

The Study on the Relationship between Dividend Payout and Firm Performance: With Special Reference to Listed Manufacturing Firms in Sri Lanka

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Manufacturing industry plays a vital role in enhancing Gross Domestic Production of a country. Dividend is a distribution of firms' gains among their shareholders and it may be in cash payments or by issuing of additional shares. Dividend pay-out directly related with firm performance of the manufacturing firms and therefore studying the relationship between dividend pay-out and firm performance is very essential for all internal and external parties of the industry. The purpose of this study is to identify the relationship between dividend pay-out and firm performance in Sri Lankan listed manufacturing firms. Moreover, the study attempts to examine the impact of dividend pay-out on firm performance in listed manufacturing firms in Sri Lanka. Data were collected from financial statements of 11 listed manufacturing firms in Colombo stock exchange over the period from 2011 to 2017. Analytical tools such as correlation and panel-data regression analysis were used for analyzing data along with descriptive statistics. Return on assets and return on equity were used as firm performance indicators while dividend pay-out ratio to measure dividend pay-out variable. Firm leverage which was measured by debt ratio was identified as the control variable. The findings of this study reveal that dividend pay-out ratio has a significant and a positive relationship with both return on assets and return on equity. The firm leverage shows a significant and a negative relationship with return on assets and return on equity. According to the results, dividend pay-out has significant and positive impact on firm performance in listed manufacturing firms in Sri Lanka. This study provides valuable information for investors and financial managers to make sound investments and financial decisions to maximize their wealth portfolio and profit level. Furthermore, the top management can use this information to formulate an effective and efficient dividend policy.

Keywords: Colombo stock exchange, Dividend pay-out, Firm performance, Return on assets, Return on equity