

The Impact of Corporate Governance on Dividend Policy: Evidence from Listed Non-Financial Firms in Sri Lanka

Hamsagini Kajanan

Department of Commerce, Faculty of Management and Finance, University of Jaffna, Sri Lanka
hamsa346@gmail.com

Abstract

This study examines the impact of corporate governance on dividend policy in non-financial firms listed on the Colombo Stock Exchange in Sri Lanka. The study uses a quantitative approach with secondary data extracted from annual reports of the top 100 listed companies spanning from 2016 to 2023. It employs a panel data regression model to analyze the impact of key corporate governance variables such as CEO duality, board size, board independence, audit committee meetings on dividend policy. The dividend policy measures through dividend payout. Control variables namely leverage and firm size are also included. The findings reveal that CEO duality and remuneration committee independent directors have a significant impact on dividend policy. Specifically, CEO duality negatively impacts dividend policy, while the presence of independent directors on the remuneration committee positively influences dividend payouts. On the other hand, factors such as board size was found to have no significant impact on dividend policy in the context of sample firms. This study concludes that effective corporate governance plays a crucial role in shaping dividend policies, with particular emphasis on CEO duality. The findings provide valuable insights for policymakers, investors, and corporate managers seeking to improve governance practices and enhance shareholder value in Sri Lankan non-financial firms.

Keywords: Corporate governance, Dividend policy, Non-financial listed firms, Panel data

I. INTRODUCTION

Corporate governance has emerged as a critical aspect of modern corporate finance, significantly influencing firm performance, investor confidence, and financial policies, including dividend distribution. In recent decades, both developed and emerging economies have experienced growing interest in the role of corporate governance in shaping firm behavior and financial decision-making. Among these financial decisions, dividend policy plays a vital role in signaling firm value, resolving agency problems, and maintaining investor trust.

Good corporate governance (CG) is globally accepted as being fundamental to an organization's competitiveness, growth and sustainability. There is great attention on boards of directors to discharge their duties with high ethical values and accountability in their commitment to good governance practices. Strong business ethics, sound policies and procedures, effective and efficient monitoring systems are

considered as key ingredients of a good CG system. In recent years, CG has become hopeful area of research. CG is a system of rules, regulations, mechanisms, practices and procedures by which a corporate body is controlled and directed. The purpose of CG is to facilitate the building of an environment of trust, transparency and accountability which is required to foster long-term investment, financial stability and business integrity.

Dividend policy, which concerns the timing and magnitude of cash payments to shareholders, is particularly sensitive to corporate governance structures. Sound governance mechanisms—such as board independence, ownership concentration, audit committee effectiveness, and the presence of institutional investors—are believed to align the interests of managers and shareholders. According to agency theory, when governance structures are weak, managers may prioritize personal interests over those of shareholders, potentially retaining earnings unnecessarily and avoiding dividend payouts. Conversely, robust governance may lead to more transparent and shareholder-friendly dividend decisions.

In the Sri Lankan context, corporate governance has gained attention in response to global regulatory trends, capital market development, and corporate scandals that have raised concerns about accountability and investor protection. The Securities and Exchange Commission (SEC) of Sri Lanka and the Colombo Stock Exchange (CSE) have introduced various guidelines and codes of best practice to enhance governance standards among listed companies. However, the effectiveness of these measures, particularly in shaping dividend behavior, remains under-explored.

Sri Lanka, as an emerging market economy, presents a unique setting for this investigation. Unlike developed markets, where governance norms are deeply institutionalized, Sri Lankan firms face different ownership structures (often concentrated or family-owned), regulatory environments, and market pressures, which can influence both governance practices and dividend policy decisions. Additionally, non-financial firms—which represent a significant portion of the listed entities on the CSE—often exhibit different financial characteristics compared to financial institutions, making them an ideal sample for studying governance impacts on dividend policy.

Good CG influences the strategic decision-making of a firm, for example, financing, dividend, and investment. CG holds a key mechanism to protect outside investors through the legal system. Responsible firms extend the CG practices that impact positively on the environment and society at large while enhancing shareholders' value in long term (Nazar, 2021). There is a great awareness among the researchers to carry out researches on CG and it contributes to the firms' competitive advantage and business success. In today's turbulent economic environment, competitiveness has become more important than ever for a firm's survival and success (Bulathsinalage & Pathirawasam, 2017).

Despite the growing body of global literature on corporate governance and dividend policy, empirical studies focusing on Sri Lanka remain limited. Most existing

research either generalizes across sectors or fails to capture the nuanced relationship between specific governance attributes and dividend behavior in the local context. This study aims to fill this gap by providing empirical evidence on how corporate governance mechanisms influence dividend policy decisions in Sri Lanka's listed non-financial firms. The findings are expected to contribute to both academic literature and practical policymaking by highlighting the governance factors that promote sound dividend practices in emerging markets.

In this background, this study is intended to examine the impact of CG on DP of listed non-financial companies in Sri Lanka. Prior studies limited to manufacturing sector, hotel and restaurant sector, publicly listed companies etc.

II. RESEARCH METHODOLOGY

The relationship between corporate governance and dividend policy has been widely explored in the finance literature, particularly within the framework of agency theory, signaling theory, and stakeholder theory. This section reviews key studies and theoretical perspectives relevant to understanding how corporate governance mechanisms influence dividend decisions, with a particular emphasis on emerging markets and, where possible, South Asian or Sri Lankan contexts.

Agency Theory (Jensen & Meckling, 1976) posits that conflicts between managers (agents) and shareholders (principals) may lead to suboptimal financial decisions, including earnings retention rather than dividend payout. Dividends are thus viewed as a tool to reduce free cash flow under managerial discretion, mitigating agency costs.

Signaling Theory (Bhattacharya, 1979; Miller & Rock, 1985) suggests that dividends convey private information about firm performance to the market. Well-governed firms are more likely to use dividends as a signaling mechanism, as their financial transparency supports credibility.

Stakeholder Theory broadens the discussion beyond shareholders, suggesting that firms with better governance consider the interests of a wider range of stakeholders, which may affect dividend policy indirectly (Freeman, 1984)

The CG framework has evolved and become robust with time. Due to the rapid evolution of CG standards globally, especially those related to minority shareholder protection, companies may be more positively inclined to pay higher dividends. Generally, CG refers to the host of legal and non-legal principles and practices affecting control of publicly held business corporations (Ritchie, 2020). Most broadly, CG affects not only who controls publicly traded corporations and for what purpose but also the allocation of risks and returns from the firm's activities among the various participants in the firm, including stockholders and managers as well as creditors, employees, customers, and even communities. CG deals with the conflicts of interests between the providers of finance and the managers, shareholders and the

stakeholders. Different types of shareholders (mainly the large shareholder and the minority shareholders) and the prevention or mitigation of these conflicts of interests (Goergen, 2012). CG has predominantly focused on the relationship between the management of firm and the board of directors (board) particularly on separating these two functions for effective professional management. It is mainly because, the board members usually may not get enough time and the management of the firm has to manage the day-to-day affairs. So, the role of board as a driver of CG becomes even more pertinent. CG is constantly changing and evolving and changes are driven by both internal as well as external environmental dynamics (Madhani, 2017).

CG practices in enhancing transparency and accountability, which could positively influence a company's decision to distribute dividends (Smith et al., 2023). The integration of CG frameworks into financial decision-making processes, such as dividend distribution, fosters a more sustainable business model, especially in emerging markets where corporate structures vary widely (Tang & Lee, 2023). Evolving dynamics of CG can lead to better dividend payout (DPO), particularly in firms that emphasize risk management and stakeholder interests. A good governance framework directly correlates with an increase in shareholder confidence, impacting dividend strategies (Gupta & Sharma, 2024). The role of CG in ensuring that firms in developing economies establish sustainable and shareholder-friendly dividend policies. This is achieved through stronger governance structures that address the concerns of both shareholders and managers, fostering trust and financial stability (Khan & Bhatti, 2024). The fast growth firms pay lower dividends than slow growth firms, which is consistent with the idea that strong shareholder protection is inducing the willingness to wait for dividends when investment opportunities are good (Shleifer & Vishny, 1997). On the other hand, recent research by Chang et al. (2018) analyzed the effect of CG on DPO policy on a large sample of firms from 30 countries. They confirmed that firms with stronger CG tend to pay more dividends, even after controlling for country-level governance. Jiraporn and Ning (2006) investigated the impact of shareholder rights on DP in the case of United States of America where companies with weaker shareholder rights paid higher dividends. They argue that this may be the result of the high level of market development which provides better monitoring thus there is a stronger need for favorable reputation in order to raise capital on better terms.

Yakubu et al., (2022) revealed that dividend per share is positively and significantly driven by BI. They also find that larger audit committees are more likely to result in higher DPOs. On the other hand, frequent BM and remuneration committees reduce dividend payments. Further, document that firm age has a significant positive impact on dividend payment. The findings suggest that increasing the proportion of non-executive directors will help preserve shareholders' interest by allowing for higher dividend payments.

Pahi and Yadav (2019) found that the firms having stronger CG tend to pay higher dividends suggesting that the firm's propensity to pay dividends increases with the improvement in CG standards. Among the CG indices board structure, audit committee and disclosure norms show a significant and positive relationship, whereas compensation committee and nomination committee show a positive but insignificant relationship with DP. On the other hand, recent research by Chang et al. (2018) analyzed the effect of CG on DPO policy on a large sample of firms from 30 countries. They confirmed that firms with stronger CG tend to pay more dividends, even after controlling for country-level governance. However, this is true only in countries with low shareholder rights, which is consistent with the substitution model.

Dilhara and Wanniarachchige (2022) investigated the effect of CG on dividends using annual data from 2016 to 2020 from 51 firms listed under the consumer staples sector and 35 firms listed under the industrial sector on the CSE. The findings suggest that CG has no significant effect on dividend payments despite the fact that compliance with CG best practices has been improved from 2016 to 2020. Fernando et al. (2021) found that independent directors in audit committee and ROA have a significant positive impact on the DP. RCM have a significant negative impact on the DP. However, BS, BM, BI, BGD, ACM, independent directors in remuneration committee, FZ and leverage have no significant impact on the DP. According to the findings, CG has an influence on the DP of the listed companies during the period.

Baker (2020) investigated the relation between CG and DP in Sri Lankan firms. The data set consists of market data using 1,608 firm-year observations from 201 firms listed on the CSE and survey-based data from 151 respondents from the same 201 firms. The authors use data triangulation to examine the two approaches. The analysis of the market data revealed that a significantly positive relation between CG on both the propensity to pay dividends and DPO. Weerasinghe and Jayarathne (2017) have mentioned their aim of the study was to ascertain the relationship between the CG variables and the DP of the listed manufacturing companies at the CSE in Sri Lanka. The researchers claimed that the BI and ROA have a significant positive impact on the DP and the BS has a negative influence on the DP in the listed manufacturing companies in Sri Lanka. Ekanayake and Paranthaman (2016) recognized the impact of CG on the DP of the listed S&P SL20 companies in the CSE. According to their studies they found that the impact of the BS and the BI is considered to be insignificant. In addition, they have shown that the FZ and profitability also explain the firm DP.

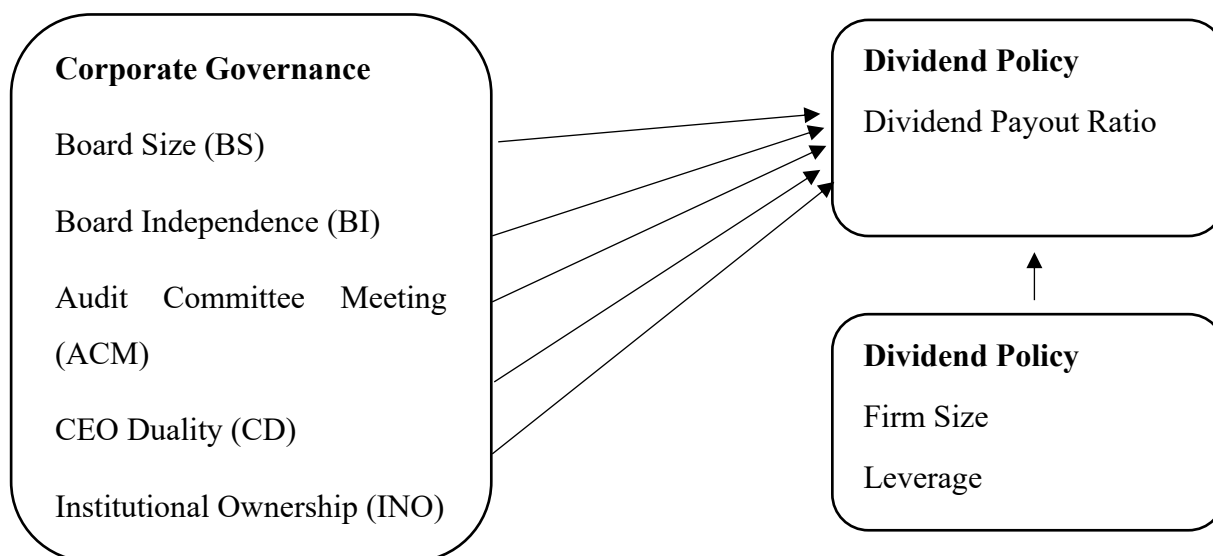
The literature provides strong theoretical and empirical foundations for examining the impact of corporate governance on dividend policy. While global studies largely support a positive relationship between governance quality and dividend payouts, results from emerging markets like Sri Lanka are mixed and context-dependent. This highlights the importance of localized studies to uncover the nuanced roles governance mechanisms play in influencing financial policy decisions within different institutional and cultural settings.

III. RESEARCH METHODOLOGY

Conceptual Framework of the Study

Based on the analysis of the literature, the following conceptual framework is developed by the researcher (refer figure 1).

Based on the analysis of the literature, the following conceptual framework is developed by the researcher (refer figure 1).



Source: Developed by the Researcher (2025)

Operationalization of Variables

It describes the calculation of indicator of the independent and dependent variables. Table 1 summarizes the operationalization of the selected variables of the proposed study.

Table 1: Operationalization of Variables

	Variables	Measures and Literatures
Corporate Governance	Board Size	Proportion of independent directors in the board (Rajput & Jhunhunwala, 2019; Shamsabadi et al., 2016)
	Board Independence	Total number of directors on the board (Rajput & Jhunhunwala, 2019)
	Audit Committee Meeting	Total number of the meetings held by the audit committee in a financial year (Shamsabadi et al., 2016)
	CEO Duality	‘1’ for duality and ‘0’ for separate (EL-Ammari, 2021; Nazar, 2021).
Dividend Policy	Dividend Payout Ratio	‘1’ for duality and ‘0’ for separate (EL-Ammari, 2021; Nazar, 2021).

	Variables	Measures and Literatures
Control Variables	Firm Size	Natural logarithm of total assets (Nazar, 2021; Baker, 2020; Ajanthan, 2013)
	Leverage	Long term debt/Total shareholders' fund (Gunawan et al., 2019)

Source: Developed by the Researcher (2025)

Sample Overview

The CSE has listed 294 companies as at 31.12.2022. Population of the study is all the non-financial firm companies listed in CSE. There are 222 listed non-financial companies in Sri Lanka as at 31.12.2022. From that top 100 listed companies with the highest market capitalization were selected for this study. The sample has been selected based on the purposive sampling method. Accordingly, 800 firm-year observations were used for the analysis of the current study.

Data Collection

Present study is related with secondary data collection. Data for this investigation is collected via the use of annual reports of selected listed companies which were published and available on the official website of the CSE (www.cse.lk). The data collected from the selected sample over a period of seven financial years from 2016 - 2023.

Models Specification

Following two regression models were used to find the impact of CG on DP. The first model dealt only the CG variables whereas the second model dealt both CG variables and the control variables.

$$DP = \alpha + \beta_1 BI + \beta_2 BS + \beta_3 ACM + \beta_4 CD + \epsilon \dots \dots \dots (1)$$

$$DP = \alpha + \beta_1 BI + \beta_2 BS + \beta_3 ACM + \beta_4 CD + \beta_5 LE + \beta_6 FZ + \epsilon \dots \dots \dots (2)$$

Where:

α - Constant Term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ - Model Coefficients

ϵ - Error term

Hypothesis of the Study

The study developed and tested the following ten hypotheses.

H1: There is a significant impact of BS on DP of the listed non-financial firms in Sri Lanka.

Most of the prior scholars (Rajput & Jhunjhunwala, 2019; Elmagrhi et al., 2017) found that there is a positive relationship between BS and DPO ratio. Miller and Wang (2024) argue that larger boards due to their diverse membership, may not be as cohesive in pursuing common goals, which may lead to the underpayment of dividends. Oppose to this, smaller boards are incapable of performing the required governance functions. (Nazar, 2021). A study by Smith and Zhang (2024) found that larger board sizes tend to result in lower dividend payouts, as larger boards generally adopt more conservative financial strategies due to increased oversight and diverse opinions. Patel and Kumar (2023) examined the impact of board size and ownership structure on dividend policies of companies listed on the National Stock Exchange of India. Their study found a significant and positive relationship between board size and dividend payout policy suggesting that larger boards are more likely to distribute higher dividends. According to Ntim et al. (2015), larger boards are better capable of mitigating the management's opportunistic actions due to more experience and skills. Therefore, larger boards are better able to reduce agency issues and improve dividends. Bokpin (2011) argued that the shareholders receive higher dividends from the firms with a higher number of directors because in such boards, the CEO's decisions are monitored by a considerable number of individuals.

H2: There is a significant impact of BI on DP of the listed non-financial firms in Sri Lanka.

Yarram and Dollery (2015) found out that there is a significant positive relationship between BI and DPO. Kilincarslan (2021) investigated the impact of BI on the cash dividend payments results show a strong positive effect of BI on dividend decisions. Juhmani (2020) examine the effect of corporate board characteristics and ownership structure on DPO decision in Bahrain, results indicate that, BI has a significant negative association with the DPO decision. Shafana and Safeena (2019) revealed that when the board has independent directors at least two or one third of total directors, non- financial companies increase dividend payments with increase of net earnings, total assets and previous year's dividend payments. Conversely, Borokhovich et al. (2005) concluded that BI significantly and negatively influences DP. Bokpin (2011) and Ekanayake and Paranthaman (2016) have stated that the BI is deemed to be insignificant related to the DPO. Patel and Kumar (2023) examined the impact of board composition and ownership structure on dividend policies of companies listed on the National Stock Exchange of India. Their study found an insignificant association between board independence and dividend payouts.

H3: There is a significant impact of ACM on DP of the listed non-financial firms in Sri Lanka.

Patel and Reddy (2023) examined the role of audit committees in enhancing the transparency and quality of financial reporting, finding a significant positive effect of audit committee meetings on dividend payout decisions. Gomez and Lin (2022) investigated the relationship between audit committee activity and dividend policies in financial institutions, showing that frequent audit committee meetings improve

governance and lead to higher dividend payouts. Al-Jaifi (2015) examined the strength of board of directors and audit committee, as CG monitoring mechanisms, on the cash dividend levels in Malaysian, it finds that the strength of audit committee has no impact on cash dividends. Chen et al. (2005) found a significant negative association between an audit committee and DPO. However, Elmagrhi et al. (2017) found that the presence of an audit committee is statistically and positively associated with DPO. Almulla and Juhmani (2021) examined the impact of the audit committee characteristics on the firm's DPO policies, it finds a significant association between audit committee size and meetings with a firm's DPO policies.

H4: There is a significant impact of CD on DP of the listed non-financial firms in Sri Lanka.

Benjamin and Biswas (2019) examine whether CD affects the association between board gender composition, DP and cost of debt. However, this positive association is only present in firms with CD. When the authors split the sample into firms with and without CD, the authors find a negative association in firms without CD. Furthermore, Yarram and Dollery (2015) revealed that CD and DP have a significant positive association. In contrast, Abor and Fiador (2013) concluded that CD is to have a negative impact on DPO in firms in Nigeria. Khan et al. (2020) examine the effect of growth opportunities on DP when there is CD in an organization. The findings of this study show that there is a link between lower dividend pay-outs and growth opportunities however this relationship is inverse for CEOs with dual firm ownership.

IV. RESEARCH RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive analysis comprises summarizing and describing the essential parts of a dataset. Each descriptive statistic simplifies vast amounts of data into a brief summary. The descriptive statistics presented in Table 2. outline the mean, median, minimum, maximum, and standard deviation for each variable.

Table 2: Result of Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev
BS	6.541	7.000	12.00	4.00	1.879
BI	0.295	0.198	0.78	0.00	0.121
ACM	2.541	3.000	17.00	1.00	1.852
CD	0.142	0.000	1.00	0.00	0.254
FZ _(Log)	8.743	8.962	10.54	4.52	0.685
LE	0.268	0.187	4.75	-2.87	0.544
DPO	0.298	0.251	2.141	0.00	0.354

Source: Analysis Data (2025)

According to Table 2, the DPO ratio averaged 0.251 over eight years (2016 to 2023) representing a 25% average dividend payout. Ranging from 0.00 to 2.141, it shows variability. The standard deviation of 0.35 indicates variation around the mean.

The company's BS ranges from 4 to 12 with a mean of 6.54 and a standard deviation of 1.879. Cadbury (1992) recommends a preferable board size of eight to ten members. In this study the average BS of 7.000 falls within this recommended range aligning with the norm.

The mean value of BI is 0.295 indicating that 29 percent of directors are non-executive or independent directors on the board. The minimum and maximum values are 0 and 0.78 respectively with a standard deviation of 0.121. The mean CD value of 0.142 indicates that a minority of companies maintain the separation of leadership from the CEO's position. ACM has a mean of 2.541 and a standard deviation of 1.852 with meetings ranging from 1 to 17 annually.

FZ and LE have mean values of 8.743 and 0.268 respectively. FZ has the highest standard deviation of 0.685 while LE has the lowest standard deviation value of 0.544 among other control variables.

Results of Correlation Analysis

Correlation analysis involves examining the relationship between two or more variables to determine how they change together. This analysis helps identify whether there is a positive, negative or no correlation between variables which ranges from -1 to 1. It plays a crucial role in assessing how well the model aligns with the data and in identifying the best predictors for a dependent variable.

Table 3: Result of Correlation Analysis

	BS	BI	ACM	CD	FZ	LE	DPO
BS	3.387						
BI	-0.012	0.014					
ACM	0.6587***	0.028***	3.254				
CD	0.045*	-0.001	-0.045	0.115			
FZ	-0.041	0.007**	0.051	-0.030***	0.521		
LE	0.129***	0.004	-0.027	0.049***	0.047***	0.354	
DPO	0.021	0.001	0.007*	-0.012***	0.002	0.021***	0.125

Note: N=712, Significance at: - *10%; **5% and ***1% levels respectively

Source: Analysis Data (2025)

Table 3. presents the Pearson correlation coefficients analyzing the relationship between corporate governance (CG) variables and dividend policy among listed non-financial firms in Sri Lanka. The results indicate that Board Size (BS) has a positive but statistically insignificant correlation with Dividend Payout (DPO) ($r = 0.021$, $p > 0.1$). This finding is consistent with the study by Fernando et al. (2021), which suggests that larger boards may not significantly influence dividend policy, potentially due to coordination challenges and inefficiencies associated with increased board size.

Board Independence (BI) shows a very weak and statistically insignificant positive correlation with Dividend Payout (DPO) ($r = 0.001$, $p > 0.1$). This suggests that a higher proportion of independent directors on the board does not have a meaningful

impact on dividend payout decisions. While agency theory posits that board independence enhances oversight and monitoring, the findings imply that, in this context, such oversight does not translate into significant influence over dividend policy.

CEO Duality (CD) exhibits a negative and statistically significant correlation with Dividend Payout (DPO) ($r = -0.012$, $p = 0.01\%$), indicating that firms where the CEO also serves as the board chairperson tend to distribute lower dividends. This finding supports agency theory, which argues that CEO duality weakens board oversight, enabling entrenched managers to retain earnings rather than distribute them to shareholders. The result is consistent with prior research, such as Abdelsalam et al. (2008), which observed similar patterns in emerging market contexts.

Audit Committee Meetings (ACM) show a positive correlation with Dividend Payout (DPO) ($r = 0.007$, $p = 0.1\%$), and this relationship is marginally significant at the 10% level. This suggests that firms with more active audit committees may be more likely to distribute higher dividends. The finding supports the view that audit committees contribute to enhanced transparency and financial discipline, which aligns with the conclusions of Khan et al. (2011).

Firm Size (FZ) exhibits a very weak and statistically insignificant correlation with Dividend Payout (DPO) ($r = 0.002$, $p > 0.1$). This indicates that larger firms in Sri Lanka do not necessarily distribute higher dividends, a finding that contrasts with evidence from more developed markets where firm size is often positively associated with dividend payouts.

Result of Panel Data Regression Analysis

The regression analysis includes explanations of both Pooled Ordinary Least Squares (OLS) regression and the Hausman test to determine whether a fixed effect model or random effect model is appropriate when using panel data analysis.

Model I:

$$DP = \alpha + \beta_1 BI + \beta_2 BS + \beta_3 ACM + \beta_4 CD + \epsilon \dots \dots \dots (1)$$

Model II:

$$DP = \alpha + \beta_1 BI + \beta_2 BS + \beta_3 ACM + \beta_4 CD + \beta_5 LE + \beta_6 FZ + \epsilon \dots \dots \dots (2)$$

Result of Pooled Regression Analysis

In this part of the study, the pooled regression model is used to examine how corporate governance factors affect dividend payouts. This model puts all the company and time data together and assumes that there are no major differences between companies or time periods. It gives a basic idea of how variables like board size, board independence, and CEO duality relate to dividend policy. The analysis is done in two ways. Model I look at the main variables and Model II adds control variables to make the results more reliable.

Table 4.: Result of Pooled OLS Regression

Variable	Model I (without control variable)		Model II (with control variable)	
	Coefficient	Prob	Coefficient	Prob
C	0.127	0.145	-0.124	0.224
BS	0.005	0.392	0.006	0.154
BI	0.069	0.456	0.114	0.213
ACM	0.005	0.321	0.004	0.258
CD	-0.102	0.007***	-0.052	0.65*
FZ			0.028	0.100
LE			-0.038	0.018**
R-squared	0.028		0.078	
Adjusted R-squared	0.015		0.065	
F-statistic	2.147		4.098	
Prob (F-statistic)	1.028		0.000	
Durbin-Watson statistic	1.047		1.132	

Source: Analysis Data (2025)

The table presents the regression results from two models examining the impact of corporate governance (CG) variables on dividend policy (measured by Dividend Payout, DPO) among listed non-financial firms in Sri Lanka. Model I is estimated without control variables, while Model II includes Firm Size (FZ) and Leverage (LE) as control variables.

In Model I, CEO Duality (CD) shows a significant negative relationship with DPO (coefficient = -0.102, $p = 0.007$), suggesting that when the CEO also serves as the board chairperson, firms tend to pay lower dividends. This result aligns with agency theory and is statistically significant at the 1% level. However, other governance variables such as Board Size (BS), Board Independence (BI), and Audit Committee Meetings (ACM) are not statistically significant, indicating they do not have a notable impact on dividend policy in the absence of control variables.

In Model II, when control variables are added, the negative effect of CEO Duality (CD) on DPO weakens (coefficient = -0.052) and becomes only marginally significant ($p = 0.65^*$), suggesting the inclusion of controls diminishes the effect. Among the control variables, Leverage (LE) shows a significant negative relationship with DPO (coefficient = -0.038, $p = 0.018$), indicating that more leveraged firms tend to distribute lower dividends. Firm Size (FZ) has a positive coefficient (0.028) and is marginally

significant at the 10% level ($p = 0.100$), suggesting a possible association between larger firms and higher dividend payouts.

In terms of model fit, Model II performs better than Model I. The R-squared increases from 0.028 to 0.078, and the Adjusted R-squared rises from 0.015 to 0.065, indicating that including control variables improves the explanatory power of the model. The F-statistic also increases from 2.147 to 4.098, and the associated p-value drops to 0.000 in Model II, confirming that the overall model is statistically significant. The Durbin-Watson statistics (1.047 in Model I and 1.132 in Model II) suggest some positive autocorrelation in the residuals, though further diagnostics would be needed for confirmation.

Result of Regression Analysis on Panel Data

The Hausman test is conducted to select the best model between Model 1 and Model 2 in the panel data analysis. It compares the fixed effects and random effects models to determine which one provides more reliable results.

Table 5.: Result of Panel Regression Analysis for Model I

Variable	Model I (without control variable)		Model II (with control variable)	
	Coefficient	Prob	Coefficient	Prob
C	0.847	0.014	0.369	0.114
BS	0.147	0.017	0.215	0.015
BI	0.398	-0.174	0.661	-0.051
ACM	0.225	-0.012	0.478	-0.005
CD	0.041	-0.541	0.039	-0.654
R-squared	0.326		0.015	
Adjusted R-squared	0.295		0.001	
Cross section summary (Hausman Test)				
Chi square Statistic: 4.553				
Probability: 0.751				

Source: Analysis Data (2025)

The table presents the regression results from two panel data models examining the relationship between corporate governance (CG) variables and the dependent variable, likely dividend policy or firm performance, for listed non-financial firms in Sri Lanka. Model I, which excludes control variables, shows that Board Size (BS) has a positive and statistically significant effect (coefficient = 0.147, $p = 0.017$), indicating that larger boards are associated with higher levels of the dependent variable. The intercept is also significant, while other variables—Board Independence (BI), Audit Committee Meetings (ACM), and CEO Duality (CD)—are statistically insignificant. The model explains approximately 32.6% of the variation in the dependent variable (R-squared = 0.326). In Model II, which includes control variables,

Board Size remains significant (coefficient = 0.215, $p = 0.015$), reinforcing its importance. However, the model's explanatory power drops substantially ($R\text{-squared} = 0.015$), and all other variables remain insignificant. The Hausman test yields a Chi-square statistic of 4.553 with a p -value of 0.751, indicating no significant difference between fixed and random effects models, and therefore supporting the use of a random effects model for this analysis.

Table 6: Result of Panel Regression Analysis for Model II

Variable	Fixed Effect Model		Random Effect Model	
	Coefficient	Prob	Coefficient	Prob
C	0.517	-0.184	0.469	-0.124
BS	0.117	0.027	0.175	0.014
BI	0.328	-0.144	0.861	-0.011
ACM	0.275	-0.011	0.658	-0.003
CD	0.041	-0.741	0.009	-0.654
FZ	0.462	0.012	0.234	0.023
LE	0.010	0.754	0.841	-0.002
R-squared	0.386		0.015	
Adjusted R-squared	0.245		0.011	
Cross section summary (Hausman Test)				
Chi square Statistic: 28.545				
Probability: 0.0007				

Source: Analysis Data (2025)

Table 6 presents the regression outcomes of Model II under both the Fixed Effects Model and the Random Effects Model which incorporate firm-specific control variables such as ROA, LE and FZ. The table presents the results of both Fixed Effect and Random Effect models, analyzing the impact of various variables on a dependent variable. Key independent variables include Board Size (BS), Board Independence (BI), Audit Committee Meeting (ACM), CEO Duality (CD), Firm Size (FZ), and Leverage (LE). In the Fixed Effect model, variables like BS, BI, ACM, and FZ show statistically significant positive effects, as indicated by their low probability values (e.g., BS: $p = 0.027$, FZ: $p = 0.012$), suggesting they have a meaningful impact within the model. However, CD and LE appear statistically insignificant due to their high p -values (e.g., CD: $p = 0.741$). The R-squared and Adjusted R-squared values of 0.386 and 0.245, respectively, suggest a moderate explanatory power of the Fixed Effect model. Comparatively, the Random Effect model also shows significance in variables like BS, BI, ACM, and FZ, with slightly different coefficients. The Hausman test, which helps determine the preferable model between Fixed and Random effects, reports a Chi-square statistic of 28.545 with a p -value of 0.0007. This low p -value indicates that the Fixed Effect model is more appropriate for this analysis, as it suggests the presence of

correlation between the regressors and the individual effects, violating the assumptions of the Random Effect model.

V. CONCLUSIONS

The findings of this study provide valuable insights into how various CG mechanisms influence DPO decisions in non-financial firms listed on the CSE. The results are discussed below in relation to the hypotheses and prior literature with consideration of both theoretical perspectives and the specific context of Sri Lankan firms.

CD demonstrated a significant negative impact on DPO which indicating that combined CEO-chairperson roles correlate with lower dividend distributions. This finding supports agency theory's premise (Jensen & Meckling, 1976) that power consolidation weakens governance oversight often prioritizing earnings retention over shareholder returns. Similar results were observed in emerging markets by Al-Malkawi et al. (2014), who identified that concentrated leadership structures tend to suppress dividend payouts due to reduced accountability. BS showed no significant effect on DP. Although larger boards are expected to improve governance by bringing in diverse expertise (Adams & Ferreira, 2007). This studies in emerging markets have found that BS has limited impact on DPO decisions (Coleman & Biekpe, 2006). In Sri Lanka's family dominated corporate environment, larger boards may struggle with coordination issues or offer passive oversight reducing their effectiveness. This suggests that increasing BS alone without addressing ownership structures may not improve dividend payouts.

BI demonstrated no significant impact on DPO. This finding aligns with the SEC of Sri Lanka's annual report (2022) which notes that independent directors often have limited influence in family-controlled firms. The Central Bank of Sri Lanka (2021) similarly found that over 78% of listed companies with majority family ownership showed no correlation between BI and dividend decisions. These results suggest that in concentrated ownership structures, formal governance mechanisms like board independence may have less practical effect on payout policies.

ACM demonstrated no significant effect on DPO. While audit committees are formally mandated to oversee financial decisions (SEC, 2023) practical implementation often prioritizes compliance over strategic input. This aligns with the Central Bank of Sri Lanka's (2022) finding that 72% of listed firms treat ACM as procedural formalities rather than substantive dividend policy discussions.

BIBLIOGRAPHY

- Abdelsalam, O., El-Masry, A., & Elsegini, S. (2008). Board composition, ownership structure and dividend policies in an emerging market: Further evidence from CASE 50. *Managerial Finance*, 34(12), 953–964.
- Adams, R. B., & Ferreira, D. (2007). A theory of friendly boards. *The Journal of Finance*, 62(1), 217–250.

- Ajanthan, A. (2013). Corporate governance and dividend policy: A study of listed hotels and restaurant companies in Sri Lanka. *International Journal of Management, IT and Engineering*, 3(12), 98–114.
- Al-Jaifi, H. A. (2015). The effects of corporate governance mechanisms on dividend policy in Saudi listed firms. *Journal of Accounting in Emerging Economies*, 5(3), 270–289.
- Al-Malkawi, H. N., Bhatti, M. I., & Magableh, S. I. (2014). Determinants of capital structure in emerging markets: Evidence from GCC countries. *International Journal of Economics and Finance*, 6(10), 52–63.
- Almulla, M., & Juhmani, O. (2021). The impact of audit committee characteristics on dividend policy: Evidence from Bahrain. *Journal of Financial Reporting and Accounting*, 19(3), 365–384.
- Baker, H. K., Dewasiri, N. J., Weerakoon, Y. K., & Premaratne, S. P. (2020). Corporate governance and dividend policy in Sri Lankan firms: A data triangulation approach. *Qualitative Research in Financial Markets*, 12(4), 543–560.
- Benjamin, S. J., & Biswas, P. K. (2019). CEO duality, board composition, gender diversity, and dividend policy: Evidence from India. *Corporate Governance: The International Journal of Business in Society*, 19(2), 362–383.
- Bhattacharya, S. (1979). Imperfect information, dividend policy, and “the bird in the hand” fallacy. *The Bell Journal of Economics*, 10(1), 259–270.
- Bokpin, G. A. (2011). Ownership structure, corporate governance and dividend performance on the Ghana Stock Exchange. *Journal of Applied Accounting Research*, 12(1), 61–73.
- Borokhovich, K. A., Brunarski, K. R., Harman, Y. S., & Kehr, J. B. (2005). Dividends, corporate monitors and agency costs. *The Financial Review*, 40(1), 37–65.
- Cadbury Committee. (1992). Report of the Committee on the Financial Aspects of Corporate Governance. Gee and Co.
- Chang, B., Dutta, S., Saadi, S., & Zhu, P. (2018). Corporate governance and dividend payout policy: Beyond country-level governance. *Journal of Financial Research*, 41(4), 445–484.
- Chen, G., Firth, M., Gao, D. N., & Rui, O. M. (2005). Is China’s securities regulatory agency a toothless tiger? Evidence from enforcement actions. *Journal of Accounting and Public Policy*, 24(6), 451–488.
- Coleman, A., & Biekpe, N. (2006). The link between corporate governance and performance of the non-traditional export sector: Evidence from Ghana. *Corporate Governance*, 6(5), 609–623.
- Dewasiri, N. J., Weerakoon, Y. K., & Premaratne, S. P. (2019). Dividend policy determinants of Sri Lankan firms: A triangulation approach. *Managerial Finance*, 45(1), 2–20.
- Dilhara, W. M. A., & Wanniarachchige, M. K. (2022). Does corporate governance affect dividend? Evidence from firms listed in the CSE under consumer staples and industrial sectors. In *Proceedings of the 11th International Conference on Management and Economics* (pp. 182–193).
- Ekanayake, H. L., & Paranthaman, T. (2016). The impact of corporate governance on firms’ dividend policy: Evidence from listed S&P SL20 companies in the Colombo Stock Exchange. *International Journal of Scientific and Research Publications*, 6(10), 1–6.

- El-Ammari, A. (2021). CEO duality and firm value: Evidence from GCC countries. *Journal of Financial Reporting and Accounting*, 19(1), 140–156.
- Elmagrhi, M. H., Ntim, C. G., & Wang, Y. (2017). Environmental reporting and corporate governance: Evidence from the UK. *Journal of Applied Accounting Research*, 18(2), 198–224.
- Fernando, L. R. D., Dissanayake, D. H. S. W., & Mendis, M. O. S. (2021). The impact of corporate governance on dividend policy: An empirical evidence from listed companies in Sri Lanka. *South Asian Journal of Finance*, 1(1), 35–47.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.
- Goergen, M. (2012). *International corporate governance*. Pearson Education.
- Gunawan, J., Djajadikerta, H. G., & Smith, M. (2019). An examination of corporate social disclosures and financial performance in Indonesia. *Social Responsibility Journal*, 15(6), 915–938.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Jiraporn, P., & Ning, Y. (2006). Dividend policy, shareholder rights, and corporate governance. *Journal of Applied Finance*, 16(2), 24–36.
- Juhmani, O. I. (2020). Corporate board characteristics and dividend payout decisions: Evidence from Bahrain. *International Journal of Business and Management*, 15(2), 103–115.
- Kilincarslan, E. (2021). Board independence and dividend decisions in emerging markets: Evidence from Turkey. *Corporate Governance: The International Journal of Business in Society*, 21(4), 652–668.
- Khan, T., Rehman, R., & Hussain, H. (2020). Growth opportunities, CEO duality and dividend policy: Evidence from Pakistan. *Journal of Business Strategies*, 14(2), 47–60.
- Kulathunga, K. M. K. N. S., Weerasinghe, W. D. J. D., & Jayarathne, J. A. B. (2017). Corporate governance and dividend policy: A study of listed manufacturing companies in Sri Lanka. *International Journal of Scientific Research and Innovative Technology*, 4(2), 64–81.
- Madhani, P. M. (2017). Corporate governance practices: Internal and external environmental dynamics. *The IUP Journal of Corporate Governance*, 16(2), 7–26.
- Miller, M. H., & Rock, K. (1985). Dividend policy under asymmetric information. *The Journal of Finance*, 40(4), 1031–1051.
- Nazar, N. M. M. (2021). CEO duality and dividend policy: Evidence from listed manufacturing firms in Sri Lanka. *International Journal of Accounting and Financial Reporting*, 11(2), 112–126.
- Ntim, C. G., Lindop, S., & Thomas, D. A. (2015). Executive pay and performance: The moderating effect of CEO power and governance structure. *International Review of Financial Analysis*, 41, 75–88.
- Pahi, D., & Yadav, R. (2019). Corporate governance and dividend policy: Empirical evidence from India. *Indian Journal of Corporate Governance*, 12(1), 26–41. <https://doi.org/10.1177/0974686219841210>

- Patel, A., & Reddy, S. (2023). Audit committee activity and dividend payout: Evidence from Indian firms. *Journal of Contemporary Accounting Research*, 3(1), 101–122.
- Patel, K., & Kumar, A. (2023). Board size, independence and dividend payout: Evidence from the Indian stock market. *Asian Journal of Business and Accounting*, 16(1), 53–72.
- Rajput, N., & Jhunjhunwala, S. (2019). Corporate governance and firm performance: Evidence from Indian banking sector. *Indian Journal of Corporate Governance*, 12(2), 158–174.
- Ritchie, S. (2020). *Corporate governance: Concepts, structures and practices*. Routledge.
- Shafana, S. M. F., & Safeena, M. (2019). Corporate governance and dividend policy: Empirical evidence from Sri Lanka. *International Journal of Research and Innovation in Social Science*, 3(11), 345–351.
- Shamsabadi, A. R., Hashemi, A., & Khodadadi, M. (2016). Corporate governance and dividend policy: Empirical evidence from Iran. *International Journal of Economics and Financial Issues*, 6(2), 585–590.
- Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The Journal of Finance*, 52(2), 737–783.
- Weerasinghe, W. D. J. D., & Jayarathne, J. A. B. (2017). Corporate governance and dividend policy: Evidence from listed manufacturing companies in Sri Lanka. *International Journal of Scientific Research and Innovative Technology*, 4(2), 64–81.
- Yarram, S. R., & Dollery, B. (2015). Corporate governance and financial policies: Influence of board characteristics on the dividend policy of Australian firms. *Managerial Finance*, 41(3), 267–285.