



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**DETERMINANTS OF DIVIDEND PAYOUT: EMPIRICAL EVIDENCE
FROM PRIVATE COMMERCIAL BANKS IN ETHIOPIA**

**THESIS SUBMITTED TO ACCOUNTING AND FINANCE DEPARTMENT
FOR PARTIAL FULFILLMENT OF THE REQUIREMENT FOR MASTER
OF SCIENCE IN ACCOUNTING AND FINANCE**

BY

WUDASSE DANIEL

ADVISOR: ABEBAW A. (PHD)

SEPTEMBER, 2021

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Approval Sheet

This is to certify that the thesis entitled: “Determinants of Dividend Payout: Empirical Evidence From Private Commercial Banks In Ethiopia” submitted to Addis Ababa, University, College of post graduate for the award of the degree of master of science in Accounting and Finance and is a record of research work carried out by Wudasse Daniel, under my guidance and supervision.

Therefore, I hereby declare that no part of this thesis has been submitted to any other university or institution for the award of any degree.

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Statement of Declaration

I, Wudasse Daniel, declare this thesis on the topic entitled: Determinants of Dividend Payout ratio in selected Ethiopian Private commercial Banks submitted in partial fulfillment of the requirement degree of Master of Science program in Accounting and Finance with the guidance and support of the research advisor.

This study is my own work and has not been presented for any university for academic accreditation. All source of materials used for the thesis have been correctly cited and acknowledged.

Researcher's Name: Wudasse Daniel

Signature_____

Date _____

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Abstracts

The main purpose of the study was to examine the determinants of dividend payout in Ethiopian private bank using bank specific factors and macro variables. To help with this, six years data from 2014/15 to 2019/20 for the sample of eight Ethiopian private banks were collected from banks audited financial statement then analyzed using panel data regression technique. The study used dividend payout as a dependent variable and six independent variables: profitability, liquidity, capital adequacy, investment opportunity, bank size, bank age from bank specific factor and GDP and foreign exchange rate from macro-economic factors.

The result of the study revealed that profitability, liquidity, capital adequacy, investment opportunity have positive and statistically significant impacts on dividend payout of selected Ethiopian private commercial banks while bank's size have negative and statistically significant impact on dividend payout of the selected Ethiopian private commercial banks from the bank specific variables. On the other hand, Bank's age from bank specific factor and foreign exchange rate from macro- economic factor is found to have no significant impact on dividend payout of the selected banks during the study period, 2014-2015.

Recommendation for other researchers would be to add more variables from bank specific factor such as Ownership structure and macro-economic variables like national income. I would also recommend that the study period to be extended up to 2020 since this study did not include it.

Keywords: *Dividend payout ratio, Ethiopian private commercial banks, macro-economic factor*

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List of Acronyms:

AGEinc- Incorporation Age

BG Test: Breusch–Godfrey Test

CA- capital Adequacy

CLRM- Classical Linear Regression Model

DPR – Dividend Payout Ratio

FX- Foreign Exchange Rate

GDP- Gross Domestic Product

INV- Investment Opportunity

LIQ- Liquidity

NBE- National Bank of Ethiopia

OLS- Ordinary least Square

PROF- Profitability

ROA- Return on Asset

ROE- Return on Equity

Size- Size of the Bank

CHAPTER ONE

1. Introduction

This chapter discusses the background information of the study. It is organized with a different sections. The first section discusses about the background of the study. Then, background of the commercial banks will be discussed in the second section. The statement of the problem is in the third section. The fourth section states the study objective with a general and specific objective. Hypothesis is described in section five. At last, Significance and scope of the study will be stated in section six and seven respectively.

1.1 Background of the study

The term dividend refers to the portion of profit (after tax) which is distributed among the owners / shareholders of the firm.(Rustagi, Financial Management, 2001)

Once a company marks a profit, it must decide on what to do with those profits. They could continue to hold the profits inside the company, or they could pay out the profits to the owners of the firm in the form of dividends.

There are many reasons as to why companies should pay or not to pay dividends. For example, the dividend payout is vital for investors for the reason that: dividends provide confidence about the company's financial welfare, dividends are eye-catching for investors looking to protect current income, and also dividends help preserve market price of the share. Companies that have a long-standing history of even dividend payouts would be negatively affected by lowering or omitting dividend distributions. These companies would be positively affected by increasing dividend payouts or making extra payouts of the same dividends. Furthermore, companies without a dividend history are generally viewed positively when they announce new dividends. (Amarjit Gill, 2010)

The theory of dividend policy has challenged unresolved argument by researchers although it is a critical decision for the success of firms in both advanced and upcoming economies.(Javid, 2009).

Dividend policy determines the critical distribution of the firm's earnings between retention (that is reinvestment) and cash dividend payments of shareholders. (Kretlow, Contemporary Financial Management, 2001)

It means the exercise that management follows in constructing dividend payout decisions, or the size and pattern of cash distributions over the time to the investors. It can also be defined as a policy or guideline followed by the management in announcing of dividend. A dividend policy resolves proportion of dividend and retains earnings. Retained earnings are a key source of internal finance for long term growth of the company while dividend decreases the existing cash funds of a firm.(Sarig, 2000)

The dividend policy decision is a trade-off between retaining earnings and paying out cash dividends. A two basic points should be considered in dividend policies: Maximizing owners' wealth and providing adequate financing. The decision to pay out dividends or to reinvest the cash into new projects lies up on the firm's Board of Directors.

In determining a firm's dividend policy, management must find a balance between current profits for shareholders (dividends) and the growth of the company yet to come (retained earnings) (John, 1956).

Retained earnings are the most significant internal sources of financing the growth of the firm. On the other hand, dividends may be considered desirable from the shareholders' point of view as they tend to increase their current return. Dividends, however, constitute the use of the firm's funds. Dividend policy involves the balancing of the shareholders' desire for current dividends and the firms' needs for funds for growth.(Prabakaran, 2019)

In corporate finance, the finance manager is generally thought to face two operational decisions: the investment (or capital budgeting) and the financing decisions. The capital budgeting decision is concerned with what real assets the firm should acquire while the financing decision is concerned with how these assets should be financed which includes the corporate dividend payout decision. (Sarig, 2000)

If managers view risk and return from a different angle and are in danger of placing their own security, wealth, and power in higher esteem than that of the stockholders they are to serve, it is

imperative that they remain cognizant of the temptation to make inferior dividend policy decisions. (Laux, 2011)

In applying a rational framework for dividend policy, a firm must consider the following two issues: How much cash is available for paying dividends to equity investors, after meeting all needs- debt payments, capital expenditures and working capital and to what extent are good projects available to the firm (i.e. Return on equity - ROE > Required Return). (Damodaran, 2000)

Dividend decisions are frequently seen by investors as revealing information about a firm's prospects therefore firms are cautious with these decisions. An information asymmetry exists if firm managers know more about the firm and its future prospects than the investors.

When investors have incomplete information about the firm (perhaps due to opaque accounting practices) they will look for other information in actions like the firm's dividend policy. (Simiyu, Signaling Theory of Dividends, 2014)

The dividend enigma has not only been an enduring issue in finance, it also remains unresolved. Almost three decades ago (Black, The Dividend Puzzle) described it as a “puzzle”, and since then an enormous amount of research has occurred trying to solve the dividend puzzle. (Franklin Allen. Antonio E. Bernardo, 2000) Summarized the current 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.

This study tried to identify the factors that affect dividend payouts by private commercial banks of Ethiopia by investigating firm specific and macro-economic variables. In addition, this study aims to identify whether private commercial banks have introduced dividend payout policy since it is important for both the banks and investors.

1.2 Background of commercial banks in Ethiopia

Banking is the essence of existence and expansion for other industries, its development plays an important role in the country's economic health. Currently, the banking industry is getting more and more attention, its dividend policy is getting extra attention because of its high profits. The dividend policy influence factors of banking industry are different from other industries because of the essential difference between the banking industry and other industries, the banking industry's main object of management is monetary assets, and its main business has the

characteristics of high risk, high liability and the creation of credit. Scholars both in China and abroad have made a study of the dividend policy influence factors of listed Banks. (Y.Q, 2016)

In rendering their day-to-day functions, commercial banks in different countries have a great role in contributing to the economic development of the country. Developmental strategy cannot be achieved without the heavy involvement of the commercial banks of Ethiopia, as all strategies needs money for their implementation. For this reason the role and contribution of these commercial banks is indispensable if we like to ensure development to our country. The roles of the commercial banks includes : financing the industry sector of the economy, trade, agriculture, small and micro manufacturing industries, facilitating commerce and efficient allocation of revenue, helping in implementing monetary policy and reducing culture of extravagance. (Segu, 2014)

Commercial banks all over the world play a vital role in the economic resource allocation of countries. They channel funds from depositors to investors continuously. They can do so, if they generate necessary income to cover their operational cost they incur in the due course. In other words for sustainable intermediation function, banks need to be profitable. Beyond the intermediation function, the financial performance of banks has critical implications for economic growth of countries. Good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis which have negative repercussions on the economic growth. (kusa, 2013)

The history of banking in Ethiopia dates back to the era of the Axumite dynasty. However, modern banking in Ethiopia started in 1905 with the establishment of Abyssinian Bank based on a 50 years agreement with the Anglo-Egyptian National Bank. In 1931 the Ethiopian government purchased the Abysinia Bank, which was the dominant bank, and renamed it the ‘Bank of Ethiopia ‘the first nationally owned bank on African continent. (Gedey, 1990): (Degefe, 1995)

In 1943 the Ethiopian government has established its own bank called State Bank of Ethiopia, which was serving both the commercial bank and central bank activities. Later on it is further divided into today’s National Bank of Ethiopia (NBE) and Commercial Bank of Ethiopia (CBE).

Ethiopian banking industry comprises one state owned development bank and 18 commercial banks, two of which are state-owned, including the dominant Commercial Bank of Ethiopia (CBE), with assets accounting for approximately 70 percent of the industry's total holdings.(Keatinge, 2014)

With around 100,000 shareholders, there are 16 private banks currently operating in Ethiopia: Awash International Bank, Dashen Bank, Cooperative Bank of Oromia, Hibret Bank, Wegagen Bank, Nib International Bank, Bank of Abyssinia, Oromia International Bank, Addis International Bank, Birhan Bank, Abay Bank, Debu Global Bank, Zemen Bank, Bunna International Bank, Anbessa International Bank and Enat Bank.

Awash Bank leads the pack with 2 Billion birr gross profit for the 2020 / 2019 half year. Dashen Banks follows with 1.16 billion birr. Other banks have had an improved gross profit compared to last year's performance. (news, 2020)

(Ruecker, 2011)Stressed that the financial system of Ethiopia is very underdeveloped. There is no stock exchange and of the banks that exist, three are state owned and dominate the sector. There are no foreign banks in the country, and the system remains isolated from the effects of globalization while policy makers fear that liberalization will lead to loss of control over the economy. The government controls interest rates and sets them below the high inflation rate. The banking sector is improving from time to time in terms of service provision, outreach, capital, asset size, resource mobilization, credit disbursement and automation.

Though private commercial banks are growing so fast, there are challenges and prospects they face. Some are related with the internal organization of the banks themselves and others are external. Like any other business organization banks, specifically private commercial banks require a suitable business environment and global economic recessions have created a challenge to the banking industry but recently this global recession has started to subside and the world economy particularly the economy of western countries is gradually recovering.

Since these institutions are privately owned and their objective is profit and growth, the repeated government intervention in their decision making process, is not a good news to the sector, especially government intervention in the decision making process of banks is creating a challenge to private banks and the efficiency of the sector as a whole.(Terefe, 2013)

1.3 Statement of the problem

Dividend policy has been and still is a long issue of interest in corporate of finance. A number of authors have argued in their own way by their own empirical model, from the investment to the dividend distribution, forms of dividend distribution, and the amount of distribution as well as the period of dividend distribution. Even since the work of (John, 1956) followed by two Nobel Miller & Modigliani (Miller, 1961) dividend policy remains a controversial issue. It has been clearly argued that the dividend policy is determined from the level of profit, nature of business, leverage ratio, etc. After several years of research, the dividend policy is still one of the crucial unresolved issues in the world of finance in which no consensus has been reached. (Richard, 2003)

Black (1976) labelled the term the “dividends puzzle” to demonstrate the poor understanding of dividend payment policy by saying “The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don’t fit together.”

(Richard A Brealey, 2005) described dividend policy as one of the top ten most difficult unsolved problems in financial economics.

It is very important for corporates to determine the influential factors of the dividend payout policy. The shareholders have great expectations from the dividends that they receive. In Ethiopia, many studies have been conducted regarding the factors of dividend payment in different sectors using different methodologies in various time periods.

(Dagnaw, 2009) mentioned earnings, debt to equity ratio, liquidity, tax considerations, ownership structure, agency problem and legal restrictions as the factors of dividend payment in his study on six private banks in Ethiopia from the period of 1999/00 to 2007/08.

(Kinf, 2011) studied the impact of profitability, liquidity, leverage, firm size, growth, and lagged dividend per share on dividend payout ratios in Ethiopian bank industry using audited financial statement of banks between the year 2006 and 2010 and found that firm size and lagged dividend per share are positively correlated, but negatively to the liquidity ratio. He found no relationship with profitability, leverage, and growth.

(Ravi, 2015) listed out profit after tax, shareholders fund and liquidity as the factors of dividend payout. In this study, net income and previous dividend history were found to have significant positive effect on the dividend payout while level of liquidity had significant negative effect.

On the other hand, (Saje E. M., 2015) indicated that lagged dividend payout, growth, size and risk have a significant impact on dividend payout in Ethiopian private banks while profitability, liquidity and leverage have no statistically significant impact from the data collected from NBE and banks audited financial statement for the period 2009/10 to 2013/14

(Yimam, 2016) studied the impact of seven variables (profitability, liquidity, leverage, growth, size and previous year's dividend) on dividend payout by private commercial banks in Ethiopia for the period 2009 to 2014 by using panel data regression technique with a random effect model. The result showed that last year's dividend, bank size and growth had statistically significant and positive relationship with dividend payout of private commercial banks in Ethiopia while profitability and leverage had negative and statistically significant relationship.

(Tesfaye, Determinants of dividend policy in Ethiopian private banks, 2017) studied the determinants of dividend policy of 6 Ethiopian private banks using bank specific factors and macro variables using the data that covered the period 2000-2015. The result of the study revealed that profit, leverage, and lagged dividend payment had positive and statistically significant impacts on dividend policy of Ethiopian private banks while retained earnings, loan loss provision, inflation had negative and statistically significant impact. Liquidity and economic growth rate were found to be statistically insignificant and had no any impact on dividend policy of Ethiopian private banks.

(Fiseha, 2018) studied determinants of dividend payout of eight private commercial banks for the period 2007/08 to 2016/17 using panel data regression on data collected from NBE and banks audited financial statement. The result indicated that that lagged dividend payout, leverage and liquidity had no statistical significant impact on dividend payout, loan to deposit, capital adequacy and size had positive and statistically significant impact on dividend payment while growth had statistically significant negative impact on dividend payout.

The above studies identified mainly firm-specific variables and only one study mentioned macro-economic factors i.e. economic growth rate and inflation rate that affected Ethiopian private commercial banks' dividend payout positively and negatively. No study has so far considered

bank age, GDP and foreign exchange rate in Ethiopia. However, Studies conducted elsewhere (Faruk Bostanci, 2018)(Ong Chun Lin, 2018), (WANJIRU, 2013), (Faisal Khan, 2018) showed that firm's age as a firm-specific factor and foreign exchange rate and GDP as a macroeconomic factor that affect dividend payout by financial institutions. Therefore, this study is designed to assess the effects of these factors in addition to the commonly used variables on dividend payout of private commercial banks in Ethiopia. Moreover, Debub Global Bank and Enat Bank, which were a newly established banks, were not included in previous studies conducted in Ethiopia. To fill this gap, this banks are included in the study.

Furthermore, (Tesfaye, 2017) studied whether the private commercial banks in Ethiopia have a dividend policy and found out that they had none. For a firms to have a dividend policy is important because it is a sign of continued normal operations of the company, It stabilizes the market value of shares, It creates confidence among the investors, It provides a source of livelihood to those investors who view dividends as a source of funds to meet day-to-day expenses, It meets the requirements of institutional investors who prefer companies with stable dividends, It improves the credit standing and makes financing easier, It results in a continuous flow to the national income stream and thus helps in the stabilization of national economy. (Dhaval, 2018).

The payout ratio derives a lot from the dividend policy which an organization adopts in order to favor its shareholders. Therefore this study tries to investigate whether the banks have established their dividend policy yet. And if they don't have yet, this study will identify how they are paying out dividends to their shareholders without having a dividend policy.

1.4 Objective of the Research

1.4.1 General Objective

The main objective of this study is to identify the factors that affect the dividend payout of private commercial banks in Ethiopia.

1.4.2 Specific objective

Specific objectives of the study are:

1. To determine the effect of bank specific factor on dividend decision
2. To identify the effect of macroeconomic factors on dividend payout of Ethiopian banking sector

1.5 Hypothesis

In order to achieve the objective of the study, a number of hypotheses are developed regarding the determinants of dividend payout in Ethiopian private commercial banks based on different empirical and theoretical research review made. (Moyosore, 2014) analyzed the determinants of dividend payout of Nigerian banks found out that there is a positive significant relationship between profit and dividend payout and negative significant relationship with liquidity, A study conducted by (Bragoli, 2014) show that GDP and dividend payout has a positive relationship.

(Guizani, 2009) concluded that there is a negative relationship between firm size and dividend. (Y, 2011) found out that there is a positive relationship between Investment opportunity and dividend policy. (Hellen, 2013) Summarized her study as that exchange rate and dividend payout has a positive correlation.

There are two testable hypotheses with their sub-hypothesis; Bank specific and macro determinants. It is formalized as follows:

Hypothesis A: Bank specific determinants have significant effect on dividend payout of private commercial Banks

Hypothesis A1: profitability has positive and significant effect on dividend payout of private commercial banks

Hypothesis A2: liquidity has significant positive effect on dividend payout of private commercial banks

Hypothesis A3: Capital adequacy has positive effect on dividend payout of private commercial banks

Hypothesis A4: investment opportunity has negative and significant effect on dividend payout of private commercial banks

Hypothesis A5: Bank size has negative effect on dividend payout of private commercial banks

Hypothesis A6: Firms age has positive and significant effect on dividend payout of private commercial banks

Hypothesis B: Macroeconomic factors determinants have significant effect on dividend payout of private commercial banks in Ethiopia.

Hypothesis B1: GDP has positive and significant effect on dividend payout of private commercial banks

Hypothesis B2: Foreign exchange rate has positive and significant effect on dividend payout of private commercial banks

1.6 Significance of the Study

The results of the study provided insights into how the bank specific factors and macro-economic factors affect the dividend payout of private commercial banks of Ethiopia. It will help the private banks to attract investors and increase their capital by minimizing the negatively affecting determinants and maximizing positively affecting bank specific factors. It will also be useful for the banks to establish their dividend policy that attracts investors by incorporating the determinants discussed in this study.

Furthermore, it will help to update information on determinants of dividend payout by banks in the country.

1.7 Scope of the Study

The focus area of this study is to investigate the determinant factors that affect the dividend payout of private commercial banks in Ethiopia. It is limited only to private commercial banks.

From the sixteen private commercial banks currently operating in the country, eight of them (50% sample size) is used in the study because it is believed to represent the population and will save cost and time. The study period is six years (2014-2019) in order to include recently established banks especially i.e. Debu Global Bank and Enat Bank, which were established in 2012 and 2013, respectively and which were not included in the studies conducted so far.

The study used variables such as profitability, liquidity, capital adequacy, investment opportunity and bank size since they are commonly used ones and are proven to have significant effect on dividend payout in Ethiopia. In addition to these, as studies conducted elsewhere, (Lotto, 2020), (Wanjiru, 2013), firm age from bank specific factor and macro-economic variables especially GDP and foreign exchange rate also affect dividend payout of financial institutions. Therefore, the study focuses on this bank specific variables and macro-economic that affect dividend payout, i.e. profitability, liquidity, capital adequacy, investment opportunity, bank size, and firm's age from bank specific factor, and GDP and foreign exchange rate from macro-economic factor.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature about dividend payout and its determinants. This review of literature establishes framework for the study and highlights the previous studies, which in turn, helps in clearly identifying the gap in the literature. It has four sections; the first that focuses on the meaning of dividend payout, different theories on dividend payout, dividend policies and detailed review of empirical studies on determinants (Bank specific and macro-economic) of dividend payout.

2.2 Theoretical Literature

Traditionally corporate finance is built on three principles: the investment principle, the financing principle, and the dividend principle. The investment principle determines where businesses invest their resources, the financing principle governs the mix of funding used to fund these investments, and the dividend principle answers the question of how much earnings should be reinvested back into the business and how much returned to the owners of the business. In recent years, the decision on the amount of earnings to retain and the amount to pay out has become an increasingly important decision in its own right to the extent that it is now usual to talk about the three decision areas of corporate finance. (Watson, Corporate Finance Principles and practice, 2007)

Most businesses would undoubtedly like to have unlimited investment opportunities that yield returns exceeding their hurdle rates, but all businesses grow and mature. As a consequence, every business that thrives reaches a stage in its life when the cash flows generated by existing investments is greater than the funds needed to take on good investments. At that point, this business has to figure out ways to return the excess cash to owners. In private businesses, this may just involve the owner withdrawing a portion of his or her funds from the business. In a publicly traded corporation, this will involve either paying dividends or buying back stock. Note that firms that choose not to return cash to owners will accumulate cash balances that grow over time. Thus, analyzing whether and how much cash should be returned to the owners of a firm is the equivalent of asking (and answering) the question of how much cash accumulated in a firm is too much cash. (Watson, Corporate Finance Principles and practice)

Following the strong language of (Dodd, 1934) that the corporation's main objective is to pay the owners of the firms (the shareholders) dividends, a preference for issues that pay regular cash dividends became the prevailing investment strategy in the financial community.

Dividend policy refers to the firm's decision whether to plough back earnings as retained earnings or payout earnings to shareholders. As dividend or capital gains through stock repurchase. (Corporate Finance, 2008)

(Preinreich G. , 1932) was the first to suggest that dividend policy is merely a residual decision. Dividends are paid to shareholders if and only if revenue remains after all positive investment opportunities have been funded.

Dividend policy means the practice that management follows in making dividend payout decisions, or in other words, the size and pattern of cash distributions over the time to shareholders. (Ronald C. Lease, 2000). It determines the ultimate distribution of the firm's earnings between retention (that is reinvestment) and cash dividend payments of shareholders. (Kretlow, Contemporary Financial Management, 2001)

The seminal paper of Miller and Modigliani (MM) (1961) is the beginning of contemporary theoretical attempts to explain the role of dividend policy. Their model assumes perfect capital markets, rational investors, full and costless information, competitive markets, no transaction costs and no taxes. Also a firm's capital structure is given, there are no bankruptcy costs, and investment policy is exogenous, contingent on the risk class the firm belongs to. Using the partial equilibrium scenario and arbitrage proof of (Franco Modigliani, 1958), MM conclude that the dividend decision does not affect shareholders' wealth nor does it affect the cost of capital, ergo, dividend policy is irrelevant (the second indifference argument of MM).

Empirical evidence is inconclusive as to the irrelevance of dividend policy. The empirical results of (Kurz, 1967), (McCabe, 1979), (Benesh, 1983) and (Gerald R. Jensen, 1992) all fail to support the MM irrelevance proposition.

A central question regarding the firm's dividend policy is whether the dividend policy changes firm value. According to Miller and Modigliani, dividend-irrelevance proposition, irrelevance proposition, investors do not need dividends to convert their shares into cash.

2.2.1 Practices/Alternatives/ of dividend

The main types of dividend issued by a company are; (Arora, 2018)

2.2.1.1 Cash Dividends

Cash dividends are, by far, the most popular form of dividend. In cash dividends, stockholders receive checks for the amounts due to them. Cash generated by business earnings is used to pay cash dividends. Sometimes, the firm may issue additional stock to use proceeds so derived to pay cash dividends or bank may be approached for the purpose. Generally, stockholders have strong preference for cash dividends.

2.2.1.2 Stock Dividends

Stock dividends rank next to cash dividends in respect of their popularity. In this form of dividends, the firm issues additional shares of its own stock to the stockholders in proportion to the number of shares held in lieu of cash dividends. The payment of stock dividends does not affect cash and earning position of the firm nor is ownership of stockholders changed.

With payment of stock dividends the stock-holders have simply more shares of stock to represent the same interest as it was before issuing stock dividends. Thus, there will be merely an adjustment in the firm's capital structure in terms of both the book value and the market price of the common stock.

2.2.1.3 Scrip Dividend

Scrip dividend means payment of dividend in scrip or promissory notes. Sometimes companies need cash generated by business earnings to meet business requirements or withhold the payment of cash dividend because of temporary shortage of cash. It involves the offer of additional ordinary shares to equity investors, in proportion to their existing shareholding as a partial or total alternative to a cash dividend. Usually, shareholders are given the choice of taking either the declared cash dividend or the scrip alternative, allowing them to choose the alternative that best suits their liquidity and tax position. (Watson, Corporate Finance Principles and practice, 2007)

The scrip usually bears a definite date of maturity. Sometimes maturity date is not stipulated and its payment is left to the discretion of Board of Directors. Scrip may be interest bearing or non-interest bearing. Such dividends are relatively scarce.

A scrip dividend may be paid in a circumstances when a company has sufficiently large earnings to distribute dividends but cash position is temporarily tight because bulk of the sale proceeds tied in receivables for time being will be released very shortly, the management may issue certificates to stockholders promising them to pay dividend in near future or when a company wants to maintain an established dividend record without paying out cash immediately, the management may take recourse to scrip dividend. It is also when the management believes that stock dividend will not be useful because future earnings of the company will not increase sufficiently to maintain dividend rate on increased shareholding, issue of promissory notes to pay dividends in future would be a wise step or when the company does not wish to borrow to cover its dividend. The danger lies in their use as a sop to stockholders when business earnings are inadequate to cover dividend payments.

The major advantage with paying a scrip dividend is that it allows a company to keep the cash that would have been paid out in cash dividends. From a personal taxation point of view, the scrip dividend received is treated as income, with tax deemed to have been paid at the basic rate of personal income tax. Unfortunately, scrip dividends will be unattractive to investors who are exempt from paying tax on dividends as they are not able to reclaim tax which is only 'deemed' to have been paid. Sometimes a scrip issue may be enhanced, meaning that the value of the scrip dividend is in excess of the cash dividend alternative as a way of making it a more attractive choice to shareholders.

Another possible advantage associated with paying a scrip dividend is that it allows a company to decrease its gearing ratio slightly. It should also be noted that, if the capital market is efficient, the share price will not be depressed since the scrip dividend merely replaces a cash dividend which would have caused the price to fall anyway. (Watson, Corporate Finance Principles and practice, 2007)

2.2.1.4 Bond Dividend

As in scrip dividends, dividends are not paid immediately in bond-dividends; instead company promises to pay dividends at future date and to that effect issues bonds to stockholders in place of cash. The purpose of both bond and scrip dividends is alike, i.e. postponement of dividend payment.

Difference between the two is in respect of date of payment and their effect is the same. Both result in lessening of surplus and in addition to the liability of the firm. The only difference between bond and scrip dividends is that the former carries longer maturity date than the latter.

Thus, while issue of bond-dividend increases long-term obligation of the Company, current liability increases as consequence of issue of scrip dividends. In bond dividends stockholders have stronger claim against the company as compared to scrip dividends.

Bonds used to pay dividends always carry interest. This means that company assumes fixed obligation of interest payments annually on principal amount of bond at the maturity date. It should be remembered that the company is assuming this obligation in return of nothing except credit for declaring the dividend.

How far the company will be able to meet this obligation in future is also difficult to predict at the time of issue of bonds.

2.2.1.5 Property Dividends.

In property dividends, Company pays dividends in the form of assets other than cash. Generally, assets that are superfluous for the Company are distributed as dividends to stock-holders. Sometime, a Company may use its products to pay dividends. Securities of subsidiaries owned by the Company may also take the form of property dividends.

2.2.1.6 Special dividend

Occasionally, companies return surplus funds to shareholders by making a special dividend payment. A special dividend is a cash payout far in excess of the dividend payments usually made by a company. If a company has funds surplus to its investment requirements, paying out these funds via a special dividend enables shareholders to reinvest them according to their preferences. (Watson, Corporate Finance Principles and practice, 2007)

Firm's decision to pay special dividends is related to its investment opportunities based on growth options that are available within the prevailing economic environment. Specifically, firms are more likely to pay special dividends when their investment opportunities are restricted by a weak economy. The share price response of special dividend payments is more favorable when the firm's investment opportunities are restricted by a weak economy. Furthermore, the

share price response to a special dividend distribution during a period in which a higher dividend tax is anticipated is more favorable when economic conditions are weak. (Kevin Brady, 2014)

2.2.2 Policies of Dividend

2.2.2.1 Fixed percentage payout ratio policy

The advantages of this policy from the company's point of view are that it is relatively easy to operate and sends a clear signal to investors about the level of the company's performance. The disadvantage for a company is that it imposes a constraint on the amount of funds it is able to retain for reinvestment. This dividend policy is unsuitable for companies with volatile profits which have shareholders requiring a stable dividend payment.

2.2.2.2 Zero dividend policy

A company could decide to pay no dividend at all. Such an extreme policy is likely to be highly beneficial to a small minority of investors while being totally unacceptable to the majority. Such a policy is easy to operate and will not incur the administration costs associated with paying dividends. A zero dividend policy will allow the company to reinvest all of its profits and so will be attractive to investors who, from a personal tax perspective, prefer capital gains to dividends. Given that the majority of ordinary shareholders are institutional investors who rely on dividend payments for income, a zero dividend policy is hardly likely to be acceptable on an ongoing basis. A zero dividend policy, however, is often adopted by new companies which require large amounts of reinvestment in the first few years of their existence.

2.2.2.3 Constant or steadily increasing dividend

A company may choose to pay a constant or steadily increasing dividend in either money terms or in real terms. A constant or increasing dividend in money terms may result in a declining or increasing dividend in real terms, depending on the level of inflation (or deflation). A constant or increasing dividend in real terms will usually result in an increasing dividend in money terms. In both policies, dividend increases are kept in line with long-term sustainable earnings. It is important for a company to avoid volatility in dividend payments as doing so can help to maintain a stable share price. Cuts in dividends, however well signaled or justified to the markets, are usually taken to mean financial weakness and result in downward pressure on a

company's share price. The drawback of keeping dividends constant or of steadily increasing them is that investors may expect that dividend payments will continue on this trend indefinitely. This can cause major problems when companies wish to reduce dividend payments, either to fund reinvestment or in the name of financial prudence. Because of the reaction of the market to a dividend cut, companies experiencing increases in profit tend to be cautious about a dividend increase.

2.2.2.4 Trends in dividends: Payers and payouts

Some theories argue that paying out funds to the owners of the firm reduces the amount of cash under the management's control and thus the potential basis for value-decreasing agency conflicts. However, the channel through which funds are distributed (cash dividend or share repurchases) does not affect the outcome of the theories.(Christian Andres, 2009). For example, the theory of (Modigliani M. H., 1961) seminal irrelevance propositions states that a company's value is determined only by its earnings, which implies that the decision to distribute cash to shareholders is irrelevant. The agency cost-based theories proposed by (Brook, 1984)and (Jenson, 1986)also provide a theoretical foundation for payouts to shareholders.

(Michaely, 2002) argue not only that share repurchases have become an important form of payout but also that firms finance share repurchases with funds that they otherwise would have distributed as dividends. They used (John, 1956)partial adjustment model to investigate whether firms treat dividends and repurchases as alternative payout methods using the model, they estimate the expected dividend payout for a firm on the basis of its past dividend policy and compare the actual dividend payment to the predicted one. The evidence implies that a high repurchase yield (i.e., more funds being spent on share repurchases) comes at the expense of an increase in cash dividend. Even after controlling for differences in firm characteristics, the authors find that dividend paying firms seem to have substitutes share repurchase for dividends. (Harry DeAngelo, 2008)

Regarding the characteristics of repurchasing companies, (J S. D., 2008)identifies two groups of payers: firm that only repurchase their stock. For firms with both dividends and repurchases, total payouts track earnings closely. Skinner further shows that earnings are equally well suited for explaining payouts for firms that only repurchase stock, suggesting that these firms use repurchases as a substitute for dividends. Companies that rely exclusively on stock repurchases

are, on average, newer firms with no history of paying dividends. In contrast, firms that use both forms of payout tend to be larger and have fewer growth opportunities.

But recently from empirical evidences found, cash dividends have not completely disappeared and are now experiencing a comeback.

2.2.3 Theories of dividend policy

The Residual Theory of Dividend Policy

(Preinreich G. A., 1937) and Sage (1937) (Sage, 1937) provide what is probably the first description in the academic literature of a residual dividend policy. Both develop elements of the idea, but neither labels it as a residual policy. (Jensen M. C., 1986) offers a strong justification for following a residual dividend policy. He notes that when managers fail to pay out the cash remaining after making all profitable investments, they are prone to use those resources in ways that are destructive to shareholder wealth.

The residual theory of dividend policy holds that the firm will only pay dividend from residual earnings, that is dividends should be paid only if funds remain after the optimum level of capital expenditures is incurred i.e. all suitable investment opportunities have been financed.

With a residual dividend policy, the primary focus of the firm is on investments and hence dividend policy is a passive decision variable. The value of a firm is a direct function of its investment decisions thus making dividend policy irrelevant.

Under a residual dividend policy, managers can plan the payout level only to the extent that they accurately forecast cash flows and investment opportunities. Forecasting either of these is challenging, and forecasting both may be virtually impossible. Investors in a firm following a residual policy are likely to regard dividend changes as a signal of the firm's investment opportunities. (Smith, 2011)

2.2.3.1 Dividend Irrelevancy Theory

The concept of dividend-irrelevance policy was developed by Franco Modigliani and Merton Miller (MM) in their 1961 publication (pp. 411-433). They refined their thesis rejecting the broadly supported Gordon's theory that share prices are determined by the level of dividends paid. The dividend irrelevancy theory asserts that dividend policy has no effect on either the

price of the firm or its cost of capital. (Merton, 1961) Their arguments states that dividend policy does not affect share price because the value of the firm is a function of its earning power and the risk of its assets. MM developed their theory under a stringent set of assumptions; and under those assumptions, they proved that a firm's value is determined only by its basic earning power and its business risk. That is, the value of the firm depends only on the income produced by its assets, not on how that income is split between dividends and retained earnings. (Eugene F. Brigham J. F., Fundamentals of Financial Management, 2009) Their main thesis is that in perfect capital markets the value of the company does not depend on its dividend policy.

If dividends do affect value, it is only due to: Information effect, Clientele effect, Signaling effect.

2.2.3.2 Information effect

Managers often have better information about future prospects for dividends than public stockholders, so there is clearly some information content in dividend announcements. However, it is difficult to tell whether the stock price changes that follow dividend increases or decreases reflect only signaling effects (as MM argue) or both signaling and dividend preference.

2.2.3.3 Clientele effect

Different groups, or clienteles, of stockholders prefer different dividend payout policies. Some investors are frequently in low or even zero tax brackets, so taxes are of little concern. On the other hand, stockholders in their peak-earning years might prefer reinvestment because they have less need for current investment income and simply reinvest dividends received after incurring income taxes and brokerage costs. If a firm retains and reinvests income rather than paying dividends, those stockholders who need current income will be disadvantaged. The value of their stock might increase, but they will be forced to go to the trouble and expense of selling off some of their shares to obtain cash. Also, some institutional investors (or trustees for individuals) might be legally precluded from selling stock and then "spending capital." On the other hand, stockholders who are saving rather than spending dividends favor the low-dividend policy: The less the firm pays out in dividends, the less these stockholders have to pay in current taxes and the less trouble and expense they must go through to reinvest their after-tax dividends. Therefore, investors who want current investment income should own shares in high-dividend-payout firms,

while investors with no need for current investment income should own shares in low-dividend-payout firms.

All of this suggests that a clientele effect exists, which means that firms have different clienteles and that the clienteles have different preferences. Hence, that a change in dividend policy might upset the majority clientele and have a negative effect on the stock's price. This suggests that a company should follow a stable, dependable dividend policy so as to avoid upsetting its clientele. (Petit, 1977)

2.2.3.4 Signaling effect

A firm should consider signaling effects when it is contemplating a change in dividend policy.

This theory was brought forward by (Ross, 1977). From empirical studies they found, they stated that firms that increase significantly dividend payment had a corresponding increase in share prices where as those firms that omitted or reduced significantly dividend payment had a corresponding decline in share prices which will lead investors to prefer dividend to capital gains.

This is a theory which asserts that announcement of increased dividend payments by a company gives strong signals about the bright future prospects of the company. An announcement of an increase in dividend payout is taken very positively in the market and helps in building a very positive image of the company regarding the growth prospects and stability in the future. Companies use dividends to share profits with stockholders and when doing so, they can decide to issue a dividend when plowing profits back into the company for development and growth is not the best option, is not necessary or not practical. At the time officials make the decision to offer a dividend, they usually make an announcement, providing information about the amount and date so shareholders know what to expect.

These announcements are closely anticipated and followed because investors believe they can provide information about the company's financial health. Generally, dividend signaling is done by the company when it changes the amount of dividend to be paid to shareholders.

One of the most important assumptions of the signaling theory is that dividend change announcements are positively correlated with share price reactions and future changes in

earnings. According to (Eugene F. Brigham J. F., 2013) signaling theory is also banked by the assumption that information is not equally available to all parties at the same time, and that information asymmetry is the rule. Information asymmetries can result in very low valuations or a sub-optimum investment policy. Signaling theory states that corporate financial decisions are signals sent by the company's managers to investors in order to shake up these asymmetries. These signals are the cornerstone of financial communications policy. In this case, managers know more than investors, so investors will find "signals" in the managers' actions to get clues about the firm. So the theory simply suggests that firm's announcements of an increase in dividend payouts act as an indicator of the firm possessing strong future prospects. (Simiyu, Signaling Theory of Dividends, 2014)

2.2.3.5 The Bird in the Hand Theory

This theoretical model implies that the value of the company (the price of its shares respectively) is positively related to and determined by the payout of dividends. It argues that with the increase in dividend payments in time, the value of company's shares will increase dramatically. (Tanushev, 2016)

The essence of this theory is not stockholders are risk averse and prefer current dividends due to their lower level of risk as compared to future dividends. Dividend payments reduce investor uncertainty and thereby increase stock value. This theory is based on the logic that 'what is available at present is preferable to what may be available in the future'. Investors would prefer to have a sure dividend now rather than a promised dividend in the future (even if the promised dividend is larger). Hence dividend policy is relevant and does affect the share price of a firm. (Lintner, Dividends Leverage, Stock Prices, and the Supply of Capital of Corporations, 1962) And (J G. M., 1963)

James Walter, Myron Gordon, and John Lintner adopted the logic: if market conditions are uncertain and the information is asymmetric, then dividends are evaluated differently from capital gains. The concept is summarized by the proverb "a bird in the hand is worth two in the bush". The model is based on the following assumptions: The Company is financed by equity only, there is a perpetual flow of earnings for the firm, Retention ratios for the company are constant that implies constant growth rate, Cost of capital (discount rate) is greater than the growth rate, corporate taxes do not exist

2.2.3.6 Percent Payout Theory

(Kishore, 2001) argued that shareholders prefer dividends and directors and managers requiring additional finance would have to convince the investors that proposed new investments would increase their wealth. However to increase their job security and status in the eyes of the shareholders companies can adopt 100 per cent payout. However this policy is not followed in practice.

2.2.3.7 Per Cent Retention Theory

(Clarkson GRE, 1969) argued that given taxation and transaction costs dividends are a luxury that is not afforded by shareholders as well as by companies and hence a firm can follow a policy of 100 per cent retention. Firms can thus avail of new investment opportunities that would be beneficial to shareholders too.

2.2.3.8 Agency Cost Theory

Since (Meckling, 1976) many studies have provided arguments that link agency costs with the other financial activities of a firm. It has been argued that firms payout dividends in order to reduce agency costs. Dividend payout keeps firms in the capital market, where monitoring of managers is available at lower cost. If a firm has free cash flows (Jensen M. C., 1986), it is better off sharing them with stockholders as dividend payout in order to reduce the possibility of these funds being wasted on unprofitable (negative net present value) projects.

2.2.4 TYPES OF DIVIDEND POLICY

2.2.4.1 Stable or Predictable dividend policy

This policy involves payment of a specific amount of dividend per share each year or periodically increasing the dividends at a constant rate. This makes dividends predictable by investors and reduces uncertainty on the future dividends. Most firms prefer reasonably stable dividends policies. If management is convinced that the new level of earnings is permanent, then, an increase in the amount of dividends can be made. (Wamweya Shelmis Wangui, 2011)

It is considered a desirable policy by the management of most companies in practices. Many surveys have shown that shareholders also seem generally to favor this policy and value stable dividends higher than the fluctuating ones. All other things being the same,

It is also meant regularity in paying some dividend annually, even though the amount of the dividend may fluctuate over the years, and may not relate to earnings. There are a number of companies, which have records of paying dividend for a long, unbroken period. More precisely, stability of dividend refers to the amounts paid out regularly.(Prabakaran, Dividend Theories and Policies, 2019)

2.2.4.2 Low regular dividend plus extra dividend policy

A low, regular dividend is maintained and when times are good an extra dividend is paid. Extra dividend is the additional dividend optionally paid by the firm if earnings are higher than normal in a given period. Although the regular portion will be predictable, the total dividend will be unpredictable.

The policy gives a firm flexibility as it can set the low regular dividends at levels which can be sustained even in loss making years. By establishing a low regular dividend that is paid each period, the firm gives investors the stable income necessary to build confidence in the firm while the extra dividend permits them to share in the earnings from an especially good period. Investors are however assured of receiving at least minimal dividends, hence, reduced uncertainty. This policy is common among companies that experience cyclical shifts in earnings and whose cash flows are quite volatile.(Mathur, 1979)

2.2.4.3 Multiple dividend increase policy

Some firms follow the policy of very frequent and small dividend increases. The objective is to give shareholders an illusion of movement and growth.

2.2.4.4 Erratic dividend policy

Dividends are paid erratically when the management feels it will not strain the resources of the firm. Interests of the shareholders are not taken care of while making the dividend decisions.

2.2.4.5 Uniform cash dividend plus bonus policy

Under this policy, the minimum rate of dividend per share is paid in cash plus bonus shares are issued out of accumulated reserves. However bonus shares are not given compulsorily on an annual basis. They may be given over a period of a certain number of years.

2.2.5 Constraints on dividend payments (Eugene F. Brigham J. F., Fundamentals of Financial Management, 2009)

2.2.5.1 Bond indentures

Debt contracts often limit dividend payments to earnings generated after the loan was granted. Also, debt contracts often stipulate that no dividends can be paid unless the current ratio, times-interest-earned ratio, and other safety ratios exceed stated minimums.

2.2.5.2 Preferred stock restrictions

Typically, common dividends cannot be paid if the company has omitted its preferred dividend. The preferred arrearages must be satisfied before common dividends can be resumed.

2.2.5.3 Impairment of capital rule

Dividend payments cannot exceed the balance sheet item “retained earnings.” This legal restriction, known as the impairment of capital rule, is designed to protect creditors. Without the rule, a company that is in trouble might distribute most of its assets to stockholders and leave its debt holders out in the cold. (Liquidating dividends can be paid out of capital; but they must be indicated as such, and they must not reduce capital below the limits stated in debt contracts.)

2.2.5.4 Availability of cash

Cash dividends can be paid only with cash. Thus, a shortage of cash in the bank can restrict dividend payments. However, the ability to borrow can offset this factor.

2.2.5.5 Penalty tax on improperly accumulated earnings

To prevent wealthy individuals from using corporations to avoid personal taxes, the Tax Code provides for a special surtax on improperly accumulated income. Thus, if the IRS can demonstrate that a firm’s dividend payout ratio is deliberately being held down to help its stockholders avoid personal taxes, the firm is subject to heavy penalties. This factor is relevant primarily to privately owned firms.

2.3 Empirical Review

2.3.1 Determinants of dividend payout

2.3.1.1 Bank specific factors

Bank Specific factors or internal factors are individual bank characteristics which affect the bank's performance. These factors are basically influenced by the internal decisions of the top management and the board of directors.

2.3.1.1.1 Profitability

Profit is the primary objective of a business. It is the report card of the past, the incentive gold star for the future. Profit and profitability are two different terms. Profit means as an absolute measure of earning capacity, while profitability is relative measure of earning capacity. Profitability is defined as the ability of given investment to earn a return from its use. (Balasundaram, 2009)

(E.F. Brigham, 1978) declared that the profit is used to test the efficiency and to measure the control and worth of the investment to the owners, margin of safety to the creditors, source of extreme benefits to the employees, to the Government a measure of taxable capacity and the basis of legislative action, to the country profits are an index of economic progress, national income generated and rise in the standard of living.

Return on Investments (ROA) and Return on Equity (ROE) are the main indicators of the profitability which positively influence the level of dividend of a firm (Miller & Scholes, 1978).

According to (Lintner, Distribution of Incomes of Corporations Among Dividends, Retained Earnings, and Taxes, 1956); (Stephen W. Pruitt, 1991), profitability has been found as one of the most essential determinants of dividend payout policy. Dividends are paid out of annual profits gained by a firm. (H.A.N A.-M. , 2007) When profit increases, it means there is more cash flow available to the managers to increase investment or firms' growth. Profitability is a significant factor for dividend payment. A company that earns a steady income is more likely to pay high dividends. (Jasim Al-Ajmi, 2011)

As per many studies conducted, the empirical result showed that firms with higher profit is more likely to pay high dividends. (Moyosore, 2014) analyzed the determinants of dividend payout of

Nigerian banks for the period of 2006 to 2008 by using pooled regression techniques and found out that there is a positive significant relationship between profit and dividend payout.

Ajmi and Hussain (2011) studied 54 Saudi-listed companies during the period of 1990 up to 2006 and concluded that firms with lower profit have an inclination not to pay dividend or pay low dividend.

(John A. O., 2014) Studied the effects of dividend payout on performance of manufacturing firms by obtaining five years audited financial statements of ten randomly selected companies in Nigeria and found out that a significant and positive relationship between dividend payout and profit after tax. (Sifunjo Kisaka, 2015) Also found out that there is a positive but low relationship between profit and dividend payout in commercial banks of Kenya from 2008 to 2012 time period.

(Tewodros, 2011) studied determinants of dividend payout in Ethiopian private commercial banks and found out that profitability was not statistically significant, implying that bank's profitability influence seem to have no impact on the payment of dividends, which is the same with the finding of Theodros Kinfu (2011), Mitku (2015) and Desta Zelalem (2021). On the other hand (Mohammed, 2012) conducted out a study on the determinants of dividend policy of Insurance companies in Ethiopia and determined that dividend decisions are significant and profitability is statistically major factor which positively impacts dividend policy of insurance companies in Ethiopia. Belisti Jemberie (2015), also Studied factors affecting corporate dividend payout decisions in private commercial banks on and found a positive significant relationship between profitability and dividend payout by stating that profitable banks are ready to pay greater amounts of dividends and therefore a positive relationship between firms profitability and its dividend payments.

In Ethiopia, Chekole Demilie (2016) and Zelalem Abraham (2018) found out a negative significant relationship with dividend payout and stated that when the selected bank's profits are increased the dividends are impacted negatively when banks invest their extra earnings in their growing rather than giving dividends which shows that the bank's spend in their resources rather than giving dividends to shareholders.

2.3.1.1.2 Liquidity

Liquidity can be described as a bank or firm's ability to meet the cash demand of its policy and contract that it holds with minimal or no loss. The liquidity profile of a bank is a function of its assets and liabilities (Chorafas, 2007)

Liquidity is essential for a bank's ability to meet and repay its short-term obligations and unexpected withdrawals of depositors and creditors.(Strand, 2013)

Dividend-paying firms have a more liquid market for their security and determinants of a stock's liquidity are positively related to its probability of paying dividend. Additionally, this relationship between dividends and liquidity is greater when shareholders are regarded as more powerful. This is in line with a mechanism in which payout decisions act as a commitment not to invest (Heaney, 2007)

When shareholders have adequate power, liquidity would be more strongly inter- related with dividend payout as managers would be more likely to pay dividends to meet shareholders' preference for liquidity. (C. B. Bhattacharya, 2009)

(Okpara, 2010) analyzed that there is a positive relationship between liquidity and dividend payout after studying Nigerian Securities and Exchange Commission.

However (Moyosore, 2014)and (Agyei, 2011)found out that there is a negative significant and insignificant relationship between liquidity and dividend payout respectively.

While in Ethiopia, In Ethiopia, Tewodros (2011) conducted his study on the determinants of dividend payout and concluded that liquidity has negative and significant effect on banks' dividend payout by stating that it is expected in the banking sector because their total operations are based on liquid cash so even in case of high liquidity banks prefer to maintain a substantial amount of liquid cash to smooth out operations. This finding also agrees with the findings of Dakito Alemu and Ravi (2015) and Simegn H/Mariam (2013), and differs from the findings of Elias Mitiku (2015), Chekole Demilie (2016),Tadele Tesfaye (2017) and Seifu Fiseha (2018) who found that liquidity had no impact on dividend payout of Ethiopian private banks.

Mohammed (2012) investigated his study about the determinants of dividend policy insurance companies in Ethiopia and discovered that a positive significant relationship with their dividend payment.

2.3.1.1.3 Capital adequacy

Capital serves as a buffer against losses and failure. Furthermore, with limited liability, the proclivity for banks to engage in higher risk activities is curtailed by greater amounts of capital at risk (Bouheni, 2014). Capital adequacy requirements, especially with deposit insurance, play a crucial role in aligning incentives of bank owners with depositors and other creditors (Berger, 1995)(Furlong, 1990).

(Alan D. Morrison, 2001)State that capital adequacy requirements are beneficial mainly in restricting bank size to be small enough to avoid risky problems.(Thampy, 2004) shows the impact of capital adequacy regulation on loan growth. Since loans have the highest risk weight, a capital constrained bank would want to conserve its capital by allocating fewer assets to loans. This trend becomes more severe as the capital constraint becomes binding which is the case for banks with less than the required capital level. However, for banks with high capital adequacy ratios, there is little impact on loan growth. He also shows that in a capital constrained environment banks will reduce the supply of loans. It also provides an explanation for the high proportion of investments held by banks. The reduction in the supply of loans is greater for banks which are inefficient. The effect of higher capital standards on the reserve of bank credit in the economy would have a greater impact in economies which have a bank dependent or dominated financial system as opposed to a capital markets dominated system.

(Yu, 1996)Studied capital adequacy for banks as the level at which the deposit insuring agency would just breakeven in guaranteeing the deposits of individual banks with the premium the bank pays. He used data from depository institutions in Taiwan, during 1985–1992 for measuring fair capital adequacy.(Dowd, 1999)Found in his study that the minimum capital standards on financial institutions can be seen as a means for reinforcing the security of deposits and robustness of the banking system.

(Saje E. M., 2015) And Seifu Fiseha (2018) found out that capital adequacy have a positive relationship with dividend policy in Ethiopian banking industry.

Belisti Jemberie (2015), on the other hand, found a negative relationship with dividend payout and implied this as due to the inclusion of newly established banks in the study period which might have given priority to building their capital assets and stating that a direct correlation between Capital adequacy ratio and retention ratio and an indirect relationship between Capital adequacy ratio and DPR is reasonable.

2.3.1.1.4 Investment opportunity

Investment opportunity means the chance to make an exceptional return on an investment. To make an investment, a company needs a capital. Normally, a firm is financed by either debt or equity (H.A.N A. M., 2007). Thus, a company can obtain capital by debt which is external financing from creditors like banks or retains a portion of the profit as internal financing. A firm would normally prefer to retain a greater proportion of cash for investment.(Moncef Guizani, 2009)

(Y, 2011) Has found a positive relationship between investment opportunity and dividend policy in Thailand companies.

(Rafique, 2012)However, found an insignificant relationship between investment opportunity and dividend policy of listed firms in Karachi stock exchange.(Bokpin, 2010)Also found out that there is a significantly negative relationship between investment opportunity set and dividend payout in 34 emerging market countries covering a 17-year period, 1990-2006 by applying fixed effects panel model for the purpose of estimation.

(Chen, and Dhiensiri, 2009) who founded that investment opportunity has a negative significant impact on dividend payout ratio by stating that when the selected banks investment opportunity increases, their dividend payout will decrease. Because, an increasing demand of capital will be there, if a company is growing quickly. In addition, the higher the investment opportunities it is, the higher the need for resources to finance expansion, and the higher the company is to retain earnings than to give them as dividends.

2.3.1.1.5 Bank size

An industry's optimal firm size depends on that industry's particular production technologies, including capital intensities and scale economies (Raghuram G. Rajan, 2001)

It is claimed that larger firms are more likely to pay higher dividends because larger firms tend to be more mature and have higher cash flows. The size of a company is a significant determinant of the dividend payout ratio in that the probability of paying dividends increases with company size (Heaney, 2007). (Sujata Kapoor, 2010) Indicated that large firms have a lower risk than small firms and consequently the small firms ought to pay high dividend payouts so as to attract investors.

(Dickens, 2000) and (Varouj Aivazian, 2003) said 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.

(French, 2001), (David J. Denis, 2008), (Harry Deangelo, 2004), (Rath, 2005), (Laarni T. Bulan, 2007), and (Jeffrey Wurgler, 2004) found out that there is positive and significant relationship between firm size and dividend policy.

(Juhmani, 2009) concluded that size of Bahraini companies has significant relationship with dividend payout after studying 35 Bahraini companies listed in Bahrain Stock Exchange from 2006 to 2007 time period. (William P. Lloyd, 1985) argued that larger firms become less dependent on internal funds which allow them to pay higher dividends.

However, different studies show that large firms have more liabilities which will lead them to pay lower dividend so that the profits can be retained to support the costs of debts. (Guizani, 2009) indicated this negative relationship by studying listed firms in Tunisian Stock market. On the other hand, (Moradi J.H Valipour and, 2012), (AL-Taleb, 2012) found out that firm size has no impact on dividend policy.

(Guizani, 2009) found out that there is a negative relationship between firm size and dividend.

Firms with larger size tend to have lower transaction costs associated with acquiring new financing as compared to small firms, Chekole Demilie (2016), Seifu Fiseha (2018), Birhan Moges et al. (2020), Kumar (2021) and (Heaney, 2007) by stating that the probability of paying dividends increases with company size. On the other hand (Saje E. M., 2015) finding shows that bank size has a negative significant impact on dividend payout ratio by stating that Ethiopian banking industry is in its growth stage and the relatively larger banks compete to increase their market share to preserve their recent status. In order to do that, they invest their profit heavily on

financing the competition to give rise to their market share, which will in return lower the amount available to pay dividend which is the same finding with (Sujata Kapoor, 2010) Indicating that large firms have a lower risk than small firms and consequently the small firms ought to pay high dividend payouts so as to attract investors.

2.3.1.1.6 Firm's age

Firm's age can be defined as the number of years elapsed since the firm was first listed (plus one to avoid ages of zero). Firms are more likely to pay higher dividends as they transit from growth to a more mature phase. This change occurs because their investment opportunities and growth rates become slower or even decline, and they start generating larger amounts of free cash flows. The maturity hypothesis (also called the firm life-cycle theory) attempts to link firm age with dividend policy. The "maturity hypothesis" which argues that as companies mature, their investment/growth opportunities diminish, and as a result the expectations for return on their investments will fall. As the expected of return declines, companies distribute cash from their previous investments to their shareholders as dividends rather than turning them into new investments. Therefore, a feature of mature companies is a higher rate of dividend payout. According to this hypothesis, dividend payout yields two pieces of information: First, the systematic risk of the company is reduced. Second, the company's investment opportunities have narrowed, and in the future, it cannot make high investments. If the market shows a positive response to the dividend news, it means that the market prefers reduced risk to reduced profit(Gustavo Grullon, 2002).

Simegn H/Mariam (2013) also found that bank's age has positive and statistically significant impact on the banks' dividend payments and with that of Grullon and Michaely (2002) who argued that firms were more likely to pay higher dividends as they transit from growth to a more mature phase

(Krishnan, 2015)Studied Indian companies included in the Nifty 50 and Nifty Junior using multiple regression model and concluded that firm age has insignificant relationship with dividend yield which founded the same result with Desta Zelalem (2021) who found that age of firm was not statistically significant variable in determining dividend payout ratio in commercial banks of Ethiopia.

2.3.1.2 Macro-economic variables

In practice, dividend policy is not only dependent on internal factors, but, rather, the complete set of both internal and external factors, such as GDPs, interest rates, exchange rates, and a country's inflation level.

Macro-economic variables are that deals with the performance, structure, and behavior of the entire economy. The financial policy of a country affects the overall performance of the companies.

2.3.1.2.1 GDP

The GDP growth rate represents the market value of all the goods and services produced within the boundary of a country in a specified period of time. When the real economic activity of the economy increases, it leads to increase the corporate earning of the different companies, which ultimately leads to increase the dividend payout ratio (Abdul Ghafoor, 2014). (Bragoli, 2014) Found out that the GDP growth has an affirmative effect on dividend payout. Growth in GDP means that the Malaysian economy experience an expansion during the year, the market was more active than last year, so the property company will probably make a profit due to the expansion of the economy. Thus, the company will pay a dividend when it is earning and have more cash to pay to shareholders

Haimanote Walle and Ravi (2019) found that firm age had a positive and significant effect on dividend payout of private insurance companies in Ethiopia, and that of Zelalem Abraham (2018) who found similar result for commercial banks of Ethiopia, and that of Daniela (2014) for property companies in Malaysia. On the other hand, the finding goes against the findings of Tadele Tesfaye (2017) who found that economic growth rate had no impact on dividend policy of Ethiopian private banks and of Workneh Dilie (2021) who found that the real GDP growth rate had a negative impact.

2.3.1.2.2 Foreign exchange rate

Exchange rates are quoted as foreign currency per unit of domestic currency or domestic currency per unit of foreign currency. It allows to express the cost or price of a good or service in a common currency. (Obstfeld, 1987)

(Murinde, 1997) argued that the exposure of firms to foreign exchange rate risks has increased. Two different types of risks under an independently floating exchange rate regime are identified in the existing literature. First, transaction exposure, which arises due to gains or losses arising from settlement of investment transactions stated in foreign currency terms. Second, economic exposure, which arises from variation in the firm's discounted cash flows when exchange rates fluctuate. Thus, the exchange rate risks affect the risks and returns and hence the value of the firm.

In an open economy, the expectations of relative currency values affect the domestic and foreign interest rate and these changes affect the present value of a firm's assets. Exchange rates play crucial role on stock prices, especially for internationally held financial assets. (Cheng-Few, 2001)

(Wu Y. , 2000) explains the positive and negative relationship between exchange rate and stock prices by a real interest rate and an inflationary disturbance.

(Murinde, 1997) assert that "there is neither a theoretical nor an empirical consensus on the relationship between exchange rates and stock prices by bringing together two separate developments in the area of finance, namely the Emerging Stock Markets (ESMs) and the adoption of independently floating exchange rates.

(Koh, 2000) and (Jongmoo Jay Choi, 1992) studied to find the impacts of the interest rate and exchange rate on the stock returns and concluded that the exchange rate and interest rate are the determinants in the stock prices. On the other hand, a study conducted by (Tabak, 2006) to analyze the dynamic relationship between stock prices and exchange rate in the Brazilian economy showed that there is no long-term relationship between these variables.

(Hellen, 2013) studied all the firms that consistently paid dividend between the year 2002 to 2011 that were listed at the Nairobi Security Exchange and found out that exchange rate and dividend payout has a positive correlation.

Workneh Dilie (2021) which stated that the difference in the rate of foreign exchange has no impact on selected banks' dividend payment. In countries where there have a stock market, foreign exchange rates could be priced in the stock price. Since, Ethiopia did not start a stock

market yet, a foreign exchange rate would not be an important impact on dividend payout of banks as per the finding of the study.

2.4 Gaps in Literature

The studies on determinants of dividend payout indicated above mentioned different variables that affects a dividend payout of banks. The variables listed were categorized under bank specific factor and macro - economic variables. Such as profitability, liquidity, previous year dividend, capital adequacy, leverage, firm growth, firm size, firm risk, investment opportunity, taxation, market risk, GDP, inflation and so on.

In Ethiopia, the studies on determinants of dividend payout ratio in banking industry were not sufficient enough comparing to other developing and developed countries to identify the major factors that affects dividend payout. Even though the studies listed out different bank specific factors, according to the knowledge of the researcher only one (Tesfaye, Determinants of dividend policy in Ethiopian private banks, 2017) study mentioned macro- economic variables such as economic growth rate and inflation rate. In addition, none of the studies mentioned bank's age as a bank specific factor which is a variable that should not be missed because the age of a company has more impact on distribution of profits as dividends. A newly started and growing company may require much of its earnings for financing expansion programs or growth requirements and it may follow rigid dividend policy, where in, most of the earnings are retained while an old company with good track record and good name in the public can formulate a clear cut and more consistent dividend policy (Bhat, 2008).

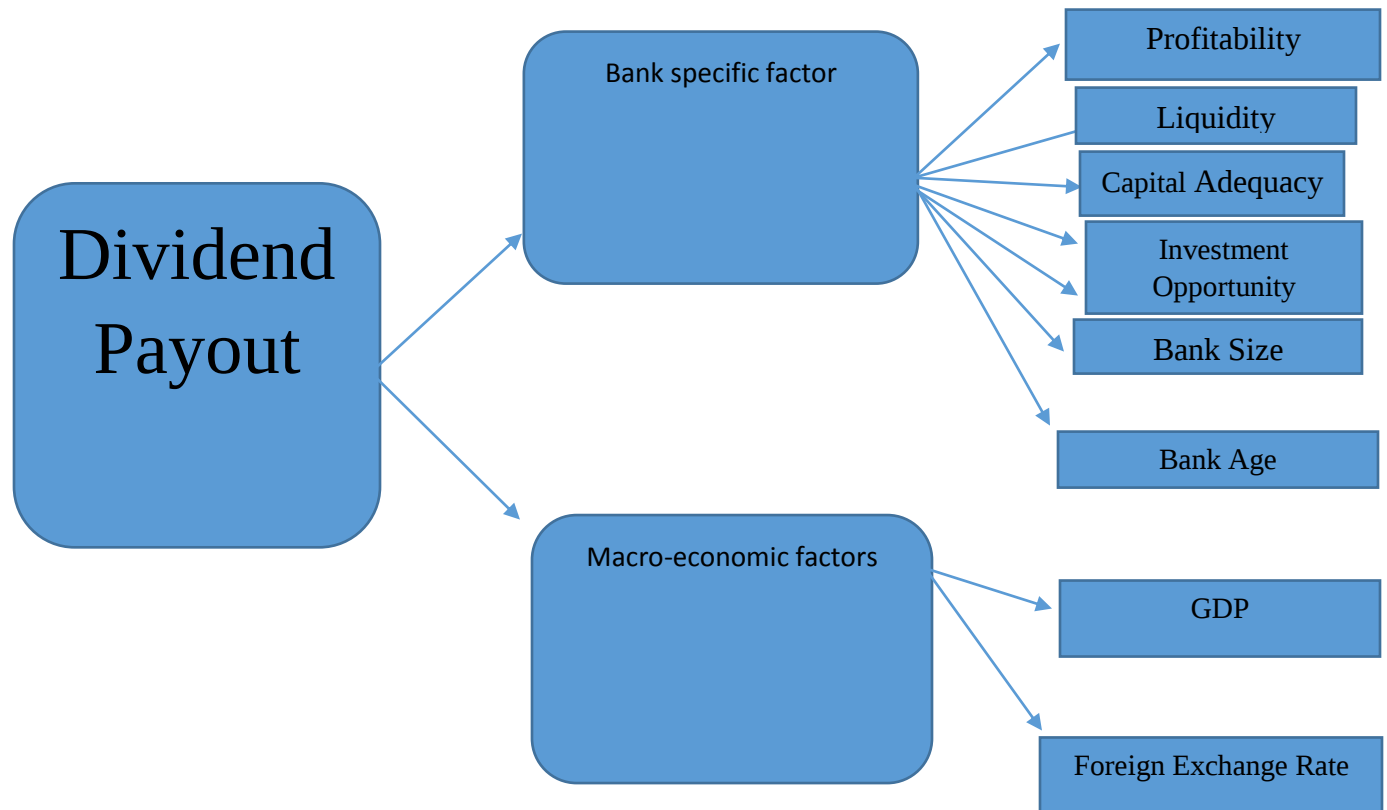
Furthermore in the samples taken from previous studies, Debub Global Bank and Enat Bank were not included because of their newly establishment and lack of sufficient information.

Therefore, further studies need to be studied to reach the dividend payment system of the developed countries so that there is different attractive alternatives for investors to invest in the private banks.

In this study profitability, liquidity, capital adequacy, investment opportunity, Bank size, firm's age is used as a bank specific factor and GDP and foreign exchange rate as macro- economic variable. It will also incorporate Debub Global Bank and Enat bank so that their managers and shareholders have more information like other banks.

2.5 Conceptual Framework

This conceptual frame work is a personal design constructed based on the finding of different authors(Lintner, 1956; C. B. Bhattacharya, 2009; Manos, 2001; Thanatawee, 2011; Heaney, 2007; Rishny, 1986; Grullon, 2002; Ghafoor, 2014; Ying, 2000). Figure 2.1 shows the relationship between the dependent variable i.e. dividend payout and the nine explanatory variables.



Source: Personal design made as per theoretical and empirical literature

Figure 2.1: Conceptual framework of the Dependent and independent variables

Definition and Measurement of Variables

Dependent Variable:

Dividend Payout Ratio-

The dividend payout ratio (DPR) is the amount of money that a company pays in dividends to its shareholders in comparison to its net income (Finance, 1999-2020). It is used as dependent variable measured by the ratio of total amount of cash dividend paid to net income of a bank in a given time period.

Independent variables: The determinants selected which are believed to have impact on the dividend payout decisions of firm can be grouped into two categories: Bank specific and macro-economic variables. The Bank specific factors are profitability, liquidity, Capital Adequacy, Investment Opportunity, Bank size, Firms age. While, the macro economic variables are GDP and Foreign exchange rate.

Profitability: Profitability is defined as the ability of given investment to earn a return from its use. (Balasundaram, 2009). Profitability has long been considered as the most determinants of a firm's ability to pay dividends. Bank profitability is typically measured by the return on assets (ROA) which determines the ability of the firm to make use of its assets calculated as the ratio of a firm's net income to its total assets or the return on equity (ROE) which reveals how much profit is generated with the money shareholders have invested calculated by dividing bank's net income by total equity and gross margin (GM) that represents the percentage of revenue retained after incurring the direct costs of providing goods or services and is calculated as the ratio of gross profit to total revenues.

Liquidity: Liquidity can be described as a bank or firm's ability to meet the cash demand of its policy and contract that it holds with minimal or no loss. The liquidity profile of a bank is a function of its assets and liabilities (Chorafas, 2007). The current ratio (also known as working capital ratio) measures the liquidity of a company and is calculated by dividing its current assets by its current liabilities. The term current refers to short-term assets or liabilities that are consumed (assets) and paid off (liabilities) is less than one year.

Capital adequacy: capital adequacy is described as an indicator of bank's risk exposure. (Noor Muhammad Al- Sabbagh, 2004)Regulatory authorities used capital adequacy ratio as a significant indicator of “safety and stability” for banks and depository institutions because they view capital as a guard or cushion for absorbing losses (Abdel-Karim Mastura, 1964)Capital adequacy of banks is measured by Shareholders fund/ Total assets (SHF/TA).

Investment opportunity: Investment opportunity means the chance to make an exceptional return on an investment. It is measured by market to book ratio which is calculated as market value of equity/book value of equity.

Bank size (Size): This ratio represents the ownership of assets by banks. Natural Logarithm of total bank's assets as at the end of each fiscal year will be used to measure bank size.

Bank's age: It can be defined as the number of years elapsed since the firm was first listed (plus one to avoid ages of zero). In this study, Incorporation age (AGEinc) will be used. This measure is defined as the number of years elapsed since the bank was first incorporated.

GDP: The GDP growth rate which is grouped under macro-economic variables represents the market value of all the goods and services produced within the boundary of a country in a specified period of time. GDP data will be collected from National Bank of Ethiopia.

Foreign exchange rate: this are quoted as foreign currency per unit of domestic currency or domestic currency per unit of foreign currency. In this study, foreign exchange rate will be measured using bilateral exchange rate. A bilateral exchange rate refers to the value of one currency relative to another. They are typically quoted against the US dollar (USD), as it is the most traded currency globally (Australia, 2001-2020).

CHAPTER THREE

3. Research Methodology

3.1 Introduction

The third chapter of this study briefly discusses about the research methodology. On which the chapter first describes the research design, target population and sample of the study, the data collection as well as the data analysis techniques to be used to achieve the objective of the study. Then model specification and finally research hypotheses are presented on the second and third part respectively.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data” (Kothari, 2004)

This study used quantitative research approach and casual research design to see the relationship between dividend payout of private commercial banks in Ethiopia and specific and macro-economic variables.

(Bhattacharjee, 2012) explained explanatory research attempts to identify causal factors and outcomes of the target population. Therefore, this study adopted an explanatory research approach by using balanced panel research design to meet the research objective.

3.3 Target population and sampling technique

The target population of the study is all the private commercial banks currently operating in Ethiopia during the study period i.e. from 2014 -2019.

(Kothari, 2004) Stated purposive sampling as more desirable when the total population is small and a known characteristic of them is to be studied. Therefore, this study used purposive non-probabilistic method because the numbers of banks in the country are few and banks having both a longer and shorter period of dividend payment are to be used. Therefore out of the sixteen private banks currently operating in Ethiopia, this study took only eight banks by taking sample size of 50%. Since bank's age is one of the bank specific factor that is going to be studied, the chosen banks is categorized based on the bank's age as old; operated for 15 years and above,

medium; operated between 10 and 15 years and young; operated below ten years and because there is no bank established recently gathering sufficient information will not be a problem. From the banks that is old three banks is chosen; Awash International Bank, Wegagen Bank and Lion International Bank, medium; Oromia International Bank, Zemen Bank and Berhan International Bank and from young, there is only two banks established during that period; Debub Global Bank and Enat Bank.

In order to include Debub Global Bank and Enat Bank which is established in 2012 and 2013 and started paying dividend in 2014 and 2015 respectively, the study used the data from 2014-2019 time period which will be also the most recent study regarding determinants of dividend payout ratio in private commercial banks of Ethiopia.

3.4 Data Analysis Techniques

The study used secondary source of data. Secondary source of data is gathered from each banks annual report about bank specific factors and macro-economic factors such as GDP and foreign exchange rate from NBE dataset using their audited financial statement.

Explanatory variables of fourteen banks using six years period from 2014 to 2019 is entered into a Microsoft Excel. Descriptive statistics, correlations coefficient and fixed effect regression analysis is used to analyze the impact of the independent variables on the dependent variable. The descriptive statistics of both dependent and independent variables is calculated over the sampled periods. To interpret the findings, statistical description such as standard deviation, mean, minimum and maximum is used.

Correlation analyses between dependent and independent variables is used to realize the degree of linear association between them.

At the end, multiple linear regression analysis is used to determine the importance of each independent variable in influencing the dependent variable of the private commercial banks in Ethiopia. For this, Eviews8 software will be used.

3.5 Model specification

Panel/longitudinal data has an advantage in studying dynamic relationships and modelling the differences, or heterogeneity, among subjects (Frees, 2004).(Brooks, 2008)Also mentioned

addressing a broader range of issues and tackling more complex problems as a benefit of panel data. Therefore, panel/longitudinal data regression analysis of cross-sectional and time series data is used. The regression model is used as follows:

$$y = \alpha + \beta_1 x + u_{it}$$

Where: y represents the dependent variable, which is the bank's dividend payout ratio; X contains the set of explanatory variables in the model mentioned above, which are PROF, LIQ, CA, INV, SIZE, AGE, GDP and FX

u_{it} is the disturbance term;

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

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

$$DPR_{it} = F(\text{PROF}, \text{LIQ}, \text{CA}, \text{INV}, \text{SIZE}, \text{AGE}, \text{GDP}, \text{FX}, u)$$

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

$$DPR_{it} = \beta_0 + \beta_1 \text{PROF}_{it} + \beta_2 \text{LIQ}_{it} + \beta_3 \text{CA}_{it} + \beta_4 \text{INV}_{it} + \beta_5 \text{SIZE}_{it} + \beta_6 \text{AGE}_{it} + \beta_7 \text{GDP}_{it} + \beta_8 \text{FX}_{it} + u$$

Where:

DPR; dividend payout ratio in time t

PROF: profit after tax in time t

LIQ: liquidity in time t

CA: Capital adequacy

INV: Investment opportunity

SIZE: logarithm of total assets in time t

AGE: Bank Age

GDP: Gross Domestic Product

u : random disturbance term, and

β : regression coefficient

To maintain the data validity and robustness of the regressed result of the research, the basic classical linear regression model (CRLM) assumptions is used and normality, homoscedasticity, autocorrelation, multicollinearity and linearity is tested.

The variables used in this study are summarized in table 1 as follows:

Table 2.1: variables sign and Measurement (period; 2014-2019)

NO.	Variables	Proxy/symbol	Description	Source
	Dependent Variable			
1.	Dividend Payout Ratio	DPR	Cash Dividend/ Net profit	
	Independent Variable			
1.	Profitability	PROF	Net Income/ Total asset	National Bank of Ethiopia
2.	Liquidity	LIQ	Current asset /current liability	National Bank of Ethiopia
3.	Capital Adequacy	CA	Shareholders fund/ Total assets	National Bank of Ethiopia
4.	Investment Opportunity	INV	(book value of fixed assets in the current year – book value of fixed assets in the previous year)/ book value of assets in the previous year	National Bank of Ethiopia
5.	Bank Size	SIZE	Natural Logarithm of Total Assets	National Bank of Ethiopia
6.	Bank Age	AGE	The number of years plus one	National Bank of Ethiopia
7.	GDP rate	GDP		National Bank of Ethiopia
8.	Foreign Exchange Rate	FX	USD/ETB	National Bank of Ethiopia

CHAPTER FOUR: Data Presentation, Analysis and Interpretation

This chapter discusses the result of data analysis and finding of the study. It first describes the statistical testes of the variables. Second, brief descriptions on examinations of basic ordinary least square (OLS) assumptions are presented. At last, the two models of statistical analysis of the regression results is presented.

4.1 Descriptive statistics

Table 4.1 presents the descriptive statistics for the variables to study the dividend payout ratio of Ethiopian private banks from 2014 to 2019. The table shows the mean, maximum, minimum, standard deviation for each variable and logarithmically transformed variables.

Table 4. 1: Descriptive statistics

	DPR	LOGPROF	LIQ	CA___	INV	LOGSIZE	LOGAGE	LOGFX	GDP_RATE
Mean	0.335875	1.269178	0.312481	0.23625	0.010872	0.609225	0.916051	1.391327	9.039938
Median	0.266605	1.268995	0.283379	0.25	0.01	0.611064	0.90309	1.386241	9.053035
Maximum	0.854321	1.381832	0.477571	0.56	0.03	0.643743	1.39794	1.50515	10.40617
Minimum	0.216691	1.149143	0.224609	0.04	-0.001	0.518708	0	1.304391	7.705
Std. Dev.	0.195495	0.073828	0.079287	0.099587	0.010076	0.028529	0.31579	0.071936	1.262718

Source: Eviews 8 output

Logarithmically transforming variables in a regression model is a very common way to handle situations where a non-linear relationship exists between the independent and dependent variables. Using the logarithm of one or more variables instead of the un-logged form makes the effective relationship non-linear, while still preserving the linear model. It is also a convenient

means of transforming a highly skewed variable into one that is more approximately normal. (Benoit, 2011) Where in this case, LogPROF(log of profitability), LogAge (natural log of one plus bank age), LogSize (natural log of total Assets) and LogFX measured as natural log of foreign exchange rate(taking logs of an exchange rate can stabilize the variance of the time series) is used. Because the variable, profitability, age, size and FX had a non-linear relationship with the dependent variable, dividend payout ratio. Therefore, these variables had to transform logarithmically.

The table above point out the descriptive statistics for all the variables. It is the average indicators of variables computed from the financial statements of each banks. A payout ratio over 100% indicates that the company is paying out more in dividends than its earning can support, which some view as an unsustainable practice. A low payout ratio can signal that a company is reinvesting the bulk of its earnings into expanding operations. A dividend payout ratio of 30-50% is considered healthy, while anything over 50% could be unsustainable. Therefore, the mean of the dividend payout ratio, which shows 33.58% percent, points out that the dividend payout ratio is not highly distributed and also shows that the selected private banks pay 33.58% on average of their earnings to their shareholders. It can be also said that they were reinvesting majority of their earning and focused on their growth because their average is less than 50%. DPR have a maximum of 0.8543 and minimum of 0.2166. This indicates the highest dividend payout for shareholders is 0.8543 and the minimum dividend payout is 0.2166 of the selected banks in the last six years. Standard deviation of DPR was 0.1954 which shows that dividend payout variation between the mean and the selected banks.

A mean of 1.269178 is for the variable of log profitability. This implies that on average for each one-birr investment in the asset of selected private commercial banks during 2014-2019, there was 12.69% return, with a minimum and maximum of 11.49% and 13.81% respectively.

Most studies pointed out that many firms are less likely overall to pay dividends now, especially if the stock is considered more liquid (Bakaert et al, 2007), (Graham et al, 2006), (Banerjee et al) The national bank of Ethiopia set the minimum liquidity of 15% for all banks. And the average financial liquidity of the selected private commercial banks, measured as ratio of current asset by current liability, is 31.24% which is greater than the minimum requirement which implies that for a one birr current liability there is an available 0.3124 cent on average on current assets with

a maximum and minimum of 47.75% and 22.46% respectively. Thus, can be said they were solvent.

As per discussed in the literature review section, capital adequacy is the sufficiency of funds available to grip losses to protect depositors, creditors, in the interest of maintaining financial steadiness. In Ethiopia, capital adequacy is measured by the ratio of regulatory capital to risk-weighted assets and accordingly a minimum of 8% ratio is required (NBE directive no SBB/9/95), (BCBS 2004). The capital adequacy of the selected private commercial banks in the table 4.1 shows an average of 0.23625 which indicates the capital has taken a part of 23.62% of the risk weighted asset and is higher than the minimum requirement established by NBE, 8% which leads to an increase of the dividend payout.

The increases in investment opportunity set of a firm result in rise of dividend payout ratio and also increase of their dividend yield (Abbott, 2001). As investment opportunities rise, the firms usually cut off payouts in order to keep the financial resources available for reinvestment. (Laporta et al., 1997). Investment Opportunity mean is about 0.0108.

The larger the size of the company will cause a large cost which will reduce profitability, but on the other hand large companies have economies of scale and flexibility compared with small companies so it will be easier to obtain loans that can increase profitability. Therefore firm size is used as a variable to test its effect on firm value. (Tumiwa, 2017). The bank's logarithm of size which was calculated as natural logarithm of total asset has a mean of 0.6092

Log of Foreign exchange rate shows a mean of 1.391327, and a minimum 1.3043, which means that the exchange rate for the last years stood near at about this exchange rate. For an investor's perspective, a slight fluctuation in the currency rate can have a large effect on their returns. The highest exchange rate during that period was 1.50515.

The mean, minimum and maximum of GDP rate of the selected banks was 9.0399, 7.705 and 10.406 respectively. Economists agree that the ideal GDP growth rate is between 2% and 3%. Thus, can be said that, during the study period, the GDP of the country was not on solid shape. We will conduct other results later to identify whether this economic level of the country has an impact on the dividend payout ratio of the selected private commercial banks.

Average profit and age of sample private commercial banks, 2014-2019

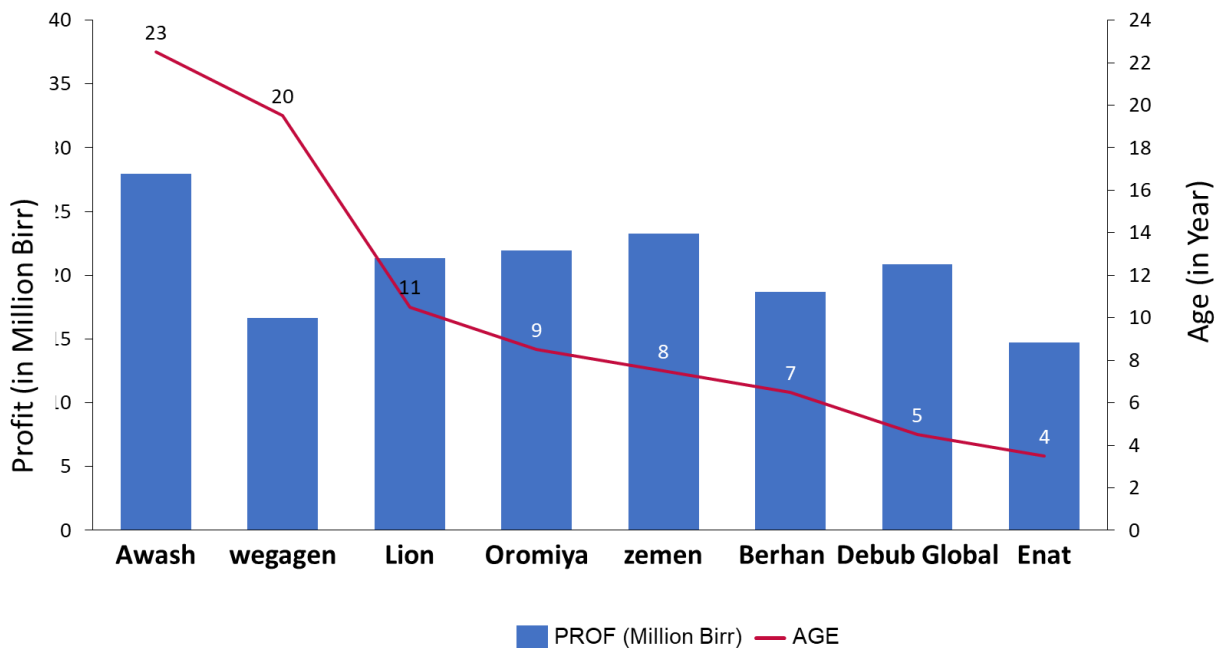


Figure 4.1: Average profit and age of sampled private banks

4.2. Results of regression result

As per (Brooks, 2008) mentioned, there are five basic assumptions required to make it satisfied and to maintain data validity and robustness of the regressed result of the research under the classical linear regression model (CLRM). Therefore, multi-collinearity, autocorrelation, homoscedasticity, and normality tests are made for identifying and correcting when there are miss specifications of data to increase the research quality.

4.2.1. Fixed Effects Regression Model Result

To start the process of selecting the regression model for panel data (Random-effects, Fixed-effects or pooled OLS models), it begins with considering whether the observations are a random sample from a given population, which is a subset of individuals randomly selected by researchers to represent an entire group as a whole. In the first step, we determine if these observations are a random sample, if this is the case, we perform the next step, otherwise we use fixed-effects model as the final decision. Since the observations of this study is selected using

non probability sampling method and not a random sample from the given population, the choice of regression model should be fixed effects model. (Dougherty, 2011)

Fixed effect studies the relationship between predictor and outcome variables within an entity. It gives the unobserved individual heterogeneity to be correlated with the explanatory variables. When using fixed effect, it is assumed that something within the individual may impact or bias the predictor or outcome variables and we need to control for this. The fixed effects model controls for all time-invariant differences between the individuals, so the estimated coefficients of the fixed effects models cannot be biased because of omitted time invariant characteristics. (Kohler and Kreuter, 2009).

4.2.2 Testing assumptions of classical linear regression model (CLRM)

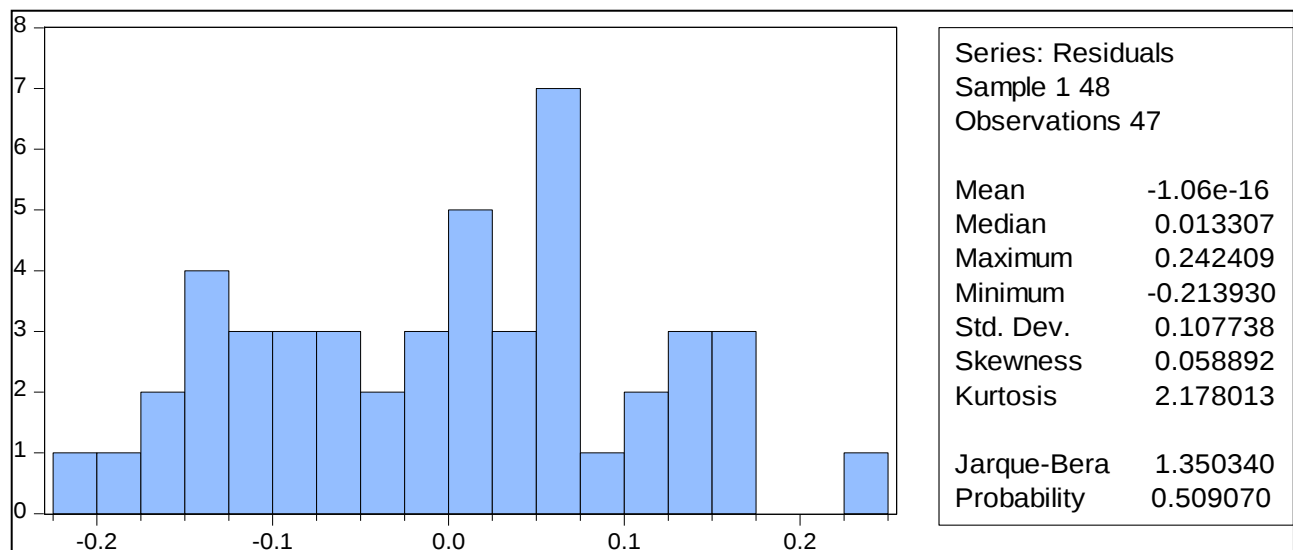
Assumption 1: The Errors Have Zero Mean ($E(e) = 0$)

If a constant term is included in the regression equation, this assumption will never be violated (Brooks 2008).

Assumption 2: Normality

Normality assumption indicates that each independent sample should be distributed normally. One way to check the normality of data is by referring skewness and kurtosis values.

If the residuals are normally distributed, the histogram would be bell-shaped and the Jarque-Bera statistic would not be significant. This means that the p-value should be greater than 0.05 to support the null hypothesis and that the distribution is normal at the 5% significance level (Brook 2008). Bulmer (1979) also pointed that skewness, in absolute values, between 0 and 0.5 shows fairly symmetrical, between 0.5 and 1 show moderately skewed and larger than 1 shows highly skewed distribution.



As per figure 4.1, the p-value is 0.50907 which is greater than 0.05. Therefore, it can be said that the data is consistent and normally distributed. We can say that also by referring the skewness which is 0.058 showing that it is fairly symmetrical.

Detail results of the variables is shown on the regression analysis portion and the impacts of the each explanatory variable against the dependent variable (dividend payout).

Assumption 3: Homoscedasticity Test

Data are homoscedastic if the residuals plot is the same width for all values of the predicted. Heteroscedasticity is usually shown by a bunch of points that is widespread as the values for the predicted dependent variable get bigger. The theory of homoscedasticity is that the residuals are nearly equal for all predicted dependent variable scores. The variance of errors is constant, if the assumption met the pattern of the residuals will have about the same spread on either side of a horizontal line drawn through the average residual (Wooldridge, 2005). If the errors do not have a constant variance, they are said to be heteroscedastic. White test is used to test the existence of heteroscedasticity among the explanatory variables.

Table 4.2: Heteroschedasticity test

Heteroskedasticity Test: White			
F-statistic	1.499058	Prob. F(44,2)	0.4817
Obs*R-squared	45.61680	Prob. Chi-Square(44)	0.4047
Scaled explained SS	17.56372	Prob. Chi-Square(44)	0.9999

Source: Eviews 8 output

The p-value in table 4.2 shows 0.9999. Therefore, the null hypothesis of homoscedasticity is not rejected since the p-value is greater than 5%.

Assumption 4: Autocorrelation test

The autocorrelation theory is made of the CLRM's disturbance terms is that the covariance between the error terms in a time is zero; it assumed that the errors are uncorrelated with each another. If the errors are not uncorrelated with each another, it would be stated that they are serially correlated.

The Breusch–Godfrey test is a test for autocorrelation in the errors in a regression model. It makes use of the residuals from the model being well-thought-out in a regression analysis, and a test statistic is derived from these. The null hypothesis is that there is no serial correlation of any up to any predesignated order to p. It tests for the existence of serial correlation that has not been involved in a proposed model structure and which, if present, would mean that incorrect conclusions would be drawn from other tests or those sub-optimal estimates of model parameters would be obtained.

Table 4.3: BG Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.549965	Prob. F(2,37)	0.5816
Obs*R-squared	1.385742	Prob. Chi-Square(2)	0.5001

Source: Eviews 8 output

Table 4.3 presents shows the null hypothesis of no autocorrelation is not rejected, since it is above 5% significance level.

Assumption 5: Multicollinearity

Multicollinearity refers to the situation in which the independent variables are highly correlated. When independent variables are multi collinear, there is overlap or sharing of predictive power. This may lead to the paradoxical effect, whereby 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).

Table 4. 4: Correlations matrix of explanatory variables

	DPR	LOGPROF	LIQ	CA____	INV	LOGSIZE	LOGAGE	LOGFX	GDP_RATE
DPR	1								
LOGPROF	0.501918	1							
LIQ	-0.31788	-0.27272	1						
CA____	-0.59275	-0.33415	0.176818	1					
INV	0.208316	0.09379	-0.10058	0.115889	1				
LOGSIZE	0.441943	0.332522	-0.37464	-0.17836	0.239778	1			
LOGAGE	0.564102	0.318536	-0.70671	-0.23184	0.198205	0.667733	1		
LOGFX	0.01463	0.136295	0.095127	-0.04227	0.082718	0.136971	0.295511	1	
GDP_RATE	-0.01251	-0.07794	-0.06871	0.031337	-0.04498	-0.08562	-0.22129	0.5806	1

Source: Eviews 8output

Table 4.4 shows the correlation matrix for the explanatory variables and dependent variable, dividend payout ratio.

Kennedy (2008) stated that multicollinearity problem happens when the correlation coefficient among the variables are greater than 0.70, but in this study there is no correlation coefficient that exceeds 0.70. Therefore, there is no problem of multicollinearity which enhanced the reliability for regression analysis.

4.3. Regression results

OLS regression is used to detect variables that are determinants of dividend payout ratio. The table below presents the regression result of panel least square method.

Table 4.5 presents the regression results between the dependent variable (dividend payout) and the explanatory variables.

Table 4.5: Fixed effect Regression model result

Dependent Variable: DPR
Method: Panel Least Squares
Date: 08/10/21 Time: 12:35
Sample: 2014 2019
Periods included: 6
Cross-sections included: 8
Total panel (unbalanced) observations: 47

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGPROF	0.742270	0.254252	2.919422	0.0058
LIQ	0.998789	0.366120	2.728034	0.0095
LOGSIZE	-0.605471	0.760364	-0.796290	0.4307
LOGAGE	0.524589	0.118815	4.415181	0.0001
CA__	-0.853647	0.184493	-4.626992	0.0000
INV	3.208839	1.782648	1.800041	0.0796
LOGFX	-0.701180	0.253964	-2.760944	0.0087
GDP_RATE	0.012009	0.015103	0.795116	0.4314
R-squared	0.700284	Mean dependent var		0.338121
Adjusted R-squared	0.646489	S.D. dependent var		0.196982
S.E. of regression	0.117119	Akaike info criterion		-1.297413
Sum squared resid	0.534957	Schwarz criterion		-0.982494
Log likelihood	38.48921	Hannan-Quinn criter.		-1.178907
Durbin-Watson stat	0.353835			

The above table shows that the R- squared and Adjusted R-squared of the model is 70.08% and 63.78% respectively. This specifies that the changes in the independent variables (i.e. Logprofitability, liquidity, Logsize, Logage, capital adequacy, investment opportunity, Logforeign exchange rate and GDP rate) describe 63.78% of the changes in the dependent variable (i.e. Dividend payout ratio). The remaining 36.22% can be explained by other factors that are not in the model.

The F value is 0.000, which would tell us there is strong statistical significance as a whole, which enhance the reliability and validity of the model.

Based on the result, it can be said that from the bank specific variable Logprofitability, liquidity, capital adequacy, Logage from bank specific factor and Log foreign exchange rate from macro-economic variables have statistically significant impact on the dependent variable, dividend payout ratio of private commercial banks of Ethiopia. While, investment opportunity, Logsize

from bank specific factor and GDP rate from macro-economic variables have insignificant effect on the dependent variable.

From the regression result, we can also see that the coefficient of LogProfitability, Liquidity and LogAge which is 0.723, 1.006, 0.537 respectively have a positive relationship with dividend payout. On the other hand capital adequacy and Log foreign exchange rate has a negative relationship with dividend payout of private commercial banks of Ethiopia which indicates an inverse relationship between the independent variables and dependent variable since their coefficient shows -0.862 and -0.757 respectively.

4.4 Discussion of the results

In this section, the result of each independent variable including their impact on the level of dividend payout of commercial banks in Ethiopia is discussed in relation with the preceding empirical and theoretical evidences.

Profitability is found to be positive and statistically significant determinant of dividend payout ratio in private commercial banks of Ethiopia during the study period (HA1). The result is in line with the hypothesis formulated by the researcher regarding the significance and the sign.

Table 4.5 shows that the coefficients and probability of Logprofitability are positive and statistically significant impact on dividend payout since it is 0.7235 and 0.0099 respectively. Profitability seems to be a significant factor that determines dividend payout. This can be interpreted as when the profitability ratio of a firm increases, the dividend payout ratio paid by the bank will increase, which implies that Ethiopian private commercial banks pay dividend by considering the level of their profit. Signaling theory of dividend policy theory also states that the more profitable a firm is, the higher the chance it will have to pay dividends while, the less profitable the firm is, the lower possibility to pay dividends it will have. This finding agrees with the findings of Belisti Jemberie (2015), Tadele Tesfaye (2017), Haimanote Walle and Ravi (2019), Workneh Dilie (2021) and Muhammed Nuredin (2012) while it contradicts with the result of (Yimam, 2016) indicating that the industry of banking in Ethiopia is on developing stage and management of banks prefer to invest their earning than distributing dividend to shareholders, (Ibrahim E. Ahmed 2013) who had the same finding and discussed that companies

that are not paying dividends are not necessarily that are without profits and with Theodros Kinfе (2011), Mitku (2015) and Desta Zelalem (2021) who reported no impact on their study.

Liquidity which is defined as a bank or firm's ability to meet the cash demand of its policy and contract that it holds with minimal or no loss, of the banks for the study period shows that there is a positive significant relationship with dividend payout since it has a coefficient of 1.0065 and probability of 0.0101 which disagrees with the hypothesis 2 developed. This implies that as liquidity increases by one Birr, on average, dividend payout of Ethiopian private banks also goes up by 1.0065 Birr. It also implies that the private banks putted the availability of cash after current earnings as the most vital factor in deciding on the amount of dividend payment for their shareholders because firms facing a lack of liquidity are unlikely to issue a cash dividend. This finding is in line with Jensen's (1986) agency theory which stated that companies with greater free cash flow have higher dividend payout ratios. Based on this theory, firms that have higher liquid assets are more open to agency problem than a firm with lesser liquid assets. For the reason that shareholders do not have trust on managers, and they thus, consider that the managers may be involved in extreme spending if they have extra free cash flow at their hands and (Birhan, 2021) stating that liquidity of a firm is an essential factor of dividend payout. Since, the practice of payment of dividend in Ethiopia is using cash outflow but different with finding of (Ahmad, 2017) and (Kinfе, 2011) which were studied in the context of Ethiopian private commercial banks and finding that it has a negative significant impact on dividend payout by pointing out that may be efficiency problem of Ethiopian banking sector due to holding surplus amount of current asset which will lead to decrease profit and dividend payout and be the cause for the uncommon negative relationship of dividend payout ratio and liquidity. It also differs with the findings of Elias Mitiku (2015), Chekole Demilie (2016), Tadele Tesfaye (2017) and Seifu Fiseha (2018) who found that liquidity had no impact on dividend payout of Ethiopian private banks by stating that banks by their nature needs to maintain high liquidity in order to escape insolvency problem due to huge sum of their assets is made up from deposit and this deposit could be withdrawn at any time, to avoid this problem banks should always be certain that they have adequate liquidity to handle massive amount of withdrawals from deposit due to many reasons.

Capital adequacy which measures a bank's financial strength by using its capital and assets have negative statistically significant relationship with dividend payout since it has a coefficient of -0.8626 and probability of 0.0001 at a significance level of 5% and the selected banks had an average capital adequacy ratio of 23.62% during the study period which was well above the minimum level (8%) set by NBE., which indicates that when the capital adequacy of the selected banks increase, their dividend payout will decrease, which can be said that dividend distribution restraints may be used to achieve an increasing capital ratios. This result rejects the developed hypothesis (HA3). (Ross N., 2002) also found out that capital adequacy which is described by earning volatility has an indirect relationship with dividend policy. On the other hand (Mitku, 2015), has found the opposite result, which is a positive and statistical significance and stated that safer banks pay more dividend than those who are risky. Saje (2015) and Seifu Fiseha (2018) also found out that capital adequacy had a positive relationship with dividend policy in Ethiopian banking industry. This difference could be due to the inclusion of newly established banks in this study which might have given priority to building their capital assets.

Investment opportunity: as shown on the table 4.5, have a coefficient 3.2780 of and a probability of 0.0800 which indicates a positive but insignificant impact on dividend payout which rejects hypothesis A4. This finding agrees with the findings of Theodros Kinfe (2011), who reported that investment opportunity was not a determinant of dividend payments in Ethiopia banking sector. On the other hand, it is inconsistent with (Chen, and Dhiensiri, 2009) who founded that investment opportunity has a negative significant impact on dividend payout ratio by stating that when the selected banks investment opportunity increases, their dividend payout will decrease. Because, an increasing demand of capital will be there, if a company is growing quickly. In addition, the higher the investment opportunities it is, the higher the need for resources to finance expansion, and the higher the company is to retain earnings than to give them as dividends. It is also the same with the finding of (Bokpin, 2010). (Y, 2011) Has found a positive relationship between investment opportunity and dividend policy in Thailand companies.

Bank size: the result indicates that it has negative but insignificance relationship with dividend payout ratio which is consistent with the hypothesis 5 only in the coefficient. From the table 4.5 shown above, the coefficient of Logsize shows -0.7722 which indicates the negative relationship

it have with dividend payout of the selected bank during the study period and the probability is 0.4394 which is insignificant at 5% significance level. The finding is inconsistent with (Alli, 1993) which founded that bank size have positive significant impact on dividend payout by implying that larger banks can simply raise external funds than their internal source of financing at the expense of dividend. Firms with larger size tends to have lower transaction costs associated with acquiring new financing as compared to small firms, Chekole Demilie (2016), Seifu Fiseha (2018, Birhan Moges et al. (2020), Kumar (2021) and (Heaney, 2007) by stating that the probability of paying dividends increases with company size. On the other hand (Saje E. M., 2015) finding shows that bank size has a negative significant impact on dividend payout ratio by stating that Ethiopian banking industry is in its growth stage and the relatively larger banks compete to increase their market share to preserve their recent status. In order to do that, they invest their profit heavily on financing the competition to give rise to their market share, which will in return lower the amount available to pay dividend which is the same finding with (Sujata Kapoor, 2010) Indicating that large firms have a lower risk than small firms and consequently the small firms ought to pay high dividend payouts so as to attract investors. (Guizani, 2009) Also indicated this negative relationship by studying listed firms in Tunisian Stock market. On the other hand, (Moradi J.H Valipourand, 2012),(AL-Taleb, 2012)found out that firm size has no impact on dividend policy.

Age have positive significant relationship with dividend payout of the selected private commercial banks during 2014-2019. Coefficient of Logage is 0.5371 which indicates the positive relationship and the probability shows 0.0002 which helps us to say that it has significant impact at 5% significant level. This indicate that as the banks mature; their investment/growth opportunities diminish, and distribute cash from their previous investments to their shareholders as dividends rather than turning them into new investments as maturity hypothesis also stated. This finding is in line with (Gustavo Grullon, 2002)had stated that Firms are more likely to pay higher dividends as they transit from growth to a more mature phase. This change occurs because their investment opportunities and growth rates become slower or even decline, and they start generating larger amounts of free cash flows, (Krishnan, 2015), (Javid H. A., 2008) has also found the same result.

Desta Zelalem (2021) found that age of firm was not statistically significant variable in determining dividend payout ratio in commercial banks of Ethiopia.

Foreign exchange rate has a negative significant relationship as the table indicated above shows with a coefficient of -0.7577 and probability of 0.0282, which can be said that for one percent change in foreign exchange rate, keeping the other things constant will result --0.7577 percent changes on dividend payout of selected private commercial banks in opposite direction. This result doesn't agree with the hypothesis, B1 developed by the researcher. The negative relationship between foreign exchange rate and dividend payout ratio implies that the changes taking place in the foreign exchange rate affect the decision of the amount to be paid for investors as dividend. The upward and downward exchange rate movement determines the share prices of the selected banks which also affects the dividend payment since exchange rate is an essential element of business operation in Ethiopia for the reason that the Ethiopian birr consistently losing its value. The finding of negative relationship between foreign exchange rate and dividend payout ratio is the same result with (Zipporah, 2013) who studied the effects of macroeconomic variables on the dividend payout of firms listed at the Nairobi securities exchange for the period 2002 to 2012.

This finding is the opposite with the finding of Workneh Dilie (2021) which stated that the difference in the rate of foreign exchange has no impact on selected banks' dividend payment. In countries where there have a stock market, foreign exchange rates could be priced in the stock price. Since, Ethiopia did not start a stock market yet; a foreign exchange rate would not be an important impact on dividend payout of banks as per the finding of the study and (Murinde, 1997) who founded the same result by stating that this is "foreign exchange rate exposure puzzle". Contrary to this finding, Hellen (2013) found out that exchange rate and dividend payout had a positive correlation for firms that were listed at the Nairobi Security exchange that consistently paid dividend between the year 2002 to 2011.

GDP rate which represents the market value of all the goods and services produced within the boundary of a country in a specified period of time. As per the regression result, GDP has a positive but insignificant relationship with dividend payout since it has a coefficient of 0.0098 and probability of 0.5679 respectively at a significance level of 5%. The finding is opposite with the formulated hypothesis (HB1). The result is different with the finding of (Bragoli, 2014) by

stating that the country's economy has experienced an expansion during the study period which led companies to make a profit and pay more dividends because there is more cash to pay to shareholders and (Abdul Ghafoor, 2014) increase in the GDP is assumed to increase in the corporate earnings of different companies, which ultimately leads to increase the dividend payout ratio

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

The study aimed at examining the determinants of dividend payout ratio of eight Ethiopian private banks from the year period of 2014/15 up to 2019/20. Dividend payout is the dependent variable and six independent variables: profitability, liquidity, Capital adequacy, Investment opportunity, Bank's size, bank age from a bank specific factor and GDP and Foreign exchange from macro-economic variable is used.

Fixed effect panel regression model was used in order to examine the relationship between the dependent and independent variable. The result of the regression analysis shows that there is a positive relationship between the independent variable; profitability, liquidity and Bank's age with the dependent variable i.e. dividend payout, which implies an increase in these variables is also an increase in the dividend payment. While capital adequacy from the bank specific factor and foreign exchange rate, from the macro- economic variable has a negative relationship with dividend payout indicating an inverse relationship.

From the bank specific factor, profitability, liquidity, age is found to have a positive statistically significant impact and capital adequacy, a negative statistically significant impact on dividend payout. From macro-economic variable, only foreign exchange rate have positive statistically significant impact on dividend payout of the selected banks during the study period of 2014-2019. On the other hand, Investment opportunity and Bank's size from bank specific factor and GDP rate from macro- economic factor is found to have no significant impact on dividend payout of the selected banks during the study period.

The banking industry in Ethiopia is gradually becoming competitive. Each and every bank has to maximize the share of its shareholder so that it can attract its existing as well as potential investors and be on topmost. In order to achieve this, information is the key to be the best among the competitors and to forecast future business conditions. This study would help private commercial banks as an input to predict the factors that affect dividend payout and trend by looking at the mentioned determinants variables and the possible results.

5.2 Recommendation

The topic on determinants of dividend payout still remains as a puzzle. Because, many researchers keep doing the same study in the same industry but same result is not achieved yet. For this reason, managers, board of directors should invest more to identify which variables are the most determinant of dividend payout in addition to this conducted research.

Investors also should really look into the researches done so far to help them predict future dividend payment and to identify in which bank to invest in the first place.

Individuals and groups of people who need the information regarding recent determinants of dividend payout should consider variables indicated that has positive relations ship with dividend payout as a good indicator as per the finding of the study.

For further study, I would recommend other researchers to add more variables from bank specific factor such as Ownership structure and macro-economic variables like national income. I would also recommend that the study period to be extended up to 2020 since this study did not include it.

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Appendices:

Appendix 1: Regression Results For determinants of dividend payout

Dependent Variable: DPR Method: Panel Least Squares Date: 05/19/21 Time: 10:48 Sample: 2014 2019 Periods included: 6 Cross-sections included: 8 Total panel (balanced) observations: 48				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA___	-0.037200	0.040471	-0.919178	0.0365
INV	-0.052039	0.202388	-0.257123	0.0799
LIQ	-0.175365	0.685053	-0.255987	0.0480
LOG_AGE	0.600107	1.321134	0.454236	0.6527
LOG_GDP	2.762500	1.205485	2.291609	0.0287
LOG_SIZE	0.397573	0.679422	0.585164	0.0563
LOGFX1	-3.494952	3.386086	-1.032151	0.3097
LOGPROF	-1.213997	0.833631	-1.456276	0.0155
C	0.242668	1.531978	0.158402	0.8751
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.516892	Mean dependent var	0.283035	
Adjusted R-squared	0.290435	S.D. dependent var	0.265462	
S.E. of regression	0.223614	Akaike info criterion	0.103407	
Sum squared resid	1.600097	Schwarz criterion	0.727141	
Log likelihood	13.51823	Hannan-Quinn criter.	0.339117	
F-statistic	2.282521	Durbin-Watson stat	2.193345	
Prob(F-statistic)	0.000246			

Source: Eviews 8 output

Appendix 2: Descriptive statistics

	DPR	CA___	INV	LIQ	LOG_AGE	LOG_GDP	LOG_SIZE	LOGFX1	LOGPROF
Mean	0.283035	0.633333	0.538958	0.371328	0.458026	0.535304	4.079864	0.695663	0.648506
Median	0.253845	0.270000	0.570000	0.345493	0.451545	0.490229	4.116112	0.693120	0.650746
Maximum	0.884315	3.870000	1.030000	0.724064	0.698970	0.991384	4.872945	0.752575	0.806867
Minimum	-0.272712	0.050000	0.000000	0.204133	0.000000	0.416892	3.151475	0.652196	0.491554
Std. Dev.	0.265462	0.901852	0.229961	0.129993	0.157895	0.157049	0.373487	0.035968	0.063591
Skewness	0.744333	2.464722	-0.810396	0.776348	-0.486137	2.132557	-0.274505	0.281208	0.220003
Kurtosis	3.763219	8.245492	3.790175	2.913703	3.172550	5.967399	2.746976	1.643081	3.029777
Jarque-Bera	5.597258	103.6292	6.502692	4.836625	1.950181	53.99333	0.730868	4.315084	0.388984
Probability	0.060893	0.000000	0.038722	0.089072	0.377158	0.000000	0.693895	0.115609	0.823253
Sum	13.58567	30.40000	25.87000	17.82374	21.98522	25.69459	195.8335	33.39185	31.12829
Sum Sq. Dev.	3.312092	38.22687	2.485448	0.794216	1.171752	1.159231	6.556165	0.060804	0.190060
Observations	48	48	48	48	48	48	48	48	48

Source: Eviews 8 output