"Does Stock Market Liquidity Affect Firms' Dividend Policy?"

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Abstract

"The harder we look at the dividends picture, the more it seems like a puzzle, with pieces that just do not fit together" (Black, 1974). Since the days of Modigliani & Miller (1961), scholars have been studying dividend policy. However, until quite recently, the idea of liquidity has rarely been mentioned. The study examined whether there was a relationship between the firms' dividend policy and any shares' liquidity criteria in the Sri Lankan context. This study represented 100 companies listed on the Colombo Stock Exchange (CSE) and studied the performance throughout 2015-2019. Dividend policy becomes dependent, whereas Amivest liquidity, turnover liquidity, and Gopalan liquidity become explanatory variables. Amivest liquidity and turnover liquidity are stock market liquidity measurements, whereas Gopalan liquidity measures firm liquidity. The relationship between variables was evaluated using a combined linear regression method. The study has determined no meaningful relationship between dividend policy and liquidity measures of Amivest liquidity and turnover liquidity. However, the study detected a significant reverse relationship between dividend policy and Gopalan liquidity. It emphasizes that firm dividend policy is affected by the firm liquidity but not by the stock market liquidity in the Sri Lankan context. Based on the negative relationship between the firm's dividend policy and the Gopalan liquidity, it may be suggested that owners who have invested in high liquid companies are less likely to receive dividends. Management may then skip or reduce the dividend and reinvest further because of the lower propensity to pay. On the other hand, if the company is low in liquid, the expected dividends are higher than the capital gains. And in the case of a company's liquidity, management may have an idea of whether investors want dividends or capital gains. Consequently, investors also can make better investment decisions if they concern firm liquidity in the Sri Lankan context, and they can have better rewards as they prefer.

Keywords: Colombo Stock Exchange, Dividend policy, Stock Market Liquidity

INTRODUCTION

Throughout the years, dividend policy is one of the most contentious topics among financial economists. Even though, several studies have been undertaken to solve the dividend problem, it remains unresolved. According to the broad range of discussion on dividend policy, much literature is increasing every day. The company's dividend policy sets out the amount to be paid to the shareholders as dividends on its net profits. It is a very significant decision in any business organization. As stock market liquidity plays a major influence on every financial market, it is also important to offer serious concern on liquidity. Liquidity on the stock market refers to the degree to which a market, such as a country's stock market or a region's real estate market, allows buying and selling at stable, transparent prices or low-cost trading shares without affecting the price as soon as possible. Consequently, there are fewer published articles regarding this topic. As well as, their results are contrasting with each other. Hence, it is problematic for decades as to whether meaningful relationships exist between the stock market liquidity and firm dividend policy. Based on the context, the current study aims to fill the existing literature gap by addressing the research question as to whether there is any relationship between firms' dividend policy and share liquidity criteria.

Dividend signaling, agency cost, residual, tax clientele, free cash flow, and pecking order theories are notable dividend theories. Therefore, in the light of the fact that the dividend is irrelevant, one wonders why the dividend is paid. Hence, dividend policy is called a "dividend puzzle" by some financial researchers. Since the publication of the classic paper (Black, 1974), the number of theoretical and analytical studies on dividend policy has increased significantly. As a consequence, Bernstein, Aivazian, and Booth revisited the dividend puzzle. Business profits can be invested in corporate properties, used to buy shares or securities, repay loans, or allocate to shareholders in the form of cash dividends. Profit will be paid to stockholders if the required rate of return is higher than the return that can be obtained by investing in the investment opportunity (Damodaran, 2010). Issues that occur when a company decides to transfer its profits to shareholders include the sum of after-tax revenue that would be distributed to shareholders; whether the payout will be as cash dividends, or whether the money should be returned to shareholders by buying back other shares; and how secure the payout would be.

Liquidity explains how easy it is to buy or sell an asset or service on the market at a price that demonstrates its value. Cash flow reflects the company's ability to pay dividends. Therefore, dividend payments depend on cash. Less or no dividend payout shows the firm's weak liquidity position (Anil & Kapoor, 2008); (Ahmad & Javid, 2014). In 1986, Amihud initiated' Stock Liquidity' as a concept of research. In the field of defining liquidity, developing liquidity

quantification steps, identifying liquidity determinants and liquidity impacts on asset pricing, dividend policy, returns, and market performance, work has since been underway. As Easley & O'Hara (2004), "liquidity is difficult to define, but it is easy to feel." If an asset can be quickly realized without any loss, that asset is more liquid (Keynes, 1930).

Lesmond et al. (1999), Lesmond (2005), and Hasbrouck (2009) have tested some of the liquidity proxies using transacted data and have constructed liquidity proxies on an annual or quarterly basis. In the paper "do liquidity measures measure liquidity," they have introduced a new measure of "Gamma" (Pastor & Stambaugh's,2003). In this study, Amivest liquidity, Turnover liquidity, and Gopalan liquidity have been utilized to identify whether there is any relationship between dividend policy and liquidity criteria by following Ghodrati and Fini (2014).

LITERATURE REVIEW

The dividend provides a reward for investors who have taken a risk by investing in a given firm's stock. Companies have several choices to decide what to do with the net profit. It can be paid as dividends, but it can be kept as retained earnings or used to repurchase business equity shares on the secondary market. The choice of which option is preferable for the firm depends on various factors, one of which is the company's prospect. If a corporation has many future growth initiatives in mind, dividends will be kept to a minimum or nothing at all. As per Modigliani & Miller (1961), investors should be indifferent about whether they want capital gains or earning dividends now, a concept known as dividend theory of irrelevance.

Based on the study of Banerjee et al. (2005), there is a significant negative relationship between stock market liquidity and its likelihood to pay dividends. Cash dividends and stock market liquidity serve as replacements from the viewpoint of the investors. Investors can cost-effectively create home-made dividends in highly liquid markets. Uncertainty is a significant determinant of dividend initiations and omissions. The dividend policy is likely to impact firm value on market imperfections (Banerjee et al., 2007). The market responds favorably to the announcement of the dividend increase and agrees with the proposition that the increase in the dividend should be higher than the positive response. The dividend decrease sample comes out with evidence supporting the proposition that the higher the dividend decrease larger the negative response. (Dissabandara, 2001).

In the empirical study of stock market liquidity and firm dividend policy in the sense of Thailand, it used turnover ratio, illiquid Amihud ratio, no trading day ratio, and average daily Baht volume to evaluate liquidity on the stock market (Thanadvanich,2008). The results show that 3 out of 4 liquidity measures (turnover ratio, amount of no trading day ratio, and the daily average volume of

Baht) provide proof that less (more) liquid common stock owners are more (less) likely to receive cash dividends. The illiquid ratio (inverse of liquidity) shows, by contrast, that the more (less) liquid share has the more (less) tendency to pay dividends. He has employed firm size, growth opportunities, and profitability as control variables. He further mentioned that for the firm size, larger companies are more likely to pay out dividends. According to Easterbrook (1984) and Jensen(2005), it is consistent with dividends' position minimizing agency costs. For the growth opportunities, as for Myer and Majluf (1984) and Myers & Myers (1984), the company's pecking order model avoids issuing securities due to higher cost asymmetries in information. Thus, companies with higher growth prospects are less likely to pay a dividend. According to Higgins (1972), firms with low profitability are more likely to pay. Few (more) liquid common stock owners are more likely to get cash dividends (Thanadvanich,2008). An inverse relationship has been found between the stock market liquidity and the dividend amounts paid (Griffin,2014). This could lead to dividends that often actually compensate for the lower liquidity of the stocks. This study examined seven countries (a mix of developed and developing countries) and found an inverse relationship in several cases between stock liquidity and dividends paid, especially in smaller / less profitable enterprises. It also suggested that managers (both domestic and international) be aware of the size and profitability of a particular company when setting out a policy on dividends, which could include policy implications. If it is lower, it may be prudent to start paying dividends or to continue paying dividends.

According to Seyedali et al. (2013), there is an insignificant negative relationship between dividend and turnover. Size is negative and insignificant, and growth incentives have a positive and significant relationship to dividend policy, while productivity has a positive and significant relationship. Ghodrati & Fini (2014) investigated stock market liquidity and firm dividend policy using 80 companies listed in the Tehran stock exchange over 2008-2012. They have employed Amivest liquidity (Goyenko et al., 2009), turnover liquidity, Gopalan liquidity (Gopalan et al., 2012), and cash flow liquidity to measure liquidity. Their findings were that there is no substantial association between dividend policy and Amivest liquidity; there is a strong and negative relationship between dividend policy and Gopalan liquidity. There is a direct and significant connection between dividend policy and flow liquidity. Based on Jiang, & Shi (2017), companies with a high liquidity stock have higher dividend payments than those with low liquidity stocks and a greater probability of paying dividends. This result is robust in the use of different liquidity measures and holds after governing for endogeneity issues. The relationship is strong when information asymmetry is higher, and the benefits for expropriating minority investors are greater than controlling shareholders. Finally, it concluded that market liquidity could reduce agency

problems between insiders and outsiders through information asymmetry and can thus raise dividend payments. Nadia & Sulistyowati (2018) examined stock liquidity and dividend policy using public financial firms in Indonesia. Asset liquidity, supported by the Amihud illiquidity ratio, has a negative impact on dividend policy since the liquidity has no analytical effect on dividend policy. Based on market volatility, stock liquidity has a major negative impact on dividend policy because dividends work in illiquid stocks as investment insurance. Company size, productivity, and cash management have a major positive impact on dividend policy as larger businesses have greater access to the capital market and more cash flow, which implies that more dividends will positively affect dividend policy because higher profitability means more dividend income can be distributed. According to their report, leverage has a negative impact on dividend policy.

RESEARCH METHODOLOGY

Collection of Data

This study uses secondary data. The main sources for the collection of data are the data library of Colombo Stock exchange (CSE.), annual reports, and websites of selected companies.

Population and Sampling

There are 21 industries, and 290 companies have been listed on the Colombo Stock Exchange (CSE.). From those industries, banks, diversified financials, insurance, and real estate industries have been eliminated in this study. Except for those eliminated industries, 100 companies were selected as the sample under a pro-rata basis. These companies' performance has been subjected to the study based on performance data over the period 2015 – 2019. Therefore, it has consisted of 500 (100×5) observations in the Sri Lankan context.

Data Analysis Method

Data is in the type of pooled panel. Descriptive statistical methods of mean estimation, variance, the standard deviation has been used. Combined linear regression was used to evaluate the relationship between variables, using t-test and f-test to generalize parameters and estimate relationships. Eviews and excel have been utilized for the analysis of this study.

Conceptual Framework

This study analyzes the relationship between liquidity and firms' dividend policy in the context of Sri Lanka. Consequently, the liquidity parameters are the independent variables, while the firms' dividend policy is given as the dependent variable. As liquidity indicators, Amivest liquidity,

turnover liquidity, and Gopalan liquidity were taken. Eventually, identify the impact of liquidity on dividend policy.

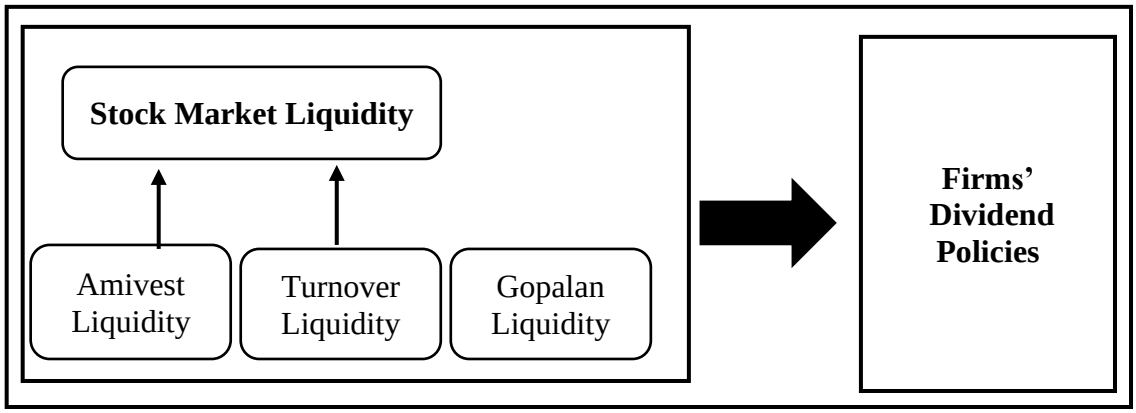

Figure 2: Conceptual Framework

Table 10: Summary of research variables

Variable	Measurement	Source
Dividend Policy (DIV)	$\frac{\boldsymbol{Dividend\ Payment}}{\boldsymbol{Net\ Profit}}$	Ghodrati and Ghazi Fini (2014)
Amivest Liquidity (AMI.)	$\frac{\sum_{n=1}^{Nt} \boldsymbol{Pn.Vn}}{\sum_{y}\left\lvert\left(\frac{\boldsymbol{P_{id}}}{\boldsymbol{P_{i(d-1)}}} - \mathbf{1}\right).\mathbf{100}\right\rvert}$	Goyenko, Holden, and Trzcinka (2009)
Turnover Liquidity (TL.)	$\frac{\boldsymbol{Number\ of\ Traded\ Shares\ Over\ a\ Period}}{\boldsymbol{Company\ Shares\ Volume}}$	Ghodrati and Ghazi Fini (2014)
Gopalan Liquidity (GP)	$\frac{\boldsymbol{Total\ Cash}}{\boldsymbol{Book\ Value\ of\ Company\ Assets}}$	Gopalan, Kadan, and Pevzner (2012)

Research Hypothesis

Main hypothesis: There is a relationship between dividend policy and measures of liquidity.

Sub-Hypotheses:

1. There is a relationship between dividend policy and Amivest liquidity
2. There is a relationship between dividend policy and Turnover liquidity.
3. There is a relationship between dividend policy and Gopalan liquidity

Research Model

The relationship between variables is defined in the general form of *Y=F (X1, X2, X3, X4).* Companies have been classified into two categories of small-sized and large-sized based on book value to market value. This study was mainly supported by the article on stock market liquidity

and firm dividend policy written by Hassan Ghodrati and Seyed Reza Ghazi Fini. The relationship between variables was calculated in parametric form based on a combined linear regression as follows.

$$\mathbf{DIV_{it} = \propto + \beta_1 AMI_{it} + \beta_2 TL_{it} + \beta_3 GP_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots Equation\ (1)}$$

Definitions of Variables:

Dividend policy (DIV): Ratio of dividend payment to net profit. Dividends are also a part of a company's policy. Nevertheless, shareholders are not obliged to repay dividends.

$$\mathbf{DIV = \frac{Dividend\ Payment}{Net\ Profit}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ \mathbf{Equation\ (2)}$$

Amivest liquidity (AMI.): The ratio of transaction value per share to the transaction value of the company's shares. This is a liquidity indicator that measures the trading dollar value that would occur if prices increased by 1 per cent. It is identified as the inverse of I.L.L.I.Q. Measure. The formula is as follows. In this study, it defines as an annual indicator of stock market liquidity.

$$\boldsymbol{LR_i = \frac{\sum_y VK_{id}}{\sum_y |R_{id}|} = \frac{\sum_{n=1}^{Nt} Pn.Vn}{\sum_y \left|\left(\frac{P_{id}}{P_{i(d-1)}} - 1\right).100\right|}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \mathbf{Equation(3)}$$

Where,

i = security

d = day

VK_{id} *= Daily share volume*

Daily share volume is calculated by share price multiplied by volume.

R_{id} *= Return of stock i on day d*

Pn =Price in transaction n

Vn= number of traded stocks in transaction n

P_{id} *= Price of stock i on day d*

$P_{i(d-1)}$ *= Price of stock i on day (d-1)*

Turnover liquidity (TL.): Share turnover is a stock liquidity indicator calculated by dividing the total number of shares exchanged over a period by the average number of outstanding shares for that time. Share turnover ratio shows how easy or difficult it is to sell on a given stock's market shares. In this study, turnover liquidity describes as an annual indicator of liquidity. The formula is as follows.

$$\mathbf{TL} = \frac{\mathbf{Number\ of\ Traded\ Shares\ Over\ a\ Period}}{\mathbf{Company\ Shares\ Volume}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \mathbf{Equation\ (4)}$$

Gopalan liquidity(GP): The ratio of total cash to the book value of company assets. Radhakrishnan Gopalan is the founder of this measure. This is one of the firm's liquidity measures and an annual indicator of liquidity.

$$\mathbf{GP} = \frac{\mathbf{Total\ Cash}}{\mathbf{Book\ Value\ of\ Company\ Assets}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \mathbf{Equation(5)}$$

DATA PRESENTATION AND ANALYSIS

In this study, 100 companies were selected from companies listed on CSE. as the sample under a pro-rata basis. These companies' performance has been subjected to the study based on performance data over the period 2015 – 2019. Therefore, it has consisted of 500 (100×5) observations in the Sri Lankan context. First, observations are described, and the relationship between variables is studied.

Description of Findings

Table 2 provides a summary of the findings for describing the variables.

Table 11: Description of statistical indicators

	DIV	AMI	TL	GP
Mean	0.453333	51008020	0.078739	0.056727
Median	0.237962	4968104.	0.031334	0.014688
Maximum	4.130439	1.70E+09	1.100867	0.695607
Minimum	0.000000	452.5421	0.000698	2.44E-06
Std. Dev.	0.679551	1.69E+08	0.136975	0.106023
Skewness	2.830927	6.380214	4.124460	3.085068
Observations(100x5)	500	500	500	500

DIV (Dividend policy) AMI. (Amivest liquidity) TL. (Turnover liquidity) GP (Gopalan liquidity)

Table 2 illustrates the descriptive statistical indicators of this study. The total observations for Sri Lanka are 500. The mean value of the DIV, the dependent variable of this study, is 0.45333. Its values range from 0.00000 to 4.130439, a median value of 0.237962, a standard deviation of 0.679551, and a coefficient of skewness of 2.830927. There are three independent variables of liquidity measures. When Amivest liquidity measure was observed across the sample companies, AMI ranges from 452.5421 to 1,700,000,000 with a mean value of 51,008,020, a median value

4,968,104, the standard deviation of 169,000,000, and a coefficient of skewness of 6.380214. Turnover liquidity is another independent variable, and TL. has a mean value of 0.078739, ranging from 0.000698 to 1.100867, a median value of 0.031334, a standard deviation of 0.136975, and a coefficient of skewness of 4.124460. One of GP's other independent variables ranges from 0.000002 to 0.695607 with a mean value of 0.056727, a median of 0.014688, a standard deviation of 0.106023, and a coefficient of skewness of 3.085068.

Correlation Analysis

Table 12: Correlation analysis for research variables

Variable	DIV
AMI	0.00386
t-Statistic	0.06080
P – value	0.95160
TL	0.07665
t-Statistic	1.21076
P – value	0.22710
GP	-0.115415*
t-Statistic	-1.82978
P – value	0.06850

(***)(**) (*) Indicates significance at (1%) (5%) (10%)

Table 3 presents the Pearson correlations between the dependent variable and independent variables. Depending on its findings, it can be evaluated if the explanatory variable influences the dependent variable. As the Pearson product-moment correlation shows, none of the independent variables except for Gopalan liquidity have any meaningful association with the dependent variable. Given the degree of the correlation coefficient and the relevance degree between the dividend policy and the liquidity measures of Amivest 's liquidity and turnover liquidity, it is inferred that there was no substantial connection between these variables and that there was no substantial relevance level. Given the correlation coefficient and the significance level between the dividend policy and the Gopalan liquidity indicator, the association between these two variables is concluded to be significant.

And after that, the relationship between dividend policy and liquidity measures of Amivest liquidity, turnover liquidity, and Gopalan liquidity were evaluated in different levels of small and large enterprises, companies with a high book value to market value ratio, and those with a low book value to market value ratio.

Table 13: Correlation analysis for small-sized companies

Variable	DIV
AMI	0.03179
t-Statistic	0.35282
P – value	0.72480
TL	0.12817
t-Statistic	1.43326
P – value	0.15430
GP	-0.02482
t-Statistic	-0.27529
P – value	0.78360

(***) (**) (*) Indicates significance at (1%) (5%) (10%)

Table 14: Correlation analysis for large-sized companies

Variables	DIV
AMI	-0.04119
t-Statistic	-0.45719
P – value	0.64830
TL	0.04109
t-Statistic	0.45612
P – value	0.64910
GP	-0.23807***
t-Statistic	-2.71843
P – value	0.00750

(***) (**) (*) Indicates significance at (1%) (5%) (10%)

The results indicated that:

1. There is no meaningful correlation between the dividend policy and the Amivest liquidity ratio in two groups of small and large companies with a high book value ratio to market value and a low book value ratio to market value.

2. There is no significant correlation between dividend policy and turnover liquidity ratio in two groups of small and large companies with a higher book value-to-market ratio and low book value-to-market value ratio.

3. There is no significant correlation between dividend policy and Gopalan liquidity ratio in small companies with a high book-to-market value ratio. In contrast, there is a significant correlation

between dividend policy and the Gopalan liquidity ratio in large companies with a low book-to-market-value ratio.

Regression Analysis

The multi-variables linear-regression was used for the analysis of the relationship between variables, based on similar research methodology and econometric preliminaries:

The relationship between dividend policy and Amivest liquidity

The summary of the regression estimation of parameters is shown in Table 6.

Table 15: Regression estimation for the relationship between dividend policy and Amivest liquidity

Variables	Symbol	Coefficient	T-Statistics	P-value	R-squared	F-Statistic	Durbin-Watson
Constant Coefficient	β_0	-0.751069	-1.134921	0.2575	0.000015	0.003697	0.8685
Amivest Liquidity	LNAMI	0.002569	0.0608	0.9516		0.951567	

Number of observations = 500

The relationship of variables is explained as follows after substituting parameters on the regression equation:

$$\mathbf{LNDIV = -0.751 + 0.0025LNAMI_{it}}\text{.....Equation (6)}$$

There is a positive, insignificant correlation between dividend policy and Amivest liquidity, as shown in the regression mentioned above model. The R^2 is 0.000015. Therefore, there is no significant linear relationship between dividend policy and Amivest liquidity.

The relationship between dividend policy and turnover liquidity

The summary of the regression estimation of parameters is shown in Table 7.

Table 16: Regression estimation for the relationship between dividend policy and turnover liquidity

Variables	Symbol	Coefficient	T-Statistics	P-value	R-squared	F-Statistic SiGLevel	Durbin-Watson
Constant Coefficient	β_0	-0.45538	-1.97308	0.0496	0.005876	1.465937	0.87581
Turnover Liquidity	LNTL	0.07129	1.210759	0.2271		0.22714	

Number of observations = 500

The relationship of variables is explained as follows after substituting parameters on the regression equation:

$$\mathbf{LNDIV = -00455 + 0.0713LNTL_{it}}\text{.....Equation (7)}$$

As shown in the above regression model, there is an insignificant positive correlation between dividend policy and turnover liquidity. The study of R^2 is 0.0058. Therefore, there is no significant linear relationship between dividend policy and turnover liquidity.

The relationship between dividend policy and Gopalan liquidity

The summary of the regression estimation of parameters is shown in Table 8.

Table 17: Regression estimation for the relationship between dividend policy and Gopalan liquidity

Variables	Symbol	Coefficient	T-Statistics	P-value	R-squared	F-Statistic SiGLevel	Durbin-Watson
Constant Coefficient	β_0	-1.05927	-5.00884	0.0000	0.013321	3.34809	0.89763
Gopalan Liquidity	LNGP	-0.08007	-1.82978	0.0685		0.068483	

Number of observations = 500

The relationship of variables is explained as follows after substituting parameters on the regression equation:

$$\mathbf{LNDIV = -1.05927 - 0.08007\ LNGP_{it}}\text{ .....Equation (8)}$$

As shown in the above regression model, there is a significant negative correlation between dividend policy and Gopalan liquidity under 0.1 error level. The R^2 is 0.013321. Therefore, there is a significant and inverse linear relationship between dividend policy and Gopalan liquidity.

The relationship between dividend policy and liquidity criteria

The summary of the regression estimation of parameters is shown in Table 9.

Table 18: Regression estimation for the relationship between dividend policy and liquidity criteria

Variables	Symbol	Coefficient	T-Statistics	P-value
Constant Coefficient	β_0	-0.504226	-0.550552	0.5824
Amivest Liquidity	LNAMI	-0.01607	-0.337995	0.7357
Turnover Liquidity	LNTL	0.085814	1.300342	0.1947
Gopalan Liquidity	LNGP	-0.080556	-1.825872	0.0691

R-squared= 0.020381 F-value sig.value = 0.166334 Durbin Watson = 0.901831

The relationship of variables is explained as follows after substituting parameters on the regression equation:

$$\mathbf{LNDIV = -0.50 - 0.01607AMI_{it} + 0.0858TL_{it} - 0.0805GP_{it}}\text{ .....Equation (9)}$$

The quantity of regression F-statistic indicates this model's weak explanatory capacity since the measured quantities of F are not significant in the 5 percent error level. Durbin-Watson's quantities also indicate an autocorrelation between the model's destructive elements, as the quantities are below 2.0. In the error level of 5 percent, the estimated coefficients of the linear model for the variables of Amivest liquidity, turnover liquidity, and Gopalan liquidity are not significant according to the calculated t statistics and associated probability. In this model, the explanatory power of the R-squared quantity is 0.02031 for explaining the dependent variable. However, Gopalan liquidity has a significant correlation with dividend policy under an error level of 10%.
As indicate in the above model, dividend policy and Amivest liquidity have a negative relationship, a positive relationship between dividend policy and turnover liquidity, and a negative relationship between dividend policy and Gopalan liquidity. But except for dividend policy and Gopalan liquidity, there are no significant relationships between the other two liquidity criteria with dividend policy. Therefore, there is a significant and negative linear relationship between dividend policy and Gopalan liquidity in CSE companies.

CONCLUSION

First, observations of the study were described. Then the research hypotheses and sub-hypotheses were put forward and tested, and the following results were achieved.

Table 19: A summary of the findings

Variables	R^2	D.Watson	F-statistic	t-statistics	SiGLevel	Result
Amivest Liquidity with dividend	0	0.8685	0.0037	0.0608	0.05	Rejected
Turnover liquidity with dividend	0.00588	0.87581	1.46594	1.21076	0.05	Rejected
Gopalan liquidity with dividend	0.01332	0.89763	3.34809	-1.8298	0.1	Accepted

There is no significant correlation between dividend policy and Amivest liquidity.
There is no significant correlation between dividend policy and turnover liquidity.
There is a significant and negative linear relationship between dividend policy and Gopalan liquidity.

This study looked at whether there is an association between dividend policy and stock market liquidity. Three independent variables were used as liquidity measures, while dividend policy

becomes the dependent variable. Based on the results, only the Gopalan liquidity was significant. It is contrasted with the results found by Godrati & Fini (2014) in their research on stock market liquidity and firm dividend policy. As well as when it is tested the correlation between liquidity criteria and dividend policy based on the firm size, it has found a significant correlation between Gopalan liquidity and dividend policy in the category of large-sized companies. Gopalan liquidity measure is a firm liquidity indicator, whereas the other two liquidity criteria of Amivest liquidity and turnover liquidity are stock market liquidity measures. Therefore, it can be inferred that there is no significant relationship between the stock market liquidity and firm dividend policy. At the same time, there is a relationship between firm dividend policy and firm liquidity in the sense of Sri Lanka. Therefore, the company's dividend policy is not affected by the stock market liquidity but by the firm liquidity. Hence, the dividend policy can differ depending on the company's liquidity nature. Based on the negative relationship between the firm dividend policy and the Gopalan liquidity, it can be suggested that owners who have invested in high liquid companies are less likely to receive dividends. Then management can omit the dividend or reduce it and invest more because of the lower tendency to pay. On the other hand, if their business is low in liquid, the dividends anticipated are higher than the capital gains. And based on the company's liquidity, management may have an idea of whether investors want dividends or capital gains. Therefore, investors can make better investment decisions if they concern firm liquidity, not the stock market liquidity, and can have better rewards as they prefer in the sense of Sri Lanka.

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