



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

BY: Haleluya Tilahun

**A Thesis Submitted to the Department of Accounting and Finance in Partial Fulfillment
of the Requirements for the Degree of Master of Science in Accounting and Finance**

**Addis Ababa University
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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
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GRADUATE PROGRAM

This is to certify that this thesis prepared by Haleluya Tilahun, entitled; “ *DETERMINANTS OF DIVIDEND PAYOUT EVIDENCE FROM PRIVAT COMMERCIAL BANK IN ETHIOPIA*” and submitted in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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STATEMENT OF DECLARATION

I, Haleluya Tilahun, hereby declare that this research work entitled; “DETERMINANTS OF DIVIDEND PAYOUT EVIDENCE FROM PRIVAT COMMERCIAL BANK IN ETHIOPIA” a” submitted by me for the award of the Degree of Master of Science in Accounting and Finance, is my own original work and that all sources of materials used for the study have been duly acknowledged.

Haleluya Tilahun _____

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Date

ENDORSEMENT

This thesis Submitted to the School of Graduate Studies of Addis Ababa University College of Business and Economics for examination with my approval as a university advisor.

Wollela Abehodie (PHD

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Date

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ABSTRACT

The main objective of this study was to investigate factors that determine the dividend payout of private commercial banks in Ethiopia. A balanced panel dataset (covering 2010–2019) from the National Bank of Ethiopia and ten private commercial banks' annual reports were used and analyzed through correlation and panel data regression techniques. Dividend payout was taken as a dependent variable, and the independent variables covered under this study were both bank-specific (profitability, liquidity, and last year's dividend payout) and macroeconomic factors (inflation rate, real GDP growth rate, and foreign exchange rate). The results of the regression analysis showed that liquidity, profitability, last year's dividend payout, and foreign exchange rate were the key determinants of the Ethiopian private banks' dividend payout ratio. And the researcher suggests that private bank sectors must focus on the factors of dividend payout in bank specific determinants, and it is better for the banks to revise the mentioned factors annually as they might not be stable. This will support them to make their dividend payout decision well-organized and reasonable, which, in the long run, will aid them to achieve their objective (maximizing profit) and satisfy employees and shareholders' needs as well as have a strong dividend payout.

Keywords: *dividend, dividend payout, banks*

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Acronyms and Abbreviation

FER- foreign exchange rate

GDP- Gross Domestic product

NBE –National bank of Ethiopia

PRO- profitability

LDP- last year dividend payout

LIQ- liquidity

INR- inflation rate

STATA- Software for statistics and data science

$\beta_1 - \beta_6$ -regression coefficients for each explanatory variable

A_i - intercept of the regression equation

I- cross-section dimension (banks)

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

A dividend is the amount that a corporation pays to investors in exchange for their investment. It is a corporation's profit distribution to its shareholders (Sullivan and Sheffrin, 2003). One of the most important considerations in corporate finance is dividend policy. Financial managers and businesses in general have been concerned about corporate dividend policy, and numerous scholars have developed many theoretical models outlining the factors that managers should examine when deciding on dividend policy (Glen et al., 1995). However, before going through the concerns, it's a good idea to go over the dividend policy and payout history.

The word "dividend policy" refers to the method that management employ to decide the amount and pattern of cash distributions to shareholders over time. It isn't only determined by financial outcomes and cash flow distribution (Salehi and Biglar, 2009). The hedging of money in the case of an economic downturn, greater earnings volatility, restricted external financing, or high future capital demands may all influence managers' dividend payment decisions. As a result, the "dividend conundrum" has been the subject of continuing research. A study of developing markets, on the other hand, might offer insight on the subject, adding to the increasing corpus of research on dividend policy (Glen et al., 1995). Companies must decide whether to pay a dividend to shareholders or keep earnings in order to reinvest them in the firm and promote future growth. The flow of earnings to investors increases as the company expands (Nuredin, 2012). The corporation's arbitration over how much earnings may be distributed as a dividend vs. how much can be kept is at the heart of the dividend policy decision (Agyei and Marfo-Yiadom, 2011).

The banking system plays a very important role in the economic life of a country, and the health of the nation's economy is highly related to the soundness of its banking system (Zakir, 2016). Private commercial banks are now an essential part of the economic system in Ethiopia. The bank's shareholders' owners and the bank both give a percentage of their profits to those shareholders. The part of the earnings distributed among the shareholders is called a dividend. Ishtaiq (2016) A dividend is the best way for banks to communicate their financial

performance to their shareholders. This decision on dividend payout is used to answer the firm's question of how much of a company's earnings will be paid to the shareholders and how much will be retained for reinvestment.

At the start of a corporate firm, finance managers are usually faced with two operational options. The first is about deciding what actual assets the company should buy, or an investment choice, while the second is about deciding how to fund these assets, or a financing decision. When the company starts to make money, however, another option must be made: whether to give a portion of the earnings to shareholders as dividends or to reinvest them back into the company. (Al-Malkawi, Rafferty, and Pillai 2010; Alam and Hossain 2012).

The effects of macroeconomic factors on a firm's dividend payout are still untapped in most of the prior empirical literature. This study investigated the effects of profitability, liquidity, last year's dividend, inflation, GDP growth rate, and foreign exchange on dividend payout in private commercial banks in Ethiopia for the recent ten-year period from 2010 to 2019G.

1.2.Statement of the problem

The dividend is used as a way for a company to communicate its financial performance to shareholders. The decision regarding dividend payout is very important in the financial management cycle of corporations. However, this decision remains something of a dilemma. Next to investment and financing decisions, the dividend payout decision is one of the three most important areas of decision in corporate finance, and whether it is high or low is a difficult problem, and there is still no exact answer yet (Cristiano et al., 2015).

Banks, like other businesses, face the dilemma of distributing earnings to shareholders or reinvesting them in operating assets, securities, or retiring bonds in order to foster further business growth (Demilie 2016).

Various research has been conducted on this subject. Lintner (1956) was the first to discover that dividend payout is a function of a company's earnings and the previous year's dividend. Different scholars, such as Pruitt and Gitman (1991) and Gill et al., agreed with this. However, Elias (2015) showed the profitability effect of dividend payout to be minor, whereas Chekole (2016) found it to be negative significant. Liquidity was found to be a significant positive factor for dividend payout by Muhammed (2012), but Simegn (2013)

found the opposite, and Elias (2015), Chekole (2016), and Henok (2016) found it to be a negative and insignificant factor for bank dividend payout by Elias (2015), Chekole (2016), and Henok (2016).

According to Mundati (2013), inflation has a significant and positive effect on dividend payout. The reason for the inconsistency of the result is that there are no steady determinants for the bank's dividend payout. It's because globalization, regulation, parallel competition, and unpredictable market dynamics are all constantly changing. This implies that the factors affecting dividend payout decisions in today's time might differ from those in the past. So, conducting research on such an issue is still important.

Furthermore, in Ethiopia, different researchers, including Kinfu (2011), Simegn (2013), Elias (2015), and Chekole (2016), studied the factors that influence the amount of money a commercial bank pays out in dividends. However, to the best of the researcher's knowledge, they all focus on bank-specific dividend payment characteristics. Due to the short history of the dividend in newly opened Ethiopian private commercial banks. Prior literature made a conclusion by taking only a short period of time with a small number of samples. But the researcher in this research included ten large private commercial banks for the period from 2010 to 2019G.C.

1.3. Broad research objective and hypotheses

The study's overall objective was to identify the important factors that influence dividend payout.

In case of private commercial banks in Ethiopia.

Based on this research objective and the evidence in the literature, the following hypotheses (HO) were developed.

HO 1. There is a positive relationship between bank profitability and dividend pay-out of private commercial banks in Ethiopia.

HO 2. There is a positive relationship bank Liquidity and the dividend pay-out of private commercial banks in Ethiopia.

HO 3. There was a positive relationship bank last year dividend payout and the dividend pay-out of private commercial banks in Ethiopia.

HO4. There is a negative relationship between Inflation rate and dividend payout of private commercial banks in Ethiopia.

HO 5. There is a positive relationship Real GDP growth rate and dividend payout impact of private commercial banks in Ethiopia.

HO 6. There is a negative relationship between foreign Exchange rate and dividend payout of private commercial banks in Ethiopia

1.4. Significance of the Study

From a variety of angles, this study is quite significant. As it is about the determinants of dividend payout in private commercial banks in Ethiopia, the findings enable the board of directors, managers, and investors to identify both bank-specific and macroeconomic aspects affecting dividend payout when making dividend payment and investment decisions. This understanding enables them to examine and divide a dividend policy in such a way that it increases dividends, attracting investors and achieving their goal of maximizing profit while also addressing the needs of shareholders. Likewise, the study can be used by government bodies, particularly financial sectors, to analyze the impact of macroeconomic variables on dividend payout when formulating macroeconomic policy to support the country's economic vitality and the health of the economy.

Furthermore, this study can be used by academicians, students, and other individuals who wish to learn more about the topic, or as a supplement to those who are conducting research in this area.

1.5. Scope and Limitation of the Study

The factors that impact dividend payout in Ethiopian private commercial banks were the subject of this study. A total of ten private commercial banks were chosen from all Ethiopian private banks, and the time period covered in this article was the most recent ten years, from 2010 to 2019. As a result, the research is limited to financial institutions in Ethiopia, primarily privately owned commercial banks. This means that the findings of this study can only be applied to private commercial banks in Ethiopia. The study's final findings are not applicable to industries other than banking. However, because Ethiopian private banks have a long history and experience of paying dividends in the industry, it helps drive other industries to identify the determinants of dividend payments. As a result, this conclusion can be used as a foundation for additional institutions.

1.6. Organization of the Study

The thesis is divided into five sections. The first chapter contains the introduction section, which includes the study's background, a statement of the problem, research questions, research objectives, research hypothesis, and the importance of the study, as well as its scope and limitations. The second chapter discusses literature reviews, including theoretical and empirical reviews, as well as gaps in the literature and conceptual frameworks. The study technique is covered in the third chapter, which comprises study design, population, sampling design, data type and data source, and data analysis method. The fourth chapter explains how to present, analyze, and interpret data, covering descriptive statistics, correlation and regression results, as well as how to evaluate them. Finally, based on the research findings, the final chapter offers conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

The objective of this chapter is to review the theoretical and empirical literatures on the determinants of dividend pay-out. The literature review is organized in three sections: Therefore, this chapter is organized in such a manner that selected global studies are discussed and analysed followed by studies conducted on Ethiopian financial institutions, both in chronological order. Section one (2.1) presents a theoretical review of determinates of dividend pay-out. This is followed by a review of the relevant (2.2) empirical studies on determinants of dividend pay-out. Conclusions and knowledge gaps are presented in section three (2.3).

2.1. Theoretical Review

In this part of literature review the researcher presents basic theoretical concepts related to dividend payout, forms of dividend and inconsistent theories on dividend payout, dividend policies and other related concepts.

2.1. 1. Definition of dividend payout

Simply put, a dividend is the money that a corporation pays out to its shareholders from its earnings. (Ross and Jaffa 2002). It is the distribution of a portion of the profit of a company to shareholders. Payments can be required in cash or by the issuing of other shares (Fidelis and Nestor 2017). Brealey and Myers (2003) explain that dividends are typically paid after corporate tax has been deducted and that it is up to the board of directors of a corporation to decide whether or not to pay a dividend. (Brealey and Myers 2003). The final payment, usually paid at the end of the financial year of the company, is known as the final dividend. Dividends are properly yielded after corporate tax has been deducted (Watson and Head, 2014).

A dividend payout represents the percentage of earnings that are distributed to shareholders, typically represented as a percentage of the company's ordinary share capital's nominal value or as a set sum per share. When a firm generates a profit, it has primarily two options for putting the money to work. The first option is to keep the profits and use them to enhance or create anything within the firm. The second option is to distribute profits to shareholders.

If the corporation opts for the latter strategy, it has two options: pay dividends or buy back its outstanding shares. (Bryman and Bell, 2007).

2.1.2. Theories of reasons for paying dividends

Companies are capable to receive a considerable sum of cash that is procured by profits or retrieved by business activities. Firms have to decide on how to distribute these profits. Cessation or decrease of the dividend may arise against suspicion of financial health for a company.

Since there are different views on the rationale behind rewarding dividends, as discussed above, a number of theories have been developed on explanations for paying dividends. Some of these are birds in hand, irrelevance theory, signaling theory, tax preference theory, agency theory and Clientele effect.

IRRELEVANCE THEORY

For many years, the impact of the dividend on the firm's worth has been a source of debate. An adjacent school is created on the dividend of an irrelevant school, however late (Miller and Modigliani, 1961). They claimed that dividend policy had no impact on a company's stock price or cost of capital. According to the irrelevance hypothesis, a firm's worth is defined solely by its main earning capacity and business risk, and the firm's value is solely determined by the income created from its assets, or how this generated profit is distributed between dividends and retained profits. It is usually represented as a percentage of the company's ordinary share capital's nominal value or as a set sum per share. When a firm generates a profit, it primarily has two options for putting the money to work. The first option is to keep the profits and use them to enhance or create anything within the firm. The second option is to distribute profits to shareholders. If the corporation opts for the latter strategy, it has two options: pay dividends or buy back its outstanding shares.

Black (1976) claimed that there might be an endless number of reasons for businesses to pay dividends, posing "Why do businesses pay dividends if dividends are meaningless?" is a question that has been raised. "What are dividends so important to investors?" "What makes investors pay attention to dividends?" and "What makes investors pay attention to dividends?" There is a value preservation principle, similar to capital structure theory, which ensures that the sum of the components is always comparable.

According to Horne (2009), the overall size of the pie is what matters, and it remains steady during slicing.

Dividend policies have little impact on stock prices since a company's worth is determined by its earning ability and the risk of its assets. If dividends do affect value, it is only due to two things: first, the informational content of dividends relative to management's earnings expectations; and second, the clientele effect that exists, which lets firms attract shareholders

BIRD IN THE HAND THEORY

Miller and Modigliani's irrelevance hypothesis was never adopted since a perfect capital market did not exist in the actual world, and the firm's dividend decision influenced the firm's worth. Following this result, experts created a slew of hypotheses and models to show how dividend policies impact a company's worth. Among these, Jhon-Bird-Hand Lintner's idea was the first to be proposed in 1962. According to Gordon (1963), stockholders prefer cash dividends. A \$1 dividend in the hands of a shareholder is worth more than the same \$1 in the bank account of the firm. In addition, when a company pays dividends, it receives a better maximum rating from rating agencies than a company that does not pay dividends. With a higher rating, the company will be able to access financial markets more readily.

Later on, if the dividend payout proves the company's ability to meet its obligations, financial institutions will be willing to lend to it. In some situations, the company will also be able to borrow at lower rates and with greater facilities.

The theory's fundamental assumptions are founded on the premise that "even if future capital gains may give a bigger return than present dividends, due to the high degree of uncertainty, there is no assurance that the investor would collect a more substantial return" (Gustav and Gairatjon 2012).

TAX PREFERENCE THEORY

The Miller and Modigliani dividend irrelevance theory assumptions of a perfect capital market rule out the possibility of a tax effect, and it is assumed that dividends and capital gains are taxed the same way.

However, taxes do exist in the real world, and they may have a considerable impact on dividend payment policy and the firm's worth.

Dividends and capital gains are usually taxed differently, and because most investors seek an after-tax return, taxes may impact their desire for dividends.

For example, Brennan (1970) was one of the first to investigate the relationship between dividend yields and risk-adjusted returns in the setting of taxation. He used the capital asset pricing model to show this. The pre-tax excess return on a security is positively and linearly connected to the dividend yields and systematic risk of the asset in the Capital Asset Pricing Model (CAPM).

In other words, the tax issues that investors encounter in general when it comes to dividends are offset by larger pre-tax profits. Litzenberger and Ramaswamy (1979) added their backing to these findings.

Investors may prefer a low dividend distribution versus a high dividend payout for three tax-related reasons: First, long-term capital gains are taxed at a maximum rate of 20%, although dividends are taxed at effective rates that may reach 39.1% in the United States. Second, the gain is not taxed until the stock is sold. Because of the time value of money, a dollar paid in taxes in the future has a lower effective cost than a dollar paid today. Third, no capital gains tax is required if a share is owned by someone until he or she dies. Beneficiaries who receive the stock can use the stock's value on the day of death as their cost basis and so totally avoid capital gains tax (Brigham and Houston, 2004).

Because of these tax benefits, the tax-preference hypothesis indicates that low dividend payout ratios cut the cost of capital and enhance stock prices in most circumstances. As a result, a low dividend payout ratio reduces the cost of equity while increasing stock price profits (Al-Malkawi et al., 2010).

AGENCY THEORY

Agency theory recommends ownership separation, and management gains another credible justification for the dividend distribution. Jensen (1986) defines the agency problem as a principal-agent dilemma in which the principal is the owner of the stocks or shareholders and the agent is the owners' representative (manager). This theory's central premise illustrates the clash of interests between managers and owners. This concept is supported by the principal-agent model.

Shareholders in modern corporations are geographically scattered, and they are often not involved in the day-to-day operations and administration of their businesses; rather, they hire managers (agents) to operate the business on their behalf (Habbash, 2010). Based on this

premise, agency theory asserts that dividends safeguard investors by reducing the extra cash accessible to managers after investment and operational activity.

It is speculated that managers may pursue their personal interests at the expense of the profit of owners. Managers, for example, may undertake value-reducing investments, such as initiatives with negative net present value (NPV). The excessive free cash flow makes it easier for managers to adopt such a practice. The cost of monitoring and bonding is referred to as the "agency cost." De Angelo et al. (2006) reinforced that dividends help to protect firms from massive money reserves and also from inappropriate managerial behavior, which can use retained earnings for the wrong aims. In this way, the dividend is a significant financial tool to reduce agency costs.

SIGNALING THEORY

Managers of some companies may view paying dividends as a way of channeling the firm's good performance to potentially focused investors in the market. As stated in Hellström and Inagambaev (2012) signaling theory holds that managers have more knowledge about the worth of the firm's assets than outside agents.

As a result, managers utilize dividend fluctuations to inform shareholders about the company's financial status. This information may represent the firm's short-term or long-term strategies (Ross 1977). Managers would prefer to save today's excess for the future if they anticipate losses or falling earnings.

Furthermore, Bhattacharya (1999) and John and Williams (1985) explain how signaling theory reduces information asymmetry between managers and shareholders by providing inside knowledge about the firm's future prospects. This theory argues that companies that pay dividends are more engaging to potential investors as they are persuaded that dividends show a practical implication of a company's future and they also gain instant cash inflow.

M & M argued in support of dividend irrelevance, but they also noted that in the real world, outside of the main capital markets, the dividend delivers "information content" that may alter the stock's market value.

CLIENTELE EFFECT THEORY

In other words, according to this idea, corporations' dividend policy decisions influence clients differently. This assertion is the foundation of what is known as the "clientele effect." Pettit (1977) discovered that elderly clients (investors) were more inclined to hold high dividend stocks since they paid less income tax. The tax clientele impact is what we term it in this scenario. As a result, the clientele effect refers to corporations adopting dividend policy decisions depending on the consumers they want to associate themselves with (Lichtenberger and Ramasawmy, 1979). According to Brigham and Houston (2004), investors might move enterprises based on their unique dividend preference. A corporation can change its dividend distribution policy, and shareholders who do not agree with the new policy can sell their shares to other investors who do.

2.1.3. Types of Dividend Policy

Dividend's policies can be classified into several sorts. These include the constant payout policy, the progressive policy, the residual policy, and the non-cash policy.

Constant or fixed policy:

The payout, according to Pandey (2005), is the ratio of dividends to earnings. A firm can always opt to pay its shareholders 60% of its after-tax earnings as a dividend and keep the remaining 40% as a policy. The policy, according to Watson and Head (2004), might be unpleasant for businesses with dynamic or shifting profit margins. This is because its earnings are unclear. The policy can be chaotic if there are feasible capital projects.

After taxable earnings, banks pay a certain number of dividends to shareholders, so they know how many dividends to expect from the bank. Institutions, on the other hand, might be jeopardized by shifting profitability. Dividend payouts are rising at the same rate as inflation. Institutions will make every attempt to boost the dividend, even if it is only a small rise. When a company's operations are threatened, it may be forced to reduce dividend distributions. However, this is not a common occurrence since it might send the incorrect signals to investors. Firms that adhere to this approach will elect to forego paying dividends during this time period rather than constantly lower payments. (Kolb and Rodrigue,z 1996).

Residual policy:

When calculating dividends, companies follow this strategy, which limits the amount to the earnings left over after the business has paid for its capital expenditures. Firms may need to modify this technique to ensure that strict policy implementation does not drive away investors from varied clienteles (Kolb and Rodriguez, 1996).

Dividends are distributed out of earnings that aren't needed to fund new, eligible capital projects under this strategy. The payouts will change based on the company's investment prospects. Profits are needed to invest in the future. If funds are still available, this method prioritizes projects with a positive net present value (NPV) and pays dividends. Dividends are turned into contingent payments if the investment program is followed. Earnings fluctuations cause payouts, and this technique allows for big swings in dividends as profits and corporate investment opportunities change. In fact, all remaining earnings are dispersed, causing the dividend payment ratio to fluctuate and resulting in a variable dividend from year to year. (Droms, 1990).

Non-cash policy:

Firms can pay dividends in a variety of ways other than cash, such as stock repurchases, stock splits, and stock dividends. A stock buyback occurs when a business buys back part of its shares from shareholders on the open market. This has major advantages for shareholders since it allows them to avoid paying taxes on cash dividends.

The stock repurchased or purchased back is not taxed until the shares are sold and the shareholder profits or wins money (Ross et al., 2003). The Corporation may elect to repurchase shares in order to provide shareholders a choice between dividends and new shares. This is a stock or share repurchase. This gives the shareholder with a significant tax gain. The stock repurchases or buyback is not taxed until the shares are sold and the shareholder makes a profit or gains capital (Jordan et al. 2001). Dividends are distributed to shareholders via new shares rather than cash (Brealey and Myers 2005). The firm may decide to buy back shares in order to provide shareholders the option of receiving dividends or receiving new shares. This is a stock or share repurchase.

2.1.4. Factors determining dividend pay-out

Profitability:

Profitability is one of four elementary units for analysing financial statements and company performance in general. Investors, creditors, and managers use these major concepts to analyze how well a company is functioning and the future potential it could have if operations were managed in a proper manner. Profitability, as measured by the ratio of net profit to total assets, has been identified as one of the most important predictors of dividend payout policy. ((Lintner,1956),(Pruitt and Gitman, 1991) and (Deangelo et al., 2004)).

Liquidity:

The ability of an asset to be converted into immediate cash without influencing its market price is referred to as liquidity. The most liquid asset is cash, whereas tangible assets are less liquid.

Liquidity refers to the ease with which an item may be purchased or sold in the market at a price that reflects its true value. Cash is widely regarded as the most liquid asset since it can be transformed into other assets quickly and easily. Real estate, fine art, and collectibles are examples of tangible assets that are less liquid. Liquidity refers to a company's ability to satisfy its financial commitments.

According to the signaling theory, companies with more cash on hand can pay bigger dividends than those with inadequate cash (Gupta and Banga, 2010).Furthermore, according to Jensen's (1986) agency theory of cash flow, firms with high cash flow pay higher dividends in order to lessen agency conflict between management and shareholders.

Also, according to Christopher (2014), liquidity is a critical aspect that influences dividend policy. Cash flow, according to Anil and Kapoor (2008), is a significant predictor of the dividend pay-out ratio.

Last year Dividends and Dividend Paid out

Companies should pay a consistent stream of dividends in the real world because investors regard companies that pay consistent dividends as stronger and more valuable (MaladjianandKhou, 2014). Current earnings and previous dividends, according to Linter (1956), are critical in deciding current dividends.

In the real world, it is widely assumed that corporations provide a consistent steady stream of dividends because investors regard companies that pay consistent dividends as stronger and more valuable.

Foreign exchange rate:

An exchange rate is the price at which one national currency is exchanged for another in the financial world. It also considers the exchange rate of one country's currency against another. The exchange rate system that will apply to a country's currency is determined by that country.

Exchange rate limitations and regulations can be imposed by governments. The foreign exchange rate is one of the most important macroeconomic variables of bank and multinational company dividend policy (Ross 1986). The current account balance and other macroeconomic indicators are heavily influenced by the exchange rate. The exchange rate is the price of one currency in relation to the value of another. The exchange rate is the relative price of a currency against the value of another currency (Moosa, 2004).

Inflation rate:

Inflation is the gradual loss of a currency's buying value over time. The increase in the average price level of chosen products and services in an economy over a specific period may be used to calculate a quantitative estimate of the pace at which buying power declines. A rise in the overall level of prices, commonly stated as a percentage, indicates that a unit of money may be had for a lower price than it was previously. Companies frequently keep a considerable portion of their earnings during inflationary periods to avoid reducing their scope of operation and to compensate for the loss of purchasing power. Hence, they would not be able to pay many dividends. If this occurs, the relationship between the inflation rate and the dividend pay-out would be negative. In the real world, it is widely assumed that corporations pay a consistent stream of dividends because investors regard companies that pay consistent dividends as more powerful and valuable. (Duncan and Wairimu 2013).

Gross Domestic Product:

The gross domestic product (GDP) is a macroeconomic metric that quantifies the overall economic activity of a country. A rise in actual economic activity translates into higher corporate profits. The per capita GDP, often known as the mean standard of living, is the ratio of a country's GDP to its entire population. (Lui and Wilson, 2007). The per capita GDP, often known as the mean standard of living, is the ratio of a country's GDP to its entire population (Ghafoor et al.2014). A rise in real economic activity equals a rise in corporate

profitability for the businesses that operate in the economy, resulting in higher earnings and, perhaps, a bigger dividend payout.

2.2. Empirical Review

In this part, the researcher summarizes the determinants of dividend payout in furtherance of different empirical literature views. The research studies chosen for this literature review focused on factors determining dividend payout.

In Ghana, Amidu and Abor (2006) investigated the factors that influence dividend payout ratios. Data from financial statements of enterprises listed on the Ghana Stock Exchange during a six-year period was used to conduct the studies. The researchers estimated the regression equation using the ordinary least squares technique. According to the research, dividend payment percentages are related to profitability, cash flow, and tax. According to the data, there were additional negative connections between dividend payout and risk, institutional holdings, growth, and market-to-book value. Profitability, cash flow, sales growth, and market-to-book value were all important factors in the outcomes.

Lee (2006) also examined the determinants of dividend policy in the Korean banking industry. The researcher used panel data of Korean banks during the 1994–2005 twelve-year periods. According to the report, banks that are more profitable or perform better pay more dividends. Furthermore, the study discovered substantial and consistent evidence that safer banks pay higher dividends. The trend of banks with better safety and profitability to pay larger dividends was noticed more strongly and plainly in the partitioned sample test. Banks' dividend policies are more directly linked to their precariousness than other businesses because they are subject to regulatory oversight and surveillance on their operations and riskiness, as well as capital market pressure.

Al-Twajry (2007) conducted dividend policy and payout ratio analysis using data from the Kuala Lumpur stock market. The study's purpose was to identify the elements that would be expected to have an impact on dividend policy and payout ratio in a developing market. A variety of factors were reviewed, including net profits per share, cash available per share, book value per share, business size, company age, historical dividends, and past and anticipated earnings. Eight hypotheses were constructed and evaluated using 300 companies from the Kuala Lumpur Stock Exchange, which were chosen at random. According to the

findings, present dividends should be influenced by their history and future potential. Payout ratios were not found to have a strong effect on the company's future earnings growth, but they did have some significant negative correlation with the company's leverage. Both cash per share and share book value significantly and positively affect both dividends per share and the payout ratio.

Al-Kuwari (2009) investigated the drivers of dividend payout of businesses and 75 firms listed on the Gulf Cooperation Council (GCC) on the researcher's ownership structure. Firm dividend payment patterns have been observed to be a cultural phenomenon, influenced by customs, beliefs, regulations, public opinion, perceptions, hysteria, general economic conditions, and a variety of other factors, all of which are constantly changing and impacting different firms differently. As a result, we can't have a consistent policy for all businesses at all times. The main pieces are easy to spot, but the connections between them are complicated, and there is no simple solution.

Agyei and Marfo-Yiadom (2011) studied the determinants of the dividend policy of banks in Ghana. The fixed and random effects technique was used to analyze panel data spanning the five-year period 1999–2003. Profitability, debt, dividend changes, and collateral capacity were statistically significant characteristics that positively affected bank dividend policies in Ghana, according to the study, which employed sixteen banks as a sample. On the other side, they discovered that growth and age had a negative and significant impact on bank dividend policy. There was no substantial negative link between cash flow and dividend policy. Profitability, leverage, dividend changes, collateral capacity, expansion, and age were therefore the key factors of bank dividend policy. Overall, the analysis revealed evidence for the profitability and agency cost theories, as well as some evidence for the life cycle theory, but no evidence for the free cash flow theory.

Knife (2011) used quantitative methods as the purpose of the thesis was to measure the responsiveness of dividend payouts to different elements.

The numerical data for variables (both dependent and independent) was collected from financial reports for five years in a row. Data is analyzed using the SPSS application. As a result, a quantitative technique is used to examine the obtained data in order to identify those factors of a firm that appear to influence the dividend payment choice; the research sample was subjected to Ordinary Least Squares (OLS) Regression. The study's variables are 53,

which were derived from the audited financial reports of six of the twelve private banks for the years 2006 to 2010. To smooth out variable swings, the prerequisites of a generally long-period dividend payment record are met (Kinfe 2011). The authors of this thesis discover that panel models, rather than OLS, are better for assessing time series and cross-sectional data.

The study used a mixed method to answer research questions, test hypotheses, and achieve the overall goal, according to Nuredin (2012). Structured record reviews and in-depth interviews with financial management from eight insurance firms were used in the study. The audited financial accounts of nine insurance businesses that were in operation from 2003 to 2011 were utilized for the record reviews.

Wanjiru (2013) looked studied the link between dividend distribution by companies listed on the Nairobi Securities Currency and macroeconomic factors as money supply, inflation, exchange rates, and interest rates from 2002 to 2012. Inflation rates have a significant positive correlation with dividend payouts, while exchange rates have a strong negative association with dividend payouts and interest rates have an insignificant link with dividend payouts. The money supply has a minor but positive effect on dividend payments.

Samuel (2016) Over a nine-year period from 2007 to 2015, researchers used Ordinary Least Squares (OLS) Regression to examine the impact of profitability, liquidity, leverage, firm size, growth opportunity, previous year dividend, and asset structure on dividend policy in the insurance sector. They discovered that profitability, leverage, liquidity, previous year dividend, and asset structure all have a positive relationship with dividend payout.

Meanwhile, a company's size and capacity for growth have a negative impact on dividend distribution.

According to Chekollé (2016), the researcher largely employed a quantitative research methodology based on the methodological assumptions and study technique. However, it is supported by a qualitative approach of inquiry to acquire a greater understanding of the study topic. Combining quantitative and qualitative methodologies yields a deeper grasp of study challenges than any methodology could achieve on its own. Quantitative and qualitative data are collected and analyzed in mixed methods research. A purposeful sampling strategy was applied when six-year data from chosen private banks was available. Banks are chosen based on their previous business expertise. Banks that have been in existence for a short time are not included since the needed data is not available from them. Seven senior private companies the data comprise both time series and cross-section dimensions. Data from a

focus group the regression approach is applied to assess and test the determinant variables of dividend distributions. The study's variables are derived from the audited financial reports of a number of institutions. Each of the selected private commercial banks included in the study provided main and secondary data for the study. Secondary data was gathered from the chosen banks' annual reports. Based on this, memorial banks in Ethiopia were chosen as research samples.

2.3 Knowledge gaps, conceptual framework and conclusions

Various researches have been undertaken on the factors of dividend payout in the banking business in various nations throughout the world. But developing countries like Ethiopia have received less attention regarding the issue when compared to developed countries. Even if most of the variables used by the researcher are directly taken from the variables used in the case of developed countries and most of those variables are bank specific variables, the market structure in developed countries is completely different from the market structure in developing countries. The variables in the case of countries where there is a secondary market might differ from those in countries where there is no secondary market. Due to the unique nature of the banking industry and its contribution to the growth of the country, it requires scientific knowledge to be supported. In addition to this, the Ethiopian banking industry is on a growing stage; so much research has to be done to improve the industry and the economy as a whole.

According to the researcher's expertise, researchers such as Lintner (1956) discovered that dividend payouts are a function of a firm's profit and the previous year's dividend. This was also supported by many researchers (Pruitt and Gitman, 1991; Gill et al., 2009). However, Elias (2015) found the profitability effect of dividend payout minimal, whereas Chekole (2016) showed it to have a negative substantial effect. Liquidity was shown to be a substantial positive factor for dividend payout by Muhammed (2012), however Simegn (2013) found it to be the opposite sign, and Elias (2015), Chekole (2016), and Henok (2016) declared it to be a negative and minor component for bank dividend payout. Despite the fact that A. Higgins (1981) indicated that business size had a major beneficial influence, Elias (2015) and Henok (2016) discovered that it has a considerable negative effect. Pruitt and Gitman (1991), Lloyd, Jahera and Page (1985), Collins, Saxena and Wansley (1996) found that financial leverage affects firms' dividend payout decisions, while Elias (2015) found it has a negative, insignificant effect.

According to Mundati (2013), inflation has a significant and positive effect on dividend payout. The reason for the inconsistency of the result is that there are no steady determinants for the bank's dividend payout; it is because there is continuous change in globalization, regulation, parallel competition, and volatile market dynamics. This implies that the factors affecting dividend payout decisions today might differ from those of yesterday. As a result, conducting research on such an issue is still necessary.

Several academics in Ethiopia did study on the factors influencing commercial bank dividend payouts. However, to the best of the researcher's knowledge, all of it was focused on bank-specific variables of dividend payment decisions. This thesis seeks to address a vacuum in the literature by including additional macroeconomic determinants for dividend distribution, such as the inflation rate, real GDP growth rate, and foreign exchange rate. This means that the influence of macroeconomic variables on dividend payment decisions have yet to be investigated. That is why, using more recent data and a reasonably significant number of observations, this study was conducted to fill such gaps in the literature.

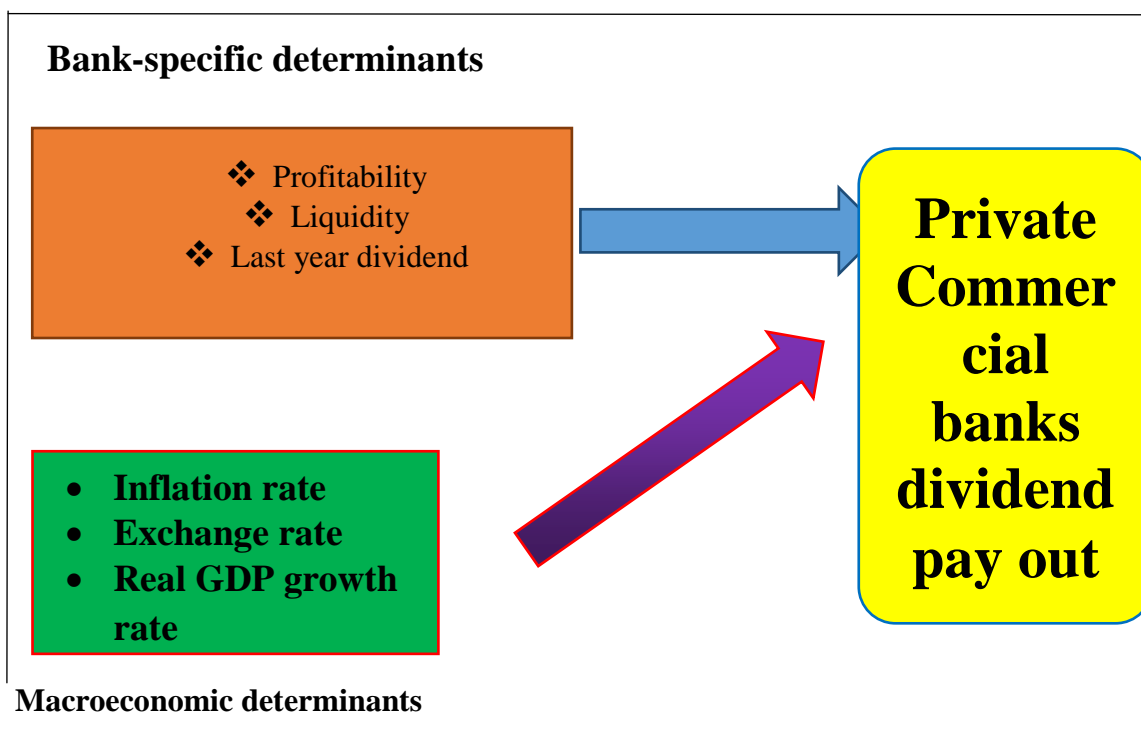


Figure 1: Conceptual Framework of the Study

Source: - Developed based on Tefera (2016); Malik et al, (2013); Nuredin,(2012) ,;Mundati(2013) and Wanjiru (2013)

CHAPTER THREE

3. RESEARCH METHODOLOGY

Figure 2: Conceptual Framework of the Study

In this part the researcher discusses the basic thesis procedures that are used to carry out the study. The chapter is arranged as follows. Section 3.1 presents research hypotheses. In section presents the research approaches 3.2 under which quantitative, qualitative, and mixed approaches. Then, section 3.3 presents the research method adopted in the study (Survey of records: Sample design nature of data, model specifications). Finally, Conclusions and the relationships between research questions, hypotheses and the data are presented in section 3.4.

3.1 Research hypotheses

Further, the form of business has its own influence on the impact of those variables on company dividend payouts.

The researcher in this study chose the following bank-specific factors based on previous literature.

Profitability

One of the most important criteria in dividend distribution policy (Lintner 1956) is profitability, which is assessed by the division of net profit to combined assets (Pruitt and Gitman, 1991). Many studies have found that profitable companies pay higher dividends. The profitability of a company is thought to be a key element in determining a dividend policy. In order to compensate shareholders for taking risks, good business circumstances lead to a rise in dividend payments. Profitability is determined in research by a company's net earnings per unit of book value of shares (return on equity, or ROE). This is due to the fact that prosperous firms are more inclined to pay higher dividends. The signaling theory of dividend policy also

Supports this conclusion Demilie (2016), on the other hand, claims that there is no link between private commercial bank performance and dividend distribution. Knife (2011) also discovered that profitability had little bearing on a company's dividend disbursements. However, most empirical data suggests that profitability has a considerable impact on a company's dividend distribution (Muhammed 2012) and (Hilemariam 2013).

Ho 1. There is positive relationship between bank profitability and dividend payout of private commercial banks in Ethiopia.

Liquidity

Liquidity is usually measured by the firm's cash flow, and the cash flow position of a firm is an important determinant of dividend payout. Liquidity is determined based on a firm's current assets divided by its current liabilities. According to the agency theory of cash flow, Jensen (1986) argued that firms with high cash flow pay higher dividends to diminish the agency conflict between their managers and shareholders. Several academics in Ethiopia did study on the factors influencing commercial bank dividend payouts. However, to the best of the researcher's knowledge, all of it was focused on bank-specific variables of dividend payment decisions. This thesis seeks to address a vacuum in the literature by including additional macroeconomic determinants for dividend distribution, such as the inflation rate, real GDP growth rate, and foreign exchange rate. This means that the influence of macroeconomic variables on dividend payment decisions have yet to be investigated. That is why; using more recent data and a reasonably significant number of observations, this study was conducted to fill such gaps in the literature. Prior research Mohammed (2012) discovered that liquidity has a significant positive effect on dividend payout, but Simegn (2013) discovered the opposite sign, and others such as Dakito (2015), Elias (2015), Chekole (2016), and Henok (2016) stated that liquidity has a negative and insignificant effect on bank dividend payment. But in reality, if there is a high liquidity position, the availability of the liquid asset is enough to pay dividends to shareholders. According to the findings from the work of the knife (2011) and Hilemariam (2013).

Ho 2. There is positive relationship Liquidity and dividend payout of private commercial banks in Ethiopia.

Previous year dividend payout

The previous year's dividend has a positive relationship with the dividend payout. This view is also supported by the signaling theory of the dividend, which states that there is a great challenge in dividend change. Inconsistent with the signaling theories, Ahmed and Javid (2009) found that firms that paid dividends last year are challenged to decide of zero dividends this year and even to declare a lower dividend because it sends the wrong signal to the shareholders and the market. In the real world, companies should pay a consistent stream of dividends because investors regard companies that pay consistent dividends as stronger

and more valuable (Maladjian& El Khoury, 2014). Lintner (1956) discovered that current earnings and past dividends are critical in calculating current dividends. Empirical studies have shown a positive relationship between lagged dividends and current dividend payments (Ahmed and Javid, 2008; Maladjian and El Khoury, 2014). According to the findings from the work of Theodros (2011) and Simegn (2013), previous years dividend have a positive relationship with a dividend payout. Under this study, it is measured by the previous year's dividend payout divided by the previous year's profit after tax and legal reserve.

Ho 3. There was positive relationship last year dividend payout and the dividend payout of private commercial banks in Ethiopia.

In the Ethiopian case, the effects of macroeconomic variables on dividend payout are still unexplored, but one interesting study conducted by Mundati (2013) tried to perceive the effect of macro-economic factors on dividend payout policy. Other researchers, such as Base and Reddemann (2011) in the United States, have attempted to incorporate macroeconomic factors such as inflation into their research. According to prior literature, the most used macroeconomic factors for dividend payout are the inflation rate, GDP, and exchange rate. But the major macroeconomic factors that are incorporated into this study are presented as follows:

Inflation

Inflation is defined as the rate at which the general level of pricing for products and services rises, and it includes substantial costs when more corporate activities and vast branch networks are established (Driver, 2008). Initial empirical tests show that inflation and dividend payout are positively and significantly correlated (Mundati, 2013).Regression results from Mundati (2013) clearly indicate there is a positive relationship between the dividend payout and inflation. Base and Reddemann (2011) studied the relationship between inflation and dividend policy of US firms, which consisted of 500 leading companies, and they found a stable, long-term relationship between dividend payments and real economic activity and price level. During inflationary periods, the replacement cost of everything is higher for companies, and the firms may not give attention to paying dividends rather than covering their costs. Therefore, the following hypothesis is developed based on the above empirical evidence:

Ho4. There is positive a significant relationship between Inflation rate and dividend payout of private commercial banks in Ethiopia.

Gross domestic product

The real GDP growth rate is a key indicator of a country's standard of living. It is described as the aggregated value of final goods and services generated during a year within the area of one country. It measures the national income and shows the position and direction of economic growth at a given time. The ratio is usually figured as the GDP of the current year minus the GDP of the previous year and divided by the GDP of the previous year (Aminu, 2013). Habibullah, (2010): favorable conditions in an economy will positively impact the level of financial transactions. Kaimbi, (2010) and Basse&Reddeman, (2011) gross domestic product has an impact on the dividend policy of a firm.

An increase in real economic activity means an increase in the corporate earnings of firms operating in the economy, leading to higher earnings, which may ultimately lead to a higher dividend payment (Ghafoor et al., 2014). When the GDP of the country rises, there is high earning potential for dividend payment, and the proxy used for the variable is the real GDP growth rate reported by the national bank of Ethiopia. Then the following hypothesis is developed:

Ho5. There is a significant and positive relationship Real GDP growth rate and dividend payout impact of private commercial banks in Ethiopia.

Exchange rate

The exchange rate is the value of a particular foreign currency as compared to the home currency. It is the rate at which a domestic currency will be changed for another different currency. It's also viewed as the net worth of a specific country's currency as compared to another currency. Abar (2015) In relation to exchange rates, the work of Mundati (2013) in Nairobi security exchanges suggested that exchange rates had a significant negative effect on the dividend payouts. This suggests that investors on the stock exchange could be cautious of the changes taking place in the exchange rate and interest rate market control areas.

Ho 6. There is significant negative relationship between foreign Exchange rate and dividend payout of private commercial banks in Ethiopia.

3.2 Research approaches

According to Kothari (1990), the most difficult duty next to the identification of the research problem is the preparation of the design of the research project, popularly known as the research design. These are the decisions regarding what, where, when, how much, and by what means an inquiry, or a research study is executed. When conducting research, there are different ways of approaching the problem. According to Creswell (2009), there are three approaches to research: quantitative, qualitative, and mixed. The following discussions briefly present the basic features of these research approaches.

The first approach, the quantitative approach, is one in which the investigatory primary uses postpositive claims for developing knowledge, employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data. Apart from the possibility of discovering causal relationships and generalization, it is primarily statistical, which limits the researcher's personal implications to a bare minimum. Schulz (2003). But quantitative research needs to start with an existing theory, and its linear approach is very ill-suited to complex questions. The highly structured process can also limit flexibility, according to Schulz (2003). Also, it requires large sample sizes and the results do not have enough depth to provide a rich understanding of the phenomena (Hussey 1997).

The second approach is the qualitative one, and it is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives or participatory perspectives or both. It also uses strategies of inquiry like narratives, phenomenology, ethnographies, grounded theory studies, or case studies, according to Creswell (2009). The benefits of a qualitative research approach lie in the in-depth information generated by studying a phenomenon closely. Mack et al. (2005) But since the qualitative approach normally employs small samples and it is extremely flexible, generalization of results is harder to achieve. Further data analysis is often time-consuming, and the results are more easily influenced by the researcher's personal biases and idiosyncrasies. (Johnson and Onwuegbuzie, 2004).

The third approach is a mixed one in which the researcher tends to base knowledge claims on pragmatic grounds. It employs strategies of inquiry that involve collecting data either concurrently or sequentially to best understand the research problem. The data collection

involves gathering both numeric information (e.g., on instruments) as well as textual information (e.g., on interviews) so that the final database represents both quantitative and qualitative information. Hence, this approach mixes the strengths of the two extreme approaches (Creswell, 2009). But in mixed research design, researchers have to learn about multiple methods and approaches and understand how to mix them appropriately (Johnson and Onwuegbuzie 2004).

3.3 Research methodology adopted

The primary objective of this thesis was to look at both bank-specific and macroeconomic factors that influence dividend payout in Ethiopian private commercial banks. To establish a relationship between several explanatory variables and dividend payout, the researcher employed a quantitative approach and a primarily explanatory type of research. Therefore, the descriptive type of study is combined with an explanatory study. This development of the research is in line with Marshal (1996), who described the goal of quantitative research as testing a pre-determined hypothesis and producing general results. By means of statistical methods, the results of quantitative analysis can prove or disprove hypotheses. A conclusion from the analysis of quantitative data shows how many are affected and where the greatest area of impact is. The quantitative research approach uses numerical data and statistical analyses to answer questions regarding the relationships between measured variables. Despite the fact that there are two techniques of inquiry under the quantitative approach, this study chose a survey design due to its economy and ability to obtain enough information. Furthermore, because the goal of this study is to investigate potential factors that may impact dividend decisions in the Ethiopian private banking business, a quantitative or numerical description of the relationship between the independent and dependent variables is required.

3.3.1 Quantitative aspect of research method

The quantitative research method employs numerical data and statistical studies to answer questions regarding the relationships between variables. Even though the quantitative approach includes two inquiry strategies, this study chose a survey design due to its cost effectiveness and capacity to acquire sufficient information. Furthermore, the goal of this research is to look at potential elements that could influence the bank industry's dividend decision in Ethiopia. A quantitative or numerical explanation of the relationship between the independent and dependent variables is required. The survey, as a quantitative research approach, can collect several forms of quantitative data. According to Fink (2002), as stated

in Creswell (2009, p. 146), there are four types of surveys for data collection: "self-administered questionnaires; interviews; organized record reviews to collect financial, medical, or school information; and structured observations." The survey instrument adopted in this study to collect data was a structured record review. The following section, accordingly, reviews the issues in sample design in respect of the current study.

Sample design: Population or Sampling frame sample size and sample section technique

This section presents the sampling design with respect to the target population or sampling framework, sample size, and section of the sample. Accordingly, the target population is presented. The total population of this study is comprised of 16 Ethiopian private commercial banks. In this study, a non-random sampling technique is applied, which is a purposive or judgmental sampling based on the availability of 10 years of data from all private commercial banks. The researcher chose ten years of operation based on data availability criteria. Purposive sampling is most employed in quantitative studies and is described as the selection of units based on specific reasons related to solving a research issue.

Purposive sampling, as described by Maxwell (2003), is a sort of sampling in which specific settings or occurrences are purposely chosen to obtain crucial information that cannot be obtained through other options. The researcher chooses 10 private commercial banks from a total of 16 private commercial banks based on data availability. The following banks are included in the sample: Awash International Bank S.C. in 1994, Dashen Bank S.C. in 1995, Bank of Abyssinia S.C. in 1996, and Weegagen Bank S.C. in 1997. United Bank, S.C., 1998 Nib International Bank S.C 1999, Cooperative Bank of Oromia S.C 2004, Lion International Bank S.C 2006, Oromia International Bank S.C 2008, Zemen Bank S.C 2008. These samples represent 62.5% of the total population. The banks that are not included in this thesis are because they did not have full information for the time period required for the study. Only the banks have completed the data required (annual financial statements for the period of 2009–2019).

3.3.2. Data analysis method

The following step is to assess the data that has been gathered. Analysis includes the computation of specific indices or measurements, as well as the search for patterns of association between data sets. In this inquiry, a descriptive analysis was performed. Descriptive statistics such as mean, minimum, maximum, and standard deviation were utilized to collect, synthesize, and characterize data as well as statistically compare variables.

The second correlation analysis was used to assess the degree of association between the dependent and independent variables. (Hilemariam 2013). Finally, the regression analysis will be used to see the relationship between the explanatory variables and the dependent variables and to test the hypothesis. According to Zikmund et al. (2009) descriptive analysis is the elementary transformation of data in a way that describes the basic characteristics such as central tendency, distribution, and variance and regression analysis is the statistical testing of hypotheses. The primary purpose of regression analysis is to make a judgment about a population, about which researcher seek information. The analysis was accomplished by using quantitative data analysis tool STATA 14 version.

Operational Definition and measurement of Variables

Table 3.1: Operational Definition and Description of Variables

Name of variable	Abbreviation	Operational definition of variable and description	Method of measurement
Profitability	PRO	Profit after tax/shareholders' equity	Ratio scale
Liquidity	LIQ	Current asset/current liability	Ratio scale
Last year dividend payout	LDP	Last year dividend payout rate	Ratio scale
Inflation rate	INR	Annual inflation rate reported by NBE	Ratio scale
Real GDP growth rate	GDPGR	Real GDP last year-real GDP this Year/real GDP last year	Ratio scale
Exchange rate	EXR	Average annual exchange rate Birr/USD Reported by NBE	Ratio scale

Source: Developed based on Mundati, (2011); Theodros, (2011); Elias, (2013), Knife, (2015) and Chekolle, (2016)

Model specification

Using the panel regression method, the study examines the effect of several types of factors on dividend payouts in Ethiopian private banks. In this manner, the following linear regression equation model was created based on the facts shown in figure 3.2. The data has

both cross-sectional and time series properties. As a result, the researcher employed a panel data model. Panel data models require the pooling of observations across different portions of units across multiple time periods, and the findings are not easily observable in pure cross-sectional or pure time series investigations Gujarati (2004). It is a strategy of researching an existing subject in different locations over a set length of time. The combination of time series and cross-section can increase data quality in ways that would be unachievable if only one of these two dimensions were used Gujarati (2004).

Panel data models are classified into two types based on their data distribution. The first is the balanced panel data model, which is used for observations with equal data, and the second is the unbalanced panel data model, which is used for observations with unequal data. As previously indicated, this study involves ten banks (cross-sectional type) during a ten-year period from 2010 to 2019. (time series type). As a result, the data from all banks is comparable. As a result, the researcher employs balanced panel data models.

A model specification error happens when one or more relevant variables are excluded from the model or one or more unrelated variables are included in the model. There are several methods for detecting specification problems. Among the economic regression model of specification error tests (RESET) for unobserved independent variables, the researcher used the Ramsey RESET test, which employs the weights of the expected values of the explanatory variables. The model's hypothesis was developed as a result of the study:

The double subscript linked to each variable distinguishes the panel regression equation from a regular time-series or cross-section regression.

The panel data model's general form can be described more compactly as:

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

From this i , represent the cross-sectional dimension

t , representing the time-series dimension

$Y_{i,t}$ represents the dependent variable ratio

$X_{i,t}$ contains the set of explanatory variables;

β is the coefficient of each explanatory variable and

α_i is constant over time t and specific to the individual cross-sectional unit i .

Thus, dividend payout rate is expressed as a function of bank specific and macro-economic factors.

$$DPO = f(\text{PRO}, \text{LDP}, \text{LIQ}, \text{INR}, \text{GDPGR}, \text{EXR})$$

$$DPO_{i,t} = \alpha_i + \beta_1 \text{PRO}_{it} + \beta_2 \text{LIQ}_{it} + \beta_3 \text{LDP}_{it} + \beta_4 \text{INR}_{it} + \beta_5 \text{GDPGR}_{it} + \beta_6 \text{EXR}_{it} + \varepsilon_{it}$$

Where:

PRO, represents profitability

LIQ, represents liquidity

LDP, represents last year dividend payout

INR, represent inflation rate

GDPGR, represent real GDP growth rate

FER, represents foreign exchange rate

$\beta_1 - \beta_6$ represents regression coefficients for each explanatory variable

α_i , represents the intercept of the regression equation

i , represents the cross-section dimension (banks)

t , represents the time series dimension (years)

ε represents the error term which accounts for variables affecting DPO that are not included in the model.

Null hypothesis: No omitted variables in the model
Alternative hypothesis: the model has omitted variables

Therefore, the decision was rejected the null hypothesis if the probability value of the test is less than the significance level. Otherwise, the test accepts the null hypothesis.

Figure 3: Ramsey Model Specification Test

```
. ovtest
```

Ramsey RESET test using powers of the fitted values of DPE

Ho: model has no omitted variables

F(3, 90) = 2.61

Prob > F = 0.0565

Source: - Using Stata-14

The regression analysis has a probability value of 0.056 in the Ramsay model selection test for this inquiry, according to the figure above. As a result, the null hypothesis, which states that the model has no missing variables, was accepted. As a result, the model was excellent, with no missing variables that influenced the dependent variable (dividend payout ratio) being removed.

Validity and Reliability Test

Diagnostic tests are done in the model to evaluate whether the assumptions of the classical linear regression model (CLRM) are valid or not. As a result, the primary CLRM assumptions tested in this study are errors with zero mean, homoscedasticity, autocorrelation, normality, multicollinearity, and model specification.

Model Selection (Random Effect versus Fixed Effect Models)

The proper model is chosen by choosing between two types of panel data estimator approaches: random and fixed effect (Brooks, 2008). As a result, the study employed the most well-known test, the Hausman test, to choose the model. As a result, the model selection hypothesis was tested as follows;

Null hypothesis: random effect is appropriate

Alternative hypothesis: fixed effect is appropriate

Level of significant= 5% (0.05)

The decision rule of the above test was reject the null hypothesis if the probability value of the test is less than 0.05 while accept if it is greater than 0.05.

Table 3.2: Model Selection- Housman Test

```
. xtreg DPO PRO LIQ LDP GDP INF FER , re

Random-effects GLS regression           Number of obs   =           100
Group variable: B                       Number of groups =           10

R-sq:                                   Obs per group:
    within = 0.9999                      min =           10
    between = 1.0000                     avg =          10.0
    overall = 0.9999                     max =           10

corr(u_i, X) = 0 (assumed)              Wald chi2(6)    = 884036.49
                                           Prob > chi2     = 0.0000
```

DPO	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
PRO	.0100863	.0017652	5.71	0.000	.0066266	.013546
LIQ	.0080799	.0015666	5.16	0.000	.0050094	.0111504
LDP	.9967251	.0013637	730.87	0.000	.9940523	.999398
GDP	.0047254	.0139205	0.34	0.734	-.0225583	.0320091
INF	.0014335	.0016032	0.89	0.371	-.0017088	.0045757
FER	-.0062433	.0030804	-2.03	0.043	-.0122807	-.0002058
_cons	-.2877568	.1963138	-1.47	0.143	-.6725249	.0970112
sigma_u	.01846053					
sigma_e	.11232087					
rho	.02630218	(fraction of variance due to u_i)				

DPO= Dividend payout ratio; PRO=profitabilityLIQ=liquidityLDP= last year dividend payoutGDP= gross demotic productINF= inflationFER= foreign exchange rate

Source: Annual reports of sampled banks and NBE and own computation. (STATA 14)

The probability value of the test is based on the above table.

As a result, the null hypothesis is accepted, and the random effect model was utilized in the study. Tests for the assumptions of the Classical Linear Regression Model (CLRM).Tests for the assumptions of the Classical Linear Regression Model (CLRM).Testing the traditional linear regression model assumptions, such as zero mean error, normality, multicollinearity, autocorrelation, and model specification, are the first steps before relying on econometric measurement data further.Even though it had optimal qualities, the research utilized ordinary least squares, and evaluating hypotheses concerning the calculated coefficient may wish to validly conduit (Brooks 2008).

I. The Errors have Zero Mean ($E(U_t) = 0$)

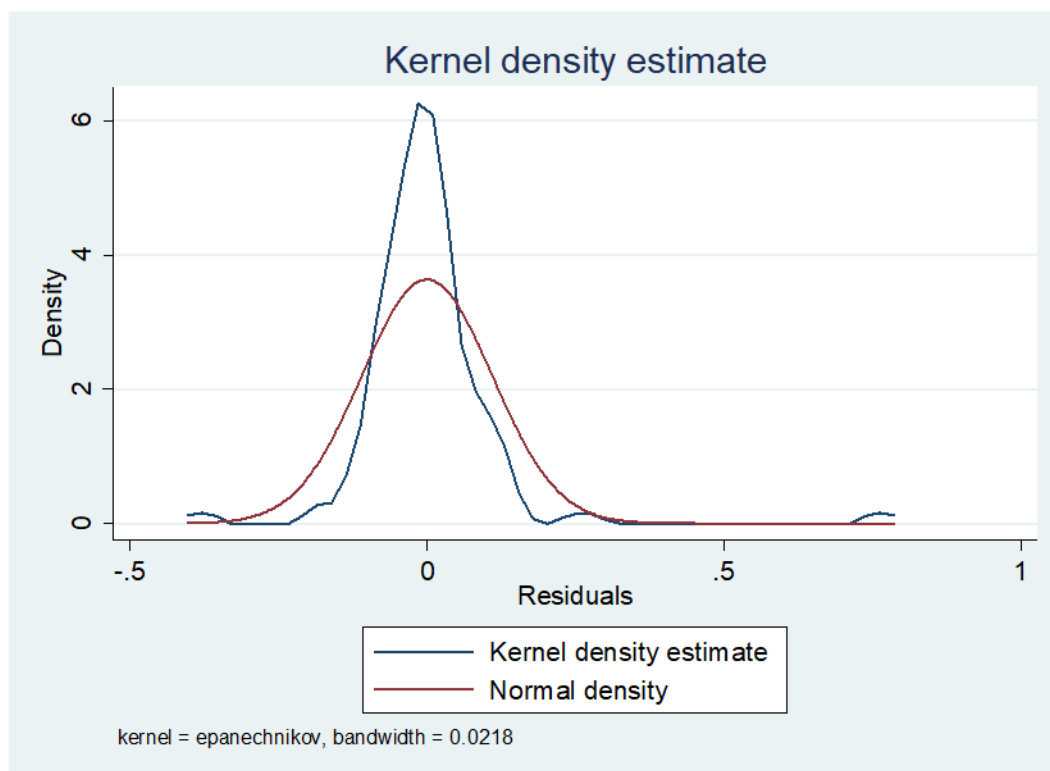
This assumption will never be violated, according to Brooks (2008), if a constant term is included in the regression equation.

This assumption was not broken because the regression model utilized in this investigation includes a constant factor.

II. Normality Test

The kernel density estimate with the normal option presents a density graph of the residuals with a normal distribution superimposed on the graph to ensure that the residuals are properly distributed, which is a critical assumption for regression.

Figure 4: Normality Test Result of the Study



Source:- Annual reports of sampled banks and NBE and own computation(STATA 14)

The kernel's bandwidth is a free parameter that has a significant impact on the resultant estimate. The red curve in the diagram above represents the genuine density (a normal density with a mean of 0 and variance of 1). In comparison, the kernel density estimate, grey curve, normality assumption, and bandwidth of 0.0218 with epanechnikov hold since its density estimate is close to the genuine density.

III. Multicollinearity Test

According to Brooks (2014), a difficulty arises when the explanatory variables are significantly associated with one another, and this is referred to as multicollinearity. Various authors advocated varying degrees of acceptable correlation between the independent variables. The variance inflation factor (VIF), which evaluates how much the variance of an estimated regression coefficient rises if your predictors are linked, can be used to test for the presence of multicollinearity (multicollinear).

The correlation of independent variables can also be used to determine it.

Table3.3: Multi collinearity Test, VIF

```
.
. vif
```

Variable	VIF	1/VIF
FER	2.31	0.432462
PRO	2.29	0.436711
LDP	1.76	0.568331
GDP	1.59	0.629083
LIQ	1.35	0.738451
INF	1.09	0.918219
Mean VIF	1.73	

Source:- DPO= Dividend payout ratio; PRO=profitabilityLIQ=liquidity LDP= last year dividend payoutGDP= gross demotic productINF= inflationFER= foreign exchange rate

Source: own computation (STATA 14 output)

If a variable's variance inflation factor value is greater than 10, it may be worth investigating further. To determine the degree of multicollinearity, VIF tolerance is used. This is depicted in the table above. The variance inflation factor value for each variable is less than 10, indicating that multicollinearity is not a concern in this study.

The mean variance inflation factors (VIF) is found to be 1.73, which is significantly lower than the Threshold of 10 or does not breach the permissible limit as indicated by Brooks (2014). Individual variable VIFs are found to be extremely low. This suggests that the explanatory variables in the model were not significantly correlated with one another.

As a result, there is no multicollinearity between the independent variables.

3.4. Conclusions

This chapter discusses the research questions, hypotheses, research methods and different data sources which were used to address the study problem. In general, basing the research problems and objective, the study developed two research questions and six hypotheses.

CHAPTER FOUR

Results and discussions

4. Introduction

The previous chapter presented the research hypotheses and the choice of the appropriate research method for the study. This chapter presents the results and analysis of the findings of the alternative methods used. The chapter was established to occupy two sections. Section 4.1 presents the results of the study. Then, section 4.2 Discussions of regression results

4.1 Results

As mentioned in chapter three, this study covers private banks operating in Ethiopia. As a result, they were excluded from the sampling frame to avoid variation in firm year observation. Thus, financial data for nine consecutive years, from 2010–2019, of 10 private banks included in the sample frame was collected. This section of the chapter discusses the results of the different data sources and is structured as follows. First, it gives the descriptive statistics of the variables used in the research in section 4.1.1. Second, it presents the results of the correlation analysis in section 4.1.2, and finally, the result of the regression analysis is presented in section 4.1.3.

4.1.1 Descriptive Statistics

Descriptive statistics are used to provide broad descriptions of the data included in the model. Table 4.1 shows descriptive data for all variables for ten Ethiopian commercial banks from 2010 to 2019, with a total of 100 observations. The table displays the mean, standard deviation, number of observations, minimum and maximum of all variables to provide an overall summary of the data used. Data on bank-specific and macroeconomic factors were acquired from the NBE and banks' annual reports, respectively. This analysis included ten private commercial banks that were created prior to 2010G.C. The majority of bank branches are centered in Addis Abeba, the capital. Total banking capital had increased by 18.4 percent to Birr 101.5 billion by the end of June 2019. The size of their assets (capital) ranged from 1,309.8 to 6,024. Awash international bank was the largest, and enat bank was the smallest. Cooperative Bank of Oromian, headquartered in Addis Abeba, began banking operations in 2005, focused on cooperatives and agro-based enterprises in Ethiopia. The Abyssinia Bank is headquartered in Addis Ababa. Bank of Abyssinia, founded in 1996, provides domestic, international, and specialized banking services to Ethiopia's public, private, cooperative, NGOs, UN agencies, and international organizations. United Bank, a joint stock business

created in 1998, provides a full range of commercial banking services to Ethiopian consumers, including traditional and multi-channel products. Awash Bank was Ethiopia's first private commercial bank, founded in 1994 following the country's financial liberalization after 1991. Zemen Bank was established in 2006 and commenced operations in 2008, focusing on corporate, high-net-worth individuals, and institutional clients. The Addis bank provides personal banking, corporate banking, international, and multi-channel financial services throughout the country. Wegagen Bank, which was created in 1997, is one of Ethiopia's few banks that offers a wide range of banking products and services, including deposit-taking, lending, international banking services, local and international money transfer services, and specialized payment services. International Bank NIB, which was established in 1999, offers a comprehensive variety of domestic banking, international banking, and electronic banking goods and services.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DPO	100	71.3855	11.02304	30	91.56
PRO	100	18.09956	9.690851	5	68.78
LIQ	100	50.77727	8.411209	18.6	97.96
LDP	100	71.36932	10.99534	29.996	90
GDP	100	9.607	1.145497	7.7	11.4
INF	100	13.74	8.235449	6.6	33.2
FER	100	19.26227	5.964387	11.1178	28.0543

DPO= Dividend payout ratio; PRO=profitability LIQ=liquidity LDP= last year dividend payout GDP= gross demotic producing= inflation FER= foreign exchange rate

Source: Annual reports of sampled banks and NBE and own computation (STATA 14)

Profit as measured by return on equity demonstrates the banks' profitability in generating income from available shareholder investment. According to table 4.1, Ethiopian private bank stockholders made an average profit of one birr for every dollar invested. From 2010 to 2019,

Ethiopian private banks received an average return of 18.68 percent on equity investments, with 9.69 percent variability ups and downs.

The average liquidity position of Ethiopian private banks is 50.7, as measured by current assets divided by current liabilities.

This means that for a one-birr current liability, there are 0.57 cents available on current assets on average, with a maximum liquidity position of 97.9 and a minimum of 18.6. Receiving short-term deposits and making long-term loans causes a gap in bank liquidity management, although based on the National Bank of Ethiopia's liquidity requirement, the aforementioned value is a minimum of 18.6. This demonstrates that Ethiopian private banks have maintained a liquidity requirement of NBE and are hence flush.

The previous or last dividend given by private banks has an average value of 71.3, with 10.3 percent ups and downs. According to this number, Ethiopian private banks have distributed 71.3 percent of their revenues to shareholders, indicating that the Ethiopian banking business is a dividend-paying industry.

GDP measures a country's economic growth. Over the last ten years, from 2010 to 2019, the average value of 9.6 percent of GDP has changed. As a result, the average GDP figure represents the country's average real economic growth. This demonstrates that Ethiopia is experiencing strong economic growth, and as a result, Ethiopian private banks are capitalizing on this favorable opportunity. With more deposits, there is the potential to fund more loans, resulting in more profit and a higher dividend distribution to shareholders.

The inflation rate is a variable that quantifies the volatility of the economy's price level. Over the last ten years, from 2010 to 2019, the average was 13.74 percent of the country. The rate of inflation was considerably distributed during the sample periods, with a standard deviation of 8.2.

An exchange rate is the value of a specific foreign currency compared to the home currency. It is the rate at which a domestic currency will be converted into another different currency.

4.1.2 Correlation analysis

The degree of correlation between variables is determined by the correlation coefficient, which should be between one and one. This range denotes the occurrence of a fully positive or perfectly negative correlation between certain variables. As a result, it is the level of correlation between variables that is measured. However, if the coefficient is set to zero, there is no association between the variables (Brooks, 2008). Analysis of Correlation Pearson correlation was used to better comprehend the relationships between dependent and independent variables, as seen in the table below.

Table 4.2: Correlation Matrix

	DPE	PRO	LIQ	LDP	GDP	INF	FER
DPE	1.0000						
PRO	0.6228 0.0000	1.0000					
LIQ	0.3936 0.0001	0.4967 0.0000	1.0000				
LDP	0.9999 0.0000	0.6168 0.0000	0.3865 0.0001	1.0000			
GDP	-0.3187 0.0012	-0.3465 0.0004	-0.2323 0.0200	-0.3188 0.0012	1.0000		
INF	-0.2206 0.0274	-0.1656 0.0997	-0.0754 0.4558	-0.2215 0.0268	0.2071 0.0387	1.0000	
FER	0.5205 0.0000	0.6268 0.0000	0.3286 0.0008	0.5197 0.0000	-0.5878 0.0000	-0.1138 0.2594	1.0000

DPE= Dividend payout ratio; PRO=profitability LIQ=liquidity LDP= last year dividend payout GDP= gross demotic product INF= inflation FER= foreign exchange rate

Source: Annual reports of sampled banks and NBE and own computation (STATA 14)

From the above matrix, the values on the diagonal are all 1.000 indicating that each variable is perfectly correlated with itself. As indicated above in the correlation analysis of table 4.2 dividend pay-out ratio has negative linear association with, inflation and GDP .Whereas, the correlation analysis above confirmed that, dividend payout ratio has positive linear association with PRO,LIQ ,LDP,FER,

4.1.3 Regression results

The test of assumptions, as well as the section of the regression model, is essential for a validated hypothesis and a reliability test of the regression results. To achieve this goal, the research used the fewest major model tests possible, including Normality, Multicollinearity, Autocorrelation, Heteroskedasticity, and Model Specification. Table 4.1.3 in this section displays the random effect model regression findings on dividend payout and related components. The coefficient of determination quantifies the amount of the variance in the dependent variable explained in the sample by the independent factors taken together.Gujaratese (2004) it offers the regression results of a random effect model used to investigate the factors influencing the dividend payout ratio of Ethiopian private commercial banks.

Table4.3: Regression Results of the Study

```
. xtreg DPE PRO LIQ LDP GDP INF FER , re

Random-effects GLS regression              Number of obs   =          100
Group variable: B                          Number of groups =           10

R-sq:                                       Obs per group:
  within = 0.9999                            min =           10
  between = 1.0000                           avg =          10.0
  overall = 0.9999                           max =           10

Wald chi2(6)                               = 884036.49
Prob > chi2                                 = 0.0000

corr(u_i, X) = 0 (assumed)
```

DPE	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
PRO	.0100863	.0017652	5.71	0.000	.0066266 .013546	
LIQ	.0080799	.0015666	5.16	0.000	.0050094 .0111504	
LDP	.9967251	.0013637	730.87	0.000	.9940523 .999398	
GDP	.0047254	.0139205	0.34	0.734	-.0225583 .0320091	
INF	.0014335	.0016032	0.89	0.371	-.0017088 .0045757	
FER	-.0062433	.0030804	-2.03	0.043	-.0122807 -.0002058	
_cons	-.2877568	.1963138	-1.47	0.143	-.6725249 .0970112	
sigma_u	.01846053					
sigma_e	.11232087					
rho	.02630218	(fraction of variance due to u_i)				

Source:-DPO= Dividend payout ratio; PRO=profitability LIQ= liquidity LDP= last year dividend payout GDP= gross demotic product INF= inflation FER= foreign exchange rate

Source: Annual reports of sampled banks and NBE and own computation (STATA 14)

The R-squared value indicates how well the regression analysis describes the actual variations of the dependant variable (Brooks, 2008).

The aggregate R-squared score of the model is 99.9 percent, meaning that the model's components explain 99.9 percent of the variability in determinants of dividend distribution private banks in Ethiopia. As a result, when taken collectively, these variables are relatively suitable explanatory variables for determining dividend payout (Muijs 2004).

R squared, according to several research, is not very useful in panel data analysis. Instead, in panel data analysis, concentrate on the importance of specific variables as well as the overall model relevance. Cross-sectional data, on average, has a lower R-squared than time series data. Due to the diversity of cross sections, it is not particularly high with panel data. When the dataset is more time-dominated, R squared can be larger. In general, when more significant explanatory factors are incorporated, the magnitude of R squared increases. However, the goal of this study should be to define the study objectives that must be addressed from the beginning of specific and general model significant, guaranteeing that there is no model specification bias and that misleading regressions are avoided. Another consideration is that a greater R squared in the presence of a few relevant t-values indicates that the regression is multicollinear and deceptive.

The test statistic's probability value of zero and the regression F statistic (88.4) indicate that all independent variables in the model influence our dependent variable, dividend payout, jointly. And table 4.3 shows profitability, liquidity, and foreign exchange rates have a statically significant result.

4.2 Discussion of Results

This section of the chapter discusses some of the key implications of the results. The analysis is based on the results of the regression between the dependent variable and the independent variables presented in table 4.1.3. The results obtained under these different methods are jointly analyzed.

Profitability and dividend payout

Profitability has been found as one of the most essential factors in dividend payout policy (Lintner, 1956). Return on assets as a measure of profitability has a positive and significant effect on dividend payout at a 1% significance level, with a coefficient and p value of 0.0000. This indicates that for every 1 ETB increase in the profitability of Ethiopian private banks, the dividend payout will increase by 10.1 cents. Profitability has a significant positive impact on the dividend payout of private banks in Ethiopia. The same result is found by Mohamed et al. (2008), AlMalkawi (2007), Amidu and Abor (2006), and Mahdzan et al. (2016). Pruitt and Gitman (1991), Gill et al. (2009), Muhammed (2012), and Hilemariam (2013). Therefore, the data supports hypothesis 1. Hypothesis 1 states that profitability has a positive impact on the dividend payout of Ethiopian private banks. This means that Ethiopian private banks pay dividends to their shareholders when they are profitable. This result is consistent with the dividend policy theory's signaling theory, which states that the more profitable a firm is, the more likely it is to pay dividends; the less profitable a firm, the less likely it is to pay dividends. In Ethiopia, the profitability indicator metrics, Return on Asset, Return on Equity, and Net Interest Margin of the aggregate of commercial banks in Ethiopia have witnessed commendable improvement.

Liquidity and dividend payout

The liquidity position of banks as a major issue became apparent in the aftermath of the worldwide financial crunch, which resulted in several commercial banks with serious liquidity issues going bankrupt (Bhati et al. 2015.). For banks to effectively discharge their responsibilities, they must be in good condition. Also, the Basel (2008) on banking supervision emphasized that the stability of a commercial bank depends on its liquidity position and effective liquidity risk management. To guarantee dividend payments (Bagh et al., 2017), as liquidity is a major concern for financial institutions, particularly those in the banking industry (Assfaw, 2019). According to the annual report of the National Bank of

Ethiopia (NBE) (National Bank of Ethiopia, 2019), Ethiopian banks were more sensitive to liquidity and operational risks than to other categories of hazards. The existence of less efficiency and little or insufficient competition in the country's banking industry is a clear indicator of the relatively poor performance of the sector compared to the developed world financial institutions (Amdemikael, 2012). Logically, banks will only pay dividends if they have a strong cash position. Dividend distribution not only depends on the profitability of firms but also on liquidity. Therefore, highly liquid firms, i.e., firms with more cash and cash equivalent assets, pay higher dividends to shareholders than those with insufficient cash. In this research, the results indicated a significantly positive relationship between liquidity and dividend payout ratios at a five percent significance level with a p-value of 000.00. According to the findings of this study, a good liquidity position increases the ability of Ethiopian private banks to pay dividends. Generally, banks with good and stable cash flows are able to pay dividends easily compared with private banks with unstable cash flows. This positive association between liquidity and dividend policy is supported by prior literature and signaling theory. This positive connotation between liquidity and dividend policy is supported by prior literature and signalling theory. Liquidity, according to Nuredin and Muhammed (2012), has a significant positive effect on dividend payout. Alli et al. (1993) observed that dividend payment depends on liquidity. Amidu and Abor (2006) discovered a positive relationship between liquidity and dividend payout ratios. In this way, this study supports the hypothesis that liquidity has a positive and significant impact on dividend payout in private banks in Ethiopia. Besides, the finding is that after current earnings, the availability of cash was the most important factor when setting a dividend.

Firms previous year dividend payment

Last year, dividend payout was discovered to be a statistically determinant variable of the Ethiopian banking sector's dividend payout ratio. The predication statement was last year's dividend amount, a significant explanatory factor of dividend payouts. The results show the coefficient of lagged dividend payments is positive with a p value of 000.00. As a result, the greater the dividend payouts made by private banks last year, the greater the possibility of dividend payment. As mentioned in the first model, these results are similar to various studies on emerging markets. Al-Ajmi and Abo Hussain (2007) and Ahmed and Javid (2009) report that lagged dividend payments are a primary factor in dividend payments. According to the findings from the work of Kinfe (2011) and Simegn (2013), previous years' dividends have

had a positive relationship with dividend payouts. The study supports hypothesis 3, stating that last year's dividend payout had a positive significant impact on the dividend policy of Ethiopian private banks.

Inflation and dividend pay out

Inflation is a rate of increase in the overall level of pricing for products and services, and it includes significant expenses as more businesses and extensive branch networks open (Driver 2008). During inflationary periods, the cost of replacing everything is higher for businesses, and they may prioritize distributing dividends above repaying their expenditures. Though Ethiopia has historically had moderate inflation, double-digit inflation has recently become a source of concern for politicians and the general public.

Emirta (2013) investigated the ideal level of inflation in Ethiopia, the point at which inflation has the least impact on economic development. Due to Ethiopia's low level of income and heavy expenditure on consumer items such as food, the country's inflationary experience has resulted in a poor level of well being. As a result, the government must act to manage the country's pricing trend.

Such intervention, on the other hand, involves the establishment of appropriate policies based on a thorough assessment of the determinants that cause price changes. As a result, one of the issues that Ethiopia must face is the possibility of regulating inflation and its dynamics. At a 0.37 percent level of significance, the regression result reveals that the inflation coefficient is Positive. Based on the findings of this study, inflation is not a significant impact in a company's dividend distribution choice. Previous empirical studies have found that inflation and dividend payout are both positively and significantly correlated (Mundati, 2013). Regression results from Mundati (2013) clearly indicate there is a positive relationship between the dividend payout and inflation. The data did not support hypothesis 4; inflation does not have any significant influence on dividend payouts and the positive sign. But in Ethiopia, there is no stable inflation.

GDP and dividend pay out

Gross domestic product (GDP) is a macroeconomic indicator used to calculate total economic activity in a country (Lui and Wilson 2007). In this study, the annual real growth rate of GDP was used to measure GDP. Commercial banks' profitability is expected to be sensitive to macroeconomic variables. Assets held by deposit money banks as a share of GDP. A growth in real economic activity means an increase in the corporate earnings of a firm operating in the economy, leading to higher earnings, which may ultimately lead to a higher dividend payment (Ghafoor et al., 2014). When the GDP of the country rises, there is high earning potential for dividend payment, and the proxy used for the variable is the real GDP growth rate reported by the national bank of Ethiopia.

From the regression output indicated above, the coefficient of growth is positive at 0.734 level of insignificance. Based on this, hypothesis 4 is unsupported; GDP does not have any significant influence on dividend payout and the positive sign. This implies Ethiopian private banks do not consider the effect of the economic growth of the country on the dividend paid out while declaring the dividend. When the GDP of the country rises, there is high earning potential for dividend payment, and the proxy used for the variable is the real GDP growth rate reported by the national bank of Ethiopia.

Foreign exchangerate and dividend pay out

The foreign exchange rate is one of the most important macroeconomic determinants of bank and multinational company dividend policies (Ross, 1986). In Ethiopia, private banks play a significant role in the foreign exchange market. International trade involves various currencies; the variability of foreign exchange rates is an interesting factor that drives the level of profitability of commercial banks as it affects their financial intermediation process. So, in this study, the researchers show banks' profitability has a positive impact on foreign exchange rates, one of the factors that increase the profitability of a bank. So, as a result, an increase in foreign currency per domestic currency forces companies to incur large amounts to cover losses. At this time, companies must retain rather than distribute.

In this study, the result revealed that FER has a negative association with dividend payout with a p value of 0.043, the level of significance. This implies that FER is an important determinant of Ethiopian private banks' dividend payout. As follows, this study supports the

hypothesis that FER has a significant negative impact on dividend payout in private banks in Ethiopia. Previous empirical tests arrived at the conclusion that Mundati (2013) and Wanjiru (2013) were identified from the and that the exchange rate has negative significance as opposed to the dividend payout interest rate, which has a slight influx.

Table 4.4: Comparison of the Test Result with the Expectation

Independent variables	Expected Relationships with DPO	Actual result
PRO	+	+
LIQ	+	+
LDP	+	+
GDP	+	+
INF	+	+
FER	-	-

CHAPTER FIVE

5. Summary, conclusion and recommendation

The previous chapter offered the findings and debate, whereas this chapter deals with the study's conclusions and recommendations. As a result, this chapter is divided into two subsections. The conclusions are presented in Section 5.1, and the recommendations are presented in Section 5.2.

5.1 Conclusion and summery

Dividend distribution decisions revolve entirely around determining how much to distribute to investors and how much to retain for the company's projected requirements (Ponnala and Yohhanes 2016). To that aim, the goal of this study is to investigate the potential factors of dividend payout in Ethiopian private banks. To achieve the objectives of the study, the researcher identified both firm-specific and macroeconomics variables by using panel data from ten private banks over the study periods of 2010–2019 G.C. The data was obtained from the National Bank of Ethiopia and from the banks' audited annual reports. To achieve this objective, six hypotheses have been developed. To address test hypotheses, achieve the broad research objective. The study used a quantitative research approach. This study includes ten banks (cross-sectional type) for the period of ten years from 2010 to 2019 (time series type). As a result, the researcher employs balanced panel data models. Based on the test results, the random effect estimation model is determined to be the best fit for this study. Generally, in this study, a random effect panel regression model is used to assess the effect of the identified explanatory variables on the dividend payout ratio of Ethiopian private banks.

The study, through empirical observation, examined the internal and external factors affecting the dividend payout of private banks in Ethiopia. The empirical result of the study revealed that profitability, last year's dividend, liquidity, and profitability had a positive and significant effect on the dividend payout of selected private banks in Ethiopia. Inflation and GDP have a positive but insignificant effect on dividend payouts.

Conclusion

The primary objective of this study was to identify both firm-specific and macro-variables by using panel data from ten private banks over the study periods of 2010–2019. G.C.

Therefore, the findings of this research can be summed up as

First, as a measure of profitability, return on assets has a positive and considerable impact on dividend payout. The researcher examines bank profitability as the primary influence on dividend payout in this study. This profitability includes all bank-specific and macroeconomic dividend payout factors.

Second, liquidity has a beneficial impact on dividend payments in Ethiopian private banks. According to the study's findings, Ethiopian private banks' ability to pay dividends is enhanced by a strong liquidity position. Jensen (1986) contended that enterprises with high cash flow paid bigger dividends to reduce the agency conflict between managers and shareholders. Ethiopia's private banks, on the other hand, have extra liquidity. Liquidity and profitability are positively associated, and as liquidity and profitability improve, so does dividend payout. The dividend payment has also been enhanced. Before investing, investors search for liquidity and profitability. In Ethiopia, private banks' liquidity and profitability have been excellent throughout the last decade.

Third, last year, it was discovered that dividend payout is a statistically determining variable of the Ethiopian banking sector's dividend payout ratio. The prediction statement was the dividend amount from the previous year, which is a crucial explanatory component of dividend payouts.

Fourth, GDP has no discernible impact on dividend payouts and the positive indication. This suggests that while declaring dividends, Ethiopian private banks do not take into account the impact of the country's economic growth on dividends paid out. According to an empirical evaluation, the results of certain researchers' studies demonstrate that GDP has a favorable impact on dividends, and this study also reveals that GDP has a positive but not statistically significant impact. As the researcher is aware, Ethiopia's GDP does not have consistent data.

Fifth, inflation is positive at 0.37 percent, a non-significant figure. This means that inflation is not a significant influence of a company's dividend distribution decision.

Finally, FER exhibits a significant negative relationship with the dividend payout level, implying that FER is a major predictor of Ethiopian private banks' dividend payout. Private Banks play an important role in Ethiopia's foreign currency market. International trade incorporates several currencies; the volatility of international exchange rates is an intriguing aspect that drives commercial banks' profitability since it influences their financial intermediation.

In general, a random effect panel regression model is utilized in this study to evaluate the effect of the identified explanatory variables on the dividend payout ratio of Ethiopian private banks. The regression analysis revealed that the primary predictors of profitability for Ethiopian private banks were profitability, liquidity, last year's dividend, and foreign exchange rate.

5.2 Recommendation

- ✓ In Ethiopia, private bank sectors must focus on dividend payout elements in bank specific determinants, and it is preferable for banks to modify the above variables annually because they may not be stable. This will help them make well-organized and sensible dividend payment decisions, which will help them achieve their goal (maximizing profit) while also satisfying employees' and shareholders' needs and having a robust dividend payout.
- ✓ The foreign currency rate is a key factor on Ethiopian private banks' dividend payout decisions, according to the macro variables covered in this analysis. This implies that authorities such as the NBE and the Ministry of Finance should evaluate the impact of macroeconomic variables on dividend payment decisions, and that all private banks in Ethiopia should analyze the impact of macroeconomic variables on dividend payout decisions.
- ✓ This study looked at only ten private banks and three macroeconomic variables of Ethiopian private bank dividend policy. Future studies are encouraged to include more firm-specific variables, as well as new macro variables, to further explore the impact of both internal and external variables on the dividend policy of Ethiopian private banks. Furthermore, the researcher suggests that the researchers study the determinants of dividend payout on a yearly basis because private banks in Ethiopia do not have a consistent dividend payout outcome.

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Appendixes

Different empirical literature summary using table.

Study	Title	Sample	finding
Lintner (1956)	determinants of dividend payout	28 American companies	profitability and previously paid dividend has significant impact on dividend payout policy of companies
Baker, et al. (1985)	determinants of dividend payout	562 firms listed New York Stock Exchange (NYSE)	major determinants of dividend payments were the anticipated level of future earnings and the pattern of past dividends
Baker & Powell , (2000)	factor that determines dividend policy	603 manufacturing firms listed in New York Stock Exchange (NYSE) by 1994	<ul style="list-style-type: none"> • The major determinants of dividend payments were the level of current and expected future earnings and the pattern of past dividends. • Desire of shareholder to current income and risk preferences are major industry specific factors that affect management decision about dividend policy.
Mohamed, et al. (2006)	determinants of dividend payment	the top 200 companies in terms of market capitalization, listed on the Malaysian share market	Current earning affects dividend payment and firms paid out on average, about 40 percent of their earnings as dividends.
Al-Kuwari (2007)	determinants of dividend policy in emerging market	119 non-financial firms listed on Gulf Co-operation Council (GCC) country stock exchanges from 1999 to 2003	<ul style="list-style-type: none"> • firm size as statistically significant variables of dividend payout • leverage ratio was an additional variable that affected the dividend payout ratio of a firm
Dagnaw (2009)	determinants of dividend payment		<ul style="list-style-type: none"> • earnings per share (EPS) and debt ratio (Leverage) have a strong positive

	in Ethiopia		<p>relationship with dividend per share</p> <ul style="list-style-type: none"> equity ratio and liquidity ratio have no significant relationship with dividend per share
Duha Al-Kuwari (2009)	determinants of dividend payout of firms	75 firms listed on the Gulf Cooperation Council (GCC)	<ul style="list-style-type: none"> ownership structure, firm size and profitability are the positively related to the firm's dividend payout leverage ratio negatively related
Okpara (2010)	determinants of the dividend Payout policy of firms	Nigerian Securities and Exchange Commission	<ul style="list-style-type: none"> profitability negatively affected the payout ratio liquidity and previous year's dividend exerted a positive impact on the payout ratio
Al Ajmi&Hussain (2011)	dividend decisions	54 Saudi Arabian listed firms during 1990–2006	<ul style="list-style-type: none"> Lagged dividend payments, profitability and cash flows were found to be determinants of dividend payments
Theodros (2011)	the determinants of dividend payout	six private banks in Ethiopia for the study period from 2006 to 2010	<ul style="list-style-type: none"> positive relationship between the firm size and the dividend payout ratio negative relationship between liquidity and the dividend payout no relationship between dividend payout ratio and profitability, growth and leverage
Gill et.al (2012)	the impact of different firm specific factors of the dividend policy	Pakistani banks listed at Karachi Stock Exchange from year 2006 to 2011	<ul style="list-style-type: none"> strong linear association between profitability and firm size with dividend policy growth rate has weak positive correlation with dividend policy leverage and firm risk have an inverse linear relationship with dividend policy
Nuredin (2013)	determinants of dividend policy	Ethiopian insurance companies from year 2003 to 2011	<ul style="list-style-type: none"> profitability, liquidity and growth have a strong relationship with the dividend policy of Ethiopian insurance companies with positive, positive and

			<p>negative signs respectively</p> <ul style="list-style-type: none"> • size and leverage of the firm have no strong relationship with the dividend policy
Mundati (2013)	effects of macro-economic variables on dividend payout	firms listed on a Nairobi securities exchange by using 10 year variation	<ul style="list-style-type: none"> • inflation rate was a positive significant factor for dividend payout • exchange rate has a negative effect • money supply had positive <p>macroeconomic variables have a uniform impact on Nairobi firm's dividend payout.</p>
Maladjian& El Khoury, (2014)	factors that determine the dividend payout policy	Lebanese banks listed on the Beirut Stock Exchange from year 2005 to 2011	<ul style="list-style-type: none"> • dividend payout policy are positively affected by the firm size, risk and previous year's dividends • dividend payout policy are negatively affected by growth and profitability • Liquidity and leverage have no significant impact on dividend payout policy
Chekolle (2016)	determinants of Ethiopian private commercial banks dividend payout	six periods	<ul style="list-style-type: none"> • previous year's dividend, banks size and revenue growth are statistically significant factors and positively related with dividend payout • profitability and debt asset ratio (leverage) are statistically significant factors and negatively related with dividend payout • liquidity is positively related but not statistically significant

Table 5: List of Ethiopian private commercial banks (total population of the study)

	Name of private banks	Starting year
1	Awash International Bank S.C	1994
2	Dashen Bank S.C	1995
3	Bank of Abyssinia S.C	1996
4	Wegagen Bank S.C	1997
5	United Bank S.C	1998
6	Nib International Bank S.C	1999
7	Cooperative Bank of OromiaS.C	2004
8	Lion International Bank S.C	2006
9	Oromia International Bank S.C	2008
10	ZemenBankS.C	2008
11	Bunna International Bank S.C	2009
12	Birhan International Bank S.C	2009
13	Abay Bank S.C	2010
14	Addis International Bank S.C	2011
15	Debub global bank S.C	2012
16	Enat bank S.C	2013

Source: , Source: [www.NBE be.org.et](http://www.NBE.be.org.et) surfed at 2019