International Journal of Modern Agriculture
ISSN: 2305-7246
Volume 10 Issue 2, 2021

Corporate Governance and Dividend Policy: Evidence from Commercial Banking Sector in Nepal

[1]Sahadev Bhatt, [2]Dr. Swati Jain
[1] Research Scholar, School of Management & Commerce, Poornima University, Jaipur, India [2]Associate Professor, School of Management & Commerce, Poornima University, Jaipur, India
[1]phdodd14.sahadev@poornima.edu.in
[2]swati@poornima.edu.in

Abstract

We attempt to explain how dividend payment is influenced by corporate governance system in Nepal with a sample from the commercial banking sector by utilizing a regression model of panel data. Using board characteristic variables such as board size, board independence, regularity of board meeting, and size of audit board as the proxies of corporate governance along with profitability, capital gearing, and bank size as control variables, we explore that except audit committee size all explanatory variables are insignificant in determining the dividend payment. The size of audit committee members is positively and significantly affects dividend payout. This finding leads us to conclude that the *outcome hypothesis* is partially applicable and corporate governance is not an important and influencing factor to the dividend decisions in commercial banking sectors signifying that governance practice and dividend policy are not helpful in mitigating agency conflicts. It is also concluded that banking dividend payouts are not the result of the good or poor governance mechanism. Further, among other firm-specific determinants, profitability, leverage, and bank size significantly positively affect the dividend decision.

Keywords:dividend policy, corporate governance, board characteristics, banks, Nepal

1. Introduction

The goal of the corporate managers, especially financial managers is to enhance the wealth of shareholders along with satisfying the interest of all stakeholders on an equitable basis. Corporate governance is a system that includes explicit and implicit contracts between the firm and the stakeholders for the sharing of rights, responsibilities, rewards, and procedures for reconciling and integration. An effective and good corporate governance system helps in creating a harmonious relationship among the stakeholders by reducing the agency conflict. Chung, Elder and Kim (2010) asserted that companies with fragile governance structure have to encounter more agency problems which lead to more threat to shareholders caused by improper structures, the absence of appropriate system and mechanism that make certain a corporation is governed and operated in a manner that makes sure of significantly raise in shareholder wealth. Corporate governance is thus regarded as an integral mechanism for optimizing a company's performance through increasing commitment, openness, and accountability of management.

Corporate governance is a mechanism to make sure that providers of funds to firms will entertain a fair rate of return on their venture (Shleifer & Vishny (1997). The dividend is a way of providing a return to shareholders from the earnings of the firm. Ross, Westerfield and Jaffe(2002) stated that dividend payout is a crucial decision for corporate managers and investors because it determines the rate of return to shareholders and the growth of the firm by reinvesting the corporate earnings. Gul, Sajid, Razzaq, Iqbal and khan (2012) evidenced that dividend payout policy is significant to attain corporate goals through efficient performance. Further, it is claimed that dividend pay outs could be treated as a device for reducing agency problem between owners and management. In the agency theory of dividend, Jensen (1986) demonstrated that dividends help to alleviate agency-related overheads by restricting the free cash flows available to managers that would be depleted on unwise and non-profitable ventures. Sheikh and Wang (2010) revealed that dividend policy turns out to be asignificant aspect of corporate governance because corporate governance aims to safeguard the welfare and interest of stockholders by reducing the agency problems.

The banking sector of any country occupies an extremely essential role in the transferring of financial resources from excess to deficit units thereby facilitates smooth functioning of the financial system. There are two reasons for selecting commercial banks in Nepal as a sample. First, in Nepal investor protection is weak and agency conflict is rampant. Second, Nepalese investors are more inclined toward investment in the shares of banking sectors especially, in the share of commercial banks. This is supported by the fact that the Nepal Stock Exchange (NEPSE), the one and only stock market in Nepal, is overwhelmingly dominated by commercial banking companies in terms of both the gross trading volume and the number of shares listed, as seen in Figure 1.

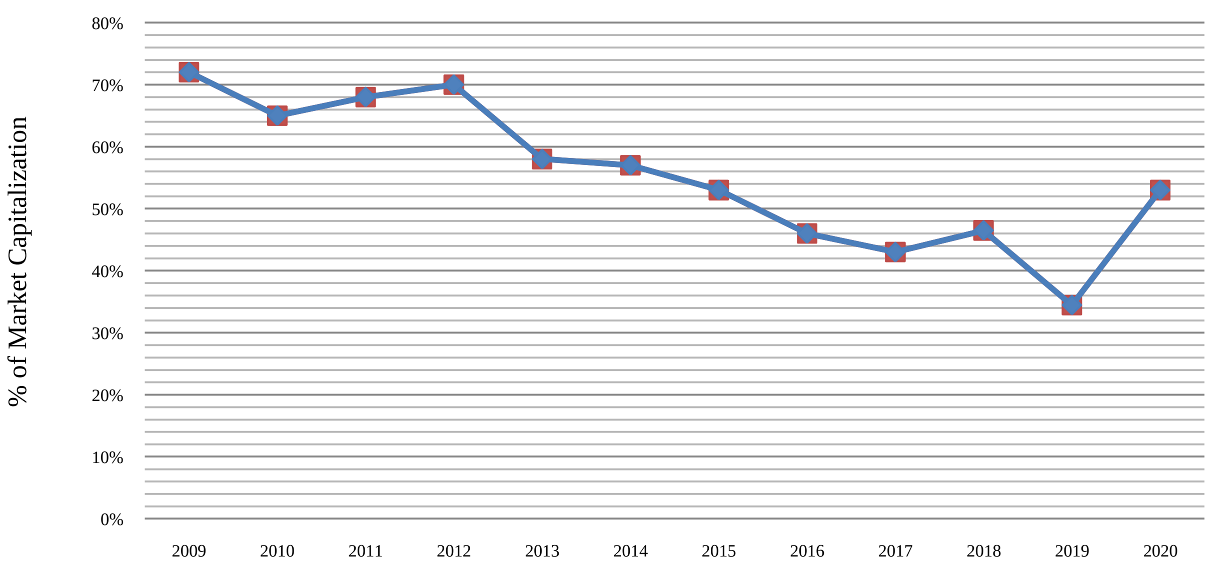

Figure 1 Percentage of commercial bank in total market

Source: SEBON Annual Report -2020

Thus, any vulnerability and failure of banking firms as a result of unethical and immoral activities of banking executives can lead to significant losses to the shareholders along with reputational spoil. Despite the value of banking firms to the financial system, depositors, and shareholders, there exists a lack of practical evidence about the effect of corporate governance structures on dividend payment strategies of commercial banks.Meanwhile, the preceding empirical studies conducted by Al-Najjar and Hussainey (2009), Al-Matari, Al-swidi and Fadzil (2012), Hao, Hu, Liu, and Yao (2014), Ntim(2015), Khan, Mihret and Muttakin (2016), Elmagrhi et al. (2017), Atanassov and Mandell (2018) have supported that corporate governance mechanism may affect dividend payment behavior. Consequently, we aim to add to the dividend literature by assessing the relationship of corporate governance variables with dividend payout policy of NEPSE listed commercial banks through this paper. Particularly, we investigate the degree to which banking dividend payout is influenced by the board characteristics taking the sample from the commercial banks listed in NEPSE from 2009 to 2020.

The majority of the previous studies regarding corporate governance and dividend policy are conducted in highly developed and emerging economies, most of which are based on the sample drawn from non-banking firms. Particularly, in the Nepalese context, no studies focusing on this issue have been conducted yet. Brown, Beekes and Verhoeven (2011) and Claessens and Yurtoglu (2013) stated that further research is necessary in different market, organizational and legal circumstances to widen the understanding about the effects of corporate governance practices on corporate decisions. Accordingly, we aim to tackle the weakness of existing studies by extending and exploring new contributions in several ways. First, the paper aimed at adding to the literature by empirical study about the influence of board uniqueness or characteristics/composition on dividend policy in the milieu of commercial banks listed in NEPSE. This is important and essential since, by excluding the banking industry, previous studies are focused on certain company-specific and traditional dividend decision determinants. Second, we base our analysis on testing the *outcome and substitution* model in the banking sector and provide evidence from the least developed country like Nepal regarding the intentions of managers for paying a dividend. Third, the paper offers the most recent empirical proof of the effects of banking board composition features on dividend policy using the data from 2009 to 2020, just before the COVID-19 crisis. Thus, our findings will help make comparisons in dividend reform and corporate governance activities of banking firms before and post COVID-19 pandemic.

Inspired by the agency theory, we try to explore the role of board characteristics of the banking sector on dividend payment decisions by controlling for some company-specific factors like profitability, leverage, and bank size. La-Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) and Sawicki (2009) showed that the dividend payment is the consequence of the corporate governance system as the managers of good governance firms tend to pay a larger cash dividend to their shareholders. The intention of managers behind such a large dividend is that the management will retain earnings only when there are attractive investment projects are available that adds value to stockholders. Thus, they likely signal their dedication and commitment to fulfill the shareholders' interest. Hence, hypothesizing dividend payout of commercial banks as an upshot of corporate governance, this research provides empirical proof of the association and interaction between the corporate governance quality and the payment of dividends.

2. Literature Review

2.1 Theoretical Review

The previous literature, for example, La Porta et al. (2000) suggests two theoretical perspectives on the association among corporate governance eminence with dividend policy: first is the *outcome and* second is *substitution hypothesis.* The *outcome hypothesis* conceives that dividend payment behavior is the 'result' or "outcome" of a successful corporate governance quality because shareholders demand cash distribution from management. Moreover, in a firm with good governance practices, it's difficult to confiscate shareholders through unwise use of free cash flow and shareholders successfully pressure executives to dispense in temperance cash as larger dividends. Ntim (2016) posits that by paying a larger dividend, the managers of a good-governed organization perform to the best of shareholders' interest. Hence, the main stem of the *outcome hypothesis* is that the dividend policy of a firm is related positively with quality of corporate governance.

The *Substitution hypothesis*, contrary to the *outcome hypothesis*, implies that firms with pathetic corporate governance mechanism likely to distribute bigger dividends to develop a favorable standing and relationship with stockholders (La Porta et al., 2000). Further, it is argued that firm pays dividends because managers who intend to raise external equity at some point have an opportunity to build a reputation for handling minority shareholders with decent. Hence in this situation, dividend payouts can be viewed as a form of substitute governance mechanism. Accordingly, firms having poor governance practices should use the dividends as an effective method for reducing possible conflicts of interest between management and owners (Sawicki, 2009). Accordingly, reverse to the *outcome* model, the *substitution* model envisages that corporate governance is adversely correlated with the dividend payment scheme.

2.2 Empirical Review and Hypotheses

i) Corporate governance and dividend Policy

Prior research has fetched mixed as well as inclusive results relating to the influence of corporate governance on dividend policy. The arguments and evidence are provided in support of both the *outcome* and the *substitution hypothesis*. It is well established in the literature that there is a significant and meaningful relationship between Jenson's (1986) agency theory, corporate governance system, and dividend payout policy. Consistent to the *outcome hypothesis*, previous literature reveals a strong positive dividend policy interaction with corporate governance because minority shareholders favor present dividend than future capital gain resulting from reinvestment of earnings (La Porta et al., 2000; Mitton, 2004; Adjaoud & Ben-Amar, 2010; Jiraporn et al., 2011). Similarly, Kumar (2006) clarifies that corporate governance affects the dividend payout because it protects minority shareholders' rights, through dividend payment. Using the Transparency and Disclosure Index (TDI) as a corporate governance proxy, Kowalewski, Stetsyuk and Talavera (2008) analyzed the association between corporate governance activity and dividend policy in Poland and evidenced that better TDI score results in higher dividend payment. Jang-Chul and Young (2011) explore how the dividend strategy is influenced by the corporate governance quality using agency theory and reveals a strong positive link between the level of corporate governance and dividend payments signifying that the firms practicing a better corporate governance system likely to disburse larger dividends. Ahmad (2015) also reported a positive and significant linkage between corporate governance practices and dividend payout in the ASEAN region.

A study by Montalvan, Barilla, Ruiz and Figueroa (2017) in Peru shows that companies that have adopted a corporate governance code distribute greater dividends, particularly those with high quality in it. Correspondingly, Gunawan, Murhadi and Herlambang (2019) study the influence of corporate governance on dividend payout in the Indonesian market and finds that the good corporate governance variables have a positive significant impact on the dividend payout ratio. However, some studies supporting the *substitution hypothesis*, find a negative association between dividend payouts and corporate governance (Officer, 2007, Chae et al., 2009; Chang & Dutta, 2012). In the Indonesian context, Setiawan and Phua (2013) finds a low corporate governance practice in notion of TDI and reveals a negative effect of TDI score on dividend payment thereby authenticate the *substitution* theory as opposed to *outcome* theory. Atanassov and Mandell (2018), using the '*tunneling model'* of determinants of dividend and finds that firms with poor governance system distribute larger returns in the form of dividends than well-governed firms. They further explore that such larger payment results in deterioration of both value and cash holding of the firms. Based on the aforementioned literature, as our aim is to test the *outcome hypothesis* of corporate governance and dividend policy, we expect that corporate governance positively affects dividend payment in a commercial bank in Nepal.

ii) ***Board Size and Dividend Policy***

Board of directors (BODs) is the governing body of a business firm and the number of members in BODs is known as board size. It is essential to have a considerable number of members on board for bearing the challenges and operating the firm successfully. However, past studies have provided mixed results concerning the affect of board dimension on dividend payout. The *outcome hypothesis* predicts affirmativerelationship between board size, firm performance, and dividend payout with lower agency conflict because larger boards have more expertise, better experience, and broad vision (Natim, 2011; Van Pelt, 2013, and Natim et al., 2015). Similarly, Mansourinia et al. (2013), Elmagrhi et al. (2017), and in recent studies by Pahi and Yadav (2018), Sumail (2018) also reveals a pertinent affirmative effects of board size on dividend payment. However, some studies such as Ghasemi, Madrakian and Keivani (2013) and Kulathunga, Weerasinghe and Jayarathne (2017) reveal a significant negative impact of board size on dividend policy. In the literature, vast shreds of evidence are in support of a positive effect of size of the board and the dividend payment; hence we develop our first hypothesis as:

H_1:There is a positive relationship between board size and dividend payment.

iii) ***Board independence and Dividend Policy***

Basheer (2014) stated that a firm's board is important in scrutinizing and preserving the discipline of management, particularly if the board consists of a more independent or non-executive directors chosen based on their expertise and independence. It is argued that board independence assists in diminishing agency-related problems in the firm and improves the performance of the managers thereby able to pay a larger dividend (Jiraporn & Ning, 2006). Similarly, independent directors are supposed to have better inducement and power to control and monitor an opportunistic behavior of managers which results in a better image and reputation in the market (Borokhovich *et al.*, 2005). Accordingly, consistent with *outcome* theory, Shehu (2015), Abor and Fiador (2013), Afzal and Sehrish (2011), Gugler (2003) Sumail (2018) reported the positive connection between the number of independent outside director in the board and the dividend payout. By contrast, La-Porta *et al*. (2000), Al-Najjar and Hussainey (2009), Mansourinia *et al*. (2013), Iqbal (2013), and Pahi and Yadav (2018) showed a strong negative relationship between board independence variables and the dividend payout .In Nepalese context, the Bank and Financial Institution Act (BAFIA)-2017 instructed all commercial banks to appoint at least one non-executive or independent director on the board to make certain that management is concentrated on maximization of value of the equity by mitigating agency conflict. Thus, the greater the fraction of independent or free directors, the lower will be the agency conflicts and consequently lower will be the dividend payment. Hence, our second hypothesis that is tested in the paper is:

H_2: There is a negative relationship between board independence and dividend payment.

iv) ***Board meetings and Dividend Policy***

Board meetings are helpful to shareholders because an additional diligent board is concerned with paying closer attention to managing the actions of the manager to meet the expectations of the shareholders.Adnan (2011) asserts that when board meetings are held regularly, the members are well-informed and knowledgeable regarding the pertinent performance of the firm which directs the proper action to address the issue. However, past literature has provided the mixed results about the influence of the number of board meetings on dividend policy. Ntim (2013) argued that frequent and regular meetings of the board can trim down agency problems and helps to improve firm performance, together with the dividend payment. Similarly, Dissanayake and Bandara (2018) also documented a positive correlation between board meeting frequency and dividend payout. On the contrary, Taghizadeh and Saremi (2013), Benjamin and Zain (2015), Elmagrhi et al. (2017) reveal a significant negative effect of the number of directors' meetings and dividend policy. With consistent to *outcome* model and linking board meetings with good governance practice, we develop our third hypothesis as:

H_3: There is a positive relationship between board meetings and dividend payment.

v) Audit committee and dividend policy

The audit committee is among the most important corporate governance practices for enhancing a firm's value by implementing the rules and policies. In Nepal BAFIA (2017) has made it mandatory for all the financial institutions to establish an internal audit committee under the headship of one non-executive director. There is a scarcity of empirical evidences regarding the size of audit committee and dividend payout practices. The *outcome hypothesis* suggests that audit committees with more members having additional skills, more experience, and added expertise, considered to be more effective in scrutinizing and controlling managers' self-benefit behaviors and paying fewer dividends to investors (Kajol & Sunday, 2008). Ho (2005) reported affirmative connection of audit committee with dividend payout. However, in accordance with the *substitution* theory, in the firms having a weak governance system, dividend payout reduces agency conflict (Rouf, 2011). Based on the idea that an effective audit committee contributes better firm performance and accordingly larger dividend payout, our next hypothesis is:

H_4: There is a positive relationship between audit committee and dividend payment.

2.3 Conceptual Model

We establish the following conceptual model of study depending on the literature assessment and formulation of the aforementioned hypotheses, along with the predicted signs of the interaction of predictive and control variables with the predictor variables.

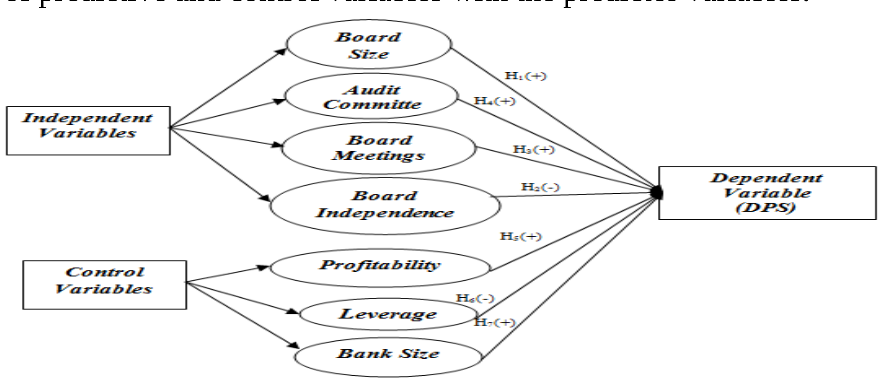

Figure 2: Conceptual Model and the Hypothesized Relationship

Source: Authors' Own Modeling (2020)

3. Methodology

3.1 Sample and Data

The dataset is composed of nineteen commercial banks from the population of twenty-seven commercial banks listed in NEPSE, which cover more than 70 percent of the total population covering 12 years of data from 2009 to 2020 for an aggregate of 228 bank-year observations. The sample comprises both private domestic and foreign joint-venture banks. Sample with omitted data concerning governance and dividend are disqualified from the study to achieve balanced panel data. The banks' financial statements acquired from the annual reports are considered for calculating variables for the study.

3.2 The Model

Assuming expected relationship among the variables is linear, we use panel data least square regression model to ascertain the relationship between corporate governance and dividend policy. Panel data model allows controlling for unobservable heterogeneity through individual (firm) effect unlike cross-section data(Pandey, 2002). In conjunction with the control variables, our estimation model is as follows:

$$DPS_{i,t} = \beta_0 + \beta_1 BS_{i,t} + \beta_2 BI_{i,t} + \beta_3 BM_{i,t} + \beta_4 AC_{i,t} + \beta_5 PR_{i,t} + \beta_6 LEV_{i,t} + \beta_7 SZ_{i,t} + \varepsilon_{it} \quad 1$$

The subscript 'i' and 't' in the model point to bank and years correspondingly, *DPS* symbolizes the per share dividend, *B S* indicates board size, *BI* specifies board independence, *BM* signify number of board meetings, *AC* is the size of audit committee**,** *PR* is profitability, *LEV*stands for leverage, *SZ* indicates bank size, and ε is the measure of error term.

3.3 Definition and Measurement of Variables

In order to analyze the fundamental research issue under the hypothesized relationship, we use three variables in the research as follows:

1) ***Dependent Variable:***We use dividend per share (DPS) as a dependent variable for the proxy of dividend payout as it considered to the most reliable variable capturing the dividend policy (Jiraporn *et al.*, 2011;Ullah *et al.*, 2012;Elmagrhi*et al.*, 2017). It is the ratio of total cash and stock dividend to the number of share outstanding.
2) ***Independent Variable:*** Corporate governance practices characterized by the board size, board independence, board meetings and audit committee are the main explanatory variables exploited in the study.These are summarized and presented in Table 1.

Table 1 Independent Variables definition and measurement

Variables	Measurement
Board Size (BS)	Total directors on a bank’s board at the year-end.
Board Independence (BI)	Fraction of independent or external directors to total directors on bank’s board at the year-end.
Board Meetings (BM)	Total meetings conduct by a bank’s board in a fiscal year (In numbers).
Audit Committee (AC)	Total directors appointed as the member of the audit committee

Source: Authors’ Compilation (2020)

3.4 Control Variables

A vast literature exists on the factors affecting dividend policy. For the sake of briefness, we are ignoring the detailed empirical and theoretical linkage of factors affecting dividend payout in this paper. Some prominent past studies such as La Porta *et al.* (2000)Amidu and Abor (2006), Gill *et al.* (2009), Goel (2014), Yusof and Ismail (2016), Al-Kayed (2017) showed that the payment of dividends is greatly impacted by the company's earnings, degree of debt financing and its size. Accordingly, we use these three determinants of dividend as control variables in the regression model. The quantification of control variables is presented in Table 2.

Table 2 Control Variables definition and measurement

Variables	Measurement
Profitability (PR)	ROA is used as a proxy of bank profitability calculated as dividing operating profits by total assets.
Leverage (LEV)	Fraction of total debt to total assets of bank
Bank Size (SZ)	A proxy firm life cycle and economies of scale computed as natural log of sum of assets.

Source: Authors’ Compilation (2020)

4. Result and discussion

4.1 Summary Statistics

Table 3 provides the summary statistics of the parameters used in the panel data regression model. *Panel A* depicts the descriptive of dividend payment, *Panel B* presents the summary statistics of corporate governance and *Panel C* portrays descriptive summary of control variables.

Table 3 Summary Statisticsof the Variables

Variable	Min.	Max.	Mean	Median	SD
Panel A: Dividend payment					
DPS	0.00	129.97	23.03	17.13	20.85
Panel B: Corporate governance					
BS	4.00	7.00	6.14	6.00	0.80
BI	0.14	0.25	0.17	0.17	0.02
BM	20.00	45.00	32.58	33.00	7.50
AC	1.00	3.00	2.05	2.00	0.79
Panel C: Control Variables					
PR	-0.04	0.04	0.02	0.02	0.01
LEV	0.77	1.18	0.91	0.91	0.04
SZ	8.25	12.45	10.69	10.76	0.78

Remarks:DPS symbolizes the per share dividend, BS indicates board size, BI specifies board independence, BM signify number of board meetings, AC is the size of audit committee, PR is profitability, LEV stands for leverage, SZ indicates bank size.

Source: Authors' Computation (2020)

The descriptive results reveal that the dividend per share ranges between nil to Rs.129.79 with the average payment of Rs.23.03 and fluctuation scaled by standard deviation is 20.85. This signifies that there is no evenness and uniformity in dividend payout by the banks. Similarly, the average value of board size (BS) is 6.14 members, varying from 4 to 7 members. The fraction of independent board directors i.e. board independence (BI) varies from 14 to 25 percent having the average of 17 percent. Additionally, the number of board meetings (BM) by sample banks in a year ranges between a least of 20 to a greatest of 45 representing the average of 32.58. The number of board meetings is quite satisfactory concerning the provisions of BAFIA (2017) which calls for at least 12 meetings in a year every 2 months. In commercial banking, the number of directors in an audit committee (AC) ranges from 1 to 3 with an average of 2.05 which symptomatic of complying with audit committee requirements according to BAFIA (2017). Among the control variables, the average profitability (PR) of commercial banking in Nepal is 2 percent measured by ROA with a smallest of -4 percent and a highest of 4 percent. Moreover, the banks are financed 91 percent by debt and the remaining 9 percent by shareholder's equity as shown by the average leverage (LEV) score of 90.91 percent. The average size of Nepalese commercial banks is 10.69 captured by the natural log of total assets. The value ranges between 8.25 and 12.45 with smallest and largest bank respectively. Further, the result of summary statistics reveals enough variation in the variables and the mean and median values are roughly the same signifying that data is close to normal having an approximately linear relationship.

4.2 Pearson's and Spearman's bivariate correlation analyses

The Pearson's and Spearman's correlation coefficients of the research variables are presented in Table 4. The correlation coefficient is usedfor the purpose of determining the strength and direction of relationship as well as detecting the Multicolinearity of variables under study.Further, we account for both parametric (Pearson's) and non-parametric (Spearman's) correlation coefficientsfor ensuring robustnessof the study.Since, all coefficients are relatively smaller; the Multicolinearity is not problematic for the regression analysis.

Table 4 Pearson's and Spearman's correlation coefficients

	DPS	BS	BI	BM	AC	PR	LEV	SZ
DPS		0.045	-0.102	-0.021	0.149*	0.544**	0.236**	0.500**
BS	0.019		-0.150*	0.037	-0.015	0.036	0.007	0.107
BI	-0.089	-0.187**		0.173**	-0.039	-0.176**	0.026	-0.11
BM	-0.022	0.019	.177**		-0.104	0.009	-0.092	-0.048
AC	0.193**	-0.019	-0.013	-0.105		0.113	0.001	0.028
PR	0.519**	-0.005	-.144*	-0.01	.141*		-0.039	0.385**
LEV	0.160*	0.025	0.100	-0.092	-0.019	-0.058		-.203**
SZ	0.350**	0.103	-0.115	-0.059	0.039	0.346**	-0.141*	

Remarks:DPS symbolizes the per share dividend, BS indicates board size, BI specifies board independence, BM signify number of board meetings, AC is the size of audit committee, PR is profitability, LEV stands for leverage, SZ indicates bank size. Moreover, ** and * denotes correlation is significant at the 0.01 and 0.05 level.Pearson's correlation is seen in the lower left half of the table, and the upper right half of the table shows the coefficients of Spearman's correlation.
Source: Authors' Computation (2020)

Based on Pearson's correlation coefficients, among the corporate governance variable, magnitude of audit committee is statistically significant positive correlation with dividend payment which is consistent as our hypothesis. This is consistent with Al-Swidi *et al.* (2012) and Elmagrhi *et al.* (2017) who evidenced that audit committees with more members are coupled with better monitoring of managerial actions resulting higher dividend payment reduced agency related problems. Board size and dividend payment are positively related in the line of our expectation but the link is not strong enough to be statistically significant. This implies that more members in audit committee and in board of directors results larger dividend payment accordingly supports to the findings of Ho (2005), Mansourinia *et al.* (2013), Elmagrhi *et al.* (2017), Pahi and Yadav (2018) and Sumail (2018).Similarly, dividend payment is inversely associated with board independence and board meetings signifying that board independence and dividend payment are substitutes in reducing cost of agency problem (Al-Najjar & Hussainey, 2009). Hence, companies having superior governance mechanism by frequent board meetings and appointing higher proportion of independent directors are tend to pay less dividends (La-Porta *et al.*, 2000). Among the control variables, profitability, leverage and bank size are significantly positively related with dividend payment of commercial banks.

4.3 Multivariate Analysis

Table 5 presents the outcome of a panel data regression model that isemployed to examine and investigate therelationship between corporate governance quality and dividend policy.

Table 5 Regression Results

	β	t	Sig.	VIF
Constant	-177.17	-5.012	0.000	
BS	0.295	0.206	0.837	1.056
BI	-25.45	-0.534	0.594	1.114
BM	-0.100	-0.647	0.518	1.067
AC	3.465*	2.404	0.017	1.033
PR	929.53**	7.400	0.000	1.179
LEV	123.04**	4.112	0.000	1.047
SZ	6.044**	3.896	0.000	1.178
D-W stat.=1.741	F value=18.173**	R^2=0.366	Adj. R^2=0.346	No. of obs. 228

Remarks: DPS symbolizes the per share dividend, BS indicates board size, BI specifies board independence, BM signify number of board meetings, AC is the size of audit committee, PR is profitability, LEV stands for leverage, SZ indicates bank size. Moreover, ** and * denotes correlation is significant at the 0.01 and 0.05 level.

Source: Authors' Computation (2020)

The analysis of regression reveals that the adjusted R^2 is around 0.346 meaning that the independent variables predict the affect on the dependent variables to the extent of 34.6 percent. F- Statistic is significant (p-value is 0 .000) implying that results are quite explanatory and the model is fit. Further, VIF and D-W factors assure for the non-existence of Multicolinearity and autocorrelation problem in the model.

Among the corporate governance proxies, size of audit committee (AC) is statistically and positively affects dividend payout, signifying that our hypothesis stating there is a positive relationship between audit committee (H_4) and dividend payment is confirmed.In the light of insufficient previous evidences on the effects size if audit committee on dividend payment, our findings contributes to the literature that the audit committee formed with more members reduces agency related costs, improves banking performance and declare larger dividend to the shareholders. This finding is consistent with Al-Swidi *et al.* (2012) and Elmagrhi *et al.* (2017). Another explanatory variable, board size is positively associated with dividend payment but such association is not statistically significant. Hence, we do not find the statistical evidence in support of our hypothesis (H_1) stating board size is positively related with dividend payment and conclude that more or less number of members in board statistically does not influence the banking dividend payment behavior. This finding contradicts with *outcome hypothesis* and many of the previous studies such as Natim (2011), Van Pelt (2013), Natim *et al.*(2015), Elmagrhi *et al.* (2017), Pahi and Yadav (2018), Sumail (2018) who evidenced significant positive and

Ghasemi *et al.* (2013) and Kulathunga *et al.* (2017) who reveled significant negative influence of board size on dividend payout authenticating the *substitution hypothesis*.

Further, with board independence (BI) and board meetings (BM) negatively affect the dividend payment supporting the theoretical evidence that institutions encompassing with better quality governance practices with regular board meetings and appointing higher proportion of independent non executives directors are likely to pay a lesser amount of dividends (La-Porta *et al.*, 2000). However, such negative association of board independence (BI) and board meetings (BM) with dividend payout is not statistically significant, therefore we don't find statistical evidence in favor of our 2nd and 3rd hypothesis.

Apart from the main explanatory variables, we make use of widely accepted firm-specific determinants of dividend payout such as profitability, leverage and bank size as control variables in regression model.Profitability affects dividend payout positively and significantly in line of our expected sign signifying that highly profitable firms likely to pay larger dividends Al-Kuwari (2009). Another control variable, contrary to our anticipated sign, leverage is significantly positively affecting dividend policy which supports Kania, and Bacon (2005), Jiraporn *et al.*(2011), Dada *et al.*(2015)and Elmagrhi *et al.* (2017) in the ground that debt capital can be used by the firms to pay dividends. The potential explanation for a positive relationship is that more profitable firms with superior performance be capable of employing additional debts to capture benefits of tax savings on debt at the expense of creditors. In addition, bank size significantly positively affect dividend payout which signifies that large-size firms likely to pay a more dividend in as argued by Fama& French (2001). He documented that larger firms have trouble-free admittance to the capital market and can raise external funds with lowest transaction cost. Moreover, the large-size firms are able construct well-diversified investment portfolio, maintain a strong financial record and develop a good standing in the market by paying a larger dividend.

5. Conclusion

The study ascertains the association between corporate governance practices and the dividend payout of commercial banks registered in the Nepal Stock Exchange. Specifically, based on the agency theory, this study examines the impact of board characteristics on dividend payout decisions on a sample of nineteen listed commercial banks in Nepalese over the period of 2009 to 2020 by using a panel data regression model. We examined the linkage between board characteristics such as board size, board independence, rate of board meetings, board and size of audit committee size, and dividend payout in one of the least-developed country. The empirical findings reveal that the audit committee size affects the bank's dividend policies. The relationship between these two is positive and statistically significant. Similarly, board size and dividend payout have also a positive relationship. However, the board size has no significant effect on the dividend payout of banking firms. Moreover, board independence and board meetings have an insignificant negative link with the dividend payment. Besides, the empirical result reveals that more profitable, large, and mature banks pay larger dividends. This result supports the view that the large enterprises are often more mature, have larger free cash flows and are therefore more willing to pay higher dividend than small firms.

The findings of the study lead us to conclude that corporate governance in terms of board characteristics has no significant function in shaping the dividend payout of the banking sector. This is because banking firms are the most regulated institutions through prudential and non-prudential regulations along with the strong supervision, monitoring, and directions of regulating agencies. The responsibility, accountability, and transparency of banking firms ensure good governance over other business firms. Accordingly, there is no vital issue of agency conflict in banks and therefore dividend is not related significantly with corporate governance and agency conflict. We further conclude that our findings partially support *the outcome hypothesis* as most of the proxies of board characteristics are positively associated with the dividend payment.

Our study contributes and elongates to the existing literature in a variety of ways. First, we present an up to date empirical understandings and insights concerning board characteristics and dividend payment. Second, we provided evidence from banking firms of the least developed country regarding the corporate governance and dividend policy whereas most prior studies focus on non-banking firms of the developed and emerging nations. Third, our results expand and enlarge the insights of managers and shareholders that the corporate governance issue is partially significant in banking firms in determining the dividend payout by evidencing well-governed banks pay larger dividends.

Finally, the study is based on a number of limitations. Firstly, we used only four board characteristics as a proxy of corporate governance of the banking sector; hence we acknowledge that the findings would be more compelling and persuasive if other measures of corporate governance were also used. Second, we emphasized only commercial banks however the study can be done by taking a large sample considering other financial institutions for a long period to obtain deeper analyses and more conclusive results. Third, we used only firm-specific control variables in the study. The dividend policy may also be influenced by some macroeconomic variables. Hence we leave a space for future research by addressing these limitations.

Acknowledgement

We would like to extend heart felt gratitude to Dr. Sunil Kumar Gupta and Dr. Keshav Raj Joshi for their appraisal and suggestions during the research process.

References

1. Abor, J. & Fiador, V. (2013). Does corporate governance explain dividend policy in Sub-Saharan Africa?*International Journal of Law and Management*, 55 (3), 201–225.

2. Adjaoud, F., & Ben-Amar, W. (2010). Corporate governance and dividend policy: Shareholders' protection or expropriation? *Journal of Business Finance and Accounting*,37(5/6), 648-667.
3. Adnan, M.(2011). A panel Data Analysis on The relationship between corporate governance and bank Efficiency.*Journal of Accounting finance and economics*, 1, 1, 1-15.

4. Afzal, M. & Sehrish, S. (2011). Ownership structure, board composition and dividend policy in Pakistan. *African Journal of Business Management*, 7(11), 811–817.

5. Ahmad, G.N. (2015).Does corporate governance affect dividend policy: evidence from ASEAN emerging market. *Risk governance & control: financial markets & institutions,* 5(1), 88-94.

6. Al-Kayed, L.T. (2017). Dividend payout policy of Islamic vs conventional banks: case of Saudi Arabia. *International Journal of Islamic and Middle Eastern Finance and Management*, 10 (1), 117-128. https://doi.org/10.1108/IMEFM-09-2015-0102
7. Al-Kuwari, D. (2009). Determinants of the dividend policy in emerging stock exchanges: the case of GCC countries. *Global Economy & Finance Journal, 2(2)*, 38-63.
8. Al-Matari, Y.A., Al-swidi, A.K. & Fadzil, F.H.M. (2012). Board of directors, audit committee characteristics and performance of Saudi Arabia listed companies.*International Review of Management and Marketing*, 24, 12-51.
9. Al-Najjar, B. & Hussainey, K. (2009). The association between dividend pay-out and outside directorships.*Journal of Applied Accounting Research*, 10 (1), 4-19.
10. Al-Swidi, A.K., Fadzil, F.H. & Al-Matari, Y.A. (2012). The impact of board characteristics on firm performance: evidence from nonfinancial listed companies in Kuwaiti stock exchange. *International Journal of Accounting and Financial Reporting*, 2 (2), 310-332.
11. Amidu, M. & Abor, J. (2006). Determinants of Dividend Payout Ratios in Ghana. *Journal of Risk Finance*, 7(2), 136-145.
12. Atanassov, J. & Mandell, A.J. (2018). Corporate governance and dividend policy: Evidence of tunneling from master limited partnerships. *Journal of Corporate Finance*, 53, 106-132
13. Basheer, M. F. (2014). Impact of corporate governance on corporate cash holdings: an empirical study of firms in the manufacturing industry of Pakistan. *International Journal of Innovation and Applied Studies*, 7(4), 1371-1383.
14. Benjamin & Zain (2015).Corporate governance and dividends payout: are they substitutes or complementary? *Journal of Asia Business Studies*, 9(2).
15. Borokhovich, K.A., Brunarski, K.R., Harman, Y. & Kehr, J.B. (2005). Dividends, corporate monitors and agency costs.*The Financial Review*, 40 (1),37-65.
16. Brown, P., Beekes, W. & Verhoeven, P. (2011). Corporate governance, accounting and finance: a review.*Accounting and Finance*, 51(1), 96-172.

17. Chung, K., Elder, J., & Kim, J. (2010). Corporate Governance and Liquidity. *Journal of Financial and Quantitative Analysis*, 45, 265-291.
18. Claessens, S. & Yurtoglu, B.B. (2013). Corporate governance in emerging markets: a survey.*Emerging Markets Review*, 15, 1-33.
19. Dada, F.B., Malomo, E. & Ojediran, S. (2015). Critical evaluation of the determinants of dividend policy of banking sector in Nigeria. *International Journal of Economics, Commerce and Management*, III (2), 1-11.
20. Dissanayake, K. T. & Bandara, D. B. P. H. D. (2018). Board Characteristics and Dividend Policy –The Study of Banking and Finance Sector in Sri Lanka. *International Conference on Business Innovation (ICOBI).46-51.*
21. Elmagrhi, M. H., Ntim, C.G., Crossley, R. M., Malagila, J.K., Fosu, S. & Vu, T.V. (2017). Corporate governance and dividend pay-out policy in UK listed SMEs: The effects ofcorporate board characteristics. *International Journal of Accounting & Information Management*,25(4),459-483.
22. Ghasemi, R.S., Madrakian, H. & Keivani, F.S. (2013). The relationship between the corporate governance and the stock institutional ownership with the dividend - a case study of Tehran. *Journal of Business and Management*, 15 (2), 65-69.
23. Gill, A., Biger, N., Pai, C., Bhutani, S. (2009). The determinants of capital structure in the service industry: evidence from United States. *Open Business Journal, 2*, 48–53. http://dx.doi.org/10.2174/1874915100902010048
24. Goel, S. (2014). Financial statements analysis: Cases from corporate India. Retrieved from http://www.freebookspot.es/

25. Gugler, K. (2003). Corporate governance, dividend payout policy, and the interrelation between dividends, R&D, and capital investment.*Journal of Banking and Finance*, 27,(7), 1297–1321,

26. Gul, S., Sajid, M., Razzaq, N., Iqbal, M., & khan, M.(2012). The relationship between dividend policy and shareholders wealth: evidence from Pakistan. *Economics and Finance Review*, 2, 55-59.

27. Gunawan, K.E., Murhadi, W.R. & Herlambang, A. (2019). The effect of good corporate governance on dividend policy, *Advances in Social Science, Education and Humanities Research*, 308, 57-61, 16th International Symposium on Management (INSYMA 2019).

28. Hao, Q., Hu, N., Liu, L. & Yao, L.J. (2014). Board interlock networks and the use of relative performance evaluation.*International Journal of Accounting & Information Management*, 22(3),237-251.
29. Ho, C.-K. (2005), Corporate Governance and Corporate Competitiveness: an international analysis. Corporate Governance: *An International Review*, 13, 211-253. doi:10.1111/j.1467-8683.2005.00419.x
30. Iqbal, S. (2013). The impact of corporate governance on dividend decision of firms: evidence from Pakistan.*African Journal of Business Management*, 7(11), 811-817.

31. Jang-Chul K. & Young, S. K. (2011). Dividend payouts and corporate governance quality: an empirical investigation. *The Financial Review*, Eastern Finance Association, 46(2), 251-279.
32. Jensen, M.C. (1986). Agency cost of free cash flow *American Economic Review*, 76(2),323-339.

33. Jiraporn, P., & Ning, Y. (2006).Dividend policy, shareholder rights and corporate governance. *Journal of Applied Finance*, 37(4), 24–36.

34. Jiraporn, P., Kim, J. C., & Kim, Y. S. (2011). Dividend payouts and corporate governance quality: An empirical investigation.*Financial Review*,46(2), 251-279.
35. Kajol & Sunday (2008). Corporate governance and firm performance: the case of Nigerian listed firm.*European Journal of Economics*,6(3), 1-13.
36. Kania, S. L., & Bacon, F. W. (2005). What factors motivate the corporate dividend decision? *American Society of Business and Behavioral Sciences E-Journal*, 1(1), 95–107.
37. Khan, A., Mihret, D.G. & Muttakin, M.B. (2016). Corporate political connections, agency costs and audit quality. International Journal of Accounting & Information Management, 24(4),357-374.
38. Kowalewski, O., Stetsyuk, I. & Talavera, O. (2008). Does corporate governance determine dividend payouts in Poland?*Post-Communist Economies*, 20(2), 203-218.
39. Kulathunga, K.M.K.N.S.,Weerasinghe, W.D.J.D. & Jayarathne, J.A.B. (2017).Corporate governance and dividend policy: a study of listed manufacturing companies in Sri Lanka.*International Journal of Scientific Research and Innovative Technology, 4(2), 64-81.*
40. Kumar, J. (2006). Ownership structure and dividend payout policy in India.*Journal of Emerging Market and Finance*, 5(1), 15-58.
41. La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R, (2000). Agency problems and dividend policies around the world. *Journal of Finance*, 55, 1-33.
42. Mansourinia, E., Emamgholipour, M., Rekabdarkolaei, E.A. & Hozoori, M. (2013). The effect of board size, board independence and CEO duality on dividend policy of companies: evidence from Tehran stock exchange.*International Journal of Economy, Management and Social Sciences*,2(6),237-241.
43. Mitton, T. (2004). Corporate governance and dividend policy in emerging markets.*Emerging Markets Review*, 5(4), 409-426.
44. Montalvan, S. M., Barilla, C.D., Ruiz, G.D. & Figueroa, D.L. (2017). Corporate Governance and Dividend Policy in Peru: Is there any link? *Revista Mexicana de Econom´ıa y Finanzas*, 12(2), 103-116.
45. Ntim, C.G. (2011). The king reports, independent non-executive directors and firm valuation on the Johannesburg Stock Exchange. *Corporate Ownership and Control*, 9(1), 428-440.
46. Ntim, C.G. (2013). Monitoring board committee structure and market valuation in large publicly listed South African corporations.*International Journal of Managerial and Financial Accounting*,5(3), 310-325.
47. Ntim, C.G. (2015). Board diversity and organizational valuation: unraveling the effects of ethnicity and gender. *Journal of Management & Governance*, 19(1), 167-195.

48. Ntim, C.G. (2016). Corporate governance, corporate health accounting and firm value: the case of HIV/ AIDS disclosures in Sub-Saharan Africa.*International Journal of Accounting*, 51(2), 155-216.
49. Officer, M.S. (2006). Dividend policy, dividend initiations, and governance, *Un-published working paper*, University of Southern California.
50. Pahi, D. & Yadav, I. S.(2018). Role of corporate governance in determining dividend policy: panel evidence from India.*International Journal of Trade, Economics and Finance*, 9(3),111-115.
51. Pandey, I. M. (2002). Capital structure and market power interaction: evidence from Malaysia. SSRN Electronic Journal.
52. Ross, S., Westerfield, R. & Jaffe, J. (2002). *Corporate Finance* (6th ed.). McGraw-Hill Companies.
53. Rouf, M.(2011). The relationship between corporate governance and value of the firm in developing countries: evidence from Bangladesh. *The International Journal of Applied Economics and Finance*, 5(3), 237-244, https://ssrn.com/abstract=2576591
54. Sawicki, J. (2009). Corporate governance and dividend policy in Southeast Asia pre- and post-crisis.*European Journal of Finance*, 15 (2), 211-230.
55. Setiawan, T. & Phua, L.K. (2013). Corporate governance and dividend policy in Indonesia, *Business Strategy Series*, 14(5/6), 135 – 143.
56. Sheikh, N., & Wang, Z.(2012). Effects of Corporate Governance on Capital Structure. *Global Disclosure of Economics and Business Journal*, 12, 629-641.
57. Shleifer, A.& Robert, W. V.(1997). A Survey of corporate governance. *The Journal of Finance*,52 (2), 737–783. doi:10.1111/j.1540-6261.1997.tb04820.x
58. Sumail, L. O. (2018). Corporate governance and dividend payout ratio in non-financial firms listed in Indonesian Stock Exchange. *Business and Economic Horizons*, 14(4), 851-861. DOI: http://dx.doi.org/10.15208/beh.2018.58
59. Taghizadeh, M. & Saremi, S. (2013). Board of directors and firms' performance: evidence from Malaysian public listed firm.*International Proceedings of Economics Development and Research*,59(37), 178-182.
60. Ullah, A. F. &Khan, S. (2012). The Impact of ownership structure on dividend policy: evidence from emerging markets KSE-100 Index Pakistan.*International Journal of Business and Social Science*, 3(9), 298-307.
61. Van Pelt, T. (2013).*The effect of board characteristics on dividend policy*.Working paper, Tilburg School of Economics and Management, Department of Finance. Tilburg University: The Netherlands.
62. Yusof, Y. & Ismail, S. (2016). Determinants of dividend policy of public listed companies in Malaysia. *Review of International Business and Strategy*, 26(1), 88-99.

Sahadev Bhatt received the B.Com. (1996) and thencompleted M.B.A. (2000) from the Tribhuvan University, Nepal, and pursuing PhD from the Poornima University, Jaipur, India. He is currently an assistant professor at the Tribhuvan University, Faculty of Management in the Bhairahawa Multiple Campus, Bhairahawa, Nepal. Apart from teaching, he serves in campus academic administration as a Head of the Management Science department and director of the B.B.A. & B.B.M. programme. The author has attended many national and international conferences and has written many research papers on banking and finance. His research interests are dividend policy, capital structure, and corporate governance.

Dr. Swati Jain is currently working as Associate Professor in School of Management and Commerce, Poornima University. Previously she was associated with IILM. She is Phd. in Finance and Banking from University of Rajasthan, MBA in Finance and Marketing from IILM, Jaipur Campus, O-Level, and CS (Executive Programme) from ICSI. She has 15 years of research and teaching experience and has organized various workshops, seminars and conferences. About 17 papers presented in National and International conferences and seminars. She also has to her credit, 16 research papers publication and a book on International Financial Management.