

FIRM SPECIFIC VARIABLE AND DIVIDEND OF COMMERCIAL BANK IN NEPAL

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Abstract

This study looks at how dividend payouts by Nepalese commercial banks are affected by firm-specific variables. The use of secondary data has been made for this study's purposes. The dependent variables are the total dividend per share. The return on assets, price earning ratio, LN Size, and earnings per share are independent variables. The Banking and Financial Statistics, Nepal Rastra Bank's Bank Supervision Report, and annual reports of selected banks are the sources of the data. The regression models are applied to test the significance and importance of dividend payout of commercial banks.

The result, based on data from 13 commercial banks for the years 2067 to 2077 demonstrates that the most important factors influencing commercial banks' dividend payouts in Nepal are earning per share and return on assets. While price-earnings ratio has a negative impact on dividend per share. Earnings per share, return on assets, and LN Size have a significant positive impact.

1. INTRODUCTION

Profit strategy is the arrangement of rules an organization uses to choose the amount of its income it will pay out to its investors. For a company to be able to accomplish its goals and function effectively, this is a crucial decision for the organization. One of the top ten "complexing issues" in the field of finance is dividend policy. An optimal dividend policy is any strategy that maximizes a company's stock price while also maximizing shareholder wealth (Gul et al., 2012). However, the connection between shareholder wealth and dividend policy is still unclear (Higgins, 1972; Hansen and Crutchley, 1989). There have been numerous dividend

theories proposed to explain how dividend decisions are made and whether or not they affect the company's value.

Diverse academics have argued that dividends have a significant impact on the value of the company, despite the assumptions made by Modigliani and Miller (1961). According to Lintner (1956), dividends are decided by a target payout level that is determined by the company's long-term earnings. Gordon (1959), who stated that shareholders prefer dividends over capital gains, supported Lintner's study. If this is the case, dividend payments to shareholders and managers are very important because they increase the company's value and shareholders are willing to pay more for dividend-paying stocks.

The company act of 2006 governs the declaration and payment of dividends by businesses in Nepal. The declaration and payment of dividends by Nepalese banks and finance companies are governed by the banking and financial institutions act (2006) and Nepal Rastra bank's unified directives (2013). According to the Companies Act of 2006, dividends are to be paid out of the profits of the fiscal year for which the annual general meeting passed a resolution approving dividend payment.

In this connection, the main research question in this study as follow: Do firm specific variable have on impact on the dividend of Nepalese commercial banks?

The purpose of this paper is to investigate the impact of firm-specific (viz. earnings per share, price earnings ratio, LN size, and return on equity share) of various Nepali commercial banks' dividend payout ratios. The rest of this study is divided into the following sections. The literature reviews in Part two are explained, as are the technique and model in Section three, the results analysis in Section four, and the summary and conclusion in Section five.

2. LITERATURE REVIEW

Investors are most motivated by the dividend amount because it has an impact on the share price, capital, and then the company's overall financial health. Numerous factors influence dividend decisions made by companies. Companies with a high growth rate, according to pecking order theory, typically have higher investment requirements and a lower dividend payout ratio. According to Myers and Majluf (1984), this is because, in the event that they require external financing, they issue debt financing prior to equity financing in

order to lessen the costs associated with information asymmetry and transactions. So, there is a reverse relationship between venture an open door and profit payout proportion.

Mehta (2013) showed that size and hazard are the two most significant contemplations in choosing the profit strategy. Additionally, this study came to the conclusion that larger businesses pay out more dividends than smaller businesses. Additionally, it revealed that the profitability of the businesses as measured by ROE is negatively correlated with dividend payout, indicating that the more profitable businesses distribute fewer dividends. Also contrary to the literature, this study found that, in developed nations, liquidity is not the most important factor in dividend policy and that leverage and liquidity have little effect on the decision to pay dividends.

As a sign of firm worth level, EPS can be utilized (O'Sullivan and McCallig, 2012). (Annisa & Nasaruddin, 2019) EPS is one way to evaluate the success of shareholder earnings. The outcomes of Solomon et al.'s research, (2016) discovered that the company's value is improved by EPS. Accounting data and the equity stake in the business are significantly linked, according to this study's findings. It is common knowledge that equity investments and EPS have a positive correlation. Different findings from a study (Nuradawiyah & Susilawati, 2020) indicate that EPS has a negative impact on firm value.

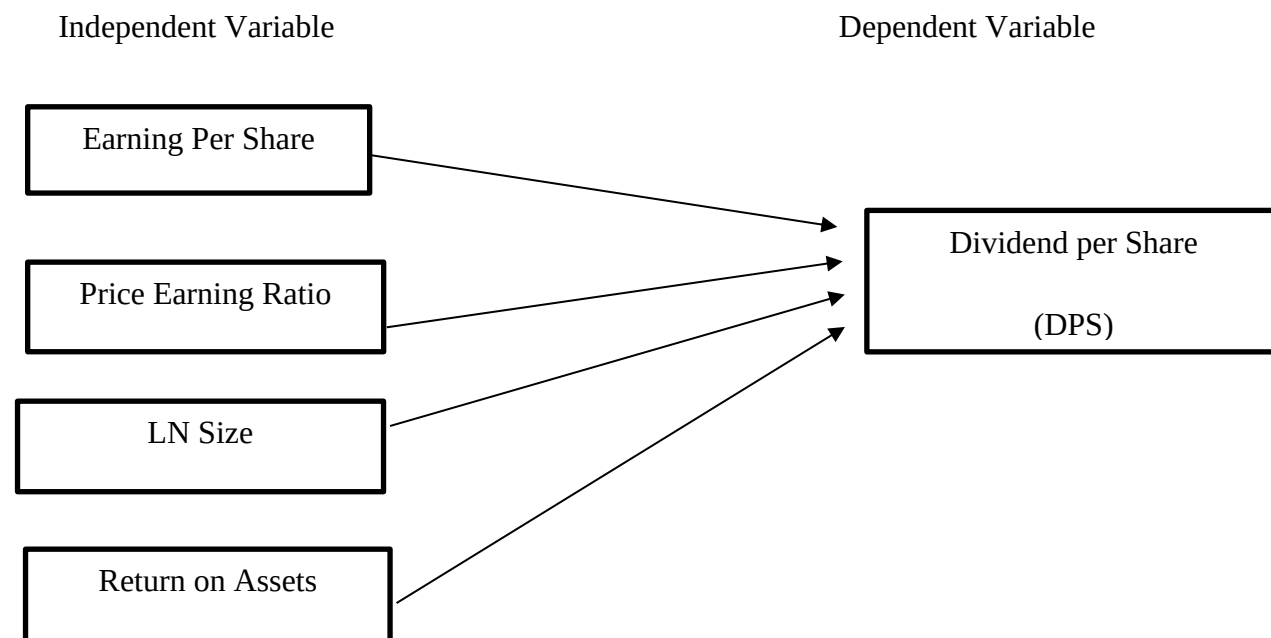
According to Graham and Dodd (1934), a low P/E ratio may indicate undervaluation, and a high P/E ratio may suggest overvaluation of the stock. In general, companies with a high P/E ratio tend to pay a lower dividend, while companies with a low P/E ratio tend to pay a higher dividend (Easterwood and Nutt, 1999). This is because high P/E ratios signal growth opportunities, and companies may reinvest their earnings in expanding their business, rather than paying dividends to shareholders.

However, as Graham and Dodd (1934) suggested, the relationship between dividend payout ratios and P/E ratios is not as straightforward as some studies have found. Oskooee and Mehrara (2009) found, for instance, that while companies with a high P/E ratio pay a higher dividend in other industries, like the pharmaceutical industry, companies with a low P/E ratio pay a higher dividend in some industries, like the food and beverage industry. The study suggests that the P/E ratio and dividend payout ratio may be influenced by industry-specific factors.

3. RESEARCH METHODOLOGY

The secondary data analyses used in this study were gathered from 13 commercial banks in Nepal between the years 2067 and 2077, yielding a total of 147 observations. The Banking and Financial Statistics of Nepal Rastra bank, as well as the annual reports of the respective sample banks, serve as sources for the secondary data. The descriptive and causal comparative research design used in this study is causal comparative because it examines the relationship between bank dividend per share and firm-specific variables. More specifically, the study looks at how dividend per share is affected by earnings per share, price earnings ratio, LN size, and return on assets.

RESEARCH FRAMEWORK



Note: Research Framework

4. The Model

The model estimated in this study assumes that a number of independent variables affect the banks' dividend per share as a first approximation. Earnings per share, price earnings ratio, LN size, and return on assets are the independent variables that are taken into consideration. As a result, the model has the following shapes:

Dividend per share = f (EPS, PE, LN Size, ROA)

More specifically,

$$DPS = \alpha + \beta_1 EPS + \beta_2 PE + \beta_3 LNSize + \beta_4 ROA + e$$

Where,

DPS= Total dividend per share, EPS= Earning per share, PE= Price per share, LN size= Natural Logarithm of Size (total assets), ROA= Return on Assets. Similarly, e refers to the unexplained residual error terms, β_0 is the intercept term, and β_1 , β_2 , β_3 and β_4 are the respective parameters or regression coefficients of the explanatory variables.

Dividend Per Share (DPS)

According to Ling et al. (2008), dividend payout is defined as the distribution of retained earnings to investors known as "Shareholders" in proportion to their ownership stake. Usually, dividends are paid out in cash, but sometimes they are paid out in stock or other ways. Companies always look for the best dividend policy, among other things, to find a balance between the current dividend, future growth, and maximizing the price of their stock.

Earning Per Share (EPS)

Earnings per share (EPS) is a financial metric that measures the profit earned by a company for each outstanding share of its common stock. Almeida (2019) states that the purpose of the EPS calculation is to ascertain the share price, the number of dividends to be paid, and how far along the company's activities are.

Price Earning Ratio

The ratio that measures a company's current share price in relation to its earnings per share (EPS) is known as the price-to-earnings ratio. The earnings multiple and price multiple are other names for the price-to-earnings ratio. Analysts and investors use P/E ratios to compare the relative values of a company's shares against one another. It can also be used to contrast a company's past performance with its own or to contrast aggregate markets with one another or over time.

LN Size

The size of a company is determined by the natural logarithm of the total assets. Even though Smirlock (1985) argued that banks benefit from economies of scale as they get bigger, extremely large banks may become operationally inefficient due to bureaucratic complexity and being "too big to fail" (Pasiouras et. al., 2007).

Return on Assets

The profitability ratio known as return on assets tells a company how much profit it can make from its assets. Return on assets (ROA) measures a company's management's ability to profit from its balance sheet's total assets. According to (Appa,1996) Return on resources is a measure of the financial business' monetary solidness, contingent upon the business; Banks with high initial investment requirements typically have lower asset return rates.

Hypothesis

H1: There is significant impact of earning per share on dividend per share.

H2: There is significant impact of price earning ratio on dividend per share.

H3: There is significant impact of LN Size on dividend per share.

H4: There is significant impact of return on assets on dividend per share.

5. Presentation and Analysis of data

Descriptive statistics

This shows descriptive statistics - mean, standard deviation, minimum and maximum values for the variables associated with 13 sample banks for the period 2067 to 2077. DPS refers to dividend per share, EPS refers to earning per share, PE refers to price earning ratio, LN size refers to firm size, ROA refers to return on assets, N is the number of observations.

Table1: *Descriptive data summary of variables*

Variable	N	Minimum	Maximum	Mean	Std
DPS	143	0.000000	70.00000	16.86383	10.03115
EPS	143	0.550000	91.88000	25.04874	14.53707
PE	143	10.07000	242.5400	23.80650	21.57605
LN Size	143	21.34004	26.33594	24.73520	0.797394
ROA	143	0.050000	2.390000	1.475455	0.410475

Source: Author's computation from E-views 12 SV, 2022

The earning per share range from minimum of NPR 0.550000 to maximum of NPR 91.88000 with an average of NPR 25.04874. Likewise, the average return on assets is noticed to be 1.475455 percent with the minimum values of be 0.050000 percent and maximum of 2.390000 percent respectively. The price earning ratio from 10.07000 percent to 242.5400 percent leading to the average of 23.80650 percent. Likewise, The LN size from 21.34004 percent to 26.33594 percent leading to the average of 24.73520.

Correlation Analysis

A strong correlation study is carried out in order to gain a deeper comprehension of the connection that exists between two distinct variables. The correlation coefficient is expressed as a number between -1 and 1. The closer it is to +1 or -1, the more it implies about the connection. A number closer to 0 indicates a weaker correlation in either direction. When the value is 0, no association between the variables that were provided is assumed. If there is a negative sign, the relationship is inverse, and if there is a positive sign, it is direct. Although it suggests a link between two events, this is not required.

Table 2: *Correlation Matrix of Variable*

Correlation probability	DPS	EPS	PE	LN Size	ROA
DPS	1				
EPS	0.3962 (0.0000)	1			
PE	-0.0310 (0.7124)	-0.1687 (0.0440)	1		
LN Size	0.2077 (0.0128)	0.1415 (0.0917)	-0.1329 (0.1135)	1	
ROA	0.3880 (0.0000)	0.6237 (0.0000)	-0.4077 (0.0000)	0.1506 (0.0725)	1

Source: Author's computation from E-views 12 SV, 2022

Correlation is significant at the 0.01 level (2-tailed). Correlation is significant at the 0.05 level (2 tailed); the number in parenthesis indicates the p value.

This presents the bivariate Pearson correlation coefficients between. The correlation coefficients Impact of Firm Specific Variable on Dividend are based on the data from 13 sample banks for the period 2067 to 2077. DPS refers to dividend per share, EPS refers to earning per share, PE refers to price earning ratio, LN size refers to firm size, ROA refers to return on assets. The result shows that there is positive relationship of dividend per share with EPS, ROA and LN Size which indicates that EPS, ROA, LN Size are highly impact on DPS. Similarly, price earning ratio have negative relationship with dividend per share.

Breusch Pagan test

Here, the regression is run to use the Breusch-Pagan test for making the decision on which method is applicable to use according to the value of the data. The purpose of regression analysis is to predict and estimate the effect of the independent variables on the dependent variable.

Table 3: *Breusch-Pagan Langrange Multiplier Test*

	Cross Section	Time	Both
Breusch Pagan	0.545793	17.38251	17.92831
Prob	(0.4600)	(0.0000)	(0.0000)

Source: Author's computation from E-views 12 SV, 2022

Breusch-Pagan Langrange Multiplier test is used to select a suitable model for Panel data analysis.

The test has the following hypothesis: -

H0: Pooled OLS method is better than Fixed Effect and Random Effect Model.

H1: Pooled OLS method is not better than Fixed Effect and Random Effect Model.

Here, the p-value is 0.46 which is greater than 0.05. So, null hypothesis is accepted. It means that Pooled OLS method is better than Fixed Effect and Random Effect Model.

Panel OLS Regression Analysis

The purpose of the regression analysis was to investigate how each of the five independent variables affects the dividend per share. The regression of firm specific variable in dividend per share is presented as:

The study of the regression model used in this study $DPS = \alpha + \beta_1 EPS + \beta_2 PE + \beta_3 LNSize + \beta_4 ROA + e$.

To compare the results of fixed effect and random effect approaches, the Hausman specification test is used to select the suitable model for equation. The Hausman test read ass chi-square statistic value with p value (1) more than 0.05, this suggests that the random effect approach is suitable. Thus, random effect approach is used for this equation.

Table 4: Panel OLS Regression Analysis

Variable	Coefficient	Std. Error	T Statistics	Prob.
C	-46.27622	23.79697	-1.944626	0.0539
EPS	0.152227	0.066789	2.279237	0.0242
PE	0.066435	0.038568	1.722533	0.0872
LN Size	1.1918031	0.958772	2.000509	0.0474
ROA	6.982582	2.548752	2.739609	0.0070
Model				
R-squared	0.225532	Adjusted R-square	0.203084	
F-statistic	10.04672	Durbin-Watson stat	1.529655	
Prob(F-statistic)	0.000000			

Source: Author's computation from E-views 12 SV, 2022

Table 4, represents the significance and insignificance of the variables. If p value decrease from 0.005, it shows that the variable is significant and when it increase from 0.005 it shows that the variable is insignificant. In the above listed variable earning per share, LN size, return on assets are significant factors or variables. This means that EPS, LN size, ROA has a positive impact on dividend per share. while price earning ratio is insignificant variable. This means that price earning ratio has no impact on dividend per share.

From table 5, The Durbin-Watson result should not exceed the R-squared figure, according to the null form of the test, which is $DW > R^2$. The analysis results show that the regression estimate result is valid, with $DW = 1.529655$ and $R^2 = 0.23$ rejecting the null hypothesis. The regression's R-squared value of 0.23 indicates that the variables in this study can explain 23% of the variations in the DPS, while the remaining 77% of the variations in the DPS under investigation can be explained by other factors that are not included in the model. Additionally, the estimated model has a high statistical significance, which improves the model's reliability and validity, as its P value of 0.0000 is below the 5% level of statistical significance.

Summary Hypothesis

The effects of the independent variables on the dependent variable have been examined, and the hypothesis testing results have been established. The following is a summary and illustration of them:

Table 6: *Summary of hypothesis*

Hypothesis	P- value	Remarks
H1: There is significant impact of earning per share on dividend	0.0242	Accept
H2: There is significant impact of price earning ratio on dividend	0.0872	Reject
H3: There is significant impact of LN size on dividend	0.0474	Accept
H4: There is significant impact of return on assets on dividend	0.0070	Accept

6. Summary and Conclusion

Financial managers and businesses as a whole have been concerned about the dividend policy of their companies. Companies must choose between paying dividends to stockholders and keeping their earnings in order to reinvest them in the business and encourage further expansion. Typically, a bank does not choose a particular dividend policy by accident. It is tailored to either satisfy the requirements of shareholders or banks. The purpose of this study is to investigate the connection between dividend payout at a Nepalese commercial bank and firm-specific variables. using secondary data of 13 commercial banks from 2067 to 2077 forms the basis of the study. The bank dividend payout is hypothesized to be influenced by a number of firm-specific variables, including ROA, LN Size, and EPS. EPS, LN Size, and ROA all have a significant impact on dividend per share, according to the study. From these, the dividend per share is influenced significantly or positively by return on assets.

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