Determinants of Dividend Policy:Evidence from Ethiopian Insurance Companies

By:

Samuel Getachew

Advisor:

Dr. HabtamuBerhanu

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Declaration

I, Samuel Getachew, hereby declare that the thesis work entitled "Determinants of dividend policy: Evidence from Ethiopian Insurance Companies" submitted by me for the award of the degree of Master of Accounting and Finance of Addis Ababa University at Addis Ababa Ethiopia, is original work and it has not previously been submitted for the award of any other Degree or other similar titles of any other university or institution.

Name: **Samuel Getachew**

Signature: _____

Date: _____

Place: Addis Ababa University

Certification

Addis Ababa University
College of Business and Economics
Department of Accounting and Finance

This is to certify that the thesis prepared by Samuel Getachew entitles: **Determinants of Dividend Policy: Evidence from Ethiopian Insurance Companies** and submitted in partial fulfillment of the requirements for the degree of masters of Science in accounting and finance compiles with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Abstract

The purpose of this study was to examine the determinants of dividend policy in Ethiopian insurance companies. For this purpose, samples of nine Ethiopian insurance companies were selected. Ordinary Least Squares (OLS) Regression was used to examine the impact of profitability, liquidity, leverage, firm size, growth opportunity, previous year dividend and asset structure on dividend policy in the insurance sector over a period of nine years from 2007/08 to 2015/16. The empirical results of this study showed that profitability, leverage, liquidity, previous year dividend and asset structure have a positive relationship with dividend payout. Meanwhile, firm size and growth opportunities have a negative relationship with dividend payout. Furthermore, the results of the analysis indicated that profitability, liquidity, growth opportunities, previous year dividend and asset structure were the major factors that affected dividend policies of Ethiopian insurance companies and mangers of Ethiopian insurance companies need to consider these factors while setting/revising their dividend payout policy; on the same token investors need to consider these factors in their investment decisions when they want to make an investment in Ethiopian insurance companies.Moreover, further investigations including different company selected factors like firm's age, business risk, insider ownership, corporate tax and capital structure would provide better insight for determinants of dividend policy in Ethiopian insurance Companies.

Keyword:Dividend policy; Dividend payout; Insurance Companies

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Samuel Getachew

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List of Acronyms

CLRM -	Classical Linear Regression Model
DIPO -	Dividend Payout Ratio
DW -	Durbin Watson
FSIZ-	Firm's Size
GROP -	Growth opportunity
HP -	Hypothesis
LEVG -	Leverage
LIQD -	Liquidity
NBE -	National Bank of Ethiopia
NPV -	Net Present Value
PDIV -	Previous Year Dividend Payout Ratio
PROF -	Profitability
REM -	Random Effect Model
ROE-	Return on Equity
ASTR-	Asset Structure

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In corporate finance, finance managers generally thought to face two operational decisions: the investment and the financing decisions. The investment decision is concerned with what real assets the firm should acquire while the financing decision is concerned with how these assets should be financed. A third decision may arise, however, when the firm begins to generate profits. Should the firm distribute all or proportion of earned profits in the form of dividends to the shareholders, or should it be ploughed back into the business? (Al-Malkawi, et al., 2010; Alam andHossain, 2012).Dividend Policy refers to the explicit or implicit decision of the corporate finance managers regarding the amount of residual earnings (past and/or present) that should be distributed to the shareholders of the corporation (Gibson, 2009). It is "the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease et al., 2000). And also decision of the corporate finance manager concerned with how stable should the distribution is, and how much should be retained is the concern of dividend policy decision (Kinfe, 2011). This decision is considered as one of the vital financing decisions because the profit of the corporation is an important source of financing available to the firm.

The topic of dividend policy is one of the most enduring issues in modern corporate finance (Al-Malkawi, 2007). Four decades ago Black, (1976) described it as a "puzzle" *"The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together"*, and since then an enormous amount of research has occurred trying to solve the dividend puzzle. However, dividend policy remains among top ten unresolved problems in the finance literature and there is no adequate explanation for the observed dividend behavior of the firms Black (1976), Allen and Michaely, (2003) and Brealey and Myers, (2005). Allen et al (2000) summarized the consensus view when they concluded "Although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the thorniest puzzles in corporate finance".

Dividend payout policy plays an important major role in deciding what proportion of the earnings should be reinvested and what proportion should be distributed to shareholders as a return to their investment, management should consider dividend policy decisions because if a firm decides to pay more dividends, it retains fewer funds for investment purposes, and the company may be forced to revert to capital markets to gain funds (Baker and Powell, 2000).

The decision whether paying dividends or keep as retained earnings has been taken very carefully by both investors and the management of the firm in developed country (Glen *et al*. 1995). Also the empirical work on dividend policy has, however, generally been focused oncompanies operating in countries where there is developed stock markets (Al-Malkawi, 2007).The examination towards determinants of dividend payout policy of companies operating in an environment with no stock markets, until recently has been much more limited.As far as the researcher knowledge, the dividend policy issue in Ethiopia has been studied by (Dagnaw, 2009), (Kinfe, 2011), (Nuredin, 2012), (Simegn, 2013), and (Mitiku, 2015). However, above researches were focused on banking sector except Nuredin, (2012) which studied determinants of dividend in Ethiopian insurance companies. The researched couldn't find additional researches on the topic determinants of dividend policy in Ethiopian insurance companies.

The insurance sector plays important role in the financial services industry in a country's economic growth and offers financial protection to an individual or firm against monetary losses suffered from unforeseen circumstances (Kihara, 2012). According to Oshinloye et al (2009) no country can experience meaningful development without the presence of formidable insurance industry.This is because the world is characterized by risks and uncertainties and insurance has evolved as a way of providing security against the risks and uncertainties. Thereby, making insurance business in any nation indispensable irrespective of its quota to the gross domestic product.

According to NBE Ethiopian Insurance industry players are 17 in number (see Annex1). Out of these 17 insurance companies, seven companies run general (short term) insurance and ten composite, general (short term) and life business (long term). As of June 30, 2016, total asset of the 17 insurance companies reached 11.5 billion Birr, while their combined capital rose to Birr 3.6 billion. Furthermore, the industry's gross written premium reached at Birr

6.4 billion; the life market share of this production was Birr 0.3 billion (5%), while the non-life business accounted for Birr 6.1 billion (95%).Therefore, the researcher is motivated to exert maximum effort on investigating determinants of dividend policy in Ethiopian insurance companies, where there are no secondary markets that could help investors to convert their stock easily in to cash.

1.2 Problem Statement

Dividend policy is one of important financial decisions which are executed by the corporate finance managers in a corporate world as it actually has a great impact on building good image of the firm as well as increases the investors' confidence level in the company's future prospects. A decreasing dividend payout often results in negative response by market and can lead to the fall of company's stock price. Cutting dividend payments also tend investors to make conclusion that company has problem with their earnings and having small potential to grow in the market. This situation makes dividend policy become crucial when managers need to consider about investment attractiveness and at the same time managing the continuity of business expansion (Anil and Kapoor, 2008). On the other hand surrendering too much money into dividend payment can decrease retained earnings and slowing down company activities in buying assets to generate income. Therefore, the percentages of dividend payment are always surrounded by conflicts and remain one of the most important financial policies not only from the viewpoint of the company, but also from that of the shareholders, regulatory bodies and the government. Hence, an appropriate dividend distribution policy will strengthen the company's position in the views of investors and indirectly polishing up its corporate image. Furthermore, to eliminate doubts and poor evaluation made by investors, it is necessary for a firm to have an effective dividend policy. However, dividend policy's differ as each company decides on what, how and when to pay dividend to its shareholder. Some company pay higher and other pay less dividend although operate under same business environment. The question is what are the real determinants of dividend policy?

There are many researches regarding dividend policy conducted in various countries by many academic researchers, such as Lintner (1956), Miller and Modigliani (1961), Feldstein

and Green (1983), Baker and Powell, (2000), regarding the dividend policy has been done and provided empirical evidence on the determinants of dividend policy. Yet, there is no indisputable explanation on what factors influence the dividend policy. The question of why firms pay dividends from their earnings? What are the factors that determine dividend policy? Is dividend policy determined dependently or independently? Still remains unexplained. And number of theories has been put forward in the literature to explain their pervasive presence, yet the actual determinant affecting dividend policy remained unsolved and puzzled the researcher and corporate manager (Warren, 2011). According to Chay and Sub (2005), even if there are voluminous amount of research, still there is no clear answers to the dividend puzzle (Baker et al., 2002). The actual motivation of dividend decision still remains unsolved in corporate finance and further research is crucial in order to increase the understanding of the subject (Baker and Powell, 2000). As far as the researcher knowledge most of the previous researches are based on firms in developed country while it is very few studies are conducted on firm in developing country. An emerging consensus that dividend policy cannot be explained at all had become a strong motivation behind this study. The researcher wants to find some important financial factors that are responsible in framing dividend policies of Ethiopian insurance companies.

Since the work of Lintner, (1956), and the work of Miller and Modigliani, (1961), dividend policy remains a controversial issue. Many hypotheses have been drawn to shed some light on this puzzle but the research findings makes dividend decision still a fundamental as well as controversial area of managerial finance. Researchers like Lintner, (1956); Rozeff, (1982) and Christopher, (2014) provided important insights into the different factors that affect dividend payout. A number of theories and variables, potentially responsible for the determining company's dividend payout decisions have been discussed in literatures. Dividend irrelevance theory, theory of agency, pecking order theory, signaling theory, bird-in-the-hand theory and tax preference theory are included among the developed theories. Furthermore, studies of, Kania and Bacon, (2005), Al-Malkawi (2007), Gill, et al. (2010) found that firms dividend payout are the function of firm's profitability, while Anil and Kapoor, (2008) found liquidity to be noteworthy determinant. (Rozeff, 1982)found 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.

According to Amidu and Abor, (2006) who examined the determinants of dividend payouts in Ghana, found that the payout ratios are positively related to profitability, cash flow and tax but negatively related to risk and growth. Over time, factors that affect dividend policy of company had increased substantially and open again a wide discussion among the researchers and investors. This has encouraged the researcher to go deeper into the issue and try to investigate the influencing factors that might be considered by management of Ethiopian insurance companies in deciding the appropriate dividend policy. As far as the researcher knowledge the dividend policy issue in Ethiopia has been studied by (Dagnaw, 2009), (Kinfe, 2011), (Nuredin, 2012), (Simegn, 2013) and (Mitiku, 2015). All of the above researches were focused on banking sector except Nuredin, (2012), which studied determinants of dividend in Ethiopian insurance companies. The researcher couldn't find additional researches on the topic determinants of dividend policy in Ethiopian insurance companies.

Therefore further researches are required to study the dividend policy of firms in developing countries. This study presented findings about the determinants of dividend payouts of Ethiopian insurance companies and the findings contributed to fill the literature gap exist in developing country context. Furthermore, the purpose of this study is to identify the major factors that determine Ethiopian insurance companies' dividend policy.

1.3 Research question

Based on the above problem statement the researcher develops the following research question.

What factors determine Ethiopian insurance companies' dividend policy?

1.4 Objectives of the Study

1.4.1 General objective

The main objective of this study is to examine determinants of dividend policies of Ethiopian insurance companies.

1.4.2 Specific objectives

The specific objectives of the study are:

1. To examine whether profitability has impact on dividend policy of Ethiopian insurance companies.
2. To assess whether liquidity has impact on dividend policy of Ethiopian insurance companies.
3. To ascertain whether leverage has impact on dividend policy of Ethiopian insurance companies.
4. To evaluate whether growth opportunity has an impact on dividend policy of Ethiopian insurance companies.
5. To examine whether firm size has an impact on dividend policy of Ethiopian insurance companies.
6. To investigate whether previous year dividend has an impact on dividend policy of Ethiopian insurance companies.
7. To examine whether assets structure of a firm has an impact on dividend policy of Ethiopian insurance companies.

1.5 Scope of the Study

The topic of this study was delimited to identifying the Determinants of Dividend Payout policy evidence from Ethiopian insurance companies. Also, this study was delimited only to private insurance companies operating in Ethiopia, since government held insurance company didn't pay cash dividend; the focus of the study was on Ethiopian insurance companies which pays cash dividend to their shareholders. Furthermore, this study focus only for the study period of nine years (2007/08 – 2015/16).

The variables in this study were delimited to one dependent - Dividend payout ratio-and seven firm specific independent variables – profitability, liquidity leverage, firm's size, growth opportunity, previous year dividend payout ratio and asset structure.

1.6 Significance of the study

The study is significant in a number of ways. Firstly, to shade light on how corporate manager should decide on the dividend policy and what should be considered before they make any decision Since, the study aim at revealing factors which determine dividend payout of insurance companies in Ethiopia, it will assist the insurance companies primarily, and other stake holders such as investors and government to plan in advance and deal with the dividend payout in the insurance industry. Moreover, the Study supplies evidence whether factors identified by previous studies are the same as the ones found to be influential factors for dividend payout of Ethiopian insurance companies. Furthermore, the study offers a significant contribution to existing theoretical and empirical knowledge regarding determinants of dividend payout. Finally, the study also serves as a reference and basis for further research on determinants of dividend payout policy behavior in developing countries.

1.7 Limitation of the study

Inapplicability of important proxies in similar other studies that were conducted in other countries, due to unavailability of stock market in the country, limit the study to focus on few applicable variables only.

The analysis and its derived conclusions based on the secondary data sources, both the dependent and independent variables proxied by numbers from this past data sources. Hence, the historical data may not reflect the current and future economic situation.

Finally, small number of firms with long dividend history and shortage of pervious similar researches in Ethiopian case, and limited resource may affect the qualities of the study output.

1.8 Organization of the study

The study report is organized in five chapters. Chapter one explains the introduction part. Chapter two presents reviews of literature; conceptual and theoretical framework and detailed discussions of empirical studies on dividend. Chapter three describes the research methodology used to carry out the study. Chapter four explains about the data analysis and discussion on the findings. Finally, Chapter five brings to an end the research with conclusion, recommendations and farther research suggestions.

CHAPTER TWO: LITERATURE REVIEW

The objective of this chapter is review the literature on dividend payout policy. The chapter is structured as follows: first provides the meanings of dividend policy; than reviews of theoretical and empirical literatures on the determinant of dividend payout section, final section identifies research gap, provides adopted research conceptual framework and finally section Summarizes the chapter

2.1 Meanings of Dividend and Dividend Policy

In discussing the meaning of dividend policy, it is important to highlight what a dividend is. The word 'dividend' is derived from the Latin word "Dividendum" which means "that which is to be divided". This distribution is made out of the profits remained after deducting all expenses, providing for taxation, and transferring reasonable amount to reserve from the total income of the company. Dividend is simply the money that a company pays out to its shareholders from the profits it has made (Droughty, 2000). Such payments can be made in cash or by issuing of additional shares as in script dividend. Davies and Pain, (2002) however defined it as the amount payable to shareholders from profit or distributable reserves. Furthermore, Ross, et al., (2008), define dividend as cash paid out from current or accumulated retained earnings rather than other sources.

Also Pandey (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, Companies that are listed in the stock exchange are usually pays out dividends on a quarterly or semiannual basis. The semiannual or quarterly payment is referred to as the interim dividend. The final payment, which is usually paid at the end of the financial year of the company, is known as the final dividend. Dividends are normally paid after the corporate tax has been deducted. This payment of dividend to shareholders depends on the company management's decisions to distribute their surplus from their net income to shareholders or to retain it for other re-investment opportunities.

According to Rozeff, (1982), dividend policy defined as, the policy followed by the firm regarding the dividend versus retention decision. Dividend policy refers to the issue of how much of the total profit a firm should pay to its stockholders and how much to retain for

investment so that the combined present and future benefits maximize the wealth of stockholders. However, not only specifies the amount of dividend, but also form of dividend, payment procedure etc. Dividend policy determines the decision of earnings between payment to stockholders and reinvestment in the firm. Dividend decision is decisions that consider the amount of earning to be retained by the company and the amount of earning to be distributed to shareholders. Retained earnings are one of the most significant sources of funds for financing corporate growth, but dividends constitute the cash flow that accrues to stockholders (Weston and Copeland, 1991).

2.2 Determinants of Dividend Payout Policy

2.2.1 Theoretical Consideration

Dividend payout policy has always been a debatable subject in corporate finance. Many researchers in past have come up with theoretical models explaining what factors managers should consider while making a dividend decision. Furthermore, the literature currently advances main theories purporting to explain the determinants of dividend payout policy. However, contradictory theories of dividends can be identified. Some argue that increasing dividend payments increases a firm's value. Another view claims that high dividend payouts have the opposite effect on a firm's value; that is, it reduces firm value. The third theoretical approach asserts that dividends should be irrelevant and all effort spent on the dividend decision is wasted (dividend irrelevancy theory). Also signaling theory, agency theory, tax preference and clientele effect are among the dividend payout policy theories in literatures. These theories have been discussed hereunder as follows;

2.2.1.1 Dividend Irrelevance Theory

Miller and Modigliani (1961), argues that in a perfect market; one with independence of investment and dividend policies of firms, perfect capital markets, no taxes, perfect information, no transaction or flotation cost, markets are complete and no agency costs or contracting cost associated with stock ownership dividend payments will not affect firm value. Miller and Modigliani, (1961) put forward the irrelevance theorems more commonly known as the MM theorems argued that regardless of how the firm distributes its income; its

value is determined by its basic earning power and its investment decisions. They stated that "given a firm's investment policy, the dividend payout policy it chooses to follow will affect neither the current price of its shares nor the total returns to shareholders". If dividend policy has no significant effects, then it would be *irrelevant*. The reason is that in the presence of perfect marked conditions, investors can create their own dividends without cost. If investors want a dividend they can simply sell off some of their shares. Equally if investors are paid a dividend, which they do not want, they can merely use the dividend to purchase additional shares in the firm. So if investors can create their own dividend policy without incurring extra costs, dividends are indeed irrelevant.

However the irrelevancy theory only holds, in such a perfect market. Nevertheless markets are not perfect and taxes and transaction costs do exist. Even so this does not make the theory less important. The dividend irrelevance theory supplies a framework through which one can test the implications of a violation of any of the assumptions. 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'. He emphasized 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.

2.2.1.2 Bird in the Hand Theory

The MM's divined irrelevant theory which is discussed above only assumes such a perfect market. Nevertheless markets are not perfect and taxes and transaction costs do exist. In a world of uncertainty and imperfect information, dividends are valued differently to retained earnings (or capital gains).According to the bird-in-the-hand theory, which criticized Miller and Modigliani's paper explains that investors prefer dividends (certain) to retained earnings. This proposed by Gordon (1959) and Lintner (1956), if all other factors are equal, investors prefer dividends to capital gains because they perceive dividends today as a certain cash flow, as opposed to capital gains in the future which are uncertain.

The name *"bird in hand"* is the general term for all studies that argues that dividends are positively correlated to the company's value, hence company value act as a motivating factor for the payment of dividend. 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. They argue that the combined value of dividends and capital gains diminish when dividend payout ratio increases. When a firm increases its payout ratio, investors become concerned that the firm's future capital gains will diminish, since the retained earnings that the firm reinvests into the business is reduced. Whether or not dividends are more certain, will be left uncommented and in this case it is not important. The important thing is that investors often believe that they are, such that it influences their preferences towards dividends.

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.

2.2.1.3 Agency Theory

The agency theory is based on the principal agent relationships. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. The underlying assumption is that managers may not necessarily always act as to maximize shareholders' wealth. The main duties of the manager would be to run the firm effectively and efficiently so as to maximize firm value and also maximize returns to the shareholders. However, agency problem arises when managers' and shareholders' interests are not in line with each other. Agency problem simply refers to the principal-agent problem where the principle is the holder of the stocks or shareholders and the agent is the manager.

The problem here is the separation of ownership and control which gives rise to agency conflicts as defined in Jensen and Meckling, (1976). Hence, the agency theory assumes that firms pay dividend to overcome the agency problem steaming from the separation of interest between mangers and shareholders. According to the work of Rozeff, (1982) and Easterbrook, (1984) followed by the work of Jensen and Meckling, (1976) which constructed a model which considered dividend as a mechanism for reducing agency costs. Therefore Dividends can be seen as a tool to reduce agency costs.

2.2.1.4 Signaling Theory

The signaling theory reveal that information asymmetry between managers and outside shareholders allows managers to use dividends as a tool to signal private information about a firm's performance to outsiders. Management will not increase the dividends unless they certain about the future earning to meet the increase in dividends. And conversely dividend cuts are perceived as "bad news" if the firms reduce dividends, it sends to investors a negative message that future earning will be less than current Miller, (1980).

Many academics and financial practitioners also suggest that dividends might have implicit information about a firm's prospects. According to Signaling theory, managers have inside information about a firm that they cannot, or do not wish to pass on to the shareholders, for example, better estimates of future earnings. Even (Miller and Modigliani, 1961) suggest that when markets are imperfect share prices may respond to changes in dividends. Corporate dividends are considered to be management's most cost-effective way of reducing the investor uncertainty about the company's value. Bhattacharya (1979) and Miller and Rock, (1985) suggest that outside investors have imperfect information about firms' profitability, and therefore dividends function as a signal of expected cash flows. Hence dividend act as signal of the stability of the firms' future cash flows.

Signaling helps to explain why some firms would want to pay out dividends. In most cases dividends' benefit to shareholders is smaller than from capital gains because of the higher tax rate; however dividend announcements can be used to highlight managers' confidence in expected future prospects of the firm.

2.2.1.5 Tax Preference

Given the nature of dividend payouts, it makes most sense if only a few or no firms paid out dividends at all. When compared to other means of distributing wealth to shareholders, dividends are more costly in the majority of countries since they are taxed at a higher rate. Because of these taxes, investors cannot create their own dividend policy without inflicting additional cost, and because the tax rate is higher on dividends than on capital gains, most investors are better off without dividends.

According to Brigham and Houston, (2004) point, three tax-related reasons that investors might prefer a low dividend payout to a high dividend payout: first, that long-term capital gains are taxed at a maximum rate of 20 percent, whereas dividends are taxed at effective rates that go up to 39.1 percent in case of USA. Therefore, wealthy investors (who own most of the stock and receive most of the dividends) might prefer to have companies retain and plow earnings back into the business. Earnings growth would presumably lead to stock price increases, and thus lower-taxed capital gains would be substituted for higher-taxed dividends. Second, Taxes are not paid on the gain until a stock is sold. Due to time value effects, a dollar of taxes paid in the future has a lower effective cost than a dollar paid today. Third, if a stock is held by someone until he or she dies, no capital gain tax is due at all, the beneficiaries who receive the stock can use the stock's value on the death day as their cost basis and thus completely escape the capital gains tax. Because of these tax advantages, investors may prefer to have companies retain most of their earnings. If so, investors would be willing to pay more for low-payout companies than for otherwise similar high-payout companies.

The M&M assumptions of a perfect capital market exclude any possible tax effect. It has been assumed that there is no difference in tax treatment between dividends and capital gains. However, in the real world taxes exist and may have significant influence on dividend policy and the value of the firm. In general, there is often a differential in tax treatment between dividends and capital gains, and because most investors are interested in after-tax return, the influence of taxes might affect their demand for dividends. Taxes may also affect the supply of dividends, when managers respond to this tax preference in seeking to

maximize shareholder wealth (firm value) by increasing the retention ratio of earnings (Al-Malkawi, et. al., 2008).

The tax-preference theory suggests that low dividend payout ratios lower the cost of capital and increase the stock price. In other words, low dividend payout ratios contribute to maximizing the firm's value. This argument is based on the assumption that dividends are taxed at higher rates than capital gains. In addition, dividends are taxed immediately, while taxes on capital gains are deferred until the stock is actually sold. These tax advantages of capital gains over dividends tend to predispose investors, who have favorable tax treatment on capital gains, to prefer companies that retain most of their earnings rather than pay them out as dividends, and are willing to pay a premium for low-payout companies. Therefore, a low dividend payout ratio will lower the cost of equity and increases the stock price earnings (Al-Malkawi, et. al., 2008).

2.2.1.6 Pecking Order Theory

Pecking order refers to a hierarchy of financing beginning with retained earnings followed by debt financing and finally external equity financing. The theory basically suggests that companies with high profitability may use less debt than other companies because they have less need to raise funds externally and because debt is the cheapest and most attractive external option when compared to other methods of capital raising (Kaguri 2013).

Fama and French (2007), Myers (1984) develops an alternative theory known as the pecking order model of financing decisions. The pecking order arises if the costs of issuing new securities overwhelm to other costs and benefits of dividends and debt. The financing costs that produce pecking order behavior include the transaction costs associated with new issues and the costs that arise because of management's superior information about the firm's prospects and the value of its risky securities. Pecking order can keep leverage of firms down when investments are persistently large relative to earnings, as a result dividend payers can keep their payout ratio low (Fama and French, 2007).Fama and French (2001) find that dividend payers are firms with high earnings relative to investment. Thus, for dividend payers, the prediction that firm with larger expected investments have less current leverage.

2.2.1.7 Life Cycle Theory

The life cycle theory is also cited as one of the explanations for dividend payment. Mueller (1972) proposed a formal theory that a firm has a relatively well-defined life cycle, which is fundamental to the firm life cycle theory of dividends. The theory explains that as firms pass through the various stages in their lives, they tend to alter the dividend policy depending on the financial needs of each stage. Implied in this theory is the fact that firms that are in their growth stages are less likely to pay more dividends as compared to firms that are at their maturity stages. Old firms therefore, because they do not have a lot of growth opportunities to fund, are expected to pay more dividends.

2.2.1.8 Clientele Theory

The clientele effect assumes that investors are influenced by different company policies, and when a company's policy changes, investors will adjust their shareholdings accordingly (Miller and Modigliani, (1961); Elton and Gruber, (1970); Black, (1976). Investors tend to keep the shares that their dividend policy matches their needs. In other words, investors who prefer certain dividends over uncertain future capital gains, will hold shares with a high dividend pay-out, and vice versa. In this case, the dividend policy is not really relevant, but its stability is. As a consequence, investors adjust their investment strategy to suit their needs and this would affect share price. Hence, the clientele effect is the tendency of a firm to attract the type of investor who likes its dividend policy.

2.2.2 Empirical Consideration

2.2.2.1 International Evidence

Rozeff (1982) examined the relationship between dividend pay-out and growth, beta and agency costs in a sample of 1000 companies during the period between 1974- 1980. The researcher used regression to identify the relationship by using the average dividend pay-out as the dependent variable and used the following independent variables: percentage of ordinary shares held by insiders, average growth rate of revenue, value line's forecast for average growth rate of revenue, number of ordinary shares and beta coefficient. He concluded that investment policy influences dividend policy. The result supports the belief

that dividend policy is an outcome of two market imperfections: agency cost of external financing and transaction cost associated with external financing. Hence, increased dividend pay-out is expected to decrease agency costs and increase transaction costs of external funding. The sum of these two costs determines dividend policy.

Amidu and Abor, (2006) conduct a research entitled "What influence dividend Decisions of firms in Sub-Saharan African?" The purpose of the study was to examine the determinants of the dividend decisions of firms in Sub-Saharan Africa (SSA). The researcher applied a two-step estimation procedure using firm-level panel data for firms in selected SSA countries during the period from 1997 to 2007. In the first step the researcher employed a Probit model to estimate the parameters of the determinants of the decision to pay or not to pay dividends and then the researcher estimates the parameters of the dividend payout and dividend per share models by applying the generalized least squares techniques. The results provided consistent evidence that dividend decision and its payments are influenced by firm profitability level, investment opportunity sets, taxation, leverage, institutional shareholding and risk**.** The results affirm the signaling, agency cost and free-cash flow theories of dividend policy.

Furthermore, Al-Malkawi, (2007) examined the determinants of corporate dividend policy in Jordan. The study used a firm-level panel data set of all publicly traded firms on the Amman Stock Exchange between 1989 and 2000. The study examined the determinants of the amount of dividends using Tobit specifications. The results suggested that the proportion of stocks held by insiders and state ownership significantly affect the amount of dividends paid. Size, age, and profitability of the firm seem to be determinant factors of corporate dividend policy in Jordan. The findings provided strong support for the agency costs hypothesis and were broadly consistent with the pecking order hypothesis.

Al-Twaijry (2007) conducted a research on Dividend policy and payout ratio by taking evidence from the Kuala Lumpur stock exchange for the year 2001 to 2005.The Pearson correlation was used with cross sectional sample of 300 firms. The purpose of the research was to identify the variables with an expected influence on dividend policy and on payout ratio in an emerging market. Factors including Net Earning per share, cash available per share, book value of the share, company size, company age, past dividends, and past and

future earnings were discussed. Eight hypotheses were developed and tested from the Kuala Lumpur Stock Exchange. The results suggested that current dividends were affected by their pasts and their future prospects. Payout ratios were not found to have a strong effect on the company's future earnings growth, but had some significant negative correlation with the company's leverage. Cash per share and share book value significantly and positively affect both dividends per share and payout ratio.

Lee, (2009) Carried out an empirical review on Determinants of dividend policy in Korean banking industry from the panel data of Korean banks during 1994-2005, the researcher find that, consistent with the general findings of the previous research, the banks with higher profitability or performance pay more dividends. Furthermore and more importantly, they found very strong, significant, and consistent evidences that the safer banks pay more dividends. In the test for the partitioned sample, the tendency of the banks with higher safety and profitability to pay more dividends is observed more strongly and transparently. Considering that banks are subject to monitoring and surveillance of regulator about their operation and riskiness in addition to the pressure form capital market, dividend policy of banks would be more closely associated with their riskiness than other types of industries.

Victor et al. (2009) Conducted a research on Insurance company dividend policy decisions Evidence on the role of corporate governance and regulation. The purpose of the study was to explore the relationship between good corporate governance and dividend payment in the regulated insurance industry. The paper was employed A modification of Rozeff's transaction cost/agency cost trade-off model was estimated on a sample of 55 firms in the insurance industry. Data cover a five-year period ending in 2006. The result of the study was Consistent with an agency view of dividends functioning to reduce the need for firm monitoring, it was found that there is no relationship between good corporate governance and dividend policy in a regulated industry. In other words, regulation appears to supplant the need for most corporate governance mechanisms and dividend distribution to provide information.

Al-Najjar and Hussainey, (2009) on their study examined the association between dividend payout and outside directorships. The purpose of the study was to examine whether the number of outside directors on the board of directors and dividend payout are substitutes or

complements mechanisms applied by UK firms to control agency conflicts of interest within the firm. The authors was used Tobit and Logit regression models to examine the extent to which firms with a majority of outside directors on their boards experience significantly lower or higher dividend payout after controlling for insider ownership, profitability, liquidity, asset structure, business risk, firm size, firms' growth rate and borrowing ratio. Based on a sample of 400 non-financial firms listed at London Stock Exchange for the period from 1991 to 2002, it was found that dividend payout is negatively associated with the number of outside directors on the board of directors. At the end the study suggested that firms pay lower dividends when higher number of outside directors is employed on the board. Firms with weak corporate governance need to establish a reputation by paying dividends.

Gupta and Banga, (2010) Studied the determinants of corporate dividend policy. The study re-examined various factors that were a bearing on the dividend decision of a firm by using a two-step multivariate procedure. First factor analysis was performed on the data to extract prominent factors from various variables and then multiple regressions is conducted on the factors. Results of factor analysis indicated that leverage, liquidity, profitability, growth and ownership structure are the major factors. Regression on these factors showed that leverage and liquidity to be the determinants of the dividend policy for Indian companies.

Gill. et al., (2010) Carried out a research on Determinants of Dividend Payout Ratios with Evidence from United States. The study was applied co-relational and non-experimental research design and also the study was conducted by taking dividend payout ratio as a dependent variable and corporate profitability, cash flow, tax, sales growth, market-to-book ratio, and debt-to-equity ratio as an independent variables. From the survey on the entire data of manufacturing firms and the service industry of United States they found that the dividend payout ratio is the function of profit margin, sales growth, debt-to-equity ratio, and tax. However For firms in the Services industry the dividend payout ratio is the function of profit margin, sales growth, and debt-to-equity ratio. For manufacturing firms they found that dividend payout ratio is the function of profit margin, tax, and market-to-book ratio. They also found that the results are different when the dividend payout ratio is defined as the

ratio between the cash dividend that the after-tax cash flow, not the after tax earnings of the companies.

Shubiri, (2011) investigation on determinants of changes dividend behavior policy with the evidence from the Amman Stock Exchange, The purpose of the study was to determine the dividend policies of the 60 industrial firms and also investigates the extent to which four theories of dividend policy, namely, signaling theory, agency theory, residual theory and stability theory of dividends, together with the imputation system extant in Jordan influence corporate dividend policy listed on the Amman stock exchanges (ASE) for the period of 2005-2009. The study was conducted by dividend payout ratio (DIV) as a dependent variable and Leverage ratio, Leverage ratio, profitability, business risk, asset structure, liquidity, growth opportunity, firm size & free cash flow as an explanatory variables. The study was used the Tobit regression analysis, and Logit regression analysis. The study found that the dividend policy in Jordan as a developing country is influenced by factors similar to those relating to developed countries.

Takumi, (2012) examined the determinants of dividend payout ratio in the largeststock exchange of Pakistan i.e. Karachi Stock Exchange (KSE) with the objectives of examining the factors that determines the dividend payout ratio in Pakistan's capital market and analyzing the impact of leverage, liquidity, corporate tax to net profit ratio and market to book value ratio on dividend payout ratio. The effect ofDebt to equity ratio, Operating cash flow per share, profitability, market tobook value ratio, current ratio and corporate tax on dividend payout ratio wasanalyzed for the year 2009 for 50 companies that announced dividend in 2009 was examined.Relation of debt to equity ratio, profitability, current ratio and corporate taxwas found to be positive with dividend payout ratio while Operating cash flowper share and market to book value ratio has a negative relationship withdividend payout ratio. Profitability, debt to equity and market to book valueratios were found to be the significant determinants of dividend payout ratio inPakistan.

Trang, (2012) Examined the determinants of dividend policy: the case of Vietnam. The purpose of the study was to examine the determinants of dividend policy in Vietnam, an emerging stock market that was officially established in July, 2000. The paper identified whether firms' characteristics and corporate governance affect their dividend payments. The

variables included under the study was profitability, firm size, debt level, liquidity, asset structure, industry type, growth opportunities plus business risk; corporate governance comprises management ownership, ownership concentration, board of directors along with audit quality. The author relies on a sample of 116 companies listed on the Hochiminh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX) for the year of 2009 in Vietnam. The study found that, in Vietnam, profitability influences positively and business risk impacts negatively on dividend disbursement. Moreover, there are relationships between industry type as well as audit quality and dividend payments. This research concluded that as dividend significantly affected by profitability in Vietnam, external investors should rely on expectations about the profitability of a firm in the future to consider whether they should buy, hold or sell its shares.

Rashid, (2014) conducts an empirical analysis of determinants of dividend payouts of financialsector firms of Pakistan listed at Karachi Stock Exchange. The study applied a panel data methodology.Different variables related to the firms, operations i.e. Profitability, Liquidity, Size, Cash Flow, Asset tangibilityand Earnings per share and their impact was analyzed on the dividend payouts of the firm. Data was collectedfrom 21 financial sector firms listed at Karachi Stock Exchange. Results showed that cash flow have significantnegative relationship and earnings per share have a significant positive association with the dividend payout ofthe company, while asset tangibility, profitability and size have in-significant negative relationship and liquidityhas insignificant positive relationship with dividend payouts.

Christopher, (2014) empirically test the Determinants of the Dividend Policy of Lebanese Listed Banks. The purpose of the research was investigating the factors determining the dividend payout policy in the Lebanese banks listed on the Beirut Stock Exchange. This study considered the impact of seven variables, namely, profitability, liquidity, leverage, firm size, growth, firm risk and previous year's dividend payout on the dividend payout ratios by using an unbalanced panel dataset of listed banks between the years of 2005 and 2011. Two models were tested using the OLS and the dynamic panel regressions. Empirical results showed 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. Moreover, the results suggested that the Lebanese listed firms prefer to invest their earnings to grow rather than to pay more dividends.

Khan and Naheed, (2014) Carried out a research titled "In Pakistani Service Industry: Dividend Payout Ratio as Function of some Factors". The explained variable of the study was that dividend payout ratio and the explanatory variables were of Corporate Profitability, Cash Flow, Tax, Sales Growth and Debt to Equity ratio. The data was taken from financial statements of 26 firms listed on Karachi Stock Exchange (Pakistan). The result of the study showed that dividend payout ratio is not the function of Corporate Profitability, Cash Flow, Tax, and Sales Growth except Debt to Equity ratio. Also the results showed that in Pakistan, there are other factors which influence the dividend payout ratio.

2.2.2.2 Local Evidence

Dagnaw, (2009), conducted a study on determinants of dividend payment in Ethiopian private banks using multiple regression technique from 1999/2000 to 2007/08. He used earning per share, debt ratio, equity ratio, liquidity ratio as explanatory variable and dividend per share as explained variable. The result showed that earning per share and debt ratio have positive and strong relationship with dividend per share while the rest explanatory variables shows no significant relationship with dividend per share.

Also, Kinfe, (2011), carried out an empirical study on the determinants of dividend payout of banks in Ethiopia. The purpose of the study was to identify the various factors that influence the dividend payout policy of banking firms in Ethiopia during 2006 to 2010 and used the sample of six private banks operating in Ethiopia. The study took dividend Payout Ratio as dependent variable and profitability, liquidity, the effect of previous year's dividend, leverage, firm size and growth as independent variables. By using multiple regression technique, the study concluded that Ethiopian banks more rely upon past dividends to fix their dividend payments. The result also showed the positive relationship between firm size and dividend payout ratio. Also, there was no relationship between payout ratio and profitability, growth and leverage. Furthermore, the study concluded that the firm's liquidity had negative relationship with dividend payout. As a result the author conclude that

banks in Ethiopia took into account agency conflicts, previous year's dividend and liquidity, more than profitability, leverage and growth when making decision to pay dividends.

Nuredin, (2012) studied determinants of dividend policy of insurance companies in Ethiopia. The study used mixed research approach with a Panel data covering nine-year period from 2003 – 2011 for nine insurance companies and also conducted in-depth interview with company officials. The study analyzed a range of determinants of dividend policy: Profitability, growth, Liquidity, Size and Leverage of the firm. The random effects technique was applied to find out the most significant variables used by the insurance companies in making the dividend decisions. The results showed that profitability and liquidity are the statistically significant factors which positively influence dividend policy of insurance companies in Ethiopia. On the other hand, growth influences dividend policy negatively and significantly. Contrary to theoretical prediction, the study found that size and leverage are insignificant in influencing the dividend policy of insurance companies in Ethiopia. The study provided evidence that profitability, liquidity and growth are the most important factors that affect dividend policy of insurance companies in Ethiopia. Finally the study concluded, Ethiopian insurance companies' managers should give consideration to profitability, liquidity and growth when they set dividend policy.

Simegn, (2013) studied determinants of dividend policy of banks in Ethiopia using multiple regressiontechnique for the period covering 2002-2011. The researcher included explanatory variables like; current earning, previous year's dividend, liquidity, leverage, loan loss provision and bank's age are as explanatory variables for the dividend policy of Ethiopian banks. The regression result shows that current earning, previous year's dividend, bank's age and loan –loss provisions have positive and statistically significant impact on the banks dividend payments whereas liquidity has negative impacts and leverage is not an important variable for the banks dividend decision.

Furthermore, Mitiku (2015) examined the determinants of dividend payout in Ethiopia private banks using banks audited financial statements from 2009/10 to 2013/14 and analyzed panel data through regression technique. The study used dividend payout as dependent variable and seven independents variables; profitability, liquidity, leverage, lagged dividend payout, growth size and risk. The finding indicated that among the seven

independents variables, lagged dividend payout, growth, size, and risk have positive statistically significant impact on dividend payout. The rest three variables have no statistical significant impact on dividend payout.

2.2.3 Summary of Literature Review

(Linter, 1956) Suggests that dividend depends in part on the firm's current earnings and in part on the dividend for the previous year. The researcher found that major changes in earnings with existing dividend rates were the most important determinants of the firm's dividend policy. The researcher also found that firms tended to make periodic partial adjustments toward a target payout ratio rather than dramatic changes in payout.

Fama and Babiak, (1968) Supported Lintner's argument that managers increase dividends only after they are reasonably sure that they can permanently maintain them at the new level. Miler and Modigliani, (1961)**,** suggested that, in a world without taxes, transaction costs, or other market imperfections, dividend policy is irrelevant to the value of the firm. They also suggested that dividend is determined residually; that is dividends are paid from the money left after investing in positive NPV projects. However, dividends may be relevant, given the fact that markets are not totally perfect.

Empirical studies of signaling have had mixed results on proving whether share price changes following an increase or a decrease in dividends reflect only signaling effect, dividend preference, or both. There is, however, a general agreement in the literature that signaling is a value-relevant determinant of dividend policy. Motives of signaling nature include actions to indicate future profits, actions to get external finance, actions to help prevent a takeover, and complying with and adopting a policy of a parent company that wants to signal certain information.

The literature also recognizes the fact that groups of investors have an incentive to pursue low-payout stocks, while other groups have an incentive to pursue high payout stocks. These groups are called clienteles. The clientele-effect argument states that dividend policy responds to the needs of stockholders. MM and several studies suggest that there is in fact a clientele-effect (Pettit, 1977). Which is also a value-relevant determinant of dividend policy. Motives of a clientele-effect nature include meeting shareholders requirement for income,

maintaining their loyalty, and supporting share price to maximize their wealth. There are motives, however, that don't relate to clientele-effect/signaling. Examples of such motives include the lack of profitable investments and the desire to reduce surplus liquid assets. These motives form a value-irrelevant group (Al-Deehani, 2003).

From the literature review described in the above, the effect of profitability on the firms dividend policy was studied by various researchers i.e, Amidu andAbor, (2006), Al-Malkawi et al., (2008), Gupta and Banga, (2010), Khan and Naheed, (2014), (Kinfe, 2011), (Nuredin, 2012), Khan and Naheed, (2014), and the effect is significant. However, other studies like Kinfe, (2011) and Mitiku, (2015) shows that dividend payout ratio is not influenced by the firm's profitability.

Also, the literature reviewed in the above, shows liquidity as one of the major influential factor in affecting firm's dividend payout decision, (Najjar and Hussainey, (2009), Gupta and Banga (2010), Nuredin, (2012), Reshid, (2014) and christopher, (2014)). However, the study showed that the results are mixed. Furthermore, studies of Rozeff, (1982), Al-Malkawi et al., (2008) shows that fiancial leverage has affected the dividend payoutdection of the firm.

Firm sizes also considered as major determinats of dividend policys of the firm (Al-Malkawi et al., (2008), Najjar and Hussainey, (2009), Kinfe, (2011) and Mitiku, (2015)). Also the significant effect of growth opportunity in dividend payout ratio decisions evident by previous research works of (Najjar and Hussainey, (2009), Gupta and Banga, (2010), Shubiri, (2011), Trang, (2012), Nuredin, (2012), Christopher, (2014) and Mitiku, (2015)).

Finaly, Prvious year divideds considered as major infuluncal fator in affectig firms dividend payout decision, Nuredine (2012),Simegn, (2013) ,christopher, (2014) Mitiku, (2015). Najjar and Hussainey, (2009), Shubiri, (2011) Trang, (2012), and Rashid, (2014) studiedand found that the dividend payout ratio is the function of asset structure.

2.3 Gap In literature

In above paragraphs, review of literature shows that the dividend determinants have been well researched and well documented in developed countries and emerging markets like

Malaysia, India, Pakistan and Saudia Arabia and few in Africa like Nigeria and Ghana but there is rareness of empirical studies in developing country like Ethiopia context. Therefore the study required to fill the knowledge gap existing by empirically chalking out the important determinants regarding dividend payout policies of Ethiopia insurance company.

Research conducted within the same country, incorporating almost the same variables but different industries, has come up with somewhat different results. Gill, et. al., (2010) studies taking into account manufacturing and service industry of America have concluded different significant factors for both industries. Therefore this research has chosen insurers, a major industry within Ethiopia corporate (dividend paying) environment, in order to find firms specific factors determinants of dividend payout.

Despite the above considerations, it is also found that some variables effecting dividend payout are perceived to be affecting it in similar direction. Such as if there is increase in profitability of a firm it would be assumed and proved to increase dividend payout ratio of any corporation (Gill, et, al., 2010, Mehta,2012, ,Zameer et al 2013 Nuhu, 2014,) but this relationship is being rejected by Jozwiak (2014) studies. Same is the case with liquidity. Some researchers have concluded positive relationship (Ahmed and Javaid 2009) while some have come up with negative relationship (Zamer et al 2013). These conflicting results demand more research that could clarify such relationships.

Previous studies conducted on the topic of determinants of dividend policy: an evidence from Insurance companies in Ethiopia were limited to five firm specific variables and recommend the rest variables for further research area, this study come up with inclusion of previous year dividend payout ratio and asset structure of the firm, variables which is found to be significant influence in other similar studies.

Finally, most of existing studies in Ethiopia use multiple regression i.e studies of Dagnaw, (2009) and Kinfe, (2011) but not panel data cross sectional/time series multiple regression. This study adopts another methodology, panel data regression in analyzing the determinants of dividend payout policy for Ethiopian Insurance Companies.

2.4 Variables Definition and Hypothesis Development

2.4.1 Dependent Variable Dividend Payout Ratio

The dividend payout ratio is defined as the percentage of the company's earnings that is distributed to shareholders or reflecting the percentage of net income (available for shareholders).It is calculated by dividing the total dividend to net profit. Rozeff, (1982) was one of the studies which employed the same formula in determining dividend payout. AlsoLloyd, (1985)studies employed dividend payout ratios as a determinant of dividend policy.

2.4.2 Independent Variables

2.4.2.1 Profitability and Dividend Payout

From the literature review described in previous chapter, Profitability which is measured by the division of net profit to total equity has been found as one of the most essential determinants of dividend payout policy (Lintner, 1956; Pruitt and Gitman, 1991; Deangelo et al., 2004; Amidu and Abor, 2006). Also Reddy, (2006) stated that firms that paying dividend are more profitable. A firm's profitability is considered to be an important factor that affects dividend policy. This is because profitable firms are willing to pay higher amounts of dividends. This result is also supported by the signalling theory of dividend policy.

Furthermore, several studies have documented a positive relationship between profitability and dividend payouts of the firm (Jensen et al., 1992) and (Fama and French, 2001). Evidence from emerging markets also supports the proposition that profitability is one of the most important factors that determines dividend policy (Pandey, 2001), and (Aivazian et al. 2003), previous works on dividend in Ethiopia also confirm this positive association between profitability and dividend payout (Nuredin, 2012). Based on the above discussion a positive relationship is expected between firm's profitability and its dividend payments. As a result, the researcher formulates its hypothesis as follows:-

Hp1: Profitability has a positive and significant impact on dividend policy of Ethiopian Insurance Companies.

2.4.2.2 Liquidity and Dividend Payout

It is very important to compare a firm's liquidity position in relation to its dividend payment. Liquidity measures the extent to which a firm is able to meet its payment obligations. According to the signaling theory, firms with higher cash accessibility are able to pay higher dividends than firms with insufficient cash (Gupta and Banga, 2010). Furthermore, according to the agency theory, (Jensen et al., 1986) argued that firms with high cash flows pay higher dividends in order to diminish the agency conflict between their managers and shareholders. Also Christopher, (2014) found liquidity is an essential factor that affects the dividend policy. Anil and Kapoor, (2008) also indicate that cash flow is an important determinant of dividend payout ratio. Logically a firm will only pay dividend if it has a strong cash position. Cash dividend distribution not only depends on the profitability of firms but also depends on liquidity. Hence, highly liquid firms, i.e. firms with higher cash and cash equivalent assets, pay higher dividends to shareholders than those with insufficient cash. This positive association between liquidity and cash dividend payout is supported by prior literature. As a result, the researcher formulates its hypothesis as follows:-

Hp2: *Liquidity has a positive and significant impact on dividend policy of Ethiopian insurance companies.*

2.4.2.3 Leverage and Dividend Payout

The higher the internal flows are given the investment requirements, the lesser will be the demand for borrowings and vice-versa. 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); (Al-Malkawi, 2007) it is because of they are committed to fixed payments to service their debt, which restrict the distribution of dividends. Also a number of studies have found that the level of financial leverage negatively affects dividend policy Jensen *et al*. (1992), Al- Malkawi and Nazir (2008), Lloyd, *et al*. (1985), and their studies inferred that highly levered firms look forward to maintaining their internal cash flow to fulfill duties, instead of distributing available cash to shareholders and protect their creditors. Furthermore, companies with higher leverage ratio

are under regulatory pressure which puts a restriction on paying high dividends (Dickens et al., 2002).In contrary, Kania and Bacon, (2005) have found a significant positive relationship between leverage and dividend payout, that firms might use debt funds to pay dividends. As a result, the researcher formulates its hypothesis as follows:-

Hp3: Leverage has a negative and significant impact on dividend policy of Ethiopian insurance companies.

2.4.2.4 Growth Opportunity and Dividend Payout

Growth is the ability of the firm to remain at the same level of development at a certain rate which is likely to be higher than the growth rate compared with other firms Al - Najjar&Hussainey (2009). The change in revenues is used as a proxy for growth opportunities. It was argued by Ho (2003) that firms which have high opportunity for growth are expected to spend more on new projects for expansion purposes. 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, 2003).
The same finding was reported Ruzeff, (1982); Jensen et al., (1992); Alli et al.,(1993) firms with higher growth opportunities are likely to retain a greater portion of their earning, resulting in lower dividend payout ratio. As a result, the researcher formulates its hypothesis as follows:-

Hp4: Growth opportunity has a negative and significant impact on dividend Policy of Ethiopian insurance companies.

2.4.2.5 Firm Size and Dividend Payout

Firm size is expected to be an acceptable determinant of the company decision to pay dividends to its shareholders (Al-Najjar and Hussainey, 2009). Also, Ho (2003) argued that big companies are more able to pay dividends, rather than smaller companies. This result is consistent with Aivazian et al., (2003) who mentioned that the larger firms have easy access to the market and are expected to pay more dividends.(Lloyd, 1985), (Jensen et al., 1992)and

(Fama and French, 2001), also found a positive relationship between dividend payout policy and firm size. Furthermore, Dickens et al., (2002) stated that 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. In Ethiopia Kinfe (2011) studies shows a positive association between firm size and dividend payout. As a result, the researcher formulates its hypothesis as follows:-

Hp5: Firm size has a positive and significant impact on dividend Policy of Ethiopian insurance companies.

2.4.2.6 Previous year Dividends and Dividend Payout

Previous year's dividend payments have been regarded as the primary indicator of a firm's capacity to pay dividends (Lintner, 1956),The model was tested and reaffirmed by (Fama and Babiak, 1968), who concluded that the previous year's dividends positively affect the current dividend payout ratio of a company. In the real world, it is often believed that companies pay a steady stream of dividends because investors perceive firms with stable dividends as stronger and more valuable. As a result, the researcher formulates its hypothesis as follows:-

Hp6: Previous Year Dividend has a Positive and significant impact on dividend payout policy of Ethiopian insurance companies.

2.4.2.7 Asset structure and Dividend Payout

(Myers, 1984)Assumed that companies owning the most tangible assets are likely to borrow more than those owning the most intangible assets, so they have the ability to keep less retained earnings and pay higher dividends according to pecking order theory. Therefore, a positive relationship between the tangible assets ratio and dividend payments is expected. Nevertheless, Najjar and Hussainey , (2009) results showed that an inverse association between tangibility of assets and dividend policy exists. In the study they believed that the more tangibility the more dependence on retained earnings because of lower financing from

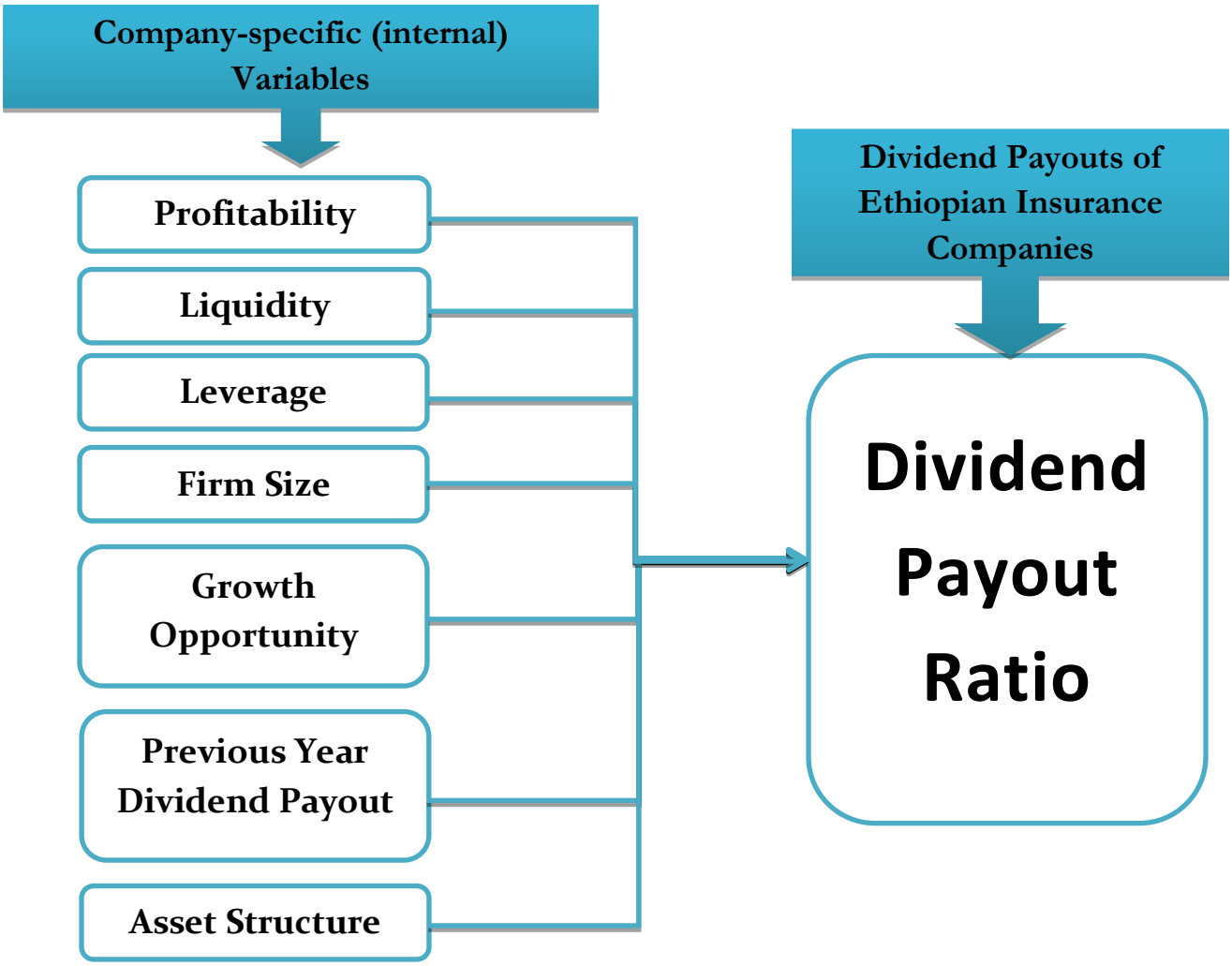
debts, so the lesser dividends are paid towards shareholders. Also Shubiri, (2011), Trang, (2012),Rashid, (2014) andHo (2003) has also supported the positive and negative association between asset tangibility and dividend payout. Even if their existmixed results on the association between assets structure and dividend payout the positive association is somehow dominant. As a result, the researcher formulates its hypothesis as follows:-

Hp7: Asset Structure has a Positive and significant impact on dividend policy of Ethiopian insurance companies.

2.5 Research Conceptual Framework

In order to examine the research problem of this study, the following conceptual framework has been adopted by which the following diagram describes the relationship among variables of interest.

Figure 2.3.6 The Conceptual Framework



CHAPTER THREE: METHODOLOGY

The objective of this chapter is to describe the research design and research methodology used in this study. The chapter has been organized as follows: - start with highlight research design then provides the research approach followed data type, data collection and sampling technique followed by model specification and final part presents operationalization of study variables.

3.1 Research Design

This study presented an empirical analysis of important factors of dividend payout for Ethiopian insurance companies. To achieve this objective explanatory research design is employed in the study. The explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration (Marczyk et al., 2005). Hence, it is an explanatory research determining the relationship between dependent variable (Dividend Payout Ratio) with firm specific independent variables (profitability, liquidity, leverage, growth opportunity, firm size, previous year dividend payout ratio and asset structure). The study also explained the results by comparing with empirical evidences. Hypotheses were formulated and tested on the basis of empirical reviews on similar subject matter.

3.2 Research Approach

When conducting a study the researcher has to make a choice on what method should be used, according Creswell, (2009) there are different ways of approaching the problem fundamentally, quantitative, qualitative approach and mix of the quantitative and qualitative approaches. The quantitative approach and quantitative empirical research is often concerned with establishing relationships between variables (Theobald, et al., 2002). According to Patel and Davidsson, (2003), a quantitative method means that measurements are done when collecting data. This is followed up by statistical processing and analysis method that is based on the collected data. Aliaga and Gunderson, (2002) defined, in contrast, that "quantitative research is explaining phenomena by collecting numerical data that are analyzed using mathematically based methods".

The aim of the study is to generalize the fact found in the sampled Ethiopian insurance companies regarding the determinants of dividend payout. This generalization under quantitative method can be obtained through a systematic way of seeking facts and causes of phenomena, focuses on analysis of numerical data, uses of controlled measurements and statistically analyzing to test the stated hypotheses. The researcher collected numeric data of variables from financial reports of nine consecutive years from nine Ethiopian insurance companies. The study followed a quantitative approach method so as to analyze those phenomena of a company that appear to affect the dividend payout decision, EViews 8 statistical software and panel least square regression method has used to analyze the data.

3.3 Data Type

Financial data reported on the sampled insurance companies financial statements are used in this study.The data's are quantitative (Numerical) and secondary in nature and can be best fit to the panel data analysis. According to Brook, (2008) the Panel data involves the pooling of observations on a cross section of units over several time periods and provides results that are simply not detectable in pure cross sections or pure time series studies.

Brook, (2008), also stated that, panel date set has two major advantages; first, it can address a broader range of issue and tackle more complex problem than pure time series or pure cross-sectional data alone and by structuring the model in appropriate way, the researcher can remove the impact of certain forms of omitted variable bias in the regression result. Second, it is often examined how the relationships between variables change. Hence, by combining cross-sectional data and time series data, the researcher can increase the number of degree of freedom, and thus the power of test, by employing information on the dynamic behavior of a large number of entities at same time. Furthermore Hsiao, (2003) described panel or a longitudinal data set is one that follows a given sample of individuals over time, and thus provides multiple observations on each individual in the sample.

3.4 Data Collection and Sampling Technique

3.4.1 Data collection

The study used secondary data which are collected from National Bank of Ethiopia and published Annual Reports of nine Ethiopian insurance companies included in the sample for the period of nine year (2007/08 – 2015/16). The expected total number of observations are 81 (9*9). However, the absence of dividend in the study period and the dropout of outlier figures from the regression by researcher so as to keep the normal distribution of the data set, leads the total number of observation decrease into 77 only. This also lead the data from balanced panel to unbalanced panel.

3.4.2 Population and Sampling Technique

The target populations of the study are all insurance companies operating in Ethiopia and registered by NBE. Currently seventeen insurance companies exists in Ethiopia (Annex 1).To make inference about the population a large sample size is important and to make that, this study have used nine insurance companies out of the seventeen insurance companies currently operating in Ethiopia. While doing so, some of the insurance companies started operation recently including,Abay insurance company S.C 2009, Berhan Insurance Company S.C 2011, Lucy insurance company S.C 2011 and Bunna Insurance Company S.C 2012. Furthermore, these insurance companies even started distribution of income as dividend recently for instance, Lucy insurance S.C started paying dividend at 2014. By considering this, nine years data were used to conduct this study. Otherwise, increasing the number of years to be included in the study like ten and above years would be achieved only by decreasing the number of insurance company to be included in the study and this would affect negatively the ability to give inference about the Ethiopian insurance industry due to less representativeness of the sample.

As stated above a total of nine insurance companies were included in this study based on purposive sampling techniques; operation period (only insurance company operates for nine year and above in Ethiopian insurance industry) also ownership title were considered as a selection criteria. Hence, only private insurance companies were included as they are

expected to pay dividend to their shareholders. The sampled insurance companies represent 85% of private insurance companies' dividend payout in the year 2015/16. Besides, the sampled insurance companies' represents 73.66% and 74.32% of total insurance companies total annual sales and total asset respectively (NBE 2016).

Due to the above facts,Africa Insurance Company S.C, Awash Insurance Company S.C,National Insurance Company of Ethiopia S.C,Nyala Insurance Company S.C,Nile Insurance Company S.C,United Insurance Company S.C, Global Insurance Company S.C, Nib Insurance Company S.C andLion Insurance Company S.C are included in representing the total population in this study.

3.5 Data Analysis

To comply with the objective of this research, this study was primarily based on quantitative research, which adopted an econometric model to examine the determinants of dividend payout of Ethiopian insurance companies. The study adopted multiple linear regression model to identify and measure possible factors that could affect the dividend payout as measured by Dividend Payout Ratio (DIPO). The assumptions on classical linear regression model were tested to determine whether the collected data would fit the assumptions in order to use Ordinary Least Squares (OLS) technique. Hence, all classical linear regression model (CLRM) assumptions (Errors have zero mean, Heteroscedasticity, Autocorrelation, Multicollinearity, and Normality) were tested in this study. Furthermore, Eviews 8 statsticalsoftware was used to conduct a regression analysis.

3.6 Model Specification

According to William et al., (2010), model construction involves specifying relationships between two or more variables; perhaps extending to the development of descriptive or predictive equations. In order to achieve the objectives of this study, the panel data regression model is used. Panel data involves the pooling of observations on a cross-section of units over several time periods and provides results that are simply not detectable in pure

cross-sections or pure time-series studies (Freeman et. al., 1982). The general form of the panel data model can be specified as:

$$\mathbf{Y_{i,t} = \alpha_i + \beta X_{i,t} + \varepsilon_{i,t}}$$

In this equation, the dependent variable which is the firm's dividend policy is represented by $Y_{i,t}$, and the set of explanatory variables are represented by $X_{i,t}$in the model. The subscripts i and t denote the cross-sectional and time-series dimension respectively. Also, **ε** taken to be constant over time t and specific to the individual cross-sectional unit $_i$.

In the light of the above model and on the base of selected variables, this study adopted lintner, (1956) econometric model to test the quantitative panel data. Hence, the determinant of dividend payout Ratio (DIPO) can be modeled as follow:-

$$\boldsymbol{DIPO = \beta_0 + \beta_1 PROF_{i,t} + \beta_2 LIQD_{i,t} + \beta_3 LEVG_{i,t} + \beta_4 GROP_{i,t} + \beta_5 FSIZ_{i,t} + \beta_6 PYDV_{i,t} + \beta_7 ASTR_{i,t} + \epsilon_{i,t}}$$

Where;-

DIPO = Dividend Payout Ratio = Dividend / Net Profit

PROF = Profitability = Net Profit / Equity

LIQD = Liquidity = Current Assets/ Current Liability

LEVG = Financial Leverage = Total Debt/ Total assets

GROP = Growth Opportunity = (Current Revenue-Previous Revenue)

Previous Revenue

FSIZ = Firm's Size = Natural logarithm of total assets

PYDV = Pervious Year Dividend Payout Ratio

ASTR = Asset Structure = Fixed Asset /Total Asset

βo = Constant term

β**1,** 2, 3, …..7 are parameters to be estimated;

Є = is the error component for company i at time t assumed to have mean zero

E [Є it] =0

i = Insurance company i = 1, . . . , 9; and t = the index of time periods and t = 1, . . . ,9

3.7 Operationalization of study variables

Table 3.7 Proxy Variable, Definition, Expected Results of the study variables

Proxy Variables	*Definition*	*Expected Result*
Dividend Payout Ratio(DIPO)	*Dividend / Net Profit*	*Dependent Variables*
Profitability(PROF)	*Net Profit /Equity*	+
Liquidity(LIQD)	*Current Assets/ Current Liability*	+
Leverage(LEVG)	*Total Debt/ Total assets*	-
Growth Opportunities(GROP)	*Change in Revenue*	-
Firm Size(FSIZ)	*Natural logarithm of total assets*	+
Pervious Year dividend Payout ratio(PYDV)	*Pervious Year dividend Payout ratio*	+
Asset Structure(ASTR)	*Fixed Asset/Total Asset*	+

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

The objective of this chapter is to present findings and discussion on the findings. The chapter has been organized as follows: - The first section presents descriptive analysis on variables of the study; then second section presents the result of the fulfillment of the classical linear regression model (CLRM) assumptions and the third and final section lays down the results of regression analysis that constitute the main findings of this study.

4.1 Descriptive Statistics

Table 4.1 shows a summary of the descriptive statistics of the dependent and independent variables for nine insurance companies in Ethiopia from the year 2007/08 to 2015/16 with total observations of 77. The table shows the mean, minimum, maximum, standard deviation and number of observations for dependent (explained) variable dividend payout ratio (DIPO) and independent (explanatory) variables (profitability (PROF), liquidity (LIQD), leverage (LEVG) , growth opportunities (GROP), firm size (FSIZ), Pervious year dividend payout ratio (PYDV) and Asset Structure (ASTR).

Table 4.1 Descriptive Statistics

	DIPO	PROF	LIQD	LEVG	GROP	FSIZ	PYDV	ASTR
Mean	0.6191	0.1973	1.0431	0.6409	0.3675	8.4845	0.6030	0.3259
Median	0.6076	0.2019	1.0452	0.6406	0.2500	8.4400	0.6076	0.3241
Maximum	1.2442	0.4483	1.6320	0.7331	4.5500	8.9200	1.2442	0.4000
Minimum	0.0811	0.0133	0.2675	0.5597	-0.4600	7.9700	0.0811	0.2700
Std. Dev.	0.2607	0.0754	0.2187	0.0459	0.7267	0.2239	0.2735	0.0308
Observations	77	77	77	77	77	77	77	77

Source*: E-view 8 output*

The study conducted descriptive statistic using E - views8 software in order to give the audience more understanding about the study variables that are being analyzed. According to Raheman and Nasr, (2007) Descriptive statistics is the first step in analyzing average indicators of variables computed from the financial statements and the standard deviation

that shows how much dispersion exists from the average value. According to Brooks, (2008), a low standard deviation indicates that the data point tend to be very close to the mean, whereas high standard deviation indicates that the data point are spread out over a large range of values.

As shown in previous chapter, dividend payout ratio was measured as dividend divided by net profit. Table 4.1 shows means value of 0.6191 for dividend payout indicating insurance companies in Ethiopia has paid 61.91% of their income as dividend with 26.07% variability ups and downs for the period covering from year 2007/08 to 2015/16 with the range minimum 8.11% and to the maximum 124.42%.

Profitability of the firm which was measured by return on equity (ROE) or net income divided by total equity shows an average (mean) value of 0.1973 that Ethiopian insurance companies have generated on average 19.73% profit on equity committed in the company with 7.54% standard deviation (Volatility). Also the table shows minimum and maximum values of 0.0133 and 0.4483 respectively. This implies that the most profitable insurance company have generated 44.83% profit from each one birr investment on equity and the descriptive statistics table also provide the least profitable insurance company have generated 1.33% profit from each one birr investment on equity during the study period 2007/08 to 2015/16.

The average liquidity position of Ethiopian insurance companies as shown in the descriptive statistics table is 104.31% as measured by current asset divided by current liability. This implied that for a one birr current liability there is an available 1.04 birr on average on current assets, a maximum liquidity position of 163.20% and minimum of 26.75% with 21.87 % dispersions of ups and downs. According to Brealey and Myers, (2005) it is believed a company is solvent if it has a minimum of one to one proportion between current asset and current liability. Hence, it can be said that, Ethiopian insurance companies were solvent with the average liquidity value of 104.31% during the study period covering form 2008/07 to 2015/16.

Ethiopian insurance companies have on average 64.09% leverage ratio, proxied by debt ratio (total debt divided by total asset) in their asset composition, mainly from provision for

unearned premiums and outstanding claims, with 4.59% variability ups and downs. Maximum and minimum debt ratios are 73.31% and 55.97% respectively.

Regarding the size of the firm natural logarism of total assets were proxied to measure the size of Ethiopia insurance companies. According to the descriptive statistics table, the mean, over the study period is 8.4848. This implies the anti – logarsem figure on table shows nine Ethiopian insurance companies have an assets on average value of Birr 350 million over the study period and standard deviation of 0.2239 while the maximum and minimum value are 8.92 and 7.97 respectively

The average growth rate shows 0.3675 with a standard deviation of 72.67%. This implies that on average, the insurance company's revenue increased by 36.75% over the study period covering 2007/08-2015/16. The most grown insurance company has managed to increase their revenue by 455% and the least grown insurance company by 8.11%. This result indicates that Ethiopian insurance industry is in a growth stage in terms of revenue.

Descriptive statistics result shows that previous year dividend payout of Ethiopian insurance companies was on average 0.6030, minimum 0.0811, maximum 1.2442 with 0.2735 dispersions of ups and downs. This indicates that Ethiopian insurance companies has pay 60.30% of their income as dividend with 27.35% variability ups and downs for the study period covering from year 2007/08 to 2015/16. The minimum value of previous year dividend payout was 8.11% and a maximum value of 124.24%.

Furthermore, Table 4.1 shows a descriptive statistics results of asset structure of Ethiopian insurance companies was on average 0.3259 minimum 0.2700 and maximum 0.4000 with 0.0308 dispersions of ups and downs. This indicates that from the total assets of Ethiopian insurance companies an average of 32.59% held by fixed asset from their total asset with 3.08% variance during the study period covering from year 2007/2008 to 2015/16.

4.2 Correlation Analysis

This section of the study presents the results and discussions of the Pearson correlation analysis. To identify the relationship between dividend payout ratio of insurance company in Ethiopia and (profitability, Liquidity, Leverage, growth opportunity, firm Size, previous year dividend payout and Asset structure) Pearson correlation coefficients were used. Which is most widely used type of correlation matrix also called linear or product-moment correlation. The significance level calculated for each correlation is a primary source of information about the reliability of the correlation. The significance of a correlation coefficient of a particular magnitude will change depending on the size of the sample from which it was computed. The values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that the two variables are perfectly related positively; while a correlation coefficient of -1 indicates that two variables are perfectly related in a negative linear sense. A correlation coefficient of 0, on the other hand indicates that there is no linear relationship between two variables (Gujarati, 2004). According to (Wajahat, 2010) before the regression analysis it is important to check the correlation test between dependent variable and independent variables. Since the correlation analysis shows only the degree of association, it shall be followed by multiple regression analysis. The Pearson's correlation coefficient matrix for all variables is presented below in table 4.2.

Table 4.2 Correlation Analysis of Variables

	DIPO	PROF	LIQD	LEVG	FSIZ	GROP	PYDV	ASTR
DIPO	1.000000							
PROF	0.488553	1.000000						
LIQD	0.144345	-0.136942	1.000000					
LEVG	-0.242794	-0.382133	-0.214226	1.000000				
FSIZ	0.003450	0.111032	-0.161137	-0.095903	1.000000			
GROP	-0.489309	-0.345256	0.032912	0.148061	-0.183616	1.000000		
PYDV	0.433729	0.213010	0.138766	-0.304607	-0.084284	-0.094862	1.000000	
ASTR	0.423329	0.210555	0.045652	-0.292260	-0.100696	-0.219816	0.225376	1.000000

Source*: E-view 8 output*

According to correlation result in Table 4.2 shows that leverage and growth opportunity (GROP) are negatively related to dividend payout ratio of Ethiopian insurance companies. This infers that when the increase in these factors leads in the decrease in dividend payout and in reverse decreases in these factors leads increases in dividend payout. Moreover, the coefficient estimates of correlation in the above table shows -0.489309 and-0.242794 for leverage and growth opportunity respectively.

While profitability, liquidity, firm size, previous year dividend and asset structure are positively related with dividend payout with coefficient estimated in the table 4.2,0.488553, 0.4233288, 0.144345, 0.003450 and 0.423329 respectively. These figures implied that when the increase in these factors also leads to an increase in dividend payout of insurance companies in Ethiopia this study. However, correlation analysis shows the direction and degree of associations between variables, it does not allow the researcher to make cause and effect inferences regarding the relationship between the identified variables. Thus, in examining the effects of selected independent variables on dividend payout ratio, the econometric regression analysis which is discussed in the forthcoming section of the paper gives assurance to overcome the shortcomings of correlation analysis.

4.3 Regression model tests(Tests for the Classical Linear Regression Model (CLRM) Assumptions)

For valid hypothesis testing and to make data available for reliable results, the test of assumption of regression model is required. In this study diagnostic tests (errors have zero mean, Normality, Multicollinearity, heteroskedasticity, autocorrelation and model specification) were carried out to ensure that the data fits the basic assumptions of classical linear regression model. Consequently, the results for the model assumption tests are presented as follows:

4.3.1 Assumption 1: The errors have zero mean ($\epsilon = 0$)

According to Brooks (2008), if a constant term is constituted in the regression equation, this assumption will never be violated. Accordingly, in this study the regression model constitute a constant term; as a result this assumption is not violated.

4.3.2 Assumption 2: Homoscedasticity (variance of the errors is constant(var(ut) = σ2 <∞)

The assumption of homoscedasticity is that the residuals are approximately equal for all predicted dependent variable scores the variance of the errors is constant, 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. The presence of heteroskedasticity makes the standard errors too big or too low and hence any inferences made could be misleading. The most popular method, a "white" test has to be made, to ensure that this assumption is no longer violated. If the probability of F-statistics, Observed R-square, and Scaled explained SS of the heteroscedastic white test result is in excess of 5% then there is no hetroscedastic problem. However, if one of these three is fail then there is existence of hetroscedastic problem (Brook, 2008). In this study white test was used to test for existence of heteroscedasticity across the range of explanatory variables.

Table 4.3.2Heteroskedasticity Test

Heteroskedasticity Test: White

F-statistic	1.189952	Prob. F(35,41)	0.2945
Obs*R-squared	38.80201	Prob. Chi-Square(35)	0.3022
Scaled explained SS	30.67341	Prob. Chi-Square(35)	0.6771

Source: *E-view 8 output*

As the result in table 4.3.2 shows, the p-values for F-statistic, Obs*R-square, and scaled explained SS are 0.2945, 0.3022 and 0.6771 respectively and this versions of the test statistic give the same conclusion that reveals the absence of heteroscedasticity.Since,all p values are greater than0.05. This implies that the assumption of homoscedasticity or errors have a constant variance is not violated.

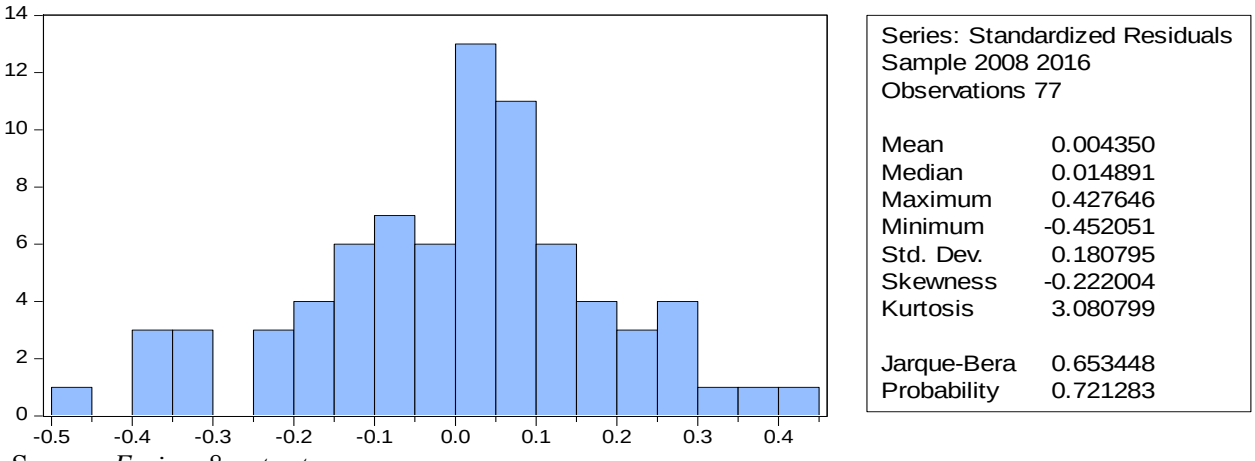
4.3.3 Assumption 3: covariance between the error terms over time is zero (cov (ui,uj) = 0)

The autocorrelation assumption is made of the CLRM's disturbance terms is that the covariance between the error terms over time is zero; this is an assumption that the errors are linearly independent of one another and the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are serially correlated. Usually, Durbin-Watson (DW) test is used for first order autocorrelation. It tests a relationship between an error term and its immediately previous value. The DW test statistic value in the regression result was 1.81(See Annex 4). This falls in lower critical value of (DL)= 1.453 and (DU)=(4-DU)=2.169. Therefore, the analysis satisfies the assumption of independent of errors. This indicates that there is no evidence of autocorrelation and fail to reject the null hypothesis of no evidence of autocorrelation.

4.3.4 Assumption 4: Normality (Errors are Normally Distributed($ut \sim N(0, \sigma^2)$)

According to Brooks (2008), the normality of the data was mainly checked with the popular Jarque-Bera test statistic, if the residuals are normally distributed, the histogram should be bell-shaped and the Jarque-Bera statistic would not be significant. This means that the p-value given at the bottom of the normality test screen should be greater than 0.05 to support the null hypothesis of presence of normal distribution at the 5 percent level.

Figure 4.3.4 Normality Test Result



Source: *E-view 8 output*

Accordingly Jarque-Bera statistic in figure 4.3.4 has a P-value of 0.721283 implies that the p-value for the Jarque-Bera test for the model is very far greater than 5% which indicates that the errors are normally distributed. Furthermore, according to Brooks (2008) the standardized measurements of a distribution are known as its skewness and kurtosis. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures how fat the tails of the distribution area. A normal distribution is not skewed and is defined to have a coefficient of kurtosis of 3. Skewness that is normal involves a perfectly symmetric distribution. Kurtosis involves the stickiness of the distribution. Kurtosis that is normal involves a distribution that is bell-shaped and not too peaked or flat. The results for the tests of both Skewness and Kurtosis also presented below figure 4.3.4 are fitted according to their expected conditions.

4.3.5 Assumption 5: Multicollinearity Test

Multicollinearity indicates a linear relationship (correlations) among explanatory variables. When independent variables are multicollinear, there is overlap or sharing of predictive power. This may lead to the paradoxical effect, where by the regression model fits the data well, but none of the explanatory variables (individually) has a significant impact in predicting the dependent variable Gujarati, (2004). Hair et al. (2006) argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem. Also, Cooper and Schendlar (2009) suggested that a correlation above 0.8 should be corrected for. In addition, Malhotra(2007) stated that multicollinearity problems exists when the correlation coefficient among variables should be greater than 0.75.

Table 4.3.5: Correlations Matrix of Explanatory Variables

	PROF	LIQD	LEVG	GROP	FSIZ	PYDV	ASTR
PROF	1.000000						
LIQD	-0.136942	1.000000					
LEVG	-0.382133	-0.214226	1.000000				
GROP	-0.345256	0.032912	0.148061	1.000000			
FSIZ	0.111032	-0.161137	-0.095903	-0.183616	1.000000		
PYDV	0.213010	0.138766	-0.304607	-0.094862	-0.084284	1.000000	
ASTR	0.210555	0.045652	-0.292260	-0.219816	-0.100696	0.225376	1.000000

Source: *E-view 8 output*

The results in the above correlation matrix table 4.3.5 show that the highest correlation of 0.382133 which is between liquidity and profitability. Therefore, it is possible to conclude that there is no problem of multicollinearity.

4.4 Choosing Random Effect (RE) Vs Fixed Effect (FE) Models

The regression model test indicates that all CLRM assumptions are not violated, so the ordinary least square regression can be safely applied. However, since this study uses a panel data, there are two types of panel estimator approaches that are broadly used and can be employed, namely: fixed effects models (FEM) and random effects models (REM) Brooks, (2008). To check which of the two (FEM or REM) models provide consistent estimates for this study; Hausman test was employed and the result is presented as follows.

Table 4.4: Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.762042	7	0.9718

Source: *E-view 8 output*

The correlated random effects -Husman Test shows Hausman specification test, the P-value of a model is 0.9718, which is more than 5% level of significance. Hence, the null hypothesis of the random effect model is appropriate is failed to reject at 5 % of significant level. This implyies that, random effect model is more appropriate than fixed effect model. Accordingly, the random effect model was employed to estimate the relationship between the dependent variable and the independent variables.

4.5 Regression Result

4.5.1 Operational Model

The operational panel regression model used to find the significant factors of dividend payout of insurance companies in Ethiopia measured by dividend payout ratio (DIPO) was:-

$$DIPO = \beta_0 + \beta_1 PROF_{i,t} + \beta_2 LIQD_{i,t} + \beta_3 LEVG_{i,t} + \beta_4 GROP_{i,t} + \beta_5 FSIZ_{i,t} + \beta_6 PYDV_{i,t} + \beta_7 ASTR_{i,t} + \epsilon_{i,t}$$

4.5.2 Interpretations on regression results

Table 4.5.2 Random effects model regression results

Dependent Variable: DIPO

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.359287	0.915423	0.392482	0.6959
PROF	0.770175	0.179662	4.286807	0.0001
LIQD	0.652341	0.235020	2.775685	0.0071
LEVG	0.123003	0.104795	1.173757	0.2445
GROP	-0.120599	0.030585	-3.943046	0.0002
FSIZ	-0.103897	0.085816	-1.210684	0.2301
PYDV	0.210548	0.082543	2.550765	0.0130
ASTR	1.224936	0.522787	2.343087	0.0220

Effects Specification	S.D.	Rho
Cross-section random	0.174887	0.5186
Idiosyncratic random	0.168498	0.4814

Weighted Statistics			
R-squared	0.600790	Mean dependent var	0.193300
Adjusted R-squared	0.560291	S.D. dependent var	0.244086
S.E. of regression	0.161977	Sum squared resid	1.810315
F-statistic	14.83450	Durbin-Watson stat	1.811920
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.518912	Mean dependent var	0.619098
Sum squared resid	2.485648	Durbin-Watson stat	1.329346

Source: *EViews- 8 output*

Table 4.5.2 above shows regression results between the dependent variable and explanatory variables. The R-squared value measures how well the regression model explains the actual variations in the dependent variable (Brooks, 2008). The R-squared and Adjusted R-squared values are 0.60 and 0.56 respectively and it is an indication that the model is a good fit. This means more than 56% of variations in dividend payout ratio of insurance companies in Ethiopia were explained by independent variables included in the model. However, the remaining 44% changes in dividend payout ratio of Ethiopian insurance companies are caused by other factors that are not included in the model. Furthermore, the F-statistic shows 14.8345 and the probability of not rejecting the null hypothesis that there is no statistically significant relationship existing between the dependent variable (DIPO) and the independent variables, is 0.000000 indicates that the overall model is highly significant at 1% and that all the independent variables are jointly significant in causing variation in dividend payout.

Furthermore Table 4.5.2 shows that five explanatory variables had significant impact on dividend payout policy of Ethiopian insurance companies. The significant variables are ranked based on their significant levels; profitability(PROF), Growth Opportunity(GROP), liquidity(LIQD), Pervious Year Dividends(PYDV) and Asset structure(ASTR) were significant at 1% and 5% significance level since the p-value for those variables were (0.0001), (0.0002), (0.0071) , (0.0130) and (0.0220) respectively.

Apart from that, Table 4.5.2 above shows that two explanatory variables had insignificant impact on dividend payout policy of Ethiopian insurance companies. Namely firm size of the firm (FSIZ) and Leverage (LEVG) were insignificant at 5% significance level since the P-value for those variables were (0.2301) and (0.2445) respectively.

4.6 Discussion on Findings

From the Random effects model regression results (Table 4.5.2), the following have been analyzed as follows;

4.6.1 Profitability

The regression output showed in Table 4.5.2 presented that, the coefficient of profitability (PROF) measured by return on equity is 0.770175 and its P-value is 0.0001. Meaning that

holding other independent variables constant at their average value, when profitability increase by one, dividend payout ratio (DIPO) of Ethiopian insurance companies will increase by 77% and statistically significant at 1% of significance level.

Therefore, the study failed to reject the null hypothesis that profitability has a positive effect on dividend payout. This means, there is no sufficient evidence to support the negative relationship between dividend payout ratio and profitability. This is consistent with the hypothesis as described in the previous chapter which implying that profitable Ethiopian insurance companies are more likely pay dividends to their shareholders. This result is also similar to various previous studies see; Amidu and Abor (2006), Anil and Kapoor, (2008),Al-Najjar and Husseinay (2009), Gill *et al* (2010), Mehta(2012) and (Nuredin, 2012). Furthermore, the finding contradicts, (Anupam, 2012), (Baker and Gandhi, 2007).

The result also is parallel with signaling theory of dividend policy and pecking order theory, highly profitable firms are in a position to distribute dividends. Fama and French (2001) reported a positive association between dividends and profitability which they interpret as evidence in support of the pecking order theory. Hence the more profitable insurance companies, the higher the possibility of paying dividends. Therefore as per empirical findings of this study, profitability is regarded as most an important factor in determination of dividend payout for Ethiopian insurance companies.

4.6.2 Liquidity

The regression output showed in Table 4.5.2 presented that, the coefficient of liquidity (LIQD) measured by current asset divided by current liability is 0.652341 and its P-value is 0.0071. Meaning that holding other independent variables constant at their average value, when liquidity (LIQD) increase by one , dividend payout ratio (DIPO) of Ethiopian insurance companies will increase by 65% and statistically significant at 1% of significance level.

Therefore, the study failed to reject the null hypothesis that liquidity has a positive effect on dividend payout. This means, there is no sufficient evidence to support the negative relationship between dividend payout ratio and liquidity. This is consistent with the hypothesis as described in the previous chapter which implying more liquid Ethiopian

insurance companies are more likely pay dividends to their shareholders. This result is also similar to previous studies see; Anil and Kapoor, (2008), Christopher, (2014) and Nuredin, (2012).

The result is also parallel with signaling theory; firms with higher cash accessibility are able to pay higher dividends than firms with insufficient cash (Gupta and Banga, 2010). The result is also consistent with agency theory, that firms with high cash and cash equivalent asset flows pay higher dividends in order to diminish the agency conflict between their managers and shareholders(Jensen, 1986). Therefore as per empirical findings of this study, liquidity is considered as most an important factor in determination of dividend payout for Ethiopian insurance companies.

4.6.3 Leverage

As shown in the regression output presented in Table 4.5.2, the coefficient of leverage (LEVG) measured by debt to asset ratio is 0.123003 and its corresponding P-value 0.2445. Meaning that holding other independent variables fixed at their average value, when leverage (LEVG) increase by one, dividend payout ratio (DIPO) of Ethiopian insurance companies will increase by 12.3% and statistically insignificant at 5% of significance level.

Therefore, the study rejects the null hypothesis that there is negative and significant relationship between dividend payout ratio and leverage. This means, there is no sufficient evidence to support the negative relationship between dividend payout ratio and leverage.

The possible reason insignificant may be due to low amount of long term liability of Ethiopian insurance companies. Since, they have regulatory restriction on long term debit. Therefore this study does not support the relevance of leverage as most important consideration of dividend policy.

4.6.4 Growth Opportunity

According to the regression output presented in Table 4.5.2, the coefficient of growth opportunity (GROP) measured by change in revenue is -0.120599and its P-value is 0.0002. Meaning that holding other independent variables constant at their average value, when growth opportunity (GROP) increase by one , dividend payout ratio (DIPO) of Ethiopian

insurance companies will decrease by 12.05% and statistically significant at 1% of significance level.

Therefore, the study failed to reject the null hypothesis that growth opportunity has negative effect on dividend payout. This means, there is no sufficient evidence to support the positive relationship between dividend payout ratio and Growth Opportunity. This is consistent with the hypothesis as described in the previous chapter firms with higher growth opportunities are likely to retain a greater portion of their earning, resulting in lower dividend payout ratio. This result is also similar to previous studies, (Ruzeff, 1982); (Jensen, 1992); (Ho, 2003) and (Nuredin, 2012).

The result is also in line with pecking order theories, those firms with high growth opportunities have a habit of to pay fewer dividends; internal financing of investment opportunities is preferred because it avoids the outside scrutiny of suppliers of capital and also there no floatation costs associated with the use of retained earnings. Therefore as per empirical findings of this study, growth opportunity is considered as most an important factor in determination of dividend payout for Ethiopian insurance companies.

4.6.5 Firm Size

As shown in the regression output presented in Table 4.5.2, the coefficient of Firm Size (FSIZ) proxied by the natural logarithmic of firms' total asset -0.103897 and its corresponding P-value 0.2301. Meaning that holding other independent variables fixed at their average value, when Firm Size (FSIZ) increase by one percent, dividend payout ratio (DIPO) of Ethiopian insurance companies will decrease by 10.38% and statistically insignificant at 5% of significance level.

Therefore, the study rejects the null hypothesis that there is positive and significant relationship between dividend payout ratio and firm size. This means, there is no sufficient evidence to support the positive relationship between dividend payout ratio and Firm Size. Therefore this study does not support the relevance of firm size as most important consideration of dividend policy.

4.6.6 Pervious Year Dividend

According to the regression output presented in Table 4.5.2, the coefficient of pervious year dividend (PYDV) measured by previous year dividend payout ratio is 0.210548 and its P-value is 0.0130. Meaning that holding other independent variables constant at their average value, when previous year dividend (PYDV) increase by one , dividend payout ratio (DIPO) of Ethiopian insurance companies will increase by 21.05% and statistically significant at 5% of significance level.

Therefore, the study failed to reject the null hypothesis that previous year dividend has positive effect on dividend payout. This means, there is no sufficient evidence to support the negative relationship between dividend payout ratio (DIPO) and previous year dividend. This is consistent with the hypothesis as described in the previous chapter firms with higher previous year dividend are likely to resulting in higher dividend payout ratio. This result is also similar to previous studies, (Lintner, 1956), (Fama and Babiak, 1968) and (Kinfe, 2011).

The result is also in line with signaling theories, company's wants to give a positive signal to the market that the firm have sustainable earning and its decent condition to continue paying dividends. Therefore as per empirical findings of this study, previous year dividend is reflected as most an important factor in determination of dividend payout for Ethiopian insurance companies.

4.6.7 Asset Structure

As shown in the regression output presented in Table 4.5.2, the coefficient of asset structure (ASTR) measured by the ratio of Fixed Asset to Total Asset is 1.224932 and its corresponding P-value is 0.0220. Meaning that holding other independent variables constant at their average value, when Asset structure (ASTR) increase by one , dividend payout ratio (DIPO) of Ethiopian insurance companies will increase by 122.49% and statistically significant at 5% of significance level.

Therefore, the study failed to reject the null hypothesis that asset structure has positive effect on dividend payout. This means, there is no sufficient evidence to support the negative

relationship between dividend payout ratio (DIPO) and asset structure. This is consistent with the hypothesis as described in the previous chapter companies owning the most tangible assets are likely to borrow more than those owning the most intangible assets, so they have the ability to keep less retained earnings and pay higher dividends ratio. This result is also similar to previous studies of Rashid, (2014) andHo (2003)

Therefore as per empirical findings of this study, asset structure is reflected as most an important factor in determination of dividend payout for Ethiopian insurance companies. As the Ethiopian insurance companies hold significant amount of their investments on current assets than the fixed asset,the change in the composition of the fixed assets irrespective to total asset will result a highest dividend payout.

4.7Comparison of test Result with Expectation

Table 4.7 Comparison of test Result with Expectation

Explanatory Variables	Expected Result in Relation to DIPO	Actual Result	Statistical Significance	Hypothesis
Profitability(PROF)	+	+	at 1%	Failed to Reject
Liquidity(LIQD)	+	+	at 1%	Failed to Reject
Leverage(LEVG)	-	+	Insignificant	Reject
Growth Opportunities(GROP)	-	-	at 1%	Failed to Reject
Firm Size(FSIZ)	+	-	Insignificant	Reject
Pevious Year dividend Payout ratio(PYDV)	+	+	at 5%	Failed to Reject
Asset Structure(ASTR)	+	+	at 5%	Failed to Reject

4.8 Summary

The chapter aimed to present findings and discussion on the results. E-views 8 was run and descriptive statistic, correlation analysis and regression analysis results with estimated model were obtained in much detail. The result revealed that profitability, liquidity, previous

year dividend and asset structure are a positive significantly related to dividend payout for Ethiopian insurance companies. This implies that the higher in the listed factor the higher the dividend payout, at ceteris paribus. On the other hand result revealed growth opportunity is negative significantly related to dividend payout for Ethiopian insurance companies. This implies that the higher growth opportunity the lower the dividend payout, at ceteris paribus. On other side of variables, the result revealed that there is insignificant relationship of leverage and firm size to dividend payout. However firm size is negatively related to dividend payout and leverage positively related to dividend payout.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

The aim of this chapter is to describe the conclusions made based on the research finding and to forward possible recommendation. The chapter has been organized as follows: - The first section provides conclusion of the study; then second section presents the implication, recommendation and gives suggested areas for further research.

5.1 Conclusion

The main purpose of the study was to examine the determinants of dividend payout policy of Ethiopian insurance companies. Quantitative research approach used to carry out the study. Also, secondary data obtained from National Bank of Ethiopia and Published Annual reports were used in this study. Nine insurance companies have been selected from a total population of seventeen insurance companies currently operating in Ethiopia by forming purposive sampling for nine year covering the period of 2007/08 to 2015/16.

Empirical literature identified many variables as an influential factor of dividend payout. Against this background, this study tested the relationship and their relative importance in dividend payout decision of Ethiopian insurance companies. In addition, seven hypotheses were formulated to be tested under the study with and the following variables measured and included as independent variables; profitability, liquidity, leverage, firm size, growth opportunity, previous year dividend and asset structure while dividend payout was regarded as dependent variable.

The analysis was conducted using panel data estimation technique. Also, the study goes through all diagnostic tests, including multicollinearity, hetroscadacity, normality and autocorrelation to response the proposed main objective of the study by using EViews 8 statistical software and random effect model was used to estimate the regression equation. The descriptive statistics revealed that the data is normal. Also the diagnostic test showed; the data was found to be homoskedastic, free of autocorrelation free of Multi-collinearity and normally distributed.

The results of the regression analysis showed that there exist significant relationships between dividend payout and profitability, liquidity, growth opportunity, previous year dividend and asset structure. The results suggested that, profitable insurance companies tend to pay high dividend. This result was analogous with signalling and the pecking order theories of the dividend policy theory.

Also, regression analysis showed positively significant relationship between dividend payout and liquidity implies a good liquidity position increases insurance companies' ability to pay dividend. This result was analogous with agency theory of dividend policy. Theory of agency states companies that have high free cash flow have high dividend payout ratio to prevent managers from engaging in excessive spending if they have excess free cash flow at their disposal.

The results also showed significant negative associations between dividend payout and growth opportunity. Furthermore, growing insurance companies require more funds in order to finance their growth and therefore they would typically retain greater proportion of their earnings by paying low dividend. This finding is analogous with pecking order theory which says that the companies should use first internal sources to fund different projects and to keep the company growth. Previous year dividend and asset structure also showed a positive significant relationship to dividend payout. While leverage and firm size was found to be insignificant positive and negative respectively in relationship with dividend payout.

5.2 Recommendation

Given the fact that shareholder in practice usually prefers company with stable and predictable dividend policy, the model in this study could use to predict a company dividend payout. The results of this study have provided insight into the predictor variable that have an important influence in explaining the variation of dividend payout for Ethiopian insurance companies. Therefore understanding the determinants of dividend payouts has significant implication on individual investor; investment policy and management depending on their dividend preference. On the basis of the findings of this study, the researcher has drawn the following recommendations

- To make an informed decision on investment options, Investors who are trying to predict future dividends on their investment and/or selecting the dividend paying firms might need to look the company's performance in the following factors; profitability, liquidity, growth opportunity, previous year dividend and asset structure before making an investment decisions. For the reason that, these factors have significant impact on dividend payout in Ethiopian insurance companies.

- Managers of Ethiopian insurance companiesshall consider profitability, liquidity, growth opportunity, previous year dividend and asset structure when determining the dividend payout. This will help them to make their dividend payout decision efficient, effective and reasonable which in the long run will help them to achieve their objective in maximization of wealth and satisfy employees and shareholder's needs.

- The results and the analysis have revealed some additional questions which need to be answered in future studies. More company selected variables/factors than the ones included in the research should have an impact on the dividend payout ratio. It would therefore be interesting to conduct a similar study with different company selected factors. For instance the impacts of firm's age, business risk, insider ownership, corporate tax and capital structure on dividend payouts. Finally, a time period of nine years has been used in the study and for future research I recommend to use a longer time period. It would be interesting to see whether the results from this study are applicable if a study is conducted over a longer period of time or during another time period. Also to reflect the dividend policy of other sector it is very interesting to conduct the same study in different dividend paying sector sectors.

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Annex

Annex 1: -List of Insurance Companies in Ethiopia

No	Name	Established on	Ownership Title
1	Africa Insurance Company S.C	1/12/1994	Private
2	Awash Insurance Company S.C	1/10/1994	" "
3	Global Insurance Company S.C.	11/1/1997	" "
4	Lion Insurance Company S.C	1/7/2007	" "
5	NIB Insurance Company	1/5/2002	" "
6	Nile Insurance Company S.C	11/4/1995	" "
7	Nyala Insurance Company S.C	6/1/1995	" "
8	The United Insurance S.C	1/4/1997	" "
9	Ethiopian Insurance Corporation	1905	Governmental
10	Abay Insurance Company	26/07/2010	Private
11	Berhan Insurance S.C.	24/05/2011	" "
12	National Insurance Company of Ethiopia S.C.	23/09/1994	" "
13	Oromia Insurance Company S.C.	26/01/2009	" "
14	Ethio-Life and General Insurance S.C.	23/10/2008	" "
15	Tsehay Insurance S.C.	28/03/2012	" "
16	Lucy Insurance S.C.	1/10/2012	" "
17	Bunna Insurance S.C.	23/8/2012	" "

Source: http://www.nbe.gov.et/financial/insurer.htm

Annex 2 Heteroskedasticity Test: White

F-statistic	1.189952	Prob. F(35,41)	0.2945
Obs*R-squared	38.80201	Prob. Chi-Square(35)	0.3022
Scaled explained SS	30.67341	Prob. Chi-Square(35)	0.6771

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 05/04/17 Time: 12:57
Sample: 1 80
Included observations: 77

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.266058	8.935173	-0.925114	0.3603
PROF^2	0.194900	0.365873	0.532698	0.5971
PROF*LIQD	-0.439020	0.678955	-0.646611	0.5215
PROF*LEVG	-0.818300	0.448979	-1.822578	0.0757
PROF*GROP	-0.217155	0.169298	-1.282678	0.2068
PROF*FSIZ	-0.523667	0.253069	-2.069267	0.0449
PROF*PYDV	-0.154263	0.281950	-0.547130	0.5873
PROF*ASTR	0.359458	1.887347	0.190457	0.8499
PROF	6.067773	2.736473	2.217370	0.0322
LIQD^2	0.190110	0.948038	0.200530	0.8421
LIQD*LEVG	-0.974080	0.509461	-1.911983	0.0629
LIQD*GROP	0.089018	0.257190	0.346119	0.7310
LIQD*FSIZ	-0.177007	0.350768	-0.504626	0.6165
LIQD*PYDV	-0.285837	0.342513	-0.834529	0.4088
LIQD*ASTR	-2.659196	2.886946	-0.921110	0.3624
LIQD	2.858614	4.181927	0.683564	0.4981
LEVG^2	-0.125963	0.139459	-0.903223	0.3717
LEVG*GROP	-0.106056	0.143448	-0.739337	0.4639
LEVG*FSIZ	-0.292599	0.273559	-1.069599	0.2911
LEVG*PYDV	0.036353	0.204062	0.178149	0.8595
LEVG*ASTR	-1.720530	1.367315	-1.258328	0.2154
LEVG	4.200616	3.005659	1.397569	0.1698
GROP^2	-0.015232	0.009295	-1.638745	0.1089
GROP*FSIZ	-0.156704	0.076092	-2.059396	0.0458
GROP*PYDV	-0.053566	0.068374	-0.783422	0.4379
GROP*ASTR	-0.264225	0.395352	-0.668328	0.5077
GROP	1.380314	0.717957	1.922558	0.0615
FSIZ^2	-0.058189	0.076107	-0.764571	0.4489
FSIZ*PYDV	-0.018903	0.100430	-0.188225	0.8516
FSIZ*ASTR	0.457264	0.881603	0.518674	0.6068
FSIZ	1.148311	1.463018	0.784892	0.4370
PYDV^2	-0.059198	0.076947	-0.769337	0.4461
PYDV*ASTR	-0.748545	0.817410	-0.915753	0.3652
PYDV	0.728937	1.254048	0.581268	0.5642
ASTR^2	-1.593200	3.442422	-0.462814	0.6459
ASTR	3.091596	10.36735	0.298205	0.7671

R-squared	0.503922	Mean dependent var	0.030513
Adjusted R-squared	0.080441	S.D. dependent var	0.043096
S.E. of regression	0.041327	Akaike info criterion	-3.229787
Sum squared resid	0.070024	Schwarz criterion	-2.133982
Log likelihood	160.3468	Hannan-Quinn criter.	-2.791475
F-statistic	1.189952	Durbin-Watson stat	2.098883
Prob(F-statistic)	0.294485		

Annex 3 Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.762042	7	0.9718

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
PROF	0.817175	0.770175	0.002171	0.3131
LIQD	0.680963	0.652341	0.000672	0.2695
LEVG	0.114987	0.123003	0.000098	0.4184
GROP	-0.121784	-0.120599	0.000010	0.7038
FSIZ	-0.127496	-0.103897	0.000467	0.2749
PYDV	0.196381	0.210548	0.000191	0.3051
ASTR	1.163137	1.224936	0.003295	0.2817

Cross-section random effects test equation:
Dependent Variable: DIPO
Method: Panel Least Squares
Date: 05/04/17 Time: 12:51
Sample: 2008 2016
Periods included: 9
Cross-sections included: 9
Total panel (unbalanced) observations: 77

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.582901	0.937017	0.622082	0.5362
PROF	0.817175	0.185606	4.402745	0.0000
LIQD	0.680963	0.236445	2.880003	0.0055
LEVG	0.114987	0.105262	1.092390	0.2790
GROP	-0.121784	0.030744	-3.961275	0.0002
FSIZ	-0.127496	0.088496	-1.440689	0.1548
PYDV	0.196381	0.083691	2.346500	0.0222
ASTR	1.163137	0.525930	2.211583	0.0308

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.664798	Mean dependent var	0.619098
Adjusted R-squared	0.582371	S.D. dependent var	0.260736
S.E. of regression	0.168498	Akaike info criterion	-0.541128
Sum squared resid	1.731895	Schwarz criterion	-0.054103
Log likelihood	36.83341	Hannan-Quinn criter.	-0.346322
F-statistic	8.065324	Durbin-Watson stat	1.886302
Prob(F-statistic)	0.000000		

Annex 4

Dependent Variable: DIPO
Method: Panel EGLS (Cross-section random effects)
Date: 05/04/17 Time: 12:47
Sample: 2008 2016
Periods included: 9
Cross-sections included: 9
Total panel (unbalanced) observations: 77
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.359287	0.915423	0.392482	0.6959
PROF	0.770175	0.179662	4.286807	0.0001
LIQD	0.652341	0.235020	2.775685	0.0071
LEVG	0.123003	0.104795	1.173757	0.2445
GROP	-0.120599	0.030585	-3.943046	0.0002
FSIZ	-0.103897	0.085816	-1.210684	0.2301
PYDV	0.210548	0.082543	2.550765	0.0130
ASTR	1.224936	0.522787	2.343087	0.0220

Effects Specification	S.D.	Rho
Cross-section random	0.174887	0.5186
Idiosyncratic random	0.168498	0.4814

Weighted Statistics			
R-squared	0.600790	Mean dependent var	0.193300
Adjusted R-squared	0.560291	S.D. dependent var	0.244086
S.E. of regression	0.161977	Sum squared resid	1.810315
F-statistic	14.83450	Durbin-Watson stat	1.811920
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.518912	Mean dependent var	0.619098
Sum squared resid	2.485648	Durbin-Watson stat	1.329346