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Share price and trading activity over the corporate action processing cycle: The Case of the ZSE (2001 – 2008).

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Executive Summary

Corporate actions are a common phenomenon the world over. They range from the simplest forms such as name changes to complicated corporate deals such as reverse mergers, takeovers and spinoffs among others. Various motivations underline decisions by company boards and their management to decide on corporate actions.

Whatever form of corporate action embarked upon, a pertinent issue that has occupied the attention of empirical research and academic literature is the impact that such events have on company value and the behaviour of its share price if listed. This research builds on the mosaic of studies in international markets and attempts to analyze the impacts of corporate actions on share price and trading activity over the corporate action processing cycle. By so doing, the study sought to determine the extent to which valuable insights regarding the relationship between corporate action and share price and trading activity can be used in developing trading strategies and providing investment advice to clients.

Targeting rights issues, stock splits and consolidations together with mergers and acquisitions, the study looks at a sample of five case studies of companies listed at the Zimbabwe Stock Exchange drawn randomly from the period 2001 to 2006. It employs measures of cumulative abnormal return, abnormal return variance and abnormal trading velocity to assess the corporate action's impact on the share's average return, return volatility and trading activity respectively. This has led to the following findings:

- Indeed corporate actions have potentially strong effects on share prices and trading activity, although the effects depend on the type of corporate action and the particular point in the corporate action processing cycle.
- With regards to the corporate actions analysed in this study, acquisitions appear to have the strongest effects followed by rights issues while stock splits and consolidations have little to no effects.
- In general, the strongest impacts are registered around the announcement dates although in some instances, the record date is also associated with significant reactions, sometimes in the opposite direction to the announcement date.

Therefore, the evident significant role of corporate events on the behaviour of stock prices and their trading patterns has implications in the manner in which various stakeholders treat them. These include Boards and management of concerned firms who decide and communicate the corporate action, regulators who set standards on dissemination and traders and investors who seek return out of these companies. A better insight into the overall implications of these findings would be enabled through further extended research in the same field.