



# South Asian Journal of Finance

ISSN (Online): 2719-2547 | Journal Home Page: <https://sajf.sljol.info/>

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**To cite this article:** Jayarangi W.C. and Buddhika H.J.R. (2025). The Impact of Firm-Specific Factors on Share Prices of Diversified Financial Companies: Evidence from the Colombo Stock Exchange, *South Asian Journal of Finance*, 5(1), 67–83.

## The Impact of Firm-Specific Factors on Share Prices of Diversified Financial Companies: Evidence from the Colombo Stock Exchange

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### ABSTRACT

**Purpose:** A nation's stock exchange is vital to its financial markets and economy. Share price fluctuations give decision-makers positive and negative signals about market performance. The study's primary goal was to determine how the share prices of various financial firms listed on the Colombo Stock Exchange (CSE) were affected. The influence of Return on Equity (ROE), Dividend per Share (DPS), Earnings per Share (EPS), Price-to-Earnings ratio (P/E), and Debt-to-Total Assets (DTA) on the share price of diverse financials was the focus of additional study objectives.

**Design/Methodology/Approach:** While the share price (SP) is a dependent variable, the ROE, DPS, EPS, P/E, and DTA are considered independent variables. The internal factors are considered independent variables mainly due to limited previous studies, and firm size is regarded as the controlling variable. Out of 43 Diversified Financial companies in CSE from 2013 to 2023, the top 20 were chosen as the sample based on the highest market capitalization. STATA software was used to do the analysis.

**Findings:** According to the findings, SP has a somewhat good association with P/E, a significant positive link with DPS and EPS, and a negative relationship with ROE, DTA, and firm size. Additionally, there is a notable difference between SP and EPS, P/E, and DTA.

**Originality:** Before making a choice, an investor who wants to invest in CSE and diversified financials should consider the abovementioned factors because these factors can be used to make accurate future share price estimates.

### KEYWORDS

Diversified Financials  
Companies, Dividend Per  
Share, Earning Per Share,  
Price to Earnings Ratio,  
Return on Equity, Share  
Price

### JEL CLASSIFICATION

G10, G20, G23

## I. Introduction

The stock market serves as a vital platform for buyers and sellers to trade securities, contributing significantly to a country's economic development and growth. The Colombo Stock Exchange (CSE) is a crucial entity in Sri Lanka, facilitating securities exchange for various market participants. There are 284 companies representing 20 industry group sectors allocated by CSE. The CSE provides opportunities for firms to raise capital through debt or equity instruments. Among these sectors, Diversified Financials companies hold particular importance, comprising 20 large organizations that play a pivotal role in

supporting Sri Lanka's economy, contributing significantly to the market, representing approximately 20% of the total market capitalization in 2023. Notably, over the last three years, the Diversified Financial industry has had significant development, with earnings and revenues rising by 43% and 31% annually, respectively (CSE Annual Report, 2023). Given their influential role and impressive growth rates, Diversified Financial companies are of great interest to local and foreign investors, exerting control over various unrelated businesses within their portfolios.

While developed countries have a wealth of studies on the impact of firm-specific

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Received: 19 November 2024, Accepted revised version: 10 June 2025

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characteristics, South Asian countries, Sri Lanka in particular, have gotten less attention in this area (Dissanayake & Herath, 2016; Kumar, 2017; Pandigamage & Ranaweera, 2023). By examining the factors that influence the share prices of listed diversified holding corporations on the Colombo Stock Exchange, this study seeks to close this gap. In addition to taking company size into account as a control variable, it looks at five independent variables: return on equity (ROE), earnings per share (EPS), dividend per share (DPS), price to earnings (P/E) ratio, and debt to total assets (DTA) ratio.

The research problem is to examine the effect of firm-specific factors on the share prices of varied financial enterprises listed on the Sri Lankan Colombo Stock Exchange. This study is justified by the idea that knowing the variables influencing these financial organizations' share prices will assist investors in gaining knowledge and making better judgments.

One of investors' most significant challenges is identifying the internal and external factors affecting share price swings. The only internal or firm-specific elements that significantly impact share price are taken into account in this study. These factors are crucial because, to some extent, organizations can regulate internal factors through management tactics.

Most investors typically lose money on their investments since they are usually less knowledgeable of share market changes. Making wise and profitable investment selections is hampered by the general public's and professionals' lack of understanding of investor ratios. However, less knowledge of these ratios prevents present and future investors from funding more financially favourable businesses. Therefore, giving current information to those involved in the investment process, particularly investors, is another goal of this study to help them make better investment selections.

The most common question that most stock/options investors and traders may have is how firm-specific factors will affect and to what extent they affect the valuation of a company's shares. This analysis of the Indian auto sector addresses these issues (Kumar, 2017).

Limited research is available in developing markets, even though many empirical studies in developed markets have tested how share prices respond to internal and external influences. Global market development is still ongoing for the Colombo Stock Exchange. Few studies have been conducted on the Colombo stock exchange, and even fewer have looked into the factors that influence the prices of diverse holding companies on the CSE.

A 2016 study that looked at the effect of firm-specific factors on the share prices of diversified financial companies listed on the CSE and published in the Staff Studies of the Central Bank of Sri Lanka shows only the percentage increments. The results may deviate from the moment due to political and economic changes after 2020.

The study explores various determinants of share prices by addressing specific sub-research questions related to the main problem statement. It focuses on how firm-specific factors influence the share prices of diversified financial companies listed on the Colombo Stock Exchange (CSE). The central research question guiding the study is: "How do firm-specific factors impact the share prices of diversified financial companies in the Colombo Stock Exchange (CSE)?" To address this, the study identifies five key firm-specific variables as independent factors. The primary objective is to evaluate the impact of these variables on share prices. Specifically, the study aims to examine the effects of return on equity, dividend per share, earnings per share, the price-to-earnings ratio, and the debt-to-total-assets ratio on the share prices of these companies.

The existing knowledge of operations and share price fluctuations in the stock exchange will support this study. In the Sri Lankan context, this research topic was less addressed, specifically the impact of firm-specific factors on the share prices of listed companies. Thus, it is vital to research this area to identify the relationship between firm-specific factors and share price in the Sri Lankan context.

## **II. Literature Review**

### ***Theoretical Review***

Firm-specific factors were predominant in investors' decision-making. The advantage is the ability to control the aspects of the business organization up to a certain level. Few theories supported the study, as mentioned below.

#### ***Bird in Hand Theory***

The bird-in-hand hypothesis of dividend policy, as proposed by John (1962) and Myron (1963), postulates that shareholders are risk-averse and would rather accept dividend payments than potential capital gains. "A bird in hand is worth more than two in the bush," dividend payments are more assured to shareholders than potential financial gains. Gordon concluded that "investor uncertainty" is resolved by the current dividend payment. Investors desire a certain amount of income now rather than the possibility of a more significant but less definite income in the future. According to the bird hand theory, shareholders place a higher value on a dollar received in dividends than on a dollar earned but kept. As a result, dividend policy affects share price/value (Ali, 2020).

#### ***The Residual Theory of Dividend Policy***

Despite not being a direct innovation of Modigliani & Miller, the same conclusion about dividend irrelevance is drawn. The idea is that a company's dividend should be viewed as the money left over after all feasible avenues for investment have been investigated. This simple idea, nevertheless,

is not the entirety of this theory. Dividend policy is heavily influenced by investment opportunities and the availability of funds to support new projects. This situation has led to the development of a residual dividend policy, which is the primary focus of this study. By the policy, a business should consider the following things before figuring out its payout ratio: First, determine the optimal capital budget.

#### ***Agency cost Theory***

According to the agency cost theory, agency costs resulting from ownership and control dispersion impact dividend policy. Managers may occasionally opt for a dividend policy that serves their interests and personal perks over maximizing shareholder value. Given this knowledge, shareholders may devise strategies to regulate management actions (Jensen et al., 1976). Following that, paying dividends will limit the managers' free cash flows, ensuring managers optimize shareholder wealth rather than misusing the money for personal gain.

The theories above proved that Dividends are a considerable element/ variable for organisational decision-making: the variables and the analysis given below.

#### ***Irrelevance Dividend Policy***

Yensu and Adusei (2016) conducted a study using panel data sets from 13 African countries between 1994 and 2011. The study found that dividend payers have low financial leverage, are less profitable than non-paying firms, are more extensive, invest more, retain more of their earnings, and are more profitable than non-paying firms. The study concluded that while firm-specific factors are essential in Africa when determining dividend policy regarding payout, country-specific factors are even more critical.

#### ***Return on Equity***

The return on equity ratio is expressed as a percentage and calculated by dividing net income by shareholders equity. Net income

is the income attributed to the equity shareholders.

Every investor must consider internal and external factors when making investment decisions. These factors provide signals to analyse future expected returns from the share investment. Internal or firm-specific factors are the most important factors for investors because they affect both return and share price and their investment decisions. Most investors lose their earnings because they lack knowledge about the share market and its operations. Therefore, measuring the impact of firm-specific factors on the share price has long been an interesting query for all (Kodithuwakku et al., 2016). Using a sample of 14 Amman Stock Exchange commercial banks for 2005–2008, Nasif and Sharif (2010) investigated the Amman Stock Exchange's commercial banks. They used simple and multiple regression analysis to determine how macro and micro variables caused changes in stock prices. The market price of stocks is the dependent variable, while the independent variables are the gross domestic product, dividend percentage, earnings per share, lending interest rate, and inflation rate. The study discovered a negative correlation between inflation and interest rate and a significantly positive substantial association between market price and net assets value per share, market price of stock dividend percentage, and gross domestic product.

#### ***Dividend per Share***

The total declared dividends paid out on outstanding shares of a publicly traded firm is known as dividend per share or DPS. Returning value to shareholders is a company's priority, which makes DPS essential. Dividend payments and stock prices, equivalent to a company's total anticipated future dividend payments, provide value to investors. A key indicator of a company's declared dividends per outstanding share is dividend per share (DPS). It displays a business's dedication to providing value to its owners. To calculate DPS, one must first compute net income per

share, which is obtained by dividing net income by the total number of outstanding shares. The payout ratio, or the percentage of income paid in dividends compared to total net income, is multiplied by net income per share to determine DPS.

#### ***Earnings per Share***

It is the ratio of the company's earnings after taxes for each fiscal year following the distribution of the preferred dividend. Following the distribution of dividends to preference shareholders, the equity shareholders exclusively claim the company's net earnings. The significance of this ratio stems from the idea that a greater rate of dividends and retained earnings will strengthen the company's internal strength; this is especially true for larger earnings per share (Malhotra et al., 2013).

#### ***P/E Ratio***

Price-to-earnings ratios, or P/E ratios, are widely used financial metrics to assess how much a company's stock is worth. It is computed by taking a stock's current price and dividing it by earnings per share (EPS). The formula is the stock price divided by earnings per share. Stock Price: The going rate for a single share of the company's equity on the market. Earnings Per Share (EPS): The amount of profit divided among all outstanding shares of common stock in a corporation. Although it can also be predicted for the next periods (ahead EPS), it is typically computed over the last 12 months (trailing EPS). High P/E Ratio: A high P/E ratio may be a sign that investors are anticipating rapid growth rates in the future or that the company is overpriced. Low P/E Ratio: A low P/E ratio may indicate that the company is having problems or that the stock is undervalued (Chutka and Kramarova, 2020).

#### ***Debt to Total Asset Ratio***

Leverage ratios, such as debt to total assets, indicate how much debt is compared to assets. Financial risk increases with a larger ratio since it indicates a higher level of leverage. Both long-term and short-term

debt are included in the board ratio, known as total debt to total assets. Iqbal et al. (2016) found a multiple regression model to explain how capital structure affects share prices in Kenya's energy industry. They concluded that equity had a substantial negative influence on share price and debt and gearing ratios had a significant favourable impact. The given debt market is not yet saturated and it appears that debt is more alluring to Kenyan investors (Buigut, 2013)

### **Firm size**

Firm size is a crucial factor in investment decisions, with larger companies often offering better opportunities due to their dominant position in the market and higher production capacity. The shares of large companies are more actively traded, providing increased liquidity and marketability for investors. Firm size can be measured in various ways, including turnover, paid-up capital, and total assets. This study measures firm size using the natural logarithm of total assets.

Sharif et al. (2014) discovered that eight business-specific variables, book value per share, earnings per share, dividend yield,

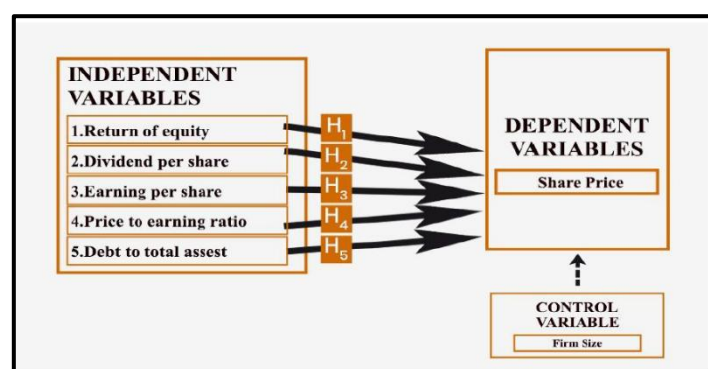
price-earnings, debt to assets, and controlled by firm size could be used to determine the return on equity. According to the findings, the factors of return on equity, book value per share, dividend yield, price-earnings, and business size are major predictors of share prices in the Bahraini market. This study examines a panel data set of 41 firms listed between 2006 and 2010 on the Bahrain Stock Exchange.

The literature review chapter provided arguments, evidence, and scholars' different views regarding the impact of firm-specific factors on share price. It provided the basis for the present study and helped to identify the literature gap.

### **III. Methodology**

The research study conducted using a positivist research philosophy, deductive research logic, and quantitative methods. Secondary data from diversified financial services used from 2013 to 2023. The five independent variables, one controlling variable and one dependent variable are used for the evaluation, and the conceptual framework is given below.

### **Conceptual Framework and Operationalization**



**Figure 1.** Conceptual Framework

Author Compiled (2023)

Based on research objectives and the conceptual framework, five hypotheses were formulated.

**H<sub>1</sub>:** *There is a significant impact for return on equity on the share price*

**H<sub>2</sub>:** *There is a significant impact for dividend per share on the share price*

**H<sub>3</sub>:** *There is a significant impact for earnings per share on the share price*

**H<sub>4</sub>:** *There is a significant impact for price to the earnings ratio on the share price*

**H<sub>5</sub>:** *There is a significant impact for debt to total assets on the share price*

Each variable calculation is given below based on previous scholarly works. The author compiled the operationalization table given below.

### **Operationalization of Variables**

**Table 1.** Operationalization of Variables

| Concepts                     | Variables                     | Measurement Method                                    | Source                              |
|------------------------------|-------------------------------|-------------------------------------------------------|-------------------------------------|
| <b>Independent variables</b> | Return on Equity              | Net income / Average shareholder's equity             | (Biyiri & Dissanayaka, 2017)        |
|                              | Dividend per Share            | Annual dividend/<br>Weighted average number of shares | (Biyiri & Dissanayaka, 2017)        |
|                              | Earnings per Share            | Net profit / Weighted average number of shares        | (Biyiri & Dissanayaka, 2017)        |
|                              | Price-to-earnings ratio (P/E) | Market value of shares /Earnings per share            | (Irsath et al., 2015)               |
|                              | Debt to total assets ratio    | Total Liabilities / Total Assets                      | (Sritharan, 2018)                   |
| <b>Dependent Variable</b>    | Share price                   | Average Share price of month                          | (Irsath et al., 2015)               |
| <b>Control Variable</b>      | Firm size                     | The natural logarithm of total assets                 | (Rajapaksha, & Weerawickrama, 2020) |

**Source:** Author Created (2023)

This study used a descriptive research methodology to investigate the influence of firm-specific factors on the share prices of listed diversified financial organizations in Sri Lanka. The data sources were the Colombo Stock Exchange website and the annual reports of sample corporations. With STATA, descriptive statistics like mean and standard deviation are used for analysis. The study mostly used secondary data gathering techniques, concentrating on documentary

data from the stock market website and annual reports.

### **Population and Sample Selection**

This study examines the impact of firm-specific factors/determinants on stock prices among 43 Diversified Financial companies listed on the Colombo Stock Exchange (CSE) from 2013 to 2023. The selection of this industry is based on significant growth rates in earnings (43% per year) and revenues (31% per year) over the past three

years (2021, 2022, 2023), as reported in the Diversified Financial Industry Analysis of 2023 published by Central Bank of Sri Lanka. Diversified holding companies, known for their investment activities, are the focus of the analysis. Data on the impact of

firm-specific factors on stock prices are collected from primary and secondary sources. The sample was selected based on high market capitalization. The highest market capitalized 20 companies selected out of 43 companies.

**Table 2.** Sample Selected Companies

| Company Name                              | Market Capitalization |
|-------------------------------------------|-----------------------|
| LOLC HOLDINGS PLC                         | LKR 203.3b            |
| LOLC FINANCE PLC                          | LKR 172.0b            |
| SENKADAGALA FINANCE PLC                   | LKR 41.3b             |
| L B FINANCE PLC                           | LKR 37.7b             |
| CENTRAL FINANCE COMPANY PLC               | LKR 29.2b             |
| PEOPLE'S LEASING & FINANCE PLC            | LKR 24.7b             |
| FIRST CAPITAL HOLDINGS PLC                | LKR 20.8b             |
| CITIZENS DEVELOPMENT BUSINESS FINANCE PLC | LKR 12.1b             |
| COMMERCIAL CREDIT AND FINANCE PLC         | LKR 11.5b             |
| HNB FINANCE PLC                           | LKR 9.8b              |
| CEYLON GUARDIAN INVESTMENT TRUST PLC      | LKR 9.5b              |
| VALLIBEL FINANCE PLC                      | LKR 9.2b              |
| DIALOG FINANCE PLC                        | LKR 7.0b              |
| INDO MALAY PLC                            | LKR 6.3b              |
| CEYLON INVESTMENT PLC                     | LKR 5.9b              |
| SMB FINANCE PLC                           | LKR 5.5b              |
| SOFTLOGIC FINANCE PLC                     | LKR 4.7b              |
| GOOD HOPE PLC                             | LKR 4.7b              |
| SELINSING PLC                             | LKR 4.6b              |
| ALLIANCE FINANCE COMPANY PLC              | LKR 3.3b              |

Source: Author Created (2023)

### **Methods of the Data Analysis**

This research expects only 20 listed companies and ten years of annual data during 2013-2023. Further, regression, correlation, and descriptive analyses are descriptive analyses, which means descriptive and analytical techniques are used to analyse data. The analysis is carried out using STATA. Among the descriptive analysis, mean and standard deviation were applied to the data analysis. The regression model examines the influence of independent variables on the dependent variable. Correlation analysis is a method of statistical evaluation used to study the strength of the impact of two numerically measured continuous variables.

### **Regression Analysis Model**

The Regression Formula is given below;

$$SP_{it} = \beta_0 + \beta_1(ROE_{it}) + \beta_2(DPS_{it}) + \beta_3(EPS_{it}) + \beta_4(PE\ ratio_{it}) + \beta_5(DTA_{it}) + \beta_6 \log(Size_{it}) + \varepsilon_{it} \quad (1)$$

Where:

$SP_i$  = Share Price of firm  $i$  in year  $t$

$ROE_{it}$  = Return on Equity of firm  $i$  in year  $t$

$Dep_{osit}$  = Dividend per share of firm  $I$  in year  $t$

$Esp_{rit}$  = Earnings per share of firm  $I$  in year  $t$

$PE\ ratio_{it}$  = the earnings ratio of firm  $I$  in year  $t$

$DTA_{it}$  = Debt to total assets ratio of firm  $I$  in year  $t$

$\log (SIZE_{it})$  = Size of the firm (Natural logarithm of total assets) of firm  $I$  in year  $t$

$\beta_0$  = the intercept (Constant term)

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 =$  Regression coefficient for respective variables (Slope)

$\epsilon_i$  = Error term.

#### IV. Findings and Discussion

The researcher used descriptive, correlation, and regression analyses to explain the test results. Furthermore, the Multicollinearity and normality tests are used to check the validity and accuracy of the data set.

### Results

#### Descriptive Analysis

Mean and standard deviation are applied to the descriptive analysis. According to this research, the sample consists of 200 firm-year observations from all 20 companies, with data available for 2013-2023. Table 3 shows a detailed description of the summary statistics of the independent variables used in the study

**Table 3.** Descriptive Statistics

| Variable    | Share Price | ROE    | DPS    | P/E Ratio | EPS    | Debt/Assets Ratio | Firm Size |
|-------------|-------------|--------|--------|-----------|--------|-------------------|-----------|
| Observation | 200         | 200    | 200    | 200       | 200    | 200               | 200       |
| Mean        | 262.078     | 14.237 | 4.66   | -20.048   | 17.239 | 57.277            | 20.041    |
| Std. Dev.   | 458.181     | 15.565 | 11.655 | 1069.92   | 53.818 | 36.068            | 3.944     |
| Min         | .5          | -35.6  | 0      | -1471.22  | -21.65 | .29               | 10.51     |
| Max         | 1950        | 72.68  | 94.49  | 2292.82   | 629.12 | 98.36             | 26.46     |

Source: Author Created (2023)

The descriptive statistics for the collected dataset provide insights into various aspects of the companies listed in the diversified financial sector. The average share price is Rs. 262.078 annually, with a range spanning from Rs. 0.50 to Rs. 1950. The return on equity averages at 14.237, fluctuating with a deviation of 15.565. Dividend per share averages 4.66, with a deviation between the maximum and minimum values of 11.655. The price-to-earnings ratio shows an average of -20.048, with a wide deviation of 1069.929. Earnings per share average at 17.239, varying with a deviation of 53.818. The debt-to-total assets ratio averages 57.277, with a deviation between the maximum and minimum values of 36.068.

The natural logarithm of total assets indicates a mean value of 20.041. Additionally, the firm size, measured by the natural logarithm of total assets, ranges from 10.51 to 26.46 among the listed diversified financial companies, with a deviation of 3.944.

#### Normality Test

ANOVA, regression analysis, and t-tests are only a few statistical tests that depend on assuming the data is normally distributed. It can confirm the validity of this assumption by running a normalcy test, which contributes to guaranteeing the validity and reliability of the test results. The results are given in Table 4.

**Table 4.** Skewness/Kurtosis Tests for Normality

| Variable            | Observations | PR (Skewness) | PR I(Kurtosis) | adj_chi2(2) | Prob>chi2 |
|---------------------|--------------|---------------|----------------|-------------|-----------|
| Share Price         | 200          | 0.000         | 0.000          | 60.570      | 0.000     |
| ROE                 | 200          | 0.005         | 0.002          | 14.610      | 0.001     |
| DPS                 | 200          | 0.000         | 0.000          | .           | 0.000     |
| EPS                 | 200          | 0.000         | 0.000          | .           | 0.000     |
| P/E Ratio           | 200          | 0.000         | 0.000          | .           | 0.000     |
| Debt to Asset Ratio | 200          | 0.000         | 0.000          | .           | 0.000     |

Source: Author Created (2023)

The table 4.2 normality test shows that all variables (Share Price, ROE, DPS, EPS, P/E Ratio, and Debt to Asset Ratio) are normally distributed. This is because the p-values for the Skewness and Kurtosis tests are greater than 0.05. A p-value greater than 0.05 means insufficient evidence to reject the null hypothesis that the data is normally distributed. In addition, the adjusted chi-squared statistic and its corresponding p-value are less than 0.05 for all variables. This suggests that the normality assumption is met for all of the variables. Overall, the normality test results in the image indicate that the data is normally distributed. This is

a positive indication, as many statistical tests can be used to analyze the data without a significant issue.

#### **Multicollinearity Test**

ANOVA, regression analysis, and t-tests are only a few statistical tests that depend on assuming the data is normally distributed. It can confirm the validity of this assumption by running a normalcy test, which contributes to guaranteeing the validity and reliability of the test results. The test results of multicollinearity are given in Table 5.

**Table 5.** Multicollinearity Test

| Variable         | VIF          | 1/VIF |
|------------------|--------------|-------|
| EPS              | 2.810        | 0.355 |
| Debt Asset Ratio | 2.750        | 0.363 |
| DPS              | 2.470        | 0.404 |
| Firm Size        | 2.180        | 0.458 |
| ROE              | 1.720        | 0.583 |
| PE Ratio         | 1.430        | 0.698 |
| Mean VIF         | <b>2.230</b> |       |

Source: STATA Output (2023)

The mean VIF is 2.23, well below the 10 thresholds. This implies that the model does not give much thought to multicollinearity. On the other hand, the Earnings per Share (EPS) and Dividend per Share (DPS) variables have comparatively high VIFs, suggesting a moderate correlation between them. The results might cause model issues, such as slightly inflated standard errors.

#### **Correlation Analysis**

Correlation analysis is a statistical technique for determining the direction and degree of a relationship between two or more variables. A perfect linear relationship is represented by a number (1), a perfect negative linear

relationship by a number (-1), and no linear relationship by a number (0)

**Table 6.** Correlation Analysis

| Variables        | Share Price | ROE    | DPS    | EPS    | P/E Ratio | Debt/Asset Ratio | Firm Size |
|------------------|-------------|--------|--------|--------|-----------|------------------|-----------|
| Share Price      | 1.000       |        |        |        |           |                  |           |
| ROE              | -0.160      | 1.000  |        |        |           |                  |           |
| DPS              | 0.535       | 0.208  | 1.000  |        |           |                  |           |
| EPS              | 0.509       | 0.389  | 0.757  | 1.000  |           |                  |           |
| P/E Ratio        | 0.319       | -0.383 | -0.068 | -0.244 | 1.000     |                  |           |
| Debt/Asset Ratio | -0.502      | 0.532  | -0.065 | 0.087  | -0.498    | 1.000            |           |
| Firm Size        | -0.404      | 0.436  | -0.113 | -0.000 | -0.317    | 0.726            | 1.000     |

Source: Author Created (2023)

The study examined the relationships between firm-specific factors and share prices for diversified financial companies in Sri Lanka. Results show a moderate negative correlation between share price and return on equity (-0.160), indicating that higher profitability doesn't necessarily translate to higher share prices. Conversely, positive correlations are observed for other factors: weak positive for the dividend per share (0.535), strong positive for earnings per share (0.509), and weak positive for price-to-earnings ratio (0.319), suggesting these factors play a more direct role in driving share prices. Interestingly, both debt-to-asset ratio (-0.502) and firm size (total assets) (-0.404) displayed negative correlations,

implying that higher debt and larger firms might be associated with lower share prices.

The Hausman test is used to choose a fixed or random effect for regression analysis. The test looks at an estimate's consistency with a different estimator known to be consistent under specific conditions. The fixed effects model is recommended if the test indicates a statistically significant coefficient difference between the random and fixed effects models. This is because it implies that the random effects model generates biased estimates due to omitted variable bias. Given that the Hausman test's p-value was greater than 0.05, the random effect selected for the evaluation.

**Table 7.** Hausman Specification Test

|                       | Coef.     |
|-----------------------|-----------|
| Chi-square test value | -1489.934 |
| P-value               | 1         |

Source: STATA Output (2023)

### Model Summary

The overall model summary is given in Table 8, and the main idea is statistically significant at the 000 level. Further, the R

square value lies at 58%. The conclusion proved that the overall model is significant.

**Table 8.** Model Summary

|                    |        |                        |        |
|--------------------|--------|------------------------|--------|
| Mean dependent var | 83.107 | SD dependent var       | 63.883 |
| Overall r-squared  | 0.576  | Number of observations | 200    |
| Chi-square         | 64.394 | Prob > chi2            | 0.000  |
| R-squared within   | 0.090  | R-squared between      | 0.709  |

\*\*\* p<.01, \*\* p<.05, \* p<.1

Source: Author Compiled (2023)

### Regression Analysis

The primary objective of regression analysis is to model and examine the impact of

variables to comprehend how changes in the independent factors impact the dependent variable.

**Table 9.** Regression Analysis

| Variable         | Coefficient | Standard errors | t. statistic | Probability | Significant |
|------------------|-------------|-----------------|--------------|-------------|-------------|
| ROE              | -0.142      | 0.252           | -0.56        | 0.575       |             |
| DPS              | 2.102       | 1.818           | 1.16         | 0.248       |             |
| EPS              | 1.887       | 0.501           | 3.76         | 0           | ***         |
| P/E Ratio        | 0.673       | 0.293           | 2.29         | 0.022       | **          |
| Debt Asset Ratio | -0.530      | 0.167           | -3.17        | 0.002       | ***         |
| Firm Size        | -1.136      | 1.013           | -1.12        | 0.262       |             |
| Constant         | 110.147     | 19.662          | 5.60         | 0           | ***         |

Source: Author Compiled (2023)

\*\*\* p< .01, \*\* p< .05, \* p< .1

The results mainly proved that EPS, P/E ratio and DTA (Debt to Asset Ratio) impact the share price changes in Diversified financials of CSE.

Regression Formula:  $Y = a + bx + e$

$SP_{it} = \beta_0 + \beta_1(ROE_{it}) + \beta_2(DPS_{it}) + \beta_3(EPS_{it}) + \beta_4(PE\ ratio_{it}) + \beta_5(DTA_{it}) + \beta_6 Log(Size_{it}) + \varepsilon_{it}$  (2)

$SP_{it} = 110.147 - 0.142 ROE + 2.102 DPS + 1.887 EPS + 0.673 P/E\ Ratio - 0.530 DTA - 1.136 SIZE + \varepsilon$

The regression model reveals that the coefficients of ROE, DTA, and SIZE (Firm size) are negative, indicating a negative relationship with the share price. In contrast, the DPS, EPS, and P/E ratio coefficients are positive, suggesting a positive relationship. Specifically, a 1% increase in ROE leads to a decrease in share price by Rs.0.142 and a similar increase in DTA results in a reduction of Rs.0.530. Similarly, a 1% increase in DPS increases share price by

Rs.2.102, and a 1% increase in EPS results in a rise of Rs.1.887. Additionally, the P/E ratio coefficient implies that a 1% increase does not significantly affect the share price. However, the t-statistical probability values for ROE, DPS, and SIZE are greater than 0.05, indicating that they do not significantly affect stock price according to the regression model. Conversely, EPS, P/E ratio, and

DTA exhibit a significant positive relationship with the share price.

### *Hypothesis Summary*

The summary P values are given in the table to better evaluate the hypotheses and objectives. The results and the values are given in Table 10 and Table 11.

**Table 10.** P Value Table

| Key Features | Significant (P-value) |
|--------------|-----------------------|
| ROE          | 0.575                 |
| DPS          | 0.248                 |
| EPS          | 0.000                 |
| PE ratio     | 0.022                 |
| DTA          | 0.002                 |

Source: Author Complied (2023)

**Table 11.** Hypothesis Summary

| No.            | Research Hypothesis                                                       | Decision<br>(Acceptance/ Rejection) |
|----------------|---------------------------------------------------------------------------|-------------------------------------|
| H <sub>1</sub> | There is a significant impact for return equity on stock price            | Rejected                            |
| H <sub>2</sub> | There is a significant impact for dividend per share on stock price       | Rejected                            |
| H <sub>3</sub> | There is a significant impact for earnings per share on stock price       | Do not Reject/ Accepted             |
| H <sub>4</sub> | There is a significant impact price for the earnings ratio on stock price | Do not Reject/ Accepted             |
| H <sub>5</sub> | There is a significant impact for debt to total assets on stock price     | Do not Reject/ Accepted             |

Source: Author Complied (2023)

### *Significant Impact Return on Equity and the Share Price*

**H<sub>1</sub>:** The share price and return on equity are significantly impacted. The  $p = 0.575$  was represented by return on equity. The H<sub>1</sub>

was rejected since the p-value was more than 0.05 ( $P > 0.05$ ). It indicates that the return on equity and share price are not significantly impacted.

#### ***Significant Impact Dividend Per Share and Share Price***

**H<sub>2</sub>:** The share price and dividend per share are significantly impacted.  $P = 0.248$  is represented by the dividend per share. The H<sub>2</sub> was rejected since the p-value was more than 0.05 ( $P > 0.05$ ). It indicates that return on equity and share price are not significantly impacted.

#### ***Significant Impact on Earnings Per Share and Share Price***

**H<sub>3</sub>:** The share price and earnings per share are significantly impacted. The  $p = 0.000$  is represented by earnings per share. Acceptance of H<sub>3</sub> was thus based on the P-value less than 0.01 ( $P < 0.01$ ). It indicates that earnings per share and share price are significantly impacted.

#### ***Significant Impact Price to Earnings Ratio and Share Price***

**H<sub>4</sub>:** The share price and price-to-earnings ratio are significantly impacted. The  $P = 0.022$  is represented by the price-to-earnings ratio. Acceptance of H<sub>4</sub> was based on the p-value of less than 0.05 ( $P < 0.05$ ). It indicates that the price-to-earnings ratio and share price are significantly impacted.

#### ***Significant Impact of Debt on Total Assets and Share Price***

**H<sub>5</sub>:** The share price and the ratio of debt to total assets are significantly impacted. The  $P = 0.002$  is represented by debt to total assets and accepted the H<sub>5</sub> because the p-value was less than 0.01 ( $P < 0.01$ ). It implies that the share price and debt ratio to total assets are significantly impacted.

It is impossible to confirm the validity of the findings covered in the preceding part

without appropriately comparing and assessing the findings of the earlier investigation. This part develops the topic by thoroughly analyzing the current study's findings and earlier research. This study examines the relationship between the share price and the chosen independent factors. It is determined that the company's EPS, P/E, ratio, DTA, and share price are significantly positively impacted, while ROE, SIZE, and share price are marginally negatively impacted.

#### ***The Impact of Return on Equity and the Share Price***

According to Badruzaman's 2020 research, there is a negative correlation between ROE and stock prices with a regression coefficient of -22.1% and a significant level of  $0.101 > 0.05$ . Although it is not statistically significant, this shows that a greater ROE level will have a negative impact on stock prices. According to Om and Goel's (2017) research, ROE has a negligible positive link with share prices, however EPS profitability is considerable. Zaman (2021), taking into account a comparable study in CSE, discovered a negative relationship between stock price and ROE, which includes the current research. Furthermore, according to Ranaweera (2023), ROE had a detrimental effect on the share price. A few studies by Sukmawati & Garsela (2016) revealed that the ROE of the share price has a significant positive impact on the share price. The analysis's findings demonstrate that the ROE variable significantly raises stock prices

#### ***The Impact of Dividend Per Share and Share Price***

Garba (2014) states that dividends per share do not significantly impact returns on common stocks. Hashemijoo et al. (2012) The study's empirical findings demonstrated a statistically significant negative correlation between the two primary indicators of dividend policy dividend yield and payout and share price volatility. The survey of Majanga (2015) concluded that they support the dividend valuation models' claims that a

strong positive correlation exists between stock price and dividends (Hunjra et al., 2014). The dividend payout ratio and stock price have a positive relationship, which contradicts the dividend irrelevance theory.

#### ***The Impact of Earnings Per Share and Share Price***

Sharif et al. (2015) revealed that EPS is the most determinant factor of the share price and concluded that EPS significantly positively impacts the share price. Su (2002) discovered that companies with high earnings per share (EPS) will see price pressure increase; this is in line with the CSE's finding that there is a positive correlation between stock price and EPS. Another research (Zhu, 2003). Similar to the results of the current study, it discovered a positive impact on stock price and EPS in the Chinese. The analysis's findings demonstrate that the EPS variable significantly raises stock prices. It has been shown that an increase in benefits already received per share will impact an investor's stock price.

In this study, Badruzaman (2020), with a regression coefficient of 78.4% and a t value of 0.000, the impact of EPS on stock prices reveals a positive and statistically significant impact of 61.15% on stock prices. Accordingly, the higher the EPS, the more the stock price will rise, as indicated by the t arithmetic < t table, where  $0.00 < 0.05$  suggests that investors perceive the impact of.

#### ***The Impact of Earnings Ratio and Share Price***

Sharif et al. (2015) revealed that the PE ratio is the most determinant factor of the share price and concluded that the PE ratio significantly positively impacts the share price. Raza et al. (2020) Similar to the results of the current study, it was discovered that there was a positive impact on stock price and P/E Ratio. Sar (2021) mentioned that the price-earnings ratio positively and significantly affects stock prices. The price-earnings ratio substantially

influences predicting the market price of a share, and the results of Kumar (2017).

#### ***The Impact of Debt on Total Assets and Share Price***

In this study, Putro (2020) mentioned that stocks are positively impacted by debt to total assets. Further, Asmani et al. (2019) found that an increase in the debt-to-total assets will significantly rise share prices because the ratio has a positive impact.

### **V. Conclusion**

#### ***Summary of the Main Findings***

The Skewness/Kurtosis test results, similar to the Normality test, indicated that the study's data are normally distributed. The Panel unit root test demonstrated that at least one panel had a unit root. Correlation analysis used to assess independent variables, and the results indicated that multicollinearity was not an issue. After running the Hausman test to compare the fixed effect and random effect models, determined that the random effect regression model was the most appropriate for this investigation. Then, the impact of these variables is considered, showing that there is no significant impact on share price from return on equity. Dividend per share represents no considerable impact on the share price from Dividend per Share. Earnings per share significantly impact share price compared to earnings per share. The price-to-earnings ratio significantly impacts share price compared to the price-to-earnings ratio. This means that the share price from debt substantially impacts the total asset. This study examined how specific firm-specific characteristics affected diversified financial organisations' Colombo Stock Exchange share prices. The results indicate that the debt-to-total-asset (DTA) ratio, price-to-earnings (P/E) ratio and earnings per share (EPS) are all significantly impacted by share price determination (variation). The dividend per share (DPS) and return on equity (ROE) are all unaffected by the current study.

### **Implication**

**Earnings per share (EPS):** A higher EPS suggests more profitability for the business, which in turn attracts more investors. This implies that companies with higher EPS are valued more highly by investors. **Price-to-earnings (PE) ratio:** A greater PE ratio suggests that investors are prepared to shell out more money in anticipation of future profit expansion from the company. This indicates that investors have high hopes for the company's future performance.

**Debt to total asset (DTA) ratio:** A higher DTA ratio indicates that the company has more debt relative to its assets. This can signify financial risk, and investors may be less willing to invest in companies with higher DTA ratios. The study's findings hold significant value for managers, board members, policymakers, and regulators of diversified financial companies, aiding them in assessing strengths and weaknesses to predict share prices and anticipate future trends. Particularly beneficial for equity investors and fund managers, the study highlights key factors to monitor when estimating stock returns and predicting share prices. By understanding the impact of firm-specific variables on share prices, stakeholders can make more informed investment decisions and better navigate market dynamics.

### **Recommendations**

The main objective of this research is to analyze the impact of firm-specific factors on share prices, utilizing accounting ratios as indicators of internal influences on market value. By identifying key determinants of share prices, the study aims to equip investors in Sri Lanka with valuable insights for making informed investment decisions. Recommendations based on the findings suggest that investors should focus on monitoring factors such as EPS, P/E ratio, DPS, DTA, and firm size before expanding their portfolios, as these variables can facilitate accurate forecasts of future share prices. Moreover, the study offers suggestions for listed diversified holding

companies in the Colombo Stock Exchange to enhance factors affecting share prices. Including a significant portion of diversified holding companies listed in the CSE, the results are deemed reliable and valuable for guiding rational investments in Sri Lanka's emerging economy. Investors can focus on EPS, P/E, and DTA for better investment in diversified financials in CSE for better-expected returns.

### **Contribution**

The existing knowledge of operations and share price fluctuations in the stock exchange will support this study. In the Sri Lankan context, this research topic is less addressed, specifically the impact of firm-specific factors on the share prices of listed companies. Thus, it is vital to research this area to identify the relationship between firm-specific factors and share price in the Sri Lankan context.

In addition, the study will be updated with the available literature to help investors understand investment in the share market. Understanding the impact of various fundamental variables on share price is very helpful to investors as it will help them make profitable investment decisions. Therefore, this study is significant for many parties involved in the investment process, especially for the investors.

### **Limitations**

Nonetheless, the study also featured several shortcomings. The macroeconomic elements like GDP, inflation, interest rates, business cycles, etc., are not included in the study; only firm-specific factors are taken into account. This is an opportunity for additional research to thoroughly investigate macro and micro elements to understand the variables influencing share market pricing.

### **Suggestions for Future Research**

Future research should explore the impact of additional firm-specific factors, such as corporate governance and management quality, on stock values. Moreover, studies

should extend beyond Sri Lankan finance companies to analyze how firm-specific characteristics influence share prices across various nations and industries. Employing additional multivariate statistical models for forecasting could be beneficial in validating findings. While this investigation focuses solely on Sri Lankan finance companies, it's essential to recognize that the Colombo Stock Exchange comprises 20 different business sectors, and the diversified financial industry represents just one of them. Thus, the applicability of these research findings to other industries may vary, warranting attention to diverse areas within the exchange.

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