THE IMPACT OF DIVIDEND PAYOUT ON CORPORATE PROFITABILITY EVIDENCE FROM LISTED NON-FINANCIAL FIRMS IN SRI LANKA

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INTRODUCTION

Dividend policy outlines a company's approach to distributing profits as dividends to shareholders. This pivotal part of corporate finance influences investor perceptions and choices. A well-defined dividend policy signals a company's financial well-being and commitment to delivering value to shareholders, impacting stock prices and satisfaction. It also helps manage the balance between reinvesting earnings and providing income to investors, affecting a company's financial structure and management.

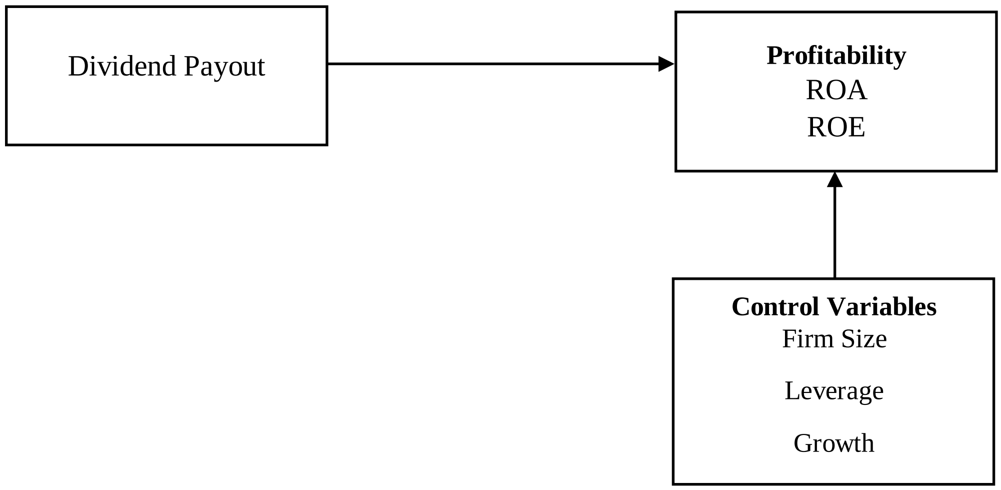
Further, extant studies identify mixed evidence. Miller and Modigliani (1961) determine that the dividend decision is irrelevant because it does not affect the firm's worth. Arnott and Asness (2003) and Nissim and Ziv (2001) mention that the dividend payout ratio is more detailed given the firm's investment decision. It does not affect the wealth of shareholders. This result was reached under ideal market circumstances, including no taxes, no transaction costs, perfect competition, and accessible information. Arguably, Amidu (2007) and Zhou and Ruland (2006) believe that dividends are significant and make the case that dividend policy impacts the firm's worth because it informs shareholders of crucial information on its prospects. Through the policy, investors can see that management is confident in a company's future profitability. Investors think that managers who are more knowledgeable about the company boost dividend payout because they anticipate higher profitability.

In the Sri Lankan context, Thafani and Abdullah (2014) and Paviththira (2015) studied the impact of dividend policy on corporate profitability: evidence from listed beverage food and tobacco companies on the Colombo Stock Exchange (CSE) in Sri Lanka, Kawshala and Panditharathna (2017) studied the effect of dividend policy on corporate profitability: an empirical study on beverage, food and tobacco industry in Sri Lanka, Mendis and Wijesinghe (2021) studied dividend payout and firm performance: evidence from a frontier market. This issue has seen limited research, both on the international scale and particularly within the context of Sri Lanka. Moreover, the previous studies conducted in Sri Lanka have focused on sectors like tobacco and beverages, with relatively little attention given to non-financial companies. Further, understanding how dividend payouts affect corporate profitability can provide valuable insights for investors in Sri Lanka. Investors often rely on dividends as a source of income and a signal of a company's financial health. Research in this area can help investors make more informed decisions about where to invest their money. Consequently, this study aims to bridge this research gap by examining the potential connection between dividend payouts and corporate profitability. Thus, this study attempted to investigate the impact of dividend payout on corporate profitability: evidence from listed non-financial firms in Sri Lanka.

METHODOLOGY

This research utilized dividend payout as the independent variable and investigated its relationship with two dependent variables: Return on Assets (ROA) and Return on Equity (ROE). Three control variables were also considered: Leverage, Growth, and Firm Size.

Figure 1
Conceptual Framework



Non-financial companies on the CSE in Sri Lanka are the population of this study. Due to time limitations, the researcher selected a sample of 20 non-financial companies with the highest market capitalization on the CSE.

This study used quantitative data for the analysis to achieve the study's objectives. For five years, from 2017/18 to 2021/22, all the essential data for this analysis were gathered from secondary sources for all twenty companies. The data was used to extract annual reports of the selected non-financial companies listed on the CSE.

Descriptive statistics, correlation analysis, and panel regression analysis were used to ascertain the impact of dividend payout on corporate profitability.

Hypotheses of the study are constructed based on theoretical and empirical arguments as follows;

*H_1***:** A significant relationship exists between dividend payout and ROA of Listed non-financial firms in Sri Lanka.

*H_2***:** A significant relationship exists between dividend payout and ROE of Listed non-financial firms in Sri Lanka.

RESULTS AND DISCUSSION

Descriptive statistics were carried out to obtain sample characteristics. The descriptive statistics in the table show the minimum, maximum, mean, standard deviation, skewness, and kurtosis of all the variables under consideration.

Table 1
Descriptive Statistics

Variables	Min	Max	Mean	SD	Skewness	Kurtosis
Div. Payout	17.371	23.430	20.716	1.254	-0.264	0.375
ROA	-0.035	0.479	0.097	0.098	2.184	5.641
ROE	-0.112	0.785	0.118	0.152	2.190	5.741
Leverage	0.000	1.556	0.266	0.359	1.784	2.476
Growth	-0.978	1.520	0.133	0.346	1.599	6.107
Firm Size	11.802	24.202	18.539	3.270	0.341	-0.605

Note. The data set was cleaned and processed to ensure accuracy and consistency. The normality of the study variables was confirmed since skewness and kurtosis values are acceptable ranges.

Table 2
Correlation Analysis

Variables	Dividend Payout	ROA	ROE	Leverage	Growth	Firm Size
D. Payout	1					
ROA	0.284*	1				
ROE	0.338**	0.870**	1			
Leverage	0.185	0.065	0.051	1		
Growth	-0.056	0.008	0.012	0.038	1	
Firm Size	0.005	0.402**	0.413**	0.081	0.228*	1

* $P< 0.05$, ** $P< 0.01$

Note. The analyzed results of correlation analysis revealed that there is a positive, weak, significant relationship between dividend payout with ROA (0.284*, P<0.05) and a positive, weak, significant relationship between dividend payout with ROE (0.338**, P<0.01).

Table 3
Regression Analysis

Models	ROE (Model 1)			ROA (Model 2)		
	Coef.	Std. Err.	p>|t|	Coef.	Std. Err.	p>|z|
D. Payout	.076	.017	0.000	.030	.010	0.003
Leverage	.096	.066	0.151	.027	.041	0.510
Growth	-.032	.046	0.484	-.024	.035	0.488
Firm Size	.124	.061	0.050	.014	.005	0.007
R^2 :	0.2769			R^2 :	0.2778	
Prob>F	0.0000			Prob>chi^2	0.0016	

Note. The present study performed the Hausman test to find the panel regression. The test involves estimating both the fixed effects and random effects models and then comparing the coefficients of the independent variables. This study used the fixed effect for regression for ROE (Model 1) and the random effect for ROA (Model 2).

Regression analysis results revealed a significant positive relationship between dividend payout and ROE, with a coefficient of 0.076 and a P-value of 0.000, supporting a significant relationship between dividend payout and ROE of listed non-financial firms in Sri Lanka. They revealed a significant positive relationship between dividend payout and ROA, with a coefficient of 0.030 and a P-value of 0.003, supporting a significant relationship between dividend payout and ROA of listed non-financial firms in Sri Lanka and consistent with correlation results. Kawshala and Panditharathna (2017) and Paviththira (2015) studied the effect of dividend policy on corporate profitability, and Thafani and Abdullah (2014) studied the impact of dividend payout on corporate profitability in the CSE. Both studies used the beverage, food, and tobacco industry. Correspondingly, in an international context, a study by Amidu (2007) found that dividend policy impacts a company's performance as indicated by its profitability. The findings revealed a favorable and strong relation between dividend policy, return on equity, sales growth, and return on assets; the results are consistent.

CONCLUSION AND IMPLICATIONS

This study attempted to investigate the impact of dividend payout on corporate profitability evidence from listed non-financial firms in Sri Lanka. The analyzed results supported that there is a significant relationship between dividend payout on ROA and ROE.

This study contributes to the academic understanding of the relationship between dividend payout and corporate profitability. It provides empirical evidence specific to Sri Lanka, which can be used to expand the existing body of knowledge in finance and economics. The findings of this study have practical implications for non-financial firms in Sri Lanka. The results of this study will help companies make more informed decisions regarding their dividend policies and how they may affect their profitability.

Keywords: Dividend payout, non-financial firms, profitability

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