ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

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

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE OF MASTER IN ACCOUNTING AND FINANCE

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Abstract

The factors influencing dividend distribution in Ethiopian private banks were examined in this study. Data from the National Bank of Ethiopia's reports and the banks' audit financial statements gathered throughout a ten-year period, from 2014 to 2023. The study used dividend payout as a dependent variable and profitability, liquidity, financial leverage, company structure, last year dividend, growth, investment prospects, business risk, and company size as independent factors. In order to conduct this study, the researcher used an explanatory and descriptive research design, which facilitates the identification and assessment of reason-based links between the many variables under investigation. Investors looking to forecast future dividend payments on their investments companies may need to consider the company's track record in relation to growth potential, profitability, liquidity, and dividend assets from prior years when making an informed choice about their investments because the dividend payout in the Ethiopian private banking industry is greatly impacted by these factors.

Keywords: - Dividend payout, companies

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List of Acronyms

CG: - Company growth

CLRM : - Classical linear regression model

DVPO: - Dividend payout

DW: - Durbin-Watson

EPS: - Earning per share

FEM: Fixed Effect Model

GDP: - Gross domestic product

LDVP: - Lagged dividend payment

LE: - Leverage

LI: - Liquidity

NBE: - National bank of Ethiopia

NPV: - Net present values

PR: - Profitability

REM: - Random Effect Model

RI: - Risk

ROA: - Return on asset

SI: - Size of the bank

CHAPTER ONE

1. INTRODUCTION

This chapter introduces the reader to the key concepts use throughout the paper on background section follow by statement of problem, research questions, objective of the study, significance of the study, scope of the, as well as the Organizations of the paper.

1.2. Background

Finance managers in the corporate finance industry are often faced with two operational considerations of financing and investment decisions. While the financing choice deals with how these assets should be financed, the capital budgeting decision deals with what actual assets the company should purchase. Nevertheless, once the company starts turning a profit, a third choice could need to be made. The dilemma that businesses confront is determining how much of their profits should be retained and how much should be given to shareholders Badu, (2013). Dividend payout policies of firms have been researched since 1956, however it has proven to be highly challenging to derive definitive conclusions from various studies addressing the elements influencing dividend payout policies. Corporations and individuals invest in businesses with the hopes of earning dividends in return. Businesses that are successful make money. This money might be disbursed to shareholders, used to reduce debt, purchased securities, or invested in running assets. One of the most contentious topics in contemporary corporate finance is dividend policy Maladjian & El Khoury, (2014). Dividend policy is still debatable since it is still difficult to explain why some firms pay dividends while others do not Ross, Westerfield, & Jaffe, (2002); Badu, (2013). There is considerable disagreement over the significance of dividend payments made by firms as a means of creating value due to certain benefits and drawbacks that come with it. Businesses decide whether or not to utilize retained earnings, or a portion of their profit, to finance their investment. This decision is known as the dividend decision. On the other side, the capital structure choice makes the determination of how much external financing should be borrowed and how much should be raised in the form of new stock. Managers in businesses are free to decide how much of a dividend to pay to shareholders, even in the face of constraints imposed by things like debt covenants, regulatory restrictions, and financial resource availability Cyprian, (2018).

The research conducted by Gill, Biger, and Tibrewala (2010) suggests that dividend payments should be made in order to: (i) guarantee the company's financial stability; (ii) attract investors seeking to lock in current income; and (iii) support the maintenance of the share price. Managers do, however, select dividend policies based on what would please their shareholders. Because there are other uses for such corporate gains, determining the percentage of net profit to be returned to shareholders as a dividend is a significant difficulty for companies.

Companies face the conundrum of balancing profit retention with dividend payout, according to Nuredin (2012). For corporate businesses, keeping profits and reinvesting them to fuel development and expansion could seem like a superior course of action. Dividends, however, could be a way for investors to identify issues with a company's financial performance and have a better understanding of its prospects going forward Cyprian, (2018).

According to the principle of Pecking order, businesses prefer to use their own internal resources for capital before turning to debt and share issue following internal Muhammad (2014) funding. Profitable businesses therefore have greater internal money, which obliquely leads to large dividend payments. According to some studies, dividends have little bearing on the best way to adjust policy when a corporation expands and shareholder interests flow in tandem Mutual, (2014). Numerous studies have been conducted on dividend payments; however the factors influencing dividend payments have not all been shown to be the same. Thus, determining the factors influencing the dividend payout remains a mystery for a considerable amount of time Fiseha, (2018).

Due to underdevelopment and a lack of competition, the Ethiopian banking sector is widely recognized for its unusually large dividend payouts and anomalous profits making finance work for Africa, (2014). In contrast to other African nations, it is also comparatively less developed Zerayehu, Kagnew, & Teshome, (2013). However, a research from the past several years indicates that Ethiopia's banking sector is growing quickly. There are now 19 banks in the sector; three are controlled by the government, while the remaining share firms are privately held NBE, (2014). Currently, public banks account for 55% of loans and advances and 67% of total deposits. The state-owned commercial bank of Ethiopia accounts for 68% of industrial profits, with the remaining banks accounting for just 32% making finance work for Africa, (2014).

As a result, this study aims to contribute to the empirical research on the factors influencing dividend payout in developing nations. Additionally, it is one of the few studies carried out in Ethiopian companies that may aid in understanding the variables influencing Ethiopian private banks' dividend payout.

1.3. Statement of problem

For various research has been carried out on the dividend payout policies of businesses; various theories have been developed and empirically tested; however, it is challenging to make generalizations about the factors thought to have a significant impact on dividend payout policies Hashmi, & Irshad, (2014). Instead, the company's investment programme and the earning potential of its assets determine the firm's worth, not the way earnings are paid to shareholders.

Other theories contend that dividends are relevant to corporations, refuting the M&M hypothesis of dividend irrelevance. Studies conducted by Zhang, B. (2023), came to the conclusion that a goal distribution amount based on the company's long-term profitability determines dividends. If this is accurate, shareholders and management place a great deal of weight on the company's dividend payments since they increase the stock's value and make investors willing to pay a premium for dividend-paying stocks Gustav & Gairatjon, (2012). The agency theory explains how managers confront a conflict of interest between their own interests and those of the shareholders.

As a result, managers could behave in their own best interests at the expense of shareholders Al-Shubiri, (2011). In this agency dilemma arising from excess free cash flow, dividend is quite important. Excess free cash flow can lead to management's desire to expand the company outside, which could result in costly business development and excessive investment, which would ultimately lower the firm's value and share price Lee, (2014). As argued by these and other ideas dividend is significant.

According to Sheikh Taher (2012), the results of many empirical researches indicate that risk together with disclosed earnings, agency costs, size, and taxes, impact a firm's dividend distribution more than other factors. The studies mentioned above, which were carried out in Ethiopian companies, did not include risk as a component when determining the elements that affect dividend distribution. Since Ethiopia lacks secondary stock markets, this study will into account the risk variable. In contrast, earlier research on the subject of the factors influencing dividend distribution was limited to nations with well-established secondary markets.

The study attempts to address the factors influencing dividend payout decisions in Ethiopian private commercial banks. As a result, the inconsistent results need to be looked into, and further research on the subject of dividend payout determinants will be very beneficial to knowledge. To the best of the researchers' knowledge, there hasn't been any theoretical or empirical study done in this field on standard, which is the number of equity shares issued and outstanding that indicates the level of external control by

shareholders. Risk lagged dividend also did not adequately used and investigated as a determinant of dividend payout in Ethiopian private commercial banks. Consequently, this study was investigated the factors that influence Ethiopian private banks' dividend payouts. Investigating the variables influencing the dividend payout of Ethiopia's private commercial banks, this study aims to close the gaps mentioned above.

1.4. Research questions

1. What is the effect of lagged dividend on dividend payout?
2. What are effects of internal determinants on the dividend payout of Ethiopian private banks?

1.5. Objective of the study

1.5.1. General objective

General objective of this to examine internal determinants of dividend payout in private commercial banks in Ethiopia

1.5.2. Specific objective

In order to fulfill specific objectives, the following particular goals were established:

I. To assess the impact of previous years dividends on the dividend payout of Ethiopian private banks
II. To determine the effect of profitability on the dividend payout of Ethiopian private banks
III. To determine the effect of liquidity on the dividend payout of Ethiopian private banks
IV. To determine the effect of leverage on the dividend payout of Ethiopian private banks
V. To determine the effect of company size on the dividend payout of Ethiopian private banks
VI. To determine the effect of company growth on the dividend payout of Ethiopian private banks
VII. To determine the effect of buissness risk on the dividend payout of Ethiopian private banks
VIII. To determine the effect of lagged dividend on the dividend payout of Ethiopian private banks

1.6. Hypothesis of the research

The hypotheses organize the inquiry into how different factors that influence Ethiopian private banks' dividend payouts. Previous research has generally corroborated the idea that financial concerns play a significant role in the dividend payouts organizations. These sorts of studies usually examine the following significant financial variables, their impacts, and the prior research that supports them: Higher capital appropriateness ratios have been associated with better financial success in the banks' dividend payouts, citing Malik's (2011) research. To meet their short-term obligations, particularly the payment of claims,

private banks require liquidity Alex, A. (2021). Sufficient liquidity improves the financial system's stability and performance of dividend payouts. Liquidity has a favorable effect on the profitability of insurance companies; claim Ahmed, Ahmed, and Usman (2011). According to Waschto, A. (2018), there is a direct link between insurance companies' financial performance and premium increases.

These hypotheses, which may also be stated as alternative hypotheses that detail the precise results to be anticipated (more or less, higher or lower of anything), are predictions on how the findings will turn out. They might also be expressed in the null form, which, according to Creswell (2009), indicates that there is neither an anticipated difference nor a connection between groups on a dependent variable. The research has identified and formed the following seven hypotheses after reviewing the theoretical and empirical studies that covered the determinant of dividend payout. By formulating hypotheses for determinant factors that have an effect on dividend strategy, the research was identify potential solutions.

The researcher hypothesis:-

H1: There is positive and significant between the Profitability, their dividend payouts of private banks in Ethiopia.

H2: There is positive and significant between the liquidity their dividend payouts of private banks in Ethiopia.

H3: There is negative and significant between size and dividend payouts of private banks in Ethiopia.

H4: There is positive and significant between lagged dividend their dividend payouts of private banks in Ethiopia.

H5: The performance of dividend payouts private banks is posetive and significantly influenced by the risk.

H6: The performance of dividend payouts private banks is negatively and significantly influenced by the leverage.

H7: The performance of dividend payouts private banks is negatively and significantly influenced by the growth.

1.7. Significance of the study

Diverse perspectives would contribute to the study. It expands the body of knowledge regarding the variables influencing dividend payout in Ethiopia's private banking industry and is anticipated to aid in determining the variables influencing Ethiopia's private commercial banks' dividend payouts as well as offer management insight into individual bank operations. It also aids in educating investors, policymakers, and banks about important variables influencing dividend payout decisions.

1.8. Scope of study

The scope of the research should be including three aspects with the regards of thematic, spatial (geographical) and temporal point of view in the research.

The primary goal of the research thematic scope is to investigate some of the factors that influence how Ethiopian private banks' dividend payment ratios behave. The annual reports covering the fiscal years 2014 to 2023 were examined in order to achieve this goal. The study's geographic or geographical scope includes eight variables that impact on the ten Ethiopia's private banking dividend payout in order to ascertain the link between the dividend payout ratio and determinant factors. Temporal component involves assessing time intervals and the researcher to consider for last ten years Ethiopian private banks dividend payout state.

1.9. Limitation of the study

The study solely examined issues particular to banks; external factors like as inflation and the lack of stock markets, which shareholders utilize as a source of liquidity, were not taken into account. Private Banks started operations in later and has only recently begun to provide dividends and it were lack of data about actual profitability of the banks.

1.10. Organization of the study

There are five chapters in the research. The first chapter serves as an introduction, including topics such as the study's history, issue statement, significance, aim, scope, and limitations. The literature on the subject of dividend payment determinants is reviewed theoretically and empirically in Chapter two. The study design and technique used are presented in Chapter three. Data presentation, analysis, and interpretation are covered in Chapter four. The last chapter wraps up the whole study and provides pertinent advice based on the results.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Introduction

The definition of dividend payment, various theories surrounding dividend payout, dividend policies, and a thorough analysis of empirical research on factors influencing dividend payout are the main topics of this chapter. It gives the reader an overview of pertinent ideas and prior research on dividend determinants before talking about the company-specific criteria that were chosen for the study.

2.2. Theoretical theory

Many theories about dividend policy were put forth by academics. The most well-known theories of dividend policy after Miller and Modigliani's (1961) theories of dividend irrelevant were Brid-Hand by Gordon (1963), tax preference theories by Bernnan (1970), theories of agency by Jensen and Meckling (1976), signalling theory by Aarony and Swary (1982), and transaction cost and residual theory by Muller (1967).

2.2.1. Tax preference theory

One of the key elements influencing a company's valuation and projected future earnings is taxes. For instance, the market value of a company may be ascertained using discounted projected after-tax cash flows. Accordingly, the way capital gains and dividends are taxed differently can have an impact on investors' after-tax returns, which can then have an impact on their desire to receive dividends Kinfe, (2011). The ideal capital market M&M assumptions do not account for potential tax implications. It has long been believed that dividends and capital gains receive the same tax treatment. But taxes really exist in the real world and may have a big impact on a company's valuation and dividend policy.

Dividends and capital gains are typically treated differently by the tax code, and as most investors are concerned with their after-tax returns, the impact of taxes may have an impact on their desire for dividends. When managers increase the retention ratio of earnings in order to maximize shareholder wealth (firm value) in response to this tax preference, taxes may also have an impact on the dividend supply Al-Malkawi, Rafferty, & Pillai, (2010).

2.2.2. The agency theory

The principal-agent connections form the foundation of the agency theory. The contemporary corporation's separation of ownership and management provide the framework within which the agency theory operates. The shareholders, or principals, of contemporary corporations are often scattered and do not participate in the day-to-day administration and operations of their firms; instead, they choose managers, or agents, to administer the corporation on their behalf Habbash, (2010). The agents are designated to oversee the corporation's daily activities. Conflicts of interest arise between the agent and the principal as a result of the division of ownership and controlling rights. The business incurs controlling costs, including management incentives, in order to address this issue or balance the competing interests of managers and owners Habbash, (2010).

Generally speaking, the agent may not always hold shares but may still be competent in managing the company and have the necessary professional abilities. In particular, when the managers do not control the corporation's resources, the theory provides many helpful techniques to investigate the connection between owners and managers and confirm how the ultimate goal of maximizing the returns to the owners is achieved. The function of corporate governance's monitoring mechanism in reducing agency costs and the conflict of interest between managers and owners is identified by agency theory Habbash, (2010).

Easterbrook (1984) poses the following question: "Given the costs associated with paying significant dividends (and raising new capital), and given that all investors either prefer capital gains or are indifferent between dividends and capital gains," why do most corporations pay significant dividends and brought up two potential reasons.

i. The first explanation for dividend payments by companies stems from the fact that managers occasionally look out for their personal interests rather than acting as flawless representatives of the other investors in the business. There may be a significant conflict between the managers' interests and those of the other participants because they are not the firm's residual claimants to the income stream. Installing mechanisms that incentivize managers to operate as better agents such as bonding, ex post readjustments, and monitoring would benefit investors, managers, and other stakeholders. Dividends might therefore be used as a tool to accomplish this goal.

ii. The market's reaction to companies that pay dividends and raise capital at the same time may be the second factor for a company to do so. These companies' securities may gain value in comparison to other securities.

Agency theory states that the agent works to further his own interests at the principal's expense. Managers prioritize their own interests and advantages over those of shareholders and strive to maximize shareholder value since they are primarily driven by these factors. In order to regulate and mould this tendency of managers, shareholders use oversight programme such as dividend payments. Investors are responsible for paying agency fees for bonding and monitoring. In contrast to the stockholders, they could reject a high-value initiative because of their inclination for risk aversion.

2.2.3. The Dividend Irrelevance Theory

It was widely held before the foundational study on dividend policy by Yaro, G. I. (2020), sometimes known as he, was published that a firm's worth increased with bigger payouts. This idea was mostly supported by the "bird-in-the-hand" defense. However, Miller and Modigliani showed that dividend policy would be meaningless under specific assumptions about ideal capital markets as part of a new generation of finance in the, Pillai, (2010).

As the theory's name implies, it holds that in ideal capital markets, a company's dividend policy is unaffected by its worth and has no bearing on whether it pays out large or little dividends. They maintained that only the company's fundamental earning potential and business risk could define its worth. To put it another way, contended that the revenue generated by the company's assets alone determines its worth, not the distribution of that income between dividends and retained earnings Yaro, G. I. (2020). According to Ross, Westerfield, and Jaffe (2002), there are three factors that they consider when defining the ideal capital market.

A perfect capital market is one in which no actor has an information advantage and where every player has equal access to free information, making it impossible for any one player to influence the price of a security. The idea that there are no taxes or transaction fees implies that all players may compete on the market with equal advantages. Complete certainty: every player in the market is aware of the same facts and the future return on each asset. Consequently, one may assume that there is just one kind of security, or what Modigliani and Miller call stocks.

The irrelevance hypothesis is predicated on the two previously presented arguments, which suggest that shareholders should not care whether they get dividends or capital gains. This further leads to the shareholders' unwillingness to pay a premium for dividend-paying equities, rendering the dividend debate moot Ross, Westerfield, & Jaffe, Corporate Finance, (2002).

They also come to the conclusion that a shift in the dividend might be a way for the market to learn about the firm's potential earnings in the future Al-Malkawi, Rafferty, & Pillai, (2010). Since then, M&M's proposal has been met with opposition from financial experts and practitioners who claim that it is founded on unrealistic assumptions about the perfect capital market. Those who disagreed with M&M's concepts presented opposing theories and hypotheses in an effort to show empirically that dividends do matter in imperfect capital markets.

2.2.4. The Bird in the hand theory

All studies that contend that dividends are positively connected with the value of the firm are together referred to as "bird in hand." The adage "a bird in the hand is worth more than two in the bush" serves as its foundation. In terms of money, the idea states that investors are more likely to purchase stocks that offer a present dividend than those that hold onto earnings with the intention of paying out dividends later. This is because future dividend payments and capital gains are highly unpredictable Al-Malkawi, Rafferty, & Pillai, (2010); Gustav & Gairatjon, (2012).

Qamar, R. (2019), main arguments towards the bird in hand theory is based on that most companies are conservative in their financing policy and the dividend payments are therefore, based on an optimal payout ratio. The principal factor that contributes to deviations from the Optimal payout ratio is due changes in the company’s profit, and if the profit increases the dividend payout should increase in the same proportions. But uncertainty regarding future profits also has an impact on the company’s dividends. If the estimated risk in the future is higher than the current risk, the company may decrease the dividend payout ratio.

2.2.5. Signaling theory

An additional argument explaining why M&M's dividend irrelevance theory falls short in explaining financial market behaviour is the asymmetric knowledge that exists between insiders, such as managers and directors, and outsiders, such as shareholders. M&M made the assumption that management and outside investors have rapid, equal, and unfettered access to the same data about the performance and future prospects of a company. However, managers who oversee the company typically have access to knowledge about its prospects, both present and future, that is not available to outsiders. The market might not be able to determine the firm's actual intrinsic worth as a result of this informational divide between insiders and outsiders. If this is the case, share price might not always be a reliable indicator of the firm's worth. To bridge this gap, managers might have to impart their expertise to outsiders in order to help them comprehend the true worth of the company Al-Malkawi, Rafferty, & Pillai, (2010).

The signaling hypothesis of dividends was first introduced by Lintner (1956), who found that changes in dividend payments typically resulted in changes to the price of a company's shares. Despite defending dividend irrelevance, M&M also said that, in the actual world, which does not assume ideal capital markets, dividends contribute information content that might influence the stock's market price. The signaling hypothesis was further developed by other academics, and it is now regarded as one of the most significant dividend theories Gustav & Gairatjon, (2012). According to signaling theory, managers usually know more about the worth of the company's assets than external actors. Therefore, managers employ dividend adjustments as a means of informing shareholders about the company's financial status.

The signaling theory states that investors may deduce information about a company's future profitability, including stability and dividend adjustments, from the signal received from dividend announcements. In order for this hypothesis to be valid, managers must first have access to confidential knowledge on a company's future prospects and be motivated to share this information with the market. Second, a signal must be accurate; a company with dim future prospects cannot pretend to be an expert in the market by raising dividend payments. In order to distinguish between firms, the market must be able to depend on the signal Al-Malkawi, Rafferty, & Pillai, (2010).

2.2.6. The Dividend Policy

2.2.6.1. A zero dividend policy

A business may choose to not pay any dividends at all. It seems possible that a tiny minority of investors would benefit much from such an extreme strategy, while the bulk will find it completely intolerable. Such a policy would not incur the administrative expenditures related to dividend payments and is simple to execute. A zero dividend policy would make it possible for the business to reinvest all of its profits, which would appeal to investors who favour capital gains over dividends in terms of personal taxes. A zero dividend policy is unlikely to be sustained over time, given institutional investors make up the majority of regular shareholders and depend on dividend payments for income. However, new businesses that must reinvest huge sums of money in their initial few years of operation frequently select a zero dividend policy Watson & Head, (2010).

2.2.6.2. Fixed Percentage Payout Ratio Policy

In this case, the corporation maintains a consistent payout ratio by paying out a specific percentage of its yearly profits as dividends. From the company's perspective, this strategy has the advantages of being very

simple to implement and providing investors with a clear indication of the company's performance level. One drawback for a business is that it limits the amount of money it can set aside for future investments. Companies with erratic profitability and stockholders who need a consistent dividend payment stream shouldn't use this dividend strategy Watson & Head, (2010).

2.2.6.3. Steadily Dividend policy

A business may decide to pay a dividend that is either constant or gradually growing in real terms or in money terms. Depending on the rate of inflation (or deflation), a dividend that is stable or growing in money terms may result in a dividend that is dropping or increasing in real terms. Generally speaking, a steady or rising dividend in real terms would translate into a rising dividend in money terms. This can cause major problems when companies wish to reduce dividend payments, either to fund reinvestment or in the name of financial prudence. Because of the reaction of the market to a dividend cut, companies experiencing increases in profit tend to be cautious about a dividend increase. Rarely would a 20 percent increase in profits lead to a 20 percent dividend increase. This is reinforced by the fact that a certain level of profit rarely equates to an equal amount of cash, which is ultimately what dividends are paid out of. Companies tend to increase dividends slowly over time, to reflect the new profit level, when they are confident that the new level is sustainable Watson & Head, (2010).

2.2.6.4. Residual Policy

What remains after the business ascertains the retained earnings necessary for further investment is known as dividends. This strategy prioritizes projects with positive net present values (NPVs) and pays dividends if there are any remaining funds. A dividend only qualifies as an incidental payment when the investment policy is followed. Businesses use this kind of strategy because their management believes that high retention rates lead to greater company growth and because they are more dependent on internally produced money and are unwilling to acquire fresh capital to save floatation and other expenses connected with issuing debt. Therefore, there is a chance that this kind of policy will result in a dividend structure that is zero. Therefore, there is a chance that this kind of policy will result in a dividend structure that is zero. To prevent investors from the various clienteles from being driven away by a rigid implementation of the policy, firms may need to make modifications to this one Kolb and Rodriguez, (1996).

2.2.6.5. Alternative Policies

The company may decide to repurchase shares in order to provide shareholders an option between dividends and fresh shares. This is a buyback of shares or stock. In terms of taxes, this offers the stockholders a big benefit. The stock repurchase or buyback is not taxed until the shares are sold and the shareholder realizes a profit or capital gain, but the dividend is fully taxed like regular income Ross, Westerfield, & Jaffe, (2002).Apart from disbursing cash dividends, corporations have several alternative methods to compensate their stakeholders.

A scrip dividend has the primary benefit of letting a business retain the funds that would have been distributed as cash dividends. The received scrip dividend is considered income for personal tax purposes, and tax is assumed to have been paid at the standard personal income tax rate. Unfortunately, because investors who are free from paying dividend tax cannot recoup tax that is simply "deemed" to have been paid, scrip dividends would not be appealing to them Watson & Head, (2010).

Share repurchases has grown in popularity as a means of giving regular shareholders their money back as opposed to paying out dividends in cash. If the corporation needs money, the reacquired shares might be stored in the treasury and sold again Brealey & Myers, (2003). The primary advantage of a share repurchase for shareholders is that they obtain excess capital from the business, which they may put to better use. A share repurchase helps a corporation primarily by increasing the value of its remaining shares. Companies that believe the stock market is undervaluing their business may also repurchase their shares Watson & Head, (2010).

Companies may issue special dividends to shareholders as a way of giving back excess capital. A cash distribution that exceeds a company's typical dividend payments is known as a special dividend. When a business has more money than it needs for investments, it can pay out a special dividend to its shareholders so they can reinvest it however they see fit Wilson and Head (2010).

2.3. Empirical studies internal determinants

Numerous empirical investigations on the factors influencing dividend payout have been carried out. The first research of this kind looked at 28 different American corporations and concluded that, more than other factors, profitability and dividend history had a major influence on a company's dividend distribution policy. It is anticipated that more profitable companies will distribute dividends higher than less lucrative ones. According to Ayodeji and Lukmon's (2014) study, revenue growth, debt to equity, retained earnings,

loan deposit ratio, loan loss provision, market to book value, profitability, liquidity, tax, growth in revenues, capital adequacy, size, cost income ratio, market power, and debt to equity were all used as independent variables to determine the factors that affect the dividend payout ratio in the Nigerian banking industry from 2006 to 2008. They came to the conclusion that these factors, in addition to revenue growth, had a negative or positive impact on the dividend payout ratio. Agvemang (2013) examined the factors that affected the dividend payment policy in Ghana from 2005 to 2009, utilizing growth, age, profitability, liquidity, and collateral capital as independent variables.

Alzomain and Al-Khadiri (2013) conducted a study on the factors that affect the dividend payout ratio on non-financial firms between 2004 and 2010. The study used the following factors: capital size, growth, previous year dividend, debit to equity ratio, and dividend policy. The study found that while earning per share, size, and previous dividend per share have a significant positive impact on dividend payout ratio, growth and leverage have an insignificant negative impact. According to the findings of a study by Zameer et al. (2013) on the factors influencing dividend payment policies from 2003 to 2009, the dividend payout ratio is positively impacted by liquidity, size, profitability, agency costs, growth, previous year's dividend, risk, and ownership structure. However, there is no correlation between growth, risk, size, leverage, agency costs, and dividend payment policies aside from liquidity.

Thewodros, (2011) has employed independent factors such as profitability, liquidity, leverage, business size, growth, and lagged dividend using financial data from the years 2006 to 2010. Simegnew, (2013) Using financial data from 2002 to 2011, the independent variables that influence the dividend policy include age, profitability, liquidity, leverage, and lagged dividend. Finally, using improved independent variables from earlier research, such as profitability, liquidity, leverage, growth, size, and leverage, Elias, (2015) employed contemporary financial data from 2010 to 2014.

The other study on the factors influencing dividend payment police in Ethiopia was done by Mitiku (2015). He looked at data from 2009 to 2013, and his findings indicate that factors such as growth, size, risk, and lagged dividend payout have a positive and significant relationship with dividend payout ratio. In contrast, the results of the regression show that the rate of inflation and liquidity ratio has a negligible negative impact on dividend payment police. Leverage, liquidity, return on equity, size, and risk were all used by Kazmierska-Jozwiak (2014) as independent variables to determine the factors influencing dividend payment police. He discovered that while liquidity, size, and risk had a negligible relationship with dividend payment police, return on equity and leverage had a negative, significant impact.

According to Maladjian and El-khoury's (2014) research, the dividend payout ratio is positively impacted by size, risk, and previous year's dividend when compared to independent factors like profit, liquidity, age, and growth. According to the report, the company pays dividends to shareholders in an effort to lessen conflicts of interest between shareholders and authorities.

Wasike and Amborse (2015) looked at how profit, risk, cash flow, tax, institutional ownership, and market book value affected the dividend payment policies of 60 selected companies in Nairobi from 2004 to 2014. They found that, with the exception of profitability, cash flow and tax had a negative relationship with the dividend payout ratio.

Chekol Demile (2016) conducted a study examining the factors that influence Ethiopia's dividend payout percentage between 2009 and 2014. He exclusively used bank-specific variables as independent variables in his analysis. The study's conclusion is that while profitability and leverage have a negative impact on the dividend payout ratio, growth, size, and lagged dividend have positive effects; liquidity, the remaining variable, has no significant relationship with the dividend payout ratio.

Tadele Tesfaye's (2017) study is the other study on the factors influencing dividend payout policy carried out in Ethiopia; it included both macroeconomic and bank-specific variables. The bank-specific and macroeconomic factors that were considered to determine the dividend payment ratio were profit, leverage, liquidity, retain earnings, loan loss provision, growth rate, lagged dividend, and inflation. The study discovered that while liquidity and growth rate have a substantial relationship with dividend payment policies, other variables, such as retain income, loan loss provision, and inflation, have a positive and significant relationship with dividend payout ratios. A number of characteristics, including profit, liquidity, leverage, revenue/sales growth, tax, risk, age, lagged dividend, and ownership structure, have been identified as predictors of dividend distribution in the aforementioned empirical investigations; nonetheless, the studies' findings have been inconsistent. In many researches, certain characteristics have a significant impact on dividend payment; nevertheless, other studies revealed weaker relationships with mixed signs.

2.3.1. Local Empirical literatures

Tesfaye (2017) studied the factors that influence dividend policies in commercial banks in Ethiopia. A panel fixed effect regression model was employed by the author. The author examines a number of factors, including profit, leverage, liquidity, retained profits, loan loss provision, lagged dividend distribution, inflation rate, and economic growth rate. Larger organizations are more likely to pay out dividends to

shareholders; this is consistent with agency cost theory, which uses dividends as a tool to resolve agency conflict. It also suggests that larger enterprises have more access to capital and can pay out dividends to shareholders more effectively than smaller ones.

In the Ethiopian banking sector, dividends are derived from the inverse relationship between liquidity and demand. This inverse relationship may indicate banks' inefficiency in holding excess liquid assets, which may be the result of government interventions, loan to deposit management issues. In banks were subject to credit limits imposed to control inflation and increased reserve requirements, which ultimately caused banks to miss out on a sizable amount of interest (income) from uninvited excess liquid assets Kinfe, (2011).

Temesgen (2016) made an effort to investigate the variables that influence corporate dividend payments in the private insurance sector of Ethiopia. In order to accomplish the goal, the researcher employed a mixed study design and gathered panel data from seven private insurance firms over a 12-year period. The study's findings showed that the dividend has a positive and statistically significant link with earning per share, liquidity, a company's age in its life cycle, and dividend tax regulations.

2.3.2. Global Empirical literatures

Numerous prior scholarly investigations have presented comprehensive data about the factors that influence dividend policies across various nations and areas. For instance, the factors influencing dividend policy in Asia were studied by Tsuji (2010), Singhania and Gupta (2012), and Asad and Yousef (2014). According to the authors, a company's dividend policy is significantly influenced by its growth, investment prospects, and dividend payments. However, conflicting results have been reached by other researchers. For instance, according to Baah et al. (2014) and Nuhu et al. (2014), the primary factors influencing dividend policy are profitability and corporate leverage. Yong et al. (2012) and Vaihekoski et al. (2014) looked at the factors influencing dividend policy in the Euro zone in the same context.

Using the panel regression approach, Lee (2014) performed a study to determine the factors influencing the dividend policy of Korean banks from 1994 to 2009. Asset, debt-to-loan ratio, return on asset, and national bank dummy variable are the parameters that are taken into account. The findings showed that as bank profit increases and debt and loan ratios decrease, Korean banks have a tendency to give out larger dividends. The distribution of dividends by Korean banks is statistically significantly impacted by profit (ROA), debt, and loans. For loans and debt, the effect's sign is negative; for profit, it is positive.

Mehta, Hashmi, and Irshad (2014) used data gathered from 1998 to 2000 using the to bit regression approach to perform a study to determine factors that affect bank dividend policy. Investment potential, capital sufficiency, size, signaling, inside ownership, dividend history, and risk are the criteria that are taken into account. The results indicated a positive correlation with size and dividend history and a negative correlation with ownership, signaling, investment opportunities, and risk when it came to dividend payments.

Furthermore, it is widely acknowledged that the choice of dividend distribution is one of the most contentious topics in the financial literature. Scholars and researchers in the past have developed a number of theoretical models to show the considerations that managers should make in this regard. Moreover, a significant body of prior scholarly research has emphasised the significance of dividend policy variables. Furthermore, dividend policy has been listed as one of the top ten unresolved problems in financial research by earlier scholars and researchers. Bassam Jaara, Osama Omar Jaara, Hikmat Alashhab, (2018).

Omran and Pointon (2004) highlight its significance in influencing dividend distribution policies. According to Agyei and Marfo-Yiadom (2011), Gul et al. (2012), and Priya and Nimalathasan (2013), there is a positive correlation between the wealth of shareholders (firm value) and dividend policy. They discover that companies that pay dividends subsequently see a rise in shareholder value. Using panel data regression, Badu (2013) investigated the factors influencing the dividend distribution policies of listed financial institutions in Ghana from 2005 to 2009.

The research takes into account the following factors: profit, growth, age, liquidity, and collateral. The findings indicate that age and liquidity have a statistically significant and positive link with dividend payment, whereas growth, profitability, and collateral have a statistically insignificant relationship with dividend payment. As a result, liquidity and firm age are the main factors that determine the dividend policy of financial institutions in Ghana. Using the multiple regression approach, Drs. Turki & Ahmed (2013) investigated the factors influencing the dividend policy of non-financial Saudi Arabian enterprises between 2004 and 2010.

Using correlation and multiple regression analysis, Zaman (2013) studied the factors influencing the dividend policies of all 30 private commercial banks in Bangladesh that are listed on the Dhaka Stock Exchange during a seven-year period, from 2006 to 2012. The study takes into account three factors: size, growth, and profitability. The results demonstrated that, throughout the duration of the investigation, none of the three factors is statistically significant.

Using the ordinary least square regression approach, Bassey, Elizabeth, and Asinya (2014) looked at a number of factors influencing the dividend distribution of certain Commercial Banks in Nigeria between 1989 and 2010.

Using ordinary least square and dynamic panel regression techniques, Maladjian & El Khoury (2014) examined the variables influencing the dividend distribution policy of Lebanese banks listed on the Beirut Stock Exchange between the years of 2005 and 2011. Profitability, size, liquidity, growth, leverage, company risk, and previous year's dividends are among the criteria taken into consideration in this research. The results indicate that the firm's size, risk profile, and previous year's payouts have a favourable impact on the dividend payment policy, while growth and profitability have a negative impact. Lebanese banks' dividend distribution policies are not significantly impacted by liquidity or leverage. The findings may suggest that companies issue dividends in an effort to lessen agency conflicts.

2.4. Gap of research

Although nearly identical independent variables were used in earlier research on the factors influencing dividend distribution, the conclusions reached were different. The majority of research is conducted in wealthy nations. Numerous studies on the factors influencing dividend policy at every industry level and in the active stock exchange now in place were carried out, even in those developed nations. Even when they employ the greatest number of independent factors to calculate the dividend distribution, their research yields diverse results. Despite the absence of a stock exchange market in our nation, there are independent factors that can be employed within the Ethiopian setting. Thewodros (2011), Elias (2015), and others explicitly studied the banking sector in Ethiopia to determine dividend policy.

Thewodros, (2011) has employed independent factors such as profitability, liquidity, leverage, business size, growth, and lagged dividend using financial data from the years 2006 to 2010. Simegnew, (2013) has employed independent factors such as age, profitability, liquidity, and leverage with financial data spanning the years 2002 to 2011. These variables had an impact on the dividend policy. Lastly, Elias, (2015) employed more current financial data spanning the years 2010 through 2014 and improved independent variables from earlier research, including growth, size, profitability, liquidity, and leverage. With the exception of delayed dividend payout, the researchers' findings change when they use the common independent variables they have focused on. Thus, the amount of financial data that each researcher collected was constrained. I chose to use 10 years' worth of financial data, from 2014-2023, in order to have

adequate and trustworthy information that would allow me to acquire the necessary findings. In addition, one extra independent variable risk is also taken into account in this study.

2.5. Conceptual Frame work

Dividend payment has been a dependent variable in nearly every research done on factors influencing it. Conversely, dividend yield has been utilized by some in place of dividend payout. Lintner (1956) conducted a research using profit and lagged dividend as independent variables. The results indicated that both factors had an effect on dividend payment. Numerous researchers have discovered the same outcome, confirming the popularity of these two factors.

According to Sheikh Taher (2012), a number of empirical studies' findings indicate that factors such as size, risk, taxes, agency costs, and disclosed earnings have a greater impact on a company's dividend distribution than other variables. Most studies utilize other variables, such as liquidity, leverage, age, revenue/sales growth, and investment opportunities. The link between the explanatory factors and the dependent variable, dividend payment, is depicted in this self-extracted conceptual framework. The link between the eight independent variables and the dependent variable, or dividend payment, is depicted in this conceptual framework. Profitability, company size, financial leverage, sales growth, investment prospects, liquidity, business risk, and ownership structure can all have determinants on dividend payout.

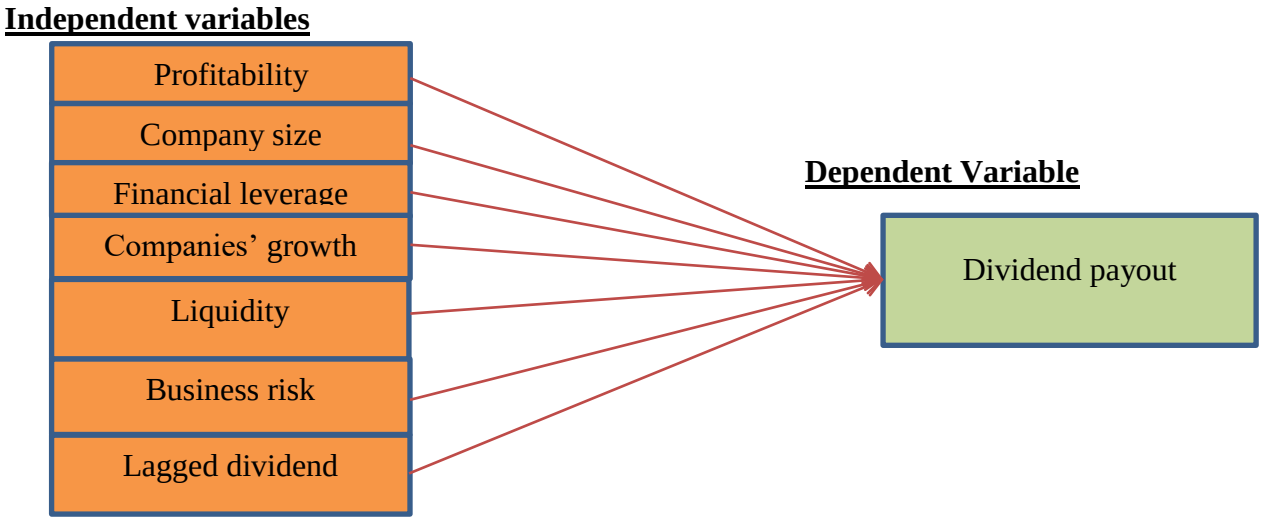


Figure 1Conceptual framework

CHAPTER THREE

3. METHODOLOGY OF THE RESEARCH

3.1. Introduction

An overview of the methodological concerns and underlying assumptions of the research process is given to the reader in this chapter. It outlines the approaches and practices the researcher used to address the study topics. The target population, sample size, data collecting methods, data analysis techniques, and study design are all included in this chapter.

3.2. Research design

This study was determined the links between the independent and dependent variables (i.e., the determinants and the dividend payment). It was used the explanatory research design. According to Mwaifyusi, H. A. (2021), the explanatory kind of research design aids in determining and assessing the causal linkages between the various variables under study. The researcher employed an explanatory and descriptive research design to carry out this study, which makes it easier to identify and evaluate reason-based relationships among the several variables being studied. Therefore, **both an explanatory and a descriptive research design** were used for this study.

3.3. Research approach

To determine a link between a number of factors and the dividend payout relation, quantitative research approach is utilize. However, the factors include in the analysis must first identify and present before examining the link between dividend payout and variables. As a result, the research was included descriptive and explanatory study designs. The data includes time series and cross-sectional information. Thus, the study uses the panel data regression approach will be conduct. Panel methods allow for the analysis of all aspects with fewer degrees of freedom more efficiency and reduce collinearity across variables by accounting for the heterogeneity seen within individual banks.

3.4. Population of the study and sampling technique

3.4.1. Population of the study

All Ethiopia private banks which is 29 were included in the study of population number of the research. A large sample size is necessary to draw conclusions about the population and ten banks of the 29 private banks now operating in Ethiopia were included in this study. The reason I chose only ten banks because the data availability and some of the banks are new and has no ten year experience in the bank industry and out of the 29 banks 18 have ten year experience and from 18 banks I select 10 banks using purposive sampling .They are specifically selection as a sample for the study and include Oromya banks, Awash Bank, Dashen Bank, Bank of Abyssinia, Cooperative Bank, Nib Bank, Buna bank, Wegagen Bank, and Lion International Bank, United Bank in Ethiopia. The researcher was gathered 10 years' worth of secondary data for this study from audit annual reports of particular in select of private banks.

Table 1List of private banks

S/N	Name of the Bank	Establishment Year
1	Awash Bank	1994
2	Dashen Bank	1995
3	Bank of Abyssinia	1996
4	Wegagen Bank	1997
5	United Bank in Ethiopia	1998
6	Nib Bank	1999
7	Cooperative Bank	2005
8	Lion International Bank	2006
9	Oromya Bank	2008
10	Bunna Bank	2009

Source: NBE report (2023)

3.4.2. Sampling technique

When data spanning 10 years is available from certain private banks, the approach of purposeful sampling are used. Banks were chosen based on how long they have been in business. Banks that operate for a relatively short time before turning a profit and paying dividends are excluded since the necessary information is not readily available from them. Based on this, samples of 10 senior private commercial banks in Ethiopia were selected for the research.

3.5. Data collection and instrument

The National Bank of Ethiopia and each of the chosen private commercial banks' secondary data were used in this study. Panel data and time series and cross section dimensions are present in the data. The determinant variables of dividend distributions also analyses and test using the regression approach. The study's variables are derived and computed from the audited financial reports of certain institutions.

3.6. Method of Data analysis

The following approaches were used to do statistical analysis in order to test the propose hypotheses: Initially, during the course of the sample period, descriptive statistics for both dependent and independent variables are computed. This is consistent with Malhotra (2007), which claims that the researcher may more easily visualize the current situation and obtain pertinent information by employing descriptive statistics approaches. The influence of determinant factors on dividend payout decisions were assess, and correlations and regression analysis using time series and cross-sectional information.

3.7. Model specification

Because of the nature of the data utilize in this study, panel data modeling was employed and which is over cross-sectional and time series data methodology can be used to analyze Panel data

$$Y_{it} = \alpha + \sum \beta_k X_{it} + \varepsilon_{i.t}$$

Where:

$Y_{i.t:-}$ represents the dependent variable, which is the company's dividend payout ratio

$X_{i.t:-}$ contains the set of explanatory variables (independent variable)

$\varepsilon_{i.t:-}$ is the disturbance term

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

i:-denote the cross-sectional

t:- time-series dimension

The following is the multiple linear regression equation that considers ten independent variables for the ten insurance companies between 2014 and 2023.

$DVPO_{i,t} = \alpha i + \beta 1PR_{i,t} + \beta 2SI_{i,t} + \beta 3LEi,t + \beta 4CG_{i,t} + \beta 5LI_{i,t} + \beta 6RIi,t + \beta 7\ LAD_{i,t} + \varepsilon$

Where,

DVPO= Dividend payout

PR= Profitability

SI= Company size

LE= Financial leverage

CG=Company growth

LI=Liquidity

RI= Business risk

LAD = Lagged dividend

3.8. Measurement of Variables

The following variables, which were chosen based on competing hypotheses and research on the relationship between financial indicators and dividend payout, were the main focus of the study. The dependent and independent variables of the study on which the researcher concentrated were determined in order to investigate the internal determinants of dividend payout in private commercial banks in Ethiopia.

3.9. Dependent Variable

Dividend payment is the dependent variable in this research. It is determined by dividing the entire dividend by net profit, and it represents a fraction of the profit distribution to shareholders. Dividend Payout is the proportion of a company's profits that are given to shareholders, or it is the portion of net income that is accessible to shareholders. The dividend payout in this study is determined using Samuel's (2016) method, which is the entire dividend payout by the bank's net profit.

$$\text{Dividend Payout} = \frac{\text{Dividend paid}}{\text{Net profit}}$$

3.10. Independent Variable

The independent variables that the econometric model uses to estimate the dependent variable are explained in this part. Ten measures that the researcher selected as independent factors were utilized to measure the predictive variables of dividend payout by the bank's net profit. The determinant include profitability, company size, financial leverage, company growth, liquidity, business risk, lagged dividend and owner structure.

3.10.1. Profitability

Total equity is the formula used to calculate profitability Christopher, (2014). It has been discovered to be one of the most important factors influencing dividend distribution strategy Christopher and Rim (2014). Profitable companies are prepared to pay larger dividends in order to communicate their strong financial performance, according to the signaling theory of dividend policy Chang & Rhee, (2003). Furthermore, this beneficial correlation is confirmed by the two prior studies on dividend in Ethiopia that are currently accessible Nuredin, (2012). Consequently, it is assumed that a company's dividend payments and profitability were positively correlated.

3.10.2. Company size

The natural logarithm of asset is used in this study to calculate size. Numerous investigations have been carried out to investigate the impact of business size on profitability. For example, research conducted by Kinyua (2018) and Mazviona et al. (2017) revealed a negative and substantial relationship between size and profitability. Given that size and dividend payout have a positive correlation, it may be inferred that larger company businesses are more profitable due to their superior ability to take advantage of economies of scale in transactions.

3.10.3. Financial leverage

Leverage reveals a company's capital structure, or the percentage of the capital that is made up of debt and equity. Debt is divided by total assets to determine it. Leverage is the amount of debt utilized to finance an organization's assets. A company with a high debt to equity ratio is said to be highly leveraged. Leverage, another synonym for solvency, considers the capital structure of the business along with the evaluation of the relative risk and return associated with equity or ownership and liabilities, especially long-term debt.

There has been mixed empirical evidence about the effect of leverage on the profitability of businesses. On the other hand, research by Abate (2012), Hanna (2015), Tariku (2019), Kiskor & Temesgen (2020), and Tadese, Abiy & Mengistu (2020) came to a different result than the previous studies and concluded that there is a clear and negative correlation between leverage and the dividend payout commercial businesses.

3.10.4. Company growth

A stand-in for growth prospects is the shift in revenues. A company that is expanding quickly will require more capital to finance its growth and is more likely to retain its earnings rather than distribute them as dividends Chang & Rhee, (2003). It is computed as follows: (Previous Revenue - Current Revenue) / Previous Revenue.

Recent history has demonstrated that expanding companies typically give out smaller dividends. A fast-growing company will have a significant need for financing. According to the pecking order principle, businesses should fund new initiatives using the least sensitive information sources first. Additionally, businesses with strong development prospects are probably not going to distribute their dividends to shareholders in favor of keeping a larger portion of their revenues to fund their expansion projects Badu, (2013). Some businesses prefer to pay larger dividends in order to deter management from overinvesting the company's available capital, even when they have less development options.

3.10.5. Liquidity

This variable demonstrates the firm's capacity to meet its ongoing obligations. By dividing current asset by current liabilities, it is computed. It exhibits the ability to quickly convert an asset into cash as well as the company's working capital management skills when kept at a usual level. If outside funding is not available or is too costly, a business might use liquid assets to finance its operations and investments Suheyli (2016). Research by Teklit and Jasmindeep (2017) and Kishor and Temesgen (2020) revealed, for instance, a significant and negative association between a company's profitability and liquidity. However, research by Tadese, Abiy & Mengistu (2020), Suheyli (2016), Mazviona et al. (2017), and Kinyua (2018) showed that the liquidity ratio and profitability have a strong and favorable correlation.

3.10.6. Business risk

It is calculated using the log of the standard deviation and is used to display earning volatility. There is a claim that a firm's dividend policy is influenced by business risk. A company whose earnings are steady is better equipped to forecast its future earnings. As a result, there is less chance that this company will have

to reduce its dividend payments in the future when it commits to paying out a bigger share of its revenues as dividends Al-Shubiri, (2011) Pecking order and trade-off theories both state that business risk has a detrimental impact on a company's leverage and, consequently, its dividend payout ratio. Furthermore, according to these ideas, businesses that pose a high risk also have extremely volatile cash flows Al-Malkawi, (2008). Consequently, companies will have to reduce their dividend payments

3.10.7. Lagged dividend

Fama & French (2001) evaluated and validated the model and came to the conclusion that a company's current dividend payout ratio is positively impacted by its payouts from the previous year. In actuality, people frequently assume that corporations pay a consistent dividend because they view companies with constant payouts as stronger and more valued.

Table 2Summary of Variables, Measurement, Symbol and Expected sign

Variable		**Measurement**	**Symbol**	**Expected sign**
Dependent variable	Dividend Payout	Dividend/net profit	DVPO	
Independent Variable	Profitability	ROA/Total Asset	PR	+
	Company size	Natural logarithm of total asset	SI	-
	Leverage	Total Debt /Total Asset	LV	-
	Liquidity	Current Assets / Current Liabilities	LQ	+
	Business risk	Earning volatility- calculated by Log of standard deviation of revenue	RI	+
	Company growth	Current revenue-previous revenue/previous revenue	CG	-
	Lagged dividend	Last year dividend payout	LAD	+

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

This chapter's primary focus is on the analysis of the study according to the stated objectives and developed hypothesis. This chapter is divided into three sections. The first section covers descriptive statistics for both dependent and independent variables. The second section discusses the assumption test for the standard linear regression model. The final part presents and explains the regression results on the influence of financial characteristics on the dividend payout in Ethiopia's private commercial banks.

4.1. Descriptive statistics

This section focused on the independent and dependent variables' descriptive statistics that were utilized in the study for the commercial companies that were sampled. The study employed dividend payout as the dependent variable to quantify financial profitability. The independent factors were profitability company size, leverage, liquidity, business risk company growth, lagged dividend and owner structure. The dependent and independent variable descriptive statistics for ten banks for the period spanning from 2014 to 2023 for a total of 100 observations are displayed in Table3. The table3 presents the dependent and independent variables' mean, median, standard deviation, number of observations, minimum, and maximum values. These variables are utilized in the study and often provide greater dividends, which deters managers from excessively investing the firm's capital.

Table 3Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DVPO	100	.5720	.9350	.728090	.0997894
PR	100	.5620	.9230	.751110	.0676446
LQ	100	.8800	1.5070	1.230350	.1675133
LV	100	.5500	1.0230	.714120	.0812055
SIZ	100	8.0200	9.7300	8.804900	.4128504
CGR	100	-.0400	.3950	.097950	.0687629
RI	100	-.0110	.5610	.089870	.0578919

LAGD	100	.5757	.9494	.735482	.1007894
Valid N (listwise)	100				

Source: NBE Report (2014-2023)

Table3 displayed a mean dividend payment value of 72.8, meaning that between 2014 and 2023, Ethiopian private banks distributed 72.8 of their total income as dividends, with 9.9 of fluctuation in between years. As mentioned in chapter three, the study's method for determining dividend distribution was profit after tax and legal reserve. The data showed that the banking sector in Ethiopia pays out large dividends. They provide their stockholders, on average, 72.8% of their profit. Return on asset divided by total asset, which measures profit, demonstrates how productively a bank can produce revenue by using its available assets. According to the above data, Ethiopian private banks have made an average profit of 0.75 on an asset investment for every birr invested. The most lucrative banks have made an average profit of 0.923 while the least profitable have made an average profit of 0.562.

Based on statistical result of the private banks, the average asset sizes of private banks are increased by 8.8%, and a variability of 0.413 ups and downs with variations of 9.73 and 8.02, respectively. This indicates that private banks in Ethiopia are expanding quickly.

The idea of liquidity is a little different in the banking sector than it is in other industries. They take money from depositors, but they only stay for a short while before lending it to their clients for either a short- or long-term loan. Therefore, the banking industry has a gap in liquidity when it receives money from the public in various deposit forms, particularly for short-term periods, and gives it to them as a loan for a longer length of time. Thus, in other industries, current assets should be sufficient to cover current liabilities in order to prevent the liquidity issue.

The liquidity position of Ethiopian private banks' is, on average, 1.23 when split by current asset and current liabilities. This indicates that there is an average of 1.23 cents available on current assets for a one birr current obligation, a maximum liquidity position of 1.51 a minimum of 0.88 and a significant dispersion of 0.0812 ups and downs. If the companies had been in the manufacturing or other non-financial industries, the statistic would have illustrated the danger of insolvency owing to insufficient current assets to cover current liabilities.

According to Mengistu, M. M. (2015), a corporation is considered solvent if its current asset and liability ratio is at least one to one; meaning that for every one birr in current liability, there must be at least one birr in current asset. However, the banking industry's very existence depends on deposits, or debt, to fund its operations. Deposits are obtained from the general public and are typically short-term in nature. Borrowers can get loans for both short- and long-term periods of time. Receiving short-term deposits and offering long-term loans cause a gap in the bank's liquidity management; however, when the above figure is examined in light of the National Bank of Ethiopia's minimum 0.62 liquidity requirement, it becomes clear that private banks' is solvent because it has maintained a liquidity position that is three times higher than the minimum.

The leverage with 0.0812 of fluctuations in its asset composition, Ethiopian private bank's debt is composed mostly of deposits and amounts to 0.7141 on average. The leverage was an equity contribution of 0.2859 and a maximum debt ratio of 1.023. This indicates that the banking sector is heavily leveraged since deposits, which are a liability, are its primary source of funding.

With an average risk value of 0.08987 the income of Ethiopian private banks has demonstrated a volatility rate of 0.08987 during the previous 10 years, ranging from 2014 to 2023, with fluctuations of 0.05789 The income of banks has fluctuated by an average of 0.05789 during the past 10 years. This indicates that Ethiopian private banks are seeing annual income growth that is not steady due to the country's continued development and the availability of sizable untapped markets for their banking offerings.

The growth rate indicates that, during the course of the previous 10 years, from 2014 to 2023, Ethiopian private banks' income has climbed by 0.09795 on average, with fluctuations of 0.06876. Among the variables, the growth variable has the most dispersion. Revenue at the banks with the greatest growth has increased by 0.395 while the bank with the least growth has increased by .04 According to this outcome; the banking sector in Ethiopia is expanding quickly, at least in terms of income. Private Banks' laggard dividends have an average yield of 0.73548 with a variability of 0.101% ups and downs.

4.2.Tests on Assumption of Classical Linear Regression Model (CLRM)

In order to preserve the data validity and robustness of the regressed research result, it is necessary to evaluate the fundamental assumptions of the classical linear regression model in order to detect any misspecification and rectify it, hence improving the overall quality of the study. The present study will test and verify the seven CLRM assumptions, which are as follows: errors equal zero mean, normalcy,

multicollinearity and autocorrelation and linearity tests. Diagnostic test were conducted to see if the data meets the fundamental presumptions of the traditional linear regression model. As such, the following is a presentation of the model assumption test results:

4.2.1 The errors have zero mean

The starting assumption of the basic linear regression model is that the average value of the errors term is zero. Actually, if there is a constant component in the regression equation, this assumption could never be violated Brooks (2008). A constant term has been introduced to the study's model in order to satisfy the first assumption of the classic linear regression model, which specifies that the errors must have a value of zero. Therefore, even if it is not significant, a constant term would be included in the regression model employed in this investigation. This assumption will never be broken, according to Brooks (2008), if a constant component is present in the regression equation. Therefore, this assumption is not broken because the regression model utilized in this investigation had a constant component.

4.2.2 Test for Heteroscedasticity

The assumption of homoscedasticity states that the residuals are approximately equal for all predicted dependent variable scores and the variance of the errors is constant Wooldridge, (2006). In the event that the variance of the errors is not constant, it is considered that the homoscedasticity assumption has not been met. Heterosexuality is the word used to describe this breach. The white test was utilized in this work to check for heteroscedasticity across the spectrum of explanatory factors. In the event that the variance of the errors is not constant, it is considered that the homoscedasticity assumption has not been met. Heteroscedasticity is the name given to this violation. The significances (P) of profitability, liquidity, leverage, growth, size, risk and Lagged dividend payment were determined based on the output of Table 7 coefficients, yielding values of 0.116, 0.006,-0.061, 0.347, -0.014, 0.098 and -0.076 respectively. Every explanatory variable's P value, as saw, was more than 0.1.This demonstrates how heteroscedasticity may be tested for across a variety of explanatory factors by looking for its absence.

Table 4 hetroscedacity

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	**.143**	.106		1.344	.182
	PR	**.116**	.074	.214	1.571	.120
	LQ	**.006**	.018	.028	.334	.739
	LV	**-.051**	.035	-.112	-1.455	.149
	SIZ	**-.014**	.012	-.158	-1.135	.259
	CGR	**.347**	.039	.648	8.976	.000
	RI	**.098**	.043	.153	2.255	.027
	LAGD	**-.076**	.031	-.208	-2.472	.015

a. Dependent Variable: DVPO1

Source: NBE Report (2014-2023)

4.2.3.Tests of Autocorrelation

Table 4 illustrated that; the term "auto correlation" would be used to describe the relationship between the mistakes if there is one and 1.918 is the Durbin-Watson test statistic value derived from the regression outcome. In the regression, there are 100 annual data and 7 (seven) repressors, including the intercept according the Durbin-Watson statistics table. 1.918 is the Durbin-Watson statistics result, which is higher than 4-du but lower than 4-dl. The null hypothesis is therefore neither rejected nor not rejected because it is in the inconclusive zone.

Table 4 Tests of Autocorrelation

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.844[a]	.713	.691	.0204855	.713	32.625	7	92	.000	1.918

a. Predictors: (Constant), LAGD, PR, CGR, LV, RI, LQ, SIZ

b. Dependent Variable: DVPO1

Source: NBE Report (2014-2023)

4.2.4.Multicolinarity of the variables

Table 5Correlation between independent variables

A regression diagnostic test to detect the presence of multicollinearity is carried out using SPSS by examining the values of Tolerance Level and Variance Inflation Factor (VIF), which are measures of collinearity among independent variables. As can be seen in Table 6, the results reveal that values of the tolerance level ranged from 0.160 to 0.675 which are larger than the recommended cut-off threshold of 0.10. Similarly, VIF values in this study ranged from 1.482to 6.233 which are much lower than the recommended cut-off threshold of 10. Hence, multicollinearity is not a problem to go forward with the rest of the analysis.

Table 6 **Test of multicollinearity using VIF**

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	PR	.169	5.934
	LQ	.458	2.182
	LV	.527	1.898
	SIZ	.160	6.233
	CGR	.599	1.671
	RI	.675	1.482
	LAGD	.442	2.261

a. Dependent Variable: DVPO1

Test of multicollinearity using correlation matrix

Correlations								
	DVPO	PR	LQ	LV	SIZ	CGR	RI	LAGD
DVPO	1							
PR	-0.044	1						
LQ	-.588**	.202*	1					
LV	.364**	0.066	-.271**	1				
SIZ	-.119**	.779**	0.093	-.256*	1			

CGR	-.217*	-0.018	-0.029	-0.033	-.264**	1		
RI	-.404**	.258**	.388**	-.202*	0.097	0.118	1	
LAGD	1.000**	-0.047	-.591**	.366**	-0.12	-.219*	-.404**	1

Correlation matrix between independent variables is presented in table above . When the explanatory variables are very highly correlated with each other, this problem is known as multicollinearity. As shown in the table, there are low correlation coefficients indicated that there is no problem of multicollinearity in this study. Moreover, Kennedy (2008) stated that multicollinearity problem exists when the correlation coefficient among the variables are greater than 80%; however, no correlation coefficient that exceeds 80%. The maximum correlation coefficient in absolute value,among independent variables for this model is 77%. Accordingly, in this study there is no problem of multicollinearity which enhances the reliability for regression analysis

4.2.5.Test of Normality

The distribution of the data is not skewed to the left or right, as Figure2 below illustrates. This suggests that most observations fall within the predicted value (Mean). As a result, statistical analysis is appropriate, and it is comparatively symmetrical.

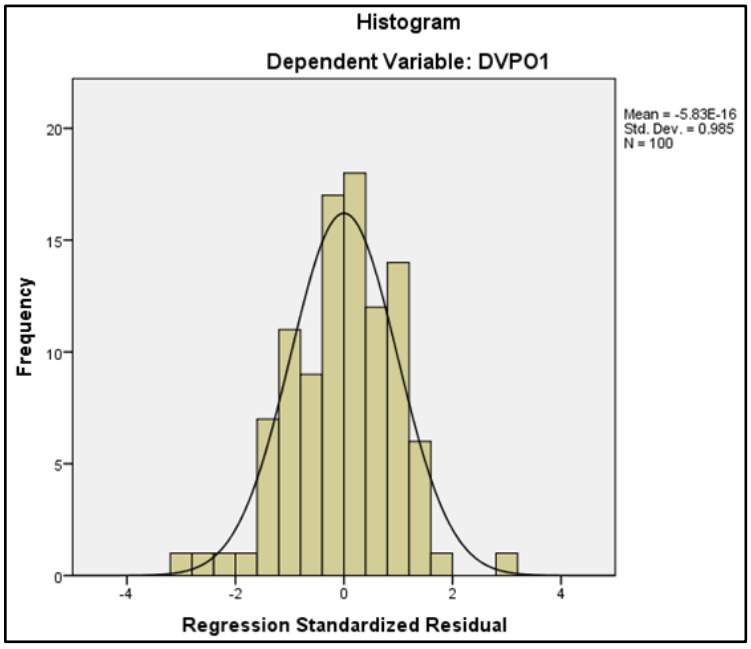


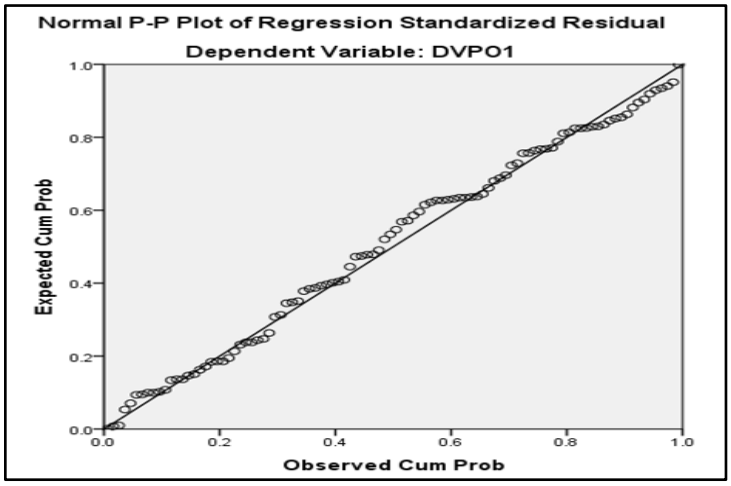
Figure 2Normality Test

Source: NBE Report (2014-2023)

4.2.6.Testing of Linearity

To determine the linear reportable range for an analysis, a test of linearity is conducted. Using a Normal P-P Plot to examine the determinants and the dividend payout of the dependent variable, each analyst's linearity is evaluated. In this context, Pallant (2010) notes that there shouldn't be any significant departures from normalcy if the points in the Normal PP Plot lay along a sufficiently straight diagonal line that runs from bottom left to top right. Figure3 illustrates how the observations appropriately fall along the diagonal running from bottom left to top right. Thus, the Normal P-P Plot result in this study suggests that the data are appropriate for regression analysis.

Figure 3Testing of Linearity



Source: NBE Report (2014-2023)

4.2.7.Test of ANOVA

The model is significant as can be seen from the ANOVA table8 below, where the p-value (.000), which is less than $p<0.01$. This verified that the dependent variable under investigation, cost management practice, had a statistically significant association with the independent influences taken together.

Table 6Test of ANOVAa

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.096	7	.014	32.625	.000[b]
	Residual	.039	92	.000		
	Total	.134	99			

a. Dependent Variable: DVPO1

b. Predictors: (Constant), LAGD, PR, CGR, LV, RI, LQ, SIZ

4.3. Regression Results and Discussions

The ordinary least square regression may be used securely because the current findings show that none of the CLRM assumptions are broken. The ordinary least square regression may be used securely because the current findings show that none of the CLRM assumptions have been broken. But as this study makes use of panel data, model II can utilize either the fixed effect model or the random effect model panel estimator technique Ayane M. G. (2017)**.** A Hausman specification test was performed to determine if individual effects are random or fixed. The results show that the fixed effect model, which has a p-value of less than 5%, supporting the fixed effect model. It is therefore disputed that the random effect hypothesis makes sense.

4.3.1.Interpretations on regression results

Table 7 Regression Result- Fixed Effect Model Regression Result- Fixed Effect Model

Regression Result Effect Model				
Variable	Coefficient	Std. Error	t-statistic	Prob.
C	224.245184	55.844489	4.136031	0.000412
PR	0.737678	0.331253	-0.229374	0.750162
SI	-12.445337	4.430240	-3.590235	0.001648
LV	-0.630533	0.510355	1.272544	0.233707
LQ	-0.043658	0.084280	-0.533542	0.626755
RI	4.115014	3.042631	2.747117	0.012978
CG	-0.307048	0.077910	-4.059282	0.000515
LGD	0.380006	0.104179	3.757058	0.001133

R-Squared	0.724831	Durbin- Watson stat	1.31082744
Adjusted R- Squared	**0.614473**		
F-Statistic	5.827274		
Prob. (F Statistic)	0.000013		

Source: NBE Report (2014-2023)

This section discusses in detail the analysis of the results for each explanatory variable and their importance in determining financial performance. Furthermore, the discussion analyzes the statistical findings of the study in relation to the previous empirical evidences. Hence, the following discussions present the interpretation on the fixed effects model regression results and relationship between explanatory variables and Dividend pay out.

As shown from the above table the R-square and Adjusted R-squared values of the model is 0.724831 and 0.614473 respectively the result indicates that about 72.4 % of the variability in the dependent variable (dividend payout) is explained by the independent variables used in the model. That is profitability, company size, financial leverage , company growth, liquidity,buissness risk and lagged dividend collectively explain 72.4 % of the change in dividend payout . The remaining 27.6 % of the variability in the dependent variable is left unexplained by the explanatory variables used in the study. This means that the remaining 27.6 % of the changes was explained by other variables which are not included in the model

Furthermore, the probability of not rejecting the null hypothesis that there is no statistically significant relationship existing between the dependent variable (dividend payout) and the independent variables, which is the probability(F-statistic) is 0.000013 indicates that the overall model is

significant at 5% and that all the independent variables are jointly significant in causing variationin dividend payout.

4.3.1.1.profitability and dividend payout

Hypothesis testing of the relationship between profitability and dividend payout of private banks in Ethiopia:

H1: there is a positive and significant relationship between profitability and dividend payout of private banks in Ethiopia:

Conclusion: Reject the formulated hypothesis. Because there is a positive relationship between profitability and dividend payout of private banks in Ethiopia:, but the relationship becomes insignificant. According to table above showed the influence of profitability on dividend payout of private banks in Ethiopia:is positive but not statistically significant.so reject the formulated hypothesis which assumes there is a positive and significant relationship between profitability and dividend payout of private banks in Ethiopia since the regression coefficient show on table of profitability is 0.737678 and its P- value is 0.750162 which is greater than 5% so it is insignificant at 5% significance level so we take this variable as insignificant to affect dividend payout . This leads to reject the hypothesis which stated that there is a positive and significant relationship between profitability and dividend payout of private banks in Ethiopia

4.3.1.2 Company size and dividend payout

H2: there is a negative and significant relationship between company size and dividend payout of private banks in Ethiopia.

Conclusion: fail to Reject the formulated hypotheses which is there is a negative and significant relationship between company size and dividend payout of private banks in Ethiopia since there is a negative and significant relationship between company size and dividend payout of private banks in Ethiopia . According to the result showed that other explanatory variables remain constant, company size have a negative influence on banks' dividend payout and statistically significant. The regression coefficient is -12.445 and its P- value is 0.001648(0.01%) which less than

5% so it is significant at 5%significance level. This mean as company size increase by 1 dividend payout would decreaseby -12.445 and statically significant at 1%.

4.3.1.3. Financial leverage and dividend payout

Hypothesis testing of the relationship between financial leverage and dividend payout of private banks in Ethiopia:

H3: there is a positive and significant relationship between financial leverage and dividend payout of private banks in Ethiopia:

Conclusion: Reject the formulated hypothesis. Because there is a negative relationship between financial leverage and dividend payout of private banks in Ethiopia:, but the relationship becomes insignificant. According to table above showed the influence of financial leverage on dividend payout of private banks in Ethiopia:is negative and not statistically significant.so reject the formulated hypothesis which assumes there is a positive and significant relationship between financial leverage and dividend payout of private banks in Ethiopia since the regression coefficient show on table of financial leverage is -0.630533 and its P- value is 0.233707 which is greater than 5% so it is insignificant at 5% significance level so we take this variable as insignificant to affect dividend payout . This leads to reject the hypothesis which stated that there is a positive and significant relationship between financial leverage and dividend payout of private banks in Ethiopia

4.3.1.4. Liquidity and dividend payout

Hypothesis testing of the relationship between Liquidity and dividend payout_of private banks in Ethiopia:

H3: there is a positive and significant relationship between Liquidity and dividend payout_of private banks in Ethiopia:

Conclusion: Reject the formulated hypothesis. Because there is a negative relationship between Liquidity and dividend payout_of private banks in Ethiopia::, but the relationship becomes insignificant. According to table above showed the influence of

Liquidity on dividend payout of private banks in Ethiopia:is negative and not statistically significant.so reject the formulated hypothesis which assumes there is a positive and significant relationship between Liquidity and dividend payout_of private banks in Ethiopia: since the regression coefficient show on table of financial leverage is -0.043658 and its P- value is 0.626755 which is greater than 5% so it is insignificant at 5% significance level so we take this variable as insignificant to affect dividend payout . This leads to reject the hypothesis which stated that there is a positive and significant relationship between Liquidity and dividend payout_of private banks in Ethiopia:and dividend payout of private banks in Ethiopia

4.3.1.5. Business risk and dividend payout

- H4: there is a positive and significant relationship between Business risk_and dividend payout of private banks in Ethiopia.

Conclusion: fail to Reject the formulated hypothesis which is there is a positive and significant relationship between Business risk and dividend payout of private banks in Ethiopia. According to the result showed that other explanatory variables remain constant, Business risk_have a positive influence on banks' dividend payout and statistically significant. The regression coefficient is 4.115014 and its P- value is 0.012978 which less than 5% so it is significant at 5%significance level. This mean as Business risk_increase by 1 dividend payout would increase by 4.115014 and statically significant at 5%.

4.3.4.6. Company growth and dividend payout

- H5: there is a negative and significant relationship between Company growth and dividend payout of private banks in Ethiopia.

Conclusion: fail to Reject the formulated hypotheses which is there is a negative and significant relationship between Company growth and dividend payout of private banks in Ethiopia. According to the result showed that other explanatory variables remain constant, Company growth_have a negative influence on banks' dividend payout and statistically significant. The regression coefficient is -0.307048 and its P-value is 0.000515 which less than 5% so it is significant at 5%significance level. This

mean as Business risk increase by 1 dividend payout would decrease by 0.307048 and statically significant at 5%.

4.3.4.7.Lagged dividend and dividend payout

- H4: there is a positive and significant relationship between lagged dividend and dividend payout of private banks in Ethiopia.
- Conclusion: fail to Reject the formulated hypotheses which there is a positive and significant relationship between lagged dividend and dividend payout of private banks in Ethiopia.

. According to the result showed that other explanatory variables remain constant, lagged dividend have a positive influence on banks' dividend payout and statistically significant. The regressioncoefficient is 0.380006 and its P- value is 0.001133 which less than 5% so it is significant at 5%significance level. This mean as lagged dividend increase by 1 dividend payout would increase by 4.115014 and statically significant at 5%.

4.4. Comparison of expected and actual hypothesis result

Table 8Comparison of hypothesis test

Independent variables	Hypothesis Test			Dependent variable
	Expected	Actual	Result	
PR	positive & significant	positive & insignificant	Rejected	Dividend Payout
SI	positive & significant	negative & significant	accepted	
LV	negative & significant	negative & insignificant	Rejected	
LQ	positive & significant	positive & insignificant	Rejected	
RI	negative & significant	positive & significant	accepted	
CGR	negative & significant	negative & significant	accepted	
LGD	positive & significant	positive & significant	accepted	

Source: NBE Report (2014-2023)

Table9 showed that, the first hypothesis, according to which profitability and dividend payout are positively correlated, is approved. Additionally, the association is significant and beneficial for the hypothesis's dividend payment. The second hypothesis, according to which size and

dividend payout are positively correlated and the result recorded negative so, the hypothesis is rejected.

The third hypothesis, according to which leverage and dividend distribution are negatively correlated, is accepted. And a relationship was negative and significant. The fourth hypothesis was liquidity and according to which there is a positive correlation between dividend payout and lagged dividend paid, is not rejected. The fifth hypothesis, according to which risk and dividend payment are negatively correlated, is likewise disproved. Positive connection types are discovered, nevertheless. The sixth hypothesis, which accepted that growth and dividend payout are negative and significant, correlated. The seventh hypothesis, according to which there is a positive correlation between dividend payout and lagged dividend paid, is not rejected.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The summary results of the investigation facilitated the development of conclusions and the dissemination of possible recommendations. The summary and conclusion are presented in the first section, and some possible recommendations are provided in the second.

5.1. Summary of major findings

The dependent and independent variable descriptive statistics for ten banks for the period spanning from 2014 to 2023 for a total of 100 observations are displayed. The table presents the dependent and independent variables' mean, median, standard deviation, number of observations, minimum, and maximum values. From the analyzed displays a mean dividend payment value of 0.728 meaning that between 2014 and 2023, Ethiopian private banks distributed 0.728 of their total income as dividends, with 0.0998 of fluctuation in between years. Ethiopian private banks have made an average profit of 0.751 on an asset investment for every birr invested. The most lucrative banks have made an average profit of 0.923 while the least profitable have made an average profit of 0.562

Based on statistical result of the private banks, the average asset sizes of private banks are increased by 8.805 and a variability of 0.413 ups and downs with variations of 9.73 and 8.02 respectively. This indicates that private banks in Ethiopia are expanding quickly.

. The liquidity position of Ethiopian private banks' is, on average, 1.23 when split by current asset and current liabilities. This indicates that there is an average of 1.23cents available on current assets for a one birr current obligation, a maximum liquidity position of 1.5.

In the event that the variance of the errors is not constant, it is considered that the homoscedasticity assumption has not been met. Heteroscedasticity is the name given to this violation. The significances (P) of profitability, liquidity, leverage, growth, size, risk and Lagged dividend payment were determined based on the output of Table 5 coefficients, yielding values of 0.116, 0.006,-0.061, 0.347, -0.014, 0.098 and -0.076 respectively. Every explanatory variable's P value, as saw, was more than 0.1.This demonstrates how heteroscedasticity may be tested for across a variety of explanatory factors by looking for its absence.

The outcome demonstrates that there is a negative and statistically significant coefficient of lagged dividend paid (-0.076). Statistically test coefficient should have higher than 5% significant level. This leads us to the conclusion that steady dividend distribution policies are not followed by Ethiopian private banks. According to The R2 value from table4, **0.713** of the dividend distribution pattern of Ethiopian private banks can be explained by the current model

.The seven independent variables Profit, liquidity, leverage, size, growth, risk and lagged dividend for 71.3% of the variation in dividend distribution in Ethiopian private banks. The test statistic's p-value of zero and the regression's F-statistic of 32.625 indicate that the null hypothesis which holds that all of the coefficients are jointly zero should be rejected.

The profitability as determined by return on asset, and the result is statistically significant and negative. During the research period from 2014 to 2023, Ethiopian private banks dividend distribution was significantly influenced by profitability. As a result, hypothesis is accepted. As size and dividend payout have a positive correlation, hypothesis is thus not rejected but its sign is different. The disbursement of dividends will drop by 0.014 birr for every 1% growth in bank size.

5.2. Conclusion

To achieve the purpose, ten years' worth of bank audited financial statements and National Bank of Ethiopia reports covering ten chosen private banks from 2014 to 2023 were employed. For model one, the pooled panel regression technique and for model two, the fixed effect panel regression methods were used to analyze the obtained data.

The business sector, where many public businesses raise capital from the public and pay dividends from their profits, makes it crucial to research the factors influencing dividend distribution. In order to determine whether Ethiopian private banks adhere to a consistent dividend payout policy or not, the study's primary goals were to investigate the factors that influence dividend payment in Ethiopian private banks and to test Lintner's model in that country.

To determine whether Ethiopian private banks adhere to a consistent dividend distribution policy or not, model use the pooled panel regression technique. Dividend payment was the dependent variable, and lag dividend paid and profit proxies measured by earnings per share were the independent variables. So infer that companies are adhering to a steady dividend payment policy

when both profit and the lag in dividend paid are shown to be statistically significant; however, in our situation, the earning per share, which utilized as a proxy for profit, was not statistically significant.

Thus, it may be inferred that Ethiopian private banks did not adhere to a consistent dividend distribution strategy. Instead, businesses occasionally alter their policies in response to current circumstances, which may cause investors who would rather see a steady dividend distribution policy to shift their money to other companies with a stable dividend payout.

The fixed effect panel regression approach was employed to investigate the connection between the dividend payout and the ten company-specific characteristics which were profit, liquidity, leverage, size, growth, risk and lagged dividend. Regression study results indicated that dividend distribution in Ethiopian private banks is not significantly influenced by earnings.

Numerous studies, especially those carried out in underdeveloped nations, revealed a negligible correlation between profit and dividend payments. According to the theory of agency, businesses with high free cash flow also have a high dividend payout ratio, which deters managers from overspending when they have extra free cash flow available. Banks may have extra liquidity at their disposal due to their own inefficiencies, which may be employed to produce revenues. As a result, profit could decline as liquidity grows.

The pecking order hypothesis, which states that businesses should employ internal resources first to fund various projects and maintain firm growth, is supported by this research. Hence, businesses those have strong development prospects or investment possibilities often keep their income in order to finance their investments, which results in lower or no dividend payments. The private banks in Ethiopia's banking sector are expanding, and in order to finance this expansion at a low cost of capital, it is better to employ the profits the banks are making rather than giving them out as dividends. This suggests that there is an adverse link between growth and dividend payments.

The dividend distribution in Ethiopian private banks is not significantly affected by changes in leverage. Banks are highly leveraged businesses by definition. Their primary source of loans to borrowers is the public deposits they have amassed. A rise in deposits will result in an increase in loans made to borrowers, which will boost income and profit profits that may be paid as a dividend to shareholders.

In contrast to the theory of agency, which states that large businesses incur substantial agency costs due to ownership dispersion, increased complexity, and shareholders' incapacity to carefully monitor firm activities, size is found to have a considerable but negative influence on dividend distribution. In order to lower agency expenses, some companies pay a higher dividend. Additionally, a strong and favorable correlation has been shown between risk and dividend payment. The result demonstrated that taking on more risk will boost profits; this finding contradicts the conclusions of several studies and may be related to national or industry-specific variables.

The dividend payout is significantly and favorably impacted by the lagged in dividend payments. It has been observed that banks that have paid high dividends in the past have a tendency to do the same in the future, assuming all other factors remain same. This suggests that a lagged in dividend payments has a beneficial effect on the dividend distribution in the current year.

5.3. Recommendation

- Numerous studies have been conducted on dividend payments; however different conclusions have been reached about the factors that influence dividend payments. The study is carried out in the same companies, however the outcomes differ. For a long time, therefore, it remains a conundrum as to what factors influence the dividend payout. Therefore, private banks must to take into account many factors that influence the dividend distribution.
- Investors who are attempting to forecast future dividend payments receive some helpful information about the determining factors.
- The findings indicate profitability has a positive significant impact on dividend payout for private commercial banks in Ethiopia. This implies that individual investor who prefers current high dividend should invest on profitable company, while management should announce the dividend after considering their profit.
- Moreover, on the basis of the empirical findings of this study firm size has a positive influence on dividend pay-out, therefore investor should invest on larger company to earn higher dividend.
- Investors who are interested in investing in Ethiopian private banks and prioritize consistent dividend distribution should be aware that these banks may occasionally alter

their policies due to various causes, rather than adhering to a fixed dividend payout. Investors who are attempting to forecast future dividend payments on their investments and/or choosing dividend-paying companies may need to consider the company's performance in relation to the following factors: profitability potential, and dividend asset performance from prior years in order to make an informed choice.

- If investors priorities consistent dividend distribution and are interested in investing in Ethiopian private banks, they should be aware that these banks may occasionally change their policies instead of sticking to a fixed dividend payout. Investors making educated decisions about dividend-paying companies or trying to predict future dividend payments on their investments may need to take into account the performance of the company in relation to the following factors: liquidity, potential, and dividend asset performance from previous years.
- Investors should be advised that Ethiopian private banks may periodically alter their policies rather than adhering to a predetermined dividend payout if continuous dividend distribution is a priority and they are interested in investing. When making informed decisions about dividend-paying companies or attempting to forecast future payouts on investments, investors may need to consider the company's performance in relation to growth potential, dividend asset performance in prior years other factors.
- Investors may demand high dividends since they are the only way to profit from their investment in a short amount of time if there is no stock market where they can easily buy or sell company shares and because selling shares to generate money is expensive. Thus, private banks ought to make an effort to draw in and keep investors by offering larger dividends than those of other sectors of the economy.
- The results show that for Ethiopian private commercial banks, dividend distribution is significantly positively impacted by profitability. This suggests that an individual investor who desires the present high payout should put their money into a profitable firm, and that banks should declare the dividend only after taking their profit.
- There has been relatively little study on this topic in the Ethiopian banking sector to investigate the factors of dividend distribution empirically. Consequently, it can be useful as a reference for upcoming research on the topic.

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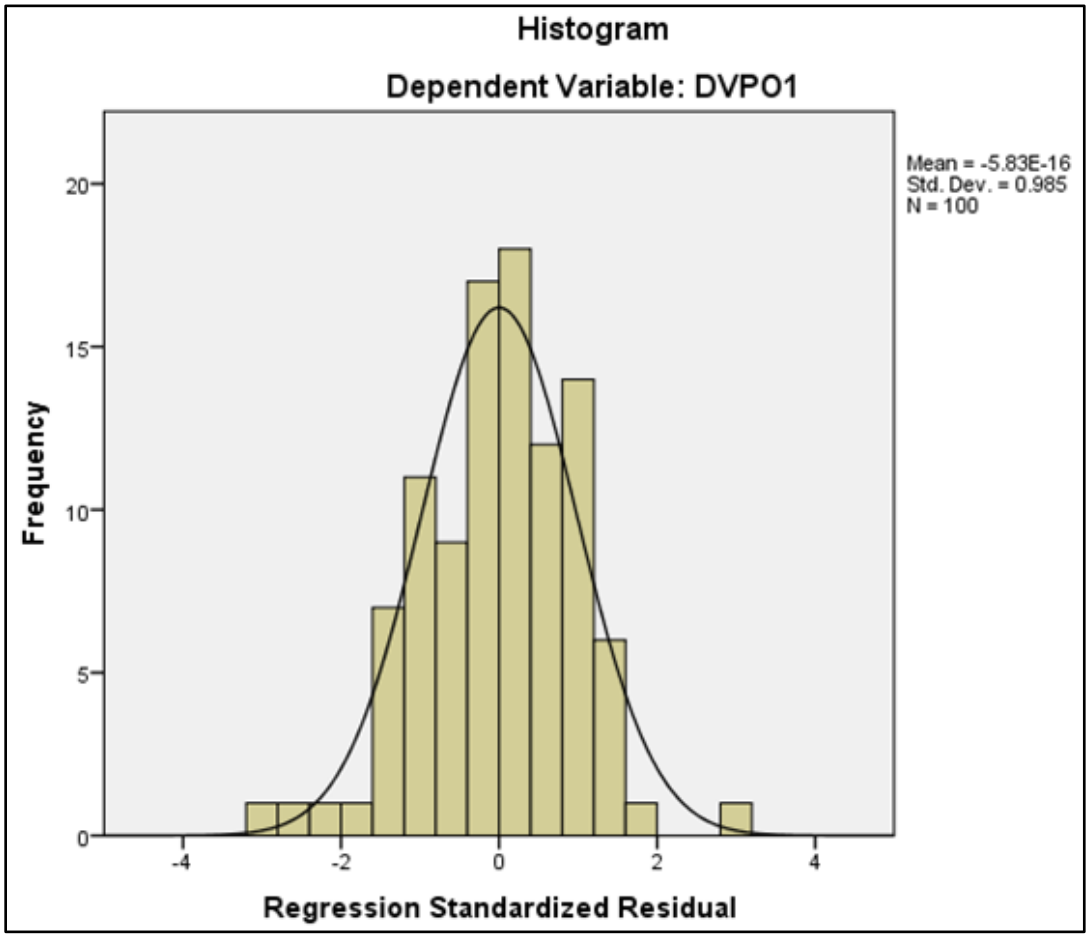
Appendix



Raw data

DVPO	PR	LQ	LV	SIZ	CGR	RI	LAGD	DVPO1
0.902	0.8	1.023	0.825	8.68	0.165	0.055	0.909	0.055
0.935	0.784	0.968	0.814	8.75	0.09	0.055	0.9494	0.055

0.935	0.722	0.902	0.759	8.75	0.04	0.055	0.9494	0.04
0.88	0.727	0.946	0.726	8.81	0.01	0.066	0.8888	0.01
0.891	0.716	0.902	0.66	8.86	0.03	0.066	0.8989	0.03
0.902	0.67	0.902	0.671	8.89	0.18	0.055	0.909	0.055
0.88	0.696	1.067	0.649	8.94	0.17	0.066	0.8888	0.066
0.902	0.852	1.155	0.748	9.05	0.14	0.055	0.909	0.055
0.924	0.832	1.111	0.77	9.04	0.05	0.121	0.9292	0.05
0.814	0.834	1.034	0.803	9.16	0.135	0.066	0.8181	0.066
0.682	0.715	1.012	0.748	8.56	0.175	0.066	0.6868	0.066
0.726	0.719	1.056	0.781	8.71	0.07	0.055	0.7373	0.055
0.671	0.788	1.21	0.693	8.82	0.18	0.176	0.6767	0.176
0.704	0.704	1.221	0.638	8.85	0.04	0.088	0.707	0.04
0.704	0.723	1.155	0.638	8.9	0.025	0.088	0.707	0.025
0.693	0.743	1.122	0.638	9	0.07	0.066	0.6969	0.066
0.682	0.786	1.21	0.616	9.07	0.135	0.088	0.6868	0.088
0.682	0.744	1.045	0.627	9.38	0.03	0.055	0.6868	0.03
0.715	0.802	1.155	0.583	9.4	0.07	0.066	0.7272	0.066
0.616	0.774	1.001	0.594	9.46	0.095	0.077	0.6262	0.077
0.814	0.838	1.386	0.704	9.22	0.015	0.077	0.8181	0.015
0.616	0.803	1.034	0.66	9.35	0.185	0.077	0.6262	0.077
0.737	0.868	1.342	0.737	9.42	0.08	0.099	0.7474	0.08
0.66	0.863	1.386	0.726	9.46	0.09	0.121	0.6666	0.09
0.682	0.842	1.364	0.726	9.5	0.005	0.121	0.6868	0.005
0.671	0.865	1.43	0.693	9.54	0.05	0.121	0.6767	0.05
0.682	0.923	1.485	0.66	9.61	0.165	0.132	0.6868	0.132
0.572	0.896	1.474	0.616	9.65	0.18	0.132	0.5757	0.132
0.682	0.846	1.298	0.715	9.67	0.01	0.099	0.6868	0.01
0.77	0.857	1.166	0.77	9.73	0.04	0.088	0.7777	0.04
0.869	0.562	1.012	0.627	8.02	0.13	0.033	0.8787	0.033
0.88	0.661	1.012	0.748	8.06	0.085	0.022	0.8888	0.022
0.627	0.749	1.254	0.715	8.09	0.395	0.121	0.6363	0.121
0.583	0.667	1.485	0.627	8.19	0.095	0.132	0.5858	0.095
0.605	0.631	1.452	0.649	8.27	0.05	0.121	0.6161	0.05
0.66	0.665	1.507	0.55	8.34	0.045	0.11	0.6666	0.045
0.814	0.639	1.375	0.66	8.28	0.155	0.088	0.8181	0.088
0.594	0.591	1.43	0.561	8.48	0.17	0.077	0.5959	0.077
0.715	0.63	1.342	0.605	8.57	0.17	0.066	0.7272	0.066
0.704	0.741	1.441	0.594	8.63	0.08	0.099	0.707	0.08
0.682	0.653	1.122	0.858	8.04	0.125	0.055	0.6868	0.055
0.671	0.697	1.166	0.715	8.08	0.235	0.154	0.6767	0.154
0.704	0.73	1.309	0.77	8.2	0.21	0.088	0.707	0.088
0.726	0.67	0.957	0.704	8.36	0.13	0.077	0.7373	0.077
0.869	0.711	0.935	0.748	8.43	0.095	0.066	0.8787	0.066

0.88	0.671	0.902	0.803	8.53	-0.04	-0.011	0.8888	-0.04
0.902	0.747	0.88	0.858	8.61	0.09	0.044	0.909	0.044
0.66	0.74	0.99	0.836	8.78	0.155	0.055	0.6666	0.055
0.682	0.779	1.111	0.803	8.86	0.175	0.066	0.6868	0.066
0.66	0.806	1.166	0.781	8.93	0.23	0.066	0.6666	0.066
0.858	0.68	1.232	1.023	8.04	0.045	0.033	0.8686	0.033
0.649	0.676	1.155	0.693	8.16	0.185	0.132	0.6565	0.132
0.77	0.784	1.276	0.803	8.35	0.235	0.11	0.7777	0.11
0.748	0.705	1.232	0.814	8.41	0.04	0.066	0.7575	0.04
0.737	0.717	1.331	0.748	8.45	0.045	0.088	0.7474	0.045
0.715	0.646	1.177	0.792	8.53	0.13	0.088	0.7272	0.088
0.748	0.766	1.199	0.77	8.6	0.155	0.099	0.7575	0.099
0.682	0.779	1.441	0.77	8.69	0.115	0.088	0.6868	0.088
0.649	0.738	1.452	0.748	8.71	0.025	0.088	0.6565	0.025
0.649	0.743	1.496	0.737	8.71	0.025	0.088	0.6565	0.025
0.759	0.741	1.155	0.781	8.51	0.13	0.077	0.7676	0.077
0.803	0.777	1.122	0.836	8.7	0.115	0.077	0.808	0.077
0.737	0.769	1.199	0.781	8.74	0.115	0.088	0.7474	0.088
0.693	0.738	1.32	0.737	8.84	0.01	0.099	0.6969	0.01
0.803	0.777	1.243	0.726	8.9	0.03	0.077	0.808	0.03
0.858	0.764	1.221	0.682	8.94	0.03	0.055	0.8686	0.03
0.836	0.765	1.188	0.704	9	0.03	0.055	0.8484	0.03
0.858	0.806	1.221	0.803	9.12	0.03	0.055	0.8686	0.03
0.814	0.835	1.309	0.759	9.19	0.03	0.077	0.8181	0.03
0.682	0.807	1.331	0.715	9.24	0.04	0.088	0.6868	0.04
0.781	0.66	1.155	0.682	8.47	0.07	0.088	0.7878	0.07
0.781	0.797	1.287	0.671	8.6	0.22	0.099	0.7878	0.099
0.803	0.742	1.342	0.649	8.67	0.005	0.099	0.808	0.005
0.77	0.761	1.375	0.66	8.74	0.035	0.11	0.7777	0.035
0.759	0.797	1.441	0.627	8.81	0.12	0.077	0.7676	0.077
0.858	0.706	1.111	0.671	8.87	0.11	0.033	0.8686	0.033
0.704	0.751	1.056	0.649	8.95	0.1	0.121	0.707	0.1
0.638	0.727	1.155	0.649	9.05	0.03	0.066	0.6464	0.03
0.616	0.754	1.309	0.638	9.14	0.03	0.066	0.6262	0.03
0.616	0.748	1.254	0.616	9.19	0.03	0.066	0.6262	0.03
0.605	0.675	1.331	0.583	8.4	0.1	0.121	0.6161	0.1
0.594	0.73	1.463	0.572	8.55	0.155	0.132	0.5959	0.132
0.583	0.746	1.364	0.649	8.68	0.165	0.132	0.5858	0.132
0.594	0.688	1.452	0.638	8.79	0.08	0.121	0.5959	0.08
0.627	0.84	1.386	0.704	8.92	0.08	0.561	0.6363	0.08
0.616	0.775	1.342	0.704	8.99	0.05	0.209	0.6262	0.05
0.616	0.84	1.463	0.671	9.09	0.19	0.132	0.6262	0.132
0.627	0.829	1.397	0.693	9.28	0.12	0.077	0.6363	0.077

0.594	0.823	1.298	0.649	9.31	0.15	0.132	0.5959	0.132
0.671	0.819	1.221	0.638	9.32	0.13	0.077	0.6767	0.077
0.792	0.679	1.155	0.825	8.14	0.085	0.022	0.7979	0.022
0.726	0.705	1.221	0.869	8.27	0.095	0.066	0.7373	0.066
0.594	0.73	1.485	0.825	8.42	0.115	0.088	0.5959	0.088
0.627	0.717	1.331	0.781	8.59	0.07	0.077	0.6363	0.07
0.649	0.753	1.32	0.77	8.67	0.11	0.121	0.6565	0.11
0.726	0.754	1.298	0.792	8.78	0.03	0.066	0.7373	0.03
0.869	0.804	1.353	0.748	8.83	0.03	0.077	0.8787	0.03
0.627	0.724	1.386	0.737	8.95	0.07	0.088	0.6363	0.07
0.66	0.741	1.419	0.748	9.05	0.1	0.088	0.6666	0.088
0.825	0.811	1.155	0.682	9.16	0.06	0.066	0.8383	0.06