

Impact of Dividend Policy on Stock Market Liquidity; with Special Reference to Companies Listed in Colombo Stock Exchange

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Abstract

In any country, share market variables are very important to the investors. This study investigates the impact of dividend policy on stock market liquidity with special reference to companies listed in Colombo Stock Exchange. Related studies which have been carried out in other stock exchanges show mixed results depending on the stock market conditions and investor perception. In different countries the nature of this relationship may differ. But in Sri Lanka, no previous studies could be found, directly addressed this research issue. The findings of this study will give a better understanding on impact of dividend policy on stock liquidity in a developing country like Sri Lanka. Therefore, purpose of this study is to investigate the impact of dividend policy on stock market liquidity by referring non-financial companies in Sri Lanka. The study uses share turnover (ST) to investigate the stock market liquidity. Dividend policy represented through dividend per share (DPS), dividend payout (DPO), dividend yield (DY) and earnings per share (EPS). The sample comprises 53 non-financial firms listed in Colombo Stock Exchange which are having continuous dividend payments over the most recent five years. The sample period is from 2015 to 2019 with 265 firm-year observations. The findings of the study will provide guidance to the management when and how much to pay or not to pay as dividends. The study also provides guidance to investors to make their investment decisions. Further, the results will be of interest to stakeholders, lenders, and financial consultants/analysts as well.

Keywords: Colombo Stock Exchange, Dividend policy, Stock market liquidity