

The Impact of Dividend Policy on Shareholders' Wealth: An Empirical Evidence from Diversified Firms in Colombo Stock Exchange

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Abstract

Investors always try to increase their wealth and find influential criteria for it. A company's dividend policy is a more important criterion to wealth and should find how to impact dividend policy to shareholders' wealth. This study aims to investigate the impact of dividend policy on shareholders' wealth with a focus on diversified sector companies listed in the Colombo Stock Exchange. For this purpose, a sample of 38 companies from 48 diversified sector companies listed on the Colombo Stock Exchange was selected from 2016/2017 to 2019/2020. The convenience method was used as a sampling technique. The study used shareholders' wealth as measured by Earnings per Share (EPS), Share Price (SP), and Return on Equity (ROE) as the dependent variables. Dividend Payout Ratio (DP), Retain Earnings Ratio (RER) and Dividend Yield (DY) used as the independent variables. The collected data were analysed through descriptive statistics, correlation analysis, and regression analysis. The regression results based on the random effect model and results of the study indicated that earnings per share were positive significant with RER and insignificant with DP and DY, the share price was positive significant with DP and negative significant with RER, and also DY is insignificant as well as return on equity was positive significant with RER and insignificant with DP and DY. The analysis results viewed the DP variable of dividend policy supported to SP variable of shareholders' wealth. RER variable of dividend policy supported to EPS, SP, and ROE variables of shareholders' wealth but RER supported negatively to SP. DY variable of dividend policy not supported to shareholders' wealth in the diversified sector in CSE in Sri Lanka. The dividend policy impacted or supported the shareholders' wealth without the DY variable. The dividend policy impacted the shareholders' wealth in the diversified financial sector in CSE in Sri Lanka. These findings have implications to the present and future investors and also companies especially diversified firms to their future investment decisions and developments.

Keywords: Diversified firms, dividend policy, shareholder's wealth