

## **Corporate Governance and Dividend Policy:**

### **A Study of Listed Manufacturing Companies in Sri Lanka**

**By**

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## **Abstract**

*The primary objective of this study is to find out the relationship between corporate governance variables and dividend policy of listed manufacturing companies at the Colombo Stock Exchange in Sri Lanka. The investigation is performed for a sample of twenty manufacturing companies listed at the Colombo Stock Exchange during the period of 2010-2016. The independent variables of the study comprise of the Size of the Board of Directors, Independence of the Board and the CEO duality. Whilst the Return on Assets considered as a control variable. In analyzing the data, the study used fixed effects on fixed effects model with panel data. The results of the study advocated a significant relationship between corporate governance variables and dividend policy of listed manufacturing companies in Sri Lanka. Board independence, CEO duality and return on assets have significant positive impact on dividend policy and size of the board has negative impact on dividend policy in the listed manufacturing companies in Sri Lanka.*

**Key words:** *Corporate governance, dividend payout, control variable, Manufacturing companies, Colombo Stock Exchange*

## **1: Introduction**

Corporate governance can be defined as a mechanism, processes and relations by which organizations are monitored and directed. Corporate governance basically acts as a balancing process of the interests of the stakeholders in an organization; these include its shareholders, management, suppliers, government, financiers, community and customers. Corporate governance also creates the framework for achieving an organizations' objectives, it gathers generally every sphere of management, from internal controls and action plans to corporate disclosure and performance measurement. The corporate governance framework includes explicit and implicit contracts between the company and the stakeholders for distribution of rights, responsibilities, rewards and procedures for reconciling. Sometimes conflicting interests of stakeholders in line with their duties, privileges, roles, procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances. There is a globally accepted truth that organization's competitiveness, growth, and sustainability are highly depending on the corporate governance. Boards of directors of Sri Lanka provide great attention to discharge their duties with high ethical values and accountability in their commitment to good governance practices. Good corporate governance system consists with the strong business ethics, sound policies and procedures, effective and efficient monitoring systems.

Dividends can be considered as a signal of firm's prospects due to asymmetric information, not only that but also act as a corporate governance component to align the management's interests with those of the shareholders. Dividend policy is affected by several factors. Corporate governance is a one of several factors that determine by the dividend policy. Now a day's corporate governance has obtained great attention from the public because of financial scandals and interest conflicts among shareholders in the corporate structure. Size of the board, composition of the board of directors, Managerial ownership, CEO, directors' compensation schemes and audit controls, for corporate control are the crucial components of an effective governance structure. There are two ways to handle the agency conflicts between management and investors by using effective corporate governance. One way is the dividend policy minimizes the free-cash flow problem of a firm. Second, the likelihood of management entrenchment can be deducted by strengthening shareholders' rights. There is a fundamental question in dividend policy which is how can shareholders hope to extract dividends from firms, given that the legal environment of the country and the governance mechanisms of individual firms offer investors relatively few protections? This Fundamental question regarding dividend policy might be highly involved in countries that have weak investor protection. Agency theory gives an idea that external shareholders have discretion for dividends more than retained earnings because insiders might spend cash retained within the firm.

Being the controller of the corporate governance in Sri Lanka, Securities and Exchange Commission of Sri Lanka (SEC) has the authority to impose rules and regulations on Sri Lankan capital market in order to maintain a higher standard of Corporate Governance and market integrity. In order to establish good corporate governance practices in Sri Lankan capital market, SEC has created the connection with Institute of Chartered Accountants of Sri Lanka (CASL) and they published the "Code of Best Practices on Corporate Governance" in the year 2008.

Dividend policy means the bundle of guidelines an organization employed to determine how much of its earnings it will pay to shareholders. There are evidences that suggest investors are not thought about company's dividend policy since they have the ability to sell a portion of their portfolio of equities if they need cash.

Dividend policy has always considered as one of the most crucial financial issues for all organizations. The problem systematically generates that why organizations pay dividend. It is a question of consideration and few studies have been conducted on dividend policy. Dividend policy becomes most influential policy within the financial corporate policies because it is an important control mechanism to minimize the conflicting interests of the shareholders and directors as shareholders pay more attention to receiving dividends, while directors intend to hold earnings. Shareholders generally are the final owners of organization and have residue right on the resources, profits and losses. Dividend policies are determined by several factors. One of these factors is corporate governance. Developing countries are now enhancing and involving the concept of good corporate governance due to its ability to impact positively on sustainable growth.

This study examines the corporate governance & dividend policy in listed manufacturing companies of Sri Lanka. There are many literature on corporate governance & dividend policy issues in developed countries; but little attention has been paid so far on corporate governance & dividend policy in developing countries like Sri Lanka. Few number of researches are available in Sri Lanka to study the linkage between corporate governance & dividend policy. Dividend policy & corporate governance play a crucial role in the Companies in Sri Lanka. This research becomes very significance due to the limited information regarding corporate governance & dividend policy. The significance of this research stems from the importance of the dividend policy of the organizations to its shareholders. Organizations that are able to balance stable dividend payment are organizations that are more able to finance their growth opportunities. Thus, identifying whether differences in dividend policy across organizations can be explained by changes in their corporate governance mechanism will aid in establishing how the corporate governance mechanism can be efficient.

## **2: Statement of the Problem**

The research questions of the study are as follows.

1. Is there any relationship between Corporate Governance and Dividend Policy in listed manufacturing companies in Sri Lanka?
2. What is the impact of Corporate Governance Variables on Dividend Policy in listed manufacturing companies in Sri Lanka?

## **3: Objectives of the study**

The objectives of the study are as follows.

1. To identify the relationship between Corporate Governance and Dividend Policy in listed manufacturing companies in Sri Lanka.
2. To find out the impact of Corporate Governance Variables on Dividend Policy in listed manufacturing companies in Sri Lanka.

## **4: Scope and Limitations**

The scope of this study is identify the relationship between corporate governance & dividend policy in Sri Lanka using manufacturing companies listed in Colombo Stock Exchange for the period from 2010 to 2016. In this study, all the listed companies in Colombo Stock Exchange were not considered. Only the companies listed under manufacturing sector to see the impact of the chosen variables on the dividend policy. At the same time, few number of variables that explained the corporate governance were taken into account in the model and the study period covers only 7 years. Almost all the listed companies can be considered by the future

researches by expanding the study period. Further, inclusion of all the variables that describes corporate governance in the model would have led to better results than this research.

## **5: Review of Literature**

Ajanthan (2013) used Board Size, Board Independence, CEO Duality, Return on Assets (ROA) and Debt-to-Total Assets variables align with the corporate governance and dividend policy. The results of the study suggested that only CEO duality is negatively related to dividend payout whereas board size; board independence; return on assets and debt-to-total assets do not appear to be significantly related to the dividend payout.

Asamoah (2005) examined the effects of corporate governance structure on the dividend policy of the firms listed on the Ghana Stock Exchange, panel data was used. It was found that board independence and CEO duality influence firms' dividend policy. Board size was not related to firm dividend policy. It was found out that higher return on equity relate to higher levels of dividend. Compositions of Ghanaian boards are consistent with international best practices. This study provided additional evidence of the applicability of the agency monitoring element of dividend policy in an emerging market such as Ghana. Researcher recommended that shareholders should appoint more independent directors as a way observing as an effective monitoring mechanism on the management. From the findings, it is also recommended that companies should separate the CEO from the board chair as a way of preventing the agent from indulging in opportunistic activities to the detriment of the shareholders.

The study on corporate governance and dividend policy: An Empirical Analysis from Borsa Istanbul Corporate Governance Index was undertaken in Turkey by Aydin & Cavdar (2015) to analyze the potential relationship between corporate governance and dividend policy. Ordinary Least Squares (OLS) panel regression analysis has been performed. The potential relationship between ownership structure and dividend policy has also been analyzed by utilizing the independent variables of ownership concentration, managerial ownership and total foreign ownership. In addition to our independent variables, Researchers also included return on equity (ROE) and firm size to research in order to increase the explanatory power of our model. This study finds an insignificant relationship between corporate governance and dividend policy. On the other hand, researchers obtained significant positive relationship between total foreign ownership and dividend policy and significant negative relationships between ownership concentration and dividend policy and managerial ownership and dividend policy. Finally, researchers obtained significant negative association between return on equity (ROE) and dividend policy and significant positive association between firm size and dividend policy.

Subramaniam & Devi (2011) examined Corporate Governance and Dividend Policy in Malaysia. Research investigates the relationship between Investment Opportunity Set and dividend policy and if board size and board composition moderate this relationship in an emerging economy context. The free cash flow theory is empirically examined using a series of firm characteristics including size, return on assets, duality and debt to assets. The results support the theory that high growth firms make lesser dividend payouts. Further, in the interaction between high growth firms and board size and board composition, there is evidence to show that the negative relationship between Investment Opportunity Set and dividend payout is weaker for firms with a larger board size and with a corresponding larger number of independent directors representing the board.

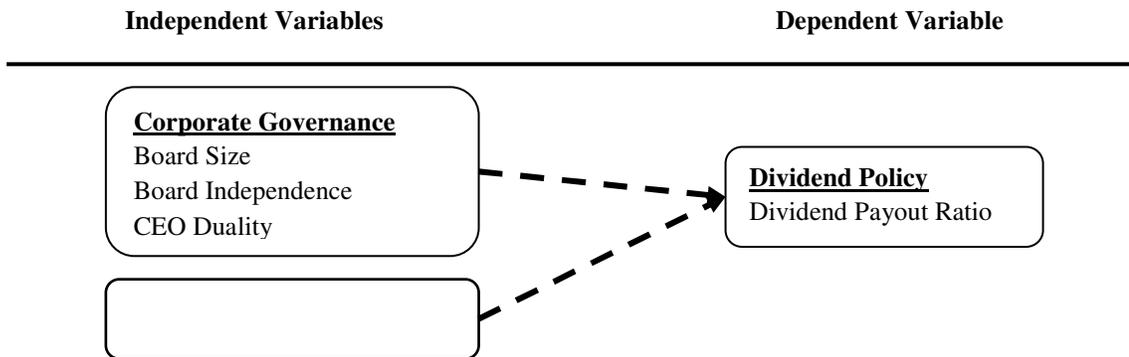
Farinha (2002) has conducted a research to analyze the agency explanation for the cross-sectional variation of corporate dividend policy in the UK by looking at the managerial entrenchment hypothesis drawn from the agency literature. The results on the usage by managers of non-beneficial holdings as an entrenchment vehicle rely on a relatively small number of observations above the critical levels of insider ownership. Insider ownership and size for the 1996 sample suggested that in smaller firms a U shaped relationship between dividend policy and insider holdings might not hold. The hypothesis that liquidity needs on the part of insiders are responsible for the positive association between dividend payouts and insider ownership after the critical turning point was also investigated.

Malik, Wan, Ahmad, Naseem and Rehman (2014) examined the role of board size in Corporate Governance and Firm Performance by applying Pareto approach. A sample consisted of 14 listed commercial banks of Pakistan are taken for analysis from 2008-2012. The results of this study are contradictory with the existing literature of corporate governance variables and firm performance. The most prominent result of this paper is the significant positive relationship between board size and bank performance. It is concluded in the findings that a large board size can enhance the bank performance in Pakistani scenario. Statistical results also supported our argument that a large board size accelerates the performance of the enterprises. It is very difficult to manage a large board in firms which causes delays in executing important decisions and creates hidden costs for firms but at the same time it is very beneficial for firm performance for countries like Pakistan in which Seith and Vehdra exploit the rights of minor shareholders.

Naceur, Goaid & Belanes (2006) conducted the research named as the Determinants and Dynamics of Dividend Policy. The authors study the dividend policy of 48 firms listed on the Tunisian Stock Exchange during the 1996-2002 period. The study tested whether managers of Tunisian listed firms smooth their dividends or not. Besides, the study outlined the main determinants that may drive the dividend policy of Tunisian quoted firms. To answer the first question, researchers use Lintner's model in a dynamic setting. The results clearly demonstrated that Tunisian firms rely on both current earnings and past dividends to fix their dividend payment. However, the study shows that dividends tend to be more sensitive to current earnings than prior dividends. To find out the determinants of dividend policy, dynamic panel regressions have been performed. First, profitable firms with more stable earnings can afford larger free cash flows and thus, pay larger dividends. Furthermore, they distribute larger dividends whenever they are growing fast. However, neither the ownership concentration nor the financial leverage seems to have any impact on dividend policy in Tunisia. Besides, the liquidity of stock market and size negatively impacts the dividend payment. The results are somewhat robust to different specifications.

Accordingly, it is clear that issue of dividend policy has been regarded as important in the past. The percentage of earnings that is paid out in the form of dividends, and the impact of this payment toward share price, corporate governance has interested both emerging and developed countries for many years. Different researches and studies has done by the developed countries. But in developing countries like Sri Lanka pay little attention toward the relationship between corporate governance and dividend policy. Limited literature has available in this area in Sri Lanka. Hence this study filled the above research gap by applying the multiple regression model to test the relationship between corporate governance and dividend policy.

After identifying the previous literature, the researchers have constructed following conceptual framework (Figure 1)



According to the previous research board size and dividend payout has a negative relationship. Board independence and dividend payout has a negative relationship. CEO duality and dividend payout has also negative relationship. Return on assets and dividend payout has a positive relationship.

## 6: Research Methodology

### 6.1 Data and Data Collection

Secondary data has been used for this study. For that the data can be gathered from the annual reports published by the manufacturing companies listed in Colombo Stock Exchange for 7 years' periods from 2010 to 2016. The sample of this study is confined to the twenty manufacturing companies those financial year end with 31<sup>st</sup> march for the period of 2010 to 2016. Companies that financial year end with 31<sup>st</sup> December and companies that have not available in annual reports are excluded from the study. Correlation; multiple regressions& descriptive statistics are used to analyzed the data.

### 6.2 Research Design

The research study conducted as a hypothesis testing to examine the relationship between Corporate Governance and Dividend Policy. The following hypotheses are formulated for testing,

No	Variable	Null Hypothesis (H0)
01	Board Size	There is negative relationship between Board Size and Dividend Policy
02	Board Independence	There is negative relationship between Board Independence and Dividend Policy
03	CEO Duality	There is negative relationship between CEO Duality and Dividend Policy
04	Return on Assets	There is positive relationship between Return on Assets and Dividend Policy
05	Corporate Governance	There is significant impact of corporate governance on dividend policy

### 6.3 Variables

*Table 1: Dividend Payout*

Variable name	Short name	Item get from Financial statements
Dividend Payout	DPO	= $(\text{Dividend per Share(DPS)} / \text{Earning per share(EPS)})$

*Table 2: Board Size, Board Independence and CEO Duality*

Variable name	Short name	Item get from Financial statements
Board Size	BS	Number of directors in the board
Board Independence	BI	Number of independence directors in the board
CEO Duality	CEOD	1 for duality and 0 for separate

*Table 3: Control variable - Return on Assets*

Variable name	Short name	Item get from Financial statements
Return on Assets	ROA	= $\text{Net Profit after Tax} / \text{Total Assets}$

**Board Size (BS):** According to Asamoah (2005) boards of directors' act as central role in the corporate governance of modern companies. Due to that it is very important to gain a knowledge regarding the board size to get comprehensive idea about corporate governance. There is a public debate on board structure has centered on pressure for smaller board size. But there is an argument about this debate which is although larger board size initially facilitates key board functions, there comes a point when larger boards suffer from coordination and communication problems and hence board effectiveness. Previous research has also supported to this argument.

**Board Independence (BI):** According to Asamoah (2005) board independence is considered as to be an important and effective governance mechanism. Previous empirical studies show the mixed results regarding value of the board independence. According to the new concept in corporate governance suggest the calls for a majority of board members to be independent from the company. To be independence that person should not be an employer or auditor of that company.

**CEO Duality (CEOD):** According to Asamoah (2005) CEO Duality means the situation when the CEO also holds the position of the chairman of the board. The board of directors is appointing to monitor managers such as the CEO on the behalf of the shareholders. They prepared compensation contracts and select and remove the CEOs. A dual CEO gains the advantages to firm if that person works closely with the board to create value. It makes easier for the CEO to assert control of the board and as a result make it more difficult for shareholders to control and see the ethics of the management.

**Return on Assets (ROA):** According to Asamoah (2005) Return on assets (ROA) means an indicator of how profitable an organization is relative to its total assets. ROA provides information regarding how efficient management is at using its assets to generate earnings. Return on assets has calculated by dividing a company's earnings of the year by total assets of the company. Return on assets is presented as a percentage. Sometimes this is called as "Return on Investment".

### 6.4 Research Model

The dividend payout which measures dividend policy is considered as dependent variable while board size, board independence, CEO duality and return on assets which represent Firm corporate governance as independent variables. The initial regression equation can be written as follows;

$$DPO_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 CEOD_{it} + \beta_4 ROA_{it} + \varepsilon_{it}$$

Whereby; Dividend Payout is a function of Board Size, Board Independence, CEO Duality and Return on Assets.

## 7: Results and Discussion

### 7.1 Descriptive Statistics

*Table 4: Summary of Descriptive Statistics*

	N	Range	Min	Max	Mean	Std. Deviation	Variance	Skewness	Kurtosis
DPO	140	1.67	0.00	1.67	0.3450	0.31698	0.100	1.032	1.496
BS	140	8	4	12	7.98	1.805	3.259	-0.094	-0.230
BI	140	6	0	6	2.73	1.156	1.336	0.407	0.481
CEOD	140	1	0	1	0.25	0.435	0.189	1.167	-0.647
ROA	140	0.68	-0.28	0.4	0.0777	0.08663	0.008	0.112	4.468
ValidN	140								

The table 4 depicts the summary of the descriptive statistics of the variables computed from the financial statements and the annual reports of sampled manufacturing companies on the Colombo Stock Exchange in Sri Lanka. According to the range column board size have highest range value as 8. Minimum range shows the

Return on assets as 0.68. Board size has minimum value as 4. Minimum value of dividend payout, board independence and CEO duality are equal to zero. Return on asset has 0.28 minimum value. According to the table highest maximum value has obtained by the board size and lowest maximum value has obtained by the CEO duality. Mean column shows the arithmetic mean across the observations. It is the most widely used measure of central tendency. It is commonly called the average. The mean is sensitive to extremely large or small values. An average of 34.5% of the earnings was paid as dividend to shareholders. This observation shows that approximately 65.5% of the firms' earnings were retained for reinvestment with the probable intention that shareholder wealth may be enhanced in the future. The mean board size was approximately eight, with a maximum of twelve directors. These may suggest that Sri Lankan listed firms have board sizes considered ideal. The mean board independence was approximately 3. This means that for the sampled firms, about 75% of the board of directors was made up of executive directors, suggesting that manufacturing companies on the Colombo Stock Exchange have boards which are highly dependent as they are mostly dominated by executive directors. However, some of these boards were relatively high independent with 50 % being non-executive directors. Only twenty-five occasions out of the one hundred forty observations were the CEO and the board chair positions entrusted to the same personality. With this, one may tend to suggest that agency problems may not be major issues among the Manufacturing companies listed in Colombo Stock Exchange in Sri Lanka. The profitability variable, return on asset (ROA) showed an average of 7.77%. This measures the contribution of net income per Rupee invested by the firms' asset holder. Standard deviation measures the spread of a set of observations. The larger the standard deviation is, the more spread out the observations are. Board size has more spread out and lowest spread out is obtained by the return on asset. Skewness measures the degree and direction of asymmetry. A symmetric distribution such as a normal distribution has a skewness of 0, and a distribution that is skewed to the left, e.g. when the mean is less than the median, has a negative skewness. Board size has negative skewness and other variables have positive skewness. Kurtosis is a measure of the heaviness of the tails of a distribution. In SPSS, a normal distribution has kurtosis 0. Extremely non normal distributions may have high positive or negative kurtosis values, while nearly normal distributions had kurtosis values close to 0. Kurtosis is positive if the tails are "heavier" than for a normal distribution and negative if the tails are "lighter" than for a normal distribution. Return on asset and dividend payout have highest positive kurtosis value therefore its tails are heavier than normal distribution. Board size CEO Duality and board independence have values near 0. Therefore, those are having normal distribution.

## 7.2 Tests of Normality and Tests of Panel Data Assumptions

### Test the Normality

There are two test to identify normality those are Kolmogorov – Smirnov and Shapiro – Wilk test. Shapiro-Wilk Test is more appropriate for small sample sizes (< 50 samples). For this reason, Shapiro-Wilk test was used as my numerical means of assessing normality.

Table 5: Test of Normality

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
DPO	.138	140	.000	.900	140	.000

a. Lilliefors Significance Correction

If the statistic value of the Shapiro-Wilk Test is greater than 0.05, the data is normally distributed. If it is below 0.05, the data significantly deviate from a normal distribution. According to the test of normality table here statistic value has get 0.900 therefore this data set is normally distributed because statistics value is greater than the 0.05. Figure 1 shows the dots that are near to the regression line. So it says that this data set is normally distributed.

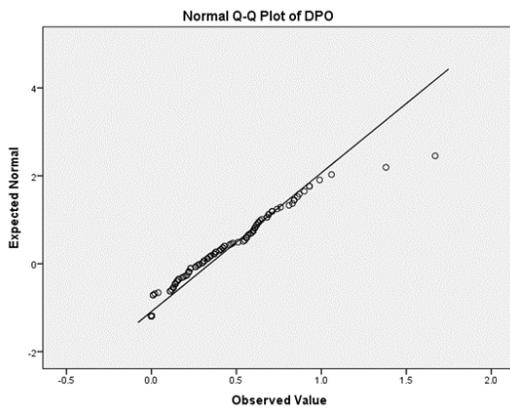


Figure 1: Normal Q-Q Plot of DPO

### Linear regression model (in parameters)

Partial regression plots have used to test this assumption. There is a positive linear relationship among board size, board independence, return on assets and dividend payout. CEO Duality and dividend payout represent negative linear relationship.

### Zero mean value of error term

There should be a zero mean value of error term to estimate a correct regression model. SPSS can be used to test this assumption. One method of testing the third assumption is using histogram for residuals. According to the below histogram it shows normal distribution of error terms. It proves that error term has zero mean value.

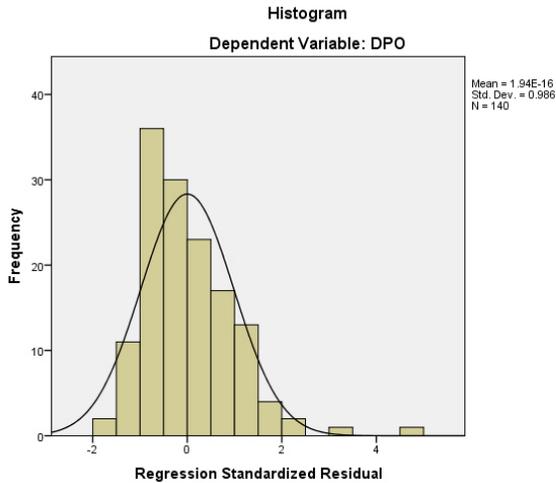


Figure 2: Histogram for residuals

According to the P-P Plot for residuals we can see dots are near the line. Therefore, residuals have zero mean value.

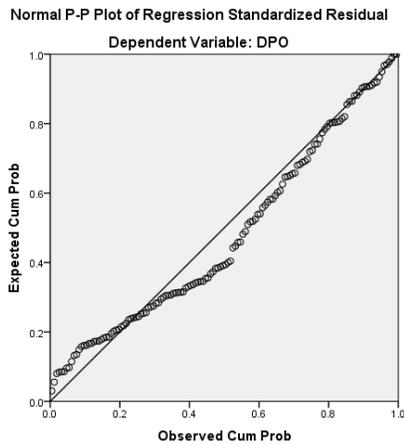


Figure 3: Normal P-Plot for Residuals

### Homoscedasticity or equal variance of error term

Glejser Test has used to test the Homoscedasticity. The Glejser test attempts to determine whether as the independent variable increases in size, the variance of the observed dependent variable increases. This is done by regressing the error term of the predicted model against the independent variables. A high t-statistic or low probability value for the estimated coefficient of the independent variables would indicate the presence of heteroscedasticity. The results revealed that the board independence, CEO duality and return on assets shows

low t statistic values and high probability values. Therefore, board Independence, CEO duality and ROA has homoscedasticity but probability value of board size is significance. Therefore, board size has the heteroscedasticity.

**No autocorrelation between the disturbances**

Run test has used to test the autocorrelation between the disturbances. Following table shows the result has obtained from Run test.

*Table 6 : Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.266 <sup>a</sup>	.071	.043	.17344	1.963

a. Predictors: (Constant), ROA, CEOD, BS, BI

b. Dependent Variable: Abserror

Table 6 shows the Durbin- Watson value as 1.963. It is near to the 2. Therefore, this model has no autocorrelation between error term.

**There is no perfect multicollinearity**

This research explains multicollinearity using Pearson correlation. Table 7 shows the result has obtained from correlation analysis using SPSS.

*Table 7 : Correlation among variables*

		BS	BI	CEOD	ROA
BS	Pearson Correlation	1	.456**	-.103	.154
	Sig. (2-tailed)		.000	.225	.070
	N	140	140	140	140
BI	Pearson Correlation	.456**	1	-.208*	.201*
	Sig. (2-tailed)	.000		.014	.017
	N	140	140	140	140
CEOD	Pearson Correlation	-.103	-.208*	1	.034
	Sig. (2-tailed)	.225	.014		.687
	N	140	140	140	140
ROA	Pearson Correlation	.154	.201*	.034	1
	Sig. (2-tailed)	.070	.017	.687	
	N	140	140	140	140
Tolerance		7.88	7.96	0.951	0.949
VIF		1.269	1.340	1.052	1.054

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Board size and board independence have weak positive correlation is 0.456 and it is significant at 1% level, two tailed. Board size and CEO Duality has weak negative correlation is -0.103 and it is not significant. Board size and ROA has weak positive relationship is 0.154 and it is significant at 10% level. Board independence and CEO Duality has weak negative correlation is -0.208 and it is significant at 5% level. Board independence and ROA has weak positive correlation is 0.201 and it is significant at 5% level. CEO duality and ROA has weak positive relationship is 0.034 and it is not significant. According to the above table correlation value among all independence variables are less than the 80%. So there is no multicollinearity among variables. According to the table tolerance values are greater than the 0.2 and Variance inflation factors are less than the 10. Therefore, this model has no multicollinearity.

### 7.3 Estimation of the Model

The Pooled OLS regression model neglects the cross sections and time series nature of data. Therefore, this research rejects the pooled OLS regression model and pay attention toward other two model. The fixed effect model allows for heterogeneity or individuality among twenty manufacturing companies by allowing to have its own intercept value. The term fixed effect is due to the fact that although the intercept may differ across manufacturing companies, but intercept does not vary over time, that is it is time invariant. Random effect model suggest all twenty manufacturing companies have a common mean value for the intercept. Hausman test is the method for selecting one method of these two methods. The following table provides the details of Hausman test.

*Table 8 : Correlated Random Effects - Hausman Test*

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	29.615771	4	0.0000

According to the above table Probability value is significant. Therefore, this research has used the fixed effect model .Following results have obtained using fixed effect model.

Table 9 : Fixed effect model outcome

Dependent Variable: DPO  
 Method: Panel Least Squares  
 Date: 10/31/16 Time: 16:15  
 Sample: 2010 2016  
 Periods included: 7  
 Cross-sections included: 20  
 Total panel (balanced) observations: 140

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.034153	0.190288	-0.179483	0.8579
BS	-0.003771	0.026223	-0.143789	0.8859
BI	0.097078	0.028040	3.462161	0.0008
CEOD	0.281295	0.123341	2.280640	0.0246
ROA	0.478656	0.260817	1.835217	0.0693

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.601017	Mean dependent var	0.308767
Adjusted R-squared	0.515254	S.D. dependent var	0.271886
S.E. of regression	0.189297	Akaike info criterion	-0.326952
Sum squared resid	3.834182	Schwarz criterion	0.199802
Log likelihood	45.41534	Hannan-Quinn criter.	-0.112908
F-statistic	7.007900	Durbin-Watson stat	2.007782
Prob(F-statistic)	0.000000		

The model can be estimated as follows,

$$DPO = -0.034153 - 0.003771BS_{it} + 0.097078BI_{it} + 0.281295CEOD_{it} + 0.478656ROA_{it} + \epsilon$$

The result of the regression model is shown in table 9. The model shows the interaction between dividend payout variable and corporate governance variables with the return on assets as control variables. The R2 in the regression model indicated that 60.10% of the variation in dividend payout is explained by the variables in the model. The F-statistics (prob > chi 2) prove the efficiency of the estimated models at 1% level of significance and the value was 0.0000. The results shows that the board size has an insignificant negative relationship with the dividend payout ratio. This means when the board size increases, it influences the firms to pay smaller dividend. The possible explanation for this observation may be that smaller Boards are effective in preventing management from retaining more cash within the firm which they could use to improve their private benefits to the detriment of the shareholders. This result is different from result obtained from Asamoah (2005) and Aydin & Cavdar (2015) but result is same as the research which was conducted by Ajanthan (2013). The outcome of the regression results indicated that both board independence and the CEO duality have a significant positive relation with the dividend payout ratio. The board independence increases, it influences the firms to pay larger dividend. The outcome of the CEO duality relationship means that when CEO doubles as board chair, this certainly results in payment of higher dividend. The result of Asamoah (2005) is different from the results obtain from this research. The result of board independence support to the

result of the research conducted by Ajanthan (2013). Result of CEO Duality is varying from results of Asamoah (2005) and Ajanthan (2013). Furthermore, control variable return on asset has a significant positive relationship with dependent variable and it is statistically significant in 10% level of significance.

### **7.5 Result of Test of Hypothesis**

**Hypothesis no 1 - There is negative relationship between Board Size and Dividend Policy**

The result obtained from the regression analysis support to the hypothesis where there is a negative relationship between board size and dividend policy in listed manufacturing companies in Sri Lanka. But this result is statistically insignificant. Researcher of this study cannot say that board size is significantly affect to the dividend policy in listed manufacturing companies in Sri Lanka.

**Hypothesis no 2 - There is negative relationship between Board Independence and Dividend Policy.**

The result obtained from the regression analysis does not support to the hypothesis that there is negative relationship between board independence and dividend policy in listed manufacturing companies in Sri Lanka. In here accept the null hypothesis and research found the positive relationship among board independence and dividend policy in listed manufacturing companies in Sri Lanka. It is statistically significant at 1% level of significance. Researcher can say board independence positively affect to the dividend policy of listed manufacturing companies in Sri Lanka with 99% confidence. It can be concluded that in Sri Lankan context the board independence helps to increase the payment of dividend.

**Hypothesis no 3 - There is negative relationship between CEO Duality and Dividend Policy**

This hypothesis was built in research methodology chapter based on previous researches. But result obtained from multiple regression analysis does not support to the hypothesis that there is negative relationship between CEO Duality and dividend payout. Therefore, this situation accepts the null hypothesis and this research results shows the positive relationship among CEO duality and dividend payout of listed manufacturing companies in Sri Lanka and it is significant in 5% level of significance. Researcher of this study can say CEO duality is positively affects to the dividend payout with 95% level of confidence

**Hypothesis no 4 - There is positive relationship between ROA and Dividend Policy**

The result obtained from the multiple regression analysis support to the hypothesis that there is positive relationship between return on assets and Dividend policy. Positive relationship has found between return on assets and dividend payout of listed manufacturing companies in Sri Lanka from the regression analysis and it is significance at 10% level of significance. Researcher of this study can say return on asset affects positively to the dividend policy of manufacturing companies in Sri Lanka with 90% level of confidence.

**Hypothesis no 5 - There is significant impact of corporate governance on dividend policy**

The result obtained from the multiple regression analysis support to the hypothesis that there is significant impact of corporate governance on dividend policy. Corporate governance variables can explain 51.52% of variation in dividend payout of listed manufacturing companies in Sri Lanka. Overall model is significance in 1% level of significance.

## **8: Conclusion**

The study sought to examine how corporate governance influence dividend policy in listed manufacturing companies in Sri Lanka. Three key corporate governance variables were considered: board size, board independence and CEO duality. The findings show that both board independence and CEO duality have effect on firms' dividend policies. The relationship in both cases is positive and statistically significant. Board size and dividend payout have negative relationship. However, the board size has no significant effect on the dividend payout of firms. The control variable has positive relationship with dividend payout. The overall findings show that corporate governance has a significant impact on the dividend policy. The result suggest that larger board size has negative effect on dividend payout and smaller board size is more appropriate to have higher dividend. There should be more number of independence directors in boards to increase the amount of dividend payout. CEO duality has positively affected to the dividend payout. When we examined the other researches in the same area in Sri Lankan context, the only significant variable is the CEO Duality. But in this research found that board Independence, CEO Duality and Return on asset have significant impact on dividend payout with reference to the listed manufacturing companies in Sri Lanka. But board size is not significant and result is same as previous results.

### **8.1 Suggestions and recommendations**

It is suggested that shareholders should appoint more independent directors as a way of serving as an effective monitoring mechanism on the management. It is recommended that a research should be done to test how corporate governance influences the dividend payout of listed and unlisted firms in Sri Lanka. From the findings, it is also recommended that companies should not separate the CEO from the board chair as a way of preventing the agent from indulging in opportunistic activities to the detriment of the shareholders.

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