Characteristics of the Board of Directors and Dividend Policy: A Case Study of Banks in Western Balkans

Marko Milašinović[a*], Aleksandra Radojević[b], Biljana Jovković[b]
[a]*University of Kragujevac, Faculty of Hotel Management and Tourism Vrnjačka Banja, Vojvođanska 5a, 36210 Vrnjačka Banja, Serbia*
[b]*University of Kragujevac, Faculty of Economics, Liceja Kneževine Srbije 3, 34000 Kragujevac, Serbia*
marko.milasinovic@kg.ac.rs, aleksandra.radojevic96@gmail.com, bjovkovic@kg.ac.rs

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Abstract

This paper examines the influence of the size and participation of women in the board of directors on the dividend policy of banks in Western Balkans. The research covered 104 banks, observing their dividend policy from 2017 to 2019. The dividend payout ratio was measured by the dividend policy. A relatively small number of banks paid dividends during the observation period. By applying the Fixed-Effect model, it was determined that the size of the board of directors has a statistically significant positive impact on the dividend policy of observed banks. Concerning the participation of women on the board of directors, a statistically significant impact on the dividend policy of banks was not identified. In addition to contributing to the existing literature on corporate finances, the research results can be crucial to investors when deciding to invest funds in bank stocks.

Introduction

Dividends are the distribution of company profits to shareholders in proportion to their ownership (Knežević et al., 2019). The decision on dividend payments not only depends on the achieved financial result but can be conditioned by the need to protect funds during crises, increased profit volatility, limited external financing, or a significant need for capital in the future (Franc-Dąbrowska et al., 2020). Dividend payments are regarded as one of the mechanisms for monitoring the company's business (Rozeff, 1982) and one of the most important financial decisions of the company (Bataineh, 2020). Companies should establish an optimal dividend policy that will increase the company's value (Roy, 2015) and will interact with financial and investment decisions (Mądra-Sawicka & Ulrich, 2020). Dividend policy is of interest to existing shareholders, but also of interest to managers, investors and creditors. It is a topic that has been confusing researchers for a long time (Yarram & Dollery, 2015). Therefore, it is the subject of numerous debates in financial literature (Zainudin et al., 2018), with theoreticians and researchers trying to develop models which describe factors that managers need to consider when making decisions on dividend policies (Gill et al., 2010). Most of the research is based on the example of companies from the United States and other developed countries (Jabbouri, 2016).

[*] *Corresponding author*

Corporate governance plays a significant role in defining dividend policies (Atanassov & Mandell, 2018). Namely, in addition to adopting strategies, plans, and goals, the board of directors decides whether dividends will be paid and in what amount (Boshnak, 2021). In a situation where dividend payments are not made, the available funds intended for dividend payments can be redirected to specific activities by the management, achieving personal interests that may differ from the interests of the shareholders. In this way, an agency problem occurs. By deciding to pay the dividends, thereby reducing the available money, the management strives to reduce the agency problem (Nazar, 2021). The question is why the board of directors would decide to pay dividends and/or dividend payments of higher value when it is in their "nature" to retain surplus money (Mulchandani et al., 2021). Saeed & Sameer (2017) state that one of the possible ways is "involving people of different characteristics, origin, and experience on the board of directors" (p. 1100). The research conducted by *Credit Suisse* in 2012 on a sample of 2,400 global companies found that companies with at least one female member on the board of directors had better financial performance in comparison to companies that did not have a woman on the board of directors (Mulchandani et al., 2021). In recent decades, a trend of increasing female participation on the board of directors was present, which affects better decision-making for shareholders (Huang & Kisgen, 2013), or an increased amount of dividend payments (García-Meca et al., 2022). In other words, characteristics of corporate governance, such as the size of the board, the gender structure of the board, independence of members, expertise, etc., can affect financial decisions, including decisions regarding dividend payments (Nazar, 2021). Also, the efficiency of such decisions depends on the characteristics of the board of directors (Gyapong et al., 2019). As Ain et al. (2021) state, the diversity of the board affects the efficiency of work at the level of individual members and the level of the entire team. However, numerous studies have reached different results when it comes to the influence of the size of the board of directors and the participation of women in the board of directors on the dividend policy of companies, which indicates that these relations are more complex and can significantly differ between companies (García-Meca et al., 2022).

In addition to the fact that recently the number of research papers regarding the dividend policy of banks is growing, a relatively small number deals with examining the impact of the board of directors' characteristics on the same. The subject of this paper is dividend policy in banks operating in Western Balkans. These banks used to operate in the Republic of Serbia, the Republic of Montenegro, the Republic of Slovenia, The Republic of Croatia, the Republic of North Macedonia, and Bosnia and Herzegovina (the Republic of Srpska and the Federation of Bosnia and Herzegovina). This paper aims to examine the influence of the size of the board of directors and the participation of women in the board of directors on the dividend policy of 104 banks in the aforementioned countries during the period from 2017 to 2019. According to the authors' knowledge, it is the first survey that examines the influence of the size and gender structure of the board of directors on the dividend policies of banks in the countries above. Following the subject and the aim of the research, the following research questions were posed in the paper:

1. Does the board of directors' size affect banks' dividend policy in Western Balkans?
2. Does the participation of women on the board of directors affect the dividend policy of banks in Western Balkans?

Data for the research purpose were collected from the financial reports of banks. Data analysis includes descriptive analysis, correlation analysis, and analysis of the panel data series. This paper fills the gap in the literature since there is a small amount of research on the influence characteristics of the board of directors on dividend policies. The findings are essential for investors when deciding to invest their funds in bank shares.

After the introductory considerations, the literature review shall follow. The research methodology is presented in the third part. The results of the research are presented in the fourth part. In the fifth part, the concluding considerations are presented along with research contributions and restrictions, and directions for future research.

Literature Review

A board of directors and their subcommittees can play an essential role in providing a supervisory and disciplinary role and therefore contributes to reducing the agency problem (Yarram & Dollery, 2015). Based on this, the same authors state that the dividend policy in companies depends on the characteristics of the board of directors in many ways. This is also confirmed by a large number of papers designed to determine the impact of the characteristics of the board of directors on the dividend policy of the company. The following is a representation of previous research that examines the influence of the size of the board of directors and the participation of women in the same on dividend policies.

The size of the board of directors is identified as one of the more influential factors in the decision regarding dividend payments. In the literature, there are two opposing views on the impact of this characteristic of the board of directors on dividend policy. According to the first point of view, larger boards enable managers to specialize, leading to more efficient supervision (Klein, 2002). This will result in the payment of lower dividends (Mehdi et al., 2017). According to another position, a larger board of directors experiences inefficient decision-making and difficulty in coordination, leading to a demand for higher dividends by investors (Jensen & Meckling, 1976). Also, a board of directors with multiple members may decide on higher dividend payments due to efforts to meet the needs of a more significant number of clients (Nazar, 2021). Most of the research conducted determined that the size of the board of directors has a positive impact on dividend policy (Pucheta-Martinez & Bel-Oms, 2016; Chen et al., 2017; Elmagrhi et al., 2017; Suwaidan & Khalaf, 2020; Nazar, 2021; Ain et al., 2021; García-Meca et al., 2022). In other words, companies with more members on the board of directors pay higher dividends. However, specific research indicates that the size of the board of directors does not have a statistically significant impact on the company's dividend policy (Abdelsalam et al., 2008; Setia-Atmaja et al., 2009; Mustafa et al., 2020; Boshnak, 2021).

Research has shown that greater gender diversity on the board of directors leads to more rational decisions and minimizes the agency problem as a consequence, which can result in larger dividend payments (Mulchandani et al., 2021). According to Mustafa et al. (2020), women take the necessary actions to resolve agency problems thanks to their skills and abilities. Namely, women are recognized as good business supervisors and protectors of shareholder rights. This is supported by the fact that female members of the board of directors are more likely to attend meetings and participate in the supervisory board (Adams & Ferreira, 2009). Also, female members of the board of directors are more likely to respect the rules and are more sensitive to corporate issues concerning their colleagues (Ain et al., 2021). However, increased participation of women on the board of directors can result in lower dividend payments. Namely, if female members of the board of directors are recognized as suitable protectors of shareholder rights, this can result in a lower demand for dividends (La Porta et al., 2000). The fact that women have a higher aversion to risk and are more prone to retaining surplus cash (a conservative financial attitude) supports this statement (García-Meca et al., 2022). As in the case of the size of the board of directors, researchers arrived at different results regarding the influence of women's participation in the board of directors on dividend policies. Therefore Wellalage et al. (2012), Pucheta-Martinez & Bel-Oms (2016), Pahi & Yadav (2018), Gyapong et al. (2019), Mulchandani et al. (2021), Trinh et al. (2021) and Ain et al. (2021) determined that the participation of women on the board of directors positively affects dividend policies. In other words, along with the growth of female participation on the board of directors, there is a rise in dividend payments. On the other hand, Mustafa et al. (2020) determined that the participation of women on the board of directors harms dividend policy, while McGuinness et al. (2015) found that this influence is not statistically significant.

When it comes to the influence of the characteristics of the board of directors on the dividend policy of banks, two research papers are relevant. Al-Amarneh et al. (2017), on a sample of 13 commercial banks listed on the Amman Stock Exchange in Jordan in the period from 2005 to 2014 have determined that the size of the board of directors of the bank does not have a statistically significant impact on dividend policy (expressed by dividend payout ratios and dividend yields). Regarding the participation of women on the board of directors, it has been determined that it has a statistically significant positive impact on dividend yield values. In contrast, the impact on the values of the dividend payout ratio is not statistically significant. Observing the banks listed on the Indonesia Stock Exchange in the period from 2009 to 2019, Umar Mai & Syarief (2021) have determined that the size of the board has a statistically significant positive influence on the propensity for dividend payments, while there is a negative statistical impact on the value of the dividend payout ratio. The participation of women on the board of directors has a statistically significant negative impact on the propensity for dividend payments in the banks observed in Indonesia. At the same time, the impact on the value of dividend payout ratios is also negative but not statistically significant.

Research Methodology

This paper includes research on banks that operated in the Western Balkans at the end of 2020, examining their dividend policy from 2017 to 2019[1]. Therefore, the research includes 25[2] banks from the Republic of Serbia, 20 from

[1] As dividends in the current year are paid for the previous year, at the time of conducting this research, the financial statements of all observed banks were not publicly available for 2021, so it was not possible to review their dividend policy for 2020.

[2] According to the data of the National Bank of Serbia, at the end of 2020, 26 banks operated in Serbia, however the Bank of China Serbia A.D. Belgrade was excluded from the research (because it is a bank founded on 22.12.2016., and officially began operation in 2017, so the data from 2016 was not available).

the Republic of Croatia, 13[3] from Slovenia, 21[4] from Bosnia and Herzegovina, 12 from Montenegro, and 13[5] banks from North Macedonia. The final sample consists of 104 banks, or 312 observations, which is the corresponding sample size[6] according to Tabachnick & Fidell (2007). Banks' individual financial statements were used as data sources for this research.

Dividend policy was observed in dividend payout ratios (DPR). As independent variables, the size of the board of directors (SIZE_BOARD) and the participation of women on the board of directors of the bank (GENDER) were used. In accordance with previous research, as control variables specific for banks, profitability (PROF), leverage (LEV), the growth rate of the interest income (GR_R), and dividends from the previous year (PREV_DIV) were used. Table 1 shows the method of determining the used variables.

The impact of these determinants on the payment of dividends is examined based on a panel regression analysis. It is a method used in earlier, similar research (Franc-Dąbrowska et al., 2020; Mądra-Sawicka & Ulrich, 2020; Boshnak, 2021; Jovković et al., 2021; Mulchandani et al., 2021). In this regard, it is possible to formulate the following general model of the panel regression analysis in research:

$$\begin{aligned} DPR_{it} &= \alpha + \beta_1 BOARD\_SIZE_{it} + \beta_2 GENDER_{it} + \beta_3 PROF_{it} + \\ &+ \beta_4 LEV_{it} + \beta_5 GR\_R_{it} + \beta_6 SIZE_{it} + \\ &+ \beta_7 PREV\_DIV_{it} + \varepsilon_{it} \end{aligned} \tag{1}$$

In addition to the panel above regression analysis, the results of descriptive statistics will be presented in the paper and correlation analysis. Statistical data processing was performed using IBM SPSS and EViews statistical packages.

[3] *According to the data of the Bank of Slovenia, at the end of 2020, 15 banks operated in Slovenia, however ABANKA d.d was excluded from the research (due to the lack of available financial statements for 2020) and Slovene Export and Development (SID) Bank d.d. Ljubljana (because it is a bank that is 100% owned by the Republic of Slovenia).*

[4] *According to the Central Bank of Bosnia and Herzegovina, at the end of 2020 in Bosnia and Herzegovina (the Federation of Bosnia and Herzegovina and the Republic of Srpska), 22 banks were operational, but the Development Bank of the Federation of Bosnia and Herzegovina was excluded from the research (because it is a bank which is 100% owned by the Federation of Bosnia and Herzegovina, whose task is the implementation of the economic policy of the Government of the Federation of Bosnia and Herzegovina for economic development and employment).*

[5] *According to the National Bank of the Republic of North Macedonia, at the end of 2020 in the Republic of North Macedonia, 14 banks were operational, but the Development Bank of North Macedonia was excluded from the research (because it is a bank which is 100% owned by the Republic of North Macedonia, whose task is the implementation of the economic development and employment).*

[6] *Tabachnick & Fidell (2007, p.123), indicate that the minimum number of observations should be determined according to the formula N>50+8m, with N as the minimum number of observations, while m indicates the number of independent variables. As 7 variables are used in the research, the minimum number of observations is 106.*

Research Results and Discussion

From the 312 observations, dividend payments were recorded in 85 observations. From that number, 22 observations were recorded in Slovenia, 18 in Serbia, 17 in Croatia, 16 in North Macedonia, 10 in Bosnia and Herzegovina, and two in Montenegro. Regarding yearly observations, 38 banks paid dividends for 2018, 37 for 2017, and 10 for 2019. Only seven banks paid dividends for all three observed years. Table 2 shows the results of descriptive statistics.

As seen in Table 2, the average amount of earnings paid out in the form of dividends is 19.51%. Banks' boards of directors have about 4 members on average, which varies from 2 to 8. On average, almost a quarter of the board of directors members are women, whereas it is recorded that in some banks, all members of the board are female in gender. On the other hand, it was also recorded that the board of directors of individual banks consists only of persons of the male gender. The average profitability of banks observed during the period was 0.73%, while the average share of liabilities in total assets was 85.87%. The average growth rate of interest income amounted to 2.85%.

The results of Pearson's correlational analysis are given in Table 3. The existence of a statistically significant positive dependency between the dividend payout ratio and the size of the board of directors was determined, whereas this dependency is small (r=0.136; p=0.016). Also, a positive dependency is present between the dividend payment ratio and the participation of women on the board of directors, but it is not statistically significant. A statistically significant positive dependence has been identified between the dividend payments and the fact that banks paid dividends in the previous year, whereas this dependency is of medium intensity (r=0.468, p=0.000). Also, a statistically significant positive dependency of medium intensity has been recorded between the dividend payout ratio and the size of the bank (r=0.376; p=0.000). A positive statistically significant dependency was identified between the dividend payout ratio and profitability of banks, with a dependence of small intensity (r=0.166; p=0.003). Also, the existence of (positive or negative) statistically significant dependencies between independent variables can be noticed in Table 3, with a small intensity of dependence. Based on this, the presence of multicollinearity shouldn't be expected.

Table 4 shows the results of the Hausman test. This test shows that the Fixed-Effects model is more adequate in analyzing the collected data than the Random-Effects model. The results of the Fixed-Effects regression analysis

Table 1

Research variables

Variable	Symbol	Description
Dependent Variable		
Dividend payout ratio	DPR	Cash dividend/Net profit
Independent Variables		
Control Variables	BOARD_SIZE	Total number of board members
Percentage of female directors on the board	GENDER	The percentage of female directors on the board to board size
Control Variables		
Profitability	PROF	Net profit/ Total assets
Leverage	LEV	Total liability/Total assets
Growth rate	GR_R	(Current interest income-Last year interest income)/Last year interest income
Bank size	SIZE	Natural logarithm of total asset
Previous year's dividends	PREV_DIV	Dummy variable coded as 1 for banks which declared and paid

Source: Authors' research

Table 2

Descriptive statistics

Variables	Mean	Median	Standard deviation	Minimum	Maximum
DPR	0.1951	0	0.452	0	2.9578
BOARD_SIZE	4.22	4	1.585	2	8
GENDER	0.2442	0.2501	0.2133	0	1
PROF	0.0073	0.0077	0.0184	-0.0806	0.1205
LEV	0.8587	0.8702	0.0625	0.5901	0.9873
GR_R	0.0285	-0.0058	0.894	-0.7438	15.3571
SIZE	13.2318	13.1114	1.33631	10.026	16.9839
PREV_DIV	0.343	0	0.475	0	1

Source: Authors' research

Table 3

Correlation matrix

	DPR	BOARD_SIZE	GENDER	PROF	LEV	GR_R	SIZE	PREV_DIV
DPR	1							
BOARD_SIZE	0.136*	1						
GENDER	0.013	-0.069	1					
PROF	0.166**	0.072	-0.063	1				
LEV	-0.019	-0.394**	-0.073	0.046	1			
GR_R	-0.062	0.080	0.033	-0.216**	-0.277	1		
SIZE	0.376**	0.264**	-0.052	0.282**	0.008	-0.181**	1	
PREV_DIV	0.468**	0.034	0.078	0.266**	0.108	-0.070	0.244**	1

Source: Authors' research
*Note: * and ** indicate significance at the 0.05 and 0.01 levels, respectively*

are presented in Table 5. Based on the value of the corrected determination coefficient, it can be concluded that the observed independent variables are capable of explaining variations in the value of the dividend payout ratio, in the amount of 24.89%. According to Field (2013), there is no autocorrelation problem, since the value of the Durbin-Watson test (2.6381) is in an interval from 1 to 3.

Table 4
Hausman test

Test summary	Chi. Sq. Stat	p-value
	12.1466	0.0158

Source: Authors' research

As seen in Table 5, the size of the board of directors has a statistically significant positive impact on the dividend policy of observed banks and this provides us with an answer to the first research question. This indicates a greater likelihood of bank dividend payments if they have more members on the board of directors. Ntim et al. (2015) explain this by the fact that a larger board of directors, thanks to greater knowledge and experience, is more successful in monitoring and controlling the opportunistic behavior of managers, which affects the reduction of the agency problem and improves business results, i.e., dividend payments. Dividend payout positively affects board composition, suggesting that firms with high-payout tend to adopt good corporate governance structures to protect shareholder interest (Nazar, 2021, p. 291). This may affect the awareness of shareholders to hold stocks. In this way, banks can protect themselves from takeovers. When it comes to research conducted on the example of banks, Umar Mai & Syarief (2021) determined that the size of the board positively affects the propensity to pay dividends while negatively affecting the value of dividend payout ratios.

It was determined that the participation of women on the board of directors negatively affects the dividend policy of banks, whereas this impact is not statistically significant (Table 5). Umar Mai & Syarief (2021) came to similar conclusions. Namely, they found that the participation of women on the board of directors has a negative statistically significant impact on dividend payment tendencies. At the same time, the impact on the value of dividend payout ratios is also negative but not statistically significant. On the other hand, Al-Amarnech et al. (2017) found that the participation of women on the board of directors positively affects the dividend policy of banks expressed by the dividend yield, while there is no statistically significant impact on the dividend payout ratio. As an explanation for the negative, but not statistically significant, participation of women on the board of directors regarding the dividend policy of observed banks, we can state that these banks mainly operate in developing markets. Due to the uncertainty of doing business in these markets, the female members of the board of directors will influence the reaching of conservative financial decisions and the payment of lower dividends (Saeed & Sameer, 2017). This is in line with the theory of gender socialization, according to which women are considered more conservative than men when making financial decisions (García-Meca et al., 2022). The difference in the results about the influence of women members of the board of directors on the dividend policy can also be explained by the fact that earlier research did not examine how many of them voted for the payment of dividends. For these reasons, a survey on this topic should be conducted in future research. This would result in more precise information about the influence of women members of the board of directors on the dividend policy.

Table 5
Fixed-effects regression analysis results

Variables	Coefficient	t-value	Sig.
Intercept	-0.9170	-0.4739	0.6361
BOARD_SIZE	0.1244	2.4139	0.0167
GENDER	-0.2495	-0.7592	0.4486
PROF	-0.7239	-0.3125	0.7549
LEV	-1.1991	-0.9590	0.3387
GR_R	-0.0190	-0.5658	0.5721
SIZE	0.1250	0.7962	0.4269
PREV_DIV	0.1223	0.9735	0.3315
Adjusted R square=0.2489; F=1.9371; (p(F statistic)=0.000); Durbin-Watson stat.=2.6381			

Source: Authors' research

Conclusion

Dividend policy represents a crucial topic in the field of corporate finance. Much research has been conducted to determine the influence of corporate governance characteristics on the dividend policy of companies operating in different markets and industries, whereby researchers arrived at various results. However, in a small portion of the research, the impact of the characteristics of corporate governance on the dividend policy of banks and other financial institutions was examined. This paper aims to examine the influence of the size of the board of directors and participation of women in the board of directors on the dividend policy of banks which operate in the Western Balkans, whereas dividend payment ratios express dividend policies. By applying the regression Fixed-Effect model, research was conducted on a sample of 104 banks, whereas their dividend policy was observed in the period from 2017 to 2019.

The research found that most banks during the observed period did not pay dividends, whereas this number decreased during the observed period. The most significant number of dividend payments was recorded in banks operating in Slovenia, while the least was recorded in the Republic of Montenegro banks. Less than 7% of the observed banks have made dividend payments during all three years of observation. It was determined that the size of the board of directors of the bank positively affects its dividend policy, i.e., banks with a more significant number of members on the board of directors pay dividends to a greater extent. On the other hand, the existence of a statistically significant influence of the participation of women on the board of directors regarding dividend policies of observed banks was not identified. Also, the impact of control variables (profitability, leverage, the growth rate of interest income, bank size, and dividends from the previous year) on the dividend policy of banks is not statistically significant.

Research offers several theoretical contributions to the existing literature. Firstly, it is complementary to the existing research that aimed to identify factors of the dividend policies of banks. Secondly, it takes into account the impact of the board of directors' characteristics on the banks' dividend policy, and according to the author, this is the first research conducted on a sample of banks in Western Balkans. In addition, the results of this research can be significant, above all, for investors when deciding to invest their funds in bank shares. Namely, they should consider the size of the board of directors when deciding to purchase shares and therefore achieve a higher yield on the basis of dividends.

Several restrictions appear in this paper which provides directions for future research. Since this research only examined the influence of the size and gender structure of the board of directors on the bank's dividend policy, other characteristics of the board of directors should also be included in the future research, such as work experience, education, number of meetings, independence of members of the board etc. Also, in future research, the influence of the ownership structure and the audit committee on the dividend policy of banks should be considered. Since the research covered the dividend policy of banks from 2017 to 2019, the influence of COVID-19 should be examined in future research. Additionally, the impact of the board of directors' characteristics on the dividend policy of other financial institutions, such as insurance companies and leasing companies operating in observed countries, should also be examined.

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Značilnosti upravnega odbora in politika dividend: študija primera bank na Zahodnem Balkanu

Izvleček

Ta članek proučuje vpliv velikosti in udeležbe žensk v upravnem odboru na dividendno politiko bank na Zahodnem Balkanu. Raziskava zajema 104 banke, pri čemer opazuje njihovo dividendno politiko v obdobju od leta 2017 do leta 2019. Dividendna politika je merjena s količnikom izplačila dividend. V opazovanem obdobju je dividende izplačevalo razmeroma majhno število bank. Z uporabo modela s fiksnim učinkom je bilo ugotovljeno, da ima velikost upravnega odbora statistično značilen pozitiven vpliv na dividendno politiko opazovanih bank. V zvezi z udeležbo žensk v upravnem odboru ni bil ugotovljen statistično značilen vpliv na dividendno politiko bank. Rezultati raziskave so lahko, razen tega, da prispevajo k obstoječi literaturi s področja korporativnih financ, pomembni tudi za investitorje, ko se odločajo o vlaganju sredstev v delnice bank.

Ključne besede: banke, upravni odbor, struktura po spolu, dividendna politika, Zahodni Balkan