Analysis of Factors Influencing Dividend Policy with Special Reference to Listed Companies in Sri Lanka

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Abstract

The research examines the factors influencing on dividend policy of listed companies in Sri Lanka. The investigation was performed with semi-structured questionnaire prepared by using Google Form and sent through email to the Chief Financial officers of the selected120 listed companies. The findings revealed that the current earnings, past dividend patterns and liquidity constraints more influence on dividend policy in listed companies in Sri Lanka. Further profitable investment opportunities, growth opportunities, shareholders' preference, target dividend payout ratio, largest shareholder, statutory requirements and method of paying dividend are also influence on dividend policy in listed companies in Sri Lanka.

Keywords: *Dividend policy, Current earnings, Past dividend patterns, Liquidity Constraints, Listed companies, Sri Lanka*

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Introduction

Shareholders are the owners of the company. On behalf of the ownership shareholders should have a return. Shareholder's return consists of two components: dividend and capital gains. Capital gains are the future earnings while dividends are the current earnings. Dividend can be in the form of cash or shares. Determining the amount of earnings to be distributed to shareholders and the amount to be retained in the firm is called as dividend policy. Retained earnings are the most significant internal sources of financing for the growth of the firm. On the other hand, dividend may be considered desirable from shareholders' point of view as they tend to increase their current return. Dividend policy involves the balancing of the shareholders' desire for current dividends, and the firm's needs for earnings reinvestment for growth.

Paying dividends involves outflow of cash. The cash available for the payment of dividends is affected by the firm's investment and financing decisions. A decision to incur capital expenditure implies that less cash will be available for the payment of dividends. Therefore, investment decision affects dividend decision. If the company does not have sufficient internal funds to pay dividends it can raise funds by issuing new shares. It reveals that financing decision affects dividend decisions.

Dividend policy of the firm has its effect on both the long-term financing and the wealth of shareholders. The firm's decision to pay dividends may be shaped by two possible viewpoints as firm's need for funds and shareholder's need for immediate income. When dividend decision is treated as a financing decision, the net earnings of the firm may be considered as a source of long term funds. Here dividends will be paid only when the firms do not have profitable investment opportunities. The firm grows at a faster rate when it accepts highly profitable investment projects. Capital markets are not perfect so shareholders are not indifferent between dividends and retain earnings. Due to the market imperfections and uncertainty, shareholders may prefer near dividends than future dividends and capital gains. Higher dividends may increase the value of the share and low dividend may reduce the value. (Pandey, IM 2001)

The directors of the company aim at bringing a balance between the desires of shareholders and the needs of the company to develop a long term dividend policy. Firms alter their dividend policies to their long term investment opportunities to have maximum financial flexibility and avoid financial resistances and costs of raising external funds. Growth firms have many investment opportunities requiring substantial amount of funds.

If the company management is in a discipline of fund development and at the same time company has highly investment opportunities, earning can be distributed and funds can be raised externally to finance the investments. In practice companies prefer to retain earnings because issuing new shares is inconvenient as well as involves initial cost. On the other hand, borrowing money will lead to increase financial obligations as well as risk of the company.

Board of directors has the freedom of choice to decide the distribution of the earnings of the company. Shareholders are the legal owners of the company and directors are appointed by them as their agents. Therefore, directors should give due importance to the expectations of shareholders in the matter of dividend decision. Shareholders' preference for dividends or capital gains may depend on their economic status and tax discrepancy on dividends and capital gains.

Most companies recognize that the shareholders have some desire to receive dividends although shareholders are also interested in capital gains. The company's decision regarding the amount of earnings to be distributed as dividends depends on legal and financial constraints. Companies Act no 07 2007 provide guidelines on dividend distribution while the Inland Revenue Act no 24 2017 emphasis the penalties of non-distribution. Dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. The objective of a dividend policy is to maximize a shareholder's return so that the value of his investment is maximized.

Payout ratio and the retention ratio are important concepts in the dividend policy. Some companies practice high payout ratio and low retention ratio while other companies practice low payout ratio and high retention ratio. The growth rate of the low payout companies is higher than the high payout companies. Therefore, over a long period low payout companies overtakes the high payout companies' dividend payments. Low payout companies retains much more than high payout companies and as consequence low payout companies' earnings, dividends, and equity investment are growing than high payout companies (Pandey 2001).

A low payout policy might produce a higher share price because it accelerates earning growth. Investors of growth companies will realize their return mostly in the form of capital gains. Dividend yield will be low for such companies. The impact of dividend policy on future capital gains is complex. Capital gains occur in distant future and therefore many people consider them as uncertain. It is not sure that low payout policy will necessarily lead to higher prices in reality. It is quite difficult to clearly identify the effect of payout on share price. Share price is a reflection of so many factors that the long run effect of payout is quite difficult to isolate. A high payout policy means more current dividends and less retained earnings which may consequently result in slower growth and lower market price per share. Some investors may prefer high payout companies while others prefer low payout companies.

Investment decision and the financing decision affect dividend decision of the firm. The firm has limited amount of cash for paying dividends, for investments and financing.

Therefore, a dividend decision involves a tradeoff between retain earnings and issuing new shares. It is questionable the changes in the dividend policy alone affect the value of the firm and the factors should be considered when formulating a dividend policy in the firm.

The behavior of the dividend policy is the most debatable issue in the corporate finance. Many researchers try to uncover the issue regarding the dividend behavior or dynamics and determinants of dividend policy but still do not have an acceptable explanation for the observed dividend behavior of firms. Therefore, the present research focused on analysis the factors influencing dividend policy giving special reference to the listed companies in Sri Lanka with the objective of identifying the factors influencing the dividend policy of listed companies in Sri Lanka.

Literature Review

Under a perfect market situation, the dividend policy of a firm is irrelevant as it does not affect the value of the firm. They argue that the value of the firm depends on the firm's earnings that results from its investment policy. A firm operating in perfect capital market conditions may has sufficient cash to pay dividends or does not have sufficient cash to pay dividends and therefor issues new shares to finance the payment of dividends or does not pay dividends but shareholders need cash (Miller and Modigliani 1961).

A study (Gordon 1962) develops one very popular model explicitly relates the market value of the firm to dividend policy. Gordon's model is based on few assumptions. They are the firm is an all equity firm and it has no debt, no external financing is available, the internal rate of return of the firm is constant, the appropriate discount rate for the firm remains constant, the firm and its stream of earnings are perpetual, corporate taxes do not exist, the retention ratio once decided upon is constant and the discount rate is greater than the growth rate.

A study (Walter 1963) argues that the choice of dividend policies almost always affects the value of the firm. His model shows the importance of the relationship between the firm's rate of return and its cost of capital in determining the dividend policy that will maximize the wealth of shareholders. Walter's model is based on few assumptions. They are the firm finances all investment through retained earnings, the firm's rate of return and cost of capital are constant, all earnings are either distributed as dividends or reinvested internally immediately, beginning earnings and dividends never change, firm has a very long or infinite life.

Lintner (1956) argued that the existing dividend payout lays the benchmark for future dividend decisions and managers usually have reasonably predetermined payout ratios. Finally, he posited that managers predictably smooth past and future earnings into the magnitude of a firm's dividend payout. Accordingly, the partial adjustment model was developed by him in order to explain the dividend decision process to pay or not to pay dividends.

Lintner (1956) stylized his implications on signaling and relevance theories which were developed after his quarrel. Bulan and Hull (2013) argued that managers are reluctant to reduce or omit dividend till the creditors force them to do so. It also shows implications for the signaling hypothesis.

Miller and Modigliani (1961) emphasized on the informational content and tax clientele of the dividend. They argued that in the real world a change in dividend rate is often followed by a change in market price. This phenomenon is incompatible with relevance but they called it as informational content of dividends. When discussing the imperfections, they identified that only imperfection leads a shareholder to have a systematic preference is produced they argued that imperfection occurs in the error term. They identified only imperfection of tax difference between dividends and capital gains and it was elaborated the clientele effect.

Rubinstein (1976) identified few factors which create irrelevance as relevance. He suggested that the market imperfections the ability of dividend policy to create a new relevant security and the influences of dividend policy through its effect on the size of aggregate investment on market wide discount rates may cause the relevancy in dividend policy. Black (1976) suggested that paying dividends may destroy the value of the firm when considering the tax disadvantage. De Angelo et al. (2006) criticized the arguments made by the Miller and Modigliani asserting that payout policy is not relevant and investment policy is not the sole determinant of firm’s value even in a nonresistance market.

Deviations from the Miller and Modigliani (1961) dividend irrelevance position are obtainable only when the assumptions underlining the setting of Miller and Modigliani are violated. The tax clientele hypothesis uses the market perfection of differential taxation of dividends and capital gains to explain the dividend puzzle. Bhattacharyya (1979) develops another explanation for the dividend policy based on asymmetric information. Managers have private knowledge about the distributional support of the project cash flow and they signal this knowledge about the distributional support of the dividends. In the signaling equilibrium higher value of the support is signaled by higher dividend.

Heinkel (1978) considered a set up where different firms have different return generating abilities. This information is transmitted to the market by means of dividends or equivalently from investing at less than the first best level. In the equilibrium of Heinkel’s model the firm with less productivity invests up to its first best level of investment and declares the difference between the amount raised and the amount invested as the dividend. The firm with higher productivity acts in this way in order to distinguish itself from the firm which less productivity. Dividends are still irrelevant in the sense that both firm's types could raise with a new issue to pay extra dividend with no signaling effect. The signaling cost in this model comes from reduced investment from first best level. The signaling cost in Bhattacharyya (1979) comes from taxation and nonsystematic cost of raising funds in the capital market.

These signaling models typically characterize the informational asymmetry by bestowing the manager or the insider with information about some aspect of the future cash flow. In the signaling equilibriums obtained in these models the higher the expected cash flow the higher the dividend. In Miller and Kewin (1985) the signaling cost is the opportunity cost of first best investment. Kumar and George (1999) demonstrates that dividends could also sustain a semi separating equilibrium where the manager has private information about the productivity of the firm.

Aharony and Swary (1980) posited that dividend and earning announcements are proper tests for signaling hypothesis and support for the results obtained by petty even after controlling the contemporaneous earnings announcements. De Angelo et al. (2006) revealed that the dividends tend not to be reliable signals due to few reasons. They argued that behavioral bias leads managers to overestimate future earnings when growth prospects fade and the management makes only modest cash commitments by understanding the reliability of such signals.

Brennan and Thakor (1990) focus on a different question compared to the other signaling type papers on dividend policy. Most dividend policy papers model the dividend decision as a decision about the amount to be distributed as dividends. They show that in a tender offer the uniformed shareholder always tenders whereas the informed holds onto his/her shares. This situation is reversed in an open market operation where the informed shareholder always sells his/ her holding and the informed never does.

Miller and Modigliani (1961) proposed irrelevance argument assumptions. The assumptions are questionable where the owners of the firm are distinct from its management and managers are imperfect agents for shareholders. Jensen and Mecling (1976) define the agency relationship as a contract under which investor engages another person to perform a particular service on their behalf which involves delegating some decision making authority to the agent. They define agency costs as the sum of the monitoring expenditures by the shareholder, the bonding expenditures by the agent and the residual loss. They assumed that individuals solve these normative problems given that only stocks and bonds can be issued as claims. Rozeff (1982) invested the optimal dividend payout policy through two market imperfections the agency cost and transaction cost associated with issuing external financing. He argued that the increase dividend may cause lower agency costs but he was unable to explain that mechanism. Easterbrook (1984) did a study with the purpose of asking whether dividend is a method of aligning manager's interest with the shareholders and providing the mechanism for the relationship between dividends and agency costs. He proposed it as the agency cost explanation for the dividend puzzle. He identified the dividend as a method of reducing the agency cost of management and a good explanation for the dividend puzzle.

Baker and Powel (1999) found mix results with regards to the agency cost explanations. Jasim and Hameeda (2011) conducted a study using published market data in Saudi Arabia and the results revealed that agency cost is not a critical driver in dividend policy. Jean Paul et al. (2011) suggested that higher agency costs tend to decrease stock price fluctuations, controlling the market capitalization. It reflects that firms with higher agency costs may have average lower market capitalizations. They argued that firms with higher agency costs tend to be their dividend boundaries than firms with lower agency costs but otherwise with similar characteristics.

According to Rozeff (1982) and Jensen et al. (1992) the agency hypothesis of dividends posits that dividend payment can be used as a mechanism to alleviate agency problems. Easterbrook (1984) shows that the distribution of cash resources reduces the size of internally generated funds available to managers forcing them into the capital markets more frequently to obtain external financing thereby subjecting managers to the security of the capital markets. In order to secure the needed funds managers will have incentives to both disclose information and reduce agency costs. Therefor dividend payments benefit shareholders by reducing the agency costs associated with monitoring managers in expanding this role to the capital market.

The payments of dividends serve to reduce free cash flow from being wasted on unprofitable or negative net present value projects. Jensen (1986) contented that when a firm has exhausted all profitable growth opportunities, positive net present value projects, the agency problem between shareholders and managers will be more serve since the firm has excessive cash flow. The payment of large dividends to shareholders reduces the discretionary funds available to managers therefore reducing the potential overinvestment problem and minimizing shareholder manager conflict accordingly. However, Jensen argued that debt could also serve effectively as a substitute mechanism for dividends in reducing the agency costs of free cash flow.

A crucial question is how to obtain a suitable proxy for agency costs. Rozeff (1982) argued that the larger the number of shareholders the greater the dispersion of ownership the more difficult and costly is monitoring. That is agency costs increase with the dispersion of ownership. To control agency costs in firms whose owners are dispersed there will tend to be a greater demand for higher dividend payout ratios. Jensen and Meckling (1976) argued that agency costs may be reduced if insiders increase their ownership in the firm because this can help to align the interests of both managers and shareholders. Therefore, the higher the proportion of managers in firm ownership the less is the need for using dividends as a device to mitigate agency costs.

Hence the proportion of insider ownership is expected to bear a negative relation to dividend payouts.

The rich theoretical development in modeling in modeling dividends as signals of private managerial information also gave rise to empirical research seeking to determine the fit of the signaling theory to real world data. Jensen (1986) expresses typically the empirical literature attempted to test the signaling paradigm counterpoised against an alternative rational for dividend advanced based on the principle agent framework. According to these framework dividends are used by shareholders as a device to reduce overinvestment by managers. The managers control the firm therefor they might invest cash in projects with negative net present values but which increase the personal utility of the managers in some way. A dividend reduces this free cash flow and thus reduces the scope for overinvestment. The two most cited works in this genre are the papers by Easterbrook (1984) and by Jensen (1986). Unfortunately, neither of these papers tries to model the situation rather they put forward plausible hypothesis.

Easterbrook (1984) hypothesizes that dividends are used to take away the free cash from the control of the managers and pay it off to shareholders. This ensures that the managers will have to approach the capital market in order to meet the funding needs for new projects. The need to approach the capital markets imposes a discipline on the managers and therefor reduces the cost of monitoring the managers. Easterbrook hypothesizes that the imperative to approach the capital market also acts as a counterweight to the managers' own risk aversion.

Jensen (1986) contends that in corporations with large cash flows managers will have a tendency to invest in low return projects. According to Jensen debt counters this by taking away the free cash flow. He contends that takeovers and mergers take place when either the acquirer has a large quantum of free cash flow or the acquired has a large free cash flow which has not been paid out to stakeholders. Jensen does not deal with the issue of dividends empirical researchers of dividend policy often use Jensen's article for motivating tests of the free cash flow hypothesis of dividend policy.

Anup and Narayanan (1994) argued that dividends and managerial ownership are substitute mechanisms for reducing agency costs of free cash flows in all equity firms. Shleifer and Vishny (1997) developed an alternative hypothesis stating that large shareholders prefer to extract private benefits of control rather than receive dividends that equally benefit all shareholders. Gugler and Yutoglu (2003) found that firms with higher ownership concentration pay lower dividends. They opined that major shareholders do not appear to use dividend policy in order to remove excess cash and impose greater financial discipline on managers.

According to Miller and Modigliani (1961) in perfect capital markets corporate investment and dividend decisions are independent. However, in the presence of market imperfections such as taxes flotation costs and agency costs both dividend and investment decisions might be closely related or interdependent. The relationship between investment and dividend policies can be seen from two perspectives. By paying dividends a firm is forgoing a relatively cheap source of financing. Then dividend payments reduce the firm's available funds for investment activities. Dividends and investments are competing for limited and low cost internal funds according to Elston (1996).

Rozeff (1982), Jensen et al. (1992), and Alli et al. (1993) have found a significant negative relationship between dividends and firm's investment opportunities. Barclay et al. (1995) documents` that investment opportunities are a significant determinant of corporate dividend policy. Fama and French (2001) affirmed that investment opportunities influenced dividend decision. They found that firms with better growth and investment opportunities have lower payouts.

Methodology

The research aims to analyses the factors influencing dividend policy by giving special reference to the listed companies in Sri Lanka. Therefore, population consisted with all the companies listed on Colombo Stock Exchange (CSE). The total no of listed companies is falling into 20 different sectors and the total number of companies listed in Sri Lanka is 297. So the population of this research is 297 companies under 20 sectors. Out of the total population 297 listed companies 120 was selected for the research as the sample. So the sample comprise with 120 companies listed in Colombo Stock Exchange.

By using this questionnaire researcher obtained the views of the Chief Financial Officer of the listed companies on factors influencing dividend policy. Researcher prepared a semi structured questionnaire by using Google Forms and sent it through emails to the Chief Financial Officer (CFO) of the listed companies. In the questionnaire it has used a five scale Likert to obtain the views of the chief financial officers of the listed companies. To analyses and to present the data researcher used Microsoft Excel.

Results and Discussion

Data was collected from the chief financial officers of the listed companies in Sri Lanka. The semi structured questionnaire prepared by using Google forms has been email for the chief financial officers of the selected hundred and twenty listed companies in Sri Lanka. Out of the selected hundred and twenty chief financial officers of listed companies only fifty-nine have been responded to the questionnaire.

Thirty-three chief financial officers of the listed companies strongly agreed to say that past dividend patterns of the company influence on the dividend policy. Twenty-one chief financial officers of the listed companies agreed to say that past dividend patterns of the company influence on the dividend policy while five chief financial officers disagreed to say that past dividend patterns of the company influence on dividend policy. As shown in figure 1 fifty-six percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that past dividend patterns of the company influence on dividend policy while thirty-six percent agree to say that and eight percent disagree to say that past dividend patterns influence on dividend policy.

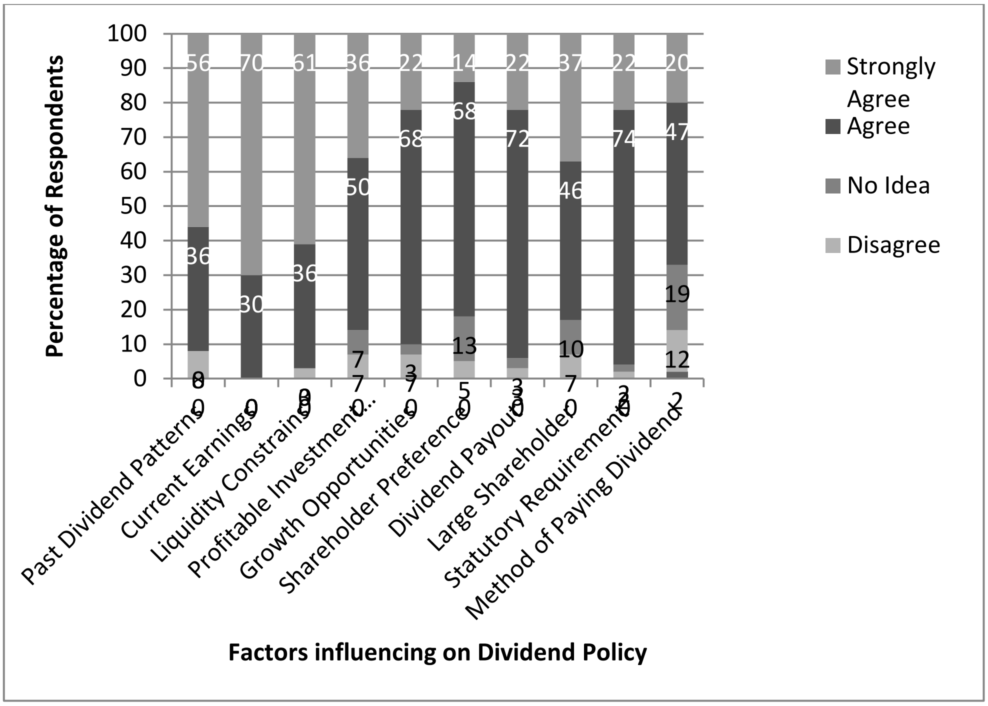

Figure 1: Respondents view as percentage

Forty-one chief financial officers of the listed companies strongly agreed to say that current earnings of the company influence on the dividend policy while eighteen chief financial officers of the listed companies agreed to say that current earnings of the company influence on the dividend policy. In another way sixty-nine percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that current earnings of the company influence on dividend policy while thirty-one percent agree to say that current earnings influence on dividend policy.

Lintner (1956) carried out an empirical study on American companies and revealed that current profitability and previous year's dividend are the significant factors in determining the dividend policy. Pruitt and Gitman (1991) studied the interaction between the investment, financing and dividend decisions of major firms in the USA. The study found that the dividend decision of the firms was driven by profits and the previous year's dividends instead of investment and financing actions of the firms, which therefore supported the findings of this research study. Furthermore, several studies have documented a positive relationship between profitability and dividend payouts such as Jensen *et al.* (1992), Han *et al.* (1999), and Fama and French (2002). Evidence from emerging markets also supports the proposition that profitability is one of the most significant factor that determine the dividend policy according to the findings of the Adaoglu (2000), Pandey (2001), and Aivazian *et al.* (2003).

Thirty-six chief financial officers of the listed companies strongly agreed to say that liquidity constrains such as available of cash of the company influence on the dividend policy. Twenty-one chief financial officers of the listed companies agreed to say that liquidity constrains such as available of cash of the company influence on the dividend policy while two chief financial officers disagreed to say that liquidity constrains such as available of cash of the company influence on dividend policy. As shown in figure 1 sixty-one percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that liquidity constrains such as available of cash of the company influence on dividend policy while thirty-six percent agree to say that and three percent disagree to say that liquidity constrains such as available of cash of the company influence on dividend policy.

Twenty-one chief financial officers of the listed companies strongly agreed to say that availability of profitable investment opportunities for the company influence on the dividend policy. Thirty chief financial officers of the listed companies agreed to say that availability of profitable investment opportunities for the company influence on the dividend policy while four chief financial officers disagreed to that availability of profitable investment opportunities for the company influence on dividend policy. At the same time four have no idea on this. In another way thirty-five percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that availability of profitable investment opportunities for the company influence on dividend policy while fifty-one percent agree to say that and seven percent disagree to say that Availability of profitable investment opportunities for the company influence on dividend policy. At the same time seven percent have no idea.

Al-Malkawi (2007), Juma'h and Pacheco (2008) and Foroghi et al. (2011) found that investment opportunity has a positive significant effect on dividend policy, which means that firms with higher dividends to their shareholders. Ahmed and Javid (2009) and subramaniam and Devi (2011) found that investment opportunity has a negative significant effect on dividend policy. The results may be due to the possibility that firms with high investment opportunities have access to other external financing options and do not depend on internal earnings to finance future investment. However, all these empirical findings are consisting with this research study.

Thirteen chief financial officers of the listed companies strongly agreed to say that availability of growth opportunities of the company influence on dividend policy. Forty chief financial officers of the listed companies agreed to say that availability of growth opportunities of the company influence on dividend policy while four chief financial officers disagreed to that availability of growth opportunities of the company influence on dividend policy. Two have no idea on this. As shown in figure 1 twenty-two percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that availability of growth opportunities of the company influence on dividend policy while sixty-eight percent agree to say that and seven percent disagree to say that availability of growth opportunities of the company influence on dividend policy. Three percent have no idea on this.

According to the Jensen (1986) in reducing the agency costs these firms will pay higher dividends to the shareholders as compared to the firms with high growth opportunities. The significant negative effects of growth opportunities on dividend payment were evidence in prior studies such as Rozeff (1982), Chang and Rhee (1990), Jensen *et al.*(1992), Ahmed and Javid (2009), Al-Kuwari (2010) and Subramanian and Devi (2011). There are studies which reported a positive impact of growth opportunities and investment opportunities on dividend policy such as Al-Malkawi (2007), Foroghi et al. (2011), Al-Shubiri (2011) and Imran (2011).

Eight chief financial officers of the listed companies strongly agreed to say that shareholders' preference for dividend influence on the dividend policy. Forty chief financial officers of the listed companies agreed to say that shareholders' preference for dividend influence on the dividend policy while three chief financial officers dis-agreed to say that shareholders' preference for dividend influence on dividend policy. Eight have no idea on this regard. In another way fourteen percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that shareholders' preference for dividend influence on dividend policy while sixty-eight percent agree to say that and five percent disagree to say that shareholders' preference for dividend influence on dividend policy. Thirteen percent have no idea in this regard. Empirical evidence provided by Shefrin (2009), Baker *et al.* (2011), Turner *et al.* (2013). It means that shareholders preference for dividence is influence on dividend policy.

Thirteen chief financial officers of the listed companies strongly agreed to say that target dividend payout ratio of the company influence on the dividend policy. Forty-two chief financial officers of the listed companies agreed to say that target dividend payout ratio of the company influence on the dividend policy while two chief financial officers disagreed to say that target dividend payout ratio of the company influence on dividend policy. Two have no idea. In another way twenty-two percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that target dividend payout ratio of the company influence on dividend policy while seventy-one percent agree to say that and four percent disagree to say that target dividend payout ratio influence on dividend policy. Three percent have no idea.

Twenty-two chief financial officers of the listed companies strongly agreed to say that preference of the largest shareholder of the company influence on the dividend policy. Twenty-seven chief financial officers of the listed companies agreed to say that preference of the largest shareholder of the company influence on the dividend policy while four chief financial officers disagreed to say that Preference of the largest shareholder of the company influence on dividend policy. Six have no idea. In other words, thirty-seven percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that preference of the largest shareholder of the company influence on dividend policy while forty-six percent agree to say that and seven percent disagree to say that preference of the largest shareholder influence on dividend policy. Ten percent of chief financial officers have no idea on this. Having a greater proportion of shares owned by large shareholders implies greater control over the management, which in a way pressures the management to ensure the shareholders' wealth, is maximized by way of distributing higher dividends. Positive influence is found by Jensen and Mackling (1976), Al- Shubiri (2011), Foroghi et al. (2011), Huda and Farah (2011), Mehrani et al. (2011) and Hashemi and Zadeh (2012). Negative influence is found by Ahmed and Javid (2009), Appannan and Sim (2011) and Chen and Dhiensiri (2009). It reveals that largest shareholder is influence on dividend policy.

Thirteen chief financial officers of the listed companies strongly agreed to say that statutory requirements influence on the dividend policy. Forty-four chief financial officers of the listed companies agreed to say that statutory requirements influence on the dividend policy while one chief financial officer disagreed to say that statutory requirements influence on dividend policy. One has no idea. In another way twenty-two percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that statutory requirements of the company influence on dividend policy while seventy-four percent agree to say that and two percent disagree to say that statutory requirements influence on dividend policy. Two percent have no idea.

Twelve chief financial officers of the listed companies strongly agreed to say that method of paying dividend (Cash dividend/ Bonus Shares) of the company influence on the dividend policy. Twenty-eight chief financial officers of the listed companies agreed to say that method of paying dividend (Cash dividend/ Bonus Shares) of the company influence on the dividend policy while seven chief financial officers disagreed to that method of paying dividend (Cash dividend/ Bonus Shares) of the company influence on dividend policy and one strongly disagree. Eleven have no idea on this regard. In other words, twenty percent chief financial officers of listed companies in Sri Lanka strongly agreed to say that method of paying dividend (Cash dividend/ Bonus Shares) of the company influence on dividend policy while forty-seven percent agree to say that. Twelve percent disagree to say that method of paying dividend (Cash dividend/ Bonus Shares) influence on dividend policy while two present strongly disagree. Nineteen present of them have no idea.

Conclusion

Dividend policy is to determine the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. It has considered the past dividend patterns, current earnings of the company, liquidity constrains such as availability of cash of the company, availability of profitable investment opportunities for the company, availability of growth opportunities of the company, shareholders' preference for dividend, target dividend payout ratio, preference of the largest shareholder, statutory requirements and method of paying dividend influence on dividend policy. The views of the chief executive officers of the listed companies give more precise conclusion on the different factors.

According to the views of the chief executive officers of the listed companies, past dividend patterns, current earnings of the company and liquidity constrains are more influence on dividend policy. Fifty-six percent of the chief executive officers of listed companies say past dividend patterns are more influence on dividend policy. Sixty-nine percent of the chief executive officers of listed companies say current earnings of the company are more influence on dividend policy. Sixty-one percent of the chief executive officers of the listed companies say liquidity constraints such as availability of cash of the company are more influence on dividend policy.

That means when deciding the dividend policy of a particular company it will consider more on past dividend patterns, current earnings of the company and liquidity constraints such as availability of cash of the company if method of payment of dividend of the particular company is cash.

Availability of profitable investment opportunities for the company, availability of growth opportunities of the company, shareholders' preference for dividend, target dividend payout ratio, preference of largest shareholder, statutory requirements and method of paying dividend are also influence on dividend policy.

Fifty-one percent of chief executive officers of listed company say availability of profitable investment opportunities for the company are influence on dividend policy. The results may be due to the possibility that firms with high investment opportunities have access to other external financing options and do not depend on internal earnings to finance future investment. However, all these empirical findings are consisting with this research study. It means that availability of profitable investment opportunities for the company is influence on dividend policy.

Sixty-eight percent of chief financial officers of listed companies say availability of growth opportunities of the company influence on dividend policy. Growth opportunities a determinant of dividend policy is in line with the agency cost theory, whereby firms with no growth opportunities have greater exposure to agency costs.

Sixty-eight percent of chief financial officers of listed companies say shareholders' preference for dividend is influence on dividend policy. In accordance with the behavioral explanations investor prefer dividends for psychological reasons relating to self-control, mental accounting, hedonic editing and regret as well as on the impact of age, income, and retirement status.

Seventy-one percent of chief financial officers of listed companies say target dividend payout ratio of the company is influence on dividend policy. Forty-six percent of chief executive officers of listed company say preference of the largest shareholder of the company is influence on dividend policy. Seventy-four percent of chief executive officers of listed company say statutory requirements are influence on dividend policy. Forty-seven percent of chief executive officers of listed company say method of paying dividend of the company is influence on dividend policy.

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