MARKET REACTION TO DIVIDEND INITIATION ANNOUNCEMENTS ON THE GHANA STOCK EXCHANGE: THE CASE OF INDUSTRIAL ANALYSIS

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ABSTRACT

This study examines the market's reaction to dividend initiation announcements. In particular, it considered the magnitude of abnormal returns during the days that surround announcements of dividend initiation. This study expects to reveal whether dividend initiation is important to investors on the Ghana Stock Exchange. It also expects to reveal whether the type of firm's industry has influence on the investors' investment decision. This is accomplished by measuring the abnormal returns before, during and after dividend initiation announcements. Using an event study approach, the evidence shows that dividend initiation announcements are greeted positively by investors. Industry based analysis is made to ascertain if firms in different industries react differently to dividend initiation announcement. The industries included: manufacturing, financial service and the other industries. The results suggest that firms in the manufacturing industry experience stronger investors' reaction than firms in the other industries.

Keywords: Market reaction, Dividend, Initiation, Abnormal returns, Industry, Ghana stock exchange.

1. INTRODUCTION

In recent past, a lot of literature has been developed seeking to explain the market reactions to dividend initiation announcements. The phrase, "dividend puzzle" by Black (1976) has been used by many researchers in an attempt to explain the myth behind dividend behavior. Modigliani and Miller (1961) argued with the notion of a perfect capital market without information asymmetry, no taxes and transaction costs should, in no way affect the firm's value or the share price of a company. They intimated that the value of the firm's shares was the present value of the stream of

future cash flows from current assets and future growth opportunities. This assumption is true if only the issue of securities to raise funds is fairly priced. These arguments fairly suggest that receiving cash dividend from dividend payment is merely exchanging future earnings with today's cash of the same market value. This logic led to the conclusion that dividend policy is irrelevant. Even with the intensive argument put up by M&M in the finance literature about dividend irrelevance, it only assumes that it operates in a perfect world. However, they did not hesitate to concede that dividend payment could be important if firms used it to convey information not otherwise known to the market.

Easterbrook (1984) alluded that the argument surrounding dividend payment of companies are most of the time to convey a message to the shareholders that they expect favorable future prospects of the firm. According to him, it is just an effort to align shareholders' mind to believe that management will not mismanage any available cash in unprofitable projects to reduce agency conflict. With the advancement of the literature however, a new area has emerged that sought to explain the main causes of the market reaction to such unique events. Because of this effort, a great deal of work has been done in the area of the market reaction to dividend initiation announcement together with the information content of dividend hypothesis. Signaling hypothesis states that dividend initiation conveys to the market information about the future prospects of the firm. This study is expected to contribute to the understanding of the abnormal returns that will result due to the shock or surprise the market will experience in receiving the news of dividend initiation announcement. This study largely followed the work of Schultz (2004), Jin (2000) and Norton (2008) as they have tried to explain the market reaction to dividend initiation announcement.

Studies on dividend initiation have not been given attention in Ghana over the years despite its importance in understanding stock price behavior. This has led to deficient literature in understanding stock market reaction to dividend initiation in Ghana. Though it is widely studied in the developed markets in Europe and the Americas (e.g Healy and Palepu (1988), Jin (2000), Asquith and Mullins (1983) and Schultz (2004)). The same cannot be said of Ghana. Previous studies that have attempted work on the stock market in Ghana include: Amidu and Abor (2006), Issahaku *et al.* (2013), Amidu (2007), Bokpin and Abor (2010). These did not focus on the market reaction to dividend initiation. Again, the data set used in the developed markets for the study of this topic cannot be used in explaining the investor behavior of the stock market in Ghana. This is because the variables used in those studies could have been influenced by factors unique to their environment. Hence a unique study to focus on Ghana Stock Exchange is warranted. The study has two objectives which include:

1. To examine the share price changes following dividend initiation announcement.
2. To explore how a firm's specific industry could influence its shareholders reaction to such events.

2. LITERATURE REVIEW

The information content theory suggests that managers can communicate information to investors about their optimism of the firm's prospect in the future through dividend announcement Asquith and Mullins (1983), Healy and Palepu (1988) and Norton (2008). It is said that since managers spend most of their time in analyzing the firm's performance, they are by default having deeper understanding about the firm's investment opportunities, operations and limitations. That understanding may influence their decisions and actions that presuppose that any decision by managers to initiate dividend payment reflect their view that the firm's future earnings, cash flows and other opportunities will likely be favorable.

Since dividend announcement is expected to serves as a signal, investors by nature will react to a firm's dividend initiation announcement depending on how they perceived the firm's performance on the market. In the extant literature, Lintner (1956) was the first person to take on the challenge of dividend payment and stock price behavior in. Lintner argues that managers will initiate dividend payment when they are sure the firm's earnings are stable. Modigliani & Miller's original article suggested that if management's expectations of future earnings affect their decision about current dividend payouts, then changes in dividends will convey information to the market about future earnings. This notion is labeled the information content of dividend. They concluded that if managers know more about the true worth of their firm, dividends may be used to convey that information to the market, despite the costs associated with paying those dividends

Asquith and Mullins (1983) did a thorough work on dividend initiation. Their findings established that firms that initiate dividend payment are met with a strong market reaction. They further added that the same holds for firms that increase dividends payment in subsequent times. It was however observed that the magnitude of the dividend initiated could influence investor anticipation leading to the sharp reaction. Asquith and Mullins (1983) provided evidence to show that the market reaction is far larger than that observed in other studies. In a detail work, they further hypothesized that dividend effect should be more visible at initiation. The authors argued that if dividend is unexpected by investors, the market reaction on the announcement day will be able to capture the full effect of the information conveyed by the initiation announcement. They again added that the excess return should reflect investors' estimates of the present value of factors such as the tax burden associated with dividend and the benefits of putting a mechanism to communicating management information to investors. Jin (2000) reports that 30 percent of firms in their studies experienced negative stock reactions to dividend initiations. They claim that such a negative effect may be the result of the costs associated with the initial payments, such as an increase in tax burdens, transaction, and administration costs of the dividend program. He concluded that no matter how it appears, dividend initiation is very important in any firm's financial cycle and that normally it serves as a main source of information and is usually met with stronger reaction by investors..

Aharony and Swary (1980) wanted to verify if events such as dividend announcement convey any better information beyond what has been incorporated instantaneously by earnings information.

They found that dividend increase announcement does convey significant information about the assessment of the firm's future performance from the perspective of the investors than other performances. Therefore, they supported the information content of signaling theory of dividend announcement. John and Williams (1985) formalized what they referred to as "signaling equilibrium". This is based on the credibility of the firm that uses dividend initiation announcement to send a signal to its shareholders. In their argument, investors will attach much importance to credible firms when they announce dividend initiation. As a result, it will translate into share price performance on the market. Which they argue that there exists, signaling equilibrium. They defined a credible signal as any action that is prohibitively expensive for other firms to mimic. The underlining argument is that investors have the rational behavior to judge and price or attach values to the shares of the firm by establishing equilibrium in the process.

Gunasekarage and Power (2002) supported the argument put up by Gonedes (1978) who disagreed with the signaling hypothesis in his findings. He re-examined the dividend signaling hypothesis by checking the post initiation announcement performance of selected firms in UK. He tried to see if firms that disclose their dividend initiation plans to the market made any better returns than the usual returns. They adopted the buy and hold policy in their calculations and recorded abnormal returns for a year before the announcement, a quarter before the announcement, and over the announcement period. They documented that no extra return was recorded beyond the usual return.

3. METHODOLOGY
3.1. Data Selection

The study used stock price to calculate the abnormal returns. The data collected was based on information from 1990-2012. The following criteria were used to select the firms for the study:

- The firm must have initiated dividend payment.
- The firm must have dividend initiation declaration date and that date must be available for assessment.
- The company must have at least 150-day trading share prices before and at least 10-day trading share prices after the dividend initiation was announced.

The traditional event study methodology by Brown and Warner (1985) was used. The market model was used to estimate the abnormal return. This model assumes that the return on a security can be estimated using the relationship between the individual security's return and the return on the market index. Under the market model assumption, the expected return $\varepsilon(R_{it})$ for security i on day t is calculated as follows:

3.2. Model Estimation

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad \text{Eqn(1)}$$

R_{it}= the expected rate of return on the share price of firm i on day t. R_{mt} = the rate of return on the market portfolio of stocks of (GSE) on day t. α = the intercept term, β = the systematic risk of stock

i, and ε_{it} = the error term, with $\varepsilon(\varepsilon_{it}) = 0$. This means Alpha ($\alpha$) shows how much on average the stock price changed when the market index is unchanged and Beta (β) tells how much the stock price moved for each percentage (1%) change in the market index. The study used 140 days observations before the event window to estimate the betas. From that estimation, the research used estimates of daily abnormal returns (AR) for the i[th]firm using the equation below:

$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt})$ …………………………………………..…….. Eqn (2)

AR_{it} = abnormal return of firm i surrounding the announcement date, R_{it} = actual return of firm i surrounding the announcement date, α = the intercept term, β = the systematic risk of stock i, R_{mt} = the rate of return on the market portfolio of stocks of (GSE) on day t.

The abnormal returns (AR_{it}) represent the returns earned by the firm after subtracting the expected return from the actual return.

11–day returns were collected for each dividend initiation announcement to examine the impact. 5-days return before and after the dividend initiations were necessary to capture the entire impact of the dividend initiation announcement. Day t = 0 is the day the news of the dividend initiation is published at the Ghana Stock Exchange

$$AAR = \frac{1}{N} \sum_{i=1}^{N} ARi$$ …………………………………………… Eqn (3)

Exchange. For each of the 11-days average return was calculated a

AAR = average abnormal return; N = number of firms in the sample; i=1=the ith firm;

The average abnormal returns were cumulated over the event window that gives us the cumulative abnormal returns as shown below:

$$CAR = \sum_{l=1}^{n} AAR$$ ………………………………… Eqn (4)

CAR = cumulative abnormal returns; n= the number of days in the event window;

The t-statistic was computed for as = AAR/ $\delta/\sqrt{N}$……………………..Eqn (5)

Where δ = the standard deviation of the abnormal returns; AAR=average abnormal return; N=number of firms in the sample.

The t-statistic was computed for as = AAR/ $\delta/\sqrt{N}$……………………..Eqn (5)

3.3. Empirical Results

The empirical analysis of this section attempts to examine how the market instantaneously incorporated and adjusted stock prices before, during and after the dividend initiation information.

If the Ghana Stock Exchange was a semi-strong informational efficient market, the stock prices will undoubtedly adjust instantaneously to dividend initiation information and the prices reflect the real sentiment of the investors. On the other hand, semi-strong form efficient market implies that analysts cannot use publicly available information to gain any significant price advantage that could lead to abnormal returns. If there is a significant abnormal return especially before the declaration date then it would probably be due to leakage of information from insiders. In this section, we examined if: a) Trading results were associated with important released information of dividend initiation announcement, b) if there is any unusual return associated with trading before dividend initiation declaration. In order to test whether the abnormal return in the event window is statistically significant, the t-Statistic was calculated.

3.4. Correcting for Thin Trading on the Ghana Stock Exchange

When there is thin trading of stocks, the ordinary least square (OLS) – estimates of the market model betas could be affected. Thin trading of stocks can cut or reduce the measured correlation with the market index and consequently the wrong estimate of the betas. Peter-Jan (2001) and Brown and Warner (1985) lamented that thinly traded stocks appear to have downwards bias betas while actively traded stocks have upwards bias betas estimates. Strong (1992) argued that these bias betas could make certain abnormal returns to be misleading and even make the test statistics inaccurate. It was observed therefore that majority of the firms that constituted the sample for this study experienced thin trading. Therefore, correction was made to take care of the under-and-over estimates by using the market model. In doing so, we opted for the O'Hanlon and Steele (1997) Model. The estimation of the beta using O'Hanlon and Steele (1997) procedure consists of the aggregation of three estimated beta coefficients. We lead one and lag one market return variables. $\beta_t = b_{-1,t} + b_{0,t} + b_{+1,t}$ where $b_{-1,t}$, $b_{0,t}$ and $b_{+1,t}$ represent O'Hanlon and Steele (1997) Model use to lead one and lag one market return variable respectively for the corrected betas. These aggregated estimated betas were then used to calculate for the expected returns. This was to enable comparisons between the abnormal returns using the market model betas and the O'Hanlon and Steele (1997) Model estimated betas to see if there could be any improvement. Brown and Warner (1985) and Strong (1992) got improved results after correcting for the thin trading effect using the new estimated betas. The results in this study had also shown an improvement after the thin trading correction as shown in table 1.

Taking a careful look at the results in table 1, they are similar to previous studies results that experienced thin trading. The abnormal return for day 0 is 0.57% and 3.81% for the thin traded and the corrected beta results respectively. The t-tests are 0.8406 and 2.4919 for the thin traded results and corrected traded results respectively. It showed some level of improvement after the correction. On day +1, using the market model, the abnormal return is 0.60% whereas 2.81% was recorded for the corrected traded results using estimated betas. The results improved again in day +2 when abnormal returns increased to 0.95% with the non corrected betas results while that of the corrected beta results dropped marginally to 2.10%. After day +2, abnormal returns from both thinly traded

stocks' results and thinly traded corrected abnormal returns gradually reduced to a minimal level of 0.55% and 0.24% respectively. This is a signal indicating that investors on the Ghana Stock Exchange are very sensitive to dividend initiation news. However, it shows that there was no information leak since the results in table 1 shows that the returns prior to the dividend initiation news were small.

Table-1.Abnormal Returns For 29 Sample Firms Surrounding the Dividend Initiation Date Using O'Hanlon and Steele (1997) Model to Correct Thin Trading and Compared with the Abnormal Returns Using the Market Model on the Ghana Stock Exchange.

Market Model (n=29)					(O'hanlon & Steele 1997) Model (n=29)			
Day	AR%	t-test	+ve:-ve	Z	AR%	t-test	+ve:-ve	Z
-5	-0.68	-1.6397	10 : 19	-1.6713	-0.94	-2.02211*	10:19	-1.6713
-4	0.44	0.9970	13 : 16	-0.5571	1.13	1.3719	15:14	0.1857
-3	-0.15	-0.7145	14 : 15	-0.1857	-1.05	-1.4014	14:15	-0.1857
-2	-0.04	-0.1593	13 : 16	-0.5571	-2.21	-1.9403*	15:14	0.1857
-1	0.25	0.8464	12 : 17	-0.9285	0.017	0.0456	11:18	-1.2999
0	0.57	0.8406	10 : 19	-1.6713	3.81	2.4919**	13:16	-0.5571
+1	0.60	1.0174	13 : 16	-0.5571	2.81	2.0860**	14:15	-0.1857
+2	0.95	1.6210	13 : 16	-0.5571	2.10	1.9341*	14:15	-0.1857
+3	0.55	0.5261	10 : 19	-1.6713	0.24	0.2313	11:18	-1.2999
+4	-0.25	1.0778	14 : 15	-0.1857	0.007	0.0178	15:15	-0.1857
+5	0.53	-0.7157	14 : 15	-0.1857	-0.75	-0.9657	13:16	-0.5571

The symbols ***, ** and * denote statistical significance at 1%, 5% and 10% level respectively, using 2-tail test. The z-statistic for percentage positive is a proportional test for percentage positive (or negative). This shows how many of the sample firms recorded positive versus negative.

Table- 2. Comparing CAR for 29 Sample Firms Surrounding the Dividend Initiation Date Using O'Hanlon and Steele (1997) Model to Correct Thin Trading and Compared With CAR Using the Market Model.

Market Model (n=29)					(O'hanlon & Steele 1997) Model (n=29)			
DAY	CAR%	t-test	+ve:-ve	Z	CAR%	CC t-test	+ve:-ve	Z
(-5 +5)	2.40	0.9981	16 : 13	0.5571	5.18	1.1729	19:10	1.6713
(-2 +2)	2.54	1.6863	15 : 14	0.1857	6.54	1.9462*	18:11	1.2999
(-1 +1)	1.63	1.4690	12 : 17	-0.9285	6.64	2.9785***	15:14	0.1857
(0 +3)	2.88	1.4108	12 : 17	-0.9285	8.96	2.7478***	16:13	0.5571
(-1 +4)	2.34	1.0720	14 : 15	-0.1858	8.99	2.4866**	16:13	0.5571
(-4 +1)	1.21	0.86279	16 : 13	0.5571	4.52	1.4433	17:12	0.9285

The symbols ***, ** and * denote statistical significance at 1%, 5% and 10% level respectively, using 2-tail test. The z-statistic for percentage positive is a proportional test for percentage positive (or negative). This shows how many of the sample firms recorded positive versus negative.

Table 2 compares the cumulative abnormal returns for different days within the event window of interest. The event window -5 to +5 recorded positive cumulative abnormal returns of 2.40% using the ordinary market model and 5.18% for the O'Hanlon and Steele (1997) Model.Out of 29 firms, 16 firms recorded positive cumulative abnormal returns representing 55.17% and 13 firms recorded negative cumulative abnormal returns representing 44.83% for the market model and 19 firms' registered positive cumulative abnormal returns representing 65.52% for the O' Hanlon & Steele model respectively. On day -1 to +1, using the market model, it recorded a cumulative

abnormal return of 1.63% and O'Hanlon & Steele model results registered 6.64%, having recorded 2.54% and 6.54% cumulative abnormal returns for the Market Model and O'Hanlon and Steele (1997) Model on day -2 to +2 respectively.

Table-3. Industry Analysis of Abnormal Returns Using the O'Hanlon and Steele (1997) Beta Estimates to Correct Thin Trading Effect on the Ghana Stock Exchange

DAY	MANU.(n=8)			FIN SERV. (n=11)			OTHERS(n=10)		
	AR%	Z	t-STAT	AR%	Z	t-STAT	AR%	Z	t-STAT
-5	-3.027	0.707	-0.0002	-1.8313	-2.111	-1.7478	-0.7136	-1.265	-1.1109
-4	1.5763	1.414	1.3931	1.6547	-0.905	0.9357	0.1941	-0.743	0.1672
-3	-0.7637	0.707	-0.5503	-1.8493	-0.905	-1.1437	-0.3908	0.655	-0.5487
-2	0.4442	0.707	0.5058	-5.8805	-0.905	-2.3059**	-0.2835	0.633	-0.3838
-1	0.2643	-0.707	0.5998	0.0824	-0.302	0.1270	-0.2526	-0.633	-0.3226
0	4.60038	0.707	1.5736	1.1358	-1.508	0.5146	6.1177	0.645	2.1247*
+1	4.8515	0.707	1.5139	2.8645	-0.302	1.1982	1.1275	-0.633	0.7349
+2	0.9234	0.643	1.4327	2.7781	0.302	1.4039	2.3047	-0.633	0.9881
+3	0.5381	-0.633	0.8905	0.4085	-1.508	0.1542	-0.1925	-0.633	-0.2398
+4	0.4330	-0.543	1.457244	0.2724	0.302	0.3757	-0.6271	-0.633	-0.9314
+5	0.3902	0.707	1.5561	0.1872	-0.30	0.2407	-2.6789	-1.27	-1.3470

The symbols ***, ** and * denote statistical significance at 1%, 5% and 10% level respectively, using 2-tail test. The z-statistic for percentage positive is a proportional test for percentage positive (or negative). This shows how many of the sample firms recorded positive versus negative.

Table 3 shows the industry analysis of the abnormal returns of firms on the Ghana Stock Exchange using the O'Hanlon and Steele (1997) beta estimates to calculate for the abnormal returns. It was just an extension of the previous table except that the purpose was to see if there was any improvement over the abnormal returns after correcting the betas for thin trading effect. It was also grouped according to industries which included: a) manufacturing, b) financial service and c) the other industries respectively. The beta corrected results had shown that in day -4 in particular, the financial service industry did outperform the other industries. It was followed by manufacturing and lastly the others. In day -4, the abnormal returns were 1.5763%, 1.6547% and 0.1941%for manufacturing, financial service industry and the other industries respectively. On day -3, the abnormal returns were -0.7637%, -1.8493% and-0.3908%for manufacturing, financial service and the other industries respectively. Again, in day -1, the manufacturing industry did well compared to the other two industries except for day 0 that the other industries did remarkably well followed by manufacturing industry and lastly the financial service industry respectively. Abnormal returns of 0.2643%, 4.60038% were recorded for manufacturing industry in day -1 and 0 respectively. The financial service industry realized 0.0824%, 1.1358%for day -1 and day 0 and-0.2526%, 6.1177% abnormal returns was registered for the other industries on day -1 and 0 respectively. After the declaration date, the manufacturing industry still performed better than the rest. Day +1 registered 4.8515%, 2.8645% and 1.1275%for the manufacturing, financialservice industry and the others respectively. Day +2 recorded0.9234%, 2.7781% and 2.3047%for the three industries respectively showing the financial service industry taking the lead.The overall results indicated that the manufacturing sector outperformed the other industries, followed by the other industries and the

financial service industry as they recorded average abnormal returns of 1.2058%,0.4186% and -0.0161%respectively. The results that were obtained from both the market model beta estimates and the O'Hanlon and Steele (1997) model corrected beta estimates have shown that investors on the Ghana Stock Exchange are sensitive to firms in the manufacturing industry than they are to other industries.

Table-4. Industry Analysis of Cumulative Abnormal Returns Using the O'Hanlon and Steele (1997) Beta Correction Estimates

Day	Manuf Ind.(N=8)			Fin Serv Serv.(N=11)			Other(N=10)		
	Car %	Z	T-Stat	Car%	Z	T-Stat	Car%	Z	T-Stat
-5 +5	13.2580	2.121	2.1082*	-0.1775	-0.302	-0.0226	4.6049	1.265	0.5643
-2 +2	11.0839	2.121	2.7827**	0.9803	-0.302	0.1544	9.0138	0.633	1.4945
-1 +1	9.7162	0.707	2.3959**	4.0827	-0.905	1.0743	6.9926	0.633	1.7875
0 +3	10.9135	1.414	2.5635**	7.1869	-0.905	1.1072	9.3574	0.633	1.6415
-1 +4	11.6109	1.414	2.5302**	7.5417	-0.905	1.0783	8.4777	0.633	1.2771
-4 +1	10.9731	2.121	2.0329*	-1.9924	-1.508	-0.3719	6.5124	1.265	1.2812

The symbols ***, ** and * denote statistical significance at 1%, 5% and 10% level respectively, using 2-tail test. The z-statistic for percentage positive is a proportional test for percentage positive (or negative). This shows how many of the sample firms recorded positive versus negative.

Table 4 gives a clear analysis of the cumulative effect of industry analysis using O'Hanlon and Steele (1997) Model for the corrected beta estimates to calculate for the cumulative abnormal returns. Day -5 to +5 registered CAR of13.2580% for the manufacturing industry, while-0.1775%CAR for the financial service industry and 4.6049% for the other industries. However, the days of interest were -5 to +5, -2 to +2 and -1 to +1. With that, -2 to +2 showed a remarkable difference among the three industries. The manufacturing sector realized cumulative abnormal returns (CAR) of 11.0839%whichwere larger than the cumulative abnormal returns of the other industries that registered 9.0138%.They also performed better than the financial service industry that recorded cumulative abnormal returns of 0.9803%. Again, day -1 to +1 followed in an order when it recorded 9.7162%, 4.0827%, and 6.9926%for manufacturing, financial service and the other industries respectively. On day 0 to +3, 10.9135%, 7.1869% and 9.3574% were registered as CARs for the three industries. The manufacturing industry recorded 11.6109% and 10.9731% for day -1 to +4 and day -4 to +1 respectively. 7.5417% and -1.9924% CARs were documented for the financial service industry on day -1 to +4 and -4 to +1 respectively. Observing the cumulative abnormal returns, the firms in the manufacturing industry did well follow by the other industries and financial service industry lastly on day 0 to +3 using the O'Hanlon and Steele (1997) betas model.

4. CONCLUSIONS AND RECOMMENDATIONS

Building on the general methodology developed by Brown and Warner (1985), Schultz (2004) and Jin (2000), an event study was conducted to analyze the five – day abnormal returns before and after the announcement of dividend initiation. This was to measure the magnitude and speed of

investors' reaction to corporate events such as dividend initiation announcements. Taking into consideration, other market conditions during the period, the results indicated that out of the 29 firms that initiated dividend payment, 16 firms registered positive cumulative abnormal returns (CAR) for the event window -5 +5 representing 55.17%. Dividend initiation was perceived to be a value increasing event to investors as compared to 44.83% that considered it to be value decreasing event. The average cumulative abnormal returns (CAR) were 2.4031%, which conformed to prior studies by Asquith and Mullins (1983) and Schultz (2004) who recorded an average CARs of 2.50% and 1.96% respectively. Drawing from Otchere (2004), industry based analysis was made to ascertain if firms in different industries stock prices reacted differently to dividend initiation announcements. On this analysis, the firms were divided into three different industries which included: a) manufacturing industry, b) financial service industry and c) the other industries. This analysis was made for both the ordinary market model and the corrected beta estimates. The modified results were also analyzed on a daily basis and grouped into different event windows to identify the specific day and window that were associated with the highest abnormal return (AR) and cumulative abnormal returns (CAR). The overall results documented that firms in the manufacturing industry experienced stronger investor reaction than firms from the other industries. Policy makers of listed firms should watch carefully and consider dividend initiation as an option to signal to the market about their future performance because investors on the stock exchange attach dividend initiation with value increasing effect.

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