

A Study on the Dividend Policy of Manufacturing Sector Companies Listed in the Colombo Stock Exchange, Sri Lanka

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Abstract

This research is carried out with the intention of identifying the determinants of the dividend payout ratio and the consistency of the same with regard to manufacturing sector companies listed in the Colombo Stock Exchange (CSE), Sri Lanka. A background study of 134 companies (45%) out of the total 295 companies listed in the CSE, which represented the Bank, Finance and Insurance Sector (71 companies), Beverage, Food and Tobacco Sector (23 companies) and Manufacturing Sector (40 companies) revealed that dividend policy in manufacturing sector has the lowest performance in terms of their dividend pay out ratio when compared with the other two sectors. Hence this paper is developed with the aim of understanding the underlying reasons for the poor performance of the dividend policy in companies representing the manufacturing sector, in CSE Sri Lanka. The objectives of the research is twofold. First objective is to identify the determinants of the dividend pay out ratio in manufacturing sector companies, with the intention of linking the reasons for poor performance to its determinants subsequently. Secondly the research expects to identify the consistency of the dividend pay out ratio of manufacturing sector companies as inconsistencies in the same imply a weak dividend policy and vice versa. 21 randomly selected companies listed in the CSE Sri Lanka, representing the manufacturing sector, for the 5 year period from 2009 to 2013 are used as the sample. In order to attain the first objective, a set of pre-determined independent variables are identified based on previous research, viz. profitability, operating cashflow per share, current ratio, market to book value, debt to equity ratio, firm size and net cashflow from investment activities. A linear multiple regression model is run and descriptive statistics are calculated for the variables of the model. The linear regression helps to find out the associations between the determinants and the dividend payout and the correlation coefficient assists to identify the direction of the relationship between independent variables and dividend pay-out ratio. In addition an adjusted coefficient of determination (adjusted R^2) is calculated to test the overall effectiveness of the independent variables, in explaining the dividend pay-out ratio. To accomplish the second objective, which is

to find out the consistency of the dividend pay out ratio skewness and kurtosis test is identified. The statistical analysis is performed using statistical software, viz. SPSS.

Keywords:*Dividend Payout Ratio, Consistency, Manufacturing Sector, Colombo Stock Exchange*