

Firm-specific Factors and Dividend Practices: Evidence from Nepalese Banks

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Abstract

This study examined the firm-specific factors that influence the dividend practice of Nepalese banks. Out of 20 commercial and 17 development banks, 11 were selected as a sample for the study by using convenient sampling technique. Correlation analysis has been applied to test the relationship of firm-specific factors with the dividend practice of banks over the period of F/Y 2076/77 to 2080/81. Return on assets, earnings per share, liquidity, number of shares, and bank size were taken as firm-specific factors. The result demonstrated that the most important factors influencing the dividend of the Nepalese banks are the return on assets and earnings per share, which are positive and significantly associated with both cash and stock dividends. The findings provide guidance to the investors in investment decision-making. Future research may validate the findings of this study by incorporating additional variables and the sample units.

Keywords: dividend practices, return on assets, earnings per share, liquidity, number of shares, bank size

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Introduction

Dividend policy remains one of the most intriguing topics in corporate finance because it affects shareholder wealth, investment decisions, and firm value. The decision to distribute earnings as dividends or retain them for future growth has been explained through various theories. While the Dividend Relevance Theory argues that dividend payments influence firm value (Gordon, 1963), the Dividend Irrelevance Theory suggests that dividend policy does not affect firm value under perfect market conditions (Miller & Modigliani, 1961). Signaling Theory further proposes that dividend payments convey information about a firm's financial strength and future prospects (Bhattacharya, 1979).

Empirical studies have shown that dividend practices are influenced by firm-specific factors such as profitability, liquidity, leverage, firm size, and growth opportunities (Yarram & Dollery, 2015; Elmagrhi et al., 2017; Khan et al., 2021). In the banking sector, dividend decisions are particularly important because banks operate under strict regulatory requirements related to capital adequacy, liquidity, and financial stability. As a result, dividend policy serves not only as a mechanism for distributing profits but also as an indicator of financial soundness.

In Nepal, the banking sector plays a vital role in the economy, and dividend announcements are closely monitored by investors and regulators. Recent regulatory reforms by Nepal Rastra Bank and changes in the banking environment have increased the importance of understanding the factors that influence dividend practices. Although several studies have examined dividend policy in Nepal, findings remain inconsistent, and some recent research has focused specifically on Nepalese banks (Bhandari, 2020; Koirala & Acharya, 2022).

Therefore, this study examines the relationship between firm-specific factors and dividend practices of Nepalese banks. By investigating the effects of profitability, liquidity, leverage, firm size, and growth opportunities on dividend decisions, the study contributes to the existing literature and provides useful insights for investors, bank managers, and policymakers in Nepal.

Literature Review

When shareholders invest in common stock, they expect returns in two ways: dividends and capital gains. While many investors expect dividends from well-established companies, others prioritize retaining earnings for growth (Gitman, 2008). Both dividends and capital gains can satisfy shareholders. Companies might prefer to pay fewer dividends and retain more earnings for future growth, but this must be balanced with shareholder expectations (Banerjee et al, 2007).

A balanced approach between paying dividends and retaining earnings for company growth is key. If the company has no profitable investments, it should distribute profits as dividends since shareholders can invest the money elsewhere. Actions that affect shareholders' wealth, like dividend payments, fall under financial management (Anthony, 2007).

While a steady dividend policy is reliable, it may not allow for increased dividends during prosperous years. On the other hand, a constant dividend policy pays a portion of earnings annually, exposing shareholders to the company's full earnings volatility. When earnings are high, dividends increase, but when earnings are low, dividends may decrease, making planning difficult (Thapa, 2021).

Stock dividends, where shareholders receive additional shares instead of cash, can be more appealing than cash dividends. Stock dividends increase the number of shares a shareholder owns without changing the total ownership percentage. Like stock splits, stock dividends give shareholders more shares without diluting their stake in the company (Bhattarai, 2009).

Management may use dividends to signal its confidence in the company's future earnings. Dividend announcements can provide valuable insights into a company's financial position and future prospects (Walter, 2018). A number of theories advocate the use of dividends for companies. For example, agency cost theory proposed by Jensen and Meckling (1976) suggests that managers may not always act in shareholders' best interests due to information asymmetry. Paying dividends reduces excess cash available to managers, forcing them to seek external financing, which increases scrutiny and discourages investments in unprofitable projects.

Accordingly, signaling theory, introduced by John and Williams (1985) posits that managers use dividend payments to signal a company's strong future prospects. By increasing dividends, managers convey confidence in future earnings, positively influencing stock prices (Asquith & Mullins, 1983). Even Miller and Modigliani (1961) acknowledged that dividends can signal information in imperfect markets.

On the other hand, as per behavioral theory, investors prefer dividend-paying stocks due to self-control and mental accounting issues (Shefrin & Statman, 1984). Regular dividends help investors manage spending, while social norms and behavioral biases influence dividend preference (Shiller, 1984). In this regard, a number of empirical studies can be found throughout the world.

Dividend distribution has been widely studied in the Nepalese and international banking context, but results remain inconsistent. Dhungana et al. (2024) examined seven Nepalese commercial banks over the period of 2011/12 to 2021/22 and found that the liquidity ratio significantly influenced dividend payout, while return on assets had no

FIRM-SPECIFIC...: *Pulami and Niraula* Janabhawana Research Journal, 5(1), 96-109 significant effect. Similarly, Mahendra (2023) reported that both return on assets and earnings per share were insignificant determinants of dividend policy. In contrast, Pradhan and Shrestha (2016), using data from 13 commercial and 8 development banks in Nepal, reported profitability and liquidity as the most important determinants of the dividend.

Similarly, Bhatta (2021) found bank size and leverage having positive effect on dividends, while profitability and market power were insignificant. Aryal (2022) found that although larger banks had more capacity to pay dividends, size and leverage were negatively associated with dividend payout ratios. Similarly, Thapa (2021) found that size positively affected dividends, but profitability had a negative relationship. Sharma (2023) offered further complexity, revealing that liquidity was negatively related to dividends in Nepalese banks, suggesting that higher liquidity reduced payouts. These contrasting outcomes suggest no clear consensus on the effects of size, profitability, or liquidity within Nepal.

International research has provided similar contradictions. Muhammed and Abubakar (2015) found profitability, liquidity, size, and leverage as the main determinants of dividend payouts in Nigerian banks Hussainey et al. (2011), analyzing firms in Bangladesh, found profitability to significantly affect dividend payments, but liquidity was not significant. Kiangsi and Milamo (2022), studying Tanzanian banks, observed a slight negative effect of liquidity but a positive and significant role of profitability, with larger banks paying higher dividends. Likewise, Pattiruhu et al. (2020) found positive impact of return on assets on dividends, while liquidity and size were not significant. These studies reinforce the lack of agreement on how firm-specific factors influence dividend decisions across different countries. On the other hand, the association of the number of shares outstanding and the dividend practice has not been studied in the Nepalese context.

Within this framework, this study has tried to address the gaps found in the literature by examining the association of Nepalese banks' dividend practice with their unique firm-specific nature.

Methods

This study adopted a descriptive and correlational research design to examine the relationship between firm-specific factors and dividend practices of Nepalese banks. The study population comprised 20 commercial banks and 17 development banks operating in Nepal during the study period. From this population, 8 commercial banks and 3 development banks were selected using convenient sampling. The banks were selected based on the availability of complete and consistent financial information, continuous operation throughout the study period, and regular dividend distribution records, making them suitable for analysis.

The study relied exclusively on secondary data collected from the published annual reports of the selected banks for the fiscal years 2076/77 to 2080/81 (2019/20–2023/24). The

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annual reports were obtained from the official websites of the respective banks, ensuring the authenticity and reliability of the data.

The study examined dividend practice as a factor, while return on assets (ROA), earnings per share (EPS), liquidity, number of shares, and bank size were considered firm-specific variables. Descriptive statistical techniques, including mean, standard deviation, and Coefficient of variation, were employed to summarize the data and identify the characteristics of the selected banks. The collected data were analyzed using Microsoft Excel, which was used to compute the descriptive statistics and present the findings in tables and graphical formats.

Hypothesis

Return on Assets and Dividend. ROA reflects how efficiently a bank uses its assets to generate profit. Higher ROA indicates better profitability and asset utilization, supporting larger dividend payouts, while lower ROA may limit dividends to maintain capital and comply with regulations. Based on the finding of Guizani and Mondher (2012) where they reported positive relationship between ROA and dividend, this study hypothesized as follows:

H1: There is a positive relationship between the ROA and dividend payout of banks in Nepal.

Earnings Per Share and Dividend. EPS indicates how much profit a company generates for each outstanding share of its stock. Higher EPS indicates better profitability and stronger market standing, providing more capacity for dividends. Hameedat et al. (2015) found EPS the strongest determinant of dividends compared to other factors. Based on this, the study proposed the following hypothesis:

H2: There is a positive relationship between EPS and dividend payout of banks in Nepal.

Liquidity and Dividend. Liquidity measures the firm's ability to use its near-cash or “quick” assets to retire its liabilities. Bank dividends are heavily influenced by liquidity since they allow banks to pay their short-term commitments and still give shareholders a return. Dhungana et al. (2024) found a significant positive impact of liquidity on the dividend payout ratio of commercial banks in Nepal. Accordingly, this study developed the following hypothesis:

H3: There is a significant positive relationship between liquidity and dividend payout of banks in Nepal.

Number of Shares and Dividend. The number of shares represents the total ownership held by shareholders and can influence dividend decisions. Studies show that a higher number of

FIRM-SPECIFIC...: *Pulami and Niraula Janabhawana Research Journal*, 5(1), 96-109 shares is positively associated with dividends (Deb & Singh, 2016; Fischer & Jordan, 2006). Accordingly, this study proposes the following hypothesis:

H4: There is a positive relationship between the number of shares and dividend payout of banks in Nepal.

Bank Size and Dividend. Bank size refers to the relative scope or size of a bank's financial capabilities and operations. Total assets, market capitalization, number of branches, customer base, or total deposits and loans are frequently used to quantify it. In this study, total assets has been taken as the proxy of the bank size. Larger banks are typically thought to have more financial resources, a larger market reach, and higher stability, while smaller banks might be more adaptable but have more capacity constraints. Contrary to the general assumption, Aryal (2022) found a negative relationship between the dividend payout and bank size. Similarly, this study proposed the following hypothesis:

H5: There is negative relationship between bank size and dividend payouts of banks in Nepal.

Results

Descriptive Analysis

Table 1 represents the performance of ROA, EPS, and liquidity over the period of five fiscal years from 76/77 to 80/81, highlighting their mean, standard deviation (SD), and coefficient of variation (CV).

Table 1

Descriptive Profile of the Banks in Nepal

Fiscal Year		76/77	77/78	78/79	79/80	80/81
ROA	Mean	1.13	1.16	1.09	0.92	0.8
	SD	0.36	0.29	0.13	0.37	0.46
	CV	31.92	25.13	11.65	40.13	57.46
EPS	Mean	17.99	20.69	20.81	18.82	15.09
	SD	8.11	4.99	6.21	10.4	9
	CV	45.06	24.14	29.84	55.25	59.66
Liquidity	Mean	18.08	15.94	15.23	17.24	14.86
	SD	10.25	9.57	10.66	11.82	10.85
	CV	56.71	60.04	69.96	68.56	73
Number of Share	Mean	77.48	85.45	98.96	105.03	110.62
	SD	36.61	42.18	50.2	52.19	53.45
	CV	47.26	49.36	50.72	49.69	48.31
Bank Size	Mean	137.77	172.42	191.97	211.58	241.17
	SD	80.53	98.15	101.65	113.94	141.96
	CV	58.45	56.93	52.95	53.85	58.86
Cash Dividend	Mean	3.21	4.12	4.27	3.5	2.39
	SD	3.98	6.14	4.19	5.09	2.79
	CV	123.79	149.09	98.11	145.14	116.62
Stock Dividend	Mean	9.84	10.87	6.99	6.53	2.89
	SD	5.02	6.79	5	9.11	4.56
	CV	51.01	62.45	71.46	139.6	158.08

Source: Researcher's Calculation

As presented, the banks in Nepal enjoyed the best profitability performance in the year 2077 to 2079. The higher value of ROA i.e. 1.16% is found in the year 2077/78 whereas the EPS was at its highest point Rs. 20.81 in the year 2078/79. However, they experienced a great volatility in profitability during 2079 to 2080 (SD of EPS and ROA are Rs. 10.40 and

FIRM-SPECIFIC...: *Pulami and Niraula Janabhawana Research Journal*, 5(1), 96-109 .046% in the year 2079/80 and 2080/81 respectively). Likely, their profitability position was at the riskiest point in the year 2080/81 (CV of ROA is 57.46% and CV of EPS is 59.66%). Similarly, the banks' liquidity was at peak in the year 2076/77 whereas the number of share and the bank size found to be at highest level in the years 2080/81. It is notable that the banks in Nepal experience higher volatility and the risk in the year 2080/81.

On the other hand, the investors got higher return in the form of stock dividend and cash dividend (4.27% and 10.87%) in the year 2077/78 and 2078/79 respectively. In terms of cash dividend, the investors were at their highest risk and experienced great volatility in the year 2077/78. But in terms of stock dividend, they experience the highest volatility in the year 2079/80 and the risk in the year 2080/81. The volatility and the risk experience by the investors are to some extent found sequential to the profitability, liquidity and the size pattern of the banks in the subsequent years.

Correlation Analysis

Further, correlation analysis was run to determine how closely the dividend practice of banks in Nepal moves with the change in firm-specific variables. The correlation matrix is presented in Table 2.

Table 2

Correlation between Variables

	ROA	EPS	Liquidity	NOS	Size	Cash Div.	Stock Div.
ROA	1						
EPS	0.615**	1					
Liquidity	-0.033	0.177**	1				
NOS	0.301**	0.259**	-0.264	1			
Size	0.189**	0.575**	-0.105	0.813**	1		
Cash Div.	0.381**	0.164**	-0.037	0.147**	0.039*	1	
Stock Div.	0.396**	0.317**	0.009	-0.189	-0.134	-0.019	1

** . Correlation is significant at the 0.01 level (2-tailed)

*. Correlation is significant at the 0.05 level (2-tailed)

Source: Researcher's Calculation

The correlation analysis revealed that the profitability indicators (ROA and EPS) have a crucial association with dividends among the sampled banks. ROA shows a strong and statistically significant positive correlation with both cash dividends ($r = 0.381$, $p < 0.01$) and stock dividends ($r = 0.396$, $p < 0.01$), suggesting that banks with higher

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profitability tend to reward shareholders more generously through both forms of dividends. Similarly, EPS exhibits a positive and significant relationship with cash dividends ($r = 0.164$, $p < 0.05$) and an even stronger relationship with stock dividends ($r = 0.317$, $p < 0.01$), indicating that banks with higher earnings per share are more likely to distribute dividends, particularly in the form of stock.

On the other hand, liquidity does not demonstrate any statistically significant relationship with dividend payouts, with near-zero correlations for both cash and stock dividends. This finding implies that the availability of liquid assets does not necessarily influence a bank's decision to declare dividends. Likewise, number of share and bank size also hold a weak correlation with dividend payouts. Although number of shares and size have a negative correlation with stock dividends ($r = -0.189$ and $r = -0.134$, respectively), these are not strong enough to be considered meaningful predictors.

The analysis further showed that the number of shares is positively and significantly correlated with cash dividends ($r = 0.147$, $p < 0.01$). This implies that banks with a larger number of shares are more likely to distribute higher levels of cash dividends, possibly to maintain shareholder satisfaction and market confidence. Firm size also demonstrates a weak but statistically significant positive correlation with cash dividends ($r = 0.039$, $p < 0.05$), suggesting that larger banks tend to pay more cash dividends compared to smaller ones.

Overall, the findings highlighted that profitability measures (ROA and EPS) are key drivers of dividends of Nepalese banks, whereas liquidity position, firm size, and number of shares do not have meaningful association with dividend distribution practice of sample banks. This suggests that Nepalese banks prioritize profitability over other structural or financial characteristics when deciding on both cash and stock dividends. Based on the correlation matrix, the result of hypothesis testing is presented in Table 3.

Table 3
Summary of Hypothesis Testing

Firm-Specific Factors	Dividend Factors					
	Cash Dividend			Stock Dividend		
	Relationship		Decision	Relationship		Decision
	Expected	Reported		Expected	Reported	
ROA	Positive	Positive	Accepted	Positive	Positive	Accepted
EPS	Positive	Positive	Accepted	Positive	Positive	Accepted
Liquidity	Positive	Negative	Rejected	Positive	Positive	Accepted
NOS	Positive	Positive	Accepted	Positive	Negative	Rejected
Size	Negative	Positive	Rejected	Negative	Negative	Accepted

Source: Researcher's Calculation

In relation with cash dividends, ROA and EPS hold positive relationships as expected and were accepted, confirming that profitability and earnings strongly drive cash dividend payouts. Liquidity was expected to be positive but turned out negative, leading to rejection, while NOS was positive as expected and accepted. Interestingly, size showed the opposite of the expected relationship and was rejected, whereas age showed a negative relationship as expected and was accepted.

In relation with stock dividends too, ROA and EPS were found to be positive as expected and accepted, highlighting their importance in dividend policy. Liquidity also matched the expected positive relationship and was accepted. However, NOS was expected to be positive but showed a negative result, leading to the rejection of the hypothesis. Meanwhile, bank size was found to have a negative relationship as expected, and thus the relevant hypotheses have been accepted.

Discussion

The findings suggest that firm-specific factors influence dividend practices of Nepalese banks, although their effects vary. Profitability (ROA) emerged as the strongest determinant of both cash and stock dividends. This indicates that profitable banks have greater capacity to reward shareholders while maintaining financial stability. In the Nepalese banking sector, strong profitability also signals financial strength and increases investor confidence, supporting Dividend Signaling Theory. This finding is consistent with Adhikari

FIRM-SPECIFIC...: *Pulami and Niraula* *Janabhawana Research Journal*, 5(1), 96-109 (2015), although it differs from Thapa (2021), possibly due to differences in the study period and regulatory environment.

Earnings per Share (EPS) showed a positive relationship with dividends, particularly stock dividends. This suggests that banks with higher earnings prefer issuing bonus shares to satisfy shareholders while preserving cash for future operations and regulatory requirements. Such a practice is common among Nepalese banks, where maintaining capital adequacy is important.

Liquidity exhibited only a weak relationship with dividend practices. This implies that dividend decisions are not based solely on available cash but also on regulatory obligations, lending opportunities, and long-term financial planning. Similarly, bank size and the number of shares outstanding showed weak relationships with dividends, indicating that structural characteristics play a less important role than financial performance.

Overall, the results indicate that dividend practices in Nepalese banks are primarily driven by profitability and earnings performance rather than organizational characteristics. This supports Dividend Signaling Theory and suggests that banks use dividends to communicate financial strength while balancing shareholder expectations, regulatory requirements, and long-term sustainability.

Conclusion

This study examined the relationship between firm-specific factors and dividend practices of Nepalese banks. The findings show that profitability (ROA) and earnings per share (EPS) have the strongest positive influence on dividend decisions, making them the most important determinants of dividend practices. In contrast, liquidity, number of shares, and bank size have only a weak influence on dividend distributions.

The results suggest that Nepalese banks mainly base their dividend decisions on financial performance rather than structural characteristics. Banks with higher profitability and earnings are more likely to distribute dividends while maintaining investor confidence and meeting regulatory requirements.

Overall, the study concludes that dividend practices in Nepalese banks are largely driven by profitability and earnings performance. The findings support Dividend Signaling Theory and Agency Theory, indicating that dividends are used to communicate financial strength and build shareholder confidence.

Implications

This study has important theoretical, practical, and policy implications. Theoretically, it adds to the limited literature on dividend practices in Nepalese banks by

FIRM-SPECIFIC...: Pulami and Niraula *Janabhawana Research Journal*, 5(1), 96-109 showing that profitability and earnings are more important determinants of dividends than structural characteristics.

From a managerial perspective, bank managers should focus on improving profitability and earnings performance to maintain sustainable dividend policies, strengthen shareholder confidence, and meet regulatory requirements.

For investors, the findings suggest that indicators such as ROA and EPS are more useful in assessing a bank's dividend-paying capacity and financial health than factors like bank size or the number of outstanding shares.

For policymakers and regulators, particularly Nepal Rastra Bank, the results provide evidence that dividend practices are closely linked to financial performance, which can help in designing policies that balance shareholder returns with financial stability.

The study is limited to selected Nepalese banks and a five-year period. Future research may include a larger sample, a longer study period, additional firm-specific and macroeconomic variables, and more advanced analytical techniques to provide deeper insights into dividend practices in Nepal's banking sector.

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