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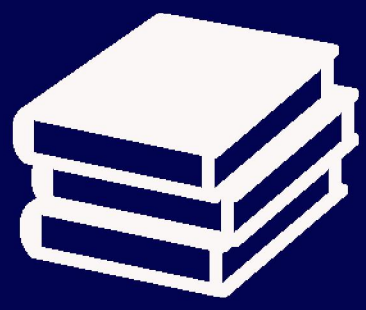

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CONTENTS

FACTORS INFLUENCING DIVIDEND POLICY: CASE STUDY OF BANK, FINANCE AND INSURANCE FIRMS LISTED IN COLOMBO STOCK EXCHANGE Jayasinghe, J. A. G. P	01-23
RESIDENTS' PERCEPTION OF TOURISM IMPACTS AND ATTITUDE TOWARD TOURISM DEVELOPMENT: A SOCIO-CULTURAL PERSPECTIVE ANALYSIS IN JAFFNA DISTRICT Hamzayini, P. and Arachchi, R. S. S. W	24-46
CUSTOMER ADOPTION OF ONLINE GROCERY SHOPPING IN COLOMBO DISTRICT, SRI LANKA De Silva, W. D. C. P and Piumali, P. L. G. S. D	47-65
AN EXPLORATORY STUDY ON SRI LANKAN MUMPRENEURS Amitha, W. A. K and Sewwandi, M. A. D	66-81
DETERMINANTS OF BUSINESS PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: A STUDY ON MARUTHAMUNAI AREA Muthusamy, V, Amitha W.A.K and Saajith, M.A.C.A	82-105
ACADEMIC ENGLISH IN RESEARCH PAPERS: A STYLISTIC ANALYSIS OF THE TEXTS OF SRI LANKAN WRITERS Jeyaseelan, G	106-151
NON-PERFORMING LOANS AND PROFITABILITY: EVIDENCE FROM LISTED BANKS IN SRI LANKA Mithushana, R and Subramaniam, V. A	152-173
IMPROVING THE TOURISM INDUSTRY BASED ON TOURIST SATISFACTION IN SRI LANKA: SPECIAL REFERENCE TO CHINESE TOURISTS Pan Liang Wen, Kalpana R. Ambepitiya and Lt Col RADS Rajapaksha RSP psc VIR	174-205

CULINARY TOURISM AS A POST DISASTER RECOVERY MARKETING TOOL FOR SRI LANKA TOURISM PROMOTION: A STUDY OF SOUTH COAST OF SRI LANKA Perera, L. A. P. C and Wijesundara, W. G. S. R	206-226
IMPACT OF TRAVEL MOTIVES ON DESTINATION CHOICE OF MICE TRAVELERS IN SOUTHERN PROVINCE Abeysekara, K. S and Kulathilaka, C. J. P	227-247
TOP MANAGEMENT AND EXTERNAL EXPERT SUPPORTS IN IMPLEMENTING ACCOUNTING INFORMATION SYSTEM IN ENTERPRISE RESOURCE PLANNING ENVIRONMENT Haleem, A	248-271

FACTORS INFLUENCING DIVIDEND POLICY: CASE STUDY OF BANK, FINANCE AND INSURANCE FIRMS LISTED IN COLOMBO STOCK EXCHANGE

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ABSTRACT

The behavior of the dividend policy is the most debatable issue in corporate finance. Many researchers try to expose the issue regarding the dividend behavior or dynamics and determinants of dividend policy but still do not have an acceptable description for firms' observed dividend behavior. Therefore, the present research focused on analysing the factors influencing dividend policy giving special reference to the Bank Finance and Insurance firms listed in Colombo Stock Exchange to identify the factors influencing the dividend policy of Bank Finance and Insurance firms listed in Colombo Stock Exchange. The investigation was performed using panel data procedures for a sample of 26 Bank Finance and Insurance firms listed in the Colombo Stock Exchange during 2010-2011 – 2014-2015. This period was selected to identify financial behavior immediately after the ethnic crisis. Secondary data collected from annual reports published by the Colombo Stock Exchange was regressed to find the influence on dividend policy. Current earnings, liquidity constraints, operating cash flows, free cash flows, availability of investment opportunities and past dividend patterns significantly influence dividend policy in Bank Finance and Insurance firms listed in Colombo Stock Exchange. The findings revealed that the current earnings, liquidity constraints, and past dividend patterns significantly influence dividend policy on Bank Finance and Insurance firms listed on Colombo Stock Exchange. Free cash flows, operating cash flows, and the availability of investment opportunities have a significant negative influence on the dividend policy of Bank Finance and Insurance firms listed in the Colombo Stock Exchange. Findings will be benefited to the directors, top-level managers, shareholders and potential investors for their decision making.

Keywords: *cash flows, current earnings, dividend policy, liquidity and listed companies*

INTRODUCTION

Company ownership belongs to the shareholders. On behalf of the ownership, shareholders should have a return. Shareholder's return consists of two components which dividend and capital gains. Capital gains are future earnings, whereas dividends are current earnings. A dividend can be in the form of cash or shares. Determining the of earnings to be distributed to shareholders and the amount to be retained in the firm is called dividend policy (Pandey, 1993). Retained earnings are the most significant internal sources of financing for the growth of the firm. On the other hand, dividend may be considered desirable from shareholders' point of view as they tend to increase their current return. Dividend policy involves balancing the shareholders' desire for current dividends, and the firm's needs for earnings reinvestment for growth (Pandey, 1993).

Paying dividends involves the outflow of cash. The cash available for the payment of dividends is affected by the firm's investment and financing decisions. A decision to incur capital expenditure implies that less cash will be available for the payment of dividends. Therefore, investment decision affects dividend decision. If the company has insufficient internal funds to pay dividends, it can raise funds by issuing new shares. It reveals that the financing decision affects dividend decisions. Dividend policy of the firm has its effect on both the long-term financing and the wealth of shareholders. Two possible viewpoints may shape the firm's decision to pay dividends as the firm's need for funds and shareholder's need for immediate income. When dividend decision is treated as a financing decision, the firm's net earnings may be considered a source of

long-term funds. Here dividends will be paid only when the firms do not have profitable investment opportunities. The firm grows at a faster rate when it accepts highly profitable investment projects. Capital markets are not perfect, so shareholders are not indifferent between dividends and retain earnings. Because of the market imperfections and uncertainty, shareholders may prefer near dividends than future dividends and capital gains. Higher dividends may increase the share value, and the low dividend may reduce the value (Pandey, 2001).

Most companies recognize that the shareholders have some desire to receive dividends, although shareholders are also interested in capital gains. The company's decision regarding the amount of earnings to be distributed as dividends depends on legal and financial constraints. Companies Act No. 07 of 2007 provide guidelines on dividend distribution while the Inland Revenue Act No. 24 of 2017 emphasis the penalties of non-distribution. Dividend policy determines the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. The objective of a dividend policy is to maximize a shareholder's return so that the value of his investment is maximized. The behavior of the dividend policy is the most debatable issue in corporate finance. Many researchers try to uncover the issue regarding the dividend behavior or dynamics and determinants of dividend policy but still do not have an acceptable explanation for firms' observed dividend behavior. Therefore, the present research focused on analysing the factors influencing dividend policy giving special reference to the Bank Finance and Insurance firms listed on Colombo Stock Exchange to

identify the factors influencing the dividend policy of Bank Finance and Insurance firms listed on Colombo Stock Exchange.

LITERATURE REVIEW

Under a perfect market situation, a firm's dividend policy is irrelevant as it does not affect the firm's value. They argue that the firm's value depends on the firm's earnings that results from its investment policy. A firm operating in perfect capital market conditions may has sufficient cash to pay dividends or does not have sufficient cash to pay dividends and therefore issues new shares with financing the payment of dividends or does not pay dividends, but shareholders need cash (Miller & Modigliani, 1961). Gordon (1962) developed a prevalent model that explicitly relates the firm's market value to dividend policy. Gordon's model is based on a few assumptions. The the firm is an all-equity firm, and it has no debt, no external financing is available, the internal rate of return of the firm is constant, the appropriate discount rate for the firm remains constant, the firm and its stream of earnings are perpetual, corporate taxes do not exist, the retention ratio once decided upon is constant. The discount rate is greater than the growth rate.

Walter (1963) argued that the choice of dividend policies almost always affects the firm's value. His model shows the importance of the relationship between the firm's return rate and its capital cost in determining the dividend policy that will maximize shareholders' wealth. Walter's model is based on a few assumptions. They are the firm finances all investment through retained earnings, the firm's rate of return and cost of capital is constant, all earnings are either distributed as

dividends or reinvested internally immediately, beginning earnings and dividends never change, the firm has a very long or infinite life. Lintner (1956) argued that the current dividend payout lays the benchmark for future dividend decisions and managers usually have reasonably predetermined payout ratios. Finally, he posited that managers predictably smooth past and future earnings into the magnitude of a firm's dividend payout. Accordingly, the partial adjustment model was developed by him to explain the dividend decision process to pay or not to pay dividends.

Deviations from the Miller and Modigliani (1961) dividend irrelevance position are obtainable only when the assumptions underlining Miller and Modigliani's setting are violated. The tax clientele hypothesis uses the market perfection of differential taxation of dividends and capital gains to explain the dividend puzzle. Bhattacharyya (1979) developed another explanation for the dividend policy based on asymmetric information. Managers have private knowledge about the distributional support of the project cash flow and they signal this knowledge about the distributional support of the dividends. In the signalling equilibrium, higher value of the support is signalled by a higher dividend. Miller and Modigliani (1961) proposed irrelevance argument assumptions. The assumptions are questionable where the firm's owners are distinct from its management and managers are imperfect agents for shareholders. Jensen and Mecling (1976) defined the agency relationship as a contract under which an investor engages another person to perform a particular service on their behalf, which involves delegating some decision-making authority to the agent. They define agency costs as the sum of the

shareholder's monitoring expenditures, the bonding expenditures by the agent, and the residual loss. They assumed that individuals solve these normative problems, given that only stocks and bonds can be issued as claims.

Rozeff (1982) invested the optimal dividend payout policy through two market imperfections the agency cost and transaction cost associated with issuing external financing. He argued that the increased dividend cause lower agency costs, but he could not explain that mechanism. Easterbrook (1984) did a study to ask whether the dividend is a method of aligning manager's interest with the shareholders and providing the mechanism for the relationship between dividends and agency costs. He proposed it as the agency cost explanation for the dividend puzzle. He identified the dividend as a method of reducing the agency cost of management and a reasonable explanation for the dividend puzzle.

According to Rozeff (1982) and Jensen et al. (1992), the agency hypothesis of dividends posits that dividend payment can be used as a mechanism to alleviate agency problems. Easterbrook (1984) shows that the distribution of cash resources reduces the size of internally generated funds available to managers forcing them into the capital markets more frequently to obtain external financing thereby subjecting managers to the capital markets' security. To secure the needed fund's managers will have incentives to both disclose information and reduce agency costs. Therefore dividend payments benefit shareholders by reducing the agency costs associated with monitoring managers in expanding this role to the capital market. The dividends' payments reduce free cash flow

from being wasted on unprofitable or damaging net present value projects. Jensen (1986) ded that when a firm has exhausted all profitable growth opportunities, positive net present value projects, the agency problem between shareholders and managers will be more severe since the firm has excess cash flow. The payment of large dividends to shareholders reduces the discretionary funds available to managers, reducing the potential overinvestment problem and minimizing shareholder manager conflict accordingly. However, Jensen argued that debt could also serve effectively as a substitute mechanism for dividends in reducing the agency costs of free cash flow.

A crucial question is how to obtain a suitable proxy for agency costs. Rozeff (1982) argued that the larger the number of shareholders, the greater the dispersion of ownership, the more difficult and costly is monitoring. That is agency costs increase with the dispersion of ownership. To control agency costs in firms whose owners are dispersed, there will be greater demand for higher dividend payout ratios. Jensen and Meckling (1976) argued that agency costs be reduced if insiders increase their ownership in the firm because this can help align the interests of both managers and shareholders. Therefore, the higher the proportion of managers in firm ownership, the less the need to use dividends as a device to mitigate agency costs. Hence the proportion of insider ownership is expected to bear a negative relation to dividend payouts. The rich theoretical development in modelling dividends as signals of private managerial information also gave rise to empirical research seeking to determine the signalling theory's fit to real-world data.

Jensen (1986) expressed the empirical literature typically attempted to test the signaling paradigm counterpoised against an alternative rationale for dividend advanced based on the principal-agent framework. According to these framework, dividends are used by shareholders as a device to reduce overinvestment by managers. The managers control the firm; therefore, they might invest cash in projects with negative net present values but increase the managers' personal utility in some way. A dividend reduces this free cash flow and thus reduces the scope for overinvestment. The two most cited works in this genre are the papers by Easterbrook (1984) and Jensen (1986). Unfortunately, neither of these papers tries to model the situation; instead, they put forward a plausible hypothesis.

Jensen (1986) contended that in corporations with large cash flows, managers will tend to invest in low return projects. According to Jensen debt counters this by taking away the free cash flow. He contends that takeovers and mergers occur when either the acquirer has a large quantum of free cash flow or the acquired has a large free cash flow that has not been paid out to stakeholders. Jensen does not deal with dividends empirical researchers of dividend policy often use Jensen's article for motivating tests of the free cash flow hypothesis of dividend policy. According to Miller and Modigliani (1961), corporate investment and dividend decisions are independent in perfect capital markets. However, in the presence of market imperfections such as taxes flotation costs and agency costs, both dividend and investment decisions might be closely related or interdependent. The relationship between investment and dividend policies can be seen from two perspectives. By paying

dividends, a firm is forgoing a relatively cheap source of financing. Then dividend payments reduce the firm's available funds for investment activities.

Rozeff (1982) and Jensen et al. (1992) have found a significant negative relationship between dividends and the firm's investment opportunities. Barclay et al. (1995) document that investment opportunities are a significant determinant of corporate dividend policy. Fama and French (2001) affirmed that investment opportunities influenced dividend decision. They found that firms with better growth and investment opportunities have lower payouts.

RESEARCH METHODOLOGY

The research aims to analyse the factors influencing dividend policy by giving special reference to Bank Finance and Insurance sector companies listed in the Colombo Stock Exchange.

This research population is 65 Bank Finance and Insurance sector companies listed in Colombo Stock Exchange as at 30th September 2019. Using the probability sampling method, the researcher selected 26 companies as a sample representing 40 percent from the total population. Since the total population consists of 3 different sections Bank, Finance and Insurance; the researcher used a stratified sampling method for selecting sample. The ethnic crisis ended in 2009 after more than 30 years' sacrifices. Therefore, it has selected five years' time period from 2010-2011 to 2014-2015 for this research study to examine the financial behavior immediately after the ethnic crisis, in this research, the

researcher used quantitative and secondary data. To collect the data researcher used annual reports published by every companies. These data were collected from the Colombo Stock Exchange (CSE).

Conceptual Framework

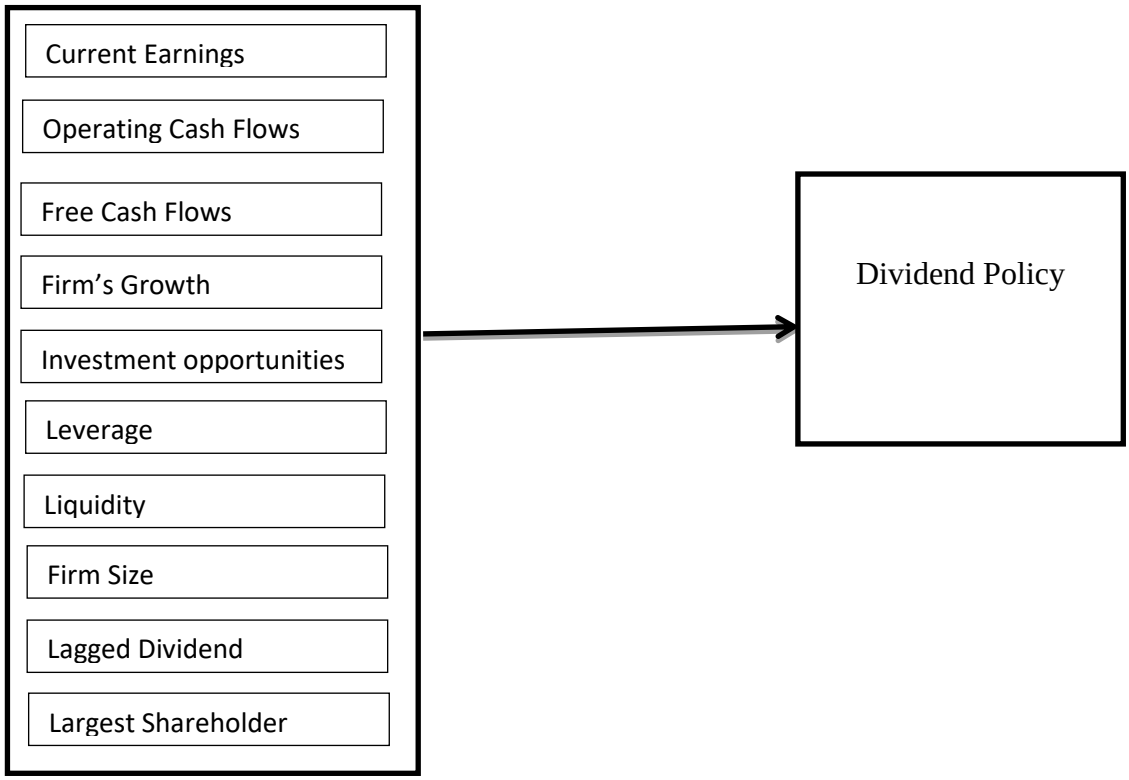

Figure 1: Conceptual Framework

Research Model

$$DPS_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 OCFPS_{it} + \beta_3 FCFPS_{it} + \beta_4 GR_{it} + \beta_5 INV_{it} + \beta_6 LEV_{it} + \beta_7 LIQ_{it} + \beta_8 SIZE_{it} + \beta_9 DIV_{i(t-1)} + \beta_{10} LARGE_{it} + \varepsilon_{it}$$

Where:

DPS_{it} = dividend per share of firm i at time t

EPS_{it} = earnings per share of firm i at time t

$OCFPS_{it}$ = operating cash flow per share of firm i at time t

$FCFPS_{it}$ = free cash flow per share of firm i at time t

GR_{it} = growth opportunity of firm i at time t

INV_{it} = investment opportunity of firm i at time t

LEV_{it} = leverage of firm i at time t

LIQ_{it} = current ratio of firm i at time t

$SIZE_{it}$ = size of firm i at time t

$DIV_{i(t-1)}$ = dividend per share of firm i at time t-1

$LARGE_{it}$ = percentage shares owned by the largest shareholder of firm i at time t

ε_{it} = the error term

$\beta_0..\beta_{10}$= coefficients

Operationalization

Table 1: Operationalization

Variables	Acronym	Measure	
Dividend Policy	DPS	Dividend Per Share	$\frac{\text{Dividends}}{(\text{Average outstanding ordinary shares})}$
Current Earnings	EPS	Earnings Per Share	$\frac{\text{Net income} - \text{Dividends on prefered stock}}{\text{Average outstanding Ordinary shares}}$
Operating Cash Flows	OCFPS	Operating Cash Flows Per	$\frac{\text{Operating Cash Flow}}{\text{Average outstanding Ordinary shares}}$

Free Cash Flows	FCFPS	Share Free Cash Flows Per Share	$\frac{\text{Operating cash flows} - \text{Capital Expenditure}}{\text{Average outstanding Ordinary shares}}$
Firms Growth	GR	Growth Opportunity	$\frac{\text{Total Asset current Year} - \text{Total Asset Previous Year}}{\text{No of Ordinary shares}}$
Investment Opportunities	INV	Investment Opportunity	$(\text{Retain Earnings})/(\text{Total Asset})$
Leverage	LEV	Debt Ratio	$(\text{Total Liabilities})/(\text{Total Asset})$
Liquidity	LIQ	Current Ratio	$(\text{Current Asset})/(\text{Current Liabilitie})$
Firm Size	SIZE	Firm Size	$\log(\text{Total Assets})$
Lagged Dividend	DIV (t-1)	Lagged Dividend Per Share	$\frac{\text{Dividends}}{(\text{Average outstanding ordinary shares})}$
Largest Shareholder	LARGE	Largest Shareholder	Percentage shares owned by largest shareholder

Source: Author developed.

Panel data methodology has been employed to analyse secondary data because it contained data across firms over time. To estimate the effect of explanatory variables on the dividend, the researcher used three estimation models, namely, pooled ordinary least squares (OLS), the random effects, and the fixed effects. The Hausman (1978) specification test was employed to determine which estimation model, either fixed or random effects, best explains the estimation. To analyses data researcher used EViews statistical package.

DATA ANALYSIS

Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. Maximum DPS of the Bank Finance & Insurance companies in Sri Lanka is 45 while the minimum DPS is zero. the sSome of the listed companies of Bank Finance and Insurance Sector pay dividend 45 rupees per share while some companies do not pay a dividend for shareholders. Mean value of DPS is 3.90 while the standard deviation is 6.92. That mean average of listed companies of Bank Finance and Insurance Sector pay dividend for their shareholders around 3.90 per share. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Maximum EPS of the listed Sri Lankan companies of Bank Finance and Insurance Sector is 210.33 and the minimum is -3.56 while the mean value of EPS is 17.18. It shows the highest variation of EPS among the listed companies. So the standard deviation is 31.17. Most of the listed companies of Bank Finance and Insurance Sector earn more while a few others incur losses.

Maximum OCF and the maximum FCF of the Sri Lankan listed companies represent the Bank Finance and Insurance Sector. Operating cash flow is a measure of the amount of cash generated by a company's regular business operations. Maximum OCFPS of Bank Finance and Insurance firms listed on Colombo Stock Exchange is 981.44 while the minimum of -757.74. Maximum OCFPS of listed companies of Bank Finance and Insurance Sector in Sri Lanka is also 981.44 while the minimum of -757.74. Mean value of OCFPS is 5.30 and has huge variation resulting in the standard deviation of 168.72. Free Cash Flow per share is a measure of a company's financial flexibility. The maximum FCFPS is 463.26 and the minimum value is -783.21 of Bank Finance and Insurance firms listed on Colombo Stock Exchange. The mean value of FCFPS is -26.19 and the standard deviation is 137.15.

Maximum GR is 1.9 and the minimum is -0.81. The mean value of GR is 0.265 and the standard deviation is 0.344. Maximum INV of the listed Bank Finance and Insurance Sector companies in Sri Lanka is 0.91 and the minimum -0.36. Mean Value of INV is 0.106 and the standard deviation is 0.162. Leverage uses various financial instruments or borrowed capital to increase the potential return of an investment. Maximum LEV is 0.92 and the minimum value is 0.00066. Mean value of LEV is 0.723 while the standard deviation is 0.232. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety. The current ratio is a liquidity ratio that measures a company's ability to pay short term and long term obligations. Maximum of LIQ is 136.63 and the minimum is 0.73. Mean value of LIQ is 3.28 while the standard deviation is 12.47. Maximum of the firm size of the listed

companies of Sri Lanka is 11.94 and the minimum firm SIZE is 5.86. Mean value of the firm SIZE is 10.03, while the standard deviation is 1.107. Maximum of LAGDPS is 45 while the minimum is Zero. Mean value of LAGDPS is 3.70 while the standard deviation is 6.56. Large shareholder means the shareholders who hold more shares of the company. Maximum of LARGE is 94.02 and the minimum is 4.5. The mean value is 49.67, while standard deviation of 25.72. The collected data were screened and first difference and log transformation are used to normalize the data.

Table 2: Panel Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	-1.812	1.722	-1.052	0.295
EPS	0.170	0.010	16.604	0.000**
OCFPS	-0.004	0.001	-3.088	0.003**
FCFPS	-0.005	0.002	-2.663	0.009**
GR	-0.307	0.425	-0.723	0.471
INV	-2.658	1.075	-2.474	0.015*
LEV	-0.378	1.033	-0.367	0.715
LIQ	0.117	0.013	8.703	0.000**
SIZE	0.293	0.196	1.498	0.137
LAGDPS	0.080	0.045	1.788	0.076
LARGE	-0.006	0.006	-0.925	0.357
R-squared				0.925
Adjusted R-squared				0.918
Prob(F-statistic)				0.000

**p< .01; *p< .05

Source: Based on survey data.

Regression analysis allows determining the model's overall fit and the relative contribution of each predictor to the total variance explained. Earnings per share have a significant favourable influence on dividends per share. Here the coefficient of earnings per share is 0.17. When one unit of earnings per share increases, dividends per share will increase by 0.17 units. Operating cash flow per share has a significant negative influence on dividend per share in bank finance and insurance sector companies. Here the coefficient of operating cash flow per share is -0.0038. When increasing one unit of operating cash flow per share, dividend per share will decrease by 0.0038 units. Free cash flow per share has a significant negative influence on dividend per share. Here the coefficient of free cash flow per share is -0.004. When one unit of free cash flow per share increases, dividends per share will decrease by 0.004 units. Investment opportunities have a significant negative influence on dividend per share in bank finance and insurance sector. Here the coefficient of investment opportunities is -2.65. That means when increase one unit of investment opportunities, dividends per share will decrease by 2.65 units.

Liquidity has a significant positive influence on dividends per share in bank finance and insurance sector. The coefficient of liquidity is 0.11. That means when increase one unit of liquidity, dividends per share will increase by 0.11 units. Lag dividends per share have a significant positive influence on dividends per share of the current year. The coefficient of lag dividends per share is 0.07. When one unit of lag dividends per share increases, dividends per share will increase by 0.07 units. Growth rates, leverage, and large shareholder have little influence

on dividend per share, while firm size has insignificant influence on dividend per share. The coefficient of denomination (R- Squared) gives the proportion of variability in the dependent variable attributable to the independent variables. It means the proportion of variation in the response data explained by the model. The value of R-squared is 0.92. The value is much closer to 1 indicates a strong association between a dependent variable and independent variables. Here the F-statistic is Zero. So, it is in a good position to accept this model.

CONCLUSION AND RECOMMENDATIONS

In the bank finance and insurance sector, current earnings, free cash flows, operating cash flows, availability of investment opportunities for the company, liquidity constraints, and past dividend patterns significantly influence dividend policy. Current earnings, liquidity constraints, and past dividend patterns have a significant positive influence on dividend policy. Free cash flows, operating cash flows and availability of investment opportunities for the company have a significant negative influence on dividend policy.

The significant positive influence of current earnings on dividend policy denotes that the increase in company profits leads to a higher dividend payment to shareholders. It consists of signalling theory and it says firms pay higher dividends to shareholders when earnings increase and will show a good signal to firm performance. When the companies are performing well, they can offer greater reword to the shareholders then they will pay a higher dividend for their shareholders. The results are also consistent with the findings of prior studies such as Charitou (2000);

Al-Malkawi (2007); Ahmed and Javid (2009); Al-Kuwari (2010); Mehrani *et al*. (2011); Al-Shubiri (2011) and Imran (2011), who demanded that higher profitability firms pay more enormous dividends to their shareholders. On the other hand, the results contradict with Appannan and Sim (2011) findings who found that firm's earnings have a negative or insignificant effect on dividend policy.

According to the findings, free cash flow has a significant negative influence on the dividend policy in Bank Finance and Insurance firms listed on the Colombo Stock Exchange. Jensen (1986) identified the free cash flow as the excess cash flow. He suggested that increment in dividend disbursements may support to diminish the free cash flow under managers' control. As a result, paying more dividends will reduce the agency costs between managers and shareholders. Studies by Al-Kuwari (2010), Al-Shubiri (2011) and Mehrani *et al*. (2011) found no significant relationship between free cash flow and dividend policy. Those findings are contradicting with these research findings. However, a significant negative relationship was reported by Imran (2011). Those findings are supported by these research findings.

Results reveal that past dividend patterns significantly influence dividend policy in Bank Finance and Insurance firms listed on the Colombo Stock Exchange. Lintner (1956) carried out an empirical study on American companies and exposed that current profitability and past dividend are the significant factors in determining the dividend policy. Pruitt and Gitman (1991) studied the interaction between the investment, financing and dividend decisions of major firms in the USA. The study found that

the firms' dividend decision was determined by profits and the past dividends instead of the firms' investment and financing actions. Thus, those are supported to the findings of this research study.

Growth and investment opportunities are factors of dividend policy. According to the agency cost theory, firms with no growth opportunities or have few investment opportunities have greater exposure to agency costs. According to Jensen (1986) to reduce the agency costs, firms will pay higher dividends to the shareholders than the firms which have high growth and larger investment opportunities. The significant adverse effects of growth and investment opportunities on dividend payment were indicated by previous studies of Rozeff (1982), Jensen *et al.* (1992), Ahmed and Javid (2009), Al-Kuwari (2010) and Subramanian and Devi (2011). There are some studies which reported a positive impact of growth opportunities and investment opportunities on dividend policy such as Al-Malkawi (2007), Al-Shubiri (2011) and Imran (2011). Those findings are contradicted with the findings of this research study.

Availability of the company's growth opportunities, leverage of the company, Company size, and the preference of the large shareholder have little influence on dividend policy in Bank Finance and Insurance firms listed on Colombo Stock Exchange.

Firm size has insignificant influence on dividend policy in Bank Finance and Insurance firms listed on the Colombo Stock Exchange. Numerous empirical studies have documented that size is a significant determinant of a firm’s dividend policy and that it is positively related to dividends

such as Barclay et al. (1995), Fama and French (2001). However, the results contradict Ahmed and Javid (2009) findings and Appannan and Sim (2011).

A large shareholder has insignificant influence on dividend policy in Bank Finance and Insurance firms listed on the Colombo Stock Exchange. According to the agency cost theory, the firms have large shareholders pay higher dividends. Large shareholders have a high proportion of shares. Therefore, they have greater control over the management to pressures the management for distributing higher dividends. The findings are consistent with Ahmed and Javid (2009), Appannan and Sim (2011). The result, however, contradicts the findings of Jensen and Mackling (1976), Al- Shubiri (2011), Huda and Farah (2011) and Mehrani et al. (2011).

The study offers useful input to the board of directors for formulating and revising dividend policy by considering the factors that have been evidenced to exercise significant influence on dividend payment. In particular, if the board of director is considering increasing the dividend payment to shareholders, current earnings, free cash flows, operating cash flows, availability of investment opportunities for the company, liquidity constraints, and past dividend patterns of the company need to be careful attention. This is important, as the dividend policy is a crucial factor in retaining existing investors and attracting new investors. It can be suggested for the future researchers to select very recent data for their research to confirm these findings.

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