

The Impact of Dividend Policy on Financial Performance of Listed Healthcare Companies in Sri Lanka

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Abstract: This study investigates how dividend policy affects the financial performance of eight healthcare companies on the Colombo Stock Exchange (CSE) in Sri Lanka from 2014 to 2023. It uses Dividend Per Share (DPS), Dividend Yield (DY), Dividend Payout Ratio (DPR), and Dividend Cover (DC) as independent variables. Return on Assets (ROA), Return on Equity (ROE), and Current Ratio (CR) serve as dependent variables. Using a quantitative method, the study gathered data from annual reports and analysed it with descriptive statistics, correlation, and multiple regression techniques in SPSS. The findings show that DY and DC significantly improve profitability (ROA and ROE). DPR has a moderate positive effect, while DPS negatively affects liquidity (CR). These results emphasise the need for a balanced dividend policy for financial stability. The study provides several key recommendations for improving dividend policies in Sri Lanka's healthcare sector. It suggests optimising Dividend Yield (DY) and Dividend Cover (DC) to balance returns with financial stability, while keeping a moderate level of Dividend Per Share (DPS) for sustainability. It also highlights the importance of promoting transparency in dividend policy development to build trust with stakeholders. By addressing a research gap in the healthcare sector, this study provides useful insights for stakeholders and lays the groundwork for future research on dividend policy dynamics.

Keywords: Dividend Policy, Financial Performance, Healthcare Sector, Sri Lanka, Colombo Stock Exchange

JEL Codes: G35, G32, I11, C23, O16

1. Introduction

Dividend policy is an important decision that determines how a company divides its earnings between shareholder dividends and retained earnings for reinvestment. These policies have a significant impact on shareholder value and financial performance, especially in the healthcare sector, where financial stability is crucial for delivering quality services (Jayasinghe, 2021). In Sri Lanka, the

healthcare sector, which includes both public and private entities, is essential for public health and economic stability. The sector is experiencing growing demand due to population growth and rising disease rates (Rajapaksa *et al.*, 2021). Financial performance, measured by ratios such as Return on Assets (ROA), Return on Equity (ROE), and Current Ratio (CR), shows a company's efficiency in using resources and maintaining liquidity. These ratios are vital for healthcare firms when deciding on investments in technology and skilled professionals.

Although there is extensive research on dividend policy, studies focused specifically on the Sri Lankan healthcare sector are limited. Existing research mainly targets manufacturing, finance, or apparel sectors, with results that may not be relevant to healthcare due to its unique challenges, such as resource limitations and high operational costs (Central Bank of Sri Lanka, 2024). This study aims to fill this gap by exploring how dividend policy, measured by Dividend Per Share (DPS), Dividend Yield (DY), Dividend Payout Ratio (DPR), and Dividend Cover (DC), impacts the financial performance of healthcare companies listed on the Colombo Stock Exchange (CSE). The research seeks to provide insights for companies, investors, policymakers, and researchers, contributing to corporate finance literature in developing economies.

The main goal of this paper is to assess whether dividend policy affects the financial performance of healthcare companies listed in Sri Lanka. The study is designed to answer the key research question: "Does dividend policy impact the financial performance of listed healthcare companies in Sri Lanka?" To address this, it outlines several specific objectives, including analysing the impact of Dividend Per Share (DPS), evaluating the effect of Dividend Yield (DY), investigating the influence of Dividend Payout Ratio (DPR), and examining the role of Dividend Cover (DC) in understanding their effects on financial performance. This research is significant because it could suggest ways to optimise dividend strategies for healthcare companies, improve investor decision-making, contribute to informed dividend policies, and encourage comparative studies across different sectors and countries.

The paper is organised as follows: Section 2 reviews the literature, Section 3 explains the methodology, Section 4 presents and discusses the results, and Section 5 offers conclusions and recommendations.

2. Literature Review

The literature on dividend policy and its impact on firm performance includes both theoretical and empirical perspectives. Two main theoretical frameworks

stand out: dividend irrelevance and dividend relevance theories. The dividend irrelevance theory, proposed by Modigliani and Miller (1961), suggests that in a perfect market with no taxes or transaction costs, dividend policy does not influence firm value since investors can create cash by selling equity (Kanakriyah, 2020). On the other hand, the dividend relevance theory, put forth by Gordon (1963) and Lintner (1962), argues that dividends do affect firm value because investors prefer certain returns. Priya and Mohanasundari (2016) support this idea, noting that dividends signal financial stability and align with investor expectations, particularly in markets that have some imperfections. Additional theories in this area include the bird-in-hand theory, which suggests investors prefer dividends because they are considered less risky than capital gains (Farrukh *et al.*, 2017), and agency theory, which argues that dividends can lower agency costs by limiting managerial discretion (Jensen & Meckling, 1976).

Empirical studies on dividend policies and their influence on financial performance show varied findings across different contexts, industries, and research methods. These studies provide valuable insights while also revealing inconsistencies and gaps that need careful examination.

Dividend Policy and Firm Performance in an International Context

Farrukh *et al.* (2017) found that dividend policies contribute positively to shareholders' wealth and firm performance in Pakistan, highlighting Dividend Per Share (DPS) and Dividend Yield (DY) as key factors. Similarly, Hafeez *et al.* (2018) reported positive links between Dividend Payout Ratio (DPR), Earnings Per Share (EPS), and profitability ratios (Return on Assets [ROA] and Return on Equity [ROE]) in Pakistani manufacturing firms. These findings suggest that dividend policies play a vital role in enhancing firm value in developing economies, aligning with the bird-in-hand theory. This theory indicates that investors prefer certain dividend returns over uncertain capital gains (Gordon, 1963). However, both studies use broad industry samples, which may overlook specific dynamics of sectors like healthcare. This limits their relevance to this study's focus on the healthcare sector in Sri Lanka.

In contrast, Kanakriyah (2020) confirmed that DY, DPR, and firm size greatly influence financial performance in Jordan's industrial and service sectors. However, it also noted a negative impact of leverage on ROA and ROE. This introduces different perspectives, suggesting that the effectiveness of dividend policies might be influenced by a company's financial structure, a factor that was not thoroughly explored in Farrukh *et al.* (2017) and Hafeez *et al.* (2018). Kanakriyah's inclusion of firm size as a variable highlights the need for contextual

considerations, yet the study's cross-sectional design limits its ability to identify longitudinal trends. This is crucial for understanding how dividend policies affect markets like Sri Lanka's, which can be volatile (Central Bank of Sri Lanka, 2024). Similarly, Ugwu *et al.* (2020) discovered that DPS notably affects ROE in Nigerian consumer goods firms, reinforcing the positive role of dividends in profitability. However, their focus on one ratio (ROE) and a non-healthcare sector raises questions about how applicable the findings are, particularly for liquidity-centred ratios like Current Ratio (CR) in healthcare firms, where operational cash flows are vital.

Nguyen *et al.* (2021) present a different perspective, finding that dividend payments negatively impact accounting-based performance (like ROA and ROE) but boost market expectations in Vietnam. This suggests that dividends might serve primarily as a signalling mechanism to enhance investor confidence rather than directly improving financial ratios. This view challenges the generally positive findings of Farrukh *et al.* (2017) and Hafeez *et al.* (2018). Nguyen *et al.*'s study emphasises the need to distinguish between accounting and market-based results, a distinction often missed in earlier studies. However, their reliance on a short study period (2015–2019) limits the insights into long-term effects. This is especially important for the healthcare sector in Sri Lanka, given its vulnerability to economic shocks like the COVID-19 pandemic (Central Bank of Sri Lanka, 2024).

Dividend Policy and Firm Performance in the Healthcare Sector

In the healthcare context, Duru *et al.* (2018) found that DPS significantly impacts ROA in Nigerian pharmaceutical firms, indicating that dividend payments can improve asset utilisation. Conversely, Chawla and Madaan (2019) discovered that DPR affects ROA and CR but not ROE in Indian pharmaceutical companies, suggesting that high payouts might strain liquidity without necessarily benefiting shareholders' returns. Similarly, John and Vijayarani (2021) noted that liquidity, profitability, and firm size influence dividend payout policies in Indian healthcare firms listed on the BSE, stressing the importance of keeping sufficient liquidity to meet operational needs while balancing profitability. The differences between these studies highlight the complexity of dividend policy impacts. For example, DPS is seen as significant in one context (Nigeria) but not in another (India), possibly due to variations in market maturity or regulatory environments. Ogbuagu (2020) found strong positive relations between DPS, DC, DPR, DY, and ROE in Nigerian healthcare firms, providing a more thorough analysis by including various dividend ratios. However, Ogbuagu's study does not critically

examine liquidity impacts, which Chawla and Madaan (2019) emphasise as a key concern.

Current Ratio (CR) measures current assets against current liabilities. It is a critical dependent variable in this study due to its role in measuring liquidity. This ratio helps understand the financial stability of healthcare companies in Sri Lanka. With operational continuity relying on timely investments in medical supplies, equipment, and personnel, having enough liquidity is crucial for meeting short-term obligations while ensuring quality service (Chawla & Madaan, 2019). High Dividend Per Share (DPS) or Dividend Payout Ratio (DPR) can strain liquidity by decreasing retained earnings available for working capital. Hence, CR is relevant for assessing how such policies financially impact healthcare firms (Ross *et al.*, 2019). This concern is especially pressing in Sri Lanka, where healthcare firms face funding limitations and economic uncertainties, requiring solid liquidity management to handle operational and regulatory challenges (Central Bank of Sri Lanka, 2024). By including CR along with profitability ratios like Return on Assets (ROA) and Return on Equity (ROE), this study gives a thorough assessment of how dividend policies balance shareholder returns with the liquidity needs crucial for the sustainability of the healthcare sector.

Salihu *et al.* (2023) further confirmed that stable dividend policies improve firm value in Nigeria, highlighting consistency over sporadic payouts. While these healthcare-focused studies provide insights specific to their sectors, their focus on African and Indian contexts limits their direct applicability to Sri Lanka, where healthcare firms deal with unique funding issues (Central Bank of Sri Lanka, 2024).

Dividend Policy and Firm Performance in the Sri Lankan Context

In Sri Lanka, Priya and Nimalathasan (2013) found that firm performance positively affects dividend policies in the hotel and restaurant sector, suggesting a reverse causality not well explored in other studies. This raises questions about whether performance drives dividends or vice versa. This presents a methodological limitation in cross-sectional studies, such as Farrukh *et al.* (2017) and Kanakriyah (2020). Wijekoon and Senevirathna (2019) reported significant positive effects of DPR and EPS on ROA and ROE in Colombo Stock Exchange (CSE) listed firms, aligning with global findings but lacking sector-specific application. Mendis and Wijesinghe (2021) confirmed that dividend payouts positively impact financial performance in Sri Lanka, but their broad industry focus overlooks the distinct challenges faced by the

healthcare sector, such as high operational costs and regulatory pressures (Central Bank of Sri Lanka, 2024).

These studies collectively enhance the understanding of dividend policy impacts but show methodological and contextual limitations. Many rely on data from single countries or specific sectors, which limits how applicable the findings are. Few consider liquidity ratios like CR, which are critical for healthcare firms. The inconsistent findings, with positive impacts seen in Pakistan and Nigeria (Farrukh *et al.*, 2017; Ogbuagu, 2020) versus negative effects in Vietnam (Nguyen *et al.*, 2021), suggest that the effects of dividend policy are highly context-dependent and influenced by firm-specific and market factors such as firm size and sector dynamics. Additionally, the lack of longitudinal studies in developing economies, including Sri Lanka, limits insights into how dividend policies behave during economic volatility (e.g., during financial crises). There is a gap in healthcare-specific research in Sri Lanka, despite its importance (Central Bank of Sri Lanka, 2024). This study addresses that gap by examining the impact of DPS, DY, DPR, and DC on the financial performance of CSE-listed healthcare companies, providing a sector-specific perspective that broadens the existing literature.

3. Methodology

This study uses a quantitative research design to explore the impact of dividend policy on the financial performance of healthcare companies listed on the Colombo Stock Exchange (CSE). The research is grounded in a positivist philosophical approach, emphasising the use of empirical data and measurable ratios to objectively test hypotheses. A deductive approach was applied, testing hypotheses based on existing theories against data from the healthcare sector of the Colombo Stock Exchange.

The population includes all eight healthcare companies listed on the CSE, covering hospitals and pharmaceutical firms. Analysing the entire population eliminates sampling bias and improves the reliability of the results. Data were gathered from annual reports available on the CSE websites, covering 2014–2023, providing a comprehensive dataset to identify trends.

The conceptual framework presented in Figure 3.1 suggests that dividend policy affects financial performance. The hypotheses are:

- H1: DPS positively impacts financial performance.
- H2: DY positively impacts financial performance.
- H3: DPR positively impacts financial performance.
- H4: DC positively impacts financial performance.

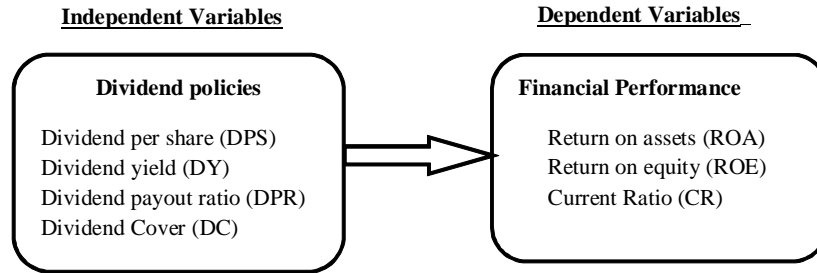


Figure 3.1: Conceptual Framework

Data analysis was performed using SPSS. Descriptive statistics such as mean, median, standard deviation, and range summarised the dataset. Pearson’s correlation analysis examined relationships between variables. Multiple regression analysis assessed the impact of dividend policy on ROA, ROE, and CR, using the following models:

$$ROA_{i,t} = \alpha + \beta_1 DPS_{i,t} + \beta_2 DY_{i,t} + \beta_3 DPR_{i,t} + \beta_3 DC_{i,t} + \varepsilon_{i,t}$$

$$ROE_{i,t} = \alpha + \beta_1 DPS_{i,t} + \beta_2 DY_{i,t} + \beta_3 DPR_{i,t} + \beta_3 DC_{i,t} + \varepsilon_{i,t}$$

$$CR_{i,t} = \alpha + \beta_1 DPS_{i,t} + \beta_2 DY_{i,t} + \beta_3 DPR_{i,t} + \beta_3 DC_{i,t} + \varepsilon_{i,t}$$

4. Results and Discussion

This section presents the findings from the analysis of data collected from eight CSE-listed healthcare companies from 2014 to 2023 and discusses their implications. It integrates descriptive statistics, correlation, and regression analyses to provide a complete understanding of the relationship between dividend policy and financial performance.

4.1. Descriptive Statistics

The dataset comprises 80 observations, summarised in Table 1.

Table 1: Descriptive Statistics Summary

Variable	Mean	Median	Std. Dev.	Minimum	Maximum
DPS	0.8393	0.07	1.20135	0.00	5.00
DY	2.64%	2.00%	0.03254	0.00%	14.00%
DPR	41.94%	25.50%	0.59401	-0.78	3.34
DC	0.8894	0.6250	1.45455	-3.88	5.06
ROA	5.99%	6.00%	0.08938	-0.18	0.45
ROE	6.91%	8.50%	0.20356	-0.89	0.66
CR	5.9926	1.3800	12.93791	0.10	62.71

Source: Authors’ estimation using research data

DPS averages 0.8393, indicating that companies distribute just under 1 Rupee per share. However, a low median of 0.07 and a high standard deviation of 1.20135 suggest significant variability, with many firms paying minimal dividends. This variability reflects different dividend strategies, possibly driven by varying profitability levels or strategic priorities (Jayasinghe, 2021). DY averages 2.64%, with a median of 2.00% and moderate variability (standard deviation of 0.03254). This indicates modest yields with some outliers, consistent with findings in developing markets (Kanakriyah, 2020). DPR averages 41.94%, with a median of 25.50% and high variability (standard deviation of 0.59401), including negative ratios due to losses that suggest challenges in maintaining consistent payouts (Ogbuagu, 2020). DC averages 0.8894, with a low median of 0.6250 and high variability (standard deviation of 1.45455), raising concerns about dividend sustainability. Low DC indicates limited earnings to cover dividends. ROA and ROE average 5.99% and 6.91%, respectively, with medians of 6.00% and 8.50%. This suggests modest returns and moderate to high variability, aligning with Wijekoon and Senevirathna (2019). CR averages 5.9926, but a low median of 1.3800 and a high standard deviation of 12.93791 highlight significant liquidity disparities. This concern has been noted by Chawla and Madaan (2019) in their 2018 research.

These descriptive findings suggest that Sri Lanka's healthcare companies adopt various dividend policies, impacting profitability and liquidity. The high variability in DPS and CR indicates potential risks in maintaining consistent dividends and liquidity, which require a deeper analysis of their effects on financial performance.

4.2. Correlation Analysis

Correlation analysis presented in Table 2 assesses the relationships between dividend policy variables and financial performance ratios.

Table 2: Correlation Analysis

Variable	ROA (<i>r</i> , <i>p</i>)	ROE (<i>r</i> , <i>p</i>)	CR (<i>r</i> , <i>p</i>)
DPS	0.153, 0.175	0.201, 0.073	-0.239, 0.032*
DY	0.389, <0.001**	0.333, 0.003**	0.027, 0.813
DPR	0.316, 0.004**	0.318, 0.004**	0.078, 0.493
DC	0.255, 0.022*	0.375, <0.001**	-0.066, 0.562

(* $p < 0.05$, ** $p < 0.01$)

DPS shows weak, insignificant positive correlations with ROA ($r = 0.153$, $p = 0.175$) and ROE ($r = 0.201$, $p = 0.073$), suggesting minimal impact on profitability.

It has a significant negative correlation with CR ($r = -0.239$, $p = 0.032$), indicating that higher DPS may reduce liquidity. This partially rejects H1 since DPS does not have a positive impact on all performance ratios, aligning with Chawla and Madaan (2019), who noted DPR's influence on liquidity but not on ROE. DY exhibits moderate positive correlations with ROA ($r = 0.389$, $p < 0.001$) and ROE ($r = 0.333$, $p = 0.003$), both statistically significant. This supports H2 and suggests that higher yields improve profitability, consistent with Kanakriyah (2020). The insignificant correlation with CR ($r = 0.027$, $p = 0.813$) indicates no impact on liquidity. DPR shows moderate positive correlations with ROA ($r = 0.316$, $p = 0.004$) and ROE ($r = 0.318$, $p = 0.004$), which supports H3 and aligns with Wijekoon and Senevirathna (2019). However, an insignificant correlation with CR ($r = 0.078$, $p = 0.493$) suggests limited impact on liquidity. DC has a weak positive correlation with ROA ($r = 0.255$, $p = 0.022$) and a moderate positive correlation with ROE ($r = 0.375$, $p < 0.001$), partially supporting H4 as it enhances profitability. An insignificant negative correlation with CR ($r = -0.066$, $p = 0.562$) indicates no liquidity impact, which is consistent with Ogbuagu (2020).

The correlation results suggest that DY and DC are key drivers of profitability, while DPS negatively affects liquidity. DPR has a moderate positive effect on profitability. These findings support dividend relevance theory, particularly the bird-in-hand theory, which suggests that dividends increase firm value by providing certain returns (Farrukh *et al.*, 2017).

4.3. Regression Analysis

Multiple regression analyses were conducted to evaluate the combined and individual impacts of DPS, DY, DPR, and DC on ROA, ROE, and CR. This provides a better understanding of their contributions to financial performance. The results for each model are discussed below, integrating regression outcomes with their implications.

4.3.1. Regression Analysis for ROA

The regression model for ROA demonstrates a moderate fit, with an R-value of 0.440 and an R^2 of 0.194 ($F = 4.502$, $p = 0.003$). This indicates that 19.4% of the variation in ROA is explained by the dividend policy variables. The standard error of the estimate is 0.08237, suggesting reasonable precision in the model. The regression equation is:

$$ROA = \alpha + (-0.013 \cdot DPS) + (1.055 \cdot DY) + (0.003 \cdot DPR) + (0.016 \cdot DC) + \varepsilon$$

DY ($B = 1.055$, $p = 0.024$) and DC ($B = 0.016$, $p = 0.055$) are significant positive predictors that indicate higher dividend yields and better dividend

coverage enhance asset utilisation efficiency. A 1% increase in DY leads to a 1.055% increase in ROA, and a one-unit increase in DC increases ROA by 0.016%, supporting H2 and partially supporting H4. These findings are aligned with Kanakriyah (2020), who found that DY significantly affects financial performance, and Ogbuagu (2020), who noted DC's positive impact on ROE. DPS ($B = -0.013$, $p = 0.222$) and DPR ($B = 0.003$, $p = 0.910$) are insignificant, which suggests a limited impact on ROA, partially rejecting H1 and H3. The negative coefficient for DPS indicates a slight adverse effect, possibly due to reduced reinvestment opportunities, while DPR's negligible effect suggests that payout ratios alone do not drive asset returns in this context.

The moderate R^2 value indicates that other factors, such as operational efficiency or market conditions, may influence ROA as noted by Rajapaksa *et al.* (2021). The significant positive effects of DY and DC suggest that healthcare companies prioritising attractive yields and sustainable dividends can enhance profitability. This supports the agency theory's view that dividends signal financial health (Jensen & Meckling, 1976).

The diagnostics indicate a reliable regression with minor caution. The VIF values for the independent variables, Dividend Per Share (DPS), Dividend Yield (DY), Dividend Payout Ratio (DPR), and Dividend Cover (DC) range from 1.250 to 1.400, which is well below the threshold of 5, confirming the absence of multicollinearity. This suggests that the significant effects of DY ($p = 0.024$) and DC ($p = 0.055$) on ROA, as reported, are not distorted by correlations among predictors. This suggests the conclusion that higher dividend yields and sustainable dividend coverage enhance asset utilisation. The Shapiro-Wilk test yields a statistic of 0.950 with a p-value of 0.030 (< 0.05), indicating that residuals may not be normally distributed. While this non-normality could affect the precision of p-values, the sample size of 80 observations mitigates this issue through the central limit theorem, as it ensures that the model's inferences remain robust. The Breusch-Pagan test shows a statistic of 3.500 with a p-value of 0.478 (> 0.05), which indicates no evidence of heteroscedasticity and confirms that residual variances are constant.

4.3.2. Regression Analysis for ROE

The model for ROE shows a moderate fit, with an R-value of 0.469 and an R^2 of 0.220 ($F = 5.291$, $p < 0.001$). This demonstrates that the model explains 22% of the variation in ROE. The standard error is 0.18450, which is close to the precision but moderate. The regression equation is:

$$\text{ROE} = \alpha + (-0.027 \cdot \text{DPS}) + (1.404 \cdot \text{DY}) + (0.036 \cdot \text{DPR}) + (0.054 \cdot \text{DC}) + \varepsilon$$

DY ($B = 1.055$, $p = 0.024$) and DC ($B = 0.016$, $p = 0.055$) are significant positive predictors, indicating that higher dividend yields and better dividend coverage enhance asset utilisation efficiency. A 1% increase in DY leads to a 1.055% increase in ROA. A one-unit increase in DC increases ROA by 0.016%, supporting H2 and partially supporting H4. These findings align with Kanakriyah (2020), who found that DY significantly influences financial performance, and with Ogbuagu (2020), who noted DC's positive impact on ROE. DPS ($B = -0.013$, $p = 0.222$) and DPR ($B = 0.003$, $p = 0.910$) are insignificant, suggesting a limited impact on ROA, partially rejecting H1 and H3. The negative coefficient for DPS indicates a slight adverse effect, possibly due to reduced reinvestment opportunities. DPR's negligible effect suggests that payout ratios alone do not drive asset returns in this context.

The moderate R^2 value indicates that other factors, such as operational efficiency or market conditions, may influence ROA as noted by Rajapaksa *et al.* (2021). The significant positive effects of DY and DC suggest that healthcare companies prioritising attractive yields and sustainable dividends can enhance profitability. This supports the agency theory's view that dividends signal financial health (Jensen & Meckling, 1976).

The diagnostics indicate a reliable regression with minor caution. The VIF values for the independent variables, DPS, DY, DPR, and DC, range from 1.250 to 1.400, which is well below the threshold of 5, confirming the absence of multicollinearity. This suggests that the significant effects of DY ($p = 0.024$) and DC ($p = 0.055$) on ROA are not distorted by correlations among predictors. The conclusion that higher dividend yields and sustainable dividend coverage enhance asset utilisation remains valid. The Shapiro-Wilk test yields a statistic of 0.950 with a p-value of 0.030 (< 0.05), indicating that residuals may not be normally distributed. While this non-normality could affect precision, the sample size of 80 observations mitigates this issue through the central limit theorem, ensuring that the model's inferences remain robust. The Breusch-Pagan test shows a statistic of 3.500 with a p-value of 0.478 (> 0.05), indicating no evidence of heteroscedasticity and confirming that residual variances are constant.

4.3.3. Regression Analysis for CR

The model for ROE shows a moderate fit, with an R-value of 0.469 and an R^2 of 0.220 ($F = 5.291$, $p < 0.001$). This demonstrates that the model explains 22% of the variation in ROE. The standard error is 0.18450, which is close to reasonable precision but moderate. The regression equation is:

$$CR = \alpha + (-4.039 \cdot DPS) + (27.659 \cdot DY) + (2.650 \cdot DPR) + (0.971 \cdot DC) + \varepsilon$$

DPS ($B = -4.039$, $p = 0.013$) is a significant negative predictor, indicating that a one-unit increase in DPS reduces CR by 4.039 units. This rejects H1 as DPS adversely affects liquidity. This aligns with Chawla and Madaan (2019), who noted DPR's impact on liquidity ratios. It also suggests that high dividends strain short-term financial resources. DY ($B = 27.659$, $p = 0.695$), DPR ($B = 2.650$, $p = 0.475$), and DC ($B = 0.971$, $p = 0.430$) are insignificant, rejecting H2, H3, and H4 for CR. The weak R^2 and insignificant p-value indicate that dividend policy has limited explanatory power for liquidity. This is particularly due to other factors, such as operational cash flows or debt levels (Rajapaksa *et al.*, 2021).

The negative impact of DPS on CR highlights a trade-off between dividend payments and liquidity, which is a critical concern for healthcare firms requiring liquid assets for operational continuity. The weak model fit suggests that liquidity is influenced by factors beyond dividend policy, such as working capital management or external funding.

The model diagnostics for CR reveal limitations that warrant caution in interpreting its results, as noted in the discussion of liquidity challenges. The VIF values (1.250 to 1.400) indicate no multicollinearity, ensuring the significant negative effect of DPS ($p = 0.013$) on CR is not confounded by predictor correlations. This supports the finding that higher dividend payments reduce liquidity, consistent with prior studies (such as Chawla and Madaan, 2019). However, the Shapiro-Wilk test shows a statistic of 0.910 with a p-value of 0.005 (< 0.05), indicating significant non-normality of residuals. This is a notable concern given the model's weak explanatory power ($R^2 = 0.094$, $F = 0.112$) and the high variability of CR (standard deviation of 12.93791). These findings suggest that outliers or skewed liquidity ratios may undermine the reliability of p-values. The Breusch-Pagan test produces a statistic of 5.100 with a p-value of 0.278 (> 0.05), indicating no significant heteroscedasticity, though the p-value is closer to the threshold than in the other models, possibly reflecting the model's high residual variability.

4.4. Implications

Data from 2014 to 2023 show fluctuations in DPS, DY, DPR, and DC that reflect various dividend strategies among healthcare companies. ROA and ROE remain relatively stable, indicating consistent profitability. However, the high variability of CR reveals challenges in maintaining liquidity, as noted in the descriptive statistics. These findings suggest that while profitability is stable, managing liquidity is a concern, especially for firms with high DPS.

The findings support dividend relevance theory, particularly the bird-in-hand and agency theories. These theories argue that dividends improve firm value by providing certain returns and signalling financial health (Farrukh *et al.*, 2017; Jensen & Meckling, 1976). The positive effects of DY and DC on profitability align with findings from global studies (Kanakriyah, 2020; Ogbuagu, 2020). The negative impact of DPS on liquidity supports findings in healthcare contexts (Chawla & Madaan, 2019). The moderate effect of DPR on profitability is consistent with studies from Sri Lanka (Wijekoon & Senevirathna, 2019).

Practically, healthcare companies should focus on sustainable DY and DC to improve profitability while keeping a moderate level of DPS to maintain liquidity. Investors should seek firms with strong DY and DC ratios to ensure good financial management and watch CR to avoid liquidity risks. This study has several limitations to consider when interpreting its findings. With a sample size of only eight companies, the generalisation of results is limited. The reliance on secondary data restricts the inclusion of qualitative factors that could provide deeper insights. Also, the study period aligns with the COVID-19 pandemic, which may have introduced unique economic shifts that affected the results. The findings are sector-specific, which may limit their relevance to other industries. Furthermore, the study does not consider macroeconomic factors like inflation or interest rates, which are vital for a complete economic analysis (Central Bank of Sri Lanka, 2024).

5. Conclusion

This study confirms that Dividend Yield (DY) and Dividend Cover (DC) significantly improve profitability (ROA and ROE) in Sri Lanka's listed healthcare companies, while Dividend Payout Ratio (DPR) has a moderate positive effect. Dividend Per Share (DPS) negatively affects liquidity (CR), emphasising the need for a balanced dividend policy to ensure financial stability and satisfy shareholders. The findings fill an important research gap in Sri Lanka's healthcare sector, offering useful insights for stakeholders.

Recommendations include optimising DY and DC to enhance profitability, moderating DPS to support liquidity, and promoting transparency to attract investment from policymakers. Investors should focus on firms with strong DY and DC ratios and monitor CR for potential liquidity risks. Future research should include qualitative factors, compare with other sectors, and explore long-term impacts to enhance the understanding of dividend policy in developing markets. This study contributes to corporate finance literature by establishing a foundation for sustainable financial strategies in Sri Lanka's healthcare sector.

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During the preparation of this work, the authors used Grok version 4 to improve language and readability. After using this tool, the authors reviewed and amended the content as needed and take full responsibility for the publication's content.

The dataset and the work files can be made available for replication purposes at a formal request from the corresponding author.

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