

Shareholders' Responses to the Announcement of the Changes in Executive Directors and Semi-strong Form Efficient Market Hypothesis: Evidence from Colombo Stock Exchange (CSE)

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This study analyses the shareholders' responses to the announcement of the changes in executive directors of the companies listed on CSE. Thereby we provide a test of the semi-strong form efficient market hypothesis of Sri Lanka's share market by using event study mythology. The sample consisted of 66 listed companies, which made 156 public announcements on the changes in the executive director of CSE from 2009 to 2013. The Mean Adjusted Model, Market Adjusted Model and Market Model along with proxy of the CSE All Share Price Index (ASPI) were used in this study in generating abnormal returns surrounding each subsequent announcement. Specifically, the Market model was used by incorporating cluster volatility effect and information asymmetric effects to get a strong conclusion. Apart from that Time Series models such as AR, MA, ARMA, GARCH, TARCH and EGARCH were used in relation to the stylized facts of each company returns within the sample especially to minimize the use of bias of the CSE ASPI as a proxy in generating abnormal returns. Overall results of shareholders' responses to the announcements of changes in directors announcements based on each model along with the proxy of ASPI show a negative reaction to the information subsequent to the announcements of changes in directors in CSE. The abnormal returns appear prior to the actual announcement of the information, as well as after the actual announcement of the information. It confirms that the shareholders responded negatively before and after the actual announcement of the information. In addition, these results confirm that the Sri Lankan Share market is inconsistent with semi-strong form market efficient hypothesis. The findings will be important to the investors, the managers of the companies and the stock exchange regulatory agencies in their decision-making process.

Keywords: ARCH family models, event study, information efficiency, capital market