

**THE IMPACT OF EARNINGS MANAGEMENT ON DIVIDEND
POLICY WITH THE MODERATING EFFECT OF CORPORATE
GOVERNANCE
*EVIDENCE FROM LISTED COMPANIES IN SRI LANKA***

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Abstract

This study is conducted to examine the impact of earnings management on dividend policy with the moderating effect of corporate governance of listed companies in Sri Lanka. Dividend policy is a widely addressed topic in financial management. An important duty of the financial manager is to prepare the dividend policy of the firm in the best interest of the company. Many financial managers engage in earnings management practices with the objective of adjusting dividends. This study investigates the manifestation of earnings management in all the listed companies listed at the Colombo stock exchange and tests the impact of earnings management on dividend policy with the moderating effect of corporate governance. This study selected 50 companies with the highest market capitalization as the sample of the study. Feasible generalized least square regression analysis is used as the main tool of analysis in this study. Dividend policy is measured via the dividend payout ratio while earnings management is measured using the modified Johns' model. In addition ownership concentration, board size, expertise of audit committee members and CEO duality are the moderating variables of this study. The study contributes to the existing literature as the first attempt to investigate the impact of earnings management on dividend policy with the moderating effect of corporate governance in the Sri Lankan context. These findings are important for the researchers specializing in the field of finance and accounting and for the standardization bodies and for the practitioners in their decision-making process.

Key words: *Payout policy, Dividend policy, Earnings Management, Corporate Governance, Colombo Stock exchange*