FACTORS DETERMINING THE DIVIDEND DECISION OF LISTED BANKING COMPANIES

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Introduction

Dividend decision by corporations' managers is very sensitive and important as well. There is no doubt that when deciding about income, managers should consider their outcomes. This is why many corporations have a certain purpose in mind while making decisions about dividends. However, it is without question that when managers make dividend decisions they inevitably face constraints such as liquidity problems, tax considerations and so on. Listed corporations in the stock exchange use different advertising instruments for internal and external investment. One of these financial instruments is the dividend. On the one hand, dividends will provide a stable income for shareholders who are able to regulate their life expenses with it, and on the other hand investors and stock buyers will pay attention to corporation's annual stock dividend news and reports. They will give due attention to the fact that dividend represents corporation's power, while dividend payment will cause shareholders to have confidence in their yield of capital receipt. Therefore, it is important to understand the factors that affect dividend policies and the managers making decisions about dividend policies in terms of these factors.

Financial decisions are the fundamental domain for the survival of the firm. Dividend decision is one of the controversial areas of managerial finance. Dividends are periodic cash payments by the company to its shareholders. Dividend paid represents a cash outflow which depletes the cash resources. The dividend payable to the preference shareholders is usually fixed by the terms of the issue of preference shares. But the dividend on equity shares is payable at the discretion of the Board of Directors of the company. Payment of dividend makes the shareholders happy. On other hand, it decreases the internal source of fund for making investment in golden opportunities. This will limit the growth of the firm, which in turn affects wealth of the shareholders. So, Decision on the amount to pay as dividend is one of the major financial decisions that a firm's Managers face. Managers have to develop a dividend policy, which will influence the investment opportunities available to the firm as well as value of dividends in term of capital gains to the shareholders.[1]

The firm's manager is in a position to balance the satisfaction of the shareholder and the growth of the firm in deciding the dividend payout. The manager has to consider various factors in deciding the dividend payout to the shareholder. In other word, the announced

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[1]Kumar & Jha(2011).

dividend payout is in construct of factors considered by the managers, which is not essentially mentioned. The firm's manager considers numerous factors in making dividend payout to the shareholders. Identify the key factors in determining dividend decision is more popular between academicians and researchers. In developed countries, Extensive studies have been done in factors influencing dividend decision of the firms. India is one of the emerging economy and companies are frequently involved in dividend payment. To the Researcher's knowledge a handful of studies have been conducted on determinants of dividend decision have been conducted in India but a universally acceptable conclusion is yet to be drawn. Apart from factors influencing dividend policy, another problem is to study the dividend payment trend of commercial banks. Against the backdrop, it is worthwhile to study the factors determining dividend policy.

Review of literature

Researchers have also studied the major determinants of dividend policy, change in propensity to pay dividends/disappearing dividends (Fama and French,2001) and ex-dividend day stock price (Haesner and Schanz, 2013). Fama and French (2001)reports that firm size, growth opportunities and profitability are significant characteristics which determine the dividend policy of a firm. Benito and Young (2003), Ferris et al. (2006)and Renneboog and Trojanowski (2007) presents similar evidence on the determinants of dividends in the UK, whereas similar findings for a sample of European Union firms are reported by von Eije and Megginson (2008). Reddy and Rath (2005) analyses the dividend paying behaviour of Indian companies by recognizing the significant features of dividend payers and non-payers from 1991 to 2001. Fama and French (2001) report similar determinants of dividends in the US.DeAngelo et al. (2004) examine that the dividends are actually disappearing as proposed by Fama and French (2001). They have concluded that although there is a major change in the corporate dividend practices of industrial firms over the past two decades, dividends are not disappearing.

Baker and Wurgler (2004b) report that catering incentives not only explain the propensity to pay dividends post-1977 but are also able to explain the actual extent/magnitude of the decline in the propensity to pay dividends post-1977.Narasimhan and Vijayalakshmi (2002) examine that Indian firms do consider insider ownership as significant to determine their payout policy. However, Hamill and Al-Shattarat(2012) have reported that for Jordan companies, the number of shareholders, firm size and level of insider and institutional ownership are considered important for determining their payout policy. In a recent study, Baker et al. (2018) explore the importance of institutional investors on the payout policy of an investees' company and techniques adopted by them to influence the same. They have reported that payout policy significantly influences the investment decision of institutional investors. For longer investment horizon, they give more importance to dividend policy and prefer higher dividend payouts. Kumar (2006) examines that the ownership significantly influences the dividend payouts of Indian corporate firms. However, the impact is different for corporate ownership and ownership by directors. Manos et al. (2012) do not find strong evidence on effect of business groups on dividend behaviour of

companies in India. A group of legally independent firms, linked to each other either due to crossholding of ownership or over-lapping directorship is denoted as a business group.

Data and Methodology

Research Design

The study is mainly identifying the existence of the relationship between various variables. So, the causal research design has been used.

Data Source

The study has been conducted mainly with the secondary data. Now-a-days fundamental and technical security analyses are available in the form of various softwares created by different agencies like CMIE (Centre for Monitoring Indian Economy), Capitaline, Money Control, RBI, NSE (National Stock Exchange), BSE (Bombay Stock Exchange) and so on. The commercial banks listed in National Stock Exchange are considered for the analysis and list drawn from NSE website (www.nseindia.com). The financial data required for the study are taken from "Capitaline Plus" database software.

Period of the Study

The period of the study for the analysis is eight years from 2011-12 to 2018-19.

Sampling Design

There are 155 commercial banks available in India, which includes 151 scheduled commercial banks and 4 unscheduled commercial banks. The scheduled commercial banks further divided into 64 RRB (Regional Rural Banks), 26 public sector banks, 20 private sector banks and 41 foreign banks. The population for the study is listed commercial bank in India. According to RBI, there are 26 public sector banks and 20 private sector banks operating in India. Among the banks, 22 public sector banks and 15 private sector banks were listed in NSE. Out of 37 banks, four banks were removed due to non-availability of data and another four banks were dropped due to non-declaration of dividend during the study period. Finally 19 public sector banks and 10 private sector banks were selected for the study. The purposive sampling method has been adopted for the sample selection.

Description of Variables

Potential variables for determining dividend payout of the firm are selected from the previous literature. Profitability, size, liquidity, leverage, growth opportunity and risk of the firm are selected as potential determinants of dividend payout of listed Indian commercial banks.

Variables	Symbol	Proxy	Description	Expected sign
Dependent				
Dividend Policy	DP	Dividend Payout Ratio	$\dfrac{\text{Dividend Paid}}{\text{Net Profit after Tax}} \times 100$	NIL
Independent				
Profitability	PRO	Return on Assets	$\dfrac{\text{Net Profit before Interest and Tax}}{\text{Total Assets}} \times 100$	Positive
Size	SIZ	Total Assets	LN of Total Assets	Positive
Liquidity	LIQ	Cash flow	LN of profit after tax plus depreciation	Positive
Leverage	LEV	Debt/Equity Ratio	$\dfrac{\text{Borrowings+Other Liabilities}}{\text{Equity Capital+Reserve \& Surplus}}$	Negative
Growth opportunity	GRO	Revenue (Interest and non-Interest)	$LN\left(\dfrac{\text{Current Revenue}}{\text{Previous Revenue}}\right) \times 100$	Negative
Risk	RIS	Price Earnings Ratio	$\dfrac{\text{Market Price per Share}}{\text{Earnings per Share}}$	Positive

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Statistical Tools

Descriptive statistics of dividend payment and distribution of dividend rate of commercial banks in terms of bank group-wise, individually and overall are examine the dividend pattern of commercial bank during the study. The bank group-wise means and standard deviations of dividend payout and six explanatory variables are examined the trend and variability of the data during the study period. Correlation is employed to examine the strength of the relationship between dividend payout and six independent variables. Panel data have been employed for the present study and it offers several econometrics benefits over pure cross section or pure time series data sets. The most obvious advantage is that the number of observation is typically much larger in panel data, which will produce more reliable parameter estimates and thus enable us to test the robustness of our linear regression results. The individuals, firms, state, or countries are heterogeneous. Time series and cross-section studies do not control the heterogeneity and run into the risk of obtaining biased results. Panel data controls heterogeneity, less multicollinearity among the variables, more degrees of freedom and more efficient. Panel data sets make it possible to identify and measure effects that cannot be detected in pure cross section or time series data (Hsiao, 2003). Panel regression is applied to know the effect of independent variables on dividend payout. In panel model, two methods namely fixed effect and random effect are available. Hausman test is employed to capture the appropriate method to be used in regression.

Hypotheses

The research hypotheses for the study are formulated as

1. Profitability of the banks as a positive effect on dividend payout ratio.
2. Size of the banks as a positive effect on dividend payout ratio.
3. Liquidity of the banks as a positive effect on dividend payout ratio.
4. Leverage of the banks as a negative effect on dividend payout ratio.
5. Growth opportunities of the banks as a negative effect on dividend payout ratio.
6. Risk of the banks as a positive effect on dividend payout ratio.

Results and Discussion

TABLE 1
Correlation Coefficients: Dividend Payout, Profitability, Size, Liquidity, Leverage, Growth and Risk

Variables	1	2	3	4	5	6
1. Dividend Payout						
2. Profitability	0.106					
3. Size	0.044	0.003				
4. Liquidity	-0.022	0.092	0.930[a]			
5. Leverage	-0.039	-0.039	-0.044	-0.015		
6. Growth	-0.094	0.051	-0.198[a]	-0.110	-0.035	
7. Risk	-0.143[b]	0.018	-0.093	-0.003	-0.036	0.251[a]

Note: [b] and [a] denotes significant at 5 percent and 1 percent level respectively. *n* denotes the bank-year observations.
Source: Capitaline Plus and complied through SPSS 15.

Table 1 shows the correlation coefficients among the variables. There is negatively significant correlation between dividend payout and risk (γ = -0.143). The similar correlation found in new private sector bank as well as old private sector banks but an opposite correlation found under public sector banks. There is very high positive correlation between size and liquidity (γ = 0.930), which significant at 1 percent level. A similar correlation found in all bank groups. It clearly denotes the multicollinearity between size and liquidity. To address the problem both explanatory variables are not included simultaneously in regression. There is a negatively significant correlation between size and growth (γ = -0.198). Growth is positively significant correlated with risk (γ = 0.251).

To study the effect of six explanatory variables on dividend payout, the following panel multiple regression models have been employed in considering the multicollinearity among the explanatory variables.

Model 1: $ln(DP_{it}) = \alpha_0 + \beta_1 \ln(PRO_{it}) + \beta_2 SIZ_{it} + \beta_3 \ln(LEV_{it}) + \beta_4 GRO_{it} + \beta_5 \ln(RIS_{it})$

Model 2: $ln(DP_{it}) = \alpha_0 + \beta_1 \ln(PRO_{it}) + \beta_2 LIQ_{it} + \beta_3 \ln(LEV_{it}) + \beta_4 GRO_{it} + \beta_5 \ln(RIS_{it})$

Model 3: $ln(DP_{it}) = \alpha_0 + \beta_1 LIQ_{it} + \beta_2 \ln(LEV_{it}) + \beta_3 GRO_{it} + \beta_4 \ln(RIS_{it})$

TABLE 2

Regression Analysis: Effect of Profitability, Size, Leverage, Growth, Risk on Dividend Payout (Model 1)

REGRESSORS	EXPECTED SIGN	POOLED	FEM
Intercept		2.708[a]	2.993[a]
Profitability	+	0.000	-0.145[a]
Size	+	0.032	-0.043
Leverage	-	-0.033	0.005
Growth	-	0.002	0.001
Risk	+	-0.056	0.190[a]
Adjusted R^2		0.003	0.663
F-statistic		1.122	14.802[a]
Hausman's Test			15.207[a]

Note: FEM – Fixed Effect Method. Cross section (Banks) dummies only included. [b] and [a] significant at 5 percent and 1 percent level respectively. t-statistics are shown in parentheses.

Source: Capitaline Plus and complied through EViews 7.

Table 2 summarises effect of profitability, size, leverage, growth, and risk on dividend payout. In pooled OLS method, the explanatory variables are found insignificant and the adjusted R^2 is 0.3 percent. The F-statistics of the model is 1.122 and found insignificant, which clearly indicates that none of the explanatory variables explains the dividend payout. The reason for the pooled OLS invalid is due to banks individual effect. The individual effects means the intercept of a regression varies across banks, so it causes the explanatory variable insignificant. In order to capture individual effect, fixed effect method is applied. Under fixed effect method, the adjusted R^2 value is increases to 66.3 percent and the F-statistics is 14.80, which found significant at 1 percent level. It shows that the overall model has been improved in fixed effect method, which captures individual effect of the banks. The coefficient of profitability (-0.145) found negatively significant at 1 percent level and the result does not support the hypothesis that profitability of the banks as a positive effect on dividend payout ratio. It clearly explains whenever profit increases by 1 percent, the dividend payout decreases by 0.15 percent. The coefficient of the risk (0.190) is positively significant at 1 percent level which supports the hypothesis that risk of the banks as positive effect on dividend payout ratio. It clearly explains whenever risk increases by 1 percent, the

dividend payout increases by 0.19 percent. The coefficient of size (-0.043), leverage (0.005) and growth (0.001) found insignificant. It denotes these explanatory variables do not affect the dividend payout of the banks. The hausman test (15.207) found significant at 1 percent level, which confirms that the fixed effect method is more appropriate than random effect method.

TABLE 3

Regression Analysis: Effect of Profitability, Liquidity, Leverage, Growth, Risk on Dividend Payout (Model 2)

REGRESSORS	EXPECTED SIGN	POOLED	FEM
Intercept		3.021[a]	2.845[a]
		(15.227)	(9.904)[b]
Profitability	+	-0.003	-0.118[b]
		(-0.055)	(-2.232)
Liquidity	+	0.010	-0.048
		(0.285)	(-1.322)
Leverage	-	-0.038	-0.004
		(-0.682)	(-0.111)
Growth	-	-0.002	0.001
		(-0.033)	(0.024)
Risk	+	-0.055	0.181[a]
		(-1.471)	(4.031)
Adjusted R^2		-0.004	0.664
F-statistic		0.833	14.836[a]
Hausman's Test			14.355[a]

Note: FEM – Fixed Effect Method. Cross section (Banks) dummies only included. [b] and [a] significant at 5 percent and 1 percent level respectively. t-statistics are shown in parentheses.

Source: Capitaline Plus and complied through EViews 7.

Table 3 shows regression analysis of the effect of profitability, liquidity, leverage, growth and risk on dividend payout. In pooled OLS method, the explanatory variables are found insignificant and the adjusted R^2 is -0.4 percent. The F-statistics of the model is 0.833 and found insignificant, which clearly exhibits similar result in the Model l. The reason that cause the pooled OLS invalid is due to banks individual effect. The individual effects means the intercept of a regression varies across banks, so it causes the explanatory variable insignificant. In order to capture individual effect, fixed effect method is applied. Under fixed effect method, the adjusted R^2 value is increases to 66.4 percent and the F-statistics is 14.836, which found significant at 1 percent level. It shows that the overall model has been improved in fixed effect method, which captures individual effect of the banks but the R^2 is similar to Model 1. The coefficient of profitability (-0.118) found negatively significant at 5 percent

level and the result does not support the hypothesis that Profitability of the banks as a positive effect on dividend payout ratio. It clearly explains whenever profit increases by 1 percent, the dividend payout decreases by 0.12 percent. The coefficient of the risk (0.181) is positively significant at 1 percent level, which supports the hypothesis that risk of the banks as positive effect on dividend payout ratio. It clearly explains whenever risk increases by 1 percent, the dividend payout increases by 0.18 percent. The coefficient of liquidity (-0.048), leverage (0.004) and growth (0.001) found insignificant it denotes these explanatory variables do not affect the dividend payout of the banks. The hausman test (14.355) found significant at 1 percent level, which confirms that the fixed effect method is more appropriate than random effect method.

TABLE 4

Regression Analysis: Effect of Liquidity, Leverage, Growth, Risk on Dividend Payout (Model 3)

REGRESSORS	EXPCTED SIGN	POOLED	FEM
Intercept		3.024^a	3.025^a
Liquidity	+	0.009	-0.075^b
Leverage	-	-0.039	-0.010
Growth	-	-0.002	0.001
Risk	+	-0.055	0.190^a
Adjusted R^2		0.001	0.657
F-statistic		1.045	14.805^a
Hausman's Test			13.342^a

Note: FEM – Fixed Effect Method. Cross section (Banks) dummies only included. [b] and [a] significant at 5 percent and 1 percent level respectively. t-statistics are shown in parentheses.

Source: Capitaline Plus and complied through EViews 7.

Table 4 depict regression analysis of the effect of liquidity, leverage, growth and risk on dividend payout. In pooled OLS method, the explanatory variables are found insignificant the adjusted R^2 is 0.1 percent. The F-statistics of the model is 1.045 and found insignificant, which clearly exhibit similar result in the Model l. The reason that cause the pooled OLS is invalid due to banks individual effect. In order to capture individual effect, fixed effect method is applied. Under fixed effect method, the adjusted R^2 value is increases to 65.7 percent and the F-statistics is 14.805, which found significant at 1 percent level. It shows that the overall model has been improved in fixed effect method, which captures individual effect

of the banks. The coefficient of liquidity (-0.075) found negatively significant at 5 percent level and the result does not support the hypothesis that liquidity of the banks as a positive effect on dividend payout ratio. It clearly explains whenever liquidity increases by 1 percent, the dividend payout decreases by 0.08 percent. The coefficient of the risk (0.190) is positively significant at 1 percent level, which supports the hypothesis that risk of the banks as positive effect on dividend payout ratio. It clearly explains whenever risk increases by 1 percent, the dividend payout increases by 0.19 percent. The coefficient leverage (-0.010) and growth (0.001) found insignificant it denotes these explanatory variables do not affect the dividend payout of the banks. The hausman test (13.342) found significant at 1 percent level, which confirms that the fixed effect method is more appropriate than random effect method.

From the Model 1 and 2 the profitability has negatively significant on dividend payout and it has been supported by Maladjian & Khoury (2014). It concludes that the higher profitability of the banks, the less they prefer to payout dividends. It could be due to the fact that profitable banks have more opportunities for growth. Lower the profitability of the bank, the more they prefer to dividend payout. It may be due to maintain the market price of the share of the bank. However, the findings are contradicted with Gupta & Walker (1975), Bodla, Pal, & Sura (2007), Weber & Procianoy (2009), Acharya & Mahapatra (2012), Zameer, Rasool, Iqbal, & Arshad (2013) and Lee (2014). The risk found to be positively significant effect on dividend payout and it has been suppoted by Maladjian & Khoury (2014). It confirms that higher P/E Ratio (lower risk) of the banks denotes low volalitilty in their cash flow, resulting in increase of dividend payout. Banks with high risk (low P/E Ratio) have high variation in their cash flow which make difficult to finance the future investment plan. So it increases in search of external finance for their needs, which results in lower dividend payout ratio.

Model 3 indicates the liquidity of the banks is declined on dividend payout and it supported by Gupta & Walker (1975) and Zameer, Rasool, Iqbal, & Arshad (2013). It concludes that bank operations are based on cash so high liquidity are preferred by the banks to maintain a substantial amount in cash to smooth operation, resulting in lower dividend payout. However, the findings are contradicted with Bodla, Pal, & Sura (2007) and Badu (2013).

Conclusion

This study mainly focuses on dividend pattern and factors influencing dividend payout and to address the research question regarding the trend in dividend payment of public and private banking companies in India during the study period (2012 to 2019). It has been found that public and private banks had an increasing trend in dividend payment in terms of amount except for the year 2019. New private sector banks lead in average dividend payment followed by public sector banks and old private sector banks. Dividend payment of new private sector banks is in increasing trend but the dividend payout decreases every year. In case of public and old private sector banks, there is no clear trend in dividend payout, but dividend payments by these banks exhibit an increasing trend. It concludes that the bank

manager well balance the satisfaction of the shareholder and the growth of the bank in deciding the dividend payout.

On the other hand, the study investigates the factors influencing dividend payout of listed Indian commercial banks by using fixed effect approach of 29 banks from 2012 to 2019. Profitability, size, liquidity, leverage, growth opportunities and risk are the factors considered in influencing dividend payout. Profitability has a negative effect on dividend payout and it concludes higher the profit of the bank lesser they prefer to payout dividends. It could be due to the fact that profitable banks have more opportunities for growth. Risk found to be a positive effect on dividend payout and it confirms that lower the risk (higher P/E Ratio) of the banks denotes low volatility in their cash flow, resulting increase in dividend payout. The liquidity of the banks has a negative effect on dividend payout and it concludes liquidity is essential for smooth operation of banks. Profitability, leverage and risk are considered as potential factors influencing dividend payout. Size, leverage and growth opportunities are found unrelated to dividend payout of listed Indian commercial banks.

Scope for Further Research:

1. A study on manager's perception of dividend policy of commercial banks in India.
2. A study on dividend policy of Non-financial companies in India.
3. A study on dividend policy and its influence on value of the firm in India.
4. A study on dividend policy comparing to Indian and Foreign commercial banks.

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