



Impact of Dividend Decisions on Financial Performance of Listed Financial Sector Companies in Sri Lanka

Nawarathne C.^{1*}, Anuradha N.²


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^{1*} Chandrika Nawarathne, Student, Department of Finance, University of Sri Jayewardenepura, Colombo, Colombo, Sri Lanka.

² Niluka Anuradha, Senior Lecturer, Department of Finance, University of Sri Jayewardenepura, Colombo, Colombo, Sri Lanka.

Sri Lankan economy faced extremely challenging conditions during the period of 2015-2019 where the GDP growth remained below average whilst financial sector performance also had weakened raising concerns. Hence, this study revolves around investigating the effects of dividend decisions on financial performance of listed companies in financial sector comprising banks, finance, and insurance companies during the period of 2015-2019. Based on the literature review, Dividend Per Share and Dividend Payout were determined as the indicators for the dividend decisions whilst Return on Equity and Return on Assets were used as the indicators for the financial performance. Control variables of leverage, Firm Size and Firm Growth Rate were also used for the panel regression analysis where 20 listed companies have been selected as the sample. Correlation analysis found out a weak correlation between dividend decisions indicators and financial performance indicators while panel regression analysis revealed that only Return on Assets has a significant impact from dividend decision indicators of Dividend Per Share and Dividend Payout. The study recommends managers of finance companies to adopt more consistent dividend policy whilst suggesting the separation of dividend type and its impact on financial performance for future studies.

Keywords: Dividend policy, financial performance, dividend per share , dividend Payout, Return on Equity

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Introduction

Many scholars have discussed investment and financing decisions as the most important financial management decisions of a company in order to increase the wealth of shareholders. Accordingly, investment decisions are involved with identifying investment projects which can increase the operational cash flows of a company at a lower risk level whereas financing decisions are concerned with identifying the sources of finances to fund investment projects at a lower cost. Companies can use existing capital, borrow, or sell equity to take these investment decisions. According to Azhagaiah and Priya (2008), shareholder wealth can be influenced by the growth in sales, gross margin expansion, capital investment decisions and capital structure of a company. Most of the firms set improving financial performance as a way of enhancing the wealth of shareholders as it enlarges the free cash flows available for its fundholder. Therefore, more focus is given on the investment and financing decisions. However, many theories and studies have discussed the importance of dividend policy as it directly affects the earnings of a shareholder. Moreover, Baker, et al (2001) emphasizes the importance of dividend policy in maximizing the wealth of shareholders.

Dividend policies are involved with determining the distribution of earnings to its shareholders. Hence, this can influence the financing and investment decisions of a company as retained earnings can be used as a source of finance for its investment projects. Dividends are sought out by investors as a way of identifying companies with strong fundamentals as they believe high dividend paying companies indicate a significant improvement in earnings within the upcoming years as management is comfortable with paying high dividends with current earnings. Hence, dividend policy also identified important in attracting shareholders in investing in the stock which will ultimately drive the share price up. Financial performance of a company is assumed to be impacted with dividend policy of the company whilst there are certain theories argued by famous scholars regarding the relevance of dividends on the wealth of shareholders. In Sri Lanka, 289 companies are listed in Colombo Stock Exchange (CSE) representing 20 business sectors with a Market Capitalization of Rs.2,404.7Bn (CSE, 2020) where banks, diversified

Financials and insurance sectors in combination has a major share of overall market with the market capitalization of Rs. 638.5Bn.

According to the statistics published by Central Bank of Sri Lanka (CBSL), banking sector financial performance showcased subdued results as the Return on Equity (ROE) of the sector deteriorated from 16.2% in 2015 to 10.3% in 2019 whilst Return on Assets (ROA) fell down to 1.4% in 2019 from 1.9% in 2015 suggesting the earnings pressures witnessed by the sector over the last 5 years. Furthermore, financial performance of finance companies too has taken a considerable hit during the last five years as sector ROE decreased to 5.6% in 2019 from 10.9% in 2015 whilst ROA too followed a similar pattern falling to 1.8% in 2019 from 2.8% in 2015. However, insurance sector earnings have improved over the past five years with majority of the listed insurance companies recording a growth in both top line and bottom line.

Purpose of the Study

This study aims to investigate whether dividend decisions played a key role in the financial performance of companies under financial sector as there seems to be mixed results despite all of them being exposed macro-economic woes. In addition, investigating the financial performance and dividend policy of above sectors separately also deemed as sub objectives prior to testing the relationship among those key variables of dividend policy and financial performance.

Literature Review

Dividend Policy

Dividend is the form of cash flow provided to the investors from a part of the profits earned by a company in a period (Anike, 2014). Similarly, Narang (2018), refers dividends as the allocation of earnings earned in a year which will be paid to the shareholders of the company generally declared at an Annual General Meetings (AGMs). Any shareholder invests in a company with the aim of generating an adequate return for the investments made on the company whilst taking an increased risk compared to fixed income securities such as fixed deposits, commercial papers, bonds, and debentures. Therefore, investors expect dividends as a return though capital gain has been prioritized in investing the stock market. Emeni and Ogbulu (2015) identify that dividend policy decisions involve

With decisions on whether to pay dividends or not and how much of dividends should be paid out of the earnings if decide to pay dividends. According to Adesola and Okwong (2009), dividends provides the evidence of the company's ability to generate cash from its operations in addition to the indication of the improved profitability leading to payments of dividends. Many studies conducted used Dividend Per Share (DPS), Dividend Payout (DPO) and Dividend Yield (DY) as the measures of dividend policy decisions of a company.

Financial Performance

According to Yee (2017), financial performance is how a business can use its assets to improve its business whilst generating expansion in both top line and bottom line leading to higher returns for investments made by the capital providers of the business. One of the widely used indicator of financial performance is profitability. According to Zhou and Ruland (2006), profitability measures the performance of a business using the income earned against its cost to determine the return generated for the investments made by the fund holders. Therefore, difference between income and cost considers to be profit. Most widely used measures of profitability can be identified as ROA, ROE in common for any sector whilst Gross Profit (GP) margin, Net profit (NP) margin and Operating Profit (OP) margin for specifically manufacturing related companies where financial sector uses different measures such as Net Interest Margin (NIM), Cost to Income ratio in addition to the common measures above mentioned.

Dividend Irrelevance Theory

Modigliani and Miller (M & M) the renowned scholars in the field of finance specially on capital structure and dividend policy presented the dividend irrelevance theory pointing out that dividend decisions in fact do not have an impact on the firm value under certain circumstances (Modigliani & Miller, 1961). They argued that notwithstanding the dividend payments and patterns displayed by the management of a company, an investor is able to create its own desired dividend payments. This event of creating own dividends to support investor's consumption pattern is called homemade dividends. M & M assumed perfect financial markets while presenting the homemade dividends preposition where investors can lend or borrow at the risk-free rate.

Accordingly, this theory argues that when a company pay dividends when investor does not intend consume those cash and want it later date, the investor can invest in the financial market and gain the expected cash flow at a future date. On the other hand, if the business pays lower dividends than expected by the investor, the investor can realize the cash expected by selling a portion of its shares. Hence, argued that homemade dividends made dividend policy decisions irrelevant on influencing firm performance.

A study conducted by Booth and Zhou (2017) reviewing the selected results from all over the world covering the effects of dividend policy on firm performance of listed companies mentioned that M&M proposition of irrelevance of dividends under a perfect market deemed to be valid as most of the findings selected for the review have indicated that there is little difference between the changes in firm performance under two different scenarios of dividends being paid or not. Furthermore, they add that it is Free Cash Flow for Firm (FCFF) make a difference on the firm performance not the dividend decisions. Moreover, Magni (2010) presented points in favor of the dividend irrelevance theory where he acknowledged the arguments brought by M&M stating dividends distributed to the shareholders equal or less than the FCF generated by the company making the decision of paying dividends irrelevant to the firm performance.

Dividend Relevance Theory

Lintner (1956) and Gordon (1963) presented the argument of the relevance of dividend policy decisions on influencing the firm performance of a company as investors are concerned about both dividend and capital gains to compile their total return. Furthermore, they added that since dividend is more certain than future capital gains, the companies which pay higher dividends tend to gain more attraction from investors boosting the wealth of shareholders.

Accordingly, many studies engaged in investigating the effects of dividend policy decisions on the firm performance of listed companies to test the validity of the dividend relevance theory. According to Walter (1963) present value of future dividends is the reflection of intrinsic value for a share owned in the company. Therefore, in order to influence the share price, higher dividends should be paid. This model supported the theory dividend relevance.

Bird in hand theory has been derived in the belief that investors prefer income now as opposed to higher income expected in the uncertain future as they do not wish to risk current dividends for a future dividends and gains which are not guaranteed (Al-Malkawi, 2007). Most of the time businesses intend to reinvest in its operations to provide more FCF which will boost the intrinsic value of the company and in theory should reflect in the market price as at a future date once the operations commence to generate good results whilst expectation of earnings ought to increase the market value of the company. Therefore, bird in hand theory has been termed referring current dividend payments as the bird in hand while higher dividends and capital gains were being referred to as the group of birds on a tree.

Going by this an investor prefer getting the dividends now considering the risk involved with uncertainty of future gains which could increase the required rate of return leading double whammy effects on returns realized with the fall in share price (Abdella, Manual, & Kannan, 2016). Lintner (1956) and Gordon (1963) acknowledged that validity of the theory depends on the risk perceptions of investor as risk taker would likely to bet on the future capital gain due to its perceived higher returns whilst a risk averse investor would count on the current dividends as opposed to risky and uncertain capital gain going by the theory of bird in hand.

Signaling theory implies that dividends paid by a company provide indication regarding the company's future earnings as well as the management policies in achieving the goal of maximizing the wealth of shareholders (Ali, 2010). Furthermore, this theory suggests that higher dividends paid by a company usually inform the market that the business is comfortable with funding the investment projects with retained earnings whilst the company is expected to generate more earnings in the future as companies are believed to pay their dividends after the careful consideration of positive Net Present Value (NPV) investment projects. A study conducted by Lintner (1956) outlined the signaling content of dividends for the investor indicating future earnings and performance of the company as management of a company usually increase their dividend payments when they are confident about paying at least the same dividend in the future if not increased.

According to Rahman (2018) signal theory involving dividends refers dividend policy decisions as a mechanism to communicate the fundamental value of business in terms of the growth and sustainability of the operations. Accordingly, investors often use dividends as a measure of future growth of the business as they do not have the access to the information which can estimate future earnings limiting to the publicly available information. Therefore, dividend payments are expected to reduce information asymmetry while investors will be able to use dividend payments to value the company using the dividend discount model making the investment decision making process easier (Al-Kuwari, 2009). Hence, signaling theory also discusses the importance of dividend to influence the firm performance leading to an increase in shareholder wealth.

Agency theory identifies the conflict of interests between the two parties called principal and agent where agent found to be acting on the benefits of himself instead of providing the agency service in the best interest of principal.

Accordingly, in a shareholder owned company, shareholders are considered to principal whilst managers are believed to be agents as they are recruited to act on behalf of shareholders. Therefore, managers are expected to take decisions which could maximize the wealth of shareholders as it has been identified as the primary goal of financial management of a company (Jensen & Meckling, 1976). However, due to the separation of ownership and management, there have been several scandals where the management has been engaged in activities which have gained them personal benefits. According to this theory, investors prefer higher dividends as they are susceptible about the intentions of management plans regarding use the of retained earnings (Abdella, Manual, & Kannan, 2016). Main reason behind the susceptible on management intentions is the fact that some of the managers intend to engage in more investment projects which do not result positive NPV projects only to generate the compensations expected from the implementation of those projects. Unlike other theories, this theory justifies the relevance of dividends in influencing the firm performance of listed companies as the theory suggests that investors prefer dividends when capital gains are taxed at a higher rate in the countries taken to the sample of the studies conducted by Jensen and Meckling (1976).

On the other hand, when dividends are taxed at higher rate compared to capital gain taxes, investors prefer low dividends in order avoid their return being taxed. Since investor preference on dividends depends on the tax bracket, they are being liable when they receive dividends, this has been identified as tax clientele effect as well. According to the clientele effect, investors can be segmented into based on their liability for tax payments under income tax. Hence, as long there are unsatisfied clients in respective segments, dividend policy decisions can make on the wealth of shareholders.

Empirical Literature

Narang (2018) believed that dividend policy of a company should be aligned with the best interest of a company and intended to investigate the impact of dividend policy decisions on the performance of companies in India. As a result, the study collected information from 20 listed manufacturing companies in India for the period of 2012 to 2017. According to the correlation analysis, DPO is negatively and positively correlated with ROA and ROE, respectively. On the other hand, regression analysis also revealed the negative and positive relationship of DPO with ROA and ROE, respectively. However, both analyses found that findings were not significant to conclude an effect of DPO on financial performance of selected companies. Banerjee (2018) found that debate of dividend irrelevance and relevance on performance of listed companies has become even more stressed and the practical understanding of the relationship remained more puzzled as well.

Furthermore, he identifies those scholars have kept emphasizing on the role of dividend policy as a communication to signal the prospects of a company. Therefore, he aimed to investigate the effect of dividend policy on shareholder wealth and financial performance of 30 listed companies in Qatar Stock Exchange while collecting data for the period of 2013-2017. Findings of the study conclude that dividend payments positively influences the performance of the companies as well as the wealth of shareholders. Amidst the interest emerged due to previous findings relevant to the theories of agency and signaling Cyril, et al (2020) investigated the effect of dividend decisions on financial performance of consumer goods manufacturing companies in Nigeria using the information collected for the period of 200-2018.

Findings of the analysis revealed that none of the dividend policy decisions showcased a causal relationship with financial performance indicators.

As a result, the study concluded that it is likely that financial performance indicators influence the dividend decisions as opposed to the other way. Given the fact that financial sector has been largely under researched in academic literature coupled with the limitations faced in the Jordanian capital market characterized by low turnover and elevated risk levels in the economy persuaded Roman (2019) to conduct the study in investigating the effects of dividend policy decisions on the wealth of shareholders in Jordanian listed banks on the Amman Stock Exchange during the period of 2008-2018. The study believed that findings prove the signaling theory as the dividends are likely to bridge the between an ill informed and informed investor regarding the performance of financial sector as dividends provide the indication about the company's prospects.

A study conducted by Funmilola, et al (2018) analyzed the impact of dividend decisions on the profitability of banks in Nigeria during the period of 2011 to 2015. Accordingly, a quantitative study was carried out using secondary data collected for 10 listed banks in Nigeria Stock Exchange for the above-mentioned period. As a result, correlation analysis showcased a strong positive correlation between DPS and PAT while DPO witnessed a weak positive correlation with PAT of listed banks. Hence the study contained panel data, regression analysis was carried out using a pooled regression analysis where the findings revealed that neither DPS nor DPO has a significant relationship with PAT despite showcasing a positive influence from dividend policy decisions on profitability of listed banks. Given the relevance of dividend decisions as a signaling tool has been identified by previous scholars as well as the identified literature gap in studies conducted on the context of Ghana, Agyei and Marfo-Yiadom, (2011) studied the impact of dividend policy decisions on performance of listed banks in Ghana using the information collected for the period of 1999 to 2003. Accordingly, the study used 16 commercial banks as the sample for study data collected from the sources of reliable government banking websites. Regression analysis revealed that there is a significant positive relationship between DPO and ROE and discussed that an increase in dividends generating more business with the customer confidence placed on the banks evidenced

By the higher dividends. Furthermore, the study recommended banks to pay higher dividends to reduce agency cost which could significantly improve the shareholder confidence leading to an increased demand on the stock while customers also would likely to count on banks which they feel will safeguard their deposits.

Velnamby, et al (2014) to conduct a study aiming at identifying the effects of dividend decisions on financial performance of listed manufacturing companies in Sri Lanka. Sri Lanka's dependency on manufacturing sector in growing the economy from developing economy status to emerging economy justified the selection of manufacturing companies as the sample where it consisted with 25 listed manufacturing companies and annual data were collected for the period of 2008 to 2012. Correlation analysis carried out revealed that DPO is negative correlated to a weak degree of coefficient with both ROA and ROE.

Findings of the two models indicated that DPO does not significantly influence firm performance depicted by ROA and ROE despite showcasing a negative relationship with the firm performance. Hence, the study concluded that manufacturing companies cannot use dividends to increase financial performance though marginal impact can be generated by retaining earnings to invest on profitable investment projects. Ajanthan (2013) conducted a study to investigate the relationship between DPO and profitability of listed hotels and restaurant companies in Sri Lanka.

Accordingly, the study collected information for 16 listed companies operating in the sector where the correlation analysis showcased a moderate positive correlation between DPO and NP while regression analysis revealed that there is a significant positive relationship between DPO, and NP depicted by the p values generated for coefficient values of independent variable. Hence, concluded that dividend decisions influence the improvement in profitability of listed hotel companies in Sri Lanka. However, lower R square value suggested the possibility of profitability influencing the dividend decisions as opposed to above mentioned relationship.

Research Methodology

Sampling and Data Collection

Since this study intends to study listed financial sector of Sri Lanka, population will include all the listed banks (11 companies), finance companies (49 companies) and insurance companies (10 companies). In total population includes 70 companies where 20 companies were selected based on the market capitalization as the sample of the study. Top 20 companies out of the population is likely to witness more stable financial performance as well as dividend policy which will be helpful in generating results. Convenience sampling technique has been used by the researcher in selecting the sample for the study. As a result, seven banks, eight finance companies and five insurance companies were selected to the sample.

Study collected information using secondary sources in order to conduct the study. Accordingly, secondary data includes the literature review findings and company data collected from sources such as journal articles, books, news articles as well reliable websites mainly CSE and CBSL for economic information.

Conceptual Framework

According to Sekaran and Bougie (2010), logical network which demonstrates the identified variables revolving around the research problem and elaborates the hypothesis is being tested in the study is called as conceptual framework. Hence, following figure 1 exhibits the conceptual framework of the study identified using literature review in previous Section.

Insert Figure 1 Here : Conceptual Framework

Analysis And Discussion

Descriptive Statistics

Findings of the descriptive statistics indicated that mean value of ROE is 17.9% whereas the maximum value of 64.0% was recorded in 2017 whilst minimum value of -16.4% was witnessed in 2018 (Refer Appendix 01). Similarly, highest ROA of 93.3% was recorded in 2017 whilst minimum ROA of -12.0% was generated in 2018 where average ROA turned out to be 6.7%. In terms of dividend decision indicators, average DPO was 30.5%. Highest DPO of 101.8% was noticed in 2019. Negative DPO indicates that despite making losses

Few companies paid dividends.

Correlation Analysis

Based on the correlation analysis, ROE found to be significantly correlated with DPS and FGR as the p value of the correlations resulted to be less than 5%, rejecting the null hypothesis not being significantly correlated (Refer Appendix 02). Hence, both DPS and FGR deemed to be positive correlated with a weak degree of correlation. Meanwhile, all the other independent variables showcased insignificant weak correlations whilst only leverage resulting a negative correlation. On the other hand, ROA found to be significantly correlated with DPS and FS as the p value of the correlations resulted to be less than 5%. Accordingly, DPS showcased a weak positive correlation with ROA whilst FS showcased a weak negative correlation with ROA of the companies. All the other variables turned out to be insignificant whilst all showcasing a weak degree of correlation. Interestingly, all the variables witnessed weak degree of correlations with both ROE and ROE.

Unit Root Test

Regression analysis demands that the data set does not have deterministic trend distorting the conclusions of the analysis. Accordingly, findings of the test suggests that all the variables are free from unit root and deemed stationary as the p value of Augmented Dickey Fuller (ADF) test is less than 5% which rejects the null hypothesis of the test (Refer Appendix 03). As a result, it allows the researcher to use the variables at level without taking the 1st difference of the data set.

Panel Regression

Analysis Panel regression analysis was carried out using two regression models investigating the impact of dividend decisions on ROE and ROA separately.

Impact of Dividend Decisions on ROE

Regression model 1 involves with determining the impact of dividend decisions on ROE of financial sector companies in Sri Lanka. Accordingly, the model consists with ROE as the dependent variable whilst DPS, DPO, Leverage, FS and FGR were used as the independent variables in the model. Since panel regression analysis can be carried out using either random or fixed effect method, Hausman test is employed to determine the appropriate method in running the regression model. Random effect

Method deemed to be suitable to run the regression model 1 (Refer Appendix 04). The model created using independent variables is not significant as the p value of the regression model is higher than the 5% significance level (Refer Appendix 05). Hence, it can be said that the independent variables collectively do not have a significant impact on the ROE of listed companies in the financial sector.

Adjusted R squared value of the regression model is 0.0341 (Refer Appendix 05). It indicates that approximately 3.4% of the ROE deviation of listed companies in financial sector can be explained using the regression model 1. As a result, approximately 96.6% of the ROE deviation is left unexplained proving the insignificant nature of the model. DPS found to be having an insignificant positive relationship with ROE. Coefficient value of 0.309 indicates that an increase of 100 Basis points (bps) will increase the ROE by 31bps. Based on the coefficient value of 0.003 there is a positive relationship between DPO and ROE whilst being insignificant.

Furthermore, it means that when DPO increases by 1000bps ROE increases by 3bps. FS too showcased an insignificant relationship with ROE where an increase in FS by 2.72Mn (Natural logarithm of $2.72=1$) would reduce the ROE by 98 bps. FGR revealed to be only significant variable impacting the ROE of listed financial sector companies. Coefficient value of 0.108 indicates that an increase in FGR by 100bps would increase the ROE by 11bps. Based on the coefficient value of -0.003, an increase in leverage by 1000bps would reduce ROE by 3bps. This indicates that in order to have a material impact leverage should be changed significantly.

Impact of Dividend Decisions on ROA

Regression model 2 consists with ROA as the dependent variable in order to determine the impact of dividend decisions on ROA where independent variables were considered to be DPS, DPO, FS, FGR and leverage. Preliminary test carried out to determine the suitable method in carrying the panel regression analysis revealed that fixed effect method is suitable for the regression model 2 (Refer Appendix 06). The overall model deemed to be significant (Refer Appendix 07). Hence, combined effect of independent variables has a significant impact on ROA. Explanatory power of the model can be explained using adjusted R square value.

Adjusted R squared value of 0.604 indicates that approximately 60.4% of ROA deviation is explained through the model consisting with independent variables (Refer Appendix 07). Only 39.6% of ROA deviation is left unexplained. DPS showcased a significant positive relationship with ROA (Refer Appendix 07). Coefficient value of 0.275 indicates that a 100bps increase in DPS would increase the ROA by 28bps. DPO too witnessed a significant negative relationship with ROA. According to coefficient value of -0.176 indicates that an increase in DPO by 100bps would reduce ROA by 18bps.

FS experienced an insignificant negative relationship with ROA. Based on the coefficient value of -3.688 an increase in FS by 2.72Mn (Natural logarithm of $2.72=1$) would reduce ROA by 369bps. FGR deemed to be having an insignificant relationship with ROA whilst impacting positively. Coefficient value of 0.016 indicates that a 100bps increase in FGR would increase the ROA by 2bps showcasing the insignificant impact. Similar to the other control variables, leverage too found to be having an insignificant relationship with ROA. Accordingly, an increase in leverage by 100bps would reduce ROA by 9bps.

Discussion

Based on the findings of the correlation analysis it was evident that all the independent variables showcased weak correlations with both ROA and ROE of the listed financial sector companies whilst panel regression analysis revealed that both DPS and DPO not having significant relationship with ROE of the selected companies during the period of 2015-2019. Accordingly, the findings are in line with the studies of Narang (2018) and Banerjee (2018) where it witnessed insignificant relationship between DPO and ROE failing to conclude the impact of dividend decisions on financial performance of companies. They discussed the possible use of dividends as a mere arrangement of the earnings of the company and it will not have a significant impact on the business's financial performance siding on the dividend irrelevance theory. Furthermore, Velnampy, et al (2014) too failed to identify a significant relationship between DPO and ROE as it concluded an insignificant negative relationship among the two variables. On the other hand, studies such as Agyei and Marfo-Yiadom (2011) generated contradictory conclusions indicating that dividend decisions having a significant impact on ROE of companies where the

Study suggested a significant positive impact stemming from DPO on ROE. They recommend that LCBS should maintain a higher DPO as it increases customer confidence on the banks as the performance of the bank is being improved. In terms of ROA, the research study identified a significant impact from dividend decisions based on the panel regression model 2. Accordingly, DPS witnessed a significant positive relationship with ROA whilst DPO showcased a significant negative relationship. Findings are in line with study of Cyril, et al (2020) where it discussed it a significant positive causal relationship between DPS and ROA. However, the study indicated the possibility of the financial performance indicators having an impact on the dividend decisions as opposed to the other way. On the other hand, studies such as Narang (2018); Velnampy, et al (2014) which concluded with insignificant relationship between DPO, and ROA based on the findings of their studies. Yet, both the studies identified a negative relationship between the two variables similar to the findings.

Conclusion

Based on the data published on CBSL, financial performance of both banking and diversified financial sector has been deteriorating over the past 5 years as both ROA and ROE were falling indicating the adverse environment witnessed by those sectors. However, Insurance sector performance has been impressive over the past 5 years showcasing higher ROE and ROA numbers according to the financial statements published on CSE. It was mainly attributed to their impressive growth insurance contract policies with the increased awareness on health concerns and importance of having a life insurance policy. Based on the announcements made by the listed companies in CSE whilst declaring dividends it was noticeable that despite the weakened financial performance Banks have maintained their dividend policy of paying a consistent dividend in the form of both cash and scrip as they are forced to maintain capital ratios above the regulatory levels. On the other hand, finance companies and insurance companies have declared cash dividends whilst insurance companies have maintained their DPO to a greater extent. Panel regression analysis revealed that there is a significant positive impact from DPS on ROA indicating that in order to improve the financial performance of companies in financial sector which ought to be in line with the previous studies as well.

Despite contradicting with few. On the other hand, DPO showcased a significant negative impact on ROA. In general, this indicates in order to improve the financial performance should pay higher dividends whilst reducing the DPO. In order to do that, companies should pay higher dividends in the event of higher earnings retaining higher partition of its earnings to fund the operations and investments.

Implications of the Study

Based on the findings of the study, it is recommended for companies to reduce the DPO which allow them in funding its operations which will lead to higher earnings where they can make higher dividend payments even at a lower DPO. Hence, it is vital that the companies ensure that dividends are paid after evaluating all the investment avenues in order to maximize the funds available and eventually increase returns generated for all the fund providers comprising both debt and equity. Moreover, it is recommended for the banks to pay cash dividends when there is enough room for an expansion in the loan book without capital ratios being tightened as it might hinder the future earnings ability of the banks. In terms of finance companies, more consistent dividend policies might generate more confidence with shareholders which can be extremely helpful when raising funds through right issues or any other form.

Areas for Further Studies

Future researchers are recommended to carry out studies covering the different form dividend payments such as scrip dividends, cash dividends separately and its impact on financial performance as well as the shareholder wealth. Furthermore, the studies can be carried out with post and prior effect analysis with dividend decisions and financial performance which will provide better understanding of when companies should pay dividends if they are to improve financial performance or broadly firm performance.

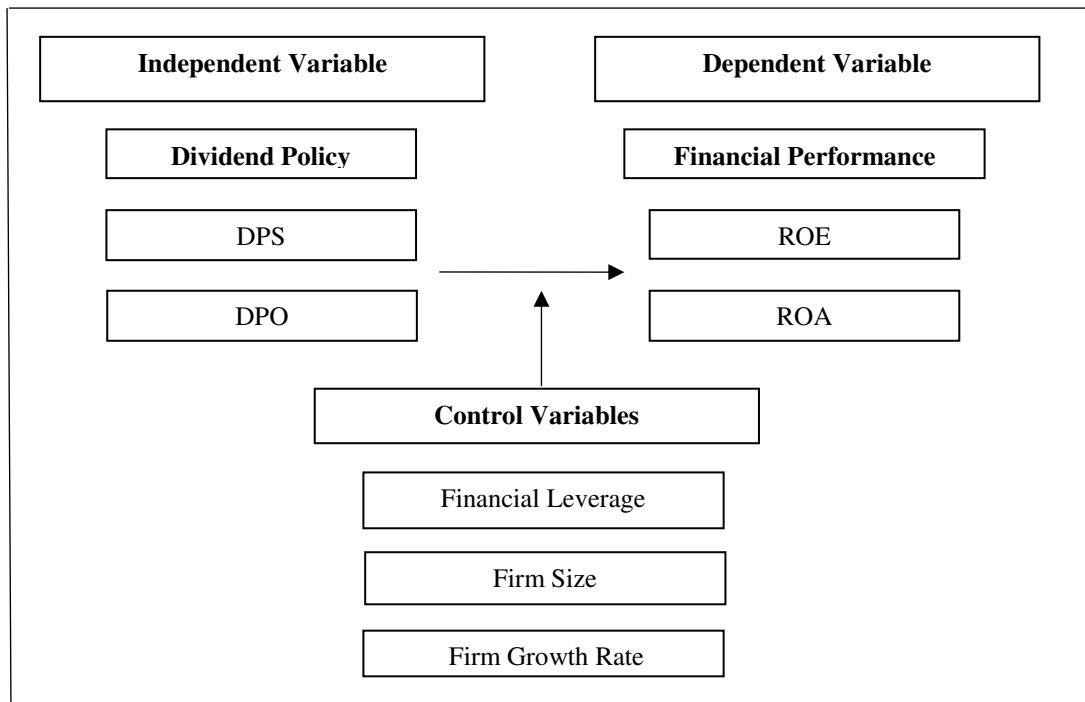
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Appendices

Figure 1: Conceptual Framework



Appendix 01: Descriptive Statistics

	ROE	ROA	DPO	DPS	LEVERAGE	FS	FGR
Mean	16.39292	6.665169	30.52573	6.819101	8.063483	11.62270	12.55719
Median	16.00000	3.700000	30.81000	4.000000	4.860000	11.78000	13.50000
Maximum	64.00000	93.29000	101.7800	38.00000	49.35000	14.16000	50.91000
Minimum	-16.42000	-12.02000	-15.41000	0.500000	0.020000	8.800000	-71.61000
Std. Dev.	11.78004	12.70279	17.83871	7.660400	10.05936	1.548001	22.56930
Skewness	0.723881	4.262392	0.631521	2.162713	2.301389	-0.233580	-1.552153
Kurtosis	7.174886	26.90853	5.478875	7.808868	8.771848	1.978619	6.817264
Observations	89	89	89	89	89	89	89

Appendix 02: Correlation Matrix

Correlation Analysis: Ordinary							
Probability	ROE	ROA	DPO	DPS	FGR	FS	LEVERAGE
ROE	1.000000						
4							
ROA	0.519475	1.000000					
	0.0000**	-----					
DPO	0.036804	0.138286	1.000000				
	0.7320	0.1962	-----				
DPS	0.212666	0.161096	0.021354	1.000000			
	0.0454*	0.0315*	0.8426	-----			
FGR	0.328806	0.040383	0.054947	0.121772	1.000000		
	0.0017**	0.7071	0.6091	0.2556	-----		
FS	0.062492	0.321204	0.035224	0.252472	0.280367	1.000000	
	0.5607	0.0021**	0.7431	0.0770	0.7778	-----	
LEVERAGE	0.042314	0.217714	0.124511	0.209357	0.099113	0.315627	1.000000
	0.6938	0.0404*	0.2450	0.0889	0.3554	0.2226	-----

* Significant at 5% level

** Significant at 1% level

Appendix 03: Unit Root Test

Panel unit root test: Summary				
Sample: 2015 2019				
Variable	ADF at Level		Cross-sections	Obs
	Statistic	Prob.**		
Null: Unit root (assumes common unit root process)				
ROE	51.0054	0.0139	20	80
ROA	25.5194	0.0035	20	80
DPO	26.7890	0.0277	20	80
DPS	33.9979	0.0491	20	80
Leverage	43.7632	0.0052	20	80
FS	45.9349	0.0398	20	80
FGR	96.5648	0.0000	20	80
** Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.				

Appendix 04: Hausman Test (Regression Model 1)

Correlated Random Effects - Hausman Test			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.326217	5	0.1391

Appendix 05: Regression Model 1

Dependent Variable: ROE				
Method: Panel EGLS (Cross-section random effects)				
Sample: 2015 2019				
Periods included: 5				
Cross-sections included: 19				
Total panel (unbalanced) observations: 89				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	24.64405	14.60177	1.687744	0.0952
DPS	0.308717	0.238066	1.296771	0.1983
DPO	0.003089	0.065120	0.047442	0.9623
FS	-0.978283	1.298459	-0.753419	0.4533
FGR	0.107942	0.043840	2.462159	0.0159
LEVERAGE	-0.002994	0.144635	-0.020703	0.9835
Weighted Statistics				
Root MSE	8.150416	R-squared		0.088977
Mean dependent var	7.542075	Adjusted R-squared		0.034096
S.D. dependent var	8.681260	S.E. of regression		8.439870
Sum squared resid	5912.207	F-statistic		1.621277
Durbin-Watson stat	1.723270	Prob(F-statistic)		0.163417

Appendix 06: Hausman Test (Regression Model 2)

Correlated Random Effects - Hausman Test			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.595748	5	0.0408

Appendix 07: Regression Model 2

Dependent Variable: ROA				
Method: Panel Least Squares				
Sample: 2015 2019				
Periods included: 5				
Cross-sections included: 19				
Total panel (unbalanced) observations: 89				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	53.53107	60.52298	0.884475	0.3797
DPS	0.274455	0.449263	0.610901	0.0434
DPO	-0.176044	0.072492	-2.428451	0.0179
LEVERAGE	-0.087438	0.186296	-0.469352	0.6404
FS	-3.687860	5.236989	-0.704195	0.4838
FGR	0.016276	0.044477	0.365931	0.7156
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE	6.830095	R-squared	0.707610	
Mean dependent var	6.665169	Adjusted R-squared	0.604149	
S.D. dependent var	12.70279	S.E. of regression	7.992177	
Akaike info criterion	7.219880	Sum squared resid	4151.868	
Schwarz criterion	7.890973	Log likelihood	-297.2847	
Hannan-Quinn criter.	7.490378	F-statistic	6.839383	
Durbin-Watson stat	2.066428	Prob(F-statistic)	0.000000	