



**DETERMINANTS OF DIVIDEND PAYOUT IN SELECTED
PRIVATE COMMERCIAL BANKS IN ETHIOPIA**

MSC THESIS

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**DETERMINANTS OF DIVIDEND PAYOUT IN SELECTED
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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING
AND FINANCE SCHOOL OF GRADUATE STUDIES COLLEGE OF
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SCHOOL OF GRADUATE STUDIES

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ADVISORS' APPROVAL SHEET

This is to certify that the thesis entitled “determinants of dividend payout in selected private commercial banks in Ethiopia” submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance the Graduate Program of the College of Business and Economic, Department of Accounting and Finance and has been carried out by Yohannes Hailu under our supervision of Principal Advisor Dr. Assegid Getachew and co-advisor Dilayehu D (MSC), therefore we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the Department of Accounting and Finance.

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DECLARATION

I, YOHANNES HAILU, hereby declare that the thesis work entitled “determinants of dividend payout in selected private commercial banks in Ethiopia” submitted by me for the award of the degree of Master of Accounting and Finance of Hawassa University at Hawassa Ethiopia, This study is my own work that has not been submitted for any degree or diploma program in this or any other institutions.

Yohannes Hailu

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List of Acronyms:

CLRM – Classical linear regression model

DPR – Dividend payout ratio

GRO – Growth

PYD – previous year's dividend

LEV – Leverage

LIQ – Liquidity

M&M – Miller and Modigliani N

BE –National Bank of Ethiopia

PROF – Profitability

REM – Random Effect Model

ROA – Return on asset

SIZE – Size of the bank

VIF- Variance Inflation Factor

ABSTRACT

Examining the internal determinants of dividend payout in selected private commercial banks in Ethiopia is an important topic of study for several reasons. Firstly, dividend payout is an essential component of corporate governance and provides valuable insights into a bank's financial health and management's efficiency. Understanding the factors that influence dividend payout decisions can help investors and stakeholders assess the bank's profitability, stability, and future prospects. Secondly, Ethiopia's banking sector is undergoing significant changes and reforms, such as the liberalization of the industry and the emergence of private commercial banks. Thus, analyzing the determinants of dividend payout in these banks can shed light on the specific challenges and opportunities faced by private banks in Ethiopia's unique economic context. Lastly, this study can contribute to the existing literature on dividend policy, expand the knowledge base on Ethiopian banking, and inform policymakers and regulators in developing effective regulations and policies for the banking sector. This study examines the determinants of dividend payout in selected private commercial banks in Ethiopia from 2012-2022. Using a quantitative research approach with correlational design, the study investigates the effects of profitability, liquidity, size, leverage, growth of gross earnings, and previous year's dividend payout on dividend distributions. Depend on findings the study has given suitable suggestions to determinants of dividend payout in selected private banks in Ethiopia.

Keywords: dividend payout, profitability, liquidity, size, leverage, growth of gross earnings, previous year's dividend payout, private banks, Ethiopia

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Profits made by corporation can either be re-invested or be distributed as dividend to stockholders. Every investor expects return on investment which is in the form of capital gains and/or dividend. Dividend is a share of the after-tax profit of a company, distributed to its shareholders according to the number and class of shares held by them. A dividend is the money that a company pays out to its shareholders from the profits it has made, either in the form of cash or by issuing of additional shares as in script dividend. Dividend can also be said to be distributable earnings of a company. The earnings, which are not distributed, constitute retained earnings. It is the board of directors of a company that decide whether or not to declare dividend. The decision on dividend payout and retained earnings constitute the dividend policy. Dividend payout is one of the most debatable issues in modern corporate finance and still a puzzle (Dakito 2015). How much of the profit should be distributed to shareholders and how much of it should be retained is the challenge what companies faces (Badu, 2013).

Dividend payout policy of companies has been studied till now yet drawing conclusive results among different studies regarding factors affecting dividend payout policy has proven to be very difficult. Individuals and corporations invest on companies expecting dividends as a return for investment. Successful companies earn income. This income can be invested in operating assets, used to acquire securities, used to retire debt, or distributed to shareholders. The income distributed to shareholders is the dividend (Amidu & Abor, 2006). The decision of the firm concerning how much earnings should be distributed, how stable should the distribution be, and how much should be retained is the concern of dividend policy decision (Kinfu, 2011). Researchers have providing considerable attention and thought towards solving the dividend puzzle resulting in number of conflicting hypothesis theories and explanations (Alkuwari 2009). Dividend payout policy, according to (Lease et al 2000), refers to the practice that management follows in making dividend payout decision or, in other words, the size and pattern of cash distributions over time to shareholders (Sunday 2015).

Making a decision concerning the portion of the profit to be distributed to the providers of funds (equity shareholders) as dividend and the portion to be retained for future re-investment is a significant managerial decision. As (Ahmed 2013) dividend payout policy refers to decision of management about the portion of income that is given to shareholders in the form of dividend and, this is an arguable issue for financial managers for more than 50 years. Researchers commenced debate after (Miller & Modigliani 1961) argument that dividend policy is irrelevant to firms 'value. It is rather affected by investment policies of the firm under perfect market assumption. (Gordon 1963) negated the argument of Miller & Modigliani by presenting his Bird in hand theory.

Increase in dividends can influence shareholder wealth positively because of imperfect information and uncertainty in the market (Gordon 1963). Later on, many other theories contributed in literature i.e. signaling theory of (Bhattacharya 1979) which explains under asymmetry of information dividends can convey information about the future prospects of a firm. (Easterbrook 1984) presented Agency Cost Theory that suggests higher dividends can be used as a tool to mitigate the agency problems of firms. It decreases the available free cash from the hands of managers. _Free Cash Flow Hypothesis 'by (Jensen & Micheal 986) argues that dividends are paid after investment decisions. Whereas _Tax Preference Theory 'of (Miller & Scholes, 1978) says tax factor divide investors into different clientele. (Baker & Wurgler2004) proposed Catering Theory of Dividend 'which posits that managers tend to give incentives to the investors according to their expectations to cater them (Ahmed 2013).

The process that how much and in which way profit is distributed among shareholders is dividend payout policy. Like other firm's banks faced with dilemma of distributing income to shareholders or investing back their earnings in operating assets, securities, or used to retire bond so as to foster further growth of the business. The decision of the firm concerning how much earnings should be distributed, how stable should the distribution be, and how much should be retained is the concern of dividend payout decision. Dividend payout policies can also different from country to country due to different tax policies, rules and regulations of countries and institutions. Solving the dividend puzzle is impossible while ignoring the patterns of normal investor behavior. Today, corporate managers are left with a vast and often conflicting body of research about dividends (Statman 1997).

One way of understanding how and why firms pay dividend is to examine the factors determine dividend payout decisions. Past researches have provided important insights into the different factors affecting dividend payout. For example, (Lintner 1956) indicate that the dividend payment pattern of a firm is influenced by the current year's profit and previous year's dividend payment; managers prefer stable dividend payout policy. Other researchers including (Rozeff 1982), (Lloyd, *et al.* 1985), (Amidu and Abor 2006) show a significant negative relationship historical sales growth and dividend payout ratio.

The economic strength of a nation depends on the health of its banking sector. Research in this area is important for banks and also for the economy of the country. The study of this paper concerns determinants of dividend payout in Ethiopian private commercial banks. Empirical evidences indicate that the dividend payout policy for banks is quite important in that it signals the quality of a bank in an environment that is best characterized by significant information asymmetry (Bessler & Nohel 1996), (Bessler & Nohel 2000), (Slovin et al. 1999). Thus, banks reveal a pronounced different behavior than industrial firms with respect to dividend payout as well as with respect to valuation effects following a dividend announcement. objective of this study is to investigate bank specific determinants of dividend payout in private banks in Ethiopia and to analyze the relationship between variables profitability, liquidity, leverage, growth, size and last year's dividend and dividend payout.on Ethiopian private commercial banks.

1.2. Statement of the problem

Different studies have been conducted on the dividend payout policy of companies for several years, different theories have been formulated and tested empirically, yet generalization becomes difficult on the factors believed to have significant impact on dividend payout policies (Mehta, Hashmi, & Irshad, 2014). Dividend payout has been analyzed for many decades, but no universally accepted explanation for companies observed dividend behavior has been established. Brealey & Myers (2005), described dividend payout policy as one of the top ten most difficult unsolved problems in financial economics. It has attracted the attention of researchers in corporate finance due to the sensitive nature of the subject, because of the importance of the share holder's expectation and the need to meet these expectations so as to reducing the conflicts between the firm's stakeholders.

Dividend payout policy also still remain a puzzle because it was observed that there are significant differences between the dividend payout policy of different countries, this is based on the fact that countries were faced with different tax systems, rules, regulations, capital market and different regulatory institutions (Felix 2015). Dividend policy is one of the most controversial issues in modern corporate finance (Maladjian & El Khoury, 2014). Explaining why companies pay dividend and some do not pay dividends is still problematic to explain and therefore, dividend policy remains controversial (Ross, Westerfield,& Jaffe, 2002; Brealey & Myers, 2003; Badu, 2013).

The debate around the importance of dividend payment by corporations as a value adding activity is still unresolved Because of some advantage and disadvantage attached to it. Many reasons exist why companies should pay or not pay dividends. Yet figuring out why companies pay dividends and investors pay attention to dividend that is the “dividend puzzle” is still problematic (Ross, Westerfield, & Jaffe, 2002). Dividend policy is defined as the payout policy that managers follows in deciding the size and pattern of cash distribution to shareholders (Sheikh Taher , 2012).Different theories have developed to describe dividend payout policy and its factors such as theory of agency, dividend irrelevance theory, pecking order theory, signaling theory, bird-in-the-hand theory and tax preference theory. As per the model of Miller & Modigliani (1961) dividend policy is irrelevant under perfect capital market because it has no effect on either the price of firm's stock or its cost of capital. The presence of market imperfections, such as taxes, asymmetric information, agency costs, and transaction costs means that we cannot dismiss the proposition that dividend policy is relevant to the firms value (Al-Shubiri, 2011).

A lot of research in various countries has also been conducted in order to describe the relationship between a number of factors and the company's dividend payouts to shareholders. Though many studies have been conducted, the results indicate that there are some differences between countries regarding which factors that have an impact on dividend payouts. Most of the studies on dividend payout were conducted in the developed economies. Limited studies exist in the in Ethiopian financial sector especially in Ethiopian private banks thereby creating knowledge gap in Ethiopian case. According to findings of different researchers, the relationship between determinant factors and dividend payouts has been somewhat different, but it is not well known about the determinants of the Ethiopian private banks 'dividend payouts.

As the researchers researcher (Dagnew 2009); (Thewodros 2011), Simegn (2013), Chekol Demile (2016), Tadele Tesfaye (2017) and Azmeraw Melkamu(2022), conducted a research on the determinants of dividend payout in Ethiopian commercial banks. Comparing to other countries these researches are not enough (sample of banks) and not adequate to fill the current knowledge gaps due to economic and policy changes in Ethiopian context. This research uses more recent data, relatively large number of observation and different model from the previous researchers. The selecting factors are profitability, liquidity, leverage, growth, bank size and previous year dividend. In order to investigating determinants of dividend payout in selecting private commercial banks of Ethiopia and to identify the relationship between the selecting factors and the dividend payout, the researcher formulated the following research questions.

1.3 Research hypothesis

For the fulfillment of objectives of the study a set of hypotheses would be formulated by the researcher as follows:

H01: There is no significant relationship between profitability and dividend payout

H02: There is no significant relationship between liquidity and dividend payout

H03: There is no significant relationship between leverage and dividend payout

H04: There is no significant relationship between growth and dividend payout

Ho5: There is no significant relationship between size and dividend payout

H06: There is no significant relationship between previous year 's dividend and dividend payout

1.4 Objective of the Study

1.4.1 General Objective

The main objective of this study is to investigate bank specific determinants of dividend payout in private banks in Ethiopia and to analyze the relationship between variables and dividend payout.

1.4.2 Specific Objectives

- To find the impact of profitability on dividend payout in selected Private Commercial Banks in Ethiopia
- To analyze the influence of liquidity on dividend payout in selected Private Commercial Banks in Ethiopia.
- To examine the impact of leverage on dividend payout in selected Private Commercial Banks in Ethiopia
- To analyze the influence of bank size on dividend payout in selected Private Commercial Banks in Ethiopia
- To analyze the impact of growth on dividend payout in selected Private Commercial Banks in Ethiopia
- To examine the influence of previous years dividend on dividend payout in selected Private Commercial Banks in Ethiopia.

1.5. Significance of the study

- This study is designed to investigate the internal determinants of dividend payout and to analyze relationship of factors and dividend payout in private banks in Ethiopia; it is important to both internal and external stakeholders of the banks.
- The study helps for the management of Ethiopian commercial banks in their dividend decision through identifying significant determinant factors of dividend payout from worldwide experience.
- The study also has a great importance for external stakeholders such as investors in their investment decision on the banks, the community for which the financial service is provided, and the government which regulate the sector for the sake of the safety of the public resource and sustainable economic development. In addition, other interested researchers on this area may use as a source for detailed and further studies.

1.6. Scope and limitation of the study

1.6.1 Scope of the study

Due to the availability of the requiring data the study limited on 11 private commercial Banks which are selected out of the more than 26 private banks operating in Ethiopia. These 11 private banks would be taken as a representative of all private banks for the study depends on availability of data. The time frame of the research is limited to period of Ten years from 2012 to 2022 fiscal year. Though macroeconomic factors have impact on dividend payout, the research is also limited to bank specific factors. The study did not explore macro-economic factors determining dividend payout. To determine the relationship between dividend payout ratio and determinant factors the researcher chooses six variables which might affect the banks dividend payout. Dividend in this study refers to cash dividend since it is the most common type of dividend. When investors speak about dividend they usually refer to cash dividend. All other kinds of dividends and other forms of distribution of profit to shareholders do not considered under the study.

1.6.2 Limitations of the Research

Eleven bank specific determinant factors are included in the research but it is possible that other factors might have a greater impact on the dividend payout ratio than the ones including in the research. But the selected factors including the research are the most commonly uses factors in previous studies, and they should therefore be relevant for the study.

1.7. Organization of the study

The research is organized in five chapters. Chapter one is the introduction part that addresses; background of the study, statement of the problem, significant of the study, objective of the study scope and limitation of the study. Chapter two presents theoretical and empirical review of the literature related to the issue of determinants of dividend payout. Chapter three provides research design and methodology employed for the research. Chapter four contained data presentation, analysis and interpretation. The last chapter concludes the total work of the research and gives relevant recommendations based on the findings. At the end reference of related literature referred while writing the paper and appendixes are presented.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the meaning of dividend payout, different theories on dividend payout, dividend policies as well as detailed review of empirical studies on determinants of dividend payout. It provides the reader relevant theories and previous studies related determinants of dividend, then discusses about the company selected factors included in the research.

2.1.1 Dividend Payout

Dividend represents the distribution of the company's after-tax earnings to shareholders with the residual being retained earnings. (Pandy 1979) defines dividend as that portion of a company's net earnings which the directors recommend to be distributed to shareholders in proportion to their shareholdings in the company. It is usually expressed as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. When a company makes a profit, there are mainly two alternatives in which the company can make use of the profit. The first alternative is to retain the earnings within the company in order to improve or develop something internally. The second alternative is to pay out the profit to the shareholders, if the company chooses the latter approach there are two alternatives in which the company can distribute the profits to the shareholders. The company can either pay dividends or they can buy back their outstanding stocks (Brealey et.al 2008) as cited by (Gustav & Gairatjon, 2012).

To determine the proportion of net earnings to appropriate to shareholders as dividend is a major challenge faced by firms because of the alternative uses of such earnings. Nuredin (2012) stated that firms are faced with dilemma of sharing dividend to stockholders and retaining their earnings with a view to reinvesting it into the business so as to promote further growth. Retaining such earnings and reinvesting it for growth and expansion may seem to be a better option. However, dividend could be a means of financial performance red flag specially to investors who need to be assured that the future of the firm is bright and promises enhanced return on investment. A company's dividend payout policy is usually decided upon by a company's board but there are some exceptions to this rule which is important to mention.

In some countries such as Chile and Brazil companies are forced to pay a minimum portion of their earnings to the shareholders by law (Brealey et.al 2008). Another exception is that the lenders (bondholders) may impose covenants in the bond contract which states that a company is obligated to pay the lenders (bondholders) before increasing the dividend payments (DeFond & Jiambalvo 1994).

Apart from the exceptions discussed in the section above, a company's dividend is usually decided upon by the board of directors at the declaration date (Brealey et.al 2008). The onerous task on the side of the directors as shareholders 'fund managers is to be able to strike a balance between the proportion of net earnings to retain for investment purposes and the amount of earnings to appropriate as dividend to shareholders. The dividend policy is set to encourage retention for investment and at the same time, it canvasses for dividend pay-out. This is because, it is widely believed, against the position of (Miller & Modigliani 1961), that payment of dividend to shareholders has a signaling and multiplier effect of pushing up the share price; though reducing available cash for investment.

There are other reasons as suggested by (Gill, Biger and Tibrewala 2010) why dividend should be paid such as:

- (i) dividends provide certainty about the company's financial wellbeing,
- (ii) dividends are attractive for investors looking to secure current income, and
- (iii) dividends help maintains market price of the share. This scenario might have informed Finnerty (1986) advice that firms should establish its dividend policy with a view to maximizing shareholders wealth, set its pay-out policy to keep with its investment opportunities and internal funds need, taking cognizance of the relative preferences of its shareholders for capital gains and dividends; liquidity preferences and the relative costs to the firm and to shareholders of selling shares to meet socio-economic needs when there is no dividend; and legal or policy restrictions on substantial shareholders that may create a preference for dividend income.

2.1.2. Theories of Dividend Policy

The finance literature contains standard explanations for paying dividends: Dividend pay-out policy has an enlarged theoretical underpinning such as the bird-in-hand theory by (Gordon 1959), dividend irrelevancy theory by (Miller and Modigliani 1961), life cycle theory of dividends by (Mueller 1972), agency theory by Jensen and (Meckling 1976) and the signaling theory by (Ross 1977), tax preference and clientele effect.

(Brealey & Meyers 2003) argued that dividend increase indicates management 's optimism about earnings and thus affects the stock price. But the jump in stock price that accompanies an unexpected dividend increase would happen eventually anyway as information about future earnings comes out through other channels. A question arises whether the dividend decision changes the value of the stock, rather than simply providing a signal of stock value. One endearing feature of economics is that it can always accommodate not just two but three opposing points of view. And so, it is with the controversy about dividend policy which paved the road to emerge of different school of thoughts pertaining dividend. On the right there is a conservative group which believes that an increase in dividend payout increases firm value. On the left, there is a radical group which believes that an increase in payout reduces value. And in the center, there is a middle-of-the- road party which claims that dividend policy makes no difference on firm value.

The middle-of-the-road party was founded in 1961 by Miller and Modigliani (MM); when they published a theoretical paper showing the irrelevance of dividend policy in a world without taxes, transaction costs, or other market imperfections. By the standards of 1961 MM were leftist radicals, because at that time most people believed that even under idealized assumptions increased dividends made shareholders better off. But now MM's proof is generally accepted as correct, and the argument has shifted to whether taxes or other market imperfections alter the situation. In process, M & M have been pushed toward the center by New Leftist party which argues for low dividends. The leftists' position is based on MM's argument modified to take account of taxes and costs of issuing securities. The studies carried out by (Black & Scholes 1974), (Miller & Scholes 1982) are in line with the propositions of the MM theorem. Those opposing the propositions can be classified into two groups. For instance, one group would be those who argue that a high dividend payment increases share price which in turn increases firm value and therefore decreases the cost of equity (Graham & Dodd, 1951).

The other group gave evidence that higher dividend payout lead to higher required rate of returns which adversely impacts on share price (Thwodos 2011)

2.1.2.1 Dividend Irrelevance Theory

Franco Modigliani and Merton Miller (1961) presented one of the most influential dividend theories and even though it was generated for more than 50 years ago it is still seen as one of the most respected theories.

When the theory was presented in the article –Dividend policy, growth and the valuation of shares it provided a new benchmark and changed the view that both practitioners and academics had towards dividends (Gustav & Gairatjon 2012).

Modigliani & Miller (1961) put forward the irrelevance theorems, more commonly known as the MM theorems and argued that dividend policy has no effect on either the price of a firm's stock or its cost of capital; if dividend policy has no significant effects, then it would be irrelevant. They argued that the firm's value is determined only by its basic earning power and its business risk. In other words, MM argued that the value of the firm depends only on the income produced by its assets, not on how this income is split between dividends and retained earnings. MM's argument that dividend policy is irrelevant based on that any shareholder can in theory construct his or her own home made dividend policy.

If a firm does not pay dividends, a shareholder who wants dividend can –create it by selling of his or her stock. Conversely, if a company pays a higher dividend than an investor desires, the investor can use the unwanted dividends to buy additional shares of the company's stock. If investors could buy and sell shares and thus create their own dividend policy without incurring costs, then the firm's dividend policy would truly be irrelevant. Note, though, that investors who want additional dividends must incur brokerage costs to sell shares, and investors who do not want dividends must first pay taxes on the unwanted dividends and then incur brokerage costs to purchase shares with the after-tax dividends. Because taxes and brokerage costs certainly exist, dividend policy may well be relevant.

In many cases, the MM theorems have been argued to be irrelevant mainly because of the assumptions based on a perfect world without taxes and no market imperfections; they assumed that everyone; investors and managers alike has identical information regarding the firm 's future earnings and dividends. In reality, however, different investors have different views on both the level of future dividend payments and the uncertainty inherent in those payments, and managers have better information about future prospects than public stockholders. Hence, in the real world, these assumptions do not hold. For example, companies pay corporate taxes and there are many imperfections which provides arbitrage opportunities. Various theories have been developed with the relaxation of MM assumptions.

The theories had with main objective to explain why companies pay dividends. (Black 1976) argued that there may be infinite reasons of paying dividends and posed the question, ‘if dividends are irrelevant, why do corporations pay dividends’ and why investors’ pay attention to dividends’. According to this researcher, dividends may simply represent the return to the investor who faces a particular level of risk when investing in the company. He mentioned, also, that companies pay dividends as a means of rewarding existing shareholders but the main argument was that dividends were paid so that the company is seen as a worthwhile investment as cited by (Theodros 2011).

2.1.2.2 Bird in Hand Theory:

The opposing view towards Modigliani and Miller’s dividend irrelevance theory is that dividends affect the company’s value and this assumption is represented by the so called –bird in hand theory. The theory was first mentioned by Lintner in 1956 and it has been supported by various researchers including (Gordon 1959 &1962). The name –bird in hand is the umbrella term for all studies that argues that dividends are positively correlated to the company’s value. It is based on the expression that –a bird in the hand is worth more than two in the bush. Expressed in financial terms the theory says that investors are more willing to invest in stocks that pay current dividend rather than to invest in stocks that retain earnings and pay dividends in the future. This is due to the high degree of uncertainty related to capital gains and dividends paid in the future. Current dividends are more predictable than capital gains, since the stock price is determined by market forces and not by the managers it has a higher degree of uncertainty (Keown et.al 2007) cited by (Gustav and Gairatjon, 2012)

The bird-in-hand theory argues that cash dividend received now, reduces the risk associated with the uncertainty surrounding deferred income; in form of capital gain. Hence, investors may prefer to purchase shares of companies with track record of dividend pay-out than companies that retain heavily for growth and expansion. The dividend irrelevancy theory opines that in a perfect market with independence of investment and dividend policies, perfect capital market information, no taxes, no agency, contracting, transaction or flotation costs, and complete market, dividend pay-outs may not influence firm value. In this scenario, investors create dividend by disposing their shares and usually at a minimal or no costs; thereby making dividend pay-out policy very irrelevant and unattractive (Inyiama Okwo &Oliver 2015).

The underlying assumptions of Gordon's model is based on the idea of what is available today compared to what may be available in the future (Khan & Jain 2008,). It is based on the logic that the more distant the future is, the higher the uncertainty regarding capital gains and future dividends. Even though the capital gains in the future may provide a higher return than the current dividends, there is no guarantee that the investor will accumulate a higher return due to the high degree of uncertainty (Gordon 1962). Since the length of the time and the level of risk are correlated, investors are unwilling to invest in companies where the time until the dividend payments are far away. An investor would therefore be willing to pay a higher price for firms that pay current dividends. For companies who do not pay current dividends, the investor would use a higher discount rate in order to discount the earnings and the value of these companies should therefore be lower than the companies who pay current dividends (Khan & Jain 2008) companies who pay current dividends have a lower level of retained earnings which contributes to lower discount rate which in turn contributes to a higher value of the firm.

Lintner's (1956) main arguments towards the bird in hand theory is based on that most companies are conservative in their financing policy and the dividend payments are therefore based on an optimal payout ratio. The principal factor that contributes to deviations from the optimal payout ratio is due changes in the company's profit, and if the profit increases the dividend payout should increase in the same proportions (Myers & Bacon 2004). But uncertainty regarding future profits also has an impact on the company's dividends. If the estimated risk in the future is higher than the current risk, the company may decrease the dividend payout ratio in order to hedge to decreasing future profits (Friend & Puckett 1964).

The bird in hand theory has been subject to a large amount of criticism and opponents to the theory states that it excludes important factors. Keown et.al (2007) argues against the theory and says that increases in current dividends do not decrease the riskiness of the company; it does in fact work in the opposite direction. Because if an increase in dividend payments are made the managers have to issue new stocks in order to raise the needed capital. Therefore a dividend payment just transfers the risk from the old to the new shareholders. But even though the theory contains some limitation (Keown et.al 2007) argues that there are still many individual investors and financial institutions who consider that dividends are important and it is therefore of importance to include the theory even though it has some limitations (Gustav & Gairatjon, 2012).

The principal conclusion of MM's dividend irrelevance theory is that dividend policy does not affect the required rate of return on equity. This conclusion has been hotly debated in academic circles. In particular, Gordon and Lintner explained why a firm should pay dividends to its shareholders. (Gordon 1963) states that shareholders prefer cash dividends, a \$1 dividend in a shareholder's pocket is somehow worth more than that same \$1 in a bank account held by the corporation. Moreover when making dividend payouts, the firm gets a higher rating from rating agencies as compared to a firm not making any dividend payout. With a better rating, the firm will be able to raise finance more easily from capital markets since credit institutions will be willing to give loans to the firm since the payout of dividends shows that the firm has the ability to meet its obligations. Moreover, in some cases, the firm will be able to borrow at preferential rates and enjoy better facilities. (Gordon 1963) further argues that firms making dividend payouts tend to have an increase in the value of the firm.

On the other hand, (Bhattacharya 2002) explains that there is a certain level of risk which is associated with dividends. This risk is based on the micro and macro environment of the firm; that is the business line the firm operates, the location of the business, labor power, human capital, competitive forces, etc. MM disagreed on the theory and argued that return on equity is independent of dividend policy, which implies that investors are indifferent between dividend yield and capital gain. MM called the Gordon-Lintner argument the bird-in-the-hand fallacy because, in MM's view, most investors plan to reinvest their dividends in the stock of the same or similar firms, and, in any event, the riskiness of the firm's cash flows to investors in the long run is determined by the riskiness of operating cash flows, not by dividend payout policy. As stated in the above, the bird in hand theory is the opposing view towards Modigliani and Miller's dividend irrelevance theory and it says among other things that companies with higher profits pay higher dividends to its shareholders.(Gustav & Gairatjon 2012).

2.1.2.3. Tax Preference Theory

Taxation is one the critical factors that affect firm value and future expected profits. For example, discounted expected after-tax cash flows can be used as a determinant for the market value of a firm. In this respect, differential tax treatment of capital gains relative to the dividends can influence the after-tax returns of investors and in turn affect the willingness of investors to receive dividends (demand for dividends).

(Brennan 1970) was the one of the first who investigated the relationship between dividend yields and risk adjusted returns in the context of taxation. He proved that using the Capital Asset Pricing Model (CAPM), the pre tax excess return on a security is positively and linearly related with the dividend returns and systematic risk of the security. In other words, the tax disadvantages of dividends faced by investors in general is compensated by higher pre-tax returns. These findings were further supported by (Litzenberger & Ramaswamy 1979).

2.1.2.4 Agency Theory

The agency theory is one of the most respected dividend theories and it has been extensively debated among various scholars. One of the most influential studies regarding agency costs was presented by (Jensen & Meckling 1976). The study provided a new view of the agency problem and most studies concerning agency costs use Jensen and Meckling's (1976) research as a benchmark. They define the agency cost as a cost that arises between the principals (stockholders) and the agents (management). Principals hire and delegate the agents with a certain power to maximize the wealth of the principals. They further state that only stocks and bonds can be used as claims towards the company. Hence, only shareholders and creditors can be seen as principals. Jensen and Meckling presented a prominent research regarding agency costs and they provided a clear definition of what the agency cost is. But they did not provide a thorough corroboration regarding the effect of agency cost on dividend policies and many scholars have been trying to develop the theory.

2.1.2.5 Signaling Theory

The signaling theory of dividends has its origins in (Lintner's 1956) studies who revealed that the price of a company's stocks usually changes when the dividend payments changes. Even though (Modigliani and Miller 1961) argued in favor of the dividend irrelevance they also stated that in the real world disregarding the perfect capital markets, dividend provides an information content which may affect the market price of the stock. Many researchers have thereafter been developing the signaling theory and today it is seen as one of the most influential dividend theories. The signaling theory by (Ross 1977), who created a theoretical model, had its root from the information asymmetry existing between managers as fund users and shareholders as fund providers. The theory assumes that managers have access to more information relating to the value of the firm's assets than other outside agents and investors.

Therefore, managers seek to use dividend pay-out policies to signal to the shareholders about the financial performance of their firms. In addition, the firms could also reveal the strategies adopted in pursuing their vision and attaining their mission (Inyama Okwo & Oliver 2015).

2.1.2.6 Clientele effect Theory

The theory states that different shareholders of a firm prefer different dividend payout policies. Taxes and transaction cost influence a shareholder's preference for either capital gains or dividends. Different shareholders have different income levels. Retired individuals or those with no regular source of income or low-income earners prefer firms that pay a high dividend payout. Such investors are usually in zero or low tax bracket hence taxes are of no concern to them. They also view such regular dividend payout as a source of regular income to take care of their immediate consumption/needs (Petit 1977).

2.1.3 Dividend Policies

A dividend policy is an action plan adopted by a firm's directors whenever dividend payout decisions are to be made. It determines the division of earnings between shareholders (dividend payment) and the company (reinvestment). Dividend payout policies in practice are designed to suit each firm's requirements necessary to achieve firm specific goals. The main approaches include: residual, stable predictable, constant payout or low regular plus extra policy. Dividend payout policies assist a firm to vary dividend payment from period to period and from year to year depending on the cash flows and the financing requirements (Pandey 2005).

Dividend policy, in practice, primarily concerned with the decisions regarding dividend payout and pattern of payment and retention. It is a decision that considers the amount of profits to be retained by the company and that to be distributed to the shareholders of the company (Watson & Head 2004). Investors may or may not prefer dividends to capital gains, but that they do prefer predictable to unpredictable dividends. Given this situation, determining firm's specific percentage of earnings that it will pay out as dividends remains as important task of managers. (Brigham & Houston 2004) argued when deciding how much cash to distribute to stockholders, two points should be kept in mind: The overriding objective is to maximize shareholder value, and the firm's cash flows really belong to its shareholders, so management should refrain from retaining income unless they can reinvest it to produce returns higher than shareholders could themselves earn by investing the cash in investments of equal risk. Theoretically, there are different types of dividend policies establishing target payout ratio.

These include constant payout, progressive policy, residual policy, and zero policy and non-cash dividend policy. Investors are seen to belong to a particular group or clientele. This is because they tend to pitch their tent with a particular policy that might suite them. This is the clientele effect of dividend policy (Hutchinson 1995, Kolb; Rodriguez 1996).

A. Residual Policy

Under this policy, the dividend payment is set equal to the actual earnings available less the amount of retained earnings necessary to finance the firm's optimal capital budget. (Myers 1984) argued that firms will only pay dividends from residual or leftover equity after all project capital requirements are met. This implies that companies using this policy tend to finance new projects through internally generated funds and thus the decision to pay dividends is only made if there is enough money left over after all operating and expansion expenses. According to this policy, dividends would thus fluctuate from period to period. This would create uncertainty to investors and as a result the cost of capital may increase. The policy best suits growth companies with large growth prospects (Ongeri 2014).

I. Pure residual dividend policy

When the corporation return on equity capital is greater than the rate of return the investor could obtain by reinvesting those dividends in another investment of equivalent risk, the investor would rather the corporation act on his behalf and reinvest the earnings rather than issue a dividend; the firm can determine which option is better suited to benefiting the investor by first identifying the firm's optimal capital budget, thereby noting the level of equity capital required, and then maintaining the amount of earnings required to finance the equity capital in the capital budget and allowing residual funds (earnings not utilized in internal investment) after the mandated reinvestment to be issued as a dividend (Droms 1990). Therefore, dividends are a function of earnings fluctuations, and this method allows for significant fluctuations in dividends with changes in earnings and corporate investment opportunities. In effect, all residual earnings are paid out which causes the dividend payout ratio to fluctuate. This policy also results in a dividend that varies from year to year, and when equity investment is greater than earnings, equity financing must be initiated to create a residual (Droms 1990).

II. Smoothed residual dividend policy

Based on this policy dividend fluctuations are kept to a minimum. The policy changes tend to lag behind earnings fluctuations according to Shapiro, as dividends are set equal to the long-run residual between forecasted earnings and investment requirements.

Dividend changes, in turn, are made only when this long run residual is expected to change; earnings fluctuations believed to be temporary are ignored in setting dividend payments. The clear preference is for a stable, but increasing, dividend per share (Shapiro 1990). As such, the dividend payout ratio fluctuates significantly with this payment method, and dividends have the potential to exceed the residual if earnings are unexpectedly low.

B. Constant or fixed policy

This policy entails payment of a certain constant percentage of earnings to the shareholders for each dividend period hence since earnings fluctuate from period to period, likewise, dividend per share will also fluctuate. However, a problem comes in when earnings drop or worse still when the company makes losses in which case dividends may be low or nonexistent. This would cause uncertainty to the investors. And also, as noted by (Watson & Head 2004), the policy could be traumatic to companies experiencing a volatile or fluctuating profit earning. This is because of the uncertainty of its profit. If capital projects are to viable capital projects, the policy can be chaotic.

C. Progressive policy

Payments on dividend are on a steady increase usually in line with inflation. This could result in increasing dividend in money terms. The firm uses the policy as a ratchet. Every effort is made to sustain the increase even though marginal. Seldom, the company may be constrained to cut down on dividend payout. This is to enable it sustain its operations. This though not a frequent action as it sends a wrong signal to investors. Firms operating this policy will opt to avoid paying dividends during the period rather than consistently cut down on the dividend (Kolb & Rodriguez 1996).

C. Zero dividend policy

Some firms may decide not to pay dividend. This is especially common in newly formed companies that rather require capital to execute its projects. All the profit is thus retained for expansion of the business as cited by (Theodros 2011). Investors who prefer capital gains to dividends because of taxation will naturally be lured by this kind of policy. This type of policy is quite easy to operate and avoids all the costs associated with payment of dividends (Watson and Head 2004).

There are also alternative policies in order to give shareholders a choice between dividends or new shares, the company might choose to buy back shares. This is share or stock repurchase. This has a significant advantage in terms of tax to the shareholder.

While the dividend is fully taxed just as ordinary income, the stock repurchases or buyback is not taxed until the shares are sold and the shareholder makes a profit or capital gain (Jordan, et al., 2001). There is also the policy of stock dividends and split. Shareholders are given additional shares in lieu of cash to the shareholders (Brealey & Myers 2003).

D. Stable or Predictable Policy

This policy involves payment of a specific amount of dividend per share in each dividend period or periodically increasing the dividends at a constant rate. This reduces uncertainty on future dividends since dividends become more predictable. If, however, management is convinced that the new higher level of earnings is permanent, then an increase in the number of dividends can be made (Lintner 1956). Most firms prefer reasonably stable dividends policies

I. Dividend stability: According to (Brigham & Houston 2004) the stability of dividends is important. Profits and cash flows vary over time, as do investment opportunities. Taken alone, this suggests that corporations should vary their dividends over time, increasing them when cash flows are large and the need for funds to invest is low and lowering them when cash is in short supply relative to investment opportunities. However, many stockholders rely on dividends to meet expenses, and they would be seriously inconvenienced if the dividend stream were unstable. Further, reducing dividends to make funds available for capital investment could send incorrect signals to investors, who might push down the stock price because they might interpret the dividend cut to mean that the company's future earnings prospects have been diminished. Thus, maximizing its stock price requires a firm to balance its internal needs for funds against the needs and desires of its stockholders.

II. Types of dividend

There are a number of types of dividends that can be issued, including the following:

- 1. Cash dividend:** - this is the most common form of dividend, paid solely in cash.
- 2. Stock dividend:** - this is the issuance of additional shares to investors. Despite the appearance of handing out something of value, a stock dividend merely increases the number of shares held by the same investors, and so does not constitute a transfer of value.
- 3. Property dividend:** - this is a payment in the form of a non-cash asset, such as the products that a company manufactures.
- 4. Script dividend:** - this is a promise to pay investors cash dividend at a later date, and so is essentially a promissory note.

4. Liquidating dividend: - this is a dividend issued when the board of directors intends to liquidate a business and return all remaining net assets to investors in the form of cash. Though there are a number of dividend distribution approaches to owners, the most popular type of income distribution in Ethiopia is cash (Dakito 2015).

2.2 Empirical Review

Extensive studies have been done over time to find out the factors affecting dividend payout ratio of a firm. Among various researches conducted, some researchers pay attention on productivity and firm size, several on firm expansion, leverage and agency issues, some on liquidity, cash flow, asset tangibility, earnings per share, market capitalization, corporate governance, debt ratio, net profit, taxation and some used a combination of these variables in determining the dividend payout policy (Rashid et.al. 2014). (Lintner 1956) earlier conducted a classic study on how U.S. managers make dividend decisions. According to him, the dividend payment pattern of a firm is influenced by the current year earnings and previous year dividends.

Gupta & Walker (1975) were one of the first who provided the banking-related study on dividend policy. They analyzed 980 banking firms from 1965 to 1968 and found a positive relationship between dividends and current profits, the change in profits from the prior year, the sum of profits over time, and the growth in total assets. However, they found a negative relationship between the liquidity and the bank's dividend payout. Lloyd et.al (1985) presented another research regarding the relationship between the dividend payout ratio and the company's selected factors. Lloyd's research is based on the study made by Rozeff (1982) and he wanted to test if Rozeff's results were applicable during another time period. Lloyd added size as one additional variable to the tested factors. (Lloyd et.al 1985) argued that large companies tend to have a better access to capital markets, which makes them less dependent on internally generated funds which in turn contributes to that they are able to pay higher dividends. This argument is supported by empirical data and it shows a positive relationship between a firm's dividend payments and the size of the company. Apart from size, Lloyd's research found the same results as Rozeff and dividend payments are negatively correlated to risk, insider ownership and growth (in revenue). Lloyd et.al states that risk is negatively correlated to dividend payments since riskier companies face higher uncertainty and therefore chose to retain earnings instead of paying dividends to shareholders.

Baker, Farrelly & Edelman(1986) find that the major determinants of dividend payments are anticipated level of future earnings and pattern of past dividends and (Rozeff 1982) finds a negative relationship between dividend payout ratio and the factors such as the growth rate of sales, insider ownership, and the beta of the firm. Aivazian et al. (2003) examined the dividend policy of a sample of companies from eight emerging markets, and compared them to a sample of 99 US companies.

They found that emerging firms displayed dividend behaviors similar to US firms, in the sense that dividends are explained by profitability, debt, and the market-to-book ratio. However, the sensitivity to these variables varies across countries. Gill et.al (2006) conducted a study in the United States. They argue that it is beneficial for companies to pay dividends due to a number of reasons; dividends indicate financial wellbeing, attractive for investors and dividends help to maintain the market price of the stock. The sample consisted of 266 randomly selected public companies from different industries in United States. The company selected factors in the study are: profit (EBIT/Total assets), cash flow, tax (corporate profit/net profit), and growth, market to book value and debt to equity ratio.

There was a positive relationship between dividends and profit and tax and negative relationship between dividends and growth. However, (Gill et.al 2006) argues that the impact of the profit is industry specific and varies a lot depending in which industry the company is located. No significant relationship between dividend payments and cash flow, market to book value and debt to equity ratio could be established. This is contrary to previous research which has found a rather strong relationship between cash flow and dividends.

Amidu & Abor (2006) investigated the relationship between a number of company selected factors and the dividend payout ratio in Ghana. The sample consists of companies that have been listed on Ghana stock exchange during 1998-2003 and even though the sample just consists of 20 companies, they represent 76 percent of all listed firms in Ghana during the time period. The factors included in the research are profit (EBIT/total assets), risk (variability in profit), cash flow, tax (corporate profit/net profit), institutional holding, growth (in sales) and market to book value. They found a positive correlation between the companies 'dividend payout ratios and profitability and cash flow. A positive correlation was also established between dividends and taxes. The authors state that the result came as a surprise and it contradict existing literature.

A negative correlation between dividends and growth in sales and market to book value was revealed. There also existed a negative but insignificant relationship between the dividend payout ratio and risk and institutional holdings.

Hedensted & Raaballe (2006) conducted a study in Denmark regarding the determinants of dividends. The sample consists of 365 companies that were listed on Copenhagen stock exchange during 1988-2004. The variables used in the research in order to reveal the relationship with dividends are: earnings, return on equity, market to book value, leverage (debt/equity) and size. The authors found a positive relationship between the dividend yield and retained earnings, return on equity and size. There existed no significant relationship between dividend yield and market to book value and the firms leverage or debt/equity.

As a conclusion, the authors state that the results of the study support both the agency and the signaling theories of dividends. Al-Malkawi (2007) examined the determinants of corporate dividend policy in Jordan using a firm-level panel data set of all publicly traded firms on the Amman Stock Exchange between 1989 and 2000. Using Tobit specifications, the results suggested that the firm's age, size, and profitability positively and significantly affected its dividend policy, while leverage negatively affected the dividend payout. Al-Twajjry (2007) conducted a research on the dividend policy of 300 firms listed on the Kuala Lumpur stock exchange. The results showed that there were no significant associations between the dividend payout ratios and the past, present or future net earnings. However, there was a significant negative correlation between the company's financial leverage and its dividend policy.

Parua & Gupta (2009) undertook a research on the determinants and trends of dividends in 607 listed Indian companies from 1993 to 2005. They found that past, current and expected future profits had significant positive role in determining the dividend payout ratio. Evidence showed that the cash balance and cash flow had significant negative relationship with the dividend rate. Factors like Interest expense, capital expenditure, tax ratio and share price had almost no role on the dividend payment. Daunfeldt et.al (2009) conducted a study deals with the determinants of dividends and investigates the relationship between a number of company selected factors and the dividend yield in Swedish. The study was presented in 2009 it is based on data collected during 1991-1995 from Stockholm stock exchange he conclude that there is fairly strong positive relationship was established between dividends and size (logarithm of employees) and the authors' state that this is due to the higher agency costs connected to larger companies.

A positive but insignificant relationship was established between dividends and cash flows and earnings. The authors explain the results by stating that profitable companies should pay higher dividends and the same applies for firms with higher liquidity (cash flow). However, a negative relationship was established between the market to book value and the dividend yield. He stated that the negative relationship can be explained by the fact that firms with growth opportunities pay low dividends in order to exploit their growth opportunities. But the authors further argue that this is against the signaling theory since companies with higher growth opportunities should pay higher dividends in order to inform shareholders about the growth prospects.

Lee (2009), investigated the determinants of dividend policy in Korean banking industry using a panel data of Korean banks during 1994–2005. The study found a positive relationship between the bank's profitability, bank's size, and the dividend payout. They concluded that because banks were subject to monitoring and surveillance from their regulator on their operations, the dividend policy would be more closely associated with their riskiness.

Gupta & Banga (2010) explored the components of variables, dividend rate, current ratio, net profit ratio, debt equity ratio, return on investment, cash from operations, annual sales growth, corporate sale tax/profit after tax, PBIT/total assets, EPS growth, ratio of retained earnings to equity, return on net worth, promoters shareholding, institutional shareholding and foreign institutional investors' shareholdings as the independent variables. Results showed that leverage has a negative impact on dividend payout while the remaining four factors have the positive relationship with the dividend payout.

Moscu (2010) carried out a study to determine the dividend policies for 209 companies listed on London Stock Exchange and Paris Stock Exchange in 2010 and to explain their dividend payment behavior. He estimated some models to examine the impact of firm profitability, return on assets, firm size, previous year's dividend, free cash-flow, and total shareholder return, corporate tax, dividend yield and ownership structure on dividend payout ratios. The results show that UK companies pay high dividends if ownership is a more dispersed one and cash from basic activity (free cash flow) is enough to be allocated to equity holders. In France, the determinants of dividend policy were found to be earnings per share, dividend from the previous year and indebtedness.

Okpara (2010) analyzed the determinants of the dividend Payout policy of firms from Nigerian Securities and Exchange Commission. They found that profitability negatively affected the payout ratio whereas liquidity and previous year's dividend exerted a positive impact on the payout ratio. Therefore, they concluded that these three factors (profit, liquidity and previous year's dividends) were good predictors of the dividend payout policy in Nigeria.

Theodros (2011) undertook an empirical study on the determinants of dividend payout of four private banks in Ethiopia during 2006 to 2010. By using Lintner's model, the study concluded that there was a positive relationship between the firm size and the dividend payout ratio, a negative relationship between liquidity and the dividend payout. However, there was no relationship between dividend payout ratio and profitability, growth and leverage. He concluded that banks in Ethiopia considered agency conflicts, previous year's dividend and liquidity when making decisions to pay dividends. Asif, Rasool & Kamal (2011) conducted a research to examine the effect of financial leverage on dividend policy. Statistics is composed from 403 companies registered on KSE, through Analysis reports, yearly news of scheduled companies, SBP website, Business Recorder website and joint stock companies. Results showed that dividend payout is negatively affected by financial leverage while alteration in income has no momentous contact with dividend strategy of Pakistani businesses. It was also concluded that debt ratios and dividend yield are highly significant determinants of dividend payout.

Huda & Farah (2011) in a Bangladesh banking industry study finds the factors influencing bank dividend decision to include Revenue, earnings per share, cash and cash equivalent factors and retained earnings.(Marf &Agyei 2011) find the determinants of dividend policy of banks in Ghana to include profitability, leverage, and changes in dividend, collateral capacity, growth and age (Rufus &Soyoye 2014) .

Al Ajmi & Hussain (2011) conducted study the dividend decisions of a sample of 54 Saudi Arabian listed firms during 1990–2006. They found that Saudi firms had more flexible dividend policies since they were willing to cut or skip dividends when profit declines and pay no dividends when losses were reported. Lagged dividend payments, profitability and cash flows were found to be determinants of dividend payments.

Marfo & Agyei (2011) carried out the same study on fourteen banks in Ghana covering a five year period (1999–2003). The results showed that profitability, leverage, changes in dividends and collateral capacity had a positive significant impact on the dividend policies of banks in Ghana. On the other hand, they found that growth and firm maturity had a negative significant influence on the dividend payout. However, the cash flow had a negative, but insignificant relationship with the dividend policy cited by (Christopher & Rim 2014).

Adopting a mixed research approach Nuredin (2012) undertook a study seeking to find the determinants of dividend policy such as profitability, growth, liquidity, size and leverage of insurance companies in Ethiopia, using panel data and an in-depth interview. The results show that profitability and liquidity positively and significantly influence dividend policy of insurance companies in Ethiopia, whereas growth influences dividend policy negatively and significantly. Size and leverage were found to be insignificant in influencing the dividend policy of insurance companies in Ethiopia.

ALAM & Hossain (2012) conducted research to analyze the dividend payout determinants. In the study the reliant variable is the dividend rate and autonomous variables are liquidity, leverage, productivity, market capitalization and growth. Results have shown that in UK based companies, dividend rate is positively influenced by leverage; profitability; market capitalization and negatively by liquidity and growth. In case of Bangladeshi companies, liquidity; leverage; productivity and market capitalization manipulate the dividend price pessimistically whereas expansion has a positive effect on dividend policy.

Sinaei & Habibi (2012) conducted a study on determinants of the dividend payout ratio on firms listed in The Tehran's Stock Exchange (TSE) from 1999 to 2008. The results showed that there was a significant and negative relationship between the dividend payout ratio and market-to-book ratio and capital expenditure. On the other hand, there was a positive relationship with the compensation and debt to equity ratio (financial leverage).

Abu (2012) constructed an empirical model for selected commercial banks in Bangladesh which led to recommendations that further developed the dividend payout policy for banks and other industry listed in Dhaka and Chittagong Stock Exchange (DSE & CSE). The results reveal that current earnings and liquidity has potential roles for firms to determine payout policy.

In an attempt to contribute to solving the dividend puzzle. Bank profitability, growth, and size were measured by (Zaman 2013), using multiple regression and correlation, as potential determinants of dividend policy in Dhaka Stock Exchange of Bangladesh. The study reveals that while profitability appears to be a better determinant of bank dividend policy than a bank's growth and size, it may not be concluded that profitability alone is a strong indicator of bank dividend policy over time in the capital market of Bangladesh.

An investigation of the factors that determine the dividend payout policy in the Lebanese banks listed on the Beirut Stock Exchange, which included profitability, liquidity, leverage, firm size, growth, firm risk and previous year's dividend payout, was carried out by Maladjian& Khoury (2014). Using OLS and the dynamic panel regressions, it was found that the dividend payout policies are positively affected by the firm size, risk and previous year's dividends, but are negatively affected by the opportunity growth and profitability. This implies that firms pay dividends with the intention of reducing the agency conflicts and those Lebanese listed firms prefer to invest their earnings to grow rather than to pay more dividends.

The study conducted in Ethiopia on the determinants of dividend payment ratio for five commercial banks from the period 2002 up to 2011. The finding of Hailemariam (2013), indicate that except for liquidity other variable which used as determinant variable such as current earning, previous year dividend, age and loan loss provision have positive and significant relationship with dividend payout ratio.

(Thewodros, 2011) Had taken the financial data from the period 2006-2010, and used independent variables profitability, liquidity, leverage, firm size, growth and lagged dividend. (Simegnaw, 2013) Had taken the financial data from the period 2002-2011 and used independent variables profitability, liquidity, leverage, age and lagged dividend which affects the dividend policy. Finally (Elias, 2015) used recent financial data from 2010-2014, and taking better independent variables from previous studies such as profitability, liquidity, leverage, growth, size and leverage.

The other study conducted on the determinants of dividend payment police in Ethiopia is the study of Mitiku (2015), from 2009-2013 his finding shows that lagged dividend payout, growth, size and risk has positive significant relationship with dividend payout ratio in contrast to this the regression result show rate of inflation and liquidity ratio has insignificant negative impact on dividend payment po- lice.

The study of Kazmierska-Jozwiak (2014), used leverage, liquidity, return on equity, size, risk as independent variable to determinants of dividend payment police and he found in his study return on equity and leverage have negative significant impact on dividend payment police and liquidity, size and risk has insignificant relationship with dividend payment police. The study of Maladjian and El-khoury (2014), shows that there is positive effect of size, risk and former year dividend on dividend payout ratio from the variables taken as independent such as profit, liquidity, age, growth. The study also states the firm pay dividend to shareholder to reduce conflict of interest between agencies and shareholder. Wasike and Amborse (2015), examined the effects of profit, risk, cash flow, tax, institutional owner- ship and market book value on dividend payment police from 2004 up to 2014 in Nairobi and they conclude except for profitability cash flow and tax have negative relationship with dividend payout ratio of 60 companies that are selected.

Chekol Demile (2016), study on the determinants of dividend payout ratio in case of Ethiopia from 2009-2014. In his study employed only bank specific variable as independent variable. The conclusion of the study is lagged dividend, size and growth are positively affecting the dividend payout ratio whereas profitability and leverage have negative effect on dividend payout ratio but the remaining variable which is liquidity do not have significant relation with dividend payout ratio. The other study on the determinants of dividend payment policy which is conducted in Ethiopia is the study of Tadele Tesfaye (2017), in his study employed both bank specific and macroeconomic variables. Profit, leverage, liquidity, retain earning, loan loss provision, growth rate and lagged dividend and inflation where taken as bank specific and macroeconomic determinants of dividend payout ratio. The study found that except retain earning, loan loss provision and inflation other variables have positive and significant relation with dividend payout ratio however liquidity and growth rate have significant relation with dividend payment police.

The above empirical studies have identified several factors as determinants of dividend payout; profit, liquidity, leverage, revenue/sales growth, tax, risk, age, lagged dividend, ownership structure yet the studies have mixed results. Some of the variables have strong effect on dividend payout in some of the studies yet the other studies found weak relationship and also the sign of the relationship is mixed. Azmeraw Melkamu(2022) study on the determinants of dividend payout ratio in case of Ethiopia . In his study employed eight bank specific variables as independent variable.

The conclusion of the study is lagged dividend, risk and leverage are positively affecting the dividend payout ratio whereas profitability, liquidity and growth have negative effect on dividend payout ratio. The researcher's major interest in the study is to add further knowledge about dividend issues in Ethiopian context and to see whether there is consistency of previous study findings of determinants on dividend payout in private commercial banks of Ethiopia.

2.2.1 Determinants of Dividend payout

Firm's dividend payout is the most important financial decision and responsibility of management. Dividend payout policy is the decision of how much portion of earning should be transferred to the shareholders in the form of dividends. It reflects the distribution of profits between dividends to stockholders and reinvestment in the firms (Droms & Wright, 2010).

The determinant factors influencing dividend payout investigated in this study include: profitability, liquidity, financial leverage, growth, bank size and last year's dividend payout.

1. Profitability

Profitability is defined as the capability of the entity to produce profits. It has been found as one of the most essential determinants of dividend payout policy (Lintner, 1956; Pruitt & Gitman, 1991; Deangelo et al., 2004; Amidu & Abor, 2006). According to the signaling theory of dividend policy, profitable firms are willing to pay higher amounts of dividends to convey their good financial performance (Bhattacharya, 1979; Chang & Rhee, 1990; Ho, 2003; Aivazian et al., 2003). Researches commonly suggest a positive relation of profitability and dividend payout. Stability of current and future earnings is key determining factors of dividend payout (Baker et al., 2006). Investors are more inquiring to know the profitability of the firm, because it determines the return on their investment (Mistry 2011).

2. Liquidity

The liquidity position of a firm is an important determinant of its ability to pay dividend payout. A firm with a poor liquidity position means, it will be less generous in paying dividend due to shortage of cash. (Alli, Khan and Ramirez 1993) argues that dividend payments depend more on cash flows, which reflect the company's ability to pay dividends, than on current earnings, which are less heavily influenced by accounting practices. They claim that current earnings do not really reflect the firm's ability to pay dividends. (Amidu and Abor 2006) find a positive relationship between cash flow and dividend payout ratios. (Anil and Kapoor 2008) also indicate that cash flow is an important determinant of dividend payout ratio.

3. Financial Leverage

A firm's leverage plays a key role in explaining firm's dividend policy. The empirical evidence regarding the effect of leverage on dividend payout is mixed. Some studies found that firms with high debt ratios are willing to pay fewer dividends (Jensen et al., 1992; Agrawal & Jayaraman, 1994; Faccio et al., 2001; Gugler & Yurtoglu, 2003; Al-Malkawi, 2005) since they are committed to fixed payments to service their debt, which restrict the distribution of dividends. Furthermore, banks with higher leverage ratio are under regulatory pressure which puts a restriction on paying high dividends (Dickens et al., 2002). However, (Kania & Bacon2005) have found a significant positive relationship, concluding that firms might use debt funds to pay dividends.

Leverage is negatively related to dividends, this means that firms with low debt ratios are willing to pay more dividends. —Firms with relatively less debt and more tangible assets hare more able to pay and maintain their dividends (Aivazian et al., 2003: 380). This is supported by the agency costs theory of dividend policy. Thus, firms with high leverage ratios have high transaction costs, and are in a weak position to pay higher dividends to avoid the cost of external financing (Faris & AL- Shubiri 2011). Dang (2013) also observed that zero leverage firms can be classified based on their dividend payment. He classifies them as dividend payer and non-dividend payer. He concluded that each of these classifications have different motives to have eschewed debt, the non dividend payer could be as a result of financial constraint and lack of cash flow to support such payment while the payer could deliberately have zero leverage to avoid investment distortion and to reduce the agency problem faced by the firm (Felix et al 2015).

4. Revenue Growth

If a firm is growing rapidly, the more is the need for funds to finance the expansion, and the more likely the firm is to retain earning rather than to pay them as dividends (Chang & Rhee,1990). Consequently, firms with higher growth opportunities are likely to retain a greater portion of their earning, resulting in lower dividend payout ratio (Higgins 1972 ;Rozeff 1982 ; Jensen et al. 1992; Alli et al. 1993 & Mohammed et al).

5. Bank Size

Large companies tend to be more competitive, with access to capital, better credit rating, and more customers, which will enhance their profitability and increase their ability to pay higher dividends (Dickens et al., 2002). Supporting this logic, (Lloyd et al. 1985), (Jensen et al.

1992),(Redding 1997), Holder et al. (1998), (Fama & French 2001), (Aivazian et al. 2003) and (Sawicki 2005) found a positive relationship between dividend payout and bank size. Generally larger firms tend to pay higher dividends because of stable earnings. Researchers have identified positive relationships between size and dividend payouts. Large size firms can obtain external finances because of their high asset value and better growth perspectives, therefore dividend payments are not reduced with high investment opportunities (Afza & Mirzan 2010). On the contrary, in some countries the size of the firm has a negative influence on dividends; large firms want to meet investment needs internally rather than externally. They hold funds under their control rather than distributing dividends (Ahmed & Javed 2009).

6. Previous year's dividend

Lagged dividend refers to the cash dividend paid by the firm to the investors one year prior to the year under certain consideration (Pal & Goyal 2007). Past dividend trend is significant enough to influence the current dividend payment in order for management to follow a stable dividend policy. This variable has been included as an important determinant in most of the theoretical and empirical studies.

2.2.2 Research Gap

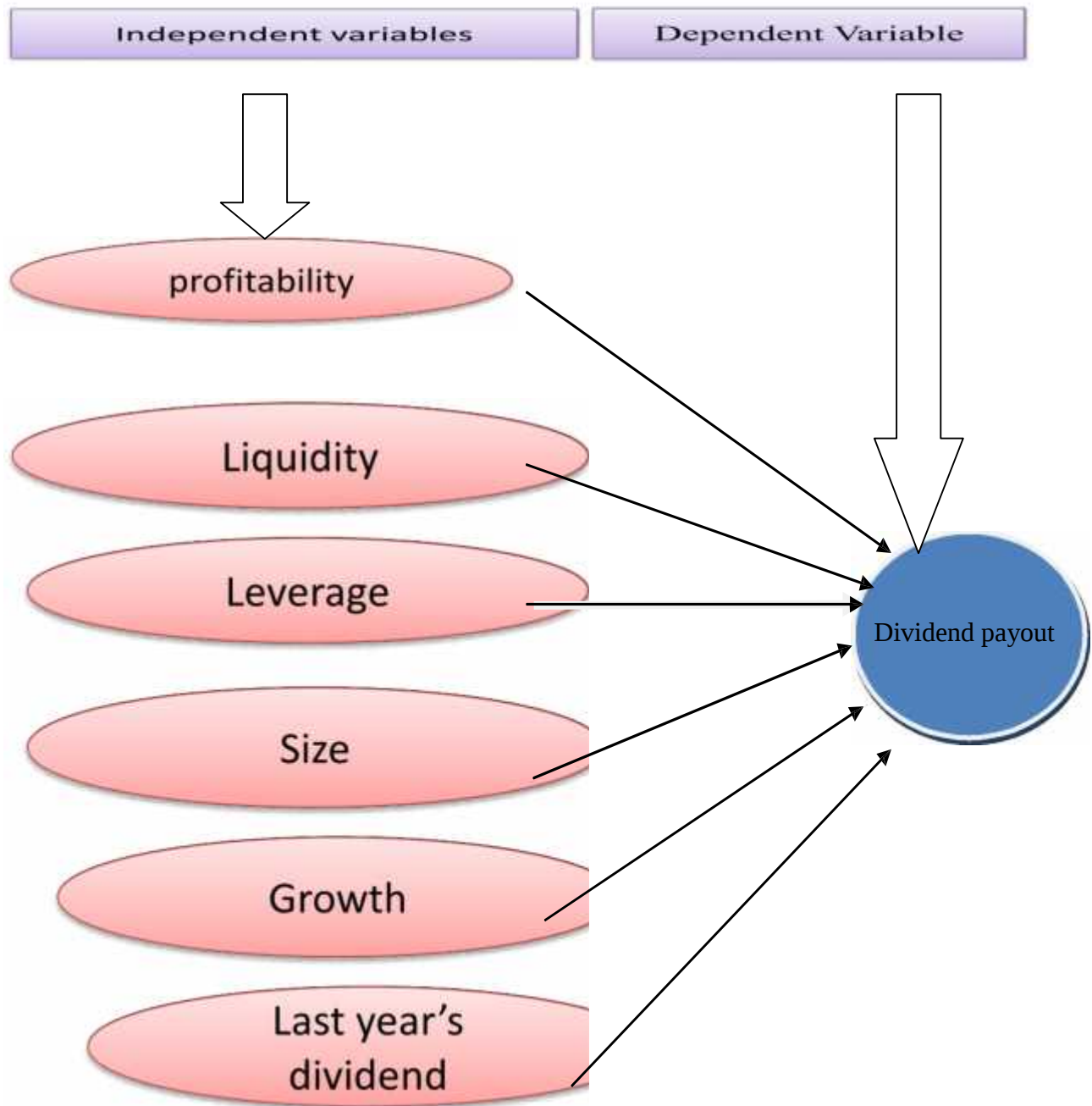
Though many studies have been made on the determinants of dividend payout, most of the studies were done in developed countries and few done in developing countries. In Ethiopian case there is no much research on the subject. Due to the unique nature of the banking industry and its contribution on the growth of national economy, it requires to be supported by scientific knowledge. In addition to this, Ethiopian banking industry is on growing stage so many researches have to be done to improve the industry and the economy as a whole. As the researchers researcher (Dagnew 2009); (Thewodros 2011), Simegn (2013), Chekol Demile (2016), Tadele Tesfaye (2017) and Azmeraw Melkamu (2022), conducted a research on the determinants of dividend payout in Ethiopian commercial banks. Comparing to other countries these researches are not enough (sample of banks) and not adequate to fill the current knowledge gaps due to economic and policy changes in Ethiopian context.

This research use more recent data, relatively large number of observation and different model from the previous researchers. The study use panel data regression technique with random effect model which is appropriate for the data that has both time series and cross-sectional nature.

Therefore, the study will be try to fill this research gap and help banking practitioners to make useful decisions regarding determinants of dividend payout in private commercial banks in Ethiopian.

2.2.3 Conceptual framework

This conceptual frame work shows the relationship between the dependent variable i.e dividend payout and the four explanatory variable



CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

The chapter provides the reader an overview of the methodological considerations and assumptions underlying the research process. It describes the methods and procedures that the researcher adopted in answering the research questions. The chapter covers the research design, target population, sample size, data collection and how the data was analyzed

3.1 Research approach

The purpose of this study is to investigate the internal determinants of selected commercial banks dividend payout ratio by using a number of bank specific factors. Based on the methodological assumptions and the research approach. The researcher used quantitative research approach.

3.1.1. Research design

This research used an explanatory research to establish a relationship between a number of variables and dividend payout ratio. On the other hand before testing the relationship between dividend payout and variables, the variables included in the study are identified and presented.

3.1.2 Population and Sampling

All private banks in Ethiopia are considered as the population of the study. 11 private banks (Awash International Bank, Dashen Bank, Bank of Abyssinia, Wegagen Bank, Hibret Bank, Nib International Bank, Cooperative Bank of Oromia, Lion International Bank, Oromia International Bank, Bunna International Bank, Zemen Bank) in Ethiopia are taken as sample for the study. For the purpose of this study, the researcher collected Ten years secondary data from annual reports of selected private banks and national bank of Ethiopia web site.

3.1.3 Sampling Technique

Purposive sampling technique was used in case of availability of Ten years data from selected private banks. Banks are selected according to their life existing in business. Relatively banks which have short period in operation are not included due to unavailability of the required data from them. Based on this 11 senior private commercial banks in Ethiopia are taken as a sample for the study. (Selected banks listed on Appendix).

3.1.4 Data Collection

The study used secondary data of each selected private commercial banks included in the study. The secondary data was collected from annual reports of the selected banks from national bank web site: www.nbe.et.

3.1.5 Data presentation and analysis

To test the proposed hypotheses, statistical analyses would be carry out using the following method; First, descriptive statistics of the variables (both dependent and independent) were calculated over the sample period. This is in line with (Malhotra 2007), which states using descriptive statistics methods helps the researcher in picturing the existing situation and allows relevant information. Then, correlations, and regression analysis with Random effect model done to test whether there is relationship between dependent variable and explanatory variables and to measure the impact of determinant factors on dividend payout decisions.

3.1.5.1 Analysis tool and technique

A number of statistical tests would be conduct in order to determine whether there is a relationship between the selected determinant factors and the dividend payout ratio. The main statistical program used in the research is E-View"s which is commonly used in these types of studies (Daunfeldt et.al, 2009).

3.1.5.2 Model Specification

The nature of the data used in this study is both time series and cross-sectional data enabled to use panel/longitudinal data model which is deemed to have advantages over cross sectional and time series data methodology. Panel data involves the pooling of observations on the cross-sectional over several time periods. As (Brook 2008) stated the advantages of using panel data set; first and perhaps most importantly, it can address a broader range of issues and tackle more complex problems with panel data than would be possible with pure time-series or pure cross-sectional data alone. Second, it is often of interest to examine how variables, or the relationships between them, change dynamically (over time). To do this using pure time-series data will often require a long run of data simply to get a sufficient number of observations to be able to conduct any meaningful hypothesis tests.

But by combining cross-sectional and time series data, one can increase the number of degrees of freedom, and thus the power of the test, by employing information on the dynamic behavior of a large number of entities at the same time. The additional variation introduced by combining the data in this way can also help to mitigate problems of multicollinearity that may arise if time series are modeled individually. Third, by structuring the model in an appropriate way, we can remove the impact of certain forms of omitted variables bias in regression results (Brook 2008). Thus panel/longitudinal regression model will uses as follows:

$$y = \alpha + \beta_{it} x + u_{it}$$

Where: y represents the dependent variable, which is the bank's dividend payout ratio;

X contains the set of explanatory variables in the model mentioned above, which are PROF, LIQ, LEV, GRO, SIZE and PYD;

u_{it} is the disturbance term;

α is taken to be constant over time t and specific to the individual cross-sectional unit ,

i and t denote the cross-sectional and time-series dimension respectively

$DPR_{it} = F(\text{PROF}, \text{LIQ}, \text{LEV}, \text{GRO}, \text{SIZE}, \text{PYD}, u)$

The dividend payout ratio will be regressed against the independent variables, by the equation below.

$$DPR_{it} = \beta_0 + \beta_1 \text{PROF}_{it} + \beta_2 \text{LIQ}_{it} + \beta_3 \text{LEV}_{it} + \beta_4 \text{GRO}_{it} + \beta_5 \text{SIZE}_{it} + \beta_6 \text{PYD}_{it} + u$$

Where DPR; dividend payout ratio in time t

PROF=profit after tax in time t

LIQ = liquidity in time t

LEV = financial leverage in time t

GRO = revenue growth in time t

SIZE = logarithm of total assets in time t

PYD = dividends in time t-1

u = random disturbance term and

β = regression coefficient

3.1.5.3 Test of CLRM Assumptions

To maintain the data validity and robustness of the regressed result of the research, the basic classical linear regression model (CRLM) assumptions must be tested to identify any misspecification and correcting them so as to augment the research quality.

There Classical linear regression model (CLRM) assumptions will be need to satisfy and taste in this study, which are: normality, homoscedasticity, autocorrelation, multicollinearity and linearity tests.

➤ **Test for Normality**

The Classical Linear Regression Model (CLRM) assumes that the error term is normally distributed with the mean of error being zero as positive error will offset the negative error. One of the most commonly applied tests for normality; the Bera-Jarque formalizes these ideas by testing whether the coefficient of skewness and the coefficient of excess kurtosis are zero and three respectively. ShapiroWilk and Shapiro- Francia tests statistics were also used to check the null hypothesis that the sample is drawn from a normally distributed population (Park, 2002 as cited in Christopher 2011).

H0: The error term is normally distributed

H1: The error term is not normally distributed

Decision Rule: Reject H0 if the p-value for test statistic less than 5% significance level otherwise do not reject H0.

➤ **Test for Homoscedasticity**

The assumption of homoscedasticity is that the residuals are approximately equal for all predicted dependent variables. The variance of the errors is constant, if the assumption are met the pattern of the residuals will have about the same spread on either side of a horizontal line drawn through the average residual (Wooldridge, 2006). Otherwise if the errors do not have a constant variance, it is said that the assumption of homoscedasticity has been violated. This violation is termed as heteroscedasticity.

A hypothesis test is carried out using Stata 12 and p-value is obtained to detect the heteroscedasticity problem. If the result of p-value more than 5% significance level, it implies that the model does not have heteroscedasticity problem.

H0: There is no heteroscedasticity problem

H1: There is heteroscedasticity problem

➤ **Test for Autocorrelation**

Autocorrelation problem will occur when error term at the period t is correlated with the error term at period before t . Autocorrelation is most likely to happen in the time series data due to the importance of the sequence of the time period. In the presence of residuals autocorrelation, statistical inferences can be misleading. Durbin Watson test is widely used to test autocorrelation in time series and it was applied in this study.

➤ **Test for Multicollinearity**

As cited by (Gustav & Gairatjon 2012) Multicollinearity is a statistical condition in which the independent variables are highly correlated to each other. Due to the interrelationship between the variables it is impossible to see the effects of a change in one variable while the other variables are held constant. Small changes in the data may also cause severe changes in the coefficients and it is therefore important to exclude possible multicollinearity from the study (Keller 2005 cited in filex 2012).

In the situation in which independent variables are highly correlated; resulting in a paradoxical effect, whereby the regression model fits the data well, but none of the independent variables has a significant impact in predicting the dependent variable (Gujarati 2004). Among several ways of multicollinearity tests, Pearson coefficient of correlation between variables is used for the study. Furthermore, the existence of multicollinearity is tested by calculating the Variance Inflation Factor (VIF) where a VIF coefficient greater than 10 indicates the presence of multicollinearity (Chatterjee & Price 1977).

3.1.6 Operational Definitions

Variables are operationally defined as follows:

Variables and their proxies are select on the basis of past studies. The author selected sex variables which may affect the dividend payout decisions of banks. These variables are profitability, liquidity, Leverage, growth, bank size, and previous year dividend.

3.1.6.1 Dependent Variable (Dividend Payout Ratio) /DPR/

The dividend is defined as a portion of a firm 's net earnings, which is paid among the shareholders. DPR is calculated using formula of total amount of dividend paid by net income.

3.1.6.2 Independent Variables

Although there are plenty of potential determinants for the dividend decisions, the bank specific explanatory variables which included in this study are profitability, liquidity, leverage, revenue growth, bank size, and previous year dividend of banks.

A. Profitability (PROF)

Previous researchers have found profitability as one of the most important determinants of dividend payout policy. However, the results on relationship of profitability and dividend payout have been mixed. Profitability in this study is measured as return on asset or net income divided by total asset. (Badu, 2013).

B. Liquidity (LIQ)

It is measured by bank loans and advances divided by total assets. It is an essential factor that affects the dividend policy.

C. Financial leverage (LEV)

The empirical evidence regarding the relationship of leverage with dividend payout is mixed. Leverage indicates level of debt in a company. This may negative impact on dividend payout because mgmt. cares about financing sources for future investment opportunity. (Abdullah 2021) To analyze the extent to which debt can affect dividend payouts, the ratio of banks debt to asset is used as a proxy for leverage.

D. Growth (GRO)

Revenue growth indicates the positive sign of ongoing firms' operations. Increasing level of revenue growth in a consistent manner means that a firm potentially enters into stage of expansion of business cycle and would expect positive cash earning power in the future year. The change in revenues (interest and non-interest revenues) is used as a proxy for growth opportunities; it is calculated by dividing current revenue to last year sales minus last year revenue.

E. Bank size (SZ)

The previous literature assumed that there is a positive relationship between the firm's size and its dividend policy. The big size companies pay higher dividends and smaller size companies pay fewer dividends, as they find it difficult to raise funds, as compared to large companies who have easier access to the capital market and hence are less dependent on the internal funds, leading to more capability to pay the dividends. The size of the bank is measured by the natural logarithm of total assets.

F. Previous year's dividends (PYD)

The last year's dividends payout is used as a proxy variable for historical dividends. Empirical studies have shown a positive relationship between lagged dividends and dividend payment (Ahmed & Javid, 2008; Yahya & Hadi, 2013; and Maladjian & El Khoury, 2014).

Table 3.1 Variables definition and expected sign

No	Variables name	Abbreviation	Definition	Expected
1	Dividend Payout	DPR	Yearly Dividend/Net profit after	
2	Profitability(PROF)	PROF	ROA/Total Asset	Positive
3	Liquidity (LIQ)	LIQ	Loan /Total asset	Positive
4	Leverage(LEV)	LEV	Total liabilities / Total asset	Negative
5	Growth (GRO)	GRO	Growth in gross earnings	Negative
6	Size (SIZE)	SIZE	logarithm of total assets	Positive
7	Previous Year's	PYD	Previous Year's Dividend Payout	Positive

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

Based on the potential of the researcher's best effort, important theoretical and empirical literature relating to the topic were reviewed and used to identify knowledge gap on the study area. To meet the broad objective of the research and to test research hypotheses and the research design used also discussed in the preceding chapter. This chapter analyzes and presents the internal determinants of dividend payout ratio of 11 private commercial banks in Ethiopia using the annual balanced panel data, where all the variables were observed for each cross-section and each time period. The study has a time series segments panning from the period 2012 up to 2022. The results are presented in the form of summary tables and figure. Summary of descriptive statistics, correlation, and regression analysis are used to analyses the data to achieve the research objective and the findings were discussed in comparison with previous studies.

4.2 Descriptive Statistics

This section presents the descriptive statistics of dependent and independent variables used in the study for the sampled Private Banks in Ethiopia. The dependent variables used in this study were dividend payout ratio. The independent variables were profitability, liquidity, leverage; firm size, gross profit growth, and last year dividend payout were key determinants of dividend payout ratio of private banks operating in Ethiopia.

4.2.1 Descriptive Statistics- Financial self-sufficiency

Table 4.1 demonstrates the mean, maximum and minimum values and standard deviation of the dependent and independent variables over the study period.

	DPR	ROA	LIQ	LEV	GRO	FS	PYD
Mean	4.86868	4.6711663	4.04692	0.006575	0.037713	5.152984	5.156347
Maximum	8.2933	7.3849	7.3854	0.0572	0.0953	9.74280	.2977000
Minimum	1.1805	1.0556	0.2455	0.0012	0.0053	1.0556	1.1805
Std. Dev.	2.07988	2.36526	2.0736422	0.010025	0.02777	2.36265	2.10892
Observations	110	110	110	110	110	110	110

Source: Secondary data computed from E-views 10 results (2023)

Based on the descriptive statistics, the mean values for dividend payout, profitability, liquidity, leverage, growth of gross earning, size, and previous year's dividend payout for the 11 private banks in Ethiopia are as follows: Dividend Payout: The average dividend payout for these banks is 4.86868. This indicates that, these banks reinvested less money back in to banks while paying more earnings in the form of dividend. Profitability: represented by the variable ROA, is also 4.6711663. This suggests that, these banks are generating more profit from its operation or shareholders equity is 4.6711663. Liquidity: liquidity measured using the variable LIQ, is 4.04692. This suggests that these banks have a relatively high level of liquidity, which indicates their ability to meet short-term obligations and cover potential losses. Leverage: The leverage, indicated by the variable LEV, is 0.006575. This suggests that these banks have a low level of leverage, which means they rely less on debt financing and have a lower risk of financial distress. Growth of Gross Earning:

The growth rate of gross earnings, represented by the variable GRO, is 0.037713. This suggests that these banks are experiencing a positive growth in their gross earnings, although the rate is relatively low Size: The size of these banks, measured using the variable SIZE, is 5.152984. This suggests that these banks are relatively large in terms of their total assets or market capitalization. Previous Year's Dividend Payout: The previous year's dividend payout, represented by the variable PYD, is 5.156347. This indicates that these banks had a dividend payout of around 5.156347 of their earnings in the previous year. Overall, these descriptive statistics provide insights into the financial performance and characteristics of the 11 private banks in Ethiopia. They suggest that these banks have relatively high dividend payouts and profitability, low leverage, and strong liquidity. They also indicate positive growth in gross earnings and relatively large sizes.

4.2.2 Correlation Analysis

Correlation analysis is a statistical technique used to determine the relationship between two or more variables. It measures the strength and direction of the linear relationship between variables. The correlation coefficient, commonly denoted by "r", ranges from -1 to 1. A positive correlation coefficient indicates a positive relationship, meaning that as one variable increases, the other also tends to increase.

A negative correlation coefficient indicates a negative relationship, meaning that as one variable increases, the other tends to decrease. A correlation coefficient of 0 indicates no linear relationship between variables.

Table 4.2: Correlation Analysis among Variables- DPR

	DPR	ROA	LIQ	LEV	GRO	FS	PYD
DPR	1						
ROA	0.684360	1					
LIQ	0.507014	0.531599	1				
LEV	- 0.051212	0.202425	0.094204	1			
GRO	- 0.224712	0.628997	0.476266	-0.041853	1.		
FS	0.623026	0.816570	0.438338	0.165390	0.525631	1.	
PYD	0.787987	0.559792	0.324806	0.027196	0.173408	0.475956	1

Source: Computed from E-views 10 results (2023)

Based on the correlation analysis, the results indicate that there are statistically significant correlations between dividend payout and several financial indicators for the 11 private banks in Ethiopia. Profitability (ROA) has a positive correlation of 0.684360 with dividend payout. This suggests that as profitability increases, the dividend payout also tends to increase. This indicates that more profitable banks are more likely to distribute higher dividends to their shareholders. Liquidity (LIQ) shows a positive correlation of 0.507014 with dividend payout. This implies that banks with higher liquidity are more likely to distribute higher dividends. It suggests that having sufficient liquid assets enables banks to comfortably distribute dividends to their shareholders.

Leverage (LEV) shows a negative correlation of -0.051212 with dividend payout. This suggests that as the leverage ratio increases, dividend payout tends to decrease. It implies that banks with higher levels of debt may have less available funds to distribute as dividends. Growth of gross earning (GRO) has a Negative correlation of -0.224712 with dividend payout. This suggests that banks with higher growth of gross earnings are more likely to distribute higher dividends. It indicates that banks with successful and growing revenue streams are able to reward their shareholders with higher dividends.

Size (SIZE) shows a positive correlation of 0.623026 with dividend payout. This implies that larger banks tend to distribute higher dividends. It suggests that bigger banks with a larger customer base and higher assets have more resources to allocate towards dividend payments.

Previous Year's Dividend Payout (PYD) has a strong positive correlation of 0.787987 with dividend payout. This indicates that banks that have distributed higher dividends in the previous year are more likely to continue doing so in the current year. It suggests that dividend payout is consistent and stable over time for these banks.

Overall, these results suggest that profitability, liquidity, size, growth of gross earnings, and previous year's dividend payout are important factors in determining dividend payout for private banks in Ethiopia. These findings can be useful for investors, stakeholders, and bank management in evaluating and predicting dividend policies and financial performance.

Overall, these descriptive statistics provide insights into the financial performance and characteristics of the 11 private banks in Ethiopia. They suggest that these banks have relatively high dividend payouts and profitability, low leverage, and strong liquidity. They also indicate positive growth in gross earnings and relatively large sizes.

4.3 Testing Classical Linear Regression Model Assumptions

In this part of the research paper, the linearity of the parameter is assumed since the model applies linear ordinary least square (OLS). The objective of the model is to predict the strength and direction of association among the dependent and independent variables. Thus, in order to maintain the validity and robustness of the regression result of the research in CLRM, it is better to satisfy basic econometric assumption of CLRM. When these assumptions are satisfied, it is considered as all available information is used in the model. However, if these assumptions are violated, there will be data that left out of the model (Brooks, 2008). Before going further in to panel data econometric procedures, diagnostic tests were undertaken to ensure that the assumptions of classical linear regression model were fulfilled or not, the coefficient estimators of both α (constant term) and β (independent variables) that are determined by ordinary least square (OLS) have a number of desirable properties and usually known as Best Linear Unbiased Estimators (BLUE).

Hence, the following sections discuss results of the diagnostic tests (i.e., normality, autocorrelation, multicollinearity, heteroscedasticity,) that were conducted to ensure whether the data fits the basic assumptions of classical linear regression model or not.

4.3.1 Test for Normality

The Classical Linear Regression Model (CLRM) assumes that the error term is normally distributed with the mean of error being zero as positive error will offset the negative error. According to (Brooks, 2008), in order to conduct single or joint hypothesis tests about the model parameter, the normality assumption ($u_t \sim N(0, \sigma^2)$) (i.e. the errors are normally distributed) must be fulfilled. In this study, the normality of the data was checked with the popular Jarque-Bera test statistic. If the residuals are normally distributed, the Jarque-Bera statistic would not be significant at 5 percent significant level meaning disturbance to be normally distributed around the mean. This means that the p -value given at the bottom of the normality test screens should be bigger than 0.05 to not reject the null hypothesis of normality at 5 percent significant level.

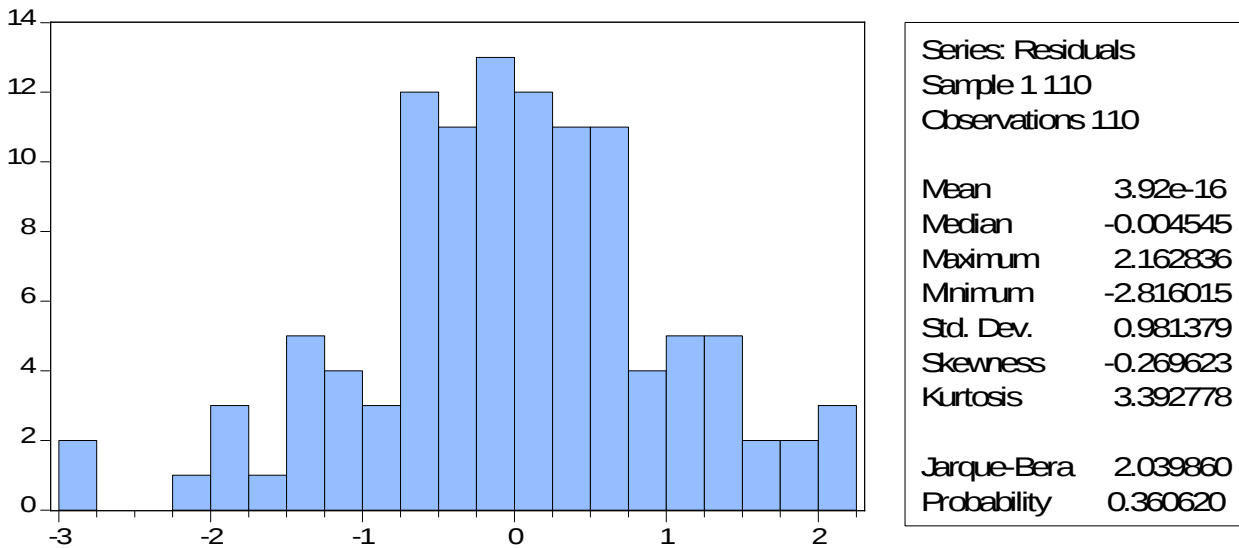
Jarque-Bera also formalized this by testing the residuals for normality and testing whether the coefficient of skeweness and kurtosis are close to zero and three respectively. The hypotheses for the normality test were formulated as follow:

H_0 : Error term is normally distributed

H_1 : Error term is not normally distributed

Decision Rule: Reject H_0 , if P-value less than significant level 0.05. Otherwise, do not reject.

Figure 4.1 Normality test for residuals of CR model



Source: computed from E-views 10 result (2023)

The normality test result of ROA model in figure 4.1 above shows, the histogram was bell-shaped and the Jarque -Bera statistic has a P-value of (0.223). These implies that the p-value for the Jarque-Bera test for these models is greater than 0.05. So, the result indicates that the errors were normally distributed and there was no problem of normality test. Based on the statistical result, the study failed to reject the null hypothesis of normality at the 5 percent significance level.

4.3.2 Test for Heteroscedasticity

Among the OLS assumptions one of the diagnostic tests conducted in this study is heteroscedasticity test. This theoretically expressed as by Brooks (2008, p.133) ' $\text{var}(u_t) = \sigma^2$ '; it has been assumed that the variance of the errors is constant, σ^2 . In the classical linear regression model, one of the basic assumptions is Homoscedasticity assumption that states as the probability distribution of the disturbance term remains same for all observations. That is the variance of each of disturbance term is the same for all values of the explanatory variable. However, if the disturbance terms do not have the same variance, this condition of non-constant variance or non-homogeneity of variance is known as heteroscedasticity. Accordingly, in order to detect the heteroscedasticity problems, ARCH test was utilized in this study.

This test states that if the p-value is significant at 99 confidence interval, the data has Heteroscedasticity problem, whereas if the value is insignificant (greater than 0.01), the data has no Heteroscedasticity problem. It is hypothesized that as follows;

Ho: There is no Heteroscedasticity problem

Ha: There is Heteroscedasticity problem

Decision Rule: Reject H₀, if P-value less than significant level 0.05. Otherwise, do not reject.

Table 4.3 Heteroscedasticity test for PDR Model

Heteroskedasticity Test: ARCH			
F-statistic	0.930042	Prob. F(30,49)	0.5764
Obs*R-squared	29.02554	Prob. Chi-Square(30)	0.5163

Source: computed from E-views 10 results (2023)

Accordingly, table 4.4 and 4.5 above shows that, both the F-statistic and Chi-square tests give the same conclusion that there was no significant evidence for the presence of Heteroscedasticity Since the p-values in all of the cases were above 0.05, the null hypothesis of there is no Heteroscedasticity problem is failed to reject at 5 percent significant level.

4.3.3 Test for Auto Correlation

The third assumption made for the CLRM's disturbance terms is that the covariance between the error terms over time is zero. In other words, it is assumed that the errors are uncorrelated with one another. If the errors are correlated with one another, it would be stated that they are 'auto-correlated' or that they are 'serially correlated'. According to (Brooks, 2008), when the error term for any observation is related to the error term of other observation, it indicates that autocorrelation problem exist in the model. In the case of autocorrelation problem, the estimated parameters can still remain unbiased and consistent, but it is inefficient. The result of t-test, F-test or the confidence interval will become invalid due to the variances of estimators tend to be underestimated or overestimated. Due to the invalid hypothesis testing, it may lead to misleading results on the significance of parameters in the model. Breusch-Godfrey Serial Correlation LM Test was used in this study to detect the autocorrelation problem.

It is hypothesized that as follows;

Ho: no serial correlation

H1: presence of serial correlation

Decision Rule: Reject H_0 , if P-value less than significant level 0.05. Otherwise, do not reject

Table 4.4: Test for serial correlation of DPR model

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.313360	Prob. F(30,73)	0.1729
Obs*R-squared	38.55923	Prob. Chi-Square(30)	0.1359

Source: computed from E-views 10 results (2023)

As it can be seen from the above tables 4.5-4.6, the P-value of both F-statistic and Chi-Square for DPR model model were (0.1729) and (0.1359) respectively, which were greater than the significance level of 5 percent. Hence, the null hypothesis of no serial correlation is failed to reject at 5 percent of significant level, the result supports the absence of serial correlation in this model. Therefore, it can be concluded that, the covariance between residuals is zero and absence of serial correlation problem was found conclusively from the LM tests.

4.3.4 Test for Multicollinearity

An implicit assumption that is made when using the panel least square estimation method is that the independent variables are not correlated with one another. If there is no relationship between the explanatory variables, they would be said to be orthogonal to one another. If the explanatory variables were orthogonal to one another, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change. If an independent variable is an exact linear combination of the other independent variables, then we say the model suffers from perfect Collinearity, and it cannot be estimated by OLS (Brooks, 2008). The result of the above correlation matrixes shows that the highest correlation coefficient was 0.816570 which is between size and profitability, Margaritis (2010), and Hair, (2006) argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem, it is conclude that there was no serious of multicollinearity problem in this study and adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change.

Table 4.5: Test correlation of independent variables

	ROA	LIQ	LEV	GRO	FS	PYD
ROA	1					
LIQ	0.531599	1				
LEV	0.202425	0.094204	1			
GRO	0.628997	0.476266	-0.041853	1.		
FS	0.816570	0.438338	0.165390	0.525631	1.	
PYD	0.559792	0.324806	0.027196	0.173408	0.475956	1

4.4 Regression Result Fixed Effect Regression

Dependent Variable: DPR				
Method: Least Squares				
Date: 01/02/24 Time: 00:39				
Sample: 1 110				
Included observations: 110				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Profitability(ROA)	0.298399	0.089340	3.340048	0.0012
Liquidity (LIQ)	0.234192	0.056775	4.124917	0.0001
Leverage(LEV)	-19.28864	10.28332	-1.875721	0.0635
Growth of gross earing (GRO)	-20.92513	4.983047	-4.199264	0.0001
Size (SIZE)	0.151411	0.071020	2.131934	0.0354
Previous Year's Dividend	0.484547	0.058994	8.213434	0.0000

Payout (PYD)				
C	0.164335	0.302582	0.543109	0.5882
R-squared	0.777364	Mean dependent var		4.868684
Adjusted R-squared	0.764395	S.D. dependent var		2.079886
S.E. of regression	1.009559	Akaike info criterion		2.918425
Sum squared resid	104.9785	Schwarz criterion		3.090274
Log likelihood	-153.5134	Hannan-Quinn criter.		2.988128
F-statistic	59.93982	Durbin-Watson stat		1.421435
Prob(F-statistic)	0.000000			

Source: Computed from E-views 10 result, 2023

As shown in the table above, the R-squared statistics of the model were 78 percent. This result indicates that 78 percent of variation in the dependent variable is explained by the explanatory variables. That means the explanatory variables (such as, Profitability(ROA), Liquidity (LIQ), Leverage(LEV), Growth of gross earning (GRO), firm Size (SIZE), and Previous Year's Dividend Payout (PYD). The remaining 22 percent of the variation in the dividend payout was explained by other variables which are not included the model during the study period.

Beside this, F- statistics (59.93982) which is used to test the overall significance of model was presented and null hypothesis can be clearly rejected at 1 percent level of significant, since the p-value was (0.000000) which was sufficiently low, indicates the reliability and validity of the model at 1 percent level of significance.

The regression coefficients represent the relationship between each independent variable and the dependent variable (dividend payout) in the regression model. Here's the interpretation for each coefficient:

Profitability (ROA) coefficient (0.298399): A one unit increase in profitability is associated with a 0.298399 unit increase in dividend payout, holding all other variables constant. This means that banks with higher profitability tend to have a higher dividend payout.

Liquidity (LIQ) coefficient (0.234192): A one unit increase in liquidity is associated with a 0.234192 unit increase in dividend payout, holding all other variables constant. This suggests that banks with higher liquidity levels tend to have a higher dividend payout.

Leverage (LEV) coefficient (-19.28864): A one unit increase in leverage is associated with a decrease of 19.28864 units in dividend payout, holding all other variables constant. This indicates that banks with higher leverage levels tend to have a lower dividend payout.

Growth of gross earning (GRO) coefficient (-20.92513): A one unit increase in the growth of gross earnings is associated with a decrease of 20.92513 units in dividend payout, holding all other variables constant. This suggests that banks with higher growth rates of gross earnings tend to have a lower dividend payout.

Size (SIZE) coefficient (0.151411): A one unit increase in bank size is associated with a 0.151411 unit increase in dividend payout, holding all other variables constant. This implies that larger banks tend to have a slightly higher dividend payout.

Previous Year's Dividend Payout (PYD) coefficient (0.484547): A one unit increase in the previous year's dividend payout is associated with a 0.484547 unit increase in dividend payout, holding all other variables constant. This indicates that banks that paid higher dividends in the previous year are likely to continue paying higher dividends. It's important to note that the interpretation of these coefficients should be done cautiously, taking into consideration the specific context and characteristics of the private banks in Ethiopia.

4.5 Discussion of Regression Results (Hypotheses Testing)

The findings from the research provide insights into the factors that influence dividend payout decisions of private banks in Ethiopia. These findings are consistent with similar studies conducted in other countries.

Discussion for each variable:

Profitability (ROA): The coefficient of 0.298399 indicates that for a one unit increase in profitability, the dividend payout of the private banks in Ethiopia increases by 0.298399 units. One similar piece of research conducted in India titled "Determinants of Dividend Payout in Indian Banking Industry" by Sharma and Garg (2015) examined the factors influencing dividend payout decisions of banks in India. The study found that profitability has a positive and significant effect on dividend payout, similar to the findings in the Ethiopian research. This supports the idea that higher profitability levels allow banks to generate more cash flows, which can be distributed as dividends. This suggests that profitability has a positive and significant effect on dividend payout. Higher profitability levels allow the banks to generate more cash flows, which can be distributed to shareholders as dividends.

Liquidity (LIQ): The coefficient of 0.234192 suggests that a one unit increase in liquidity leads to a 0.234192 unit increase in dividend payout. Another similar study conducted in Malaysia titled "Determinants of Dividend Payout Policy: Evidence from Malaysian Banking Industry" by Haron et al. (2017) also explored the factors influencing dividend payout decisions of banks. The study found that liquidity has a positive relationship with dividend payout, corroborating the findings of the Ethiopian research. This suggests that banks with higher liquidity levels are more likely to distribute higher dividends to their shareholders. This implies that banks with higher liquidity levels are more likely to distribute higher dividends to their shareholders. Liquidity provides a cushion for banks to meet their financial obligations, and excess liquidity can be used to reward shareholders through dividends.

Leverage (LEV): The coefficient of -19.28864 implies that a one unit increase in leverage leads to a decrease in dividend payout by 19.28864 units. Furthermore, the findings of the Ethiopian research regarding leverage and growth of gross earnings are also supported by similar studies. One study conducted in the United States titled "The Determinants of Banks' Dividend Policies" by Chen and Steiner (1999) found a negative relationship between leverage and dividend payout, similar to the Ethiopian research. Another similar study conducted in Malaysia titled "Determinants of Dividend Payout Policy: Evidence from Malaysian Banking Industry" by Haron et al. (2017) also explored the factors influencing dividend payout decisions of banks. The study found that liquidity has a positive relationship with dividend payout, corroborating the findings of the Ethiopian research. This suggests that banks with higher liquidity levels are more likely to distribute higher dividends to their shareholders. This negative relationship suggests that higher leverage levels restrict the ability of banks to distribute dividends. Banks with high levels of debt might need to prioritize debt repayment and have limited funds available for dividend payments.

Growth of gross earning (GRO): The coefficient of -20.92513 suggests that a one unit increase in the growth of gross earnings leads to a decrease in dividend payout by 20.92513 units. Furthermore, the findings of the Ethiopian research regarding leverage and growth of gross earnings are also supported by similar studies. The study highlighted that high leverage restricts the ability of banks to distribute dividends. Additionally, a study conducted in China titled "The Role of Earnings Growth in Explaining Bank Dividends" by Hasan et al. (2019) found a negative relationship between growth in earnings and dividend payout, aligning with the findings in Ethiopia. This suggests that banks experiencing significant growth may prefer to reinvest their earnings rather than distributing them as dividends. This negative relationship implies that higher growth in gross earnings reduces the amount available for dividends. Banks experiencing significant growth may prefer to reinvest their earnings to support future expansion rather than distributing them as dividends.

Size (SIZE): The coefficient of 0.151411 indicates that a one unit increase in size leads to a 0.151411 unit increase in dividend payout. The findings regarding the relationship between the size of a bank and its dividend payout are also consistent with other studies.

A study conducted in Turkey titled "The Determinants of Dividend Policy: An Analysis on Istanbul Stock Exchange" by Pamukcu (2013) found a positive relationship between bank size and dividend payout. This supports the idea that larger banks tend to have more stable operations, allowing them to generate higher profits and distribute more dividends to shareholders. This suggests a positive relationship between the size of a bank and its dividend payout. Larger banks tend to have more stable and established operations, allowing them to generate higher profits and distribute more dividends to shareholders.

Previous Year's Dividend Payout (PYD): The coefficient of 0.484547 implies that a one unit increase in the previous year's dividend payout leads to a 0.484547 unit increase in the current year's dividend payout. Furthermore, the positive relationship between the previous year's dividend payout and current year's dividend payout, as found in the Ethiopian research, is also supported by various studies. One study conducted in Sweden titled "Determinants of Corporate Dividend Policy: A Comparative Study of Dividend Payout between Commercial and Industrial Sectors in Sweden" by Wei (2017) found a positive relationship between previous dividend payout and current dividend payout. The study highlighted that firms tend to maintain or increase their dividend payout levels from one year to the next to keep shareholders satisfied. This positive relationship indicates that banks have a tendency to maintain or increase their dividend payout levels from one year to the next. Banks prefer to maintain a consistent dividend policy to keep their shareholders satisfied.

Relation with DPR	Hypothesis	Expected	Actual result	Decision
Profitability(ROA)	H1	Positive & significant	Positive& Significant	Accepted
Liquidity (LIQ)	H2	Positive & significant	Positive& Significant	Accepted
Leverage(LEV)	H3:	Negative & significant	Negative & significant	Accepted
Growth of gross earing (GRO)	H4:	Negative & significant	Negative & significant	Accepted
Size (SIZE)	H5:	Positive & significant	Positive& Significant	Accepted
Previous Year's Dividend Payout (PYD)	H6	Positive & significant	Positive& Significant	Accepted

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

This chapter presents conclusions and possible recommendations forwarded. Accordingly, the first section presents the conclusions based up on the findings, the second section presents the possible recommendations aimed at achieving good financial performance and sustainability while dividend payout takes in to consideration.

5.1 Summary of Major Findings

Profitability has the coefficient of 0.298399 indicates that for a one-unit increase in profitability, the dividend payout of the private banks in Ethiopia increases by 0.298399 units. This suggests that profitability has a positive and significant effect on dividend payout. Higher profitability levels allow the banks to generate more cash flows, which can be distributed to shareholders as dividends.

Liquidity has the coefficient of 0.234192 suggests that a one-unit increase in liquidity leads to a 0.234192 unit increase in dividend payout. This implies that banks with higher liquidity levels are more likely to distribute higher dividends to their shareholders. Liquidity provides a cushion for banks to meet their financial obligations and excess liquidity can be used to reward shareholders through dividends.

Leverage has the coefficient of -19.28864 implies that a one-unit increase in leverage leads to a decrease in dividend payout by 19.28864 units. This negative relationship suggests that higher leverage levels restrict the ability of banks to distribute dividends. Banks with high levels of debt might need to prioritize debt repayment and have limited funds available for dividend payments.

Growth of gross earnings (GRO): The coefficient of -20.92513 suggests that a one-unit increase in the growth of gross earnings leads to a decrease in dividend payout by 20.92513 units. This negative relationship implies that higher growth in gross earnings reduces the amount available for dividends. Banks experiencing significant growth may prefer to reinvest their earnings to support future expansion rather than distributing them as dividends.

Size of banks with the coefficient of 0.151411 indicates that a one-unit increase in size leads to a 0.151411-unit increase in dividend payout. This suggests a positive relationship between the size of a bank and its dividend payout.

Larger banks tend to have more stable and established operations, allowing them to generate higher profits and distribute more dividends to shareholders. Previous Year's Dividend Payout with coefficient of 0.484547 implies that a one-unit increase in the previous year's dividend payout leads to a 0.484547 unit increase in the current year's dividend payout. This positive relationship indicates that banks tend to maintain or increase their dividend payout levels from one year to the next. Banks prefer to maintain a consistent dividend policy to keep their shareholders satisfied. Give me a conclusion based on each finding.

5.2 Conclusions

Based on the findings, it can be concluded that profitability, liquidity, and size have a positive and significant effect on dividend payout for private banks in Ethiopia. Higher profitability levels, greater liquidity, and larger size allow banks to generate more cash flows and distribute higher dividends to shareholders.

On the other hand, leverage and growth of gross earnings have a negative relationship with dividend payout. Higher levels of leverage restrict the ability of banks to distribute dividends, as funds may need to be prioritized for debt repayment. Banks experiencing significant growth may prefer to reinvest their earnings for future expansion rather than distributing them as dividends.

Additionally, the previous year's dividend payout has a positive relationship with the current year's dividend payout, suggesting that banks tend to maintain or increase their dividend payout levels from one year to the next to satisfy shareholders.

Overall, banks in Ethiopia should strive to improve profitability, maintain sufficient liquidity, manage leverage levels effectively, and consider the impact of growth on dividend distributions in order to maximize dividend payouts and meet the expectations of their shareholders.

5.3 Recommendations

Based on the findings, the following recommendations can be made for private banks operating in Ethiopia:

1. Focus on profitability: Banks should strive to improve their profitability levels as it has a positive and significant effect on dividend payout. By generating more cash flows, banks can distribute higher dividends to shareholders.
2. Maintain high liquidity: Banks should ensure high levels of liquidity as it leads to higher dividend payouts. Liquidity acts as a cushion for meeting financial obligations and allows banks to reward shareholders through dividends.
3. Manage leverage carefully: Banks should avoid high leverage levels as it restricts their ability to distribute dividends. High levels of debt may require banks to prioritize debt repayment, leaving limited funds for dividend payments.
4. Balance growth and dividend payments: Banks experiencing significant growth in gross earnings should consider reinvesting their earnings for future expansion. This allows them to balance growth objectives and dividend payments, as higher growth reduces the amount available for dividends.
5. Exploit advantages of size: Larger banks tend to have more stable and established operations, leading to higher profits and dividend payouts. Banks should focus on expanding their size to take advantage of this positive relationship with dividend payout.
6. Maintain consistent dividend policy: Banks should aim to maintain or increase their dividend payout levels from one year to the next. This consistent dividend policy helps keep shareholders satisfied and confident in the bank's performance.

In nutshell, private banks in Ethiopia should prioritize profitability, liquidity, and size while carefully managing leverage and growth objectives. By maintaining a consistent dividend policy, banks can ensure shareholder satisfaction and strengthen their financial position.

5.4 Suggestions for Further Research

This study was not an end to itself. There are many issues that arise from the findings and may require further research in order to address them. For instance the variables used in the model explain 78 percent variation in the dividend payout regression models. But other variables explained 22%. The second mode; the five variables used in the ode lest establish the other factors that can explain 78 percent variation in the dividend payout regression models. So, this study faced some limitations that can be filled by future researchers. Researchers can conduct further study by including more organization specific, industry specific and macroeconomic variables that affect the dividend payout ratio of private commercial banks and they can be carried out by increasing the sample size as well as the study area at international level. This same study may be replicated later in order to find out if the situation remain the same or there will be substantial changes.

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Appendix

Private Banks operating in Ethiopia

	Bank Name	Web Site	Year Est.	No of Branches
1	<u>Awash International Bank</u>	http://www.awashbank.com/	1994	430[6]
2	<u>Dashen Bank</u>	http://www.dashenbanksc.com	1995	438
3	<u>Bank of Abyssinia</u>	http://www.bankofabyssinia.com/	1996	233[8]
4	<u>Wegagen Bank</u>	http://www.wegagenbanksc.com/	1997	211[16]
5	<u>Hibret Bank</u>	http://www.unitedbank.com.et/	1998	380[15]
6	<u>Nib International Bank</u>	https://www.nibbanksc.com/	1999	98
7	<u>Cooperative Bank of Oromia</u>	http://www.coopbankoromia.com.et/	2005	467
8	<u>Lion International Bank</u>	http://www.anbesabank.com/	2006	235
9	<u>Oromia International Bank</u>	http://www.oroointbank.com/	2008	14
10	<u>Bunna International Bank</u>	http://www.bunnabanksc.com/	2009	205[10]
11	<u>Zemen Bank</u>	http://www.zemenbank.com//	2009	86
12	<u>Abay Bank</u>	http://www.abaybank.com.et/	2010	159[2]
13	<u>Berhan International Bank</u>	http://berhanbanksc.com/	2010	46

14	Addis International Bank	http://www.addisbanksc.com/	2011	64[4]
15	Debub Global Bank	http://www.debubglobalbank.com/	2012	123
16	Enat Bank	http://www.enatbanksc.com/	2013	14
17	ZamZam Bank	https://www.zamzambank.com//	2021	10
18	Hijra Bank	https://www.hijra-bank.com/	2021	17
19	Siinqee Bank	https://www.siinqeebank.com/	2021	402
20	Shabelle Bank	http://www.Shabellebank.com/	2021	
21	Amhara Bank	https://amharabank.com.et/	2021	140
22	Goh Betoch Bank SC	https://www.gohbetbank.com/	2021	
23	Ahadu Bank	https://www.ahadubank.com/	2022	
24	Tsedey Bank	https://tsedeybank-sc.com	2022	
25	Tsehay Bank	https://tsehaybank.com.et/	2022	
26	Gadaa Bank SC	https://gadaabank.com.et/	2023	

Source: www.nbe.et

- 1-11 selecting banks on sample