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IMPACT OF DIVIDEND POLICY ON RETURN ON ASSETS: EVIDENCE FROM LISTED NON-FINANCIAL FIRMS IN SRI LANKA.

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ABSTRACT

The dividend policy of a firm is considered as a crucial decision among the management of the organizations. Therefore, the study developed to find out the impact of dividend policy on return on assets of the non-financial firms listed in Sri Lanka, using a randomly selected sample of 100 firms listed in the Colombo Stock Exchange for the period from 2013 to 2017. To test the hypothesis, the study incorporated dividend pay-out ratio, dividend per share as independent variables, sales growth, leverage as a control variable, and return on assets as a dependent variable. Initially the unit root test is carried out to test the stationary of the data set. Descriptive statistics, correlation analysis, and pooled OLS were carried out as research techniques and found that dividend per share significantly impacts on return on assets, and the other hand dividend pay-out ratio does not significantly impact on return on assets of the non – financial firms listed in Sri Lanka. The results suggest that the dividend decisions significantly contribute towards the profitability and therefore, considerable attention is required over the dividend decisions of the organizations and this should be revaluated to serve the investor's potential expectations.

Key words: dividend pay-out, dividend per share, return on assets

1. INTRODUCTION

Dividend decisions are the crucial corporate policy decisions that companies make to ensure their satisfaction with shareholders. On the other hand, it should be balanced with the firm profitability since this influences the retained ratio of the firm. Problems related to dividend policy can be viewed in two different aspects. One aspect of the dividend policy is internal growth and development in capital structure. On the other hand, it is a basic obligation for companies to provide greater prosperity to the shareholders which is bound by the dividend payments. Therefore, the controversy in the dividend decision of an organization is classified as one of the ten unsolved problems in finance (Brealey et al., 2014). The dividend policy of an organization also can be explained as a good marketing tool for a firm since this is one of the key components the investors look into before they make any investment decisions. Ashamu et al., (2012).

Further, the developed dividend policy of an organization is displayed through the pay-out ratio of such an organization. The dividend pay-out ratio explains the proportion of net profit between dividend payments and the amount retained. Therefore, the management should be keen on the factors that determine profitability. In the Sri Lankan context, corporate governance, earnings, investor preference free cash flow, net working capital, investment opportunities, concentrated ownership structure, and firm size, industry impact, past dividends, profitability are identified as the important determinants of the dividend policy (Baker et al. 2019).

The arguments about the dividend payment and related influence on firm values come across an evolution. According to Modigliani and Miller (1953), assuming a perfect market with no taxes and bankruptcy cost, proposed that the dividend policy of a company does not affect the share price of a company itself or the company's capital structure. Later in 1963, including the tax effect on the companies, Modigliani and Miller revised the theory that the increasing level of debt in the capital structure would positively impact on the value of the firm. Therefore, the derived conclusions of the theories regarding dividend policy finally provide an insight into the importance of the dividend payments to the organizations.

A vast number of authors analyzed the impact of dividend policy on firm value and profitability (Sattar et al. 2017; Kawshala and Panditharathna, 2017; Fitri et al., 2016; Khan et al. 2015; Hasan et al. 2015; Gunathilaka, 2014; Thafani and Abdullah, 2014). Even though most of the researches highlighted the problem of dividend policy, the findings of the test results are varying and observed that there is a contradiction in the findings. The following authors, Thafani and Abdullah (2014), Ajanthan, (2013), Kawshala and Panditharathna

(2017), Hasan et al., (2015) found in their research study that there was a positive significant impact observed in dividend pay-out ratio and firm profitability of preceding year. However, on the other hand, researchers found that a negative dividend policy impact on firm profitability (Sattar et al., 2017; Fitri et al., 2016; Hasan et al., 2015; Gunathilaka, 2014). Based on their argument, expressing the earnings volatility of the firm does not depend on the dividend distribution of the firm. Also, dividend payments are viewed as the signalling tool and mollify the market.

Therefore, the researcher identified the varying arguments on the impact of dividend policy on profitability as gab and intended to fill the gap by developing this study.

Further, in the recent past due to the COVID 19 outbreak, the performance of financial firms is getting worse than before. An article published by Fitch Ratings evidenced that the Sri Lankan finance and leasing sector is struggling due to an increase in non-performing loan levels and with the weakening level of profitability because of the credit cost increase and badly affected loan growth. Since there was a negative impact on the profitability of financial firms, the firms would face a serious problem of distributing their profit in-between dividend distribution as well as retention. Therefore, the study developed by excluding the financial firms since there can be abnormal effects on profitability, stated the research problem as follows. 'To what extent the dividend policy has an impact on return on assets of non-financial firms listed in Sri Lanka'. Also, the study mainly focused on the impact of dividend policy on return on assets, since it helps investors to measure the way management follows to generate more income using its available resources or assets. Further, in the perspective of the organization, it is important to understand the potential profitability due to the dividend policy imposed by them rather than the impact on share price, since it is difficult to predict. Therefore, the study developed to find out the impact of dividend policy on return on assets of non-financial firms listed in Sri Lanka.

This paper is organized as follows: Section 2 explains a review of the empirical studies that investigate the dividend policy impact on the profitability of the firms; Section 3 addresses research methods; Section 4 reports the results and discussion, and Section 5 summarises the conclusion.

2. LITERATURE REVIEW

There are developed theories concerning the dividend policy of the firm. Following that the dividend irrelevance theory proposed by Modigliani – Miller (1958) concludes that there is no impact of dividend pattern on share values of the firm. Also, explains that the current savings of the dividend

payment would enhance further on retained earnings and which can be reinvested and future earnings will allow future dividends to grow. Also, the residual approach of dividend policy indicates the earnings available may be retained in the business or it can be reinvested. However, if the funds are not necessary for the business, they can be distributed as dividends. Therefore, the theory assumes that the investors do not differentiate between dividends and retention of the firm. On the other hand, Walter's model, considering the internal rate of return and cost of capital, states that the dividend policy and the value of the firm are significantly related. Accompanied by the argument of Gordon's model, it is clear that a firm share price is dependent on the dividend pay-out ratio. Continuously, the previous authors analysed this area proposed different arguments about the significant relationship and this has been extracted below.

Following authors mentioned a significant relationship exists in between dividend pay-out ratio and firm's profitability.

Thafani and Abdullah (2014), investigated the impact of dividend pay-out on corporate profitability in manufacturing companies listed on the Colombo stock exchange. Using the data from 2007 to 2011, the independent variables of dividend pay-out ratio, firm size, sales growth, and leverage; dependent variables of return on asset and return on equity are calculated. Based on the analysis results, found that there was a positive significant relationship found in-between dividend pay-out ratio and return on assets, return on equity. The study concluded that the dividend pay-out ratio of the firm conveys a certain signal about the profitability.

A study analyzed the relationship between dividend pay-out and firm profitability in listed hotels and restaurant companies in Sri Lanka. To carry out the analysis, dividend pay-out ratio, revenue, and total assets were considered as independent variables, and net profit was used as a dependent variable. The regression analysis results revealed that there was a strong positive relationship between dividend pay-out ratio and firm profitability. Also derived to the conclusion that the dividend policy of the firm was a crucial factor which affects the profitability (Ajanthan, 2013).

Also, a study developed by Kawshala and Panditharathna (2017) examined the effect of dividend policy on corporate profitability in the beverage, food and tobacco industry in Sri Lanka. The study considered the dividend pay-out ratio as the independent variable and return on equity as the dependent variable. Using the collected data from 2012 to 2015, the analysis was carried out using regression analysis and found that there was a positive significant relationship between dividend pay-out ratio and profitability of the firm.

Hafeez et al., (2018) examined the impact of dividend policy on firm performance in listed companies on the Colombo stock exchange from the period 2013 to 2017. Dividend pay-out ratio, earnings per share were considered independent variable and return on assets, return on equity was considered as a dependent variable in this study. The panel data regression analysis was carried out to test the hypothesis of the study and concluded that dividend policy variables show enough evidence for the impact on firm profitability. Further, the study suggested that the current earnings of the firm would provide signals to the future and potential investors and the positive earnings of the firm will enhance the positive dividend policy of the firm in the future.

Farrukh et al., (2017) analyzed the impact of dividend policy on shareholder's wealth and firm performance in Pakistan. The study incorporated 51 firms listed in the Pakistan stock exchange from the period 2006 to 2015. Independent variables considered in the study are dividend per share, dividend yield and earnings per share, share price, return on equity are considered as dependent variables in the study. Based on the regression analysis, the results found that there is a significant positive impact of dividend per share and return on equity.

Additionally, the positive significant impact is supported by Khan et al., (2015). The study investigated the effect of dividend pay-out ratio on firm profitability using the non-financial firms listed in Karachi Stock Exchange 100 index. The data collected for the year from 2008 to 2012 by comprising the independent variables of dividend pay-out ratio, leverage, firm size and the dependent variable of return on assets. By testing the hypothesis, regression results revealed that the dividend pay-out ratio has a significant impact on profitability.

In contradiction to above findings, some researchers found insignificant and negative impact in between dividend pay-out ratio and profitability. In line with that, an author, Rahman (2018) investigated the effect of dividend policy on the firm's performance using 19 cement companies listed in the Pakistan stock exchange from the period 2012 to 2016. Dividend per share, earnings per share, firm size and leverage were considered as the independent variable and firm performance was considered as a dependent variable to test the hypothesis of the study. However, the test results were found as an insignificant impact of dividend per share on firm performance.

Another study investigated the factors that drive the pay-out policy in the bank, finance, insurance and construction sectors. Using annual dividends as the dependent variable, net earnings, financial leverage, institutional investors' shareholding and managerial shareholding as the independent

variable the analysis was carried out and revealed that dividend payments and level of earnings of the firms are negatively related. And concluded that dividend distributions do not reflect the earnings volatility (Gunathilaka, 2014).

Hasan et al., (2015) found the effect of pay-out ratio on firm profitability in the energy and textiles sector listed in Pakistan. The study comprising the data from 1996 to 2008, calculated the dividend pay-out ratio considered as an independent variable and return on assets and return on equity considered as dependent variable. Based on the logarithmic results of the analysis concluded that regardless of the industry, there was a negative impact of dividend pay-out ratio on the earnings of the preceding year.

Fitri et al., (2016) analyzed the factors that impact the dividend pay-out ratio in the listed companies at Jakarta Islamic Index considering the period from 2009 to 2014. Return on assets, debt to equity ratio, asset growth, dividend pay-out ratio of the previous year is considered as the factors that could affect the firm's dividend pay-out ratio. By testing the hypothesis of the study, it was found a negative significant effect of return on assets and dividend pay-out ratio in a year before the dividend pay-out ratio.

Following the above, a research study carried out by Uwuigbe et al., (2012) examined the relationship between financial performance and dividend pay-out ratio based on the listed companies on the national stock exchange. Using the data collected from 2012 to 2017, the independent variables; price to earnings ratio, dividend pay-out ratio and dependent variables; return on assets and return on equity were calculated. According to the regression analysis carried out, the results were found that the dividend policy measures; price to earnings ratio and dividend pay-out ratio do not show any significant impact on firm performance proxies by return on assets and return on equity.

The review of the literature raises a contradiction between the findings among the authors. As explained, the positive and significant impact was posited by Hafeez et al., (2018); Kawshala and Panditharathna, (2017), Farrukh et al., (2017), Khan et al., (2015), Thafani and Abdullah, (2014) Ajanthan (2013). However, the insignificant and negative impact also found by Rahman (2018), Gunathilaka (2014), Hasan et al., (2015), Uwuigbe et al., (2012). Therefore, the present study was initiated to identify the accuracy of the impact of dividend policy on return on assets.

2.1. Conceptualization

Based on the review of literature, the following conceptual model is developed by the researcher.

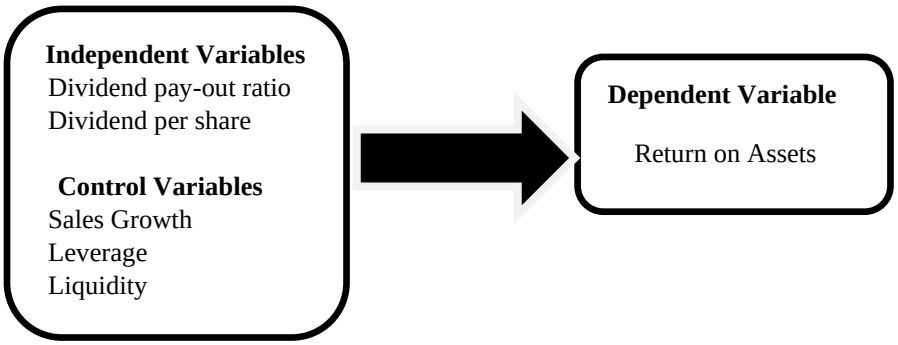

Figure 01: Conceptual Framework

2.2. Operationalization

Table 01: Measurement of variables

Variables	Acronyms	Measures	Authors
Dependent Variables			
Return on Assets	ROA	$\frac{\text{Net Profit before interest and tax}}{\text{Total assets in year t}} * 100$	Adimasu (2019)
Independent Variables			
Dividend Payout Ratio	DPR	$\frac{\text{Dividend per Share}}{\text{Earnings per Share in year t}}$	Adimasu(2019); Sondakh (2019)
Dividend per Share	DPS	$\frac{\text{Dividend Distributed}}{\text{Number of Shares}}$	Farrukh et.al., (2017)
Sales Growth	SGRW	$\frac{\text{Current year Sales} - \text{Previous year Sales}}{\text{Previous years Sales in year t}}$	Ajanthan(2013)
Leverage	LEV	$\frac{\text{Long term debt}}{\text{Total Assets}}$	Adimasu (2019)
Liquidity	LIQ	$\frac{\text{Current Assets}}{\text{Current Liability}}$	Sondakh (2019)

Source: Author Constructed

2.3. Hypothesis of the Study

The researcher developed the hypothesis as follows to test the impact of dividend policy on return on assets.

H_0: There is no significant impact of dividend policy on the return on assets of listed non-financial firms in Sri Lanka.

H_1: There is a significant impact of dividend policy on the return on assets of listed non-financial firms in Sri Lanka.

3. METHODOLOGY

The study intended to incorporate the population of 290 listed firms on the CSE, as of July 2019. The present study excludes Banking, Finance and Insurance companies as they have identical financial characteristics such as; the strength of directives, laws, regulations and formulation of capital structure from non - financial firms. Further, newly listed non-financial and non-dividend paying companies are eliminated in the process of sampling.

Based on the derived samples, 82-firms could be able to consider developing the strong panel data for the five years from 2013- 2017. The data collected from the audited financial reports for the selected companies which are published on the CSE's website.

3.1. Models Specifications

The current study is developed panel data analysis with the 410 observations. 82 non - financial firms are considered in this study considering the panel data collected from 2013 to 2017 to find out the impact of dividend policy on return on assets of Sri Lankan listed non - financial firms.

Initially the unit root test is carried out to test the stationary of the data set. Continuously, pooled OLS is performed to address the impact of dividend policy on return on assets of Sri Lankan non - financial firms. Proposed models are given below:

i) **Pooled OLS Models**

$$ROA_{it} = \alpha_0 + \alpha_1 DPR_{it} + \alpha_2 SGRW_{it} + \alpha_3 LEV_{it} + \alpha_4 LIQ_{it} + \varepsilon_{it} \text{.....(1)}$$

$$ROA_{it} = \alpha_0 + \alpha_1 DPS_{it} + \alpha_2 SGRW_{it} + \alpha_3 LEV_{it} + \alpha_4 LIQ_{it} + \varepsilon_{it} \text{.....(2)}$$

Where,

DPR_{it} - Dividend Payout ratio of firm i at time t.

DPS_{it} - Dividend per Share of firm i at time t.

$SGRW_{it}$ - Sales Growth of firm i at time t.

LEV_{it} - Leverage of firm i at time t.

LIQ_{it} - Liquidity of firm i at time t.

α_0 – intercept coefficient of firm i;

α_1, α_2, α_3, α_4, α_5, α_6 & α_7 – row vectors of slope coefficient of regressors

ε_{it}: Stochastic error term of firm i at time t

u_{it}: error term of firm i at time t

4. RESULTS

4.1. Descriptive statistics

Following table 2 shows the summary details of the data used for the study.

Table 02: Summary Statistics of the variables

Variables	Obs	Mean	Median	Min	Max	SD
DPR	410	0.5387	0.5387	-7.6273	12.9908	1.2077
DPS	410	6.3203	6.3203	0.0000	0.0000	13.3182
SGRW	410	7.2427	6.4593	-99.456	83.1315	18.5136
LEV	410	0.3651	0.3626	0.0010	0.9703	0.21884
LIQ	410	3.4791	1.6064	0.0679	55.5993	6.6949
ROA	410	12.7353	10.1639	-7.5405	100.5177	100.5177

Source: Author Constructed

The mean (median) value of the dividend pay-out ratio is 0.5387 and dividend per share is 6.3203, which implies out of the earnings of the selected non-financial firms approximately half (53.87%) of the earnings are distributed as dividend to their shareholders with a minimum of -7.6273 and a maximum of 12.9908. The dividend per share has no minimum value and a maximum value. The average (median) sales growth of the companies is 7.2427 (6.4593) with a minimum of -99.456 and a maximum of 83.1315. Leverage has an average (median) of 0.3651 (0.3626) with a minimum of 0.001 and a maximum of 0.9703. Also, the mean (median) value of liquidity is

3.4791(1.6064) with a minimum of 0.0679 and a maximum of 55.5993. The dependent variable, return on assets shows an average (median) of 12.7353 (10.16391) with a minimum of -7.5405 and a maximum of 100.5177.

4.2. Unit Root Test

Table 03: Panel unit root test: Summary – Dividend per share

Method	Statistic	Prob.**	Cross sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-8.07718	0.0000	81	324
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-1.85785	0.0316	81	324
ADF - Fisher Chi-square	169.004	0.3370	81	324
PP - Fisher Chi-square	216.231	0.0028	81	324

Sample: 2013 2017

** Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.

Source: Author Constructed

The study carried out a unit root test to find out the stationary of the data. The Levin, Lin and Chu t-test shows a p-value of 0.0000, which indicates that there is no unit root in the data set and implies that the considered dividend per share data for the analysis is stationary.

Table 04: Panel unit root test: Summary – Dividend pay-out ratio

Method	Statistic	Prob.**	Cross sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-55.4614	0.0000	82	328
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-10.2574	0.0000	82	328
ADF - Fisher Chi-square	278.243	0.0000	82	328
PP - Fisher Chi-square	320.083	0.0000	82	328

Source: Author Constructed

The Levin, Lin and Chu t-test shows a p-value of 0.0000, which indicates that there is no unit root in the data set and implies that the incorporated dividend pay-out ratio data for the analysis is stationary. Also, the other tests carried out resulted in a p-value of 0.0000. Therefore, the results evidence the stationary of the data set.

Table 05: Panel unit root test: Summary – Sales Growth

Method	Statistic	Prob.**	Cross sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-22.0713	0.0000	82	328
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-5.56977	0.0000	82	328
ADF - Fisher Chi-square	230.890	0.0004	82	328
PP - Fisher Chi-square	259.417	0.0000	82	328

Source: Author Constructed

The Levin, Lin and Chu t-test shows a p-value of 0.0000, which indicates that there is no unit root in the sales growth data set. The data is therefore stationary. Also, the other tests carried out resulted in a p-value of 0.0000. Therefore, the results evidence the stationary of the data set.

Table 06: Panel unit root test: Summary – Leverage

Method	Statistic	Prob.**	Cross sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-5.53157	0.0000	82	328
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-1.48320	0.0690	82	328
ADF - Fisher Chi-square	172.618	0.3070	82	328
PP - Fisher Chi-square	204.715	0.0170	82	328

Source: Author Constructed

The Levin, Lin and Chu t test shows a p value of 0.0000, which indicates that there is no unit root in the data set and implies that the used leverage data for the analysis is stationary.

Table 07: Panel unit root test: Summary – Liquidity

Method	Statistic	Prob.**	Cross sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-28.7951	0.0000	82	328
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-5.50610	0.0000	82	328
ADF - Fisher Chi-square	219.542	0.0025	82	328
PP - Fisher Chi-square	264.616	0.0000	82	328

Source: Author Constructed

The Levin, Lin and Chu t test shows a p value of 0.0000, which indicates that there is no unit root in the liquidity data set. The data is therefore stationary. Also, the other tests carried out resulted in a p value of 0.0000. Therefore, the results evidence the stationary of the data set.

Table 08: Panel unit root test: Summary – Return on Assets

Method	Statistic	Prob.**	Cross sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-14.3375	0.0000	82	328
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-3.46478	0.0003	82	328
ADF - Fisher Chi-square	201.406	0.0248	82	328
PP - Fisher Chi-square	249.249	0.0000	82	328

Source: Author Constructed

The Levin, Lin and Chu t test shows a p value of 0.0000, which indicates that there is no unit root in the return on assets data set. The data is therefore stationary. Also, the other tests carried out resulted in a p- value which is less than 0.05. Therefore, the results evidence the stationary of the data set.

4.3. Correlation Analysis

Table 09, reports the Pearson correlation coefficients between the variables selected for the study. The relationship between the variables can be observed by carrying out the correlation analysis. It can be observed that there is a positive relationship shown in-between the selected independent variables; dividend pay-out ratio and dividend per share and the dependent variable; return on assets (Kawshala and Panditharathna, 2017, Thafani and Abdullah, 2014; Ajanthan, 2013). However, based on the probability value, only dividend per share shows a significant relationship on return on assets (Farrukh et al., 2017). On the other hand, the dividend payout ratio does not show a significant impact on return on assets (Gunathilaka, 2014; Uwuigbe et. al., 2012). Further, other explanatory variables; sales growth and leverage show a positive relationship and leverage shows a negative relationship on return on assets.

Observing the insignificant probability values among the explanatory variables explains that there is no serious interrelationship between the independent variables. Therefore, it also can be concluded that multicollinearity is not a serious problem in this study.

Table 09: Correlation Matrix

Correlation Probability	DPR	DPS	SGRW	LEV	LIQ	ROA
DPR	1.0000					

DPS	0.0468	1.0000				
	0.0468	------				
SGRW	-0.0224	-0.0216				
	0.6509	0.6624				
LEV	-0.0364	0.0957	0.1464	1.0000		
	0.4628	0.0529	0.0030	------		
LIQ	-0.0237	-0.0290	-0.0329	-0.4336	1.0000	
	0.6324	0.5583	0.5068	0.0000	-----	
ROA	0.0574	0.4125	0.0701	0.1249	-0.0084	1.0000
	0.2465	0.0000	0.1563	0.0113	0.8649	-----

Source: Author Constructed

4.5. Regression Analysis

Model (1)
Dependent Variable: ROA
Method: Panel Least Squares
Sample: 2013 - 2017
Periods included: 5
Cross-sections included: 82
Total panel (balanced) observations: 410

Table 10: Impact of dividend per share on ROA

Variable	**Coefficient**	**Std error**	**t-statistic**	**prob**
C	7.1211	1.4959	4.7605	0.0000
DPS	0.4224	0.0470	8.9963	0.0000
SGRW	0.0496	0.0340	1.4587	0.1454
LEV	6.1433	3.2035	1.9177	0.0559
LIQ	0.0985	0.1032	0.9547	0.3403
R-squared	0.1839		Mean dependent var	12.7353
Adjusted R-squared	0.1758		S.D. dependent var	13.8545
S.E. of regression	12.577		Akaike info criterion	7.9139
Sum squared resid	64073.06		Schwarz criterion	7.9629
Log likelihood	-1617.347		Hannan-Quinn criter	7.9333
F-statistic	22.8085		Durbin-Watson stat	0.7774
Prob(F-statistic)	0.000000			

Source: Author Constructed

Based on the findings of regression analysis, it shows that there is a significant positive impact of dividend per share on return on assets since the p-value is being 0.0000 with the t statistic of 8.9963. The finding of the study is in line with the findings of Farrukh, et al., (2017). Therefore, the results supported the developed hypothesis H_1 in this study. The results of the study imply that the increasing level of dividends distributed by the firms would increase the profitability of the next period since the attractive nature of firms would positively impact the stock market to effectively carry out the operations.

The other independent variables considered in this study do not show any significant impact on return on assets in this study. Also, R squared value is derived by the study is 18.39%, which explains that the dependent variable; return on assets is explained as a result of dividend per share only by 18.39%. Also, the F-statistics of the test results shows a value of 0.0000, which indicates the model selected in this study is perfectly fitted.

Model (2)
Dependent Variable: ROA
Method: Panel Least Squares
Sample: 2013 2017
Periods included: 5
Cross-sections included: 82
Total panel (balanced) observations: 410

Table 11: Impact of dividend pay-out ratio on ROA

Variable	Coefficient	Std. error	t-statistic	Prob.
C	8.2928	1.6677	4.9726	0.0000
DPR	0.7474	0.5639	1.3255	0.1858
SGRW	0.0392	0.0371	1.0542	0.2924
LEV	9.1542	3.4892	2.6236	0.0090
LIQ	0.1191	0.1129	1.0550	0.2921
R-squared	0.0249	Mean dependent var.	12.7353	
Adjusted R-squared	0.0154	S.D. dependent var.	13.8545	
S.E. of regression	13.7477	Akaike info criterion	8.0917	
Sum squared resid.	76545.16	Schwarz criterion	8.1407	
Log likelihood	-1653.808	Hannan-Quinn criter.	8.1111	
F-statistic	2.5947	Durbin-Watson stat	0.6818	
Prob.(F-statistic)	0.03607			

Source: Author Constructed

The test results of model 2 indicate that the dividend pay-out ratio does not have a significant impact on return on assets. The finding insists that the distribution of the dividend out of the earnings would reduce the retained amount which can be invested for the firm's future development or expansion. Therefore, increasing the level of dividend pay-out ratio is identified as a factor that doesn't affect the firm profitability proxied by return on assets. The results show a p-value of 0.1858 which is more than the 5% significance level, therefore it can be concluded that the dividend pay-out ratio does not impact on return on assets on non-finance institutions listed on Sri Lanka. The derived result is consistent with the findings of Gunathilaka (2014); Uwuigbe, et al., (2012). However, the finding is contradicted with the findings of Kawshala and Panditharathna (2017).

Among the independent variables, firm leverage shows a significant impact on return on assets. The p-value of leverage shows 0.009 and which is significant at 95% confidence level. The other independent variables do not show any significant impact on the return on asset in model 02. The R squared value shows that only a 2.5% impact on the dependent variable is existed by the independent variables of the study. Also, F statistics value is 0.036, which is less than 0.05 means the model 2 selected in this study is appropriate.

5. CONCLUSION

The study aims at finding the impact of dividend policy on return on assets in listed non-financial firms in Sri Lanka. The data collected from the period of 2013 – 2017, for 82 non-financial firms listed on the Colombo Stock Exchange. The research study utilized regression analysis to test the hypothesis. Based on the regression results, revealed that there is a positive significant impact in-between the variable dividend per share and return on assets on the preceding year (Hafeez, et. al 2018; Farrukh 2017; Kawshala and Panditharathna, 2017; Khan, et al., 2015; Thafani and Abdullah, 2014; Ajanthan, 2013). The results imply a salient importance to the dividend policy of the firm. The increasing level of dividend for the existing shares in a firm would be able to attract more equity towards the firms since the attraction for the shares in the market would rise and gradually in the share price. The scenario would allow the firms to carry out the operations effectively, which enhance the profitability.

However, the other variable; the dividend pay-out ratio measured the dividend policy showed an insignificant impact on return on assets. It suggests that the firms should maintain their image through the signalling effect by paying higher dividends to their shareholders. It manages' responsibility to make decisions over the dividend policy of the firm by incorporating prospects of the firm. The research therefore contributes to the decision makers that the

dividend policy is a crucial factor to be considered to enhance the profitability of the firms.

On the other hand, paying more dividends out of the earned profit would reduce the retained money for the organization growth or development in the future. As well as the lack of money retained within the organization would become a risk in unexpected situations to handle them effectively. Therefore, the dividend distribution and retaining portion out of the earnings to be balanced in-between both optimally according to the firm's special nature.

6. LIMITATIONS AND SCOPE FOR FURTHER RESEARCH

The limitation of the study is pointed out below:

1. The data tested for this study is based on secondary sources published by the companies.

2. Further, to test the results data set collected for 5 years only.

In the future, the studies can develop by increasing the period of data collection. Mainly, future researches can incorporate the determinants of dividend policy such as leverage, capital structure, ownership structure, shareholder's expectations, and the ability to pay tax of the shareholders to enhance the findings in the area of dividend policy.

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