

Stock Liquidity and Firm Dividend Policy in The Colombo Stock Market

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Abstract

The study examines the relationship between stock liquidity and firm dividend policy of Sri Lankan corporate entities listed in Colombo Stock Exchange for the period of six years from 2009 to 2014. It first presents a descriptive analysis of the variables used for the study and then explicates the findings of Pearson's test of the hypothesis developed. Subsequently, it discusses the performance of a linear regression model built on stock liquidity and firm dividend policy. The study first conducts hypothesis testing through Pearson's correlation and attempts to model the relationship between the variables through a linear regression. This relationship is tested both at an overall level as well as in separate categories of EPS and market capitalization. Finally, the study, builds a logistic regression model to predict a company's dividend paying or non-paying decision based on stock liquidity and firm characteristics. Among the categories of EPS, the negative relationship was observed more significantly in the positive EPS group implying that less profitable companies should possibly be more concerned of investor liquidity needs. In the categories of market capitalization, the negative relationship between STO and DPO is observed more significantly in firms with high market capitalization suggesting that investor need for liquidity is high for highmarket capitalization companies. There is no significant relationship observed between the liquidity proxy STO and DPO both in overall and categorical terms. A positive relationship is observed between TV and DPO while WAIT and DPO shows negative relationship that proves higher waiting time represents lower liquidity.

Keywords: Dividend, Dividend Policy, Dividend Payout, Stock Liquidity