ABSTRACT

The present study investigates the firm specific factors and dividend policy in the top twenty best performing companies listed on the Colombo Stock Exchange. Twenty listed companies are examined for a period of five years from 2007 to 2011. The relationship between the firm specific factors and dividend policy is examined with the help of a multiple regression model. The firm specific factors are firm size, financial leverage, liquidity, profitability and previous payout ratio used as independent variables to analyze the impact on dividend payout ratio. Five hypotheses relating to the firm specific factors are developed and tested. The results reveal that firm size and financial leverage have a significant negative relationship with dividend payout ratio while profitability has significant positive relation. On the other hand, other selected variables found to have no impact on dividend payout ratio. The findings imply that among the firm specific factors examined, profitability is the sole determinant of the dividend policy of the top twenty best performing companies listed on the Colombo Stock Exchange in Sri Lanka.