

Impact of Earnings Management on Dividend Policy: Reference to Listed Diversified Holding Companies in Sri Lanka

G.R.S.N. Rupasinghe^{1,*} and T.K.G. Sameera²

^{1,2}*Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka, Mihintale, Sri Lanka*

*Corresponding author: sachinimasha14@gmail.com

Abstract

Earnings management is a method that is used by the management of a corporation to smooth its earnings. Prior studies have recently emphasized some disparate findings concerning the relationships between earnings management and dividend policy. From a theoretical perspective, these studies captured a positive, negative, and neutral relationship between earning management and dividend policy with a lack of appropriate explanations. Therefore, the debate about earnings management as a predictor for dividend policy decisions is still unsettled. Hence, this study examines the impact of earning management on dividend policy with special reference to listed diversified holding companies in Sri Lanka. The sample consists of sixteen diversified holding companies out of nineteen listed on the Colombo Stock Exchange in Sri Lanka for the period from 2014 to 2020 and was drawn using a convenience sampling method. Earnings management was considered as the independent variable and dividend payout ratio was considered as the dependent variable of the study. Earning management was proxied through discretionary accruals and the dividend policy was measured through dividend payout ratio. Three control variables namely firm size, firm leverage, and return on equity are considered. In order to analyze the data, descriptive analysis, correlation analysis, and panel regression analyses were used. Based on the results of panel regression, it was found that the positive but insignificantly impact of earnings management on dividend policy. As a result, the relationship between earnings management and dividend policy is so weak as it has no significant impact. Therefore, investors will be assured that due to a change in earnings management, the dividend pattern shall not be changed. This research offers a wide range to look at what are the other factors that may involve in affecting the pattern of dividend payments.

Keywords: Discretionary accruals, dividend policy, earning management, listed diversified holdings