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5th International Undergraduate Finance Research Conference 2025

"Financial Innovation, Sustainability, and Inclusion for a Resilient Economy"

PROCEEDINGS

Faculty of Management and Finance
University of Ruhuna
Sri Lanka

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Impact of Capital Structure on Dividend Policy: Evidence from the Food, Beverages & Tobacco, and Capital Goods sectors in Sri Lanka

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Abstract

The relationship between capital structure and dividend policy constitutes a fundamental area of inquiry in corporate finance, significantly shaping investor decision-making and corporate financial strategies. This study examines the influence of capital structure on dividend policies, drawing on evidence from the Food, Beverages & Tobacco, and Capital Goods sectors in Sri Lanka. The study specifically aims to examine whether capital structure determinants affect dividend policy, undertaking profitability, and firm size, controlling for these variables. Based on a sample population of 40 listed companies over five years, the study utilizes secondary data from annual reports to conduct a quantitative analysis. Additionally, previous findings contributed by Scholars are presented in the literature review. The study employs a multiple regression approach to examine the impact of capital structure on dividend policy.

The findings from the empirical study reveal significant results, providing insightful descriptions of firms' financing decisions and their subsequent implications for dividend payments. Specifically, firms with higher debt ratios tend to disburse lower dividends due to financial constraints associated with their debt obligations. Conversely, firms with higher equity ratios have a high likelihood of paying dividends, further validating the point that firms with higher equity bases are better placed to have stable dividend policies and moderately levered firms are likely to have fixed dividend policies. Profitability also emerges as a key determinant of dividend payment decisions, where firms with higher earnings are found to have a higher likelihood of paying dividends. Apart from that, the firms' size is also revealed to play a moderating role. The findings of this research contribute to the body of literature with empirical evidence for the Food, Beverages & Tobacco, and Capital Goods sectors of Sri Lanka, yielding sector-specific information on the dynamics that drive dividend policies. The findings of this research are particularly relevant to corporate managers, policymakers, and investors who are concerned with optimizing capital structure decisions in line with dividend policies.

Keywords: Debt-to-Equity ratio, Debt ratio, Equity ratio, Capital Structure, and Dividend Policy