

Dividend Policy of Banking Firms in Nepal: A Survey of Managerial Perspectives

Surya B. Rana¹

Assistant Professor, Butwal Multiple Campus, Tribhuvan University, NEPAL

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Abstract

This paper analyses the views of managers of banking firms in Nepal to understand their perceptions towards dividend theories and factors affecting dividend policy. Based on a mail survey among 79 directors and CEOs of banking firms in Nepal during the months January to March 2022, the study suggests that managers prefer at most the combination of cash and stock dividend to be distributed to their shareholders. With respect to their preferences towards given form of dividend payments, managers claim that they generally go with shareholders' preferences in deciding the forms of dividend payments. The study results further demonstrate strong support for signalling and bird-in-hand explanations of dividend theories. Among the 14 factors affecting dividend policy, the study reveals that firm's level of current earnings, including the pattern of past earnings and stability of earnings are important factors in determining dividend policy of banking firms in Nepal. The survey evidence documented in this study further verifies the significance of signalling hypothesis in recent period in case of Nepal to explain why managers prefer to pay dividend. The main implication of the findings of this study is that it explores, in the changing context of meeting regulatory capital requirements, how the banking managers perceive about dividend policy of Nepalese banking firms. The finding of the study is primarily useful to investors seeking for investment in dividend paying banking firms in Nepal.

¹Dr. Rana holds a PhD degree from the Faculty of Management, Tribhuvan University, Nepal. He has published dozens of research papers in various journals. He can be reached at suryabrana@gmail.com

INTRODUCTION AND STUDY OBJECTIVES

The issues associated with dividend policy of corporate firms have long been a matter of economic puzzle in finance literature. The puzzle basically rests on whether a firm's dividend policy affects its value and hence shareholder wealth. Accordingly, literatures on dividend policy have been divided into two broad strands: relevance theory and irrelevance theory. Miller and Modigliani (MM) (1961) offer strong view for dividend irrelevance in the context of firms operating in perfect capital markets. However, supporters of behavioural paradigm in finance, such as Shefrin and Statman (1984), explain the reason for dividend preference in the context of prospect theory. Recognising the presence of behavioural rationality, Miller (1986), in the later period, observed preference towards dividend as a soft spot in the existing body of literature. Hence, as Statman (1997) argues, it is necessary to understand behavioural pattern of investors to resolve the dividend puzzle.

MM's notion of capital market perfection is not fully valid in many situations in the real world. Instead, some imperfections exist in the market due to the presence of taxation, information asymmetry, transaction costs, agency costs, bankruptcy costs, and so on. Therefore, many theories- such as signalling theory (Bhattacharya, 1979), life cycle theory (Fama & French, 2001) tax preference and clientele effects theory (Elton & Gruber, 1970;

Miller & Scholes, 1978), agency theory (Jensen & Meckling, 1976), and bird-in-hand theory (Gordon, 1963; Walter, 1963) have been evolved to explain these imperfections.

Bhattacharya (1979) in his explanation in favour of signalling hypothesis asserts that dividend payment is a signal of a firm's future prospects that helps eliminating information asymmetry between management and shareholders. Life cycle theory (Fama & French, 2001) argues that dividend payment behaviour of a firm follows the firm's life cycle approach as such that the firm pays virtually no dividend at the early stage of its life cycle; pays less dividend at its growth stage; and finally pays maximum dividend when the life cycle approaches to the maturity. Firm's management demonstrates such dividend payment behaviour based on its assessment of the significance of market imperfections likely to exist due to information asymmetry, transaction costs, agency costs, tax preference and others. Tax preference and clientele effect hypotheses of Elton and Gruber (1970), and Miller and Scholes (1976) argue that differential tax rates applicable in dividend income and capital gain makes a difference in investors' choice of dividend and non-dividend paying stocks. Agency theory (Jensen & Meckling, 1976) argues that higher agency cost is associated with the separation between management and ownership in a firm, and payment of dividends help reducing such agency cost. Finally, the bird-in-hand theory of Gordon (1963) and Walter (1963)

asserts that investors prefer certain current dividends to future uncertain capital gains. These theories primarily advocate in favour of dividend relevance approach.

Given these theoretical arguments for dividend policy relevance, studies have evolved to understand the views of different corporate stakeholders such as management and shareholders on dividend policy issues of the firm. To quote, some of the studies conducted in international context consist of Baker et al. (2002), Baker et al. (2007), Baker and Powell (2012), Baker and Kapoor (2015), among others. These studies have generally focused on understanding managers' views about factors affecting dividend policy and explanations for why they prefer to pay dividends. Survey type of studies on dividend payment behaviour in the context of Nepal are limited in numbers. Majority of studies are conducted on empirical grounds to uncover the dividend payment effects on share price and firm value. One of the survey type of studies includes Adhikari (2014), who has attempted to analyse the views of managers associated with banking and non-banking firms listed in Nepal Stock Exchange (NEPSE) Limited. Different from Adhikari (2014), an attempt has been made in this study to obtain the views of Chief Executive Officers (CEOs) and managers associated with banking firms in Nepal. The main purpose of selecting CEOs and managers in this study is that they are responsible for making dividend decisions. Similarly, the motive behind selecting banking firms is that

they have long dividend payment history in Nepal as compared to their non-banking counterparts. To obtain managers' views on dividend policy, the importance of this study lies on the fact that it examines extensive areas on dividend policy issues such as managers' perceptions towards dividend theories including their perceptions towards factors affecting dividend policy in the context of Nepal. Besides, this study is also significant from the viewpoint that it attempts to update and extend the previous findings from dividend survey in the context of Nepal.

Another section of this paper presents a brief review of related studies covering a survey on dividend policy and dividend issues. The third section describes the methodological issues. The fourth section deals with study results and discussion followed by study conclusion in the fifth section.

LITERATURE REVIEW

There are many surveys conducted among managers to uncover the facts why firms pay dividend and what affect dividend policies of their firms. One of the classical surveys includes Lintner (1956) developed a behavioural model to describe dividend decision process of corporate firms. The author reported that managers generally prefer to follow a long-term target dividend pay-out, and they tend to increase dividend only if the firms' earnings achieve sustainable growth. The study also showed that managers are reluctant to change the dividend that might have to be

reversed later. In particular, the study revealed that managers do not prefer dividend cut, rather they attempt to stabilise dividends over a longer period of time. Many studies including [Fama and Babiak \(1968\)](#), and [Baker and Powell \(1999\)](#) support Lintner's behavioural model as it provides the best description of dividend setting process.

[Baker and Phillips' \(1993\)](#) survey on managers' views about stock dividends revealed that firms prefer to pay stock dividends to maintain their historical practice with a view to carry a psychological confidence on the part of investors about better prospects of firms. [Baker and Powell \(2000\)](#) surveyed managers of NYSE-listed firms by conducting longitudinal study between 1983 and 1987 periods to compare managers' views about factors affecting dividend policy. The study showed that the level of current and expected future earnings and the pattern of past dividends affect dividend policy of the firm. In the later period, [Baker et al. \(2002\)](#) surveyed managers of NASDAQ firms to obtain their views on dividend policy, relationship between dividend policy and value of the firm, and explanations about dividend payment. The study showed that managers prefer to continue dividend payment and they generally agree that changes in dividends affect value of the firm. The study findings basically support the signalling explanations for dividend payments, which advocate that dividend payment conveys a private message about firm's prosperity thereby mitigating information asymmetry between firms'

management and shareholders. The study basically provided new evidence on managerial views towards dividend life cycle approach and residual dividend policy.

In the context of Nepal, [Pradhan and Adhikari \(2003\)](#) tried to survey the views of executives from 50 large Nepalese firms to understand their views in corporate dividend policy in Nepal. The survey findings demonstrated that managers prefer to pay cash dividends to convey a message about favourable prospects of firms' future to shareholders. The survey further showed that dividend decision is not taken as a residual decision by Nepalese executives. [Brav et al. \(2005\)](#) surveyed 384 executives to understand their views on factors affecting dividend decisions. The findings from the study indicated that managers prefer to maintain dividend level at par with investment decisions, while they prefer to conduct repurchase of shares only out of residual cash flows left after investment. The study further showed that stability of future earnings is the most prominent factor affecting dividend policy. The study results, in general, provide little support for agency, signalling, and clientele hypotheses of dividend policy, and show that the tax consideration has no primary role in determining dividend policy.

[Baker et al. \(2007\)](#) analysed the perception of managers towards dividend payment in the context of Canadian firms listed on the Toronto Stock Exchange. Using respondents from 291 dividend-paying firms, the

study revealed that pattern of past dividends including expected future earnings and stability in earnings are important factors in affecting dividend policy of Canadian firms. Besides, the study also showed strong support for signaling and life cycle explanations for paying dividend and little support for residual dividend policy. The study basically extended previous surveys on dividends to provide new evidence from Canadian managers. Similarly, [Basnet's \(2007\)](#) survey among managers of Nepalese firms on dividend policy showed that current and expected future earnings and liquidity constraints are the important factors affecting firms' dividend policy. In a survey among managers from 69 Japanese firms to understand their views on dividend policy, [Mizuno \(2007\)](#) revealed that managers pay higher emphasis on dividend payment than repurchase of shares. Similarly, study results showed that managers pay more importance to stable dividends than to dividend allied to performance, and they also believe that dividends payment can affect the firm value.

[Denis and Osobov \(2008\)](#) provided international evidence on factors affecting dividend policy using a survey among managers from firms in US, Canada, UK, Germany, France, and Japan. The study showed that the propensity to pay dividends is higher among managers of larger and profitable firms including those for which retained earnings constitute larger proportion of equity. Overall results of the study showed no support for the signalling, clientele, and catering explanations for dividends,

but for dividend lifecycle approach.

[Baker and Powell \(2012\)](#) surveyed managers of Indonesian firms to discover their views about the factors influencing dividend policy, dividend issues, and explanations for paying dividends. By using mail survey, the study revealed that the stability of earnings and the level of current and expected future earnings are the most important determinants of dividend policy in the context of Indonesia. The study further demonstrated that the needs of current shareholders are important determinants of dividend policy of Indonesian firms. As the study evidence showed, Indonesian firms' managers basically perceive that dividend policy affects firm value. Managers also seemed to agree that signalling, catering, and life cycle explanations of dividend theories help explaining the reasons for dividend payment by Indonesian firms.

[John \(2013\)](#) examined the managers' views about factors affecting dividend decisions in the context of firms listed in Nigeria. Employing the survey research design, the study revealed that pattern of past dividends and level of current earnings including current degree of financial leverage, availability of alternative source of capital, and liquidity constraints are important factors affecting dividend decisions in Nigerian firms. In a recent period, [Baker and Kapoor \(2015\)](#) further investigated the views of Indian firms' managers to compare their views with other dividend surveys conducted in the case of Indonesia, Canada, and the USA. Using questionnaire survey among the

managers of 500 firms listed on the National Stock Exchange, the study revealed that stability of earnings and the level of current and expected future earnings including the pattern of past dividends are important determinants of dividend policy. The study also articulated, as perceived by managers, that dividend policy affects firm value, and the study results supported the most the signalling, the firm life cycle, and the catering explanations of why firms prefer to pay dividends. However, study results provided little support for the agency explanation of dividend theories.

[Baker et al. \(2018\)](#) provided survey evidence, in case of Turkey, on managers' views towards theories of dividend payment including significant factors affecting dividend policy of the firms. As reported in the survey results, the managers of Turkish firms prefer to follow stable dividend policies with dividend smoothing pattern of dividend payments. The survey results, as perceived by managers, further demonstrated that dividend policy has greater impact on firm-value as such that change in dividend policy affects market price of shares thereby affecting shareholder wealth. The survey results also showed that the current and expected level of earnings, and stability in earnings are most important determinants of dividend policy. As revealed by survey findings, managers tend to support signalling, catering, life-cycle and bird-in-hand theory of dividend policy.

To analyse the perception of financial managers towards factors affecting

dividend payment decision in Pakistan, [Salman \(2019\)](#) surveyed the top financial managers' views of 80 companies listed on Pakistani stock exchanges. By using cross sectional regression, the study reported that shareholder preferences and dividend signalling have significant positive effect on dividend policy of listed companies with the implication that dividend policy of Pakistani firms is the outcome of shareholder preferences.

With a view to identifying factors affecting dividend policy, [Dewasiri et al. \(2019\)](#) surveyed the managers of 191 dividend-paying Sri Lankan firms. Using Binary Logistic Regression model, the study reported that past dividend decision, earnings, and investment opportunities are basic factors associated with propensity to pay dividends. The study findings provide sufficient evidence to support signalling, catering and life cycle approach to dividend policy with an implication that investors should consider past dividends, earnings and investment opportunities available with firms while making investment decision.

Thus, survey results obtained from most of the cited literatures support the notion that dividend policy of the firm is relevant in affecting value of the firm due to existence of imperfections in capital markets. The results also document that stability in earnings, level of current earnings and future expected earnings including pattern of past dividends are important factors in determining dividend policy of firms. Though few in numbers, historical survey evidence in the context of Nepal also show that dividend policies of

Nepalese firms are more or less the outcomes of same factors. However, the regulatory perspectives have been changed in recent periods, especially due to the facts that banks and financial institutions in Nepal now have to meet regulatory requirements pursuing their dividend policies in consistent to the need of capital increment imposed by the regulator. Therefore, based on the issues raised from previous literatures, this study attempts to discover more updated and extended evidence on what managers of banking firms in Nepal think about their dividend policies. This study expects to add further to the academic values since no recent survey evidence exists on dividend policy issues in the context of Nepal.

RESEARCH METHODS

Data and Sampling Design

The data for the purpose of this study have been obtained by mail questionnaire survey. The questionnaire survey has been used for obtaining views of executives and managers of banking firms in Nepal in relation to their perceptions towards various issues associated with dividend policy. The survey approach of [Baker and Powell \(2012\)](#) has been adopted to assess the opinion of respondents towards dividend theories including factors affecting dividend policy.

The survey population includes chief executive officers and other managers from Nepal Stock Exchange (NEPSE) listed banking firms in Nepal such as commercial banks, development

banks, finance companies and microfinance financial institutions. Total 113 banking firms were listed on NEPSE until Mid-December 2021 and of them 97 firms have dividend payment history for latest three continuous years. Therefore, the study confines to chief executives and directors of these 97 dividend-paying firms as the population of the study. The purpose behind selecting CEOs and managers as respondents in this study is that they involve play important roles in making dividend decisions associated with their respective firms and they serve as the target respondents for this study.

In selecting the reliable and representative samples, a purposive sampling approach was used to select the respondents. Dividend policy issue is a very specific area of study. Therefore, it requires respondents who are knowledgeable in the area of dividend policy. Hence, a care has been given in defining the sample. To reach the target respondents, a request letter was sent to information officers of each firm in the sample through mail asking them help for distributing questionnaires to CEOs and potential managers having idea on the subject matter of the study. Purposive sampling helps in reaching the respondents having knowledge about the subject matter. Through purposive sampling design, it was possible to distribute total 229 questionnaires through mail to target respondents beginning from the early January 2022. Until the end of March 2022, only 91 questionnaires were returned. On a detail verification of questionnaires received back, it

was found that 12 respondents had given incomplete information and hence those could not be used for final analysis. Thus, the study was based on the complete responses from 79 respondents representing a response rate of 34.5 per cent. The small response rate generated in this study may subject to non-response bias, which may limit the generalisation of study findings in the population of banking firms in Nepal. However, an attempt has been made to ensure the respondents to maintain the confidentiality of their responses to reduce the non-response bias. This assurance has extended the response rate to 34.5 per cent, which is sufficient and consistent to the response rate of 31.9 per cent in [Baker and Powell \(2012\)](#), 15.4 per cent in [Baker and Kapoor \(2015\)](#).

Questionnaire

The mail questionnaire survey, primarily adopted from [Baker and Powell \(2012\)](#), was conducted during the months from January to March of 2022 to record the opinions of respondents. Survey questionnaires were divided into four sections. Section A contained the background information of respondents which include name of associated firms, position, gender, and age. Section B consisted of two close-ended multiple choice questions seeking opinions of respondents on their preference towards various forms of dividend payments and reason to prefer given form of dividend payment. Section C included 13 statements representing the perceptions towards various explanations of dividend theories. These statements were designed on

5-point scale to record the agreement or disagreement of respondents indicating: -2 = strongly disagree; -1 = disagree; 0 = no opinion; 1 = agree; and 2 = strongly agree. Finally, Section D included 14 statements about the perceptions towards factors affecting dividend policy using the same 5-point scale.

Method of Data Analysis

The data analyses have been carried out to assess the views of managers derived from mail questionnaire survey. For the data analysis purpose, simple descriptive statistics such as mean and observed number of responses in per centage have been used to examine managers' opinion on the various dividend policy issues. Besides, for the purpose of analysis, responses on 5-points have been collapsed into 3 categories representing 'disagree (-2 & -1)', 'no opinion (0)' and 'agree (+1 & +2)'. The mean ranking scores have been used to rank the significance of each statement in the order of their importance under each section and one sample t-test has been used for the null hypothesis that mean response equals zero.

DATA ANALYSIS AND DISCUSSION

Perceptions towards Types of Dividend Preference

At the outset, an attempt has been made to understand the opinion of managers with respect to types of dividend payments that they are most likely to prefer. For this, they were asked

Table 1
Dividend Preference by Types

Types of dividends	No. of respondents (in %)
Cash dividend	9.8
Stock dividend	33.3
Both	56.9
None	0.0
Total	100.0

Note. From Field survey, 2022

Table 2
Reasons for Preferring the Dividend Type

Reason to prefer	No. of respondents (in %)
Easy to implement	27.5
More flexible	20.5
Avoid changing previous method	2.0
Go with shareholders' preference	50.0
Total	100.0

Note. From Field survey, 2022

to indicate whether their firms prefer to distribute cash dividend or stock dividend or both to their shareholders. The results are reported in Table 1.

As the results indicate, majority of managers (56.9%) prefer the combination of cash and stock dividends followed by very good proportion (33.3%) of managers preferring stock dividend. The results also show that only few managers (9.8%) prefer distributing cash dividend to shareholders on behalf of their firms. The managers were also asked to indicate the reason why they do prefer distributing cash dividend or stock dividend or combination of both. The results are reported in Table 2. As the results reveal, most (50%) of the managers claim that they prefer

to distribute a given form of dividend just because that they want to go with the preference of their respective shareholders and 27.5 per cent of the managers indicate that they prefer to distribute given form of dividend as it is easier to implement.

The main implication of this study finding is that Nepalese banking firms have started going more or less with shareholders' preference in making dividend policy decision.

Perceptions towards Dividend Theories

Table 3 provides evidence on managers' perceptions towards thirteen statements representing six

Table 3
Managerial Perceptions towards Theories of Dividend Policy

Statements	Level of Agreement (%)			Mean	Std. Dev.	t-stat
	Disagree	No Opinion	Agree			
C3: Dividends give a signal about company's performance to investors.	3.9	8.8	87.3	1.245	0.813	15.454*
C1: An unexpected cut in dividends by the firms leads to fall in stock price.	9.8	9.8	80.4	1.206	1.066	11.430*
C5: A company should disclose adequate reasons when it changes dividend.	7.9	16.7	75.4	1.068	0.997	10.818*
C6: An unexpected increase in dividends by the firm leads to rise in stock price.	4.9	18.6	76.5	1.009	0.895	11.389*
C12: Increase in dividend by a firm either signals the possibility of future growth or suggests lack of investment opportunities.	11.8	16t.7	71.5	0.882	0.988	9.020*
C2: Dividend announcement by a firm gives investors sufficient information to help assess the firm's stock value	12.7	34.4	52.9	0.588	1.056	5.624*
C10: Investors generally prefer cash dividend due to uncertainty of future price of shares.	19.6	30.4	50.0	0.353	1.148	3.103*
C8: The pattern of dividend payment changes over the life cycle of the firm.	25.5	26.5	48.0	0.274	1.082	2.562**
C9: Larger dividend payments increase the company's dependency on external financing.	16.7	40.2	43.1	0.304	0.962	3.189*
C13: Payment of dividend encourages a firm's managers to act in the best interest of shareholders.	22.5	33.3	44.2	0.304	1.022	3.002*
C4: Investors are indifferent towards dividend gain and capital gain.	26.4	33.3	40.3	0.127	1.049	1.226
C7: A company designs dividend policy considering its impact on shareholders' tax situation.	37.2	26.5	36.3	-0.029	1.075	-0.276
C11: A firm should be reactive to the dividend priority of its investors.	27.4	34.3	38.3	0.147	0.998	1.487

Note. From field survey, 2022

theoretical explanations of dividends, namely signaling explanation, bird-in-hand explanation, agency theory, life cycle theory, tax preference explanation and catering explanation. Of the thirteen statements representing

these theories, ten statements are statistically significant meaning that managers generally tend to agree with these statements. Of the statistically significant ten statements, first six statements (C3, C1, C5, C6, C12 and C2) reported in Table 3 represent the signalling explanations of dividend theory; next one statement (C10) represents bird-in-hand explanation; following two statements (C9 and C13) represent agency theory; and next following one statement (C8) represents life cycle explanation of dividend theory. The study results show no support to the tax preference theory (C4 and C7) and catering explanation (C11) of dividend policy.

Among six statements of signalling explanations, more than 80 per cent of the managers tend to agree that dividend payment by the firm gives a signal to investors about firm's performance and an unexpected cut in dividends leads to decline in firm's stock price. Similarly, more than 70 per cent managers agree that the company should disclose adequate reasons when it changes dividend; an unexpected dividend increase leads to rise in company's stock price and a dividend increase by the company either gives a signal about its future growth or suggests the lack of investment opportunities. Finally, with respect to signalling hypothesis, majority of the managers also tend to agree that dividend announcement by a firm gives investors sufficient information to help assess the firm's stock value. Two important conclusions can be drawn from the responses towards signalling explanations of dividend policy. First, managers are more concerned with

decrease in dividends than the increase in dividends. Second, they do not only consider dividend as signal but also sufficiently believe that investors have strong reaction to dividend cut because investors have more preferences towards dividends. This finding conveys a message that dividend changes affect share price significantly as perceived by managers. It implies that dividend increases or decreases are significantly related to stock prices increases and decreases in the context of Nepalese banking firms.

The study results demonstrated in Table 3 also support the bird-in-hand theory of dividend policy because majority of the managers think that investors generally prefer current cash dividend to future capital gain as the future capital gain that may arise from appreciation in stock price is uncertain (Statement C10). The results in Table 3 also show the managers' perceptions towards life cycle approach to dividend policy represented by Statement C8. However, the supporting evidence, though statistically significant, is somehow weaker than signalling and bird-in-hand explanations as only 48 per cent of the respondents agree that the pattern of dividend payment changes over the life cycle of the firm. Similarly, the study results also support, to some extent, the notion of agency theory as managers think that larger dividend payments increase the company's dependency on external financing and payment of dividend encourages a firm's managers to act in the best interest of shareholders.

Overall results reported in Table 3 demonstrate that managers tend to

Table 4
Factors Affecting the Dividend Policy

Statement	Level of Agreement (%)			Mean	Std. Dev.	t-stat
	Disagree	No Opinion	Agree			
D3: Level of current earnings	6.9	17.6	75.5	1.019	0.889	11.573*
D4: Patterns of past earnings	3.9	25.5	70.6	0.842	0.754	11.287*
D1: Stability of earnings	7.9	21.6	70.5	0.902	0.959	9.492*
D6: Expected internal rate of return	7.8	25.5	66.7	0.862	0.912	9.550*
D2: Availability of new profitable investment	5.9	27.5	66.6	0.814	0.898	9.151*
D5: Availability of alternative source of capital	3.9	31.4	64.7	0.833	0.857	9.821*
D9: Cost of external capital	15.6	22.5	61.9	0.607	1.016	6.041*
D12: Preference of investors	10.8	29.4	59.8	0.549	0.907	6.107*
D11: Legal rules and constraints	10.8	32.4	56.8	0.637	0.931	6.912*
D7: Inflation	16.6	27.5	55.9	0.588	1.102	5.390*
D13: Current degree of financial leverage	11.8	25.5	52.7	0.735	1.004	7.395*
D8: Tax policy of the firm	19.6	29.4	51.0	0.353	1.192	2.993*
D10: Shareholders' current level of income	21.6	34.3	44.1	0.274	1.073	2.583**
D14: Personal tax situation of the shareholders	39.4	20.6	40.0	0.156	1.232	1.285

Note. From field survey, 2022

strongly agree with signalling and bird-in-hand explanations and somehow agree with lifecycle approach and agency theory of dividend policy but do not tend to agree with tax preference and catering explanations of dividend theory. The results documented in this study with respect to the support for signalling explanation is consistent with Baker et al. (2002) and Baker et al. (2007) but contradict with Brav et al. (2005) and Denis and Osobov (2008). The main implication of this finding is that banking firms in Nepal can use dividend changes as the means for conveying information about future growth opportunities of the firm. In the world with information asymmetry, as in the case of Nepal, an increase in dividends conveys a good message

and decrease in dividend conveys a bad message to the investors.

Perceptions towards the Factors Affecting Dividend Policy

Table 4 provides the evidence on the significance of factors affecting dividend policy of banking firms in Nepal as perceived by managers. Each of the fourteen factors in Table 4 has been reported based on their importance using mean ranking score and corresponding t-statistic for the null of mean score equals zero.

Of the 14 factors, more than 70 per cent of the managers agree that dividend policy of banking firms in Nepal is affected by firms' current level of earnings (D3) along

with patterns of past earnings (D4) and stability of earnings (D1). Higher level of agreement shown by managers to these three factors is justifiable from the view point that firms with stable and higher level of current earnings have more cash flow and hence pay more in dividends. Besides, more than 60 per cent managers also generally agree that expected internal rate of return (D6), availability of new profitable investment (D2), and availability of alternative source of capital (D5) along with cost of external capital (D9) are other important factors in determining dividend payment by Nepalese banking firms. Importance given to these factors also seems to be rationale from perspective that firm with expected higher internal rate of return from available new profitable investment opportunities tend to pay more dividends if alternative sources of capital are available with lower cost to finance the profitable investment opportunities.

Total 13 of the 14 factors reported in Table 4 demonstrate their significance in determining the dividend policy of banking firms in Nepal as their corresponding mean scores are statistically significant at 5 per cent level or more. However, managers generally do not agree that personal tax situation of shareholders affect dividend policy of their firms. The key determinants of dividend policy demonstrated in Table 4 appear more or less similar to that of [Lintner \(1956\)](#), among others. Hence, the firm-specific factors like pattern of past dividends including the level of current and future expected dividends appear to be the most important factors determining dividend policy of banking firms in Nepal.

CONCLUSION AND IMPLICATIONS

This study analysed the views of managers associated with banking firms in Nepal to understand how they perceive the different explanations of dividend theories and factors affecting dividend policy. Using a mail survey among 79 respondents (CEOs and other managers) associated with banking firms in Nepal during the period January to March of 2022, the study results showed that managers prefer the most the combination of cash and stock dividend to be distributed to their shareholders. With respect to their preferences towards given form of dividend payments, managers claim that they generally go with shareholders' preferences in deciding the forms of dividend payments. The study results further showed strong support for signalling and bird-in-hand explanations of dividend theories, little support for life cycle and agency cost theories and virtually no support for tax preferences and catering hypothesis of dividend theories. Among the fourteen factors affecting dividend policy, managers viewed that firm's level of current earnings, including the pattern of past earnings and stability of earnings are important factors in determining dividend policy of banking firms in Nepal.

The survey evidence documented in this study further verifies the significance of signalling hypothesis in recent period in case of Nepal to explain why firms prefer to pay dividend. The findings from this study also update the significance of firms' earning factors in determining dividend payments by banking firms in

Nepal. Managers in case of most firms always live in dilemma whether the dividend should be paid to shareholders or not. However, evidences revealed in this study are sufficient to believe that managers in the context of banking firms in Nepal recognise the strong preferences for dividends on the part of their respective shareholders. The results documented in this study with respect to the support for signaling explanation is consistent with Baker et al. (2002) and Baker et al. (2007) but contradict with Brav et al. (2005) and Denis and Osobov (2008).

The main implication of this finding is that banking firms in Nepal can use dividend changes as the means for conveying information about future growth opportunities of the firm. In the world with information asymmetry, as in the case of Nepal, an increase in dividends conveys a good message and decrease in dividend conveys a bad message to the investors. In other words, the strong support for signalling theory of dividend policy recorded in this study implies that firm's announcement of an increase in dividend indicates positive future prospects of the company and hence causes the

stock price to rise up. Therefore, managers should demonstrate positive investment potentials by making their firms capable of increasing the dividend pay-out. Similarly, support with regard to bird-in-hand theory of dividend policy documented in this study implies that, as perceived by managers, shareholders prefer current and certain dividends as opposed to future uncertain capital gains. Therefore, managers of the banking firms should maintain certain level of acceptable dividend pay-out to shareholders.

This study has taken into considerations the dividend policy of banking firms in Nepal. However, in recent period, many other sectors' enterprises are listed on NEPSE and those also pay dividends. The regulatory provisions of dividend pay-out vary across the firms in different industrial sector, which may affect or modify the managers' perception towards dividend policy. Therefore, it is necessary to make comparison of managers' perceptions towards dividend policy across different industrial sectors' enterprises listed on NEPSE. Hence, future studies are necessary to be directed towards this consideration.

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