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THE RELATIONSHIP BETWEEN DIVIDEND POLICY AND FIRM FINANCIAL PERFORMANCE: EMPIRICAL STUDY OF NON-FINANCIAL LISTED COMPANIES IN SRI LANKA

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ABSTRACT

The purpose of this paper is to examine the dividend policy and how it impacts the financial performance of non-financial listed companies in Sri Lanka. The study employs a quantitative approach to determine the association between dividend policy and firm financial performance. The population of this study is listed as manufacturing, food, beverage, and tobacco companies in Sri Lanka from 2016 to 2020. Dividend policy is the independent variable, which is measured using the dividend payout ratio (DPR) and earnings per share (EPS). Return on equity (ROE) and return on assets (ROA) are used to measure the firm financial performance which is the dependent variable. Firm size and revenue are used as control variables for the study. The secondary data were gathered from the annual reports of the selected companies by using the convenience sampling technique. Moreover, several statistical analyses were performed by using Stata. The results concluded that DPR does not significantly impact the firm financial performance. Further, the findings indicate that EPS and firm size significantly positively affect the firm financial performance. The study serves as an addition to knowledge that is useful for policymakers, potential investors, academics, and other stakeholders to policy making or study the above companies.

Keywords: Dividend Payout, Dividend Per Share, Dividend Policy, Earnings Per Share, Financial Performance, Return on Asset, Return on Equity

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1 INTRODUCTION

Shareholders in corporate stocks are traditionally interested in expected returns on their investment stocks and the risk associated with those stocks. A steady increase in dividends provides one indicator of a company's financial health. The dividend provides insight into the financial performance of the corporation and a basis for assessing the value of the corporation. Enhancing shareholders' wealth and profit-making are the major objectives of a firm (Pandey 2005). Shareholder wealth maximization is a broader concept that can't be captured by profit margin, sales growth, and investment decisions. Those factors are important in increasing shareholder wealth, but other considerations need to be considered.

When a company makes a profit, a part of it can be paid back as dividends to shareholders and the other remaining profit can be retained as retained earnings. Dividends are the benefits received by shareholders in exchange for their investment in the company and risk taken. As a result, dividend strategy is regarded as one of the most critical strategic choices that chief executives must make (Baker & Powell 1999). A dividend policy is a collection of rules and guidelines to follow when deciding how much to pay out as dividends (Nissim & Ziv 2001). It is determined based on factors such as firm size, financial limitations, pressure from shareholders, investment opportunities and rules and regulations. Dividend payout is not only a source of cash flow, but it also provides information about the company's current and future performance.

The dividend policy of a company can affects its value and make it a source of wealth for its shareholders (Baker et al. 2001). Dividend policy, on the other hand, is a more general tool for wealth distribution (Priya & Nimalathasan 2014). Dividend policy decision provides information to stakeholders concerning the firm performance and it is an important area of research in corporate finance.

The relationship between dividend policy and financial performance has been explained using a variety of theories. These theories consider dividends as either relevant or irrelevant in making financial decisions. Miller and Modigliani (1961) proposed that the dividend policy of the company is irrelevant to the market value in shares. That implies the total market value of the firm is independent of its dividend policy. That means finance managers can't change the firms' value by changing the dividend policy. They pointed out that the value of a company is increased by investing in productive assets and not by distributing income to shareholders (Stulz 2000). Accordingly, dividend policies are irrelevant because rational investors favour capital gains over dividends. As a result of its flaws, that theory cannot be applied to real-life situations. There are a few theories developed against that theory namely, the Signaling Theory (Ross 1997), Bird in Hand Theory (Amindu 2007; Bhattacharya 1979) and Agency Cost Theory (De Angelo & De Angelo 2006). According to these theories, dividends have an impact on a company's value and dividend-paying firms draw a lot of attention from investors.

Dividend policy continues to be the most relevant financial strategy, not only from the perspective of the corporation, but also from the point of view of shareholders, customers, regulatory authorities, government, and other stakeholders. This is significant because dividends decide how much money goes to shareholders and how much stays in the company for future acquisitions (Ross et al. 2002). It also provides reports to customers about the company's success. Researchers have different opinions on the impact of the DPR on a company's long-term share price.

In corporate finance, one of the most debated topics is the relationship between dividend policy and financial performance. It affects the shareholders' firms' value and wealth. That is why there are many studies on dividend policy (Arnott & Asness 2003; Farsio et al. 2004; Nissim & Ziv 2001). The topic of dividend policy remains a complex and unresolved issue in the corporate landscape, with various theories posited to elucidate its significance and influence on the value of a firm (Pandey 2005; De Angelo & De Angelo 2006). Several scholars have made various findings on that relationship (Amindu 2007; Lie 2005). Dividend policy has an impact on financial performance, and profitability is used to assess financial performance, and the result indicated a significant positive association between ROE, ROA, dividend policy, and sales growth (Amindu 2007). Ajanthan (2013) states that dividend policy is important, and there's a strong positive and significant association between financial performance and dividend policy. Over the last five years, Sri Lankan companies have faced many issues when they are making dividend decisions. In Sri Lanka, there are some empirical studies have been done on this area such as, Ajanthan (2013), Velnampy et al. (2014), Pavithithira (2015), Karunarathne et al. (2021), Wijekoon and Senevirathne (2019) and Wijayasiri et al. (2023). Among those studies, a few studies focus on manufacturing, food, beverage, and tobacco companies. There are many factors affecting the profitability of the company and one of the main factors is the dividend policy. The pattern of the corporate dividend policy does not vary over time but varies over the countries. Accordingly, the dividend policy of the company needs serious attention from the management because dividend decisions can have a significant impact on the firm's financial performance, share price volatility and so on. Therefore, companies need to set an appropriate dividend policy to enhance their financial performance. The effect of the dividend policy on the firm's financial performance is an important issue. Therefore, the focus of this study is to examine the link between dividend payments and firm financial performance among Sri Lanka's major non-financial listed companies, in the manufacturing, beverage, food, and tobacco industries.

2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Concepts of Dividend Policy & Firm Financial Performance

2.1.1 Dividend policy

This is one of the most contentious topics in the field of corporate finance. According to Nissim and Ziv (2001), dividend policy is a set of rules and guidelines that a corporation uses to determine whether to pay dividends to its shareholders. For decades, dividend policy has been studied, yet there is no commonly accepted explanation for why firms pay dividends (Samuel & Edward 2011). Therefore, as mentioned before, it is hard to give a precise definition of dividend policy. The purpose of the dividend policy is to maximise the wealth of the shareholders, who are subject to both current dividends and capital gains (Nwude 2003). Dividend policy is a major factor that influences financial performance.

2.1.2 Firm financial performance measurements

Firm financial 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 the shareholders (Baker et al. 2001).

2.2 Theoretical Review

2.2.1 Dividend relevance theory

As per Pandey (2005), Walter and Gordon stated that dividend policy impacts the value of the firm. This school of thought's pioneer argues that in the real world, a dividend payout has a favourable or unfavourable impact on a firm value, and it affects stock price, market valuation, and average capital cost. Gordon (1959) and Lintner (1962) pioneered the ideas of this school of thought.

2.2.2 Bird in hand theory

Lintner (1962) and Myron (1963) introduced the "bird in hand" theory, asserting that investors prefer immediate dividends as they view present dividend payouts more favorably than potential future capital returns derived from retained profits and a stake in growth opportunities. According to Amindu (2007), dividends are less costly and more predictable. As a result, buyers prefer dividends over capital gains because they think dividends are safer. Some of the research studies prove that this argument can fail if it is proposed in a perfect market with investors who perform according to rational behaviour (Bhattacharya 1979; Miller & Modigliani 1961).

2.2.3 Signaling theory

Ross (1997) postulated the rise in stock price is frequently an outcome of increased dividends, while a decrease in dividends, for the most part, prompts stock value to decay. A dividend declaration conveys to investors that the firm is financially well and solid. According to Ross (1997), in a well-structured economy, corporate management strategically utilizes earnings as a signaling mechanism to convey crucial information known to them to the market. If management announces an increase in dividends, it signifies the potential expectation of higher profits and suggests a commitment to sustaining a significant level of dividend payments. Solomon (1963) articulates that in a society lacking trust where verbal explanations might be misconstrued or disregarded, dividend actions serve as a conspicuous tool for creating an impact that resonates more powerfully than a thousand sentences. According to signaling theory, companies can pay dividends to signal their future aspirations, even if they distort investment decisions for capital gains. Managers are seen to have an incentive to share this information with the market in this scenario (Bhattacharya 1979). Information asymmetry between management and external shareholders could play a signaling role for dividends (John & William 1985; Miller & Rock 1987). The announcement of a dividend increase is viewed as good news and share prices rise in reaction, and vice versa. Due to the signaling cost, only high-performing corporations can send signals to the market via dividends, whereas low-performing firms are unable to imitate.

2.2.4 The dividend irrelevance theory

The cost of a company's shares or its cost of capital is unaffected by the dividend policy (Miller & Modigliani 1961). A firm's value relies upon the investment decision, not the dividend policy. In their argument in 1961, Miller and Modigliani asserted that, based on certain assumptions, a company offering a higher return would attract more interest from potential buyers. Consequently, the valuation of the firm, as perceived by prospective investors, is essentially equivalent to the

dividend payout. This perspective renders dividend policy meaningless, as investors can formulate their own dividend policies.

2.3 Empirical Review

Dividend policy behaviour is one of the most debated issues in corporate finance. Dividend policy and financial performance have been analysed for many decades. But up to now, there is no universal standard justification for companies' observed dividend payout (Samuel & Edward 2011).

Wijayasiri et al. (2023) investigated the impact of financial decisions on the financial performance of listed material companies in Sri Lanka. The study revealed that there is a positive significant relationship between dividend decisions and financial performance. There is a negative insignificant impact between leverage decisions, working capital decisions and investment decisions on financial performance.

Wijekoon and Senevirathne (2019) took 5-year data from listed companies in the Colombo Stock Exchange (CSE) and it says DPR and EPS have a positive significant impact on both ROA and ROE. According to the fixed effect model, DPR is the most influential factor in determining the dividend policy and firm financial performance. If the company's DPR is high, it signals to shareholders and investors that the company is performing well. EPS has a significant positive impact on firm financial performance, and it indicates that if the firm financial performance is high, the shareholders' EPS also goes high. It signals to future and potential investors an increase in the profit of the firms.

There are mixed results regarding the impact of DPR on the firm's profitability. Khan et al. (2015) used a fixed-effect model of panel regression to assess the effect of DPR on a firm's profitability while considering leverage and firm size as control variables. In their results, the DPR has a significant negative impact on a firm's profitability, such that, other things being equal, the more firms pay out a dividend, the more the profit is earned. However, leverage is positively related to a firm's profitability, unlike firm size, yet they are both statistically insignificant (Khan et al. 2015).

Hasan et al. (2015) looked at the impact of DPR on a company's profitability by dividing listed firms into two categories, those that pay high dividends and those that pay low dividends. Using logarithmic regression, the DPR was found to have negative signs of profitability when measured through EPS and ROA in firms that pay high dividends. Remarkably, similar trends were observed in firms characterized by lower dividend payouts to their shareholders. They, however, concluded that regardless of the industry type, the DPR will have a negative impact on the next year's earnings of the firms.

Ajanthan (2013) showed the connection between DPR and a firm's profitability considering revenue and total assets as control variables. Their findings revealed a significant positive relationship between DPR, revenue, total assets, and the firm's profitability, indicating that a unit change by an increase in the explanatory factors will increase the firm's profitability. However, it provided importance for future studies to consider leverage, tax policy, ownership structure, access to capital markets, growth stage, shareholder's expectation, legal rules, and pattern of past dividends as control variables.

Thafani and Abdullah (2014) employed both simple and multiple regression models to examine the impact of DPR on a business's profitability as assessed by ROE, ROA, and EPS, using firm size, growth, and leverage as control factors. When analysing data, it was found that DPR and growth are positive and statistically insignificant, while firm size and leverage had a negative impact on ROA, yet statistically significant. When taking ROE as a profitability fact, dividend payout had a positive impact on profitability but was statistically insignificant. Also, firm size has a negative impact on ROE while bearing a positive impact, both being statistically significant impacts on profitability. But leverage and ROE had a negative relationship yet statistically insignificant. In terms of ROA, DPR and growth have a statistically insignificant positive impact on profitability, whereas size and leverage have a considerable negative impact. DPR and leverage have a large and negative impact on profitability in terms of EPS. While the firm's size does not affect profitability, growth has a large and beneficial impact.

Karethio (2013) investigated the link between DPR and profitability. The results of multiple linear regression show that the DPR and all control variables have a strong and positive link with profitability, as evidenced by the use of a correlation research design. This research found that the dividend policy is important, and managers should devote significant time to developing dividend policies that will improve the firm's financial performance and shareholder value.

Priya and Nimalathasan (2014) investigated the DPR and financial performance of several Sri Lankan hotels and restaurants. In their study, DPR had a considerable impact on all company financial performance measures except ROI and ROE, according to correlation and multivariate analysis results. Furthermore, at a 5% level of significance, EPS, Price-to-Earnings ratio, and Price-to-Book ratio have a substantial association with ROA. At the same time, at a 5% level of significance, the Price-to-Earnings ratio is strongly related to ROE. Finally, at a 1% level of significance, EPS and Price-to-Book ratio have a strong association with ROE.

Anton (2016) used a panel data analysis to look at the impact of DPR on the firm's value, controlling for debt ratio, firm size, profitability, and liquidity. The results of the fixed effect regression model revealed that DPR, debt ratio and firm size have a positive but statistically insignificant impact on firm value (Anton 2016). Profitability, unlike liquidity, has a positive impact on the firm value, even though both are statistically negligible. His study concluded that managers could build value by increasing dividends to an optimal amount; nevertheless, after controlling for other firm-specific variables, DPR has a significant and beneficial impact on the firm value.

Karunarathne et al. (2021) took 5 years of data with 510 observations of companies listed in the CSE and said that dividend decisions are insignificantly impacted on the subsequent market performance, but DPR has a significant impact on current financial performance. In their study, the results of panel regression also present an insignificant impact on growth and market performance in Sri Lanka. Accordingly, the finding of the study recommended that dividend decision was more significantly impacted on the current financial performance rather than subsequent market performance.

Previous research has looked at the impact of dividend policy on a company's profitability and market value while considering a variety of control variables. In advance of the current study, previous research has demonstrated the usefulness of data on the relationship between DPR and

company financial performance (market value and profitability). However, there has been no consistency in the outcomes of past investigations, and there has been no equivalent study in the Sri Lankan environment. By considering the variables from prior studies, this study will be able to fill the information vacuum that exists in the Sri Lankan setting.

2.4 Research Hypothesis Development

The following hypotheses are operationalised as a foundation for investigating the relationship between dividend policy and the financial performance of businesses. Based on the conceptual framework, the below hypotheses are developed.

H_1: There is a significant relationship between dividend payout and firm financial performance.

H_2: There is a significant relationship between EPS and firm financial performance.

3 RESEARCH METHODOLOGY

3.1 Research Approach

A quantitative research approach is used in this study to identify the relationship between dividend policy and a firm's financial performance. Many authors have adopted the quantitative approach to examine the relationship between dividend policy and a firm's financial performance. Since the hypotheses were formed based on the theories and then tested by obtaining specific data to support the original beliefs, the researcher was able to identify the cause-and-effect relationship within the variables.

3.2 Population and Study Sample

Non-financial companies play a crucial role in the Sri Lankan economy, making them noteworthy contributors and forming the study's population. The research focused on a sample of 41 companies within the food, beverage, and tobacco industry group (including plantation companies as well), as per the GICS classification in the CSE, to gather data for the study.

3.3 Conceptual Framework

The conceptual framework assists in composing the discussion of the literature and it assists the researcher in describing his/her ideas on variables and how they are graphically interconnected with each other (Sekaran & Bougie 2016). Figure 1 shows a developed conceptual diagram based on prior literature and the research problem.

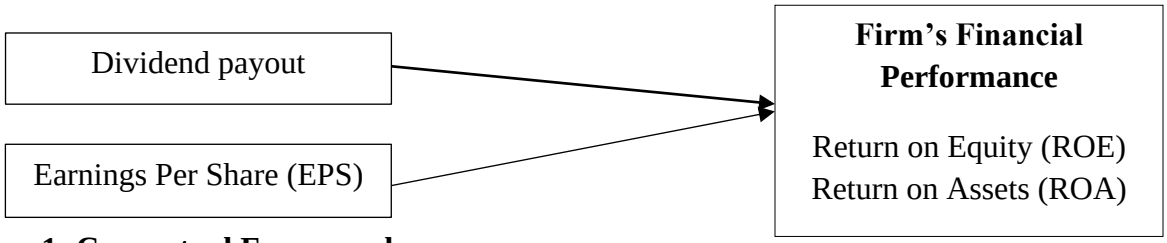

Figure 1: Conceptual Framework
Source: Author Constructed

3.4 Operationalisation

Operationalisation is a process which defines variables as determinate factors in a manner. Table 1 gives a brief understanding of the variables that are used for the study.

Table 1: Operationalization

Variable	Measurement	Literature
Independent Variable		
Dividend Policy	*DPR* = Total Dividend / Net Income *EPS* = Net Income - Preferred Dividends / Avg. Common Shares	Thafani and Abdullah (2014)
Dependent Variable		
Financial Performance	*ROA* = Net Profit / Avg. Total Assets *ROE* = Profit after Tax / Avg. Total S/H Equity	Thafani and Abdullah (2014), Manjunatha (2013)
Control Variable		
Firm size (*TA*)	Natural logarithm of total assets of firm	Thafani and Abdullah (2014), Manjunatha (2013)
Revenue (*Re*)	Amount of the Sales	

Source: Author Constructed

3.5 Sources of Data and Data Collection

The key source of data collection for this study is annual reports. Published annual reports for the period from 2016 to 2020 of 41 selected companies are used in conducting this study. The data for this study was derived from the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position of selected companies.

3.6 Data Analysis Strategies

Correlation, panel regression, and descriptive statistics were used to examine the data in this study. The data was analysed using the Stata statistical program for this research. This study considered the dividend policy as an independent variable and the *DPR* and *EPS* are taken as explanatory variables of dividend policy. The financial performance of the organization is taken as the dependent variable, and it is measured by using *ROA* and *ROE*.

$$ROE = \alpha + \beta_1 DPR + \beta_2 TA + \beta_3 Re$$
$$ROA = \alpha + \beta_1 DPR + \beta_2 TA + \beta_3 Re$$
$$ROE = \alpha + \beta_1 EPS + \beta_2 TA + \beta_3 Re$$
$$ROA = \alpha + \beta_1 EPS + \beta_2 TA + \beta_3 Re$$

To explore the impact of dividend policy on financial performance, a linear regression analysis was used. The model that was used in the investigation is listed below.

Financial Performance = f (DPR; Re; TA)
Financial Performance = f (EPS; Re; TA)

It's important to keep in mind that the firm's financial performance is influenced by the *DPR*, *EPS*, *Re*, and *TA*. The following model was created to determine the impact of dividend policy on firm financial performance.

$$ROE = \beta_0 + \beta_1 DPR + \beta_2 Re + \beta_3 TA + e \ldots\ldots\ldots\ldots\ldots\ldots$$
$$ROA = \beta_0 + \beta_1 DPR + \beta_2 Re + \beta_3 TA + e \ldots\ldots\ldots\ldots\ldots\ldots$$
$$ROE = \beta_0 + \beta_1 EPS + \beta_2 Re + \beta_3 TA + e \ldots\ldots\ldots\ldots\ldots\ldots$$
$$ROA = \beta_0 + \beta_1 EPS + \beta_2 Re + \beta_3 TA + e \ldots\ldots\ldots\ldots\ldots\ldots$$

Where the β_0 β_1 β_2 β_3 are the regression coefficients.

In looking at the prior studies relating to this topic, it was observed that correlation and regression analyses were used by prior researchers who conducted studies on similar topics.

4 ANALYSIS AND DISCUSSION

4.1 Descriptive Statistics

The findings of the descriptive statistical analysis of the dependent and independent variables are shown in Table 2.

Table 2: Results of Descriptive Statistics

Variables	Observations	Mean	Std. Dev	Min	Max
ROE	225	12.31	13.49	-9.09	39.82
ROA	225	6.42	6.41	-3.73	17.78
EPS	225	16.56	20.59	-2.58	64.88
DPR	225	28.87	29.62	0.00	89.00
TA	225	8,124,764	8,046,474	1,178,575	26,201,654
Re	225	8,212,329	10,786,104	536,452	34,455,964

Source: Author Constructed
*Note: all variables are winsorise at a level of 5%

Table 2 shows an average *ROA* of 6.42 and an average *ROE* of 12.31 for manufacturing, food, beverage, and tobacco companies for a year. These results show the good financial performance of the firms during the period 2016-2020. The mean of the *EPS* is 16.56, which shows the firms' capacity to generate high income in the future. This also shows that the mean of *DPR* is 28.87 and the standard deviation is 29.62. It indicates that average firms pay 28.87% of their profits as a dividend and the balance of 71.13% is retained in the company for future growth. Firm size (*TA*) is determined as a natural logarithm of the total asset, and it has a mean value of 8,119,666.

4.2 Correlation Analysis

Table 3: Results of Correlation Analysis

	ROE	*ROA*	*EPS*	*DPR*	*TA*	*Re*
*ROE_*	1.0000					
ROA	0.8338*	1.0000				
EPS	0.5469*	0.5508*	1.0000			
DPR	0.4428*	0.4837*	0.3452*	1.0000		
TA	0.2210*	0.0656*	0.2690*	0.1205*	1.0000	
Re	0.2613*	0.1189*	0.2775*	0.1088*	0.8327*	1.0000

*$p<.05$

Source: Author Constructed

Table 3 shows the positive association between all dependent variables and financial performance at a 5% significant level. *EPS* and *DPR* have a moderate positive relationship with *ROA* and *ROE*. It shows that dividend policy has a positive relationship with financial performance. Revenue (*Re*) has a strong positive relationship with *ROA.* Other variables have a weak positive relationship with *ROA.*

4.3 Test of Multicollinearity

To test the multicollinearity among the independent variables pairwise correlation, the tolerance test and VIF factor methods can be used. Accordingly, pairwise correlation method is used to identify the multicollinearity among the independent variables (Table 4). There should not be a strong relationship between independent variables.

Table 4: Results of Multicollinearity

	EPS	*DPR*	*TA*	*Re*
EPS	1.0000			
DPR	0.3452*	1.0000		
TA	0.2690*	0.1205*	1.0000	
Re	0.2775*	0.1088*	0.8327	1.0000

*$p<.05$

Source: Author Constructed

Table 4 indicates the relationships between the independent variables. The rule of thumb indicates that the bivariate correlation coefficient for two independent variables should be less than 0.8. That indicates the absence of multicollinearity issue in these two variables. The lowest correlation was 0.1088. However, the highest correlation value was 0.8327 between the total assets (*TA*) and the revenue (*Re*). Other than that, there is no multicollinearity issue.

4.4 Panel Regression

The panel regression method is used to examine the influence of the independent variables on the dependent variable based on the data structure and the nature of the investigation. In this study, the relationship between dividend policy and a firm's financial performance is investigated using

a panel regression model which examines the individual time and firm influence, as well as both aspects. Thus, to ensure the study's reliability, the panel regression model was used. The utilization of a panel regression model introduces the possibility of employing either a random effect or a fixed effect model.

Hausman test is used to determine whether a fixed effect or a random effect model is appropriate. The fixed effect model is appropriate if the *p*-value is less than 5%.

Table 5: Results of the Hausman Specification Test

Research Models	*p*-value	Test Results
Model (1)	0.0004	Fixed Effect Mode

Source: Author Constructed

Table 5 shows the results of the Hausman specification test. The *p*-value of the model (1) is less than 5% hence the random effect model was rejected, and the fixed effect model was supported.

4.4.1 Linear regression – Fixed effect model

The results of the dependent and independent variables based on the linear regression analysis under the fixed effect model are presented in Tables 6 and 7. In the case of a small sample, the modified R^2 value should be used because it provides the most accurate population estimation (Pallant 2007). According to Pallant (2007), there is a rule of thumb for calculating the R^2 value and it as follows:

R^2 value < 10%: poor fit, 11% to 30%: modest fit, 31% to 50%: moderate fit, >50%: strong fit.

Table 6: Regression Results – ROA

R-sq	0.1183		
F (4,176)	43.07		
Prob >F	0.0000		
ROA	**Coef.**	**Std. Err**	**P>(t) (95% Conf. Interval)**
EPS	0.2620	0.2628	0.0000
DPR	0.1538	0.1196	0.2000
TA	-0.0000	0.0000	0.0000
Re	0.0000	0.0000	0.5530

Source: Author Constructed

The fixed effect model's R^2 value of 0.1183 indicates that *EPS, DPR, Re*, and *TA* can explain 11.83 percent of the variability observed in *ROA*. This indicates that the model is well-fitting, with these independent variables accounting for 11.83 percent of the variance in *ROA*. The overall importance of the model is explained by the F value of 43.07 at a *p*-value of 0.0000, indicating the model is valid.

The results of the linear regression analysis under the fixed effect model in Table 6 denote that the dividend payout has a coefficient of 0.1538 and a *p*-value of 0.200 which is greater than the 0.05 level. That means there isn't a statistically significant relationship between *DPR* and *ROA*. *EPS*

has a coefficient of 0.2620 and a *p*-value of 0.0000, which is less than the threshold of 0.05. That means, there is a statistically significant relationship with *EPS* and *ROA*.

The negative coefficient of firm size (*TA)* has a *p*-value of 0.000, which is less than 0.05. That means there's a statistically significant relationship between firm size (*TA)* and *ROA*. Revenue (*Re*) has a positive coefficient and a *p*-value of 0.553, which is higher than the threshold of 0.05. That is to say, there is no statistically significant relationship between revenue (*Re*) and *ROA*.

Table 7: Regression Results – ROE

R-sq	0.1859		
F (4,176)	25.82		
Prob>F	0.0000		
ROE	**Coef.**	**Std. Err**	**P>(t) (95% Conf. Interval)**
*EPS_*	0.5140	0.0621	0.000
DPR	438927	0.0283	0.123
TA	-0.0000	0.0000	0.001
*Re_*	0.0000	0.0000	0.247

Source: Author Constructed

Table 7 provides a R^2 value of 0.1859. This indicates that this model is a modest fit and the 18.59% variance of *ROE_*is also explained by *EPS, DPR, Re,* and *TA*. F value of 25.82 at a *p*-value of 0.0000 explains the overall significance of the model. This indicates that the dependent variable *ROE* and the other independent variables: *EPS, Re,* and *TA* have a significant relationship.

The results of the linear regression analysis under the fixed effect model in Table 7 state that the dividend payout has a coefficient of 0.4389 and a *p*-value of 0.123. It indicates that there is no significant relationship between *DPR* and *ROE*. *EPS* has a coefficient of 0.5139 and both have a *p*-value of 0.000 which is less than 0.05. That indicates there is a statistically significant relationship between *EPS* and *ROE*.

Firm size (*TA*) has a negative coefficient and a *p*-value of 0.001 which is less than 0.05 level. That indicates the firm size (*TA*) has a statistically significant relationship with *ROE.* Revenue (*Re*) has a positive coefficient and a *p*-value of 0.247, which is more than the threshold of 0.05. That means there isn't a statistically significant link between revenue (*Re*) and *ROE*.

Overall, the results showed that *DPR* has no statistically significant relationship with financial performance (*ROA* and *ROE*). *EPS* has a positive correlation and a *p*-value of 0.0000 which is less than 0.05 in both *ROA* and *ROE*. That means the firm's profitability is increased when increasing the *EPS*. Therefore, it is concluded that there is a statistically significant & positive relationship between *EPS* and financial performance.

The researcher has developed three hypotheses for this study. Based on the results, these hypotheses and their expected results are presented in the Table 8.

Table 8: Results of Hypothesis Testing

Serial No.	Hypotheses	Accepted/Rejected
H_1	There is a significant relationship between dividend payout and firm financial performance.	Rejected
H_2	There is a significant relationship between EPS and firm financial performance.	Accepted

Source: Author Constructed

4.6 Discussion

The study aimed to establish the relationship between dividend policy and firm financial performance in manufacturing, food, beverage, and tobacco companies. Employing methods consistent with prior research (Amindu 2007; Karunarathne et al. 2021; Thafani & Abdullah 2014), descriptive statistics, correlation, and panel regression were conducted. However, the first hypothesis, indicating no statistically significant connection between the Dividend Payout Ratio (DPR) and company financial performance, was rejected as the *p*-value of regression analysis was less than 0.05. This finding aligns with previous studies by Thafani and Abdullah (2014), Paviththira (2015), and Velnampy et al. (2014) that also observed no statistically significant association between dividend payout and financial performance. Linear regression analysis under the fixed effect model further affirmed that DPR has no correlation with both Return on Assets (ROA) and Return on Equity (ROE).

The second hypothesis suggests a positive and statistically significant relationship between EPS and financial performance, as evidenced by the linear regression results with a *p*-value below the 0.05 significance level, leading to the acceptance of the hypothesis. This finding aligns with research by Senevirathne (2019) and Priya and Nimalathasan (2014). The observed positive and significant association between EPS and company financial performance indicates a considerable impact of EPS on financial outcomes. Notably, EPS demonstrates a positive correlation with a *p*-value of 0.0000, less than 0.05, for both ROA and ROE. This implies that increasing EPS leads to an enhancement in the firm's profitability. In conclusion, there exists a statistically significant and positive relationship between EPS and financial performance.

Accordingly, the dividend policy has partly contributed to the financial performance. Even though dividend payout has no significant impact on financial performance, EPS has a significant impact on financial performance and a positive relationship. Findings support the idea that the dividend payout is a non-relevant fact that affects financial performance. The results are similar to Thafani and Abdullah (2014) and Karunarathne et al. (2021) found that DPR has a statistically insignificant relationship with financial performance. That indicates profitability has not increased with the dividend increase of the listed manufacturing, food, beverage & tobacco companies in Sri Lanka.

The study shows that EPS and financial performance have a significant positive association, implying that when a company's financial performance improves, so does its shareholders' EPS. Furthermore, it sends a signal to prospective investors that a rise in firm earnings will have a beneficial impact on the dividend policy of the company (Senevirathne 2019). This is also consistent with the studies of Bhattacharya (1979), John and William (1985), and Miller and Rock

(1985). The positive significant association between EPS and company financial performance suggests that EPS has a considerable impact on financial performance.

Findings of the current study recommended that DPR is not significantly impacted on the financial performance of the company and EPS is significantly impacted on financial performance. Based on the analysis of the study, it can be determined that dividend policy is one of the most challenging and unresolved issues in corporate finance.

5 CONCLUSION

The study investigates the impact of dividend policy on firm financial performance in non-financial listed companies in Sri Lanka. The study came up with findings that are important to scholars investigating the impact of dividend policy on financial performance in the Sri Lankan context. In correlation and regression analysis, EPS has significantly correlated with financial performance at a 5% level of significance. At the same time, DPR does not have a significant relationship with financial performance.

The study is significant as it enables the investigation of the impact of dividend policy on financial performance. Dividend policy is very important in financial policy decisions, and it will affect the firm's value. It is important not only for the company but also for the shareholders, investors, government etc. The dividend policy decision is one of the fundamental elements of corporate institutions and is still not a resolved problem in the world. Prior literature showed mixed results between dividend policy and financial performance. It is very useful to investigate further to find the general answer to that question. The research facilitates a better understanding of the different types of dividends and how they affect the firm's profitability. This study will help to determine the relationship between dividend policy and non-financial listed companies' financial performance.

As with any other research, this study also contains certain limitations such as limiting the sample to manufacturing, food, beverage and tobacco companies. Therefore, future researchers can increase the sample size covering all industries. The sample size of this study is limited to 41 non-financial listed companies and data was collected only for five years. Thus, a small sample might not demonstrate the actual scenario of the research topic in Sri Lanka. The study is highly dependent on the secondary data which was taken from the annual reports. The data collection process encountered difficulty in collecting and analysing the data due to the different contents and different reporting formats of the companies. Sometimes required data was not available in some reports and that might lead to an inconsistency in the study. Future research can be conducted to analyse more than five year's data and additional variables can also be considered other than those used in this study.

The study would be helpful to decision-makers and policymakers in the decision-making process. As per the prior literature, most of the studies have been conducted in developed countries. In Sri Lanka, there are no sufficient studies regarding these areas. Therefore, this study will help to fill the existing gap and serve as the pool of information to policymakers, decision-makers, researchers, students, and other stakeholders in the attempt to policy making or study manufacturing, food, beverage, and tobacco companies. This research will provide valuable insights into the impact of dividend policy on the financial performance of companies.

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