THE RELATIONSHIP BETWEEN DIVIDEND PAY OUT AND FIRM PERFORMANC OF Listed companies in Sri Lanka

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Abstract

The study of firm performance determinants is a central question for strategic management. In this study, an attempt has been made to analyze the Relationship between Dividend payout and Firm Performance during 2012 to 2016 (05 years) financial year of selected manufacturing companies in Sri Lanka. Several theories have been documented on the relevance and irrelevance of firm performance. Many authors continue to come up with different findings from their studies on the relevance of firm performance. This research sought to establish the relationship between dividend payout and firm performance of listed companies in Sri Lanka in the Colombo stock exchange of Sri Lanka.

Regression analysis was carried out to establish the relationship between dividend payout and firm performance. The findings that dividend payout was a major factor affecting firm performance. Their relationship was also strong and positive. This therefore showed that dividend payout was relevant. It can be concluded, based on the findings of this research that firm performance is relevant and that mangers should devote adequate time in designing a dividend policy that will enhance the shareholders' value.

CHAPTER 01

INTRODUCTION

1.1 Background of the Study

In Sri Lanka, 289 companies are listed in the Colombo Stock Exchange (CSE), which is the only stock exchange firm in the country.(Colombo Stock Exchange,2014) and the Colombo Stock Exchange (CSE) classified these companies into 295 listed companies (CSE2014).

Enhancing shareholder's wealth and profit making are among the major objectives of a firm (pandey, 2005).Shareholder's wealth is mainly influenced by growth in sales, improvement in profit margin, capital investment decisions and capital structure decision (Azhagaiah & Priya, 2008).Firm performance in this case can be viewed as how well a firm enhances its shareholders; wealth and the capability of a firm to generate earnings from the capital invested by shareholders. Dividend policy can affect the value of the firm and in turn, the wealth of shareholders (Baker et al.2001), Among the requirements that companies that want to be listed in the Colombo Stock Exchange must fulfill, is that they should have a clear future dividend policy (CSE 2014).This makes dividend policy worthy of serious management attention.

The issues regarding dividend policies have been examined by many researchers Linter (1956), Baker, Farrely and Edelman 1985) examined what factors managers consider when determining the amount of dividend from the interview survey of U.S firms. The results show that managers tend to consider future expected profit, past dividend payment, and the availability of free cash flow when determining current dividend, while the expenditure on investment is not considered. Rozeff (1981) finds a negative relationship between dividend payout ratio and the factors such as the growth rate of sales, insider ownership, and the beta of the firm. Crutchley and Hansen (1989) find that the greater the size of the firm, the greater the risk of the firm's operation, and the lower the costs of capital, the greater the dividend payout ratio the firm has. Jensen, Solberg and Zorn (1992) find that the lower the level of insider ownership, the greater the level of profit, the lower the growth rate, and the lower the level of investment, the greater the level of payout ratio the firm has Researchers have different views about whether dividend payout materially affects the long term share prices. Dhanani, (2005) who used a survey approach to capture