

BOARD CHARACTERISTICS AND ITS IMPACT ON DIVIDEND PAYMENT

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ABSTRACT

The study intended to examine the board characteristics of non-financial companies in Sri Lanka and its impact on dividend payment to realize whether the findings are support to mitigate the agency problem between managers and shareholders. In the sample of 80 listed companies and annual data from 2015 to 2019, fixed effect panel regression revealed that board independence and CEO duality and moderating variables namely profitability and previous year's dividend payment were significant positive impact on current dividend payment of non-financial companies while board size, board meeting and firm size were not significant impact. The study concluded when the board has independent directors at least two or one third of total directors and separate leadership style, non-financial companies in Sri Lanka increase dividend payment with increase of profitability and previous year's dividend payment or vice versa. The findings consistent with agency theory since the findings support to align the conflict of interest between shareholders and managers. Furthermore, the findings confirm that non-financial companies in Sri Lanka follow the code of best practice on corporate governance – 2013.

Keywords: Board Characteristics, Dividend Payment, Non-Financial Companies, Agency Problem.

INTRODUCTION

Dividend payment is a key factor to attract more capital funds and to mitigate the agency problems. Thus, declaring dividend is one of the main corporate decisions for smooth corporate operations and leading to maximize the shareholders' wealth. Although shareholders are the decision makers of the corporation from their investment size, they allow first rights to board of directors to involve in day to day business activities and decision making since the corporations have huge number of shareholders and many of them do not have professional qualifications. However, biggest rights of shareholders are to approve the board of directors' decisions at annual general meeting by their voting. It creates agency problem between managers and shareholders when the interest of shareholders differ from board of directors' decision. Further, the agency problem is more problematic in dividend decision. Follow of corporate governance code can be minimized the problems arise in the corporations. The code of best practices on CG discusses characteristics, responsibilities and other rules and procedures of board of directors and shareholders to contribute to effective corporate performances. Uwalomwa et al. (2015); RashidiKia & Khodadadi (2014) and Gill and Obradovich (2012) reported that corporate governance system is one of the factors influences in corporate dividend. However, the corporate governance system pay greater attention in board of directors' characteristics which have main part in good decisions and to operate the

corporations successfully since they have first rights in the decision making.

In Sri Lankan context, there are very few studies and those found mixed results between board structure and dividend decision. Furthermore, previous findings were not ensured the sample companies are follow the corporate governance code of Sri Lanka-2013 and not supported to mitigate the agency problem. Thus, the current study aimed to understand the board characteristics of non-financial companies in Sri Lanka to ensure companies mandatory follow the CG principals. Furthermore, the study examined the impact of board characteristics on dividend payment to realize whether the findings are support to mitigate the agency problem. The following section helped to identify the research gap of the study.

LITERATURE REVIEW

The latest corporate governance practices of Sri Lanka is “*Code of best practices on Corporate Governance-2013*” in order to establish effective corporate governance practices in SriLankan Capital Market. Listed companies have to follow minimum rules of CG as mandatory compliance to enhance board effectiveness, make stronger between the company and its stakeholders and strengthen business reliability. The board structure section of CG code gives more attention in some specific characteristics such as number of board of directors (board size) and their rights and responsibilities, number of independent directors, CEO Duality, board meeting and directors’ remuneration procedures and disclosure.

Code of best practices on Corporate Governance- 2013 states total number of directors is calculated based on the number as at last preceding annual general meeting. The number of board directors is varied among companies due to the difference in culture, regulation and corporate ownership structure (Wu, 2009). Therefore, CG code is not recommended optimum number of board members to be seated at the board meeting. Bennedsen et al. (2008) found that there was noeffect on performance when the board size was below six directors. However, negative effect wasfound when board had seven or more directors. Lipton & Lorsch (1992) recommended seven oreight board members and found that corporate performance were less effective when board had beyond seven or eight people. A larger board is non- manageable and may have greater agency problems (Jensen, 1993). However, a large board size is also supported to corporate performance by establishing external links with the environment, safeguarding more rare resources and getting more excellent qualified counsel (Dalton et al., 1998). Lehn et al. (2003) stated that efficiency of decision making process may be improved by large board size via information sharing. Chang & Dutta (2012) revealed that large board size was paid higher dividends to all dividend paying companies listed on the Toronto Stock Exchange. Furthermore, Suwaidan & Khalaf (2020) in Jordan, Gill & Obradovich (2012); Uwalomwa et al. (2015) in Nigeria, Rashidikia & Khodadadi (2014) in Iran also found a positive significant relationship between board size and dividend decision. Nazar (2021) also found a significant positive impact of board size on dividendpayout of non- financial companies in Sri Lanka.

On the contrary, Abdelsalam et al. (2008) and Shehu (2015) found an insignificant relation between board size and dividend policy in Egypt and Malaysia respectively. Ajanthan (2013) and Kulathunga et al. (2017) also found insignificant effect of board size on dividend policy of listed manufacturing companies in Sri Lanka. However, Alias et al. (2012) examined the direct and interaction effects of firm’s characteristics (board structure and capital structure) on dividend per share for the sample of 361 non-financial Malaysian listed firms over the period of 2002 to 2007 and fixed effect regression analysis was resulted board size has significant negative impact on dividend per share in the direct model while it has insignificant impact on dividend per share under

the interaction between board structure and capital structure. Again, Alias et al. (2013) examined the interaction effects of board structure and free cash flow on dividend per share on same sample size and regression model and found an insignificant impact of board size on dividend per share.

In today world, the independent directors play an important role in a sound governance structure (California Public Employees, 2010). Code of best practices on Corporate Governance - 2013 is stated a board should have independent directors at least two or one third of total directors, whichever is higher. Furthermore, it is stated majority of directors should be independent directors when role of Chairman and CEO is assign to one person. Dalton et al. (1998) argued that independent directors are appointed based on their unique qualifications, expertise and experience to contribute to effective independent decisions then lead ultimately to value added of the firm. Daily et al. (2003) and Boyd (1995) stated that having an independent directors is a corporate governance mechanism to align the interest between shareholders and managers. Uwalomwa et al. (2015); Rashidikia & Khodadadi (2014) revealed a significant positive association between board independence and dividend policy in Nigeria and Iran respectively. Kulathunga et al. (2017) also found a positive significant impact of board independence on dividend policy in Sri Lanka.

However, McClain (2012) in USA and Benjamin & Zain (2015); Shehu (2015) in Malaysia revealed a significant negative relationship between board independence and dividend policy. The finding is consistent with the “*substitution argument*”, indicating that firms with weak CG wants to establish reputation by paying more dividend. Nazar (2021) also found board independence has significant negative impact on dividend payout in Sri Lanka. However, Alias et al. (2012) was resulted number of independent directors has significant positive impact on dividend per share in the direct model while it has significant negative impact on dividend per share under the interaction between board structure and capital structure. Again, Alias et al.(2013) found a significant positive impact of board independence directors on dividend per share under the interaction between board structure and free cash flow. On the contrary, Suwaidan & Khalaf (2020), Abdelsalam et al. (2008); Ajanthan (2013) found insignificant association between independent directors and corporate dividend policies in Jordan, Egypt and Sri Lanka respectively.

CEO-Chairman Duality is defined that the post of company’s Chief Executive Officer (CEO) and board chairman are undertaken by same person. Code of best practices on Corporate Governance 2013 states a firm wants to justify and highlight in the annual report about combined leadership. Thus, Corporate Governance code is recommended separate persons for the post of CEO and Chairman. From agency perspective, combined leadership reduces board’s monitoring effectiveness and incurring agency cost due to that the board is under the control of managers. Jensen (1993) recommended separate role of CEO and board Chairman and argued that one person having too much power can be created problems in monitoring and controlling of decision making process. Chen et al. (2005) in China and Rashidikia & Khodadadi (2014) in Iran found a significant negative relation between duality role and dividend payment. Ajanthan (2013) also found a significant negative relationship between CEO duality and dividend policies in Sri Lanka. However, Boyd (1995), Dalton et al. (1998) were supported to duality role. It was argued that combined leadership gives greater commitment to the firm’s operations. Suwaidan and Khalaf (2020), Gill & Obradovich (2012) and Uwalomwa et al. (2015) found a positive significant relationship between CEO duality and dividend policies in Jordan, USA and Nigeria respectively. Kulathunga et al. (2017) also found a positive significant relationship between CEO duality and dividend policies in Sri Lanka. On the contrary, Abdelsalam et al. (2008), Shehu (2015) and Nazar (2021) found insignificant relationship between CEO duality and dividend policies in

Egypt, Malaysia and Sri Lanka respectively. However, Alias et al. (2012) found presence of duality role has significant negative impact on dividend per share in the direct model while it has significant positive impact on dividend per share under the interaction between board structure and capital structure. Alias et al. (2013) again found presence of duality role has significant negative impact on dividend per share under the interaction between board structure and free cash flow.

Board meeting frequency is also an important dimension of board structure. Code of best practices on Corporate Governance 2013 states that board meetings should be held at least once in every quarter of a financial year to enhance efficiency of firm management and add value for the firm. Ma & Tian (2009) found a negative association between board meeting frequency and firm value in China and they argued that board meeting frequency imply internal problems or inefficient decision-making. Benjamin & Zain (2015) found a significant negative relationship between board meeting frequency and dividend payout in Malaysian firms. However, sometimes an abnormally higher board meeting frequency may be supported to improve in firm performance (Vafeas, 1999).

RESEARCH METHODOLOGY

Based on the research problem, the current study was attempt to analysis the impact of board characteristics on dividend payment of non- financial companies in Sri Lanka. The selected board characteristics except board size were measured based on said in code of best practices on Corporate Governance of Sri Lanka -2013 since the code is not recommended optimum number of board directors to be seated at the board. Therefore, the study measured board size by counting total number of directors of a corporation in a year. The same measurement was used by Ajanthan (2013); Kulathunga et al. (2017), Abdelsalam et al. (2008); Rashidikia & Khodadadi (2014). As said in code of best practices on Corporate Governance of Sri Lanka- 2013, the study measured the board independence by assigning dummy variable as “Value” “1” if a corporation has at least two independent directors or one-third of directors are independent and “0” otherwise. CEO duality was valued as “1” if CEO and chairman are same person and “0” otherwise and board meeting as value “1” if board meeting held at least once in every quarter of a financial year and “0” otherwise. The study used dividend per share as a dependent variable to represent the dividend payment. The same measurement was used by Kulathunga & Azeez (2016); Alias et al. (2012); and Rashidikia & Khodadadi (2014).

The study was use three moderating variables namely firm size, profitability and previous year’s dividend per share. Firm size was measured by logarithm of total assets. The same definition was used by Kulathunga & Azeez (2016); Rashidikia & Khodadadi (2014); Ehsan et al. (2013). The profitability was measured by return on equity. It was calculated by profit after interest and tax over the total equity fund. The same measurement was used by Abdelsalam et al. (2008); Ehsan et al. (2013). The previous year’s dividend per share was used by Gunathilaka & Gunaratne (2009); Gunathilaka (2014); Mirzaei (2012).

The following panel regression model was applied to investigate the impact of board characteristics on dividend per share with considering moderating variables.

$$DPS_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 DUAL_{it} + \beta_4 BM_{it} + \beta_5 FS_{it} + \beta_6 ROE_{it} + \beta_7 PDPS_{it} + \varepsilon_t$$

Where DPS_{it} , dividend per share of company “i” for the period of “t”; BS_{it} , number of directors sit on the board of company “i” for the period of “t”; BI_{it} , whether or not independent directors are at least two or one third of total directors of company “i” for the period of “t”; $DUAL_{it}$, whether or not a CEO is also the chair of the board of directors of company “i” for the period of “t”; BM_{it} , whether or not board meeting held at least once in every quarter of a financial year of company “i” for the period of “t”; FS_{it} , firm size of company “i” for the period of “t”; ROE_{it} , return on equity of company “i” for the period of “t”; $PDPS_{it}$, previous year’s dividend per share of company “i” for the period of “t”; β , regression coefficient; ε , error term.

The study covered eighty (80) non-financial companies due to the availability of data out of 96 dividend paying listed non-financial companies which were paid dividend in regular interval without missing any year from 2015 to 2019. E-views software was used in the study.

RESULTS AND DISCUSSIONS

Table 1 presents the descriptive statistics of all selected variables to understand their basic characteristics.

Variables	Mean	Median	Max	Mini	SD
DPS	5.559	2.400	63.700	0.050	10.115
BS	8.080	8.000	18.000	3.000	1.974
BI	0.960	1.000	1.000	0.000	0.196
DUAL	0.082	0.000	1.000	0.000	0.275
BM	0.865	1.000	1.000	0.000	0.342
FS	22.050	22.185	25.466	17.648	1.364
ROE	0.172	0.122	3.685	0.169	0.290
PDPS	5.342	2.000	68.700	0.000	9.932

It shows that listed non-financial companies of Sri Lanka were distributed the dividend around Rs.5.6 per ordinary share over the sample period. The maximum and minimum dividend per share was Rs. 63.70 and Rs. 0.05 respectively with the standard deviation of 10.115. The minimum value reveals that all selected non-financial companies were distributed dividend continuously over the sample period. In another words, the sample of the study was covered dividend paying non-financial companies which were paid dividend in regular interval over the sample period.

The average number of directors in non-financial companies in Sri Lanka was 8 members with a standard deviation of 1.974 for the sample period from 2015 to 2019 and has a median value of 8 which were in line with Azeez (2015); Guo & Udaya Kumara (2012); Nazar (2021) who revealed that non-financial companies in Sri Lanka has averagely 8 directors with a variation of about 2 and has a median value of 8. It is acceptable board of directors’ number. It was also supported by Lipton & Lorsch (1992) who recommended seven or eight members lead to effective functions. The range of directors at the board of non-financial companies in Sri Lanka was between 3 and 18. The minimum number of directors was in line with Azeez (2015); Guo and Udaya Kumara (2012); Nazar (2021) who also found that non-financial companies in Sri Lanka has a minimum 3 directors. However, they found maximum directors was 14/15.

In term of board independence, the mean shows 96% of sample non-financial companies in Sri Lanka had independent directors at least two or one third of total directors with a standard

deviation of 19.6%. In term of CEO duality, on average 8.2% of sample firms had duality role while 91.8% of the firms had two individuals for the positions of CEO and Chairman. The standard deviation of duality role was 27.5%. In term of board meeting, on average 86.5% of sample firms held the board meetings at least once in every quarter of a financial year with a standard deviation of 30.4%. In regarding to board independence, CEO duality and board meeting, the average values suggest that listed non-financial companies in Sri Lanka are practicing good governance mechanisms by complying with code of best practices on corporate governance of 2013 of Sri Lanka (1) listed company mandatory have to independent directors at least 2 members or 1/3 of the board of directors, select whichever is the higher; (2) two separate persons for the post of Chairman and CEO; (3) board meeting at least once in every quarter of a financial year. In regards to board size, the code does not recommend number of directors should be seated on the board due to the size of companies is varied. However, the mean value of board size was in line with many previous studies. They also recommended average 8 members at the board. The mean of firm size was 22.050 with a standard deviation of 1.364 and had a range from 17.648 to 25.466. The profitability (ROE) had a mean value of 17.2% with a standard deviation of 29% and had a range from 0.169 to 3.685.

The next section was check the classical assumptions of regression model. Thus, the study tested multicollinearity and autocorrelation problems. However, the study was not test the normality and hetero scedasticity since the study covered cross and time series data (Gujarati & Porter, 2009). Furthermore, the study was not test the stationary of the data since three out of four independent variables had qualitative data (dummy measurements). Table 2 presents collinearity diagnostic statistics (Tolerance (TOL) and Variance Inflation Factor (VIF) to check the multicollinearity problem between independent variables.

Variables	Tolerance	VIF
BS	0.857	1.167
BI	0.952	1.051
DUAL	0.953	1.049
BM	0.786	1.273
FS	0.868	1.153
ROE	0.816	1.225
PDPS	0.730	1.370

It reveals that there is an absence of strong correlations (multicollinearity) between all selected independent variables including moderating variables since tolerance and VIF were greater than 0.1 and less than 5 respectively. The autocorrelation result is presented under the results of regression model. Thus, as a next step, Table 3 presents results of panel regression analysis to select appropriate regression model and to examine the objectives of the study.

As Table 3 shows that Durbin-Watson value was 1.642, lie within the acceptable range of 1.5 and 2.0. It reveals that there was no autocorrelation problem associated in the selected data. Therefore, multicollinearity and autocorrelation testing confirmed that all selected variables can be used into regression model to examine the impact of board structure on dividend payment of non- financial companies in Sri Lanka. Further, table 3 shows chi square statistic of Hausman test is significant at 1% significance level. It statistically concluded that fixed effect model was appropriate model than random effect model. F-statistic of Wald test had also significant at 1% significance level. It also statistically concluded that fixed effect model was most appropriate

regression model than pooled effect model. Thus, the study was applied fixed effect penal regression model to investigate the objectives of the study.

Table 3				
RESULTS OF PANEL REGRESSION ANALYSIS				
Dependent Variable: DPS				
Method: Panel Least Squares				
Date: 05/08/20 Time: 16:22				
Sample: 2015 2019				
Periods included: 5				
Cross-sections included: 80				
Total panel (balanced) observations: 400				
Test Type		Test Statistic	DF	Prob.
Hausman Test		227.241	7	0.000
Wald Test (F-statistic)		124.882	(7, 392)	0.000
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-35.712	21.636	-1.651	0.100
BS	-0.136	0.349	-0.390	0.697
BI	9.398	1.710	5.497	0.000
DUAL	17.466	3.460	5.048	0.000
BM	-0.549	1.200	-0.457	0.648
FS	1.391	0.978	1.422	0.156
ROE	4.981	2.405	2.071	0.039
PDPS	0.162	0.0560	2.893	0.004
Effects Specification				
R-squared	0.823	Mean dependent var	5.559	
Adjusted R-squared	0.775	S.D. dependent var	10.115	
S.E. of regression	4.798	Akaike info criterion	6.164	
Sum squared resid	7205.907	Schwarz criterion	7.032	
Log likelihood	-1145.814	Hannan-Quinn criter.	6.508	
F-statistic	16.978	Durbin-Watson stat	1.642	
Prob (F-statistic)	0.0008			

As results of fixed effect model, F-value had 16.978 which was significant at 1% significance level. It statistically concluded that the selected regression model was fit to investigate the objectives of the study. The value of adjusted R Squared was 0.775. It statistically concluded that 77.5% of the variation in the dividend per share was explained by board characteristics and moderating variables after adjusting to sample size and number of independent variables. Further, the study was again calculated adjusted R Squared value with selecting board characteristics and its value was 0.765. It revealed 76.5% of the variation in the dividend per share was explained by selected board characteristics. Thus, it concluded that board characteristics are most powerful variables to determine the dividend payment of non-financial companies in Sri Lanka and moderating variables namely firm size, profitability and previous year's dividend per share had only 1% of impact on current dividend per share.

The coefficients of all selected variables shows board independence and separation of the role of CEO and Chairman have positive and significant impact on dividend per share while board

size and board meeting have negative and insignificant impact on dividend per share of non-financial companies in Sri Lanka. Thus, it revealed number of independent directors and separate leadership are important in dividend decision of non-financial companies in Sri Lanka. Among the moderating variables, profitability (ROE) and previous year's dividend per share have significant and positive impact on current dividend per share while firm size has insignificant impact on current dividend per share of non-financial companies in Sri Lanka.

The study investigated the impact of board characteristics on dividend payment of non-financial companies in Sri Lanka. Descriptive statistics revealed that board structure of majority of non-financial companies consistent with corporate governance code of 2013 of Sri Lanka since most of the sample companies have independent directors at least two or one-third of total directors, separate leadership style and holding board meeting at least once per quarter in a financial year. The results of fixed effect regression analysis were reveal among selected moderating variables that profitability (ROE) and previous year's dividend per share have significant and positive impact on current dividend per share while firm size has insignificant impact on dividend per share of non- financial companies in Sri Lanka. These findings concluded that non- financial companies increase dividend payment with increase of profitability and previous year's divided payment or vice versa. One explanation could be that more profitable non-financial companies are distributed more dividends with positive reaction of previous year's dividend to signal to the market their higher quality in Sri Lanka in a transitional period in which companies are competing for external capital. It also help to mitigate the agency conflicts. The findings consistent with findings of Ahmed & Javid (2008); Mirzaei (2012) which found a dividend payment is depend on profitability and previous year's dividend payment, Ehsan et al. (2013) which found that firm size has insignificant impact and profitability has significant and positive impact on dividend policy and Abdelsalam et al. (2008) which found profitability (ROE) has positive and significant impact on dividend policy. The findings inconsistent with findings of Gunathilaka & Gunaratne (2009); Gunathilaka (2014) which found profitability and lagged dividend have significant and negative impact on dividend policies of non- financial companies in Sri Lanka.

The conclusion of the study was based on descriptive and fixed effect regression analysis. The coefficient of board size was show that it has negative and insignificant impact on dividend per share of non- financial companies in Sri Lanka. At the same time, average number of directors of non-financial companies in Sri Lanka was 8 members for the sample period. Thus, the findings of board size were revealing that board size has negative and insignificant impact on dividend per share of non- financial companies in Sri Lanka when average number of directors is 8 members. The study of Bennedsen et al. (2008) found a negative effect on performance when board has seven or more directors. Jensen (1993); Lipton & Lorsch (1992) also found communication, coordination of tasks and decision making effectiveness were less when board has beyond seven or eight peoples. Besides, the finding consistent with findings of Ajanthan (2013); Kulathunga et al. (2017) which also found an insignificant and negative impact of board size on dividend policies of hotel and restaurant sector and manufacturing sector respectively in Sri Lanka when number of directors was beyond seven or eight peoples. In foreign context, the finding consistent with findings of Abdelsalam et al. (2008); Shehu (2015) and Tu et al. (2007) which also found an insignificant impact of board size on dividend policies. Therefore, the findings of board size concluded that larger number of board members is non- manageable and may have greater agency problems and may not be able to act effectively leaving management relative to free of being controlled (Jensen, 1993). The code of best practices of corporate

governance-2013 is also not recommend optimum number of directors to be seated at the board and previous studies were also found more than 7 or 8 directors has negative impact on dividend decision. Furthermore, the finding supports to mitigate the agency problem since less board size increase the dividend payment.

The second board characteristic was board independence. Its coefficient was show that it has significant and positive impact on dividend per share of non- financial companies in Sri Lanka. At the same time, the mean value was show that 96% of non- financial companies have independent directors at least two or one third of total directors. The finding consistent with finding of Kulathunga et al. (2017) which also found a significant and positive impact of board independence on dividend policies in Sri Lanka. However, the finding inconsistent with Nazar (2021) which found that board independence has significant and negative impact on dividend policies and Ajanthan (2013) which found an insignificant impact of board independence on dividend policies in Sri Lanka. In foreign context, it was consistent with findings of Alias et al.(2012) and Uwalomwa et al. (2015). However, the current study consistent with code of best practice on corporate governance -2013 of Sri Lanka which is recommended that company should have independent directors at least two or one third of total directors for the effective decision making. Further, the finding consistent with Daily et al. (2003) and Boyd (1995) which stated that firms with independent directors have a better alignment between shareholders' and managers' interests. The current study also supports to mitigate the agency problem since the finding has a positive significant relationship between board independence and dividend payment in non-financial companies in Sri Lanka. The finding of board independence concluded that more independent directors on the board provide higher level of independent decisions and monitoring and also they are expertise and have experience which is helping to effective board decisions including dividend decisions and ultimately add value for the firm (Dalton et al., 1998).

The third board characteristic was separation of the role of CEO and Chairman of the board. Its coefficient was show that it has significant and positive impact on dividend per share of non-financial companies in Sri Lanka. At the same time, the mean value was show that 91.8% of non-financial companies has two individuals for the post of CEO and Chairman at the board (mean value of CEO duality was 8.2%). Thus, the findings were reveal that non- financial companies should have separate leadership style to pay more dividends and to mitigate the agency problem. It consistent with code of best practice on corporate governance -2013 of Sri Lanka which is recommended that companies should have separate leadership for the effective decision making. Further, the finding consistent with agency theory. In Sri Lankan context, the finding was consistent with findings of Kulathunga et al. (2017). However, it inconsistent with finding of Ajanthan (2013) which found a significant and negative relationship and Nazar (2021) which found an insignificant negative relationship between CEO duality and dividend policies. In foreign context, the finding consistent with findings of Gill and Obradovich (2012) and Uwalomwa et al. (2015). The finding concluded that separate leadership style generate various ideas from two individuals then it help for the effective board decisions including dividend decisions and ultimately add value for the firm.

The fourth board characteristic was board meeting. The mean value was show that 86.5% of non- financial companies are held the board meeting at least once per quarter in a financial year. It consistent with code of best practice on corporate governance -2013 of Sri Lanka which is recommended that corporation should held the board meeting at least once per quarter in a financial year for the effective board performance. However, the study has found an insignificant negative impact of board meeting on dividend per share of non- financial companies in Sri Lanka. The

finding was inconsistent with finding of Benjamin & Zain (2015) which found a significant negative relationship between board meeting and dividend payout in Malaysian firms. The findings of board meeting concluded that most of the non-financial companies are held the board meeting at least once per quarter in a financial year based on code of corporate governance-2013. However, if there is effective board in a corporation, it is possible to decide the effective decisions from less board meeting. In another word, absolutely an effective board does not need to arrange the board meetings very often. Thus, the finding is acceptable from less board meeting for effective corporate decision.

The mean values of the study concluded that most of the non- financial companies follow the code of best practice on corporate governance -2013 of Sri Lanka for the effective corporate decision including dividend decisions. Furthermore, results of fixed effect model summarized that when the board has independent directors at least two or one third of total directors and separation of the role of CEO and Chairman, non- financial companies in Sri Lanka increase dividend payment with increase of profitability and previous year's dividend payment or vice versa. Thus, the findings support to mitigate the agency problem in non-financial companies in Sri Lanka.

IMPLICATIONS

The findings of the study provide guidelines for policy makers and regulators notably the Sri Lankan Government, Securities and Exchange Commission of Sri Lanka, Institute of Chartered Accountants of Sri Lanka and other relevant institutes, to set better rules or revise their existing regulations. Furthermore, the findings help to policy makers to reassess and revise current policy on insignificant corporate governance characteristics. Thus, such measure will build up a more reliable and effective corporate governance's legislation, rules and guidelines or revise their existing regulations or keep at same stage to be followed and adopted by non- financial companies in Sri Lanka in exploiting shareholders' interest. Thus, improved corporate governance in Sri Lanka will ultimately create a favorable Sri Lankan investment environment to the local as well as foreign investors to invest in and leads to sustainable economic growth. The findings of the study will be supported to management body of non-financial companies to receive clear understanding about their corporate governance quality status. Moreover, the current study provides clear ideas to investors to invest at dividend paying non- financial companies where board has independent directors at least two or one-third of total directors and separate leadership style. Furthermore, it will be supported to select the best suit stocks in building their portfolio. Academicians might put further effort into the current research to contribute more into dividend decisions of non-financial companies in Sri Lanka.

CONCLUSION

The study covered 80 non-financial companies due to the availability of data among 96 continuously dividend paid non-financial companies. Thus, the future studies can be applied same conceptual framework in financial companies. Furthermore, it can be applied for the comparison between financial companies and non-financial companies, sector wise comparison and country wise comparison. The study used four board characteristics to represent the board structure. However, future studies can be extended to other board characteristics such as board committee, number of female directors to examine the impact on dividend payment. As well as, the future studies can be selected any one of the board characteristics and deeply analyzed its impact on dividend payment. The future studies can be applied various methodologies such as full adjustment

model, partial adjustment model, earning adjustment model.

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