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The Role of Dividend Discipline in Bank Governance and its Impact on Investment Efficiency

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ABSTRACT

This paper examines the mechanism of dividend discipline within the system of bank corporate governance and evaluates its impact on investment efficiency. Dividend discipline is interpreted not as a tool for maximizing shareholder payouts, but as a managerial mechanism that constrains agency costs and shapes more rational investment behavior on the part of management.

Keywords: dividend discipline, bank corporate governance, dividend policy, investment efficiency, investment decisions, agency costs, capital allocation.

The relevance of this study is driven by the growing importance of corporate governance in promoting the sustainable development of the banking sector, as well as in improving the efficiency of capital allocation. Banks conduct investment activities under conditions of significant information asymmetry and a high degree of managerial discretion. At the same time, a substantial share of their investments is long-term and largely irreversible, including expenditures on organizational development, information systems, and digital transformation processes. Under such conditions, dividend policy acquires particular importance as a mechanism for constraining internal agency costs and shaping more rational and economically grounded investment behavior.

The purpose of this study is to examine the role of dividend policy as one of the key elements of the corporate governance system and to assess its impact on investment decisions and investment efficiency in joint-stock commercial banks. In this paper, investment decisions are interpreted as independent decisions made by banks regarding the allocation of capital to real and strategic assets that support long-term development. Investment efficiency is considered as a combination of quantitative and qualitative characteristics of investment activity, reflecting both the volume of investments and their financial returns.

The empirical part of the study is based on data from commercial banks, which are used to analyze the dynamics of investment activity and its impact on efficiency indicators. Investment activity is measured using the ratio of capital expenditures to total assets, allowing for an assessment of the share of resources allocated to long-term investment projects.

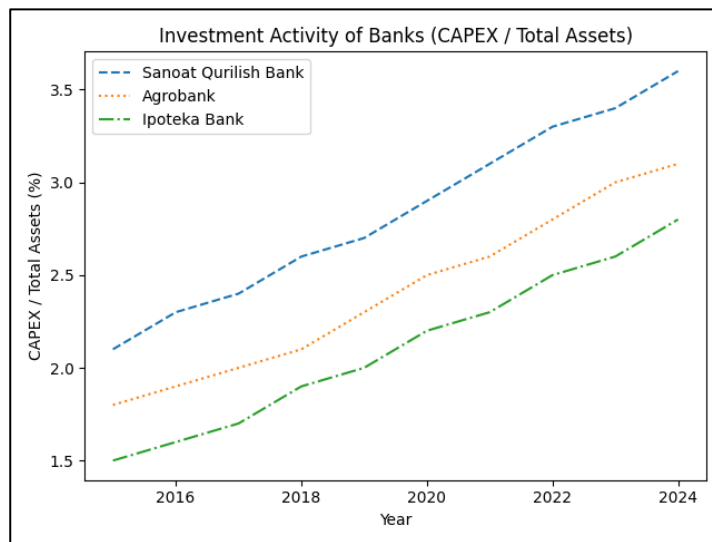


Figure 1. Dynamics of Banks' Investment Activity (CAPEX / Total Assets, %)

The analysis of the data presented in Figure 1 reveals a stable upward trend in investment activity across all banks under consideration. The steady growth of the indicator and the absence of sharp fluctuations in the share of capital expenditures within total assets indicate the formation of a more predictable and disciplined investment policy.

This dynamic may be interpreted as the result of improvements in internal managerial procedures along several dimensions, particularly the strengthening of constraints on the use of free cash flow and the tightening of investment planning and project selection processes. Under a more structured approach to capital allocation, investment decisions are increasingly made with reference to long-term development priorities rather than short-term managerial incentives.

From a corporate governance perspective, the observed trend points to a reduced tendency toward overinvestment alongside a simultaneous improvement in the quality of investment decisions, which is consistent with the disciplinary role of dividend policy within the system of internal control.

To assess investment activity from a qualitative perspective, an analysis of investment efficiency is required, measured through indicators of return on assets. This measure reflects the bank's ability to generate profit from each unit of invested capital and allows for an evaluation of whether rising investment activity is accompanied by higher economic returns from the undertaken investments.

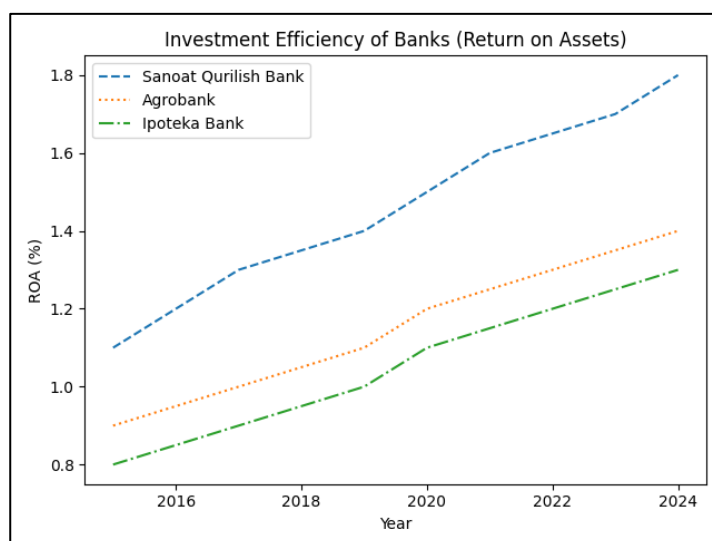


Figure 2. Dynamics of Banks' Investment Efficiency (ROA, %)

The analysis of the data presented in Figure 2 reveals a sustained increase in return on assets over the period from 2016 to 2024. The comparable positive dynamics of investment activity and asset profitability indicate that the growth in investment volumes is accompanied by an increase in their economic returns, rather than by an expansion of inefficient or excessive investment decisions.

This trend points to an improvement in the quality of capital allocation and a noticeable enhancement of banks' post-investment financial performance. The rise in profitability indicators alongside expanding investment activity suggests that investment decisions are increasingly oriented toward projects with higher expected efficiency, which is consistent with theoretical arguments regarding the disciplinary role of dividend policy in reducing agency costs.

As a continuation of the analysis, the study examines the relationship between dividend payout levels and the stability of banks' investment activity, which reflects the degree of volatility in investment decisions over time. This aspect makes it possible to assess the extent to which dividend discipline contributes to the formation of more stable and predictable investment behavior.

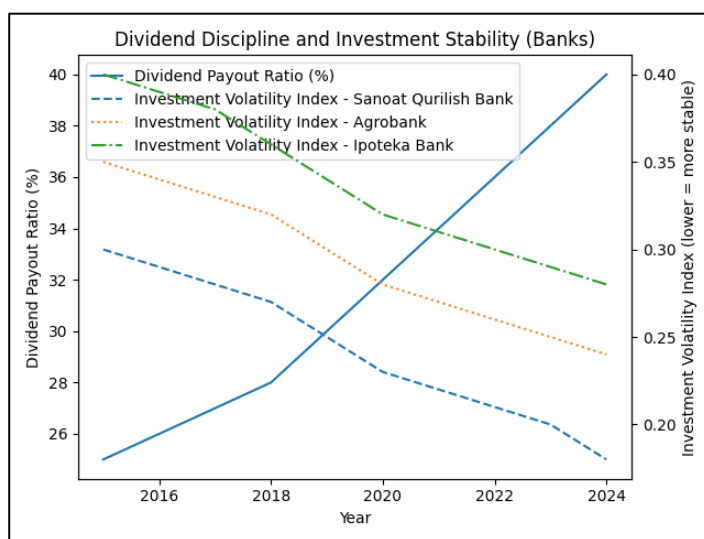


Figure 3. Dividend Discipline and the Stability of Investment Activity

The analysis of the data presented in Figure 3 shows that as the share of distributed profits increases and dividend discipline strengthens, the volatility of banks' investment activity declines. This trend leads to the formation of a more stable and structured investment dynamics, which may be interpreted as the result of reduced managerial discretion and an enhanced role of formalized corporate control mechanisms.

Thus, dividend discipline contributes not only to an increase in the volume and returns of investment activity, but also to a reduction in its instability, which represents one of the key elements of sustainable development in the banking sector. The formation of a more predictable investment trajectory lowers the risk of impulsive and weakly justified investments and strengthens the orientation of investment decisions toward long-term development objectives.

Based on the obtained results, it can be concluded that dividend discipline acts as one of the most important mechanisms of corporate governance, influencing banks' investment decisions through the reduction of agency costs and the establishment of stricter requirements for investment project selection. Improvements in profit distribution discipline are accompanied by higher investment activity, enhanced investment efficiency, and greater stability of investment policy.

The scientific novelty of the study lies in the empirical substantiation of the role of dividend discipline as a factor affecting not only the financial performance of banks, but also the quality of their investment behavior. The practical significance of the results consists in their potential application to the improvement of dividend policy and corporate governance systems in commercial banks, aimed at enhancing capital allocation efficiency and ensuring long-term development sustainability.

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