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THE EFFECT OF DIVIDEND POLICY ON THE VALUE OF FIRM LISTED CONSUMER DURABLE AND APPAREL COMPANIES IN COLOMBO STOCK EXCHANGE IN SRI LANKA

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ABSTRACT

The present research examines the significance of dividend policy on firm value in the context of Colombo Stock Exchange (CSE) listed consumer durable and apparel companies. In this industry, the study selected and investigated 15 businesses during a five-year period from 2018 to 2022. As independent factors, dividend payout ratio and dividend per share had a major impact on the dependent variable, firm value. The research used a methodology and carried out in-depth regression and correlation analysis to test the proposed hypotheses. The investigation's findings provided important new information about the dynamics of dividend policy and how it affects corporate value. Two of the study's hypotheses were found to have empirical validity after a careful analysis of the data. These results have implications for investors, financial analysts, and regulators that go beyond their theoretical context. By clarifying the complex relationship between dividend policy and company value in the particular context of Consumer Durables and Apparel companies in the CSE, the research adds to the body of knowledge already in existence. Furthermore, this research contributes to our comprehension of the complex relationships between dividend policy and business value and provides useful insights for financial industry stakeholders. The established theories emphasize the significance of dividend payout ratio and dividend per share as important factors influencing the value of businesses in the studied industry.

Keywords: Dividend Policy, Dividend per share, Dividend payout ratio, Firm value

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1. Introduction

Duke, et al.(2015) assert that financial managers face a multitude of critical decisions encompassing working capital management, dividend policy, investments, and financing. These decisions hold significant weight for both corporate management and shareholders alike. Maximizing shareholder value often stands as a primary objective for organizations, with share pricing often reflecting this intrinsic value. However, the dividend policy adopted by a company significantly influences both current and prospective shareholders' interests.

In the corporate landscape, the dividend policy emerges as a crucial factor, impacting various stakeholders such as analysts, managers, and investors, aiding them in informed decision-making . Dividends not only serve as a gauge for investment decisions but also as a source of income, elevating its significance from an investor's standpoint. Hence, selecting an appropriate dividend policy becomes pivotal for firms, as it shapes their ability to invest in future initiatives based on dividend distributions to shareholders.

Egbeonu et al., (2016) define dividend policy as the management's decision to allocate a portion of earnings to shareholders, encompassing considerations on retaining funds for future investments versus distributing them. Dividends, typically disbursed at the end of profitable periods, can manifest in various forms such as stock repurchases, bonus dividends, or cash dividends.

The declaration of dividends can exert external impacts on a company's valuation, serving as an indicator to investors about the firm's financial health and potentially bolstering its market value. Shareholders often invest with the expectation of receiving dividends as returns, aligning with the overarching goal of companies to enhance shareholder wealth through dividends or capital gains.

The choice of dividend policy reflects the balance between meeting shareholders' diverse needs some preferring immediate income through dividends while others seek capital gains for future investments. Consequently, the dividend policy adopted by a firm can impact share prices either positively, negatively, or insignificantly due to the diverse interests of shareholders.

The firm's dividend policy is influenced by numerous variables including owner preferences, market conditions, contractual obligations, growth prospects, and regulatory frameworks.However, despite its significance, understanding how dividend policy precisely affects corporate value remains a subject of ongoing research, with existing theories offering varying perspectives on its impact on business value.

Problem statement

Companies face the dilemma of deciding how much of their earnings to distribute as dividends or use for future investments. This decision is crucial for managers and investors. If a significant portion of profits is given as dividends, there's less money for reinvestment in the company. Managers must balance the competing interests of stockholders –some prefer immediate high dividends, while others want profits retained for future growth (Pandey 2009).

Choosing a dividend policy is a key decision, impacting the company's share price and, consequently, shareholder returns. However, past studies on the impact of dividend policies on share prices have inconsistent results. Some studies, like those by (Zakaria et al.,, 2012) suggest a positive link between dividends and stock prices. On the other hand, Baskin found an inverse relationship, indicating that higher dividends are associated with lower stock prices. However, studies by (Black & Scholes, 1974) found no discernible relationship between dividends and stock prices (Chelimo & Kriprop 2017).

A critical topic of research that has attracted a lot of attention in the global financial location is the impact of dividend policy on the value of listed firms. The dynamic rising market of Sri Lanka, which has a distinct legal framework and economic environment, is the particular subject of this study. This study attempts to add significant insights to the body of knowledge by examining the relationship between dividend per share (DPS), dividend payout ratio (DPR), and firm value. The decision about dividend policy is still a crucial and divisive one in corporate finance, having considerable ramifications for shareholders, investors, and company managers. Firms that want to increase the share price must have a larger dividend payout ratio since investors view capital gains as riskier than dividends. Stated differently, a big dividend payout would raise the price of the stock. Additionally, looked into how the company's dividend policy affected its share price. They demonstrated that a company's dividend policy would have no effect on the firm's value in an ideal capital market. In nations such as Sri Lanka, company equity is not frequently held. Thus, the study examines the extent to which dividend policies affect the value of a company . A comprehensive study that considers the complex structure of dividend policy decisions is still necessary, despite the fact that the relationship between dividend policy and business value has been the subject of extensive theoretical discussion and empirical investigation. The question at hand is more precisely how to determine the precise effect of dividend policy on a firm's value and what external variables, industry-specific traits, and contextual factors affect this relationship. Financial decision-makers, investors, and lawmakers will all be better equipped to make choices that optimize shareholder value and corporate success by tackling this issue. The topic has been covered in a number of local studies, which have revealed the intricate nature of dividend policies in Sri Lankan business circles. In their investigation of the connection between dividend policy and company value, for example, that the dividend policy of Sri Lankan listed businesses is significantly positively influenced by current profitability, free cash flow, and historical dividend trends. In Sri Lankan listed firms, operating cash flow significantly impacts dividend policy in a negative way. The directors, senior management, shareholders, and possible investors will find the findings useful in making decisions.

Several more research carried out in the Sri Lankan context, in addition to those by (Jayasinghe 2021) have significantly advanced our understanding of the connection between dividend policies and firm value. An investigation of the effect of dividend payout on the market valuation of companies listed on the Colombo Stock Exchange was conducted by Elangkumaran (2012). Their research showed a positive relationship between market valuation and dividend payout ratios, indicating that investors in the Sri Lankan market viewed companies with larger dividend distributions more favorably. This understanding offers insightful factual support for the claim that dividend policies are critical in influencing how the local community views a company’s value. (Khan 2022) conducted an outstanding study in which they examined the factors that influence dividend policy in listed companies in Sri Lanka. The study looked at a number of variables, such as leverage, business size, and profitability, that affect dividend decisions (Pandey, 2009). Consistent with the larger body of research on dividend policy, the results showed that profitability positively impacted dividend payments. The study did, however, also draw attention to how difficult it is to make decisions, underscoring the necessity for a sophisticated comprehension of the ways in which various elements interact to determine dividend policy in Sri Lanka's particular business environment. This thorough investigation adds to the larger conversation on dividend policy and business value by providing details on the particular factors affecting these choices in the Sri Lankan setting. Additionally, a 2019 study by Silva & Siriwardena examined how macroeconomic variables affected the connection between dividend policy and business value in Sri Lanka (Malkawi 2007). The researchers looked at how dividend policy interacted with other factors to affect listed businesses' values. The study added a macroeconomic viewpoint to the body of previous knowledge by demonstrating that macroeconomic factors did, in fact, play a significant influence in determining the interplay between dividends and firm value. For stakeholders and policymakers in Sri Lanka, this macro-level understanding is essential because it offers insights into how general economic conditions affect the complex relationship that exists between dividend policies and firm valuation.

The Sri Lankan business environment is always changing, impacted by both internal and external variables, despite the study that has already been done. A comprehensive investigation into the current state of the relationship between dividend policy and business value in Sri Lanka is vital due to the country's rapidly changing economic landscape, legislative advancements, and investor preferences. By using up-to-date data and tailoring its methodology to the unique features of the Sri Lankan market, this study aims to fill this gap.

Research questions

1. What is the impact of dividend per share (DPS) on the market per share (MPS) of listed companies on the CSE?
2. What is the impact of dividend payout ratio (DPR) on the market per share (MPS) of listed companies on the CSE?

2. Literature Review

The nexus between dividend policy and firm value has captivated the attention of scholars and practitioners in the realms of corporate finance and accounting for years. This following section undertakes an exhaustive review of the substantial literature on this critical subject. It aims to offer insights from empirical studies, theoretical constructs, and notable discoveries concerning the influence of dividend policy on firm value, with a specific focus on the Sri Lankan context (Miller & Rock 1985). Understanding how dividend policy decisions impact firm value within the unique economic and regulatory framework of Sri Lanka is imperative, given their pivotal role in financial management for businesses and their stakeholders. This literature review lays the groundwork for subsequent sections, enhancing understanding of dividend policy dynamics and its ramifications on the Sri Lankan corporate landscape.

Value of Firms

A firm's value, also referred to as enterprise value, encapsulates its economic worth at a specific point in time. It signifies the sum required to acquire or gain control of a company. Thavikulwat (2004) delineates various metrics for determining a firm's value, each offering distinct valuations. Company value epitomizes its capacity to generate wealth, encompassing metrics such as book value, market value, predicted future performance, deductive application, and accounting net worth adjusted for intangibles.

Dividend Policy

Extensive scholarly inquiry has scrutinized dividend policy, one of the three fundamental decisions confronted by financial managers. Dividends represent the distribution of earnings among shareholders as a reward for their investment, serving as a performance gauge for investors (Khan et al., 2011). Hamid et al. (2017) define dividends as the mechanism through which profits are allocated to shareholders in proportion to their ownership. Many authors and academics have examined the idea of dividend policy. One of the three key choices that financial managers must make is their dividend strategy. Dividends are paid out by a firm to its owners as a reward for their recent profits. They also serve as a performance indicator for investors (Khan, et al., 2011). Dividend, as described by Hamid, et al. (2017), is the method by which earnings are distributed among shareholders in proportion to their ownership of shares. After taxes, dividends are always distributed to shareholders.

A company's dividend policy determines the number of dividends it will pay out to shareholders. A company's suitable profit is the primary factor that determines whether to issue dividends and how much to pay out in them. The following variables are used to measure dividend policy: dividend per share, dividend payout ratio, and retention ratio. The set of guidelines a corporation employs to determine how much of its profits it will distribute to shareholders is known as the dividend policy. Cash, stocks, or; less frequently; real estate may be distributed as dividends . The majority of reliable businesses pay shareholders dividends. These financially stable companies' stock prices frequently do not fluctuate significantly, therefore dividends are paid as a means of attracting, rewarding, and keeping investors. Dividend decisions are crucial because they determine which money goes to investors and which funds the company keeps for investment purposes. In addition, they tell stakeholders about the performance of the company. Investments made by a company affect the cost of capital as well as future earnings and dividend potential.

The Board of Directors of a company establishes the dividend policy to decide how much of the company's earnings will be distributed to shareholders as compensation for their investments in the company in the form of dividends and how much will be kept by the company as retained earnings. Corporate finance research has focused extensively on dividend policy . Even though several studies have been done on dividend policy, only a small number of studies have shown that the dividend theory can be applied to some listed companies in a regulated stock market. The main goals of a company are to increase profits and shareholder wealth.

According (Miller & Rock 1985), decisions regarding capital investments, capital structure, sales growth, and profit margin development all have a significant impact on shareholder wealth. In this scenario, a firm's performance can be defined as how well it increases the wealth of its shareholders and how well it can produce profits from the capital that shareholders have contributed. The value of the company and, consequently, the wealth of the shareholders can be impacted by dividend policy. Because of this, dividend policy merits substantial managerial consideration. Goals are established for each of these viewpoints to measure total business performance and particular measures for accomplishing these goals are established generally.

When investing their assets, investors typically look for income or a certain rate of return. Dividends are one of the sources of income under such circumstances; each company is compelled to function at high efficiency to keep the quality and capability of competing to raise a net income with the best outcome (Pandey & Narayani 2018). As a result, a corporation decides on its dividend policy to prepare for the profit that will be divided into dividends and retained earnings. The major goal of this study is to determine whether the dividend policy has a significant impact on the firm's worth and whether this impact is positively connected with the firm's value.

Types of Dividends

Five different dividend payout types are available (Nwude, 2003). These include stock splits, reverse stock splits, cash dividends, stock dividend or bonus issues, stock or share splits, and stock repurchases.

Cash Dividend

A cash dividend is paid out in cash. Any business that declares dividend payments typically makes the payment in cash (Miller & Modigliani 1961). The balance sheet implies that when a cash dividend is given, the company's cash account and reserves account would be decreased, lowering its total assets as well as its net worth. A corporation must make sure it has enough cash on hand to cover its needs before declaring a cash dividend.

Stock Dividend

Stock dividends are payments of dividends made in the form of new shares being issued to the company's remaining shareholders. It entails capitalizing the company's share premium or reserves and boosting share capital by the same amount capitalized from the reserves account (Al-Malkawi, 2007). Since no cash leaves the organization, liquidity is preserved. The shareholders have the benefit of receiving a dividend, which they can convert into cash at any time they want to sell their shares (Jayasinghe 2021). On the other hand, as the number of equity shares increases, the share price is susceptible to falling if the retained earnings do not produce a satisfactory rate of return, particularly when there is a significant off-loading of shares by the shareholders in the capital market (Gharaibeh & Qader 2017) . Each shareholder receives a stock dividend in proportion to how many shares of the company they already own.

Stock or Share Split

This entails multiplying the existing number of shares by two or dividing the current share price by two. The result of a stock split is a halving of the current par value or nominal value of shares as well as a doubling of the current share count (Farooque et al 2021). To increase trading activity on the shares on the stock exchange, management lowers the price of its shares through a stock split (Uwalomwa & Anijesushola, 2012). In terms of Naira amounts, a stock split has no impact on either side of the balance sheet, but it alters the figure and book entry for the number of shares outstanding as well as the par value.

Reverse Stock Split

A reverse stock split is a financial tactic that involves increasing the nominal value of an existing share issuance while simultaneously reducing the total number of shares outstanding.

Stock Repurchase

The purchasing of a business's outstanding shares by the company itself for stock treasury storage falls under this category (Egbeonu Oliver et al 2016). To improve the earnings per share (EPS) of the remaining shares and, as a result, the market price per share (MPPS) and the overall capital gains to shareholders, it may be necessary to lower the number of existing shares through stock repurchase the cash dividends are replaced by the capital gains (Khan 2022).

Theoretical Framework

Signaling Dividend Theory, proposed by Stephen Ross et al in 2000, suggests that changes in dividend payments convey vital information about a company's future prospects (Fwamba & Simiyu 2019). According to this theory, companies that significantly increase dividends often witness a corresponding rise in share prices, while those reducing or omitting dividends experience share price declines .This implies a preference among investors for dividends over capital gains. Consequently, an announcement of increased dividend payments is perceived positively by the market, signaling growth and stability prospects for the company.

Investors closely monitor dividend announcements as they are believed to reflect the company's financial health. Miller & Modigliani (1961) initially posited that dividend policy does not impact firm value in perfect capital markets. However, later refinements by Miller & Rock (1985) in signaling theory demonstrated that in asymmetric information environments, firms utilize dividend policy as a costly signal to convey future prospects to outsiders. Thus, an increase in dividends signifies improved company performance, while a decrease implies deteriorating profitability. This suggests a positive correlation between dividend changes and subsequent share price responses (Fwamba & Simiyu, 2019).

Recent research underscores significant variations in corporate dividend payout practices across global markets, with managerial ownership exerting discernible influences on dividend policy (Zeckhauser & Pound, 1990). (Fwamba & Simiyu 2019) contends that increased dividends reflect financial flexibility and decreased income volatility, although subsequent performance enhancements are limited.) Dividend policy is influenced by corporate governance practices, with dividends serving as signals of shareholder disputes. (Chelimo & Kriprop 2017) demonstrate a positive correlation between dividend payments and bank performance in Ghana, echoing the broader impact of dividend policy on business value.

The impact of Dividend per Share (DPS) on Market Price per Share (MPS)

Dividend per share (DPS) and market price per share (MPS) are two important financial market dynamics that affect investor behavior and firm value. Several studies provide insight into this relationship in the context of Sri Lanka, where economic growth and the capital market are closely related. A study conducted in the Sri Lankan context discovered a positive association between DPS and MPS, indicating that more highly valued enterprises typically had greater dividend payouts. As dividends are frequently viewed as a concrete return on investment in the Sri Lankan market, this is in line with investor preferences for income-generating stocks. In contrast, research in overseas markets has resulted in inconsistent results. Examples of these studies are those by Khan, et al (2011) . Certain overseas markets show a greater emphasis on capital gains, even if dividends are typically viewed as a favorable indicator in luring investors Duke, et al (2015) . In these situations, broader economic developments and investor preferences for growth-oriented stocks may have an impact on how DPS affects MPS. Furthermore, the global financial environment suggests that market and macroeconomic variables influence the relationship between DPS and MPS. In order to understand how dividend policies, affect market valuations, it is important to consider both investor condition and economic stability.

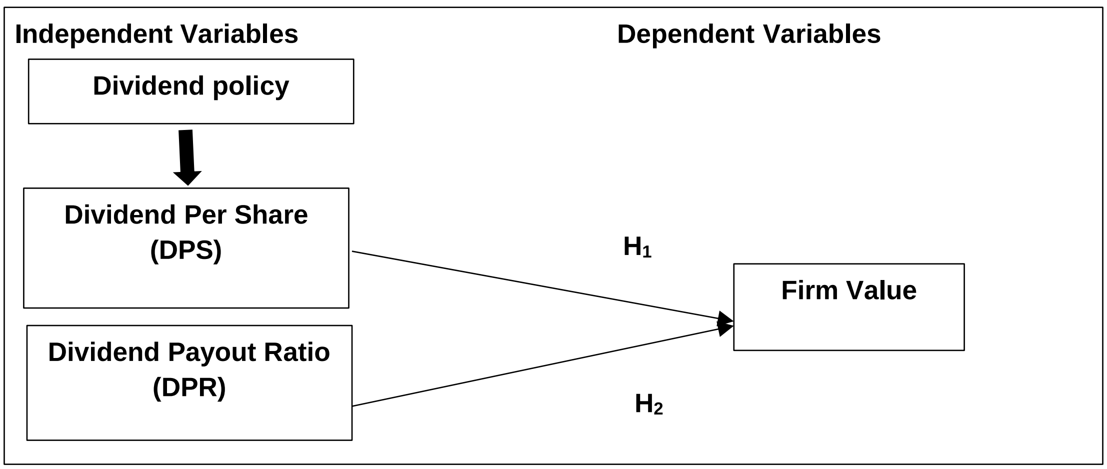
The impact of Dividend Pay-out Ratio (DPR) on Market Price per Share (MPS)

Understanding the relationship between corporate dividend policy and market values requires an understanding of the impact of dividend pay-out ratio (DPR) on market price per share (MPS). The study explains the dynamics of DPR and MPS in the Sri Lankan context. Studies conducted locally, such as those by (Khan 2022), indicate that MPS in Sri Lanka is significantly impacted by the dividend pay-out ratio. According to the research, businesses with greater DPRs typically have higher market values, which might be seen as an indication of investor confidence in the firm's sustainability and profitability.

Foreign research by (Azhagaiah and Priya 2008) offers more perspectives on a global level. Their analysis of the relationship between DPR and MPS in a variety of markets shows that variables including investor preferences and the stage of market development affect the impact. Increased demand and greater MPS may result from certain markets viewing a high DPR as an indication of sound financial standing and shareholder-friendly policies. On the other hand, in other markets that prioritize growth, a smaller DPR might be preferred if businesses reinvest profits to fund future growth, which positively affects MPS.

Conceptual Framework

A conceptual framework comprises the main ideas, factors, connections, and hypotheses that direct the research study. Theoretical foundations are established, and a lens for data analysis and interpretation is provided for researchers. In order to provide the study problem a structure, a conceptual framework makes use of pre-existing theories, models, or bodies of recognized knowledge. It sets research objectives, establishes the scope of the study, identifies pertinent variables, and directs the choice of suitable methodology and data analysis strategies (Jayasinghe 2021). The conceptual framework given below shows the relationship between the dependent variable and the independent variables involved in the research problem statement.



Source:Odinya (2017)

3. Research Methodology

Firm Value

A corporate entity's firm value is its potential to make profits in the future, as measured by its market value. A business's worth is reflected in the economic concept of firm value. It is the worth that a company deserves on a given day. A company's book value or market value can be used to calculate its value. However, in general, it alludes to a company's market value. One way to formulate firm value is as follows,

Firm Value (FV) = Ln total equity + Ln total debt

Dividend per share (DPS)

The total dividends allocated to each outstanding share of a corporation is known as Dividend Per Share, or DPS. An investor can ascertain how much income they will receive per share from the company by computing the dividend per share. Although there are different forms of payments that might be received, dividends are typically distributed to investors in a firm in the form of cash. DPS can be calculated as below,

$$\textbf{Dividend per share (DPS)} = \frac{\textbf{Total dividends paid}}{\textbf{Shares outstanding}}$$

Dividend Payout ratio (DPR)

The amount of dividends paid to shareholders as a percentage of the total net income the business makes is known as the Dividend Payout Ratio, or DPR. Stated differently, the dividend payout ratio represents the portion of net income that is paid out as dividends to shareholders. It can be calculated as below,

$$\textbf{Dividend Payout ratio (DPR)} = \frac{\textbf{Dividends paid}}{\textbf{Net Income}}$$

Hypotheses of the study

A testable statement concerning a relationship between two or more variables, or a theory put up to explain an observed occurrence, is what is referred to as a hypothesis in the field of research.

A scientific experiment or study's hypothesis is a brief overview of the researcher's prediction about the study's conclusions, which the results may or may not confirm. The fundamental step in the scientific method is hypothesis testing. Here is a list of the study's hypotheses,

Hypotheses 1

H_0: There is no significant impact of dividend per share (DPS) on the firm value of listed companies on the CSE.

H_1: There is a significant impact of dividend per share (DPS) on the firm value of listed companies on the CSE.

Hypotheses 2

H_0: There is no significant impact of dividend payout ratio (DPR) on the firm value of listed companies on the CSE.

H_1: There is a significant impact of dividend payout ratio (DPR) on the firm value of listed companies on the CSE.

Research design

A research design outlines the framework and approach utilized to conduct a study, including the strategies and procedures for data collection, analysis, and interpretation. It serves as a roadmap for addressing research questions and validating hypotheses. A well-designed research study includes a comprehensive plan for data collection, rigorous analysis methods, and a clearly defined research topic.

In this study, a quantitative research design is employed to investigate the impact of dividend policies on the firm values of listed companies on the Colombo Stock Exchange (CSE) from 2018 to 2022. Quantitative techniques are particularly suitable for analyzing numerical data, as they enable the identification of patterns, correlations between variables, and statistical judgments.

The five-year temporal scope of the study allows for the examination of trends and variations in company value in response to changes in dividend payout ratio (DPR) and dividend per share (DPS). Through the use of statistical techniques and numerical measurements, the research design aims to provide a quantitative basis for understanding the relationships between dividend policy and firm value in the Sri Lankan stock market.

Research approach

The study approach encompasses the methods and strategies employed for data collection, processing, and analysis, adhering to the quantitative paradigm. Financial data from listed companies on the CSE for the specified timeframe serve as the primary source of information. The conceptual framework guides the selection of variables and the formulation of hypotheses, drawing from established theories and models.

Operationalizing variables involves defining and measuring firm value, DPS, and DPR. Firm value is calculated using a logarithmic transformation, enabling a more intricate analysis of the relationship between total debt, total equity, and firm value. Simple formulas are utilized to compute DPR and DPS, ensuring clarity and accuracy in the measurements.

The study's hypotheses will undergo statistical analysis to test their validity and determine the significance of the proposed relationships. Through empirical insights, the study aims to contribute to a better understanding of financial dynamics within the Sri Lankan context. This approach aligns with the objective of quantitatively assessing the impact of dividend policies on the company value of CSE-listed firms.

Methods of data collection

In order to gather data for this project, secondary data from the 2018–2022 annual reports of listed businesses on the Colombo Stock Exchange (CSE) will be extracted and analyzed. Annual reports are extensive databases of financial data that provide information on several metrics, including the value of a company, dividend payout ratio (DPR), and dividend per share (DPS). Because yearly reports are required by regulatory agencies and follow regular accounting procedures, using secondary data from these documents ensures a strong dataset.

Sample technique of the study

This study’s population consists of all 21 consumer durables and apparel companies that are listed on the Colombo Stock Exchange (CSE). This all-inclusive group encompasses all companies that are trading on the stock exchange within the given timeframe of 2018 to 2022 . The aforementioned companies providing a contextual framework for the investigation of the effects of dividend policy on firm value in the Sri Lankan stock market. By collecting the variances and patterns in dividend per share (DPS), payout ratio (DPR), and company value across various industries and business strategies, the population offers a comprehensive view of the financial landscape.

From the total population of 21 consumer durables and apparel companies on the CSE, a sample of 15 Consumer durables and apparel companies is chosen for this study (CSE Report, 2022) according to the simple random sampling technique. In selecting the sample for this study, a strategic decision was made to focus on Consumer Durables and Apparel companies among the 21 listed on the Colombo Stock Exchange.

This specific category was chosen due to its representation of the highest market capitalization within the population. Recognizing the significance of market capitalization as a key metric, this subset of companies is deemed crucial for gaining insights into the broader financial landscape (Khan 2022). To ensure a representative and meaningful sample, a simple random sampling technique was employed, resulting in the selection of 15 companies within the Consumer Durables and Apparel sector. And the data were collected from annual reports of those 15 companies. In this research, 15 Consumer Durables and Apparel companies from the population of CSE-listed entities were chosen using a simple random sampling technique.

Data Analysis and Discussion

Descriptive Analysis

Descriptive statistics were calculated to identify the basic nature of this research and to describe the data distribution of the study. Under the descriptive analysis researcher used Maximum value, Minimum value, Mean and Standard Deviation (SD) to interpret this study. Mean value provides the idea about the central tendency of the values of a variable. If standard deviation (SD) value is more than 0.5 is a good position. Descriptive statistics includes central tendency (mean, mode, and median) and measure of dispersion (variance and standard deviation) to identify the nature of the research variables.

Table 1 : Descriptive Analysis

	N	Range	Minimum	Maximum	Mean
	Statistic	Statistic	Statistic	Statistic	Statistic
FV	75	3.90	.34	4.25	1.85
DPS	75	2327.63	.01	2327.64	280.87
DPR	75	6023.57	.00	6023.57	222.43
Valid N (list wise)	75				

Source: Survey data (2024)

The above results show the descriptive statistics of the variables Firm Value (FV), Dividends per Share (DPS), and Dividend Payout Ratio (DPR) for 75 listed firms on the Colombo Stock Exchange. For Firm Value (FV), the range of values is 3.90, from a minimum of 0.34 to a maximum of 4.25. The mean Firm Value is 1.85. This indicates that the listed firms have a wide range of values, with the average firm having a value of 1.85. For Dividends per Share (DPS), the range of values is 2327.63, from a minimum of 0.01 to a maximum of 2327.64. The mean DPS is 280.87.

This means that the listed firms have a wide range of dividend amounts per share, with the average firm paying out 280.87 in dividends per share. For Dividend Payout Ratio (DPR), the range of values is 6023.57, from a minimum of 0.00 to a maximum of 6023.57. The mean DPR is 222.43. This indicates that the listed firms have a wide range of dividend payout ratios, with the average firm having a DPR of 222.43.

These results suggest that there is variation in dividend policies among the listed firms. The range of values for FV, DPS, and DPR indicates the diversity of dividend practices. The mean values provide an average measure of firm value and dividend distribution, indicating the typical levels observed in the sample. To investigate how dividend policies affect firm value, further analysis such as correlation or regression analysis can be conducted. These results provide a foundation for exploring the relationship between dividend policies and firm value in the context of the Colombo Stock Exchange.

Correlation Analysis

These correlation results indicate a strong positive relationship between firm value (FV) and dividend per share (DPS). The correlation coefficient of 0.886 suggests a high degree of correlation between these two variables. This implies that as the dividend per share increases, the firm value also tends to increase. Similarly, there is a strong positive correlation (0.839) between DPS and dividend payout ratio (DPR). This suggests that as the dividend per share increases, the percentage of earnings paid out as dividends also tends to increase.

Table 2 : Correlation Analysis

		FV	DPS	DPR
FV	Pearson Correlation	1	.886**	.074**
	Sig. (2-tailed)		.000	.000
	N	75	75	75
DPS	Pearson Correlation	.886**	1	.839**
	Sig. (2-tailed)	.000		.000
	N	75	75	75
DPR	Pearson Correlation	.874**	.839**	1
	Sig. (2-tailed)	.000	.000	
	N	75	75	75

Source: Survey data (2024)

However, the correlation between firm value and dividend payout ratio is relatively low (0.074), indicating a weak relationship. This suggests that the dividend payout ratio does not have a significant impact on firm value. These results suggest that dividend policies, specifically the dividend per share, have a strong impact on the firm value of companies listed on the Colombo Stock Exchange. Companies that pay higher dividends per share are likely to have higher firm values. Conversely, the dividend payout ratio does not seem to have a significant influence on firm value.

Regression Analysis

Table 3 : Model Summary Table

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.805[a]	.564	.439	.58

a. Predictors: (Constant), DPR, DPS

Source: Survey data (2024)

Based on the results, the regression model suggests that dividend policies have a significant impact on the firm value of listed companies on the Colombo Stock Exchange. The R Square value of 0.564 indicates that 56.4% of the variation in firm value can be explained by dividend policies. The adjusted R Square value of 0.439 suggests that 43.9% of the variation in firm value is explained by dividend policies after accounting for the number of predictors in the model.

The standard error of the estimate, which measures the average distance between the actual values and the predicted values, is 0.58. This indicates the accuracy of the model's predictions. In summary, the results indicate a moderate positive relationship between dividend policies and firm value. However, it is important to note that there may be other factors not accounted for in the model that also influence firm value.

Table 4 : ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.424	5	2.212	6.561	.002[b]
	Residual	22.586	70	.337		
	Total	27.010	75			

Source: Survey data (2024)

The analysis conducted here is an ANOVA (analysis of variance) test on the data collected to investigate the effect of dividend policies on the firm value of listed companies on the Colombo Stock Exchange. The ANOVA table provides information on the sum of squares, degrees of freedom, mean square, F-statistic, and significance level (p-value) for the regression and residual parts of the model. The regression part of the model suggests that the selected dividend policies explain a significant portion of the variation in firm value (R-squared = 0.164). The sum of squares for the regression is 4.424, with 5 degrees of freedom. The mean square for the regression is 2.212. The residual part of the model represents the unexplained variation in firm value. It has a sum of squares of 22.586 and 70 degrees of freedom. The mean square for the residual is 0.337. The F-statistic is a measure of the overall significance of the regression model. Here, it has a value of 6.561, which is significant at the 0.002 level.

This suggests that there is a significant relationship between the selected dividend policies and the firm value of listed companies on the Colombo Stock Exchange.

Table 5 : Coefficients measurements

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.069	.131		.530	.000
	DPS	.021	.030	.720	.711	.001
	DPR	.062	.030	.857	2.061	.000

a. Dependent Variable: FV
Source: Survey data (2024)

The results show the coefficients of the independent variables (DPS and DPR) and their impact on the dependent variable (firm value) in the context of investigating how dividend policies affect the firm value of listed companies in the Colombo Stock Exchange. The coefficient for DPS (Dividend per Share) is 0.021, indicating that for every unit increase in DPS, the firm value increases by 0.021 units.

This coefficient is statistically significant at the 0.01 level, suggesting that DPS has a positive and significant impact on firm value. A higher DPS can attract more investors and increase the perceived value of the company. The coefficient for DPR (Dividend Payout Ratio) is 0.062, indicating that for every unit increase in DPR, the firm value increases by 0.062 units. This coefficient is also statistically significant at the 0.01 level, suggesting that a higher DPR has a positive and significant impact on firm value. A higher DPR indicates that the company is distributing a higher proportion of its earnings as dividends, which can be seen as a sign of financial stability and attractiveness to investors. And the results indicate that both DPS and DPR have a positive and significant impact on firm value in the context of listed companies in the Colombo Stock Exchange. Companies that have higher dividend per share and dividend payout ratios are perceived as more valuable and attractive investments.

4. Conclusion and Recommendation

The research endeavors to thoroughly investigate the impact of dividend policies on the valuation of companies listed on the Colombo Stock Exchange (CSE). Utilizing a multifaceted approach encompassing data collection, reliability testing, descriptive statistics, correlation analysis, regression analysis, and hypothesis testing, the study aims to elucidate the specific influence of dividend per share (DPS) and dividend payout ratio (DPR) on firm value. The findings reveal a significant positive association between DPS and firm value, indicating that increased dividend per share payments positively influence the perceived value of a company. Likewise, a positive relationship is observed between DPR and firm value, underscoring the stability of financial position and investor appeal of companies with higher dividend payout ratios. These results highlight the critical role of dividend policies in shaping investor perceptions and impacting the valuation of listed companies on the CSE. Moreover, the study contributes to bridging a notable research gap in the literature by emphasizing the importance of specific dividend policy components, such as DPS and DPR, in determining company value. Beyond the confines of the Colombo Stock Exchange, the implications of these findings extend to financial analysts, investors, and policymakers, offering valuable insights into the significance of dividend policies in influencing investor sentiments and company valuation.

Listed businesses on the Colombo Stock Exchange should adopt a balanced approach incorporating both dividend payout ratio (DPR) and dividend per share (DPS) in their dividend policies to enhance perceived financial stability and investor appeal, despite the significant positive correlation between DPS and firm value. Additionally, companies are advised to broaden their analysis to include the impact of external economic factors on the relationship between dividend policies and firm value, allowing for adjustments in response to market fluctuations, regulatory changes, and economic downturns. Emphasizing the importance of considering overall economic conditions, detailed research is essential for a deeper understanding of this correlation, enabling companies to adapt their dividend policies to navigate uncertain markets and economic landscapes. To attract investors seeking a steady income stream, deliberate increases in Dividend Per Share (DPS) are recommended, as a consistently rising DPS can influence investor decisions and contribute to the growth trajectory of firm value by fostering confidence in the company's financial health. Conversely, maintaining a balanced Dividend Payout Ratio (DPR) is essential for ensuring long-term financial stability, as it indicates a commitment to providing returns to shareholders while safeguarding earnings and growth potential to protect and enhance firm value over time.

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