

Impact of Dividend Policy on Shareholders' Wealth under the Level of Leverage: An Empirical Study of Listed Diversified Financial Sector and Food, Beverages, and Tobacco Sector Companies in Sri Lanka

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Abstract

This study examines the impact of dividend policy on shareholders' wealth under the level of leverage for companies listed in the Colombo Stock Exchange (CSE) of Sri Lanka. Even more than half a century, a number of research attempts have not still to found an exact impact and relationship. In order to maximize the shareholders' wealth, it is necessary for a company to understand the nature of the relationship and the impact between dividend policy and shareholders' wealth. In particular, this study contains secondary data collected from various journals and databases. To achieve the desired objectives, a quantitative research design is employed. With the help of previous literature, the variables used for the study are dividend per share, dividend payout ratio, earnings per share and debt to equity ratio by representing dividend policy which represents two proxies, shareholders' wealth and leverage, respectively. Twenty companies listed in the sectors of diversified financial and food, beverages, and tobacco were selected based on a random sampling technique, and five years of data have been used (2016-2020). Correlation and regression analysis conclude that there is a significant impact of dividend policy on shareholders' wealth. The regression analysis reveals that dividend policy effect is

more pronounced and significant in the diversified financial sector than in food, beverages, and tobacco sector. In addition, the study concludes that dividend per share is highly and positively influences the earnings per share. Further, the results reveal that leverage has a negative impact on dividend policy.

Keywords: *Dividend policy, Shareholders' wealth, Leverage, Colombo Stock Exchange*

JEL Classification: *G30, G35*