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Determinants of dividend policy of Islamic banks in Bangladesh

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Abstract
Islamic Banks are playing an important role in the economic expansion of Bangladesh. There are ten Islamic Banks working in Bangladesh economy. The present study is to explore the factors of dividend policy of Islamic Banks in Bangladesh. The research is based on only secondary data and sample of seven Islamic banks out of ten Islamic banks. The relevant data have been gathered from annual report of sample companies from 2010-2020. Descriptive statistics and multiple regressions are used to examine the data. This study revealed that firm size as well as liquidity have substantial positive influence and financial leverage has significant adverse effect. The study appears to convey an immense academic value since a limited research have been commenced in this ground. It may be supportive to the possessors of Islamic Banks, Management, Educational researcher and the policy makers who have been creating endeavor to the progress of Islamic Banks as well as the economy of the country as a whole.

Keywords Dividend policy, financial leverage, Liquidity, Islamic banks, Bangladesh.
Paper type Research paper

Introduction
Dividend policy is the vital question profit earning companies face. Firms are faced with problem of allocating income to shareholders, or used to retire bond so as to nurture further development of the business. The policy of the firm related with how much income should be distributed, how steady should the distribution be, and how much should be reserved is the subject matter of dividend policy. Academicians and investigators have explored numerous theoretical models unfolding the issues that decision maker should study when generating dividend policy choices. Dividend policy indicates the disbursement policy that decision maker uphold in determining the size and form of cash disbursement to stockholders over time. In influential research, Miller and Modigliani (M&M) 556(1961) discuss that in the target capital markets, firm value is not effected by the dividend choice and therefore, irrelevant. Reaching in this conclusion created great wonder to the maximum financial practitioners and many researchers since properly

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achieved dividend policy greatly influence the share prices and stockholders wealth was the conventional understanding at that time. M&M study, other investigators have set the hypothesis of perfect capital markets and presented theories about how dividend influence the firm value and how managers should determine dividend policy choices. In accordance to Mamun and Rahman (2015), last years' dividend and current years' earning influence the dividend payment choice of a firm. Edelman, Farrelly and Baker (1985) concluded that previous dividend payment pattern and expected level of upcoming net incomes are the principal determinants of dividend policy. Previous year net income is found as an influential dividend distribution factor by Pruitt and Gitman (1991). Industry specification and expected level of future earning found as the prime dividend determinants by Powell and Baker (2000). Jensen. Profit paying more by less director ownership results lower advancement and investment level which results a large number of payout ratio is proved by Jensen, Solberg and Zorn (1992). Therefore reviewing the literature a number of factors were found as being significant to be considered to create the dividend decision. The debate among these theoretical models still continues. Hence, there are numerous reasons for distributing or non-distribution of dividend. Acute detection and determination of factors affecting the dividend rule can be useful for corporate manager and Stockholders.

Islamic Banks in Bangladesh are playing significant role in the money market of Bangladesh. Ten Islamic Banks are functioning in Bangladesh, of which six banks are listed in Dhaka Stock Exchange (DSE) as well as in Chittagong Shock Exchange (CSE). ICB Islamic bank is only listed in DSE and newly established two Islamic banks, Global Islami Bank limited and Union Bank Limited are not listed in none of the stock markets. Islamic banks have more popularity among the people of country because of their different modes of investment since majority people of the country are Muslims. Due to having trade in the stock market the Islamic Banks management have to take dividend payout policy to satisfy their investors. At the time of taking this decision different factors influence the manager, our present study is related to exploring those determinants.

Objectives of the Study

The key objective of the research is to examine the impact of determinants of dividend choice of Islamic banks in Bangladesh. Specific objectives of the study are as follows:

- To recognize the stimulants of dividend choice of Islamic banks in Bangladesh.
- To examine the influence of determinants on dividend rule of Islamic banks in Bangladesh.

Theoretical framework of dividend policy

The dividend disbursement ratio is the ratio of the total sum of dividends paid out to stockholders comparative to the net revenue of the business. It is the proportion of income paid to stockholders as dividends. The quantity that is not disbursed to stockholders is retained by the corporation to reduce liabilities or to reinvest in essential sectors. The dividend disbursement ratio can be determined as the yearly dividend per share above the earnings per share, or reliably, the dividends divided by net revenue. From the preceding studies the following factors have been recognized that influence the dividend disbursement policies of the organizations.

Firm size

Firm's dividend policy are noticeably determined by the size is observed by Lloyd, Jahera, and Page (1985). Firm's maturity and improvement smooth their way to enter into the financial markets and lessen the dependency on retained earnings which motivate them to maintain a higher payout ratio. Compared with smaller firm large firms pay low transaction cost to raise new funds and able to pay additional dividends (Alli, & Khan, 1993). Size of a firm and dividend distribution is positively correlated is found by Abedeji (1998). Large Corporations run with a better situation in the market because of its less risk and able to raise more capital compared with the smaller ones and distribute more dividends. Moreover becoming motivated manager of the large firm pay high dividend (Eriotis, 2005). Dividend payout ratio and firms' size is positively correlated is examined by Al-Malkawi (2007). His study supports the cause of agency cost in a big firm for ensuring available cash flows. Thus agency cost can be decreased by the payment of dividends. Arif and Akbar (2013) concluded that dividend payout is negatively correlated with the size of a firm since the large firms reinvest their net incomes into the assets without paying dividend to their stockholders.

Financial leverage

More debt indicates that businesses have more interest cost, which causes for a small net income and thus fewer income will be accessible for stockholders. Using more debt causes high interest payment for which net income become lower as a result low earning will be available for the stockholders.

Investment and financing decisions of highly levered firms are mostly effected by the dividend disbursement to their stockholders. Highly levered organizations face risk and instability to generate income that increases the probability of low disbursement of dividends (Rozeff, 1982). Negative relationship was found by Jensen (1986) between dividend payout ratio and financial leverage ratio. To reduce the cost of outside financing highly levered organizations declare lower portion of their net income as dividend (Rozeff,1982). Al-Malkawi (2007) also showed that dividend disbursement of the companies of Jordan are also negatively correlated with the leverage ratio. He argued that fixed financial costs are created by additional debt financing which generate interest charges. Unable to pay these periodic charges lead the corporation towards liquidation. Therefore low dividend disbursement happens considering the bankruptcy risk. Listed organizations of Karachi stock exchange showed a negative and inconsequential relationship of debt financing with dividend payout ratio (Takumi and Rehman, 2012). To accumulate the fund dividend paying organizations eager to improve the level of debt ratio in capital structure, since it act as the indicating tool to the financiers (Barclay, Clifford, Smith, & Watts, 1995).

Liquidity

Liquidity ratio of an organization is also found as a determinant of dividend policy. Significant positive relationship was found between the liquidity and profitability by Amidu and Abor (2006), describing that firms of generating stable cash flows are capable to declare higher dividend than the unsteady income generating firms. A positive connection between liquidity ratio and dividend disbursement ratio was found by Anil and Kapoor (2008). They also argued that due to the shortage of cash dividend disbursement ratio become lower. Firm with sound financial condition increases the dividend payment while firms with reducing profitability and small liquidity level are in a pressure to decline dividends (Guasekarage and Power, 2006). Ahmed and Javed (2009) also determined that dividend dropping firms face liquidity difficulties. Dividend reducing firms confront to liquidity problems supported by the outcome of the study of Ahmed and Javed (2009).Dividend payout ratio and liquidity ratio are negatively correlated proved by Barclay, Clifford, Smith, and Watts (1995).They conclude that improving dividend payout ratio decrease the liquidity and increase return on equity which motivate the firms to hold more for future investment or reduce the dividend.

Profitability

Decision about the payment of dividends innate with firms profits; therefore it is very rational to consider profitability as an important aspect and profitability is one of the most influential variable in determining dividend disbursement choice.

Some interrelationship between dividend payout and profitability was found in the pecking order theory, it tries to show that cost of equity and debt financing create difficulty for less profitable firms to pay dividend , on the other side extremely profitable organizations are in a situation to utilize internally produce funds for investment requirement and distribute dividends. Previous and present years' net income have impact on dividend payout ratio was found by Pruitt and Gitman (1991) in a survey conducted on the managers of US organizations. Accomplishing a research on Malaysian organizations Kohli and Sharma, et al. (2011) conclude that return on assets using as profitability indicator has a significant affirmative influence on dividend payout decision. High income generating organization having no investment opportunities prefer to pay more dividend found by Jensen (1986). Without following a constant payout ratio, Greek organizations prefer to pay dividend each year and profitability of Greek organizations are positively associated with the dividend distribution ratio was found by Rodríguez-Pose and Gill (2005).

Tax

Firms have to pay tax to government on their taxable income. An increase in tax expenditure reduces the probability of dividend payment.

Sales growth

Growth of firm and dividend payment is negatively correlated was found by Robinson, Johnson, and Acemoglu (2014), they argued that in the growing stage firms have more investment opportunities, to support these from the internal resources, firms have to retain more and to pay very slight or no dividend. Pecking order theory is supported by these outcomes. Mature business having little growth phase and less needed of investment opportunities are not in a situation to retain more because of fewer capital expenditure follow a substantial dividend payout policy (Grullon, Michaely, & Swaminathan 2002). On the other side less dividend are paid by the fresh and new firms since it requires cash reserve to finance the investment policies. Since the firms cash flows are related with dividend payment and investment mutually therefore staying in growth stage firms have investment opportunities, according to pecking order theory pay low amount of dividends (Gaver and Gaver, 1993). As dividend declaration act to signal for growth and drop of investment opportunities, share price is evaluated by the declaration of dividends (Baker & Powell, 1999).

Research methodology

This research is basically empirical in nature where the researcher wants to discover the factors of dividend policy of Islamic banking sector in the context of Bangladesh. It is grounded on secondary data collected from the yearly reports of the banks. Among the listed ten Islamic banks in Bangladesh 7 were selected for the present study due to availability of required five years data from 2010 to 2020. Newly established Global Islami Bank Limited and Union Bank Limited are not taken as sample due to unavailability sufficient data. Regression analysis has been done in this study where each variable is being attached to the model to evaluate the assessment power above the dependent variable.

Based on the previous study variables and their proxies are chosen. The researcher has selected size, financial leverage, liquidity, profitability, corporate tax and sales growth as variables which effect the dividend decision of the banks. The researcher used natural log of total assets as a substitution for size, total debt to total assets as representation for financial leverage, natural log of net cash flow as alternative for liquidity, return on equity as alternative for profitability, tax to EBIT as proxy for corporate tax and percentage increase in investment income used as proxy for sales growth.

Model and variables

The regression model is used to investigate the association between the dependent variable and the autonomous variables. A multiple regression model is run with the autonomous variable, dividend disbursement ratio against the six financial variables namely, Size, Financial Leverage, Liquidity, Profitability, Corporate Tax and Annual Sales Growth in identifying the factors of dividend disbursement rule of Islamic Banks in Bangladesh.

Table 1
Details of the variables

Variable	Description
DPR (Dividend Disbursement Ratio)	Total Dividend/Total Net Income
Firm Size (ln TA)	Natural Log of Total Assets
LEV (Financial Leverage)	Total Obligation/Total Assets
Liquidity (ln NCF)	Natural Log of Net Cash Flow
Profitability (ROE)	Net Income/ Total Equity
Tax (Corporate Tax paid)	Current year Tax / EBIT
ASG(Average Sales Growth)	Current year Investment Income-Previous year Investment Income)/Previous year Investment income

The model is as follows:

$$DPR = \alpha + \beta_1 lnTA + \beta_2 LEV + \beta_3 lnNCF + \beta_4 ROE + \beta_5 Tax + \beta_6\ ASG + €$$

Hypothesis
Researcher has generated the following proposition:
H1: Firm size and dividend payout is positively correlated.
H2: Leverage and dividend payout is negatively correlated.
H3: Liquidity and dividend is positively correlated.
H4: Profitability and dividend payout is positively correlated.
H5: Tax payment and dividend is negatively correlated.
H6: There is positive association between development and dividend rule.

Result and analysis

The following table-2 demonstrate the descriptive statistics for dividend disbursement ratio, firm size, financial leverage, liquidity, profitability, corporate tax and sales growth. Since bank is not related with direct sales of manufacturing product here sales is considered as investment income. This table discloses different noteworthy possessions for all the variables such as the means, the minimum and extreme values along with standard deviations followed by a discussion of the data for the pooled sample during the period of 2010-2020.

Table 2
Descriptive statistics: Dependent and independent variables

	Dividend Payout Ratio	Firm Size	Financial Leverage	Liquidity	Profitability	Corporate Tax	Sales Growth
Mean	65.0100	25.6097	91.6060	19.0480	14.6277	34.8187	27.3633
Median	62.1350	25.6100	91.3000	22.1850	13.8150	37.3650	23.3850
Mode	28.87a	25.60	86.96a	-21.42a	6.39a	3.47a	-17.24a
Std. Deviation	17.68318	.90623	2.19819	10.99882	5.28291	8.08869	23.09912
Variance	312.695	.821	4.832	120.974	27.909	65.427	533.569
Range	69.49	4.21	8.96	44.85	24.32	39.92	95.36
Minimum	28.87	22.99	86.96	-21.42	6.39	3.47	-17.24
Maximum	98.36	27.20	95.92	23.43	30.71	43.39	78.12
Sum	1950.30	768.29	2748.18	571.44	438.83	1044.56	820.90

Source: Estimated by author using SPSS

Table 2 revels that for the pooled passé of 2010-2020, the dividend disbursement ratio averages 65.01% per year. On average, Islamic banks in Bangladesh have a general tendency to disburse 65.01% of net revenue as dividend. The maximum and minimum values of profitability are 6.39% and 30.71% respectively showing a great disparity in the profitability variable. The mean value is 14.63% is a little average which indicates the Islamic banks in Bangladesh are reporting poor level of profitability. One reason may be Bangladesh got affected by political or unstable movements in the study period. The descriptive statistics of the research which are stated in Table 2 shows the average value of leverage is 91.61%, which means that Islamic Banks in Bangladesh tend to borrow (short and long term debt) on average 91.61% of their assets.

Multiple regression model

Dividend Payout Ratio (DPR) = 259.372 + 9.701 lnTA - 4.885LEV + .642 lnNCF + .284 ROE -.285 Tax -.066 ASG

Table 3
Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.684a	.869	.713	14.47555	.469	3.379	6	23	.015

a.Predictors: (Constant), Sales Growth, Financial Leverage, Liquidity, Profitability, Corporate Tax, Firm Size

From the summary of the above model the value of the R2 is .869 means that 86.9% of the changeability in dividend rate is clarified by the independent variables. Tt is statistically significant at 5% level.

Table 4
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	259.372	146.975		1.765	.091
Firm Size	9.701	3.786	.497	2.562	.017
Financial Leverage	-4.885	1.438	-.607	-3.397	.002
Liquidity	.642	.267	.399	2.407	.025
Profitability	.284	.611	.085	.465	.647
Corporate Tax	-.285	.412	-.130	-.690	.497
Sales Growth	-.066	.131	-.086	-.499	.623

a. Dependent Variable: Dividend Payout Ratio

Table-4 results about independent variables shows that Firm Size, Liquidity as well as Profitability have strong affirmative relationship with the dividend disbursement ratio, while Financial Leverage, Business Tax and Sales growth has negative effect on Dividend disbursements. Furthermore, effect of Profitability, Corporate Tax and Sales growth are found irrelevant.

Approaching towards the clarification of distinct variable, Firm Size has affirmative impact and its p-value is .017, which represents significant relationship. This finding reflects that the firm which is large in size pays more dividend than the smaller firms. It suggests that in Bangladesh context, till 2020, dividend payment of Islamic banking sector highly depended on the size of the banks. Here the first hypothesis (H1) is accepted. The second variable that has extremely significant (p-value .002) negative association with the dependent variable is Financial Leverage. This indicates that the firms with low debt ratios are eager to disburse more dividends. This result is reinforced by the agency cost philosophy of dividend policy. Thus the Islamic banks in Bangladesh with extraordinary leverage ratios have great operational expenses, and are in a fragile situation to disburse greater dividends to elude the charge of outside financing. Therefore H2 is accepted.

The liquidity position of an organization is a significant determinant of its ability to disburse dividend. The third independent variable of the study is liquidity, from the Table -4 it has found the positive significant (p-value.025) relationship. This finding reflects that a business with a poor liquidity will be fewer substantial in disbursing dividend due to lack of cash. Therefore for the Islamic Banking industry in Bangladesh it can be endorse that, the bank having more cash will be more willing to pay dividend to its stockholders. Here H3 is accepted.

Profitability, Corporate Tax and Sales (in case of banks "investment income") progress do not have any substantial effect on the dividend behavior of Islamic Banking industry in Bangladesh. Therefore H4, H5 and H6 are rejected.

Conclusion

Enormous researches have been accompanied on causes of dividend policy and different suggestions also derived from those studies. The focus of my study was to identify the determinants in context of Islamic Banking industry in Bangladeshi. Different statistical tools applied in this study like Mean, Median, Mode and Standard deviation etc. The multiple regression model is also applied here. Most of the preceding empirical studies of dividends have overlooked the fact that there are two choices involved in the dividend procedure: the decision to disburse dividends (whether to allocate or not) and the decision about the volume of dividend (how much to pay). My findings disclose that Firm Size, liquidity and leverage are substantial factors in impacting on the two dividend choices. It is found that Firm Size and Liquidity are expressively and positively associated to dividend disbursements and Financial Leverage is significantly adversely related to dividend disbursement. Profitability, Corporate Tax and Sales (in case of banks "investment income") progress do not have any substantial effect on the dividend behavior of Islamic Banking sector in Bangladesh.

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