non information sources of trading activity. Daily numbers of headlines reported by Dow Jones were used as primary measure of public information including firm-specific and macroeconomic information.

Berry and Howe (1994) found that there is insignificant relationship between public information flow and price volatility although there is positive, moderate relationship between public information and trading volume which was similar to results provided by Mitchell and Mulherin (1994). They developed a measure of public information flow to financial market and used it to document the pattern of public information. News releases by Reuter's News service was used as primary data source and regression analysis was used to examine the relationship between public information flow and market activity over a period from May 1990 to April 1991.

Thompson et al. (1987) recognized the frequency of firm specific news coverage across firms based on firm size, industry grouping and sources of corporate news. They also examined the relationship between firm stock price movements and broadly defined news categories even though their key focus was not to measure this relationship. Price responses were measured using twelve broadly defined news categories. Therefore, this did not identify differences among news categories which had price impact and news that were not price sensitive. Impact on prices from news was measured by calculating average return relating to each news category pre-specified. They found that, on average, news categories appeared to inform very little news to the market.

Market information environment is complex and consists of information provided by firm in concern and many other parties. However, information provision to the market may be sometimes unsatisfactory due to many reasons. Dye (1985) addressed this issue in information and reported three reasons for management's failure to disclose nonproprietary information. They are, investor's knowledge of management information is incomplete, nonproprietary information may not be disclosed if it is part of manager's vast array of private information, and management reticent as best resolution to agency problem. Also this paper provides that there are distinctions between the amount of information disclosed and even the credible announcement of private information is possible.

Ryan and Taffler (2004) examined the relationship between capital market information flows and company share price changes and trading volume activity and relative importance of different firm specific information events and trading volume activity. They studied the frequency with which different news categories dive price changes using Mann-Whitney Rank Sum Test to measure price or volume impact of news events that occur with greatest frequency using sample period from 1994 to 1995. They found that reported news events drive significant proportion of companies' economically significant price changes and trading volume activity and firm's formal accounting releases dominated all other news events where a considerable proportion of information content of those accounting releases is not anticipated by the market as a whole. As per their conclusion **"**in excess of 70% of all firms' preliminary and interim results trigger economically significant price changes (trading volume Movements) demonstrating the clear information content of these formal accounting releases to the market on this basis**"** (Ryan and Taffler, 2004, p. 73). Further, in their analysis, they showed significant positive price movements occur with greatest frequency followed in order by direct share dealing, bids, preliminary results, share deals, interim results, financing and management related news.

Literature based on particular information announcement

Atiase (1985) looked at in detail the relationship between pre-disclosure of earning announcements and security price behavior and suggested that for entire sample the security price revaluation of reported period is greater than the share price revaluation over pre-disclosure period subject to limitation that were due to sample size and assumptions underlying the model specifications. The regression results provided evidence that stock price movements specifically relate to pre-disclosure of earning announcements.

Brennan and Hughes (1991) focused on stock split announcements. A manager with private "good news" provides incentives to analysts to produce research report on firm with low share prices in order to reveal information to the investors. Therefore, they found that number of analysts making forecasts is negatively related to the stock prices. The main limitation in this study was the assumptions that the only way investors get to know about the firm is through their personal broker and they only invest in securities of firms that they know about, which made it difficult to infer the results to be pragmatic state of affairs.
When investigating for firm specific news releases which influence stock prices, Aharony and Swary (1980) came up with one of the most important news items, which is, dividend announcements. If dividend conveys useful information, in an efficient market this will be reflected in stock price changes immediately following a public announcement. They found that market reaction to dividend announcement studies strongly support that changes in quarterly cash dividend provides useful information beyond the earning numbers provided by corresponding quarter. Naive dividend expectation model and market model were used and examined that on average stock market adjusted in efficient manner to new quarterly information.

Collett (2004) reported that negative trading statements exceed positive trading statements by 50%, and market reaction, measured by abnormal returns, is considerably greater for the negative statements which were in line with previous US studies. There is significant market reaction to announcements for all size-controlled portfolios, with considerably greater reaction for small companies relative to medium sized companies and for medium sized companies relative to large companies. His results suggest that trading statement announcements by UK firms contain genuine surprises for the stock market; that the market reacts quickly to the news; and that for small companies there is some over-reaction to bad news.

Dedman (2004) further explores the relationship between agency problems, corporate governance and legal measures to limit agency problems, and the likelihood and accuracy of disclosure of price sensitive information in the UK which is an extension of Collett's (2004) study.

Fox and Opong (1999) examined the impact of entry and exit of board of directors on share price. The results suggested the changes in composition of management boards affect share price of corresponding firm and also indicate securities market discount the information about the board. Small but significant abnormal returns arrived using event study method occurred on the day of announcement. They found that the informational effect of new appointment to the board perceived differently from the resignations from the management board by the market.

Although the number of empirical studies based on emerging markets in less developed countries is relatively limited, stressing few of them is important since this study was carried out using data from Colombo Stock Exchange. Chen et al. (2005) examined the overall announcement effects in terms of abnormal trading volume and abnormal returns, and then further examined the relations between the timing of announcements and their market reactions based on stock market in China. Using 3,802 Chinese firms' earnings announcements, they employed regression analysis to provide evidence that earlier announcements possess more information content, as measured by trading volume and returns, than the later announcements. Hence information asymmetry exists between earlier and later earnings announcements. Further, the regression results also show that earlier announcements receive greater price reactions.

Selecting one of firm-specific variables Adelegan and Adelegan (2001) investigated the relationship between stock returns and dividend announcements in the Nigerian context. They found that earnings and dividend announcements are normal parallel events in Nigeria as they are always announced together as against the developed stock market where such announcements are made separately and share prices do react to dividend announcements.

Dissa Bandara (2001) investigated the market response to dividend announcements using data from the emerging market of Sri Lanka. Although the results of the study supported the information content of dividend hypothesis in Sri Lankan stock market, the level of responsiveness is relatively low and is different from previous studies based on developed stock markets. Using 37 quoted companies in Colombo Stock Exchange, the study employed event study method for a period of six years from January 1993 to December 1998. He found that market reaction to the dividend announcements in terms of positive reaction to the dividend increase and negative reaction to the dividend decrease. Dewasiri and Weerakoon (2016), Baker et al. (2019), and Dewasiri et al. (2019) suggested that dividend carries certain information in the Sri Lankan market but they referred to the information only on future prospects in accordance with the signaling theory.

The past studies based on developed markets which studied the impact of information announcements on stock prices/stock return considering overall information events provide different arguments on strength of the relationship between information announcements and stock prices. However, they accepted that there is some relationship between them even though disagreed based on strength of the relationship on each other's arguments. From the above discussed past studies, Ryan and Taffler (2004) identified economically significant price changes triggered by most of firm specific news releases who specifically addressed the firm specific news releases. Based on their findings, this study hypothesized that price changes are driven by firm-specific news releases of publicly quoted companies under Bank, Finance and Insurance Sector in Colombo Stock Exchange.

Methodology and Data

This study employs the quantitative methodology since the research questions employed in this study are consistent with the quantitative methodology as emphasized by Dewasiri et al. (2018). The sample of this study is selected from Bank, Finance and Insurance Sectors of CSE in order to investigate the impact of firm specific news releases on the share prices. The Bank, Finance, and Insurance companies perform the highest number of share transactions out of 20 industrial sectors in the CSE. Sample of 26 quoted public companies from Bank, Finance and Insurance Sector for the two year period from 1 January 2017 to 31 December 2018 was selected. The firms which do not exist during the entire period of the study or had merged or demerged are excluded from the sample.

Data

The data set was obtained from CSE, Sri Lanka. The daily share prices for companies selected used to measure the returns at the individual company level. The daily share prices of 26 quoted public companies from Bank, Finance and Insurance Sectors for the period of 1st January 2017 to 31st December 2018 are gathered from the data library of the CSE. Shares of the companies in the sample selected had not been traded on each and every trading day when considering the sample period from 1st January 2017 to 31st December 2018 as examined in the study. This is called as thin trading problem[1]. Therefore, if there is any missing daily share price of a company, it is adjusted considering the most recent closing and opening prices.

All Share Price Index (ASPI) for Bank, Finance and Insurance Sector measures the price changes of all the stocks in that sector which are employed to measure the market return. Sector ASPI is also obtained from CSE. Both returns have been utilized in the study to investigate the relationship between information and stock returns.

Further, the firm specific news releases are obtained from Stock Market and the Daily and Weekly reports which are the official publications of CSE. There is no adjustment made to controlling the simultaneous releases of firm specific information events due to the fact that the different categories of information releases on the same date had not been identified in the data set used in this study. This enables to avoid the drawback of controlling which is eliminating a substantial number of data points.

Measurements of Variables and Model Specification

The first step of the data collection is to allocate all abnormal returns to one number of comprehensive categories of firm specific news releases in order to measure the impact of these news releases on share prices. All the firm-specific news releases are classified in to thirteen categories as stated in the appendix 1. These categories are selected considering news categories employed in previous studies and availability of news items during the sample period. The expected return generating model is as follows:

$ER_{i,t} = \beta_i R_{m,t}$

Where,

$R_{m,t}$ = market return for the day t,

β_i = coefficient of the relationship between $R_{i,t}$ and $R_{m,t}$

This is the well-known market model with no intercept term which was used in previous studies and identified the intercept term unlikely to add to the results (Ryan and Taffler, 2004). Market returns are calculated using following formula:

$R_{m,t} = \ln (ASPI_t / ASPI_{t-1})$

Where,

ln = natural logarithm

$ASPI_t$ = All Share Price Index (ASPI) for Bank, Finance and Insurance Sector on day t,

$ASPI_{t-1}$ = All Share Price Index (ASPI) for Bank, Finance and Insurance Sector on day $_{t-1,}$

This model is also consistent with the model used by Dewasiri and Weerakoon (2014, 2015) to measure the market return. Actual returns for firm i calculated as follows:

$R_{i,t} = \ln (P_t + D_t) - \ln (P_{t-1})$

Where,

P_t = price of shares of firm i on day t.

D_t = dividend for shares of firm i on day t

P_{t-1} = price of shares of firm i on day t-1

This return generating model is also consistent with the model used by Ryan and Taffler (2004) to calculate dividend adjusted returns. Dummy variables are assigned for firm specific news releases in measuring relationship between changes in share prices and firm specific news releases.

Model Specification

A multiple regression model is used to measure the impact of firm-specific news releases on the share prices as indicated below.

$SP_{i,t} = \beta_0 + \beta_1 AGM_{i,t} + \beta_2 FIN_{i,t} + \beta_3 ANR_{i,t} + \beta_4 AC_{i,t} + \beta_5 DSD_{i,t} + \beta_6 L_{i,t} + \beta_7 M_{i,t} + \beta_8 P_{i,t} + \beta_9 LI_{i,t} + \beta_{10} NC_{i,t} + \beta_{11} EA_{i,t} + \beta_{12} DA_{i,t} + \beta_{13} CBOD_{i,t} + u_{i,t}$

Where $SP_{i,t}$ is the share price proxied by market return or actual return (dependent variable); *AGM* is AGM announcements; *FIN* is Finance; *ANR* is analysts' recommendations; *AC* is asset changes; *DSD* is directors share dealings; *L* is labor; *M* is management; *P* is product; *LI* is legal issues; *NC* is non-classifiable; *EA* is earnings announcement; *DA* is dividend announcement and *CBOD* is changes in board of directors; and *u* is the error term.

Data Presentation and Analysis

Multiple regression analysis is carried out for each individual firm in order to identify impact of news releases on company share prices. As per Table 1, dividend announcements show significant impact on the stock price changes for 21 companies. Further, there is only two out of remaining twelve firm specific news categories relating to three companies which have significant impact on abnormal returns measured based on stock price changes. All the other news categories have insignificant impact according to t-statistic obtained through multiple regression analysis.

Firm specific news categories indicating significant impact

When considering the dividend announcements category, Table 1 indicates that 88.4% of the companies reflect news relating to dividends and out of which 91% of the companies show significant impact on abnormal returns. All the coefficients of dividend announcements relating to twenty one companies are showing statistically significant impact on the abnormal returns. As per the Table 1, 92.3% companies indicate news relating to earning announcements and 8% out of that have significant impact according to the t-statistic. Moreover, 42% of the companies released news relating to the changes in board of directors in which 9% of the companies express significant impact on abnormal returns.

Firm specific news categories indicating insignificant impact

77% of the news categories show an insignificant relationship with the share price changes. Moreover, from the total sample, 92.3%, 26.9%, 7.7%, 11.5%, 11.5%, 11.5%, 7.7%, 3.8%, 11.5%, 19.2% companies indicate news relating to AGM, financing, analysts' recommendations, asset changes, directors share dealings, labor, management, product, legal issues and non-classifiable categories respectively while indicating insignificant impact.

Table 1: Regression results of the analysis performed in individual company level

Company Code	t-statistic												
	AGM	**Financing**	**Dividend Announcements**	**Earnings Announcements**	**Analysts**	**Asset changes**	**Changes in BOD**	**Directors share dealings**	**Labor related**	**Management related**	**Product related**	**Legal issues**	**Non classifiable**
AACI	-	-	0.56	0.30	-	-	-	-	-	-	-	-	-
ACAP	0.02	-	2.51*	0.20	-	-	-	-	-	-	-	-0.58	-
ALLI	0.75	-	2.68*	0.44	-	-	-	-	-	-	-	-	-
ARPI	0.30	-	2.16*	2.28*	-	-	-	-	-	-	-	-	-
CFIN	0.03	-	2.33*	0.84	-	-	0.15	-	-	-	-	-	-0.47
CFVF	-	-	-	-	-	-	-	-	-	-	-0.05	-	1.73
CINS	1.80	0.54	2.06*	0.74	-	-	-0.57	-	-	-	-	0.73	-
COMB	0.47	-	0.24*	0.17	-	-	0.02	-	0.26	-	-	-	-
COML	0.29	0.07	2.11*	0.31	-	-	1.88	-	-	-	-	-	-
CTCE	1.58	-	2.04*	-0.02	-	-	-0.55	-	-	-	-	-	-
DFCC	0.75	0.24	2.22*	0.43	-	-	-	-	0.06	-	-	-	-
HASU	0.10	-	2.11*	0.11	-	-	-	-	-	-	-	-	-
HNB	1.22	-	2.17*	0.58	-	-	-	-	-	-	-	-	-
LFIN	0.01	0.74	2.04*	0.41	-	-	-	-	0.89	-	-	-	-
LOLC	0.10	-	2.16*	-0.37	-	-	-1.11	0.58	-	-	-	-	-
LVEN	0.43	-	2.01*	0.14	-	-	0.86	-	-	-	-	-	-
MBSL	3.21	-	2.12*	0.10	-	-	-0.17	-	-	-0.28	-	-	-
NDB	0.56	-	2.06*	0.26	-	0.59	0.07	-	-	-	-	-	0.31
NTB	0.03	-	-	1.54	0.74	-	-	-	-	-	-	-	-
PMB	1.88	0.30	2.16*	0.83	-	-	0.15	-	-	-	-	-	-
SAMP	0.03	-	2.14*	1.48	-	1.04	-	-	-	-	-	-	-
SEMB	1.19	-0.97	2.12*	2.09*	0.33	0.78	-	0.99	-	-	-	-	0.00
SEYB	0.09	1.33	2.01*	0.16	-	-	-	0.95	-	-	-	-	-
TFC	0.65	-	2.01*	2.67*	-	-	4.56	-	-	-	-	-	-
UAL	0.54	-	2.08*	0.11	-	-	-	-	-	-	-	-	-
VANI	1.09	-	-	-	-	-	-	-	-	0.99	-	0.23	-0.36

*Note:*significant at 5% level*

Analysis in terms of the industry level

The impact of firm specific news releases on share prices with regard to the industrial level is important since it enables a comprehensive understanding about the phenomenon. A solitary multiple-regression model is used which generates results reflecting the general relationship between firm specific news categories and the abnormal returns. According to the results indicated in Table 2, all the coefficients of firm specific news categories indicate negative relationship except for earnings announcements, analysts' recommendations, and changes in board of directors. Thus, negative coefficients explain there is inverse relationship between pertinent news categories and abnormal return. Further, analysis reveals that earnings announcements, analysts' recommendations, and changes in board of directors indicate positive coefficient demonstrating positive relationships with price changes. However, only the dividend announcements show significant impact on the abnormal return according to the p-values obtained. Regression model appears to be weekly significant since independent variables intend to explain 5.1% of the abnormal return as shown in the Table 2.

Table 2: Regression results of the analysis performed in industry level

Firm Specific News Category	B	P-Value
AGM	-0.00690	0.75
Financing	-0.01330	0.583
Dividend Announcements	-0.16910	0.000*
Earnings Announcements	0.00421	0.836
Analysts	0.00375	0.934
Asset changes	-0.01490	0.666
Changes in BOD	0.00158	0.945
Directors share dealings	-0.01927	0.577
Labor related	-0.01230	0.784
Management related	-0.00342	0.939
Product related	-0.00968	0.873
Legal issues	-0.00596	0.876
R2		9.50%
Adjusted R2		5.10%

**Significant at 5% level*

Summary of the analysis

As per Table 1, dividend announcements show significant impact on the abnormal returns. Further, there is only two out of remaining twelve firm specific news categories relating to three companies which have significant impact on abnormal returns measured based on stock price changes. All the other news categories have insignificant impact according to t-statistic obtained through multiple regression analysis. Moreover, the industry level analysis also indicated that impact of firm specific news categories and abnormal return is weakly significant. Aggregate findings of the analysis demonstrate that the impact of firm specific news releases and abnormal return is insignificant except for dividend announcements. Abnormal returns tend to point out the response of share prices to the firm specific information. Consequently, it is apparent that the overall impact of firm specific news releases on share price changes is insignificant in the companies listed under Bank, Finance and Insurance Sector at CSE. These findings are consistent with Thompson et al. (1987) and Berry and Howe (1994).

Conclusion and Future Directions of the study

Determining whether there is an impact of firm specific news releases on share prices is important to all capital market participants and governing bodies in varying degrees. Especially, having a good understanding of this relationship is crucial to parties that are in the acquisition of information since that enables them to effectively manage their investment in an effective and efficient manner. The empirical findings suggested that there is an insignificant relationship between share prices and firm specific information except for dividend announcements. The results could be due to the limitations of the current study such as small sample size, selection criteria and assumptions of the models.

However, the findings are inconsistent with the expectation of the researcher which is based on Ryan and Taffler's (2004) findings since dividend announcements show significant relationship in both firm and industry level analysis. Addressing the research problem of identifying the key information categories driving price changes become complicated since there was no significant price changes driven by firm specific information are identified. Further, result of the individual firm level analysis suggested that earning announcements and news relating to changes in board of directors had shown significant impact on share prices in relation to three companies from the full sample which is a negligible fact. According to the result of the analysis, the impact of firm specific information on share prices is less significant except for dividend announcements. Hence, the management could use dividend announcements as a controlling mechanism in order to have fluctuations in the stock prices.

This research is limited to the bank, finance and insurance sectors of the Colombo Stock Exchange. There are 19 other business sectors in CSE. Therefore, the future researchers should carry out studies capturing all the sectors of the Colombo stock exchange. Moreover, future researches need to determine subcategories of the categories specified in this study in measuring impact of firm specific information on share prices and economic significance of the news categories.

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Appendix 1: Description of Firm Specific News Categories

News Category	Type of news contain in the category
AGM	News relating to AGM
Financing	Issues relating to new share capital(equity, bonds, rights, warrants)
Dividend Announcements	Cash dividend, stock dividend and stock split announcements and corrections
Earnings Announcements	Quarterly and annual earning announcements and corrections

Analysts recommendations	Recommendations made by analysts firms to the investors and the CSE
Asset changes	Acquisitions and disposition of tangible and intangible assets, announcements of joint ventures, mergers, capital expansion plans
Changes in BOD	Changes in board structure of listed companies
Directors share dealings	The granting/exercise of share options with directors' share purchase and sales
Labor related	Events that affect employees , employee benefits and job security
Management related	Changes in management personnel, management compensation agreements and other related issues
Product related	News relating to the new products and services, changes in pricing strategies
Legal issues	legal issues relating to civil action damage claims and other issues
Non classifiable	All events that cannot elsewhere categorized