

DIVIDEND POLICY AND FIRM PERFORMANCE: A STUDY OF LISTED MANUFACTURING FIRMS IN SRI LANKA

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ABSTRACT

This study basically investigates the relationship between the firm performance and dividend policy ratios among listed manufacturing firms in Sri Lanka. It also looks at the relationship between earnings per share, price earnings ratio, dividend payout and firm size. The annual reports for the period 2010-2014 were utilized as the source of data collection firms. The regression analysis method was employed as a statistical technique for analyzing the data collected. Our study suggests that firm performance is highly relevant to an understanding of corporate dividend policy and the results of the study find that the dividend policy is more relevant to determine the firm performance of Sri Lankan manufacturing companies. The study also revealed that dividend payout and earnings per share has a significant impact on the firm performance.

Keywords: *Firm performance, Earnings per share, Dividend policy, Dividend payout, Sri Lanka*

1. INTRODUCTION

Dividend Policy has attracted great interest over the past decade. The widely held view that dividend policy has an impact on the firm performance has led to increasing global attention. Sri Lanka a developing economy is not immune to these developments. Investment activity is an activity faced with various risks and uncertainty condition which is mostly difficult to predict by investors. There is much information, not only achieved from the performance of the company, but also other relevant information, such as economic condition and the political situation in a country which are needed by

investors to reduce the risks rate and any uncertainty that possibly appears. Information which is achieved from a company is commonly based on the company's performance, reflected from the financial report.

Dividend policy remains one of the most important financial policies not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the Government. For a company, it is a pivotal policy around which other financial policies rotate (Aliiet *al.*, 1993). Dividend or profit allocation decision is one of the four