

Determinants of dividend payout ratio: Analysis of microfinance companies listed in Nepal Stock Exchange (NEPSE)

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ABSTRACT

Two opposing hypotheses—dividend relevancy and dividend irrelevancy illustrate the influence of the dividend decision on a firm's value. However, this study examined the factors influencing the dividend payout ratio in Nepalese microfinance institutions. More specifically, this study investigates the impact of asset growth, financial leverage, firm size, profitability, and macroeconomic conditions on the dividend payout ratio (DPR). This research examined signaling theory through an explanatory research design. This study comprised a total of 50 microfinance institutions operating in Nepal. Nine microfinance institutions were randomly selected from a total of 50 microfinance institutions. The selection of nine microfinance institutions was based on stock price performance, comprising the three highest, three medium, and three lowest share prices in the Nepal Stock Exchange. This research utilized panel data from nine microfinance institutions over the period 2018-2023, comprising a total of 54 observations. This research employed descriptive, correlational, and multiple regression analyses. The results indicated a positive relationship between the dividend payout ratio and asset growth. In contrast, there is a negative relationship between company size and profitability with the dividend payout ratio. Financial leverage, inflation rate, and GDP growth rate exhibit a negative yet insignificant relationship with the dividend payout ratio. The results of the multiple regression analysis indicate that company size, asset growth, and profitability negatively impact the dividend payout ratio. Inflation, GDP growth, and financial leverage exert an insignificant influence on DPR. Management should utilize the findings to optimize the dividend payout ratio, thereby maximizing shareholder wealth.

Keywords: Asset Growth, Dividend Payout Ratio, Economic Growth, Firm Size, Inflation

JEL Classification: G21, G35, L25

I. INTRODUCTION

Understanding the factors determining dividend payment ratios is critical in developing economies such as Nepal. Given their rising significance in financial inclusion and economic development, microfinance (D-class) institutions' (MFIs) dividend policies have recently become an emerging topic. Although many MFIs can deliver dividends, high levels of nonperforming loans (NPLs) and regulatory limits imposed by Nepal Rastra Bank (NRB) prevent them from doing so. This legal structure, firm-specific factors, and broader economic variables make dividend distribution complex and contentious in Nepal's microfinance institutions.

Dividend policy determines how companies divide earnings between shareholder distributions and reinvestment (Weston et al., 2004; Sharif et al., 2017). Kumar and Sujit (2018) and Prša et al. (2022) stated that dividends are a company's board-determined payout to shareholders rather than operational expenses. A higher dividend payout is frequently viewed as an indicator of financial stability and less risk, which increases business value (Hunjra, 2018; Monoarfa, 2018; Susanti et al., 2023). However, establishing the appropriate payment necessitates weighing current free cash flows against future investment opportunities (DeAngelo & DeAngelo, 2007; Bhandari & Pokhrel, 2012). Firms with greater cash flows tend to pay higher dividends in developing economies (Adelegan, 2002; Afza & Mirza, 2010; Kayode et al., 2022), however, when investment opportunities are favorable, retained

earnings may be prioritized. Dividends also mitigate agency issues by distributing excess cash when internal funds exceed investment needs (Yusof & Ismail, 2016; Khushi et al., 2020). To reduce agency conflicts, firms should distribute surplus cash as dividends (Dickens et al., 2002).

Several previous studies explored the industry-specific variables that impact on payout decisions. Asset growth, which is frequently used as a measure of a company's expansion potential, may result in greater dividends because it demonstrates efficient resource management and financial health (Adhikari, 2015; Fitri et al., 2016; Adugna et al., 2020). However, some research revealed that asset expansion does not consistently impact payout ratios, particularly when firms prioritize reinvestment or operate under volatile profitability conditions (Hayati et al., 2018). The role of financial leverage is also contested. While some studies claim that leverage has no direct impact on dividend policies (for instance, Kumar & Sujit, 2018), others argued that higher debt diminish payout capacity due to increasing financial constraints (Priyantara & Thamrin, 2020; Susanti et al., 2023).

Profitability is another important factor, with the Bird-in-Hand Theory indicating that profitable companies are more inclined to raise dividends to fulfill investor expectations (Gordon & Lintner, 1964; Issa, 2015). However, empirical findings in Nepal are inconsistent; some research found no significant link between return on equity (ROE) and dividend payout ratios (DPR) (Bhattarai, 2020; Thapa, 2021; Dhungana et al., 2024). Firm size, which is usually linked with financial stability, has been shown to harm dividend payments, potentially due to increased access to external capital and the capacity to retain earnings for reinvestment (Mui & Mustapha, 2016; Hayati et al., 2018). Nonetheless, in the face of knowledge asymmetry, smaller enterprises may employ greater dividends to entice investment (Issa, 2015).

Macroeconomic conditions such as an inflationary environment and economic prosperity also influence a firm's income distribution. High inflation can decrease actual earnings, causing businesses to save cash rather than pay dividends (Adugna et al., 2020). Conversely, strong GDP growth can boost profitability, allowing for bigger payouts—though in some high-growth environments, corporations may still keep earnings to fund development (Ademola et al., 2024).

In Nepal, microfinance organizations confront specific regulatory restraints. Despite policy changes enabling the inclusion of recovered NPL profits in financial statements, the NRB bans dividend payouts for enterprises with NPLs of more than five percent. It is unclear whether such accounting adjustments allow for dividend distribution. According to analysis, 21 of Nepal's 50 MFIs may be unable to pay dividends despite having sufficient reserves. Institutions such as Aatmanirbhar Laghubitta (13.22 percent NPL), Unique Nepal (12.74 percent), and NESDO Samriddha Laghubitta (12.58 percent) exhibit this issue. The NRB has tightened lending procedures and mandated dividend allocations greater than fifteen percent, including contributions to reserve funds, social responsibility, and client safety (Budhathoki et al., 2023).

Several studies on how Nepalese firms distribute income to their shareholders in Nepal focused mainly on the banking industry (Adhikari, 2015; Bhattarai, 2020; Thapa, 2021). To our knowledge, however, research on income distribution, particularly in microfinance institutions in Nepal, is still lacking. Hence, this paper investigates how microfinance firms' related variables impact income distribution for the first time. At the same time, previous studies have employed control factors such as business size, asset tangibility, and leverage (Suresh & Manoharan, 2020). However, their influence has not been adequately investigated. Furthermore, whereas a single study included GDP growth rate as a macroeconomic variable (Ademola et al., 2024), the study analysis goes beyond that by incorporating both inflation and GDP growth rate. By investigating this complex interplay, the study fills a critical vacuum and helps to understand better the limitations of the previous studies that influence income distribution in emerging economies.

1.1 Research Questions

This study aims to solve the following research questions:

- i. Is there a relationship between industry-specific and macroeconomic variables and dividend payout ratios in Nepalese microfinance institutions?
- ii. Do industry-specific and macroeconomic factors significantly affect the dividend payout ratio?

II. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Signaling Theory

Ross and Ezra (1977) proposed signaling theory, which holds that higher dividend payouts indicate strong prospects. Investors who associate them with stability and growth see dividend increases favorably. Miller and Modigliani (1961) stated that income distribution does not affect firm value. However, following this model by Bhattacharya (1979), John and Williams (1985), and Miller and Rock (1985) shows that a lower level of income

distributed by firms to shareholders gives negative signals to markets. The more recent study by Salman (2019) also supports the signaling theory and found that a higher level of dividend offers a favorable signal, and investors prefer high dividend-paying firms to low-paying ones. A dividend increase indicates profitability and development, whereas a decline implies diminishing future earnings. Dividends can serve as indicators of a company's financial health and prospects. Dividend payouts to investors sometimes provide a positive signal to the market (Budhathoki & Khadka, 2024). Microfinance enterprises in Nepal with excellent profitability and reasonable financial leverage may use higher dividend payouts to demonstrate stability and attract investors. Conversely, corporations may lower dividends during high inflation or low GDP growth periods to convey caution and correspond with macroeconomic realities.

2.2 Empirical Review

2.2.1 Assets Growth and DPR

Malik et al. (2013) evaluated the factors influencing the income distribution of firms listed on the Karachi Stock Exchange and featured in Pakistan's KSE-100 Index from 2007 to 2009. The result of OLS regression identified that firm growth has a negative influence on dividend payment. However, Issa (2015) explored the factors that influence income distribution using information from Malaysian corporations from 2002-2011. The analysis of multiple linear regression analysis discovered that growth assets have minimal impact on the DPR. In contrast, Fitri et al. (2016) investigated the factors impacting the dividend payment rates of Indonesian-listed companies on the Jakarta Islamic index from 2009 to 2014. The panel data regression analysis displayed that asset growth significantly and adversely influence DPR.

H₁: Asset growth (AG) has a significant influence on DPR.

Table 1

Summary of Previous Studies

Author/s	Period	Methodology	Findings
Hayati et al. (2018)	2011-2014	Multiple regression	Growth has no impact on the DPR.
Kumar and Sujit (2018)	2015-2016	Multiple regression	Growth has an adverse impact on DPR.
Dewasiri et al. (2019)	2010-2016	(Binary logistic & fixed-effect panel) regression	Assets growth has favorable impact on DPR.
Nyere and Wesson (2019)	1999-2014	Fixed-effect	Growth has an adverse influence on DPR.
Adugna et al. (2020)	2008-2016	Random-effect	Growth has an adverse effect on DPR.
Priyantara and Thamrin (2020)	2016-2018	Multiple regression	Growth has insignificant effect on DPR.
Pradika and Rediyono (2022)	2016-2020	Multiple linear regression	Growth rate has an adverse impact on DPR.
Tran et al. (2025)	2018-2022	Panel data regression	Growth has an adverse impact on DPR.

2.2.2 Financial Leverage (FL) and DPR

Al-Malkawi (2008) explored the determinants influencing the choice of publicly listed firms to pay dividends, using Jordan as a newly developed market scenario from 1989 to 2003. Based on the random-effect model, financial leverage adversely affects the DPR. Furthermore, Mui and Mustapha (2016) examined the factors affecting DPRs by deploying a sample of listed firms in Malaysia from 2007 to 2011. The multiple regression analysis findings show that leverage has a favorable yet insignificant effect on DPR.

H₂: FL and dividend payout ratios have a substantial effect.

Table 2*Summary of Previous Studies*

Author/s	Period	Methodology	Findings
Malik et al. (2013)	2007-2009	OLS regression	FL has an adverse effect on DPR.
Budagaga (2018)	2009-2015	Regression model	FL influence DPR.
Kumar and Sujit (2018)	2015-2016	Multiple regression	FL has an adverse effect on DPR.
Dewasiri et al. (2019)	2010-2016	(Binary logistic & fixed-effect panel) regression	FL has favorable impact on DPR
Nyere and Wesson (2019)	1999-2014	Fixed-effects panel regression	FL influence DPR.
Bahrudin et al. (2021)	2015-2019	Random and fixed effect models	FL has favorable impact on DPR
Prša et al. (2022)	2017-2021	Hierarchical linear regression	FL has insignificant effect on DPR.
Saini and Sharma (2022)	1982-2022	Regression model	FL has an adverse effect on DPR.
Ademola et al. (2024)	1987-2022	Panel least square regression	FL has an adverse effect on DPR.
Dhungana et al. (2024)	2012-2022	Regression model	FL has no significant effect on DPR.
Ghose et al. (2025)	2002-2022	Random effect logistic regression	FL has insignificant impact on DPR.
Nguyen (2025)	2017-2021	OLS, fixed and random effect	FL has no significant effect on DPR.

2.2.3 Firm size and DPR

Al-Malkawi (2008) explored the determinants influencing the choice of publicly listed firms to pay dividends, using Jordan as a newly developed market scenario from 1989 to 2003. Using the random-effect model, size has favorable influence on DPR. Also, Adhikari (2015) examined the factors that impact company dividend payments in Nepal's established and developing stock markets throughout the period 2009-2013. The regression analysis findings identified that firm size has a significant and positive influence on dividend payout.

H₃: Firm size (Log10FS) and DPR have a significant influence.

Table 3*Summary of Previous Studies*

Author/s	Period	Methodology	Findings
Malik et al. (2013)	2007-2009	OLS regression	Firm size has a positively affect DPR.
Mui and Mustapha (2016)	2007-2011	Multiple regression	Firm size has a favorable impact on DPR.
Hayati et al. (2018)	2011-2014	Multiple regression model	Firm size has a favorable effect on the DPR.
Kumar and Sujit (2018)	2015-2016	Multiple regression	Size has a favorable influence on DPR.
Dewasiri et al. (2019)	2010-2016	(Binary logistic & fixed effect panel) regression model	Firm size has a favorable effect on DPR.
Nyere and Wesson (2019)	1999-2014	Fixed-effects panel regression	Firm size has a favorable effect on DPR.
Adugna et al. (2020)	2008-2016	Random-effect regression	Firm size has a favorable effect on DPR.
Bhattarai (2020)	2014-2018	Fixed and random effects regression	Firm size has an adverse effect on DPR.
Priyantara and Thamrin (2020)	2016-2018	Multiple regression	Firm size has insignificant impact on DPR.
Thapa (2021)	2014-2019	Regression model	Firm size has a favorable effect on DPR.
Pradika and Rediyono (2022)	2016-2020	Multiple linear regression	Firm size has a favorable effect on DPR.
Ademola et al. (2024)	1987-2022	Panel least square regression	Firm size has a favorable effect on DPR.
Dhungana et al. (2024)	2012-2022	Regression model	Firm size has a favorable effect on DPR.
Nguyen (2025)	2017-2021	OLS, fixed and random effect	Firm size has significant effect on DPR.

2.2.4 Profitability and DPR

Amidu and Abor (2006) investigated the factors of the DPRs of Ghanaian-listed businesses from 1998-2003. Using fixed effects, random effects, and an OLS panel revealed that profitability positively affected the dividend payout ratio. Likewise, Al-Malkawi (2008) explored the determinants influencing the choice of publicly listed firms to pay dividends, using Jordan as a newly developed market scenario from 1989 to 2003. Finding revealed that profitability favorably impact DPR. Furthermore, Gill et al. (2010) examined the factors that affect DPR in the USA in 2007 (266 public companies financial report). The study used the OLS regression model, which disclosed a favorable influence on the DPR in the entire sample.

H₄: Profitability has a significant impact on DPR.

Table 4

Summary of Previous Studies

Author/s	Period	Methodology	Findings
Malik et al. (2013)	2007-2009	OLS regression	Profitability has a favorable impact on DPR.
Adhikari (2015)	2009-2013	Regression model	Profitability has a favorable impact on DPR.
Issa (2015)	2002-2011	Multiple linear regression	Profitability has a favorable impact on DPR.
Fitri et al. (2016)	2009-2014	Panel data regression	Profitability has a favorable impact on DPR.
Khan et al. (2017)	2003-2012	Panel regression model	Profitability has a significant impact on DPR.
Hayati et al. (2018)	2011-2014	Multiple regression model	ROA has a favorable impact on DPR.
Kumar and Sujit (2018)	2015-2016	Multiple regression	Profitability has a favorable impact on DPR.
Dewasiri et al. (2019)	2010-2016	(Binary logistic & fixed effect panel) regression model	Profitability has a favorable impact on DPR.
Nyere and Wesson (2019)	1999-2014	Fixed-effects panel regression	Profitability has a favorable impact on DPR.
Yanuarti and Dewi (2019)	2017	Regression model	Profitability has a favorable impact on DPR.
Bhattarai (2020)	2014-2018	Fixed and random effects regression	Profitability has an adverse impact on DPR.
Priyantara and Thamrin (2020)	2016-2018	Multiple regression	ROA has an adverse impact on DPR.
Suresh and Manoharan (2020)	2009-2019	Panel OLS regression	Profitability has a significant impact on DPR.
Bahrudin et al. (2021)	2015-2019	Random and fixed effect model	Profitability has an adverse impact on DPR.
Thapa (2021)	2014-2019	Regression model	Profitability has an adverse impact on DPR.
Pradika and Rediyono (2022)	2016-2020	Multiple linear regression	Profitability has a favorable impact on DPR.
Prša et al. (2022)	2017-2021	Hierarchical linear regression	Profitability has an insignificant impact on DPR.
Damayanti and Palinggi (2023)	2015-2019	Multiple linear regression	ROA and ROE have favorable impact on DPR.
Susanti et al. (2023)	2013-2021	Fixed-effects regression	Profitability has an insignificant impact on DPR.
Ademola et al. (2024)	1987-2022	Panel least square regression	Profitability has a favorable impact on DPR.
Dhungana et al. (2024)	2012-2022	Regression model	Profitability has an insignificant impact on DPR.
Nguyen (2025)	2017-2021	OLS, fixed and random effect	ROA has a favorable impact on DPR.
Tran et al. (2025)	2018-2022	Panel data regression	ROA has a favorable impact on DPR.

2.2.5 Inflation Rate and DPR

Adugna et al. (2020) explored empirical evidence from Ethiopian private banks about the factors that influenced the DPR period from 2008-2016. Utilizing the random-effect estimator, inflation favorably affects DPR. Likewise, Bhattarai (2020) identified the variables influencing Nepalese commercial banks' decisions to issue dividends from 2014 to 2018. These models' fixed and random effects regression findings demonstrate that inflation has negatively and significantly affected DPR. Furthermore, Ademola et al. (2024) studied the factors that impact DPR in Nigerian deposit money businesses from 1987 to 2022. Using the panel least square regression, the inflation

rate adversely and significantly influenced the DPR. Further, Doffour et al. (2025) examined factors that influenced the dividend policy in the Ghana Stock Exchange from 2010-2022. Using the Generalized Method of Moments (GMM) analysis, inflation favorably affects the DPR.

H₅: Inflation rate (IR) significantly affects DPR.

2.2.6 GDP Growth Rate and DPR

Ademola et al. (2024) studied the factors that impact DPR in Nigerian deposit money businesses from 1987 to 2022. Using the panel least square regression, the gross domestic product positively and significantly impacted the DPR.

H₆: The GDP growth rate (GDP) has a substantial influence on DPR.

The study produced the theoretical diagram displayed in *Figure 1* based on the literature review.

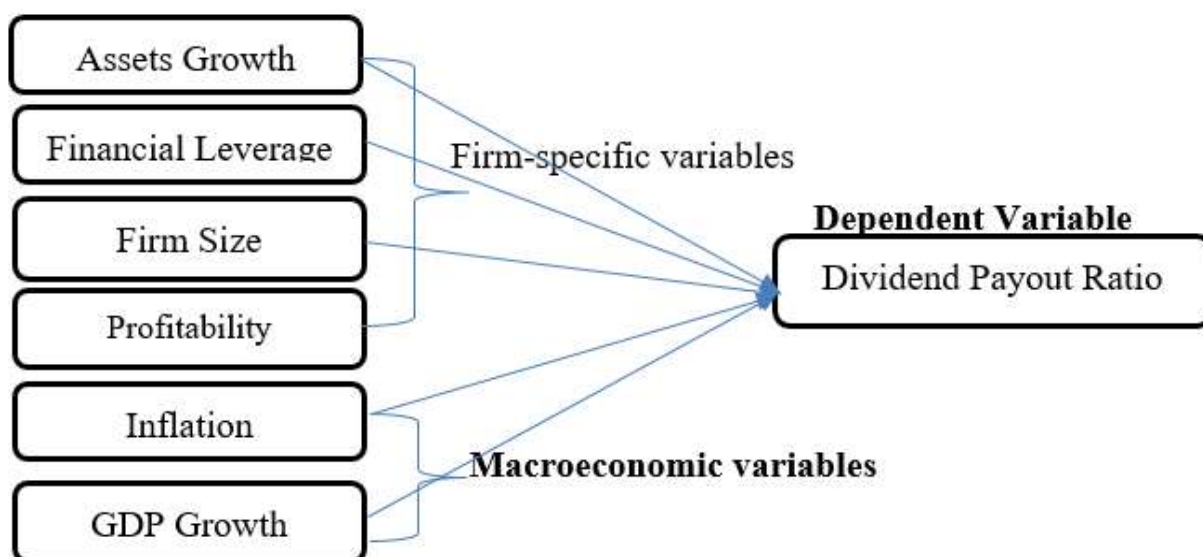


Figure 1
Theoretical Framework of Study
 Source: Ademola et al. (2024)

III. METHODOLOGY

3.1 Research Design

This study included descriptive, correlational, and explanatory research designs. The descriptive research design is employed to delineate the fundamental properties of the investigated variables. The correlation study design is employed to assess the multicollinearity issue among the predictor variables. Explanatory study design is employed to investigate the influence of independent variables on dependent variables. The antecedent variables were categorized into two groups: industry-specific variables and macroeconomic variables. The model comprises four independent variables: asset growth, financial leverage, company size, and profitability; two macroeconomic variables: the inflation rate (IR) and the GDP growth rate; and one dependent variable, the DPR.

3.2 Data

This research employed secondary panel data for the period 2018-2023. This study focuses on 50 microfinance institutions on the Nepal Stock Exchange (NEPSE). Microfinance institutions were selected using a stratified random sampling technique. Sample microfinance institutions (MFIs) are selected based on the high, medium, and low prices on the Nepalese Stock Exchange (NEPSE). There were a total of 54 observations. The data was analyzed using IBM SPSS Statistics (Version 27, Trial Edition). NEPSE statistics, Sharesansar, the official websites of numerous microfinance institutions, and annual reports provided the essential information.

3.3 Analytical Model

This study used the OLS regression model to examine the cause-and-effect correlations between antecedent and subsequent variables. The model was used in the previous study by Dhungana et al. (2024).

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e_Y$$

(Where, b_1 = Assets growth (AG), b_2 = Financial leverage (FL), b_3 = Firm size (Log10FS), b_4 = Profitability (ROE), b_5 = Inflation rate (IR), b_6 = GDP growth rate (GDP), Y = Dividend payout ratio (DPR), e = error term, a = constant)

3.4 Dependent Variable

3.4.1 Dividend Payout Ratio (DPR)

The DPR is the income distributed to shareholders from their net income in percentage terms (Bloomenthal, 2022; Brown et al., 2007). This ratio aids in determining a company's dividend policy, indicating whether it prioritizes shareholder distributions or keeps earnings for firm expansion. A higher ratio indicates better income distribution, whereas a lower percentage indicates reinvestment-focused.

3.5 Independent Variables

3.5.1 Assets Growth

A company's asset growth determines its operational success, yet high-growth enterprises frequently keep revenues for investment, resulting in reduced dividends (Laksono, 2006; Al-Malkawi et al., 2013). Dividend decisions are inextricably linked to investment possibilities and financing decisions because market inefficiencies such as taxes and agency costs make them interdependent (Fama et al., 2001; Amidu & Abor, 2006).

3.5.2 Financial Leverage

Financial leverage, which represents a company's reliance on debt financing, negatively influences dividend distributions since more debt raises financial commitments, reducing available cash for dividends (Saini & Sharma, 2022; Al-Malkawi, 2008). Firms with a high level of leverage are more likely to limit dividend payments in order to retain liquidity, satisfy debt commitments, and reduce financial risk. Thus, there is a trade-off between debt financing and dividend distribution since corporations prioritize financial stability above shareholder dividends when leverage is high.

3.5.3 Firm Size

Larger companies usually have greater access to financial markets, cheaper financing costs, and fewer limitations, allowing them to pay higher dividends (Adhikari, 2015; Yusof & Ismail, 2014). Their reputation reassures creditors, enabling simpler and less expensive debt financing than smaller enterprises (Barclay et al., 1995). However, larger companies may have additional financial commitments, such as balancing dividend distributions with finance requirements. Thus, business size substantially impacts dividend policy due to both capital access benefits and possible liquidity restrictions.

3.5.4 Profitability

Profitability is key in determining dividend distributions, as only profitable enterprises may transfer earnings to shareholders (Jensen et al., 1992). Investors prefer firms with greater profitability because they anticipate higher future dividends (Eikabbani et al., 2020). Higher earnings increase free cash flow, allowing companies to reinvest in expansion or reward shareholders (Thanatawee, 2011; Yanuarti & Dewi, 2019). Thus, profitability is both a requirement and a primary motivator of dividend distribution decisions.

3.5.5 Inflation Rate

Inflation is a long-term price rise that reduces buying power as goods and services become more costly (IMF, 2024). It is computed as the yearly percentage increase in the average price of a specific basket of commodities, with high inflation indicating quick price increases and low inflation indicating slower rises (Fernando et al., 2024). In contrast to deflation, which occurs when prices fall, inflation is usually caused by increased money supply or demand.

3.5.6 GDP Growth Rate

GDP estimates the total market value of all final products and services produced inside a country's boundaries in a specific period, and it is an important indication of economic health (Tim, 2022). It encompasses all aspects of domestic economic activity, including consumption, investment, government expenditure, and net exports (exports minus imports). By combining these components, GDP gives a complete picture of a country's economic performance and growth patterns.

Table 5*Variables Used and Measurements*

Variables	Measurement
Dividend payout ratio	Total dividend / Net income
Assets growth	Latest balance sheet of total assets –Total assets 12 months ago) / Total assets 12 month ago
Financial leverage	Total liabilities / Shareholders' liabilities
Firm size	Liabilities + Owners' equity
Profitability (ROE)	Net income / Shareholders' equity
Inflation rate	$(CPI_1 - CPI_0) / CPI_0$
GDP growth rate	$(GDP_1 - GDP_0) / GDP_0$

IV. FINDINGS & DISCUSSION**4.1 Findings**

Table 6 summarizes the descriptive data for the variables and concludes. It shows the variables being examined for nine microfinance institutions with six years of data and fifty-four observations, as well as their statistical data (minimum, highest, average, standard deviation, and variance).

Table 6*Descriptive Statistics*

Variables/statistics	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Assets growth rate (AG)	54	-16.62	144.59	33.51	32.99	1088.57
Financial leverage (FL)	54	2.28	13.10	7.03	2.38	5.67
Firm size (Log10FS)	54	8.88	10.69	9.90	0.42	0.18
Profitability (ROE)	54	6.10	38.79	17.78	7.37	54.36
Inflation rate (IR)	54	3.60	7.82	5.44	1.46	2.13
GDP growth rate (GDP)	54	-2.37	7.62	4.04	3.41	11.65
Dividend payout ratio (DPR)	54	21.92	161.03	71.94	28.65	820.95

According to the descriptive data, the asset growth rate ranges from -16.62 to 144.59, with an average of 33.51, a highest standard deviation (SD) of 32.99, and a maximum variation of 1088.57. Similarly, the average financial leverage is 7.03, with an SD of 2.38, a difference of 5.67, and a fluctuation of 2.28 to 13.10. It shows a 2.38 difference in the value of the financial leverage on both sides. Furthermore, the range of firm size (Log10FS) is 8.88 to 10.69, with an average mean of 9.90, a minimum SD of 0.42, and a discrepancy of 0.18. Also, as measured by ROE, profitability may have a difference of 7.37, with an average of 17.78, a variance of 54.36, and a fluctuation of 6.10 to 38.79. Furthermore, the inflation rate ranges from 3.60 to 7.82, with an SD of 1.46, an average value of 5.44, and a difference of 2.13, implying that the number can change by 1.46. The GDP growth rate fluctuates from -2.37 to 7.62 percent, with an average mean of 4.04, SD of 3.41, and deviation of 11.65. It indicates that there could be a 3.41 percent deviation in GDP growth rates on either side. Finally, the dividend payout ratio's highest average, SD, deviation, and fluctuation from 71.94, 28.65, 820.95, 21.92, and 161.03 show a possible 28.65 difference between the low and highest values.

Table 7*Correlation Analysis*

Variables	AG	FL	Log10FS	ROE	IR	GDP	DPR
AG	1						
FL	.451** (0.001)	1					
Log10FS	-.463** (0.001)	-0.223 (0.105)	1				
ROE	0.079 (0.568)	.492** (0.001)	0.129 (0.354)	1			
IR	-.399** (0.003)	-0.263 (0.054)	0.251 (0.067)	-.461** (0.001)	1		
GDP	.316* (0.02)	0.179 (0.196)	-0.149 (0.281)	.309* (0.023)	-.567** (0.001)	1	
DPR	.358** (0.008)	-0.133 (0.339)	-.500** (0.001)	-.409** (0.002)	-0.129 (0.354)	-0.015 (0.912)	1

In Table 7: AG denotes assets growth, FL denotes financial leverage, Log10FS represents firm size, ROE represents return on equity, IR denotes inflation rate, GDP presents gross domestic products and DPR denotes dividend payout ratio. ** and * denote that correlation is significant at the 1 %, and 5 %, respectively.

Table 7 displays the correlation coefficients between the antecedent and subsequent variables. A significant and positive link exists between the dividend payout ratio and asset growth rate, as evidenced by correlation coefficients of 0.358 at the 99 percent level. Similarly, the correlation coefficients between company sizes (Log10FS), profitability (ROE), and dividend payout ratio are -0.500 and -0.409, respectively, with p-values of 0.001 and 0.002, less than 0.01 at the 99 percent confidence level. However, with p-values larger than 0.05 and coefficient correlations of -0.133, -0.129, and -0.015, respectively, financial leverage, inflation rate, and GDP growth rate show a negative and negligible relationship with DPR.

Table 8

Regression Analysis

	Coefficients			t	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
(Constant)	357.698***	84.968		4.210	0.001
Assets growth rate	0.233*	0.123	0.268	1.886	0.065
Financial leverage	-2.255	1.733	-0.187	-1.302	0.199
Log10FS	-22.580**	8.582	-0.334	-2.631	0.011
Profitability	-1.398**	0.585	-0.360	-2.388	0.021
Inflation rate	-4.523	2.966	-0.230	-1.525	0.134
GDP growth rate	-1.143	1.100	-0.136	-1.039	0.304
F-stat	6.847**				0.001
Adjusted R ²	0.398				

Note: ***, **, and * denotes coefficients are significant at the 1%, 5%, and 10% level of significance.

As depicted in Table 8, the adjusted R-squared value of 0.398 represents 39.80 percent of the variation in the DPR by the six antecedent variables included in the model. Also, the impact on assets growth is found to be positive and significant on DPR ($0.065 < 0.10$) with a coefficient of 0.233; accept the alternative hypothesis (H_1). Also, the impact of financial leverage is found to be negative and insignificant on DPR ($0.199 > 0.05$) with a coefficient of -2.255, invalidating the alternative hypothesis (H_2). However, the impact of firm size (Log10FS) is also found to be negative and significant on DPR ($0.011 < 0.05$) with a coefficient of -22.580 at a 95 % confidence interval; accept the alternative hypothesis (H_3). It indicates that for each unit increase in company size (Log10FS), the DPR will be reduced by 22.580 units. Similarly, return on equity (profitability) is negative and significant on DPR at the 95 % confidence level, with a coefficient of -1.398, confirming the alternative hypothesis (H_4). The inflation rate and GDP growth rate have been found to have insignificant and adverse effects on the dividend payment rate (p-value > 0.05) with a coefficient of -4.523 and -1.143, respectively; reject the alternative hypothesis (H_5 and H_6).

The regression model has a statistically significant, as shown by the F-statistic of 6.847 ($p = 0.001$), which is significant at the 1% significance level. The OLS equation is estimated as follows:

$$Y = 357.698 + 0.233x_1 - 2.255x_2 - 22.580x_3 - 1.398x_4 - 4.523x_5 - 1.143x_6 + e_Y$$

4.2 Discussion

The dividend (DPR) and asset growth rate (AG) ratio are positively and significantly correlated. The results are similar to those of Adhikari (2015), Fitri et al. (2016), Adugna et al. (2020), Pradika and Rediyono (2022), Tran et al. (2025), who found a positive and substantial association between AG and DPR. However, the studies of Hayati et al. (2018) and Priyantara and Thamrin (2020) concluded a negligible negative correlation between AG and DPR.

The outcome of business size (Log10FS) adversely impacts the DPR. The results are congruent with those of Mui and Mustapha (2016), Hayati et al. (2018), Kumar and Sujit (2018), Suresh and Manoharan (2020), Thapa (2021); and Pradika and Rediyono (2022); Ademola et al. (2024); Dhungana et al. (2024); Nguyen (2025). Thus, it has a negative correlation with DPR. The opposite view of Issa (2015), Bhattarai (2020), and Nguyen (2025) showed no significant effect of business size on DPR. Profitability (return on equity) has been identified to have an adverse and favorable relation with/impact on DPR. Similar to Issa (2015) and, Yanuarti and Dewi (2019), and Pradika and Rediyono (2022), Ademola et al. (2024), Tran et al. (2025), the results present that ROE has a significant and negative influence on DPR. In contrast to Bhattarai (2020), Thapa (2021), Dhungana et al. (2024), and Nguyen (2025), return on equity showed no significant impact on DPR.

Financial leverage (FL) has been determined to have an adverse influence on the DPR. Similar studies by Kumar and Sujit (2018), Suresh and Manoharan (2020), Saini and Sharma (2022), and Ghose et al. (2025) found no significant or negative relationship between (FL) and (DPR). In contrast to Priyantara and Thamrin (2020), Susanti et al. (2023) found that FL had a significant effect on the DPR. The inflation rate has a negligible influence on the DPR. The results are comparable to those of Adugna et al. (2020), who found that the inflation rate has minimal impact on the DPR. Contrary to the opinion of Bhattarai (2020) and Doffour et al. (2025), inflation has a significant impact on DPR. Similarly, the GDP growth rate has an insignificant and negative relationship/effect with/on the DPR. The results contradict Ademola et al.'s (2024) conclusion that GDP growth (GDP) has a favorable impact on DPR.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

The study examined the factors influencing DPR at the Nepalese MFIs using firm-specific and macroeconomic variables, including asset growth, financial leverage, firm size, profitability, inflation rate, and GDP growth rate. The outcomes of correlation and regression analysis support the signaling theory. The DPR and asset growth rate are favorably linked. Firm size (Log10FS) and profitability (ROE) show an unfavorable impact on the DPR. The DPR drops as the company's size and profitability grow. This study suggests microfinance institutions should prioritize sustaining strong asset growth to continue dividend payments. Large microfinance organizations could be more stable and have more resources so that they might pay out smaller dividends, but their continuous payouts demonstrate investor trust.

Furthermore, larger organizations often earn enough income to meet operational demands, strategic expansion prospects, and investor returns through means other than dividends. As a result, they may choose reinvestment or share buybacks over increased dividend payouts. Lowering dividends despite increasing profitability is frequently a strategic decision by management, reflecting their aspirations for long-term growth, debt management, financial stability, and a stable or continuous dividend. These findings emphasize how asset management, profitability, and bank size impact dividend policies. However, financial leverage, inflation, and GDP growth rates negligibly impact the DPR. These three independent factors are either higher or lower and do not affect DPR in Nepalese MFIs.

5.2 Recommendations

This study recommends that Nepalese MFIs prioritize profitability, maintain an ideal business size, and properly control leverage to increase DPR. Also, to ensure long-term dividend distributions, policymakers should promote economic stability through growth-oriented policies and inflation management. Firms must also manage capitalization, liquidity, and debt during expansions while considering systematic and unsystematic risks when making dividend choices. These efforts would improve DPR and boost investor trust in the sector. The findings have practical implications for investors evaluating companies and management optimizing DPR. This study's limitations include a narrow emphasis on Nepalese MFIs, a small sample size, and dependence on only six years of secondary data, which may not reflect whole economic cycles. Future studies could look at other industries, use primary survey data, and add other macroeconomic factors to provide a broader perspective. The validity and application of dividend policy conclusions would be strengthened by extending the research period and increasing sample variety.

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