DETERMINANT OF CORPORATE DIVIDEND PAYOUT DECISION A STUDY ON INSURANCE COMPANIES IN ETHIOPIA.

Thesis Submitted to the Department of Accounting & Finance in Partial Fulfillment of the Requirements for the master's Degree of MSc in Accounting & Finance.

Prepared by:-

HinsermuMegerso

ID No:GSW/084/11

Advisor: - Abdu Mohamed (Assistance professor)

WOLKITE UNIVERSITY, WOLKITE

November, 2021

Wolkite, Ethiopia

DETERMINANT OF CORPORATE DIVIDEND PAYOUT DECISION A STUDY ON INSURANCE COMPANIES IN ETHIOPIA.

HinsermuMegerso

ID No:GSW/084/11

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

Advisor: Abdu Mohamed

Co-advisor: Mr.Tewodros

School of Management and Accounting

Department of Accounting and Finance

Wolkite University

November,2021

Wolkite, Ethiopia

DECLARATION

I hereby declare that this MSc thesis is my original work and has not been presented for a degree in any other university, and all sources of material used for this thesis have been duly acknowledged.

Name: _____

Signature: _____

SCHOOL OF GRADUATE STUDIES

WOLKITE UNIVERSITY

ADVISORS' APPROVAL SHEET

This is to certify that the thesis entitled **"Determinant of Corporate Dividend Payout Decision a Study on Insurance Companies in Ethiopia"** submitted in partial fulfillment of the requirements for the degree of Master's with specialization in Accounting and Finance the Graduate Program of the Department/School of Management and Accounting and has been carried out by **HinsermuMegersoId.NoGSW/084/11,** under our supervision. Therefore, we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

_____ _____ _____

Name of major advisor Signature Date

_____ _____ _____

Name of co-advisor Signature Date

SCHOOL OF GRADUATE STUDIES

WOLKITE UNIVERSITY

EXAMINERS' APPROVAL SHEET

==========

We, the undersigned, members of the Board of Examiners of the final open defense by **HinsermuMegerso**have read and evaluated his thesis entitled **"Determinant of Corporate Dividend Payout Decision a Study on Insurance Companies in Ethiopia"** and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the degree partial fulfillment of the requirements for the degree of masters of Science in Accounting and Finance Name of the Chairperson Signature Date

_____	_____	_____
Name of the Chairperson	Signature	Date
_____	_____	_____
Name of Principal Advisor	Signature	Date
_____	_____	_____
Name of Co- Advisor	Signature	Date
_____	_____	_____
Name of Internal Examiner	Signature	Date
_____	_____	_____
Name of External Examiner	Signature	Date
_____	_____	_____
SGS Approval	Signature	Date

Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to the School of Graduate Studies (SGS) through the School Graduate Committee (DGC/SGC) of the candidate's department.

Stamp of SGS Date: _____

ACKNOWLEDGEMENTS

With honest modesty, First and for most I would like to thanks the almighty GOD for all his assistance to accomplish my thesis. My sincere and deepest gratitude goes to my **advisor Abdu Mohamed (Assistance professor) for** his unreserved assistance in giving me relevant constructive comments and guidance throughout this study.

My grateful thanks also go to my **co-advisor Mr.Tewodross**for his relevant comments and guidance throughout the study. I would also like to extend thanks and appreciations to my best friend Lemma Teshome who assist me by imparting his valuable experience and advice.

My grateful thanks and also go to National Bank of Ethiopia employees for their positive cooperation in giving the relevant financial data for the study.

Lastly but, not the least my acknowledgements also go to my family and my friends for their moral and spiritual supports throughout my carrier**.**

ACRONYMS

CLRM	Classical Linear Regression Model
DPO	Dividend Payout Ratio
DW	Durbin Watson
FEM	Fixed Effect Model
CSIZE	Company Size (Firm's Size)
GDP	Real gross domestic product
INF	Inflation
LEV	Leverage
LQ	Liquidity
NBE	National Bank of Ethiopia
OLS	Ordinary least square
REM	Random Effect Model
ROA	Return on asset
PROF	Profitability
GOPP	Growth Opportunity
AI	Awash insurance
UI	United insurance
NI	Nile insurance
ABI	Abay insurance
LI	Lion insurance
NICE	National insurance
AFI	Africa insurance
GI	Global insurance
TSI	Tsehay insurance

Table of Contents

LIST OF TABLES

LIST OF FIGER

ABSTRACT

Dividend policy decision is essential and has a great influence on financial structure, flows of funds and corporate liquidity. Even if several studies have been done by different researchers it still remains unsolved. This research work tried to explore the determinants of corporate dividend payout in Ethiopian insurance companies on basis of data covers ten years (2012-2021) period. Key explanatory variables were identified and these variables are profitability, firm size, growth opportunity, leverage, liquidity, GDP and inflation. In order to achieve objective of the research quantitative research method and explanatory research approach and 10 years panel data from annual audited report of nine private insurance companies were employed. Fixed *Random effect model used to identify the most significant variable because of hausman test result indicate the p-value was appropriate to use fixed random. The result of the study shows that profitability, growth opportunity, leverage, inflation and GDP have found to have statistically significant relation with the dividend payout. While the remaining variables found to have statistically significantbut rejected relation with the dividend payout in Ethiopian insurance industry. When designing dividend payout policy mangers of Ethiopian insurance companies need to consider the major factors in setting/revising their dividend payout policy as profitability creates more cash inflow potential, to be competent in the arena the company's growth opportunity needs to be considered, as dividend is the only means of return from investment and government should provide an option for shareholders in the absence of secondary stock market. On the same token investor need to consider the significant factors profitability, leverage, growth opportunity, GDP and inflation in their investment decisions on Ethiopian insurance companies.*

Key words: ***Dividend policy; Dividend payout; Insurance Companies***

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Dividend is a price that a company pays to investors for the capital invested by them in the company. For this reason, dividend payout decisions do not depend solely on financial results and cash flow distribution. Managers' decisions on dividend payments may be dictated by the hedging of funds in a situation of economic downturn, increased profit volatility, limited external financing or high future capital needs. Thus, the 'dividend puzzle' has been the object of an ongoing investigation. However, a study of the emerging markets could shed more light on the topic, contributing to the growing body of research on dividend policy (Glen, Karmokolias, Miller, & Shah, 1995).

Michael J. Barclay et al. (2009) in their study of the review of financial studies conclude as dividend is a reward of shareholders for investments made by them in the share capital of the company. Dividend decision concerned with the quantum of profits to be distributed among shareholders. A decision has to be taken whether all the profits are to be distributed, to retain all the profits in business or to keep a part of profits in the business and distribute others among shareholders. The higher rate of dividend may raise the market price of shares and thus, maximize the wealth of shareholders. The firm should also consider the question of dividend stability, stock dividend and cash dividend\

Dividend decision, as the very name suggests, refers to the decision-making mechanism of the management to declare dividends decision (Lease et al. 2000; Barclay et al. 2009). It is crucial for the top management to determine the portion of earnings distributable as the dividend at the end of every reporting period. A company's ultimate objective is the maximization of shareholders wealth. It must, therefore, be very vigilant about its profit-sharing policies to retain the faith of the shareholders. Dividend pay-out policy derives enormous importance by virtue of being a bridge between the company and shareholders for profit-sharing. Without an organized dividend policy, it would be difficult for the investors to judge the intentions of the management.

Since dividend is a right of shareholders to participate in the profits and surplus of the company for their investment in the share capital of the company, they should receive fair amount of the profits. The company should, therefore, distribute a reasonable amount as dividends (which should include a normal rate of interest plus a return for the risks assumed) to its members and retain the rest for its growth and survival.

When we come to Ethiopia, now a day, a lot of share companies like insurance companies are emerging following economic growth of the country, the people making a huge investment in these companies and the companies also pay dividend as a return from their profits for shareholders, even though there is no well develop and organized capital markets. As it is supposed, it is hard to conclude as there are detail studies conducted on determinants of dividend policy of companies in Ethiopia. So, this condition requires more studies to be conducted on the factors that determine dividend payout decision in Ethiopian private insurance companies.

The main purpose of this study is to identify the determinant of corporate dividend payout decision *specially profitability, leverage, liquidity, growth opportunity, GDP and inflation* in relation to the companies' financial situation among publicly and privately listed insurance companies operating in emerging Ethiopian markets

1.2. Statement of the Problem

A firm can use its earnings to pay dividends or it can use the funds for other purposes such as bond retirement or acquisition of new investments. Management must decide on the amount or proportion of earnings to pay out as dividends or the amount to retain given the objectives of the firm. The long run dividend policy of the firm can affect its financing program and capital budget and is therefore an important consideration for a firm manager (Weston and Brigham, 1981). A number of factors come into play whenever a company establishes a dividend payout policy. These factors include the company's liquidity, financial needs and its ability to borrow, the signalling effects of dividends on a company's prospects and the taxation of dividend income (Ochola, 2005). How do these factors influence company's dividend policy and performance? Do relatively stable companies have a tendency to consider certain of these factors as more critical? It is important that finance managers understand the factors which should be accorded consideration in arriving at the dividend payout decision. Moreover, Al-Malkawi (2007) Mirbagherijam (2014) firm's age, size, and profitability positively and significantly affected its

dividend policy; while leverage has negative effect on the dividend policy this variable mostly affecting the dividend payout decision.

Although dividend policy remains a subject of controversy for many finance scholars, the belief that dividends play a significant role has been illustrated by the many empirical studies and behavioral surveys that have been conducted on dividends. According to Kania and Sharon (2005), a deeper understanding as to the motivation behind dividends would provide opportunity to better value stock, as most current stock valuation models include dividends as a key element. Although there is no consensus solution for the subject of dividend, researchers are continuing to conduct study on this field in order to obtain a strong theoretical and empirical analysis on dividend.

Because of dividend policies are among the important decisions taken by the company, several factors affect the payout policy of the company, which includes various types of dividends model as well as repurchasing shares (Rozeff, 1982). It can be framed as per the requirements of the companies and shareholders". Shares repurchases are becoming more relevant and common in the recent times (Wansley et al, 1989; baker et al., 2003). As a result, many studies have been conducted in the topic yet generalization becomes difficult on the determinants believed to have significant impact on dividend payout policies.

In developed economies, the decision whether paying dividends or keep as retained earnings has been taken very carefully by both investors and the management of the firm Maniagi G. Musiega, etal. (2013) Angelina (2019) Al-Najjar& Hussainey (2009) Al-Yahyae (2006) Simegn H/mariam(2013) (Glen et al., 1995). Many studies such as Linter (1956), Miller & Modigliani (1961), Feldstein & Green (1983), Baker & Powell (1999) and Gomes (2000) have been done and provided empirical evidence regarding the determinants of dividend policy from developed economy perspective. The problem in this research is therefore to isolate the factors generally considered by quoted companies as significant in influencing the dividend payout decision.

There are studies in the area of determinant of corporate dividend payout decision on insurance company outside and inside Ethiopia (Justynaetl (2020); Fakhraetl (2013); Muhamed (2012), Tewodros (2012), Semegn (2013), Temesgen (2016) and Samuel. There was no strong financial literature in private insurance companies' dividend

payout decision in Ethiopia so the researcher will use this gap in this study. This study, therefore, seeks to investigate determinant of corporate dividend payout decision in relation to the companies' financial situation among publicly and privately listed insurance companies operating in emerging Ethiopian market.

1.3 Objective of the Study

1.3.1 General objective

The General Objective of the study is to examine the determinants of corporate dividend payoutdecision in Ethiopian government and private insurance companies.

1.3.2 Specific Objectives

Based on the general objective the researcher has developed the following specific Objectives of the study are;

- The impact of Internal and market determinants of corporate dividend payoutdecision onProfitability, Growthopportunity, Companysize, financial leverage, and Liquidity.
- To look at the impact of macroeconomic variables such as GDP and Inflation on dividend payout policy of Ethiopian private insurance companies.

1.4 Research Hypothesis

In many quantitative proposals, writers used research questions. However, a more formal statement of research employs hypotheses. These hypotheses are predictions about the outcome of the results and they may be written as alternative hypotheses specifying the exact results to be expected (more or less, higher or lower of something). They also may be stated in the null form, indicating no expected difference or no relationship between groups on a dependent variable as Stated by (Creswell 2009). Therefore, this study developed the following seven hypotheses:

H1: profitability has positive and significant effect on Ethiopian private insurance company's dividend payout

H2: liquidity has positive and significant relationship with dividend payout of insurance share Companies in Ethiopia.

H3: Leverage has Negative and significant relationship with dividend payout of insurance share Companies in Ethiopia.

H4: Growth opportunity has negative and significant effect on Ethiopian insurance company's dividend payout.

H5: company size has positive and significant effect on Ethiopian private insurance company's dividend payout.

H6: Inflation has negative and significant effect on Ethiopian private insurance company's dividend payout.

H7:GDP has positive and significant relationship with dividend payout of insurance share Companies in Ethiopia

1.5 Significance of the Study

The research work is expected to provide importance to the board of directors, insurance companies managers, investors and policymakers and has the following significances: -

To take corrective actions on their existing dividend payout policy or to formulate a new dividend payout policy this study would help the board of directors and management team of Ethiopian insurance companies.

It will create significant awareness on the mind of investors to be aware of the possible factors that determine dividend payout policy to predict the pattern of dividend payment expected from their investment and to manage investments.

1.6 Scope of the Study

This research thesis would show the study about "determinant of corporate dividend payout decision. The content of the study covers all legally registered corporate insurance company. For purposes of this study, the following factors were considered: inflation, GDP, Profitability, Growth opportunity, Company size, financial leverage, and Liquidity. These variables are the most significant variable in theoretical and empirical study that affects the dividend payout decision. The study data was cover from the fiscal period the last ten years since 2012 to 2021 this is because of existence of experience insurance company have the possibility of paying high divided while the longer the period they exist and increase the accuracy of the reliability and validity.

1.7 Organization of the Paper

This research report is organized in five chapters. Chapter one provides the general introduction about the whole report. The general information included in this chapter; background of the study, statement of the problem, objective of the study, hypotheses of the study, scope of the study and significance of the study as well as organization of the

study. Chapter two describes the review of related literatures. Chapter three provides detail description of the methodology employed by the research. Chapter four contains data presentation, analysis and interpretation. Finally, the last chapter was concluding the total work of the research and gives relevant recommendations based on the finding.

CHAPTER TWO
Literature Review

2.1. Introduction

The objective of this chapter is to review the theoretical and empirical literatures on the determinants of dividend payout policy. This review of literatures expected to help in launching the framework for the current study and to enhance in the deficiencies of the previous studies, which in turn help in clearly identifying the gap in the literature and formulating hypotheses for the study.

The review has four sections. Section one presents a theoretical review of determinates of dividend payout policy. This is followed by a review of the relevant empirical studies on determinants of dividend payout policy. The conclusions and knowledge gaps are presented in section three. Finally, the Variables will be defined and Hypothesis also developed.

2.2. Theoretical Studies

According to Droughty (2000) on his work „„Joy on money"" defined dividend as it is the payment by a company to its shareholders out of its distributable profit. In other words, dividend is paid to the shareholders out of the revenue profits earned in the ordinary course of business. Dividend represents that part of the profit of a firm which is distributed to the shareholders. The company declares the amount of dividend at its shareholders" meeting. Shareholders will get dividends in proportion to their shareholding in the company. It can be payable after declaration by board of director in the form of cash or non-cash.

The above-mentioned term „„dividend" "is wide in scopes that will foundation to arise hot and controversy issue in corporate finance which usually called dividend policy. Dividend Policy refers to the explicit or implicit decision of the Board of Directors regarding the amount of residual earnings (past or present) that should be distributed to the shareholders of the corporation (Gibson ,2009). These explicit or implicit decision of dividend policy determines the ultimate distribution of the firm's earnings between retention (that is reinvestment) and cash dividend payments of shareholders. In other way it can be seen as means the practice that management

follows in making dividend payout decisions. So, dividend policy is used as the firm's plan of action to be followed when dividend decisions are made. It is the decision about how much of earnings to pay out as dividends versus retaining and reinvesting earnings in the firm. Theoretical and empirical researches have been provided to look into the dividend puzzle.

The dividend theories are discussed as follows.

2.2.1 Dividend Irrelevance Theory

The dividend irrelevance theory is the theory that investors do not need to concern themselves with a company's dividend policy since they have the option to sell a portion of their portfolio of equities if they want cash. Modigliani & Miller (1961) argue that the value of the firm in a perfect capital market depends only on the income produced by its assets not on how this income is split between dividends and the retained earnings. With their famous work M&M proposition Modigliani and Miller assumed that in a perfect Capital market, that is there are no taxes both corporate and personal taxes, no transaction costs on securities, investors are rational, information is symmetrical hence all investors have access to the same information and share the same expectations about the firm's future as its managers.

According to M&M's irrelevancy theory, if therefore does not matter how a firm divides its earnings between dividend payments to shareholders and internal retentions. Dividend irrelevancy theory asserts that a firm's dividend policy has no effect on its market value or it’s cost of capital. Modigliani & Miller (1961) dividend irrelevance theory states that investors can affect their return on a stock regardless of the stock's dividend. Investor could then buy more stock with the dividend that is over the investor's expectations. As such, the dividend is irrelevant to investors, meaning investors care little about a company's dividend policy since they can simulate their own homemade dividend. Their theory was built on a range of key assumptions, similar to those on which they based their theory of capital structure irrelevancy.

2.2.2. Bird in Hand Theory

Bird in hand is a theory that postulates that investors prefer dividends from a stock to potential capital gain because of the inherent uncertainty associated with capital gains. Based on the proverb a bird in the hand is worth two in the bush, the bird-in-hand theory states investors that prefer the certainty of dividend payments to the possibility of substantially higher future capital gains. This theory explains that because of uncertainty of future cash flow, investors will often tend to prefer dividend to retained earnings. As a result, higher payment ratio will reduce the required rate of returns and hence increase the value of the firm (Gordon, 1963; Lintner, 1962).

In a world of uncertainty and imperfect information, dividends are valued differently to retained earnings (or capital gains). Investors prefer the “bird in the hand” of cash dividend rather than the “two in the bush” of future capital gains. Gordon &Lintner (1959), the bird-in the hand theory states that dividends are relevant. The bird in the hand may sound familiar as it is taken from an old saying," a bird in the hand is worth to two in the bush". In this theory "the bird in the hand' is referring to dividends and "two in the bush" is referring to dividend and capital gains simultaneously. Gordon &Lintner (1959) debated that investor value dividends more than capital gains when making decisions related to stocks.

As a company increases its payout ratio, investors become concerned that the company's future capital gains will dissipate since the retained earnings that the company reinvests into the business will be less. The essence of the bird in the hand theory of dividend policy is that shareholders are risk averse and prefer to receive dividend payments rather than future capital gains. Shareholders consider dividend payments to be more certain that future capital gains thus a "bird in the hand is worth more than two in the bush". Gordon contended that the payment of current dividends "resolves investor uncertainty".

2.2.3. Tax Preference Theory

Taxes are important considerations for investors because of capital gains are taxed at a lower rate than dividends. The theory states that the reason why investors prefer low dividend payout to high payout: long term capital gained are less taxed as

compared to dividend and that taxes on capital gains are not paid unless the stock is sold. According to Miller & Scholes, 1978 and Gordon & Shapiro (1956) in most countries, taxes on dividends are higher than those on capital gains hence investor prefer capital gains to dividends. Capital gains are not paid until an investment is actually sold hence investors can control when capital gains are realized but they can't control dividend payments which the company has control.

2.2.4. Clientele Effect

The tax preference between dividends and capital gains lead to different clienteles (Miller &Scholes, 1978). Certain investor prefers higher dividends than others who prefer lower this is what is called the clientele effect. Hence if corporations are aware of the demands of their investors for higher dividends yields and for other lower dividend yields then they will be able to adjust their dividend polices to meet the demands. There is a tendency of a firm to attract a set of investors who likes its dividend policy. Black & Scholes (1974), assume that if companies were paying dividends, investors must derive some benefits from the dividends this offset the negative consequences.

2.2.5. Signaling Hypothesis

The signaling theory asserts that share prices do not react to dividend payout rate in itself but to the information that investors believed changes in dividend levels have for the future prospects of the firm. Outside investors have imperfect information regarding the firms profit opportunities. Dividend is function as a signal of expected future cash flows and increasing dividend payments indicates higher cash flows in the future. If the dividend payments should be seen as a signal, the payments have to be large enough so that only profitable firms can afford to pay. Bhattacharya (1979) and John & Williams (1985) explain that dividends allay information asymmetric between managers and shareholders by delivering inside information of firm’s future prospects.

Akerlof (1970) defines signaling effect as a unique and specific signaling equilibrium in which a job seeker signals his/her quality to a prospective employer. An increase in dividend payout may be interpreted as the firm having good future profitability (good news), and therefore its share price will react positively. Similarly, dividend cuts may be considered as a signal that the firm has poor future prospects (bad news), and the share price may then react unfavorably. Dividends are information signals about the performance of a company which investors use to make decisions. According to Gordon &shapiro (1956), the smoothening hypothesis of dividends by management which predicts that dividends are maintained at a constant rate and any increase are carried out rather cautiously by the firm to avoid significant dividend cuts when the corporate earnings falls.

Ross (1977) states that not all investors are the same they regard dividend changes as a signal of management earnings share price forecasting. It has been observed that the price of a firm's stock generally rises when its dividend is increased and the price will fall when the Dividend is cut. Thus, firms are expected to raise dividends when the future earnings are expected to rise. This is because managers have better information on of the firm's performance than the investors. Therefore, dividends act as a signal to investors on the current and future performance of the firm. Generally, a rise in dividend payment is viewed as a positive signal, conveying positive information about a firm's future earnings prospects resulting in an increase in share price. Conversely a reduction in dividend payment is viewed as negative signal about future earnings prospects, resulting in a decrease in share price.

2.2.6. Agency cost theory

Two major factors affecting the agency costs are monitoring costs and the managers risk aversion preference. Agency costs can be reduced by paying dividend to shareholders. The agency costs increase as the free cash flow increases and managers therefore have to pay excessive free cash flows as dividends and therefore dividends can be seen as a tool to reduce agency costs. Agency problem is the principal-agent

problem where the principal is the holder of the stocks or shareholders and the agent is the manager.

Agency theory is based upon the separation of ownership and management in corporations. Owners of the firm delegate managers to act on their behalf. The main assumption of this theory is the conflict of interests between managers and owners (Jensen & William, 1976). Such conflicts lead to agency costs (monitoring costs, other costs by the agent to assure the owners that there will be no harm to owner's interest, and finally any remaining loss from differences in agent actions and the owners actions compared to those if the owners take such actions). Stemming from this argument, agency theory stated that dividends act as a protection for investors because dividends reduce the excess cash available to managers after investment and operational activities. With the excess cash, managers may in good or bad faith invest it in less than desirable investment opportunities, which may have undesirable risk or return characteristics for the investors.

2.2.7. Life Cycle Theory

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

2.2.8. Pecking Order Theory

Pecking refers to a hierarchy of financing beginning with retained earnings followed by debt financing and finally external equity financing. The theory basically suggests that companies with high profitability may use less debt than other companies

because they have less need to raise funds externally and because debt is the cheapest and most attractive external option when compared to other methods of capital rising.

Fama& French (2002) and Sunder& Myers (1999) develop an alternative theory known as the pecking order model of financing decisions. The pecking order arises if the costs of issuing new securities overwhelm to other costs and benefits of dividends and debt. The financing costs that produce pecking order behavior include the transaction costs associated with new issues and the costs that arise because of management's superior information about the firm's prospects and the value of its risky securities. Pecking order can keep leverage of firms down when investments are persistently large relative to earnings; as a result, dividend payers can keep their payout ratio. Fama& French (2001) find that dividend payers are firms with high earnings relative to investment. Thus, for dividend payers, the prediction those firms with larger expected investments have less current leverage.

2.3. Types of Dividends and Dividend Policy

As referred in the above theoretical researches, Dividend refers to the portion of firm after tax profit which is distributed among the owners or shareholders. The profit which is not distributed is known as retained earnings. Therefore, it is the reward of the shareholders for the investment made by them in the share of the company (Michael J. Barclay et al., 2009).

2.3.1 Types of Dividends

2.3.1.1. Cash dividends

It refers to the dividend that is distributed to the shareholders from the earnings of a firm in the form of cash. Then, it is the choice of the shareholders, either to reinvest the money or to break out. These forms of dividends are usually taxable.

2.3.1.2. Stock dividends

It refers to the dividend that is distributed to the shareholders from earnings in the form of additionally fully paid shares. In stock dividends, firms‟ cash is conserved. Also, these dividends are not taxable until the shares are sold.

2.3.1.3. Property dividend

It refers to the dividends that are paid to the shareholders of the firm in the form of some property. For example, firm shipping the products made by it to the shareholders. It is an alternative to cash and stock dividends. These forms of dividends are taxable at the fair market value of the property.

2.3.1.4. Liquidating dividends

It refers to the dividends that are paid to the shareholders by the firm at the time of partial or full bankruptcy or while ceasing business operation. Usually, the shareholder is paid from the firm capital base as per the number of shares they owe. These types of dividends are non- taxable.

2.3.1.5. Scrip dividend

It refers to the dividends that are given to the shareholders by the firm in the form of promissory notes or certificates in which the firm promises to pay the shareholders decided amount after the partial time period. The firm issue scrip dividends due to the shortage of liquidity. These types of dividends are also an alternative to cash and stock dividend.

2.3.2 Divided policy

Dividend policy is the policy that a firm uses to decide, how much portion of the firm's net profit must be paid to the shareholders in the form of dividends to keep them happy (Stephen A. Ross, et al. 2002). The decision regarding dividend payout ratio is the critical decision and must be taken after considering the following factors. Dividend policies are one of the important decisions taken by the company. Several factors determine the payout policy of the company, which includes various types of dividends model as well as repurchasing shares. Dividend policies can be framed as per the requirements of the companies. Shares repurchases are becoming more relevant and common in the recent times.

As long as the firm has investment project whose returns exceed its cost of capital, it will use retained earnings to finance these projects (Janis C. Vanhorn, 1975). There is

a reciprocal relationship between retained earnings and dividend i.e. the larger the retained earnings, the lesser the dividend and smaller the retained earnings, larger the dividend. James E. Walter (1963) says "Choice of dividend policy almost affects the value of the enterprise". "Dividend policy must be evaluated in light of the objective of the firm namely, to choose a policy that will maximize the value of the firm to its shareholders"(James C., 1975). The dividend policy of a company reflects how prudent it's financial management. Theoretically, there are different types of dividend policies. These includes stable dividend policy, constant payout, progressive policy, residual policy, zero policy and non- cash policy.

2.3.2.1. Stable dividend policy

Lintner (1956) had observed that managers tend to value stable dividend policies and corporations tend to smooth dividends relative to earnings. That is, dividends are increased gradually and rarely cut, resulting in a much lower variability of dividends as compared to the variability in earnings. Most Companies adapt a basic policy of maintaining its internal reserves to ensure stable income far into the future, while at the same time seek to distribute a sufficient amount of earnings to shareholders in accordance with business results.

With a decrease in EPS, DPS has decreased and with increase in earnings the dividend per share has increased. However, increase in dividends is lagging behind increase in earnings in order to

„smoothen" or „stabilize" dividend payments over the time. Most firms adapt a stable dividend policy, if a firm's earnings are temporarily depressed or if it needs a substantial amount of funds for investment, then it might well maintain its regular dividend using borrowed funds to meet its needs, until things returned to normal. The logic or rationale for stable dividend policy is stockholders like stable dividends many of them depend on dividend income, and if dividends were cut, this might cause serious hardship to them.

A stable dividend policy is desirous for many investors such as retired persons, who take dividends as a source to meet their current living expenses. Secondly a stable dividend policy would reduce investor uncertainty, and reductions in uncertainty are

generally associated with lower capital costs and higher stock prices, other things being equal. Thirdly, institutional investors generally prefer to invest in companies having stable dividend records. Adoption of stable dividends has both advantage and disadvantage.

It is advantageous for a company interested in raising funds from external sources as shareholders willingly invest in companies having stable dividends as they have more confidence in such companies. On the other hand, stable dividend payout policy helps to raise long term finance is reasonably easy to operate, and sends a clear signal to investors about the company performance and the price of the share will remain high. The disadvantage is that such a policy might decrease corporate flexibility. Once a company has adapted a stable dividend policy, any change in such a policy may have adverse effects on the company image and may result in creating serious doubts in the minds of investors about financial standing of the company, which might prove to be very dangerous for the company at a later stage.

2.3.2.2. Residual Dividend policy

Under this policy, dividends are paid out of earnings not needed to finance new acceptable capital projects. The dividends will fluctuate depending on investment opportunities available to the company. So, dividends are just what are left after the company determines the retained profits required for future investment. This policy gives preference to its positive NPV (Net Present Value) projects and paying out dividends if there are still left-over funds available.

Dividend becomes a circumstantial payment paid only when the investment policy is satisfied.

2.3.2.3. Progressive policy

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

2.3.2.4. Alternative policies to paying cash

In order to give shareholders a choice between dividends or new shares, the firm might choose to buy back shares. This is share or stock repurchase. This has a significant advantage in terms of tax to the shareholder. While the dividend is fully taxed just as ordinary income, the stock repurchases or buyback is not taxed until the shares are sold and the shareholder makes a profit or capital gain (Jordan, et al. 2001). Shareholders are given additional shares in lieu of cash as dividend (Brealey& Myers 2005). In order to give shareholders a choice between dividends or new shares, the company might choose to buy back shares. This is share or stock repurchase.

2.3.2.5. Zero dividend policy

Firms may adopt a policy of zero dividends. This is especially common in newly established companies that require capital to accomplish their projects growth or for doubt of serious financial difficulties and may be unable to pay dividend. So what company generated as profit is retained for business expansion? Investors who prefer capital gains to dividends because of taxation will naturally be lured by this kind of policy. This type of policy is quite easy to operate and avoids all the costs associated with payment of dividends (Watson & Head, 2010). The major advantage of this payout policy is it is easy to operate and will not incur the administrative cost associated paying with dividend (Watson & Head, 2010).

2.3.2.6. Constant or fixed policy

Firms that adopted a constant payout policy pay the constant percentage of earning as dividend and continue it considerably for long time. According to this policy the firm pays a fixed dividend each year and maintains it for considerably for long time even though the firm earning fluctuated. The major problem faced by firms which adopted the constant payout policy is that the firm earning decrees or in a certain time the firm record loss than profit, the dividend may not paid or lower than usual as the result the firm stock price may be adversely affected because dividend are often considered as an indictors of firms future condition and status. This type of policy allows the shareholders the opportunity to clearly know the amount of dividend to expect from their investments in the company. However as noted by (Watson & Head 2010), the policy could be traumatic to companies experiencing a volatile or fluctuating profit earning.

2.3.3 Real-World Factors Affecting Low Dividend Payouts

As we mentioned earlier, some financial analysts feel that the consideration of a dividend policy is irrelevant. They contend that investors have the ability to create "homemade" dividends by adjusting their personal portfolios to reflect their own preferences.

For example, investors looking for a steady stream of income are more likely to invest in bonds (in which interest payments don't change) than in a dividend-paying stock (in which value can fluctuate). Because their interest payments won't change, those who own bonds don't care about a particular company's dividend policy.

The second argument claims that little to no dividend payout is more favorable for investors. Supporters of this policy point out that taxation on a dividend are higher than on a capital gain. The argument against dividends is based on the belief that a firm that reinvests funds (rather than paying them out as dividends) will increase the value of the firm as a whole and consequently increase the market value of the stock. When investors sell, they profit from a lower-taxed capital gain. According to the proponents of the no-dividend policy, investors benefit more in the long run from the company's undertaking more projects, repurchasing its own shares, acquiring new companies and profitable assets, and reinvesting in financial assets.

The third argument in favor of low dividends is the high cost to a firm of issuing new stock. In other words, to avoid the need to raise money through the issuance of new stock, which is expensive, firms, should retain most or all of their earnings and pay little to no dividends to investors. In opposition to these three arguments is the idea that a high dividend payout is important for investors because dividends provide certainty about the company's financial wellbeing; dividends are also attractive for investors looking to secure current income. In addition, there are many examples of how the decrease and increase of a dividend distribution can affect the price of a security. Companies that have a long-standing history of stable dividend payouts would be negatively affected by lowering or omitting dividend distributions; on the other hand, these companies would be positively affected by increasing dividend payouts or making additional payouts of the same dividends. Furthermore, companies

without a dividend history are generally viewed favorably when they declare new dividends.

The declaration of dividend involves some legal as well as financial considerations. When we see from point of legal consideration, the basic rule is that dividend can only paid out of profit without the impairment of capital in any way. But the various financial considerations present difficult situation to the management for coming to a decision regarding dividend distribution.

2.4. Empirical Literature

A lot of researches have been conducted to identify the determinants of dividend policy in different countries on different industry. The review of the empirical studies in this section will be classified as review of global empirical literature, review of empirical literature as African countries and review of empirical literature in Ethiopia.

2.4.1. Global Empirical Literature on Determinants of Dividend Policy

The first empirical study of dividend policy was conducted by Linter (1956). He piloted his study on United States companies in the middle of 1950. From his study he established that the dividend decision is can be affected by current profitability and the previous year‟s dividends. After his study many empirical studies have been conducted on dividend policy which resulted in controversial and an ongoing debate on the dividend policy.

Al-Najjar&Hussainey (2009) on their study examined the association between dividend payout and outside directorships. The purpose of the study was to examine whether the number of outside directors on the board of directors and dividend payout are substitutes or Complements mechanisms applied by UK firms to control agency conflicts of interest within the firm. The authors was used Tobit and Logit regression models to examine the extent to which firms with a majority of outside directors on their boards experience significantly lower or higher dividend payout after controlling for insider ownership, profitability, liquidity, asset structure, business risk, firm size, firms‟ growth rate and borrowing ratio. Based on a sample of 400 non-financial firms listed at London Stock Exchange for the period from 1991 to 2002, it was found that dividend payout is negatively associated with the number of

outside directors on the board of directors. At the end the study suggested that firms pay lower dividends when higher number of outside directors is employed on the board. Firms with weak corporate governance need to establish a reputation by paying dividends.

Al-Yahyae (2006) conducted study on the dividend policy of Omani firms in the financial and nonfinancial sectors between 1989 and 2004. The outcome of his study indicated that business risk, profitability and size influence the dividend policy of both financial and non-financial firms. However, age, leverage and government ownership had a strong influence on the dividend policy of nonfinancial firms, no impact on financial firms. He also concluded that there was insignificant impact of agency costs, tangibility and growth factors on dividend police.

Mirbagherijam (2014) use panel data approach to test the non-symmetric effect of inflation on the companies' decision in decreasing, increasing and maintaining of dividends. The results show that inflation has the positive effect on increasing and maintained dividend decision of companies. But it has the inverse and negative effect on decreasing a dividend. Inflation has significant contribution to the dividend policy maker decision according to the status of companies as making profit or loss.

Al-Malkawi (2007) examined the determinants of corporate dividend policy in Jordan firms using panel data set of all publicly traded firms on the Amman Stock Exchange between 1989 and 2000. He concluded that the firm’s age, size, and profitability positively and significantly affected its dividend policy, while leverage has negative effect on the dividend policy.

Anil & Kapoor (2008) conducted a study among Indian IT-companies and they concluded that there was a strong relationship between cash flow and dividend payments. But, growth and market to book value insignificant negative correlation with dividend payout ratios. He also indicated that positive insignificant relationship between the dividend payout ratios and the companies‟ profit and taxes. On the other hand, the study indicated that liquidity position is an important factor which influences companies‟ dividend payout ratios.

Al –Kuwari (2009) Accompanied study on non-financial firms listed on Gulf Co-operation Council (GCC) countries between 1999 up to 2003. Using a series of random effect Tobit models, the result suggested that the dividend policy was significantly and positively related to the government ownership, firm size and profitability, but negatively to the leverage ratio.

Parua& Gupta (2009) undertook study on the determinants and trends of dividends in 607 listed Indian companies from 1993 to 2005. They found that past, current and expected future profits had significant positive role in determining the dividend payout ratio and cash balance and cash flow had significant negative relationship with the dividend rate. They also found that factors like Interest expense, capital expenditure, tax ratio and share price had almost no role on the dividend payment.

Gupta &Banga (2010) conducted study on the determinants of corporate dividend policy in Indian companies listed on the Bombay Stock Exchange during the period of 2001-2007. His study indicated that there was negative and positive relationship between dividend policy and leverage respectively. He explained that non-financial factors such as foreign collaborators‟ shareholding, attitude and behavior of management, company policies may have an impact on the dividend decision of a firm. From his study he concluded that leverage and liquidity were major determinants in Indian firms.

Al Shabibi& Ramesh (2011) conducted a study regarding determinants of dividends in United Kingdom using 102 non-financial companies listed on the stock exchange in United Kingdom in 2007.The study indicated as there is no significant relationship between dividends and growth, industrial type, tangibility and gearing ratio. The authors explained as that there was strong relationship between companies‟ dividends and profit, size and risk. They state that riskier firms may want to signal stability and therefore chose to pay dividends to shareholders.

Sinaei&Habibi (2012) accompanied their study on the determinants of the dividend payout ratio on firms listed in The Tehran‟s Stock Exchange (TSE) from 1999 to 2008. The result showed that there was a significant and negative relationship between the dividend payout ratio and market to book ratio and capital expenditure.

On the other hand, there was a positive relationship with the compensation and debt to equity ratio, financial leverage.

HashimZameer, et al. (2013) investigated the determinants of dividend policy of Pakistani banking sector using data of 27 foreign and domestic banks operating in Islamic and conventional in Pakistan listed in different stock exchange as a sample. The result indicate that liquidity, profitability, last year dividend and ownership structure show highly significant relationship with dividend payout of Pakistani banks. Profitability, last year dividend and ownership structure revealed positive impact on the dividend payout and liquidity indicates negative influence on the banking. They also found that Size, leverage, agency cost, growth and risk have insignificant impact on the dividend policy of the banks.

Mehta (2012) investigated the determinants of dividend payout policy for United Arab Emirates (UAE) firms. The paper analyzed the determinants (Profitability, Growth, Liquidity, Size and Leverage) of dividend payout for all firms in the areas of real estate, energy sector, construction sector, telecommunications sector, healthcare and industrial sectors (except bank and investment) listed on the Abu Dhabi Stock exchange for a period of five years from 2005-2009. The correlation and multiple regression techniques have been applied by the author to find out the most significant factors used by the UAE firms in making dividend decisions. From the study the author found that and concluded size of the firm has positive and significant impact on dividend payout of the firm in the UAE, Risk of the firm has negative significant relation with dividends of the firm, and profitability had negative insignificant impact on dividend payout. The result also indicated that liquidity and leverage were insignificant in influencing the dividend payout of the firm in the UAE. The author indicated that Size and Risk are the important factors to be considered in deciding the dividend policy by UAE companies.

Gill, B. &Tibrewala (2010) seek to extend their findings regarding the determinants of dividend payout ratios by examining the American service and manufacturing firms. They find that for the entire sample the dividend payout ratio is the function of profit margin, sales growth, debt-toequity ratio, and tax. For firms in the Services industry the dividend payout ratio is the function of profit margin, sales growth, and

debt-to-equity ratio. For manufacturing firms, we find that dividend payout ratio is the function of profit margin, tax, and market-to-book ratio. They also found that as the results are different when the dividend payout ratio is defined as the ratio between the cash dividend that the after-tax cash flow, not the after-tax earnings of the companies.

Karthik, P. (2015) investigates the factors influencing dividend payout of Indian commercial banks by using a fixed effects approach in panel regression. The study considers nineteen public sector banks and ten private sector banks during the period from 2007 to 2014. Profitability, size, liquidity, leverage, growth opportunities and risk are the factors considered in influencing dividend payout. Profitability has a negative effect on dividend payout and it concludes higher the profit of the bank, the less they prefer to pay out dividends. It could be due to the fact that profitable banks have more opportunities for growth. Risk found to be a positive effect on dividend payout and it confirms that lower the risk of the banks denotes low volatility in their cash flow, resulting in an increase of dividend payout. The liquidity of the banks has a negative effect on dividend payout and it concludes liquidity is essential for the smooth operation of banks. Size, leverage and growth opportunities are found unrelated to dividend payout of the listed Indian commercial banks.

Sonny Pangemanan et al., (2015) undertaken their studies when banking industries turn their organization into public ownership in market stock exchange, then they seems have liabilities to pay dividends for their shareholders and to increase these shareholder‟s wealth. But to take decision for dividend policy most of industries must rely it on their financial performance. The objective of this study is to analyze the characteristics of dividend payers specially in banking sector. Conducting binary logistic regression, this study finds, the entities in banking sector with higher dividend average are more profitable than entities with lower dividend average and depend on its profit to pay dividends for their shareholders. Also, these entities tend more mature, larger, and have higher debt ratio relative to entities with lower dividend average.

2.4.2. African Empirical Literature on Determinants of Dividend Policy

Amidu&Abor (2006) has undertaken study on the determinants of dividend payout ratios of listed companies in Ghana using data derived from the financial statements during six-year period. From their study, they concluded that a negative relationship between dividend payout and risk, institutional holding, growth and market to book value, and positive relationships between dividend payout ratios and profitability, cash flow, and tax. However, these variables have impact on dividend payout in their study; the significant variables were only profitability, cash flow, sales growth and market to book value.

Yiadom&Agyei (2011) investigated the factors affecting the dividend payout decisions of sixteen banks in Ghana covering a five-year period 1999 – 2003. The results showed that profitability, leverage, changes in dividends and collateral capacity had a positive significant impact on the dividend policies of banks in Ghana. On the other hand, they found that growth and firm maturity had a negative significant influence on the dividend payout. However, the cash flow had a negative, but insignificant relationship with dividend policies.

Kimutai Pius Kibet (2012) studied the effect of liquidity on dividend payout in case of companies listed at the Nairobi Securities Exchange. In the study dividend payout was considered as dependent variable while profitability, cash flow, liquidity, leverage, corporate tax, sales growth, earning per share and industry as independent variables. The findings indicated that there is a positive effect of all independent variables except cash flow and corporate tax. As revealed from the finding cash flow has negative impact on dividend payout while corporate tax has no effect on the dividend payout.

OlubukunolRanti (2013) investigated the determinants of dividend policy in the Nigerian Stock Exchange market using annual reports for the period 2006-2011. The researcher analyzed the effect of the financial performance of the firms, firm size, financial leverage and board independence on the dividend payout decisions of listed firms operating in the Nigerian Stock Exchange market. The finding indicated a significant positive relationship between firms‟ financial performance, size of the

firms and board of independence on the dividend payout decision of listed firms in Nigeria.

Agyemang E. (2013) examined variables affecting dividend policy listed financial institutions in Ghana Stock Exchange using panel data covering 2005-2009. The result indicates significant and positive relationship between liquidity and age but statistically insignificant relationship between collateral, profitability and dividend payment. The researcher concluded that age of the firm, liquidity and collateral are the major determinants of dividend policy of financial institutions in Ghana.

Maniagi G. et al (2013) studied the determinants of dividend payout of non- financial firms listed on Nairobi Securities Exchange from 2007-2011. They used dividend payout ratio as dependent variable and profitability, growth, current earnings as independent variables, and business risk, size and liquidity was taken as moderating variables. The outcome of the study revealed that firm‟s size, growth opportunities, profitability, current earnings and business risk are the main determinants of dividend payout for non-financial firms on Nairobi Securities Exchange.

ZipporahWanjiru (2013) tested the relationship between dividend payout of firms listed at the Nairobi Securities Exchange and macroeconomic variables that included; money supply, inflation, exchange rates, interest rates for the period 2002 to 2012. Inflation rates have a significant positive relationship with dividend payout; exchange rates had a negative effect on the dividend payouts, while interest rates have insignificant impact on the dividend payout. Money supply had a positive insignificant effect on the dividend payouts.

Rufus A. &Soyoye M. (2014) investigated the determinants of dividend payout in the Nigerian banking industry over the period 2006 to 2008. They employed pooled regression techniques using the data of the Nigerian quoted banks. Their result showed that profitability, Liquidity, Size and Activity mix are statistically significant factors which positively influenced dividend payout. The results also show that revenue growth, debt-equity ratio, retained earnings, loan deposit ratio and loan loss provision negatively influence dividend policy.

EliasuNuhu (2014) reconsidered the factors that determine the dividend payout in Ghana from 2000 to 2009. The outcome of the study revealed that profitability, board

size, board independence, the square of profitability, leverage and audit type are important determinants of dividend payout in Ghana. The result also indicated that dividend payout ratio in Ghana is positively associated to profitability; board size and audit type but negatively related to the square of profitability.

Kofi Baah B. et al. (2014) Surveyed on the determinants of dividend policy and its effects on share price of companies listed on the Ghana Stock Exchange for the period 2006-2011. The author analyzed factors such as volatility, profit after tax, earning per share, growth in assets, size, return on equity and liquidity, and used dividend payout as dependent variable. The findings show that the main determinants of dividend policy for companies listed on Ghana Stock Exchange are return on equity, profit after tax and size of the company. There are however, varying factors that influence the dividend payout across the different sectors. The researcher concluded that Profitability is a key determinant of dividend policy of companies across the various sectors on the GSE.

2.4.3. Empirical Literature on Determinants of Dividend Policy in Ethiopian

In Ethiopia, some studies have been conducted on dividend policy of banking and insurance industry.

Tewodros K. (2011) under took an empirical study on the determinants of dividend payout of six private banks in Ethiopia during 2006 - 2010. By using Linter‟s model, the study concluded that there was a positive relationship between the firm size and the dividend payout ratio, a negative relationship between liquidity and the dividend payout. However, there was no relationship between payout ratio and profitability, growth and leverage. He concluded that banks in Ethiopia considered agency conflicts, previous year‟s dividend and liquidity when making decisions to pay dividends.

The purpose of the study was to identify the various factors that influence the dividend policy of insurance companies in Ethiopia by using panel data covering nine-year period from 2003 – 2011. The study uses mixed research approach for a sample of nine insurance companies operating in Ethiopia. The results show that dividend decisions are relevant and profitability and liquidity are statistically

significant factors which positively influence dividend policy of insurance companies in Ethiopia. On the other hand, growth influences dividend policy negatively and significantly. Also, the study finds that size and leverage are insignificant in influencing the dividend policy of insurance companies in Ethiopia.

Simegn H/Mariam (2013) investigates the determinants of dividend policy of banks in Ethiopia using panel data for ten years‟ time period (2002-2011) of five banks was collected and analysis through using the ordinary Least Square method with the fixed effect model. The regression result shows that current earning, previous year‟s dividend, bank‟s age and loan loss provisions have positive and statistically significant impact on the banks dividend payments whereas liquidity has negative impacts and leverage is not an important variable for the banks dividend decision.

Samuel (2016) and the study showed that profitability, leverage, liquidity, previous year dividend and asset structure have a positive relationship with dividend payout. Meanwhile, firm size and growth opportunities have a negative relationship with dividend payout.

Temesgen (2016) In order to achieve the objective, the researcher used mixed research approach and 12 years panel data was collected from seven private insurance companies for the years (2001-2012). The result of the study revealed that earning per share, liquidity, age of company in its life cycle and regulation on dividend taxation have positive and statistically significant relation with the dividend.

2.5. Research Gap

Scholars in corporate finance attempted to obtain actual reason for why firms pay dividend and what specific and general factors should be considered before making dividend payment decision but empirical findings did not give the same results. Therefore, researchers couldn't reach on the same conclusion.

If we see agency theory and could be explained in a way that insurance companies with low debt ratio tend to pay high dividends. This theory support with the finding of (Dagnaw, 2009) however, insurance companies with low debt ratio tend to pay low dividends contradict with Kinfe, (2011), Nuredin, (2012) and Simegn, (2013).

In addition to inconsistency of findings and contradictory between dividends from the past studies, most of the previous studies on dividend policy were focused on developed countries which their findings may not be applicable to developing countries like Ethiopia. Also, most of the past studies were done on manufacturing sectors, non-financial institution, banks and other sectors rather than insurance industry and so their findings may not be generalized for insurance sectors.

Dividend policy does not only affect by the factors that associated with the firms rather than the industry, the macroeconomic and legal environment of the country which the firms operate may have also a significant impact so that the firm's dividend decision in developing countries may affected by different set of behaviours. Therefore, further researches are required to study the dividend policy of firms in developing countries like Ethiopia. This study contributed findings about the determinants of dividend policy of private insurance share companies in Ethiopia and the findings also contributed to fill the literature gap exist in developing country specifically in Ethiopia.

In Ethiopia, even if there were rarely some studies in case of this research title, in which the methodology they sought, the time period the researches were conducted, the variables considered, the data type employed, the case study considered, and such alike dynamics trigger the attention of the researcher to study by considering and being compressive in the above-mentioned gaps in this problematic and researchable areas.

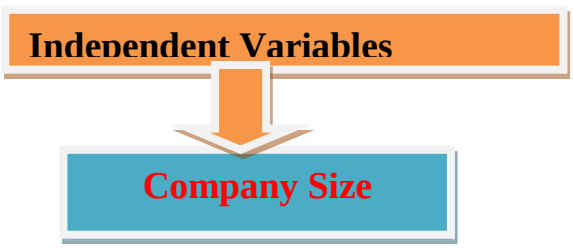
2. 1 Summary of some empirical findings

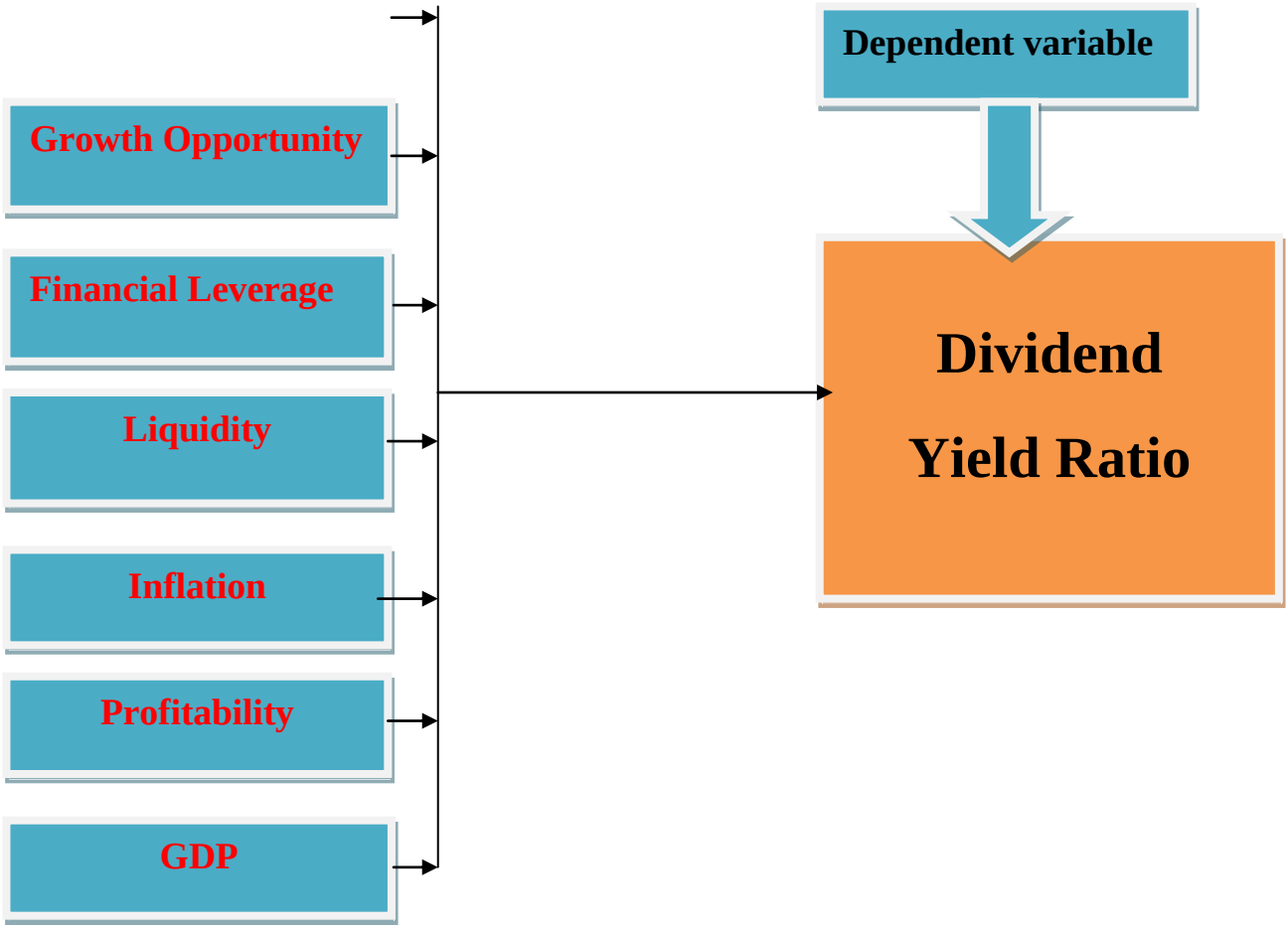
Table 2.1 Summary of some empirical findings

Author and Date	Title and case study	Methodology	Variables considered	Research Gap in this thesis
Al-Najjar& Hussainey(2009)	Associationbetween dividend payoutand outside directorship in United Kingdomfirms' firms	Tobit and Logitregression models	insider ownership, profitability, liquidity, asset structure, business risk, firm size, firms‟ growth rate and borrowing ratio	Random effect panel regression model and Growth opportunity, liquidity, profitability, previous year dividend, GDP and Inflation
Al-Yahyae (2006)	determinants dividend policy of Omani firms in the financial and nonfinancial sectors	panel data	business risk profitability and size	Random effect panel regression model and Growth opportunity, liquidity, profitability, previous year dividend, GDP and Inflation
Simegn H/mariam(2013)	determinants of dividend policy of banks in Ethiopia panel data for ten years‟	panel data	earning, previous year's dividend, bank "sage, loan loss provisions and liquidity	Random effect panel regression model and Growth opportunity, liquidity, profitability, previous year dividend, GDP and Inflation

2.1 Conceptual frame work

Figure 1 Conceptual frame work





Source: (own design based on theoretical), 2021

Figure 2. 1 conceptual frame work

CHAPTER THREE
Research Methodology

3.1 Introduction

This chapter was focus on the research design approach adopted, variables description and hypotheses of the study, population, sampling design, and sample size, data collection, presentation, and analysis techniques, regression model specification, and the conceptual frame work will be given at the end.

3.1 Research design

The choice of research design depends on objectives that the researchers want to achieve (Admas et al., 2007). Since this study was designed to examine the relationships between insurance dividend payout ratio and its determinants, a logical reasoning either deductive or inductive is required. Deductive reasoning starts from laws or principles and generalizes to particular instance whereas inductive reasoning starts from observed data and develops a generalization from facts to theory.

Besides, deductive reasoning is applicable for quantitative research whereas inductive reasoning is for qualitative research (Admas et al., 2007). Thus, due to quantitative nature of data, the researcher used deductive reasoning to examine the cause-and-effect relationships between insurance dividend payout ratio and its determinants in this study.

As noted by (Kothari, 2004) explanatory research design examines the cause-and-effect relationships between dependent and independent variables. Therefore, since this study was examined the cause-and-effect relationships between insurance dividend payout ratio and its determinants, it is an explanatory research. The objective to be achieved in the study is a base for determining the research approach for the study.

According to Creswell (2009), there are three basic research approaches; these are quantitative, qualitative and mixed research approaches. For the purpose of this study, quantitative research approach used to meet the overall objective of the study and to test the hypotheses under it. Quantitative methods are frequently described as deductive in nature, in the sense that inferences from tests of statistical hypotheses lead to general inferences about characteristics of a population and also this method is frequently characterized as assuming that there is a single ‘‘truth’’ that exists, independent of human perception (Guba and Lincoln 1994).

Quantitative research methods attempt to maximize objectivity, replicability and generalizability of findings, and are typically interested in prediction; This research approach conventionally commences by analyzing the literature to identify a single selected problem/knowledge gap leading to the isolation of the major research question(s) in which the existing knowledge may be inadequate (could be identified gaps between existing theories or evidence, contradictions will Explore, or new contexts for applying previous findings) (Sutrisna 2009).Therefore, the purpose of using quantitative approach in this study was to apply previous findings in the context of Ethiopia. As per Denzin and Lincoln (1994), the goal of this approach is to measure and analyze causal relationships between variables within a value free framework.

Hence, this study conducted based on the philosophy of positivism that strongly argues on objectivism, measurability, scientific methods and value free; and ignores belief, emotion and perception. According to Denscombe (2007) positivism is an approach to social research which seeks to apply the natural science model of research to the investigation of the social world and it is based on the assumption that there are patterns, regularities, causes and consequences in the social world, just as there are in the natural world.

Therefore, for this study quantitative research approach enabled to see the relationship between the dividend payout of insurance company and the major firm specific and macroeconomic factors affecting dividend payout in Ethiopia by establishing causal relationship; besides, this enables to test the theory in the context of Ethiopia.

3.2Population, Sampling Design and Sampling Frame

Population of the Study:

The study population/participants are all private Ethiopian insurance that existed in the fiscal year 2020/21. According to NBE (2020/21), there are eighteen private Ethiopian insurance and one public insurance in the year 2020/21.

These are; Ethiopian insurance, Awash Insurance, NibInsurance,NiyalaInsurance, UnitedInsurance, Nile Insurance,AbayInsurance,Oromiya Insurance, Lion Insurance, National Insurance, Africa Insurance, Global Insurance, Tsehay Insurance, Brhan Insurance, Bunna Insurance, Zemen Insurance, Ethio life and General Insurance and LucyInsurance. The first one is publicly owned and the remaining seventeen are privately owned Insurance.

Sampling Design: The sampling technique under this study was nonrandom purposive or judgmental sampling. In this type of sampling, items for the samples are selected deliberately; the researcher's choice concerning the items remains supreme. In other words, under purposive or judgmental sampling the organizers of the inquiry purposively choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one will be typical or representative of the whole (Kothari 2004). This enables to select samples which are suitable to achieve the study objective.

Hence, for this study nine (9) insurance was purposively selected those are AI, UI, ABI, LI,NICE, AFI, GI ,NYAI which were experienced insurance having at least ten years working experience.

Sampling Frame: The frame for drawing sample was include those insurance company having at least ten (10) years working experience in Ethiopia (i.e., from 2012 to 2020/21). The reason for using ten years data is attempting to include experienced insurance company this was because of an insurance company which have long time stay in the market have high possibility of paying divided.

In Ethiopia there are nine insurance company having at least ten years working experience which included: Awash insurance (AI), United insurance (UI), Nile insurance (NI), Abay insurance (ABI), Lion insurance (LI), National insurance (NICE), Africa insurance (AFI), Global insurance (GI), Niyala Insurance company (NYAI). Therefore, it was possible to draw a relationship among variables using 90 observations; across nine insurance company over ten years (i.e., the matrix for the frame is 9*10 that includes 90 observations).

3.3 Data Collection, Presentation and Analysis Techniques

3.3.1. Data and Data Collection Instruments

This study used only a panel secondary data. As per Koul (2006), Consistent and reliable research indicates that research conducted by using appropriate data collection instruments increase the credibility and value of research findings. Accordingly, structured document review was used to collect the necessary data from audited financial statements (balance sheet and income statement) of each insurance company in the sample and macroeconomic data was obtain from National Bank of Ethiopia/NBE and Ministry of Finance and Economic

Development/MOFED from 2012 to 2020/21. All data was collected on the annual base and the figures for the variables were on June 30 of each year under study.

3.3.2. Data Presentation and Analysis Techniques

In this study two type of statistical analysis was used to test the proposed hypotheses. Those are descriptive statistics and inferential statistics/multiple regression analysis to see the effect (relationship) of explanatory or independent variables on the dependent variable.

First, the inferential statistics/multiple regression analysis, the most important part of the analysis, helps to identify the determining variables of dividend payout and draw relationship between dependent and independent variables. The regression analysis was concern with the study of the dependence of one variable, the dependent variable, on one or more other variables, the explanatory variables, with a view to estimating and/or predicting the (population) mean or average value of the former in terms of the known or fixed (in repeated sampling) values of the latter (Gujarati 2004).

To do so, firstly fixed vs. random effect model test was made this help to identify which model is appropriate for the data under study. Next classical linear regression model (CLRM) assumptions/ diagnostic tests was conduct in order to see the applicability of the regression model develop to test the relationship between dividend payout decision and independent variables and then inferential statistics/multiple regression analysis was made. Before proceeding to the analysis of the multiple regression result, descriptive statistics of both dependent and independent variables was calculating over the sample period.

Fixed effects and random effects models used models for the panel data. In order to choose fixed or random effect model a formal test so called Hausman test used which was based on the null hypothesis in favor of random effect model estimator. When the test is made it is important to see the p-value because the decision was made on the basis of this value, accordingly if p value is higher than 0.05 (i.e., it is insignificant) hence random effects is preferable whereas if p value is lower than 0.05 (i.e., it is significant) fixed effect is preferable (Gujarati 2004).

This helps to convert the raw data in a more meaning full form which enables the researcher to understand the ideas clearly (Malhotra 2007). It deals with a simple description of variables like mean, maximum, minimum and standard deviation of each variable. Therefore, inferential

statistics/multiple regression analysis, the descriptive statistics, and the entire tests listed above were conducted by using E-view10 software econometric package.

3.4 Variable Description and Hypotheses of the Study

This study was attempt to see the relationship between the dependent and independent variables through testing the hypotheses regarding to the relationships between dividend payout and firm specific and macroeconomic factors affecting it in the private insurance company of Ethiopia. Hence, to attain the objective of the study the following hypotheses developed with the detail descriptions of the variables under the study.

3.4.1 Independent and Dependent Variables

3.4.2 Dependent Variable

Dividend payout.

Dependent variable used for this research is dividend payout. In the model amount of dividend declared by the firm was used. Dividend payout is measured by dividend payout ratio (Al kuwaari, 2009; Mollah et al., 2002; Muhamed, 2012; Samuel, 2016). Dividend payout ratio is the percentage of profits distributed by the company among shareholders out of the net profits. Therefore, dividend payout is defined as the ratio of dividend paid to net Income after tax for insurance company „i" in time„t". Therefore, the following formula developed for the dependent variable:

$$dividend = \frac{dividend}{Net\ income}$$

3.4.3 Independent Variable

Profitability

It is an important explanatory variable of dividend policy (Fama and French, 2001; Han et al, 1999). Return on assets, selected as profitability of the firm is defined as Net Income divided by Total Assets. According to (Belanes et al, 2007) the relation between return on asset and the dividend payout is found to be positive, in case of the Tunisian companies. Jakob and Johannes (2008) in their study on dividend policy in Denmark found that the dividend payers in Denmark are affected by positive earnings, high ROE, large size and high retained payment in last year but

no relationship is found between market to book ratio, leverage ownership structures and dividend decision in Denmark.

H1: There is a positive effect between profitability and corporate dividend payout decision of Ethiopian Insurance companies.

Liquidity

Liquidity is one of the important considerations in dividend decisions, because dividend represent cash outflow. Liquidity measures the extent to which a firm can meet its payment obligations. According to the signaling theory, firms with higher cash accessibility can pay higher dividends than firms with insufficient cash (Gupta &Banga, 2010)

Liquidity measures the extent to which a firm can meet its payment obligations. Furthermore, according to agency theory, Jensen et al. (1986) argued that firms with high cash flows pay higher dividends to diminish the agency conflict between. their managers and shareholders. Also, Christopher (2014) found liquidity is an essential factor that affects the dividend policy. Anil & Kapoor (2008) indicate that cash flow is an important determinant of the dividend payout ratio.

In current study Current Ratio (CR) and Quick test Ratio (QR) are used to measure liquidity. CR is most commonly used variable whereas QR is more conservative measure of liquidity. According to the literature bulk of results explains that there is positive relationship present between liquidity and dividend payoutbehavior (Jakob& Johannes 2008; Amidu&Abor 2006; DeAngelo et al, 2004; Ho, 2002La Porta et al, 2000);

H2: There is significant and positive relationship between liquidity and corporate dividend payoutdecision of Ethiopian Insurance companies.

Leverage

Debt always involves high risk as it must be paid off. However, it allows companies to manage return on equity for shareholders. High financial leverage is associated with risk, so highly leveraged companies pay lower dividends to protect creditors and maintain internal cash flow to fulfill their responsibility. That is, highly leveraged firms pay lower dividends to reduce their transaction costs (Gugler&Yurtoglu, 2003; Agrawal &Jayaraman, 1994; Crutchley& Hansen, 1989; Jensen, 1986; and Rozeff, 1982). This suggests that non-dividend paying firms have high leverage in comparison to dividend paying firms. To determine the extent to which liabilities or debt can affect the pattern of dividend paying; this variable is included as one of the independent variables and is defined as total debt to total equity. Hypothesis formulated is as follow:

H3: There is significant and negative relationship between financial leverage and corporate dividend payoutdecision of Ethiopian Insurance companies.

Growth Opportunity

Firm's ability to remain at the same level of development at a certain rate which is likely to be higher than the growth rate compared with other firms is defined as growth by (Al – Najjar&Hussainey, 2009). The proxy for growth opportunities is the change in annual income. Ho. (2003) that firms expected to spend more on new projects for expansion purposes when they have high opportunity for growth are. When a firm is growing rapidly the more is the need for funds to finance the expansion and the more likely the firm is to retain earning rather than to pay them as dividends as stated by (Chang & Rhee 2003).

The same finding was reported Rozeff (1982); Jensen et al. (1992) and Alli (1993) firms with higher growth opportunities are likely to retain a greater portion of their earning, resulting in the lower dividend payout ratio. As a result, the researcher formulates its hypothesis as follows:

H4: Growth opportunity has a negative and significant impact on dividend Policy of Ethiopian insurance companies.

Company Size

Scott & Martin (1975) stated that the firm size is one of the significant factors which affect the firms' debt and dividend policies. Bradley et. al., (1998) conducted a study on a sample of 75 Firms. The data from year 1985-1992 was tested. The results proved that the firms with high expected cash flow risk have lower payout ratio. The firm size has also been accounted for as firms' total sales.

H5: There is significant and positive relationship between Firm size and dividend payoutdecision of Ethiopian Insurance companies.

Inflation

When a firm establishes its dividend policy it should consider Inflation. On the other hand, investors would like to receive larger cash dividends because of inflations. To replace existing equipment, finance new capital expenditures, and meet permanent working capital needs, inflation causes it to have to invest substantially from the firm viewpoint. In such times, there may be a chance to hold down cash dividends and also forces companies to indulge in lower

dividends and to hold a major part of their earnings. As the price rise, companies need to increase their capital reserves for their purchases and other expense.

Under these circumstances, the firm may be forced as a mitigation strategy to depend upon retained earnings as a source of funds to make up for the shortfall. Consequently, the dividend payoutratio willbelow. Basse&Reddemann (2011) studied the inflation and dividend policy of US Firms and established a stable long-run relationship between dividend payments and real economic activity and price level. Kiptoo (2010) conducted an empirical investigation on selected macro-economic variables and stock price a study of the Nairobi Stock exchange for ten years (1998-2008) using the macroeconomic variables such as inflation rate, money supply, interest rate, exchange rate, and Gross domestic product. The study revealed that inflation has a significant impact on stock price determination at the NSE. In these studies, inflation was hypothesized as follow:

H6: There is significant and negative relationship between inflation and corporate dividend payout decisionof Ethiopian Insurance companies.

Gross domestic product

In this study GDP was analyzed as a factor of dividend policy. It is explained as GDP is one of determinants of dividend policy and positive association between GDP and dividend decision. As Kiptoo (2010), in this study GDP can be hypothesized as follows;

H7: Gross domestic product has positive impacts on corporate dividend payout decision of Ethiopian Insurance companies

3.5.3 Regression Model Specification

The nature of data that were used in this study was enabling to use panel/longitudinal data model which is deemed to have advantages over cross sectional and time series data methodology. Panel data involves the pooling of observations on the cross sectional over several time periods. As Brooks (2008) stated the advantages of using panel data set; first and perhaps most importantly, it can address a broader range of issues and tackle more complex problems with panel data than would be possible with pure time series or pure cross-sectional data alone.

Second, it is often of interest to examine how variables, or the relationships between them, change dynamically (over time). To do this using pure time series data would often require a

long run of data simply to get a sufficient number of observations to be able to conduct any meaningful hypothesis tests. But by combining cross sectional and time series data, one can increase the number of degrees of freedom and thus the power of the test by employing information on the dynamic behavior of a large number of entities at the same time. The additional variation introduced by combining the data in this way can also help to mitigate problems of multicollinearity that may arise if time series are modeled individually.

Third, by structuring the model in an appropriate way, the researcher can remove the impact of certain forms of omitted variables bias in regression results. Hence, the regression model used for this study was similar with that of Rafique& Malik (2013) and Vodová (2011). The fixed effect panel data model was selected and used for hypothesis testing. It is one of panel data model which enables to control for unobserved heterogeneity among cross sectional units and to get the true effect of the explanatory variables.

Therefore, Thecorporate dividend payoutdecisions subject to different set of interrelated factors. To investigate the factors that determine the dividend payoutdecision ofcorporate, multiple regression model was used to examine the relation of dividend payoutdecision (Dividend yield declared is in percentage each year). This model was selected due to the nature of dependent variable. The following best fitted multiple regression models developed to measure the factors of dividend payoutdecision ofcorporate.

General panel/longitudinal regression model will be as follows:

$$yit = \alpha 0 + \Sigma \beta k x k,i,t + \varepsilon i,t$$

Where yit = the dependent variable (i.e., Dividendpayout at time t),

Xk,i,t = the independent variables of the study,α0 = intercept/constant term, βK's (β1–β8) = parameters estimated/coefficients of the explanatory variables, i = the cross section, t = time series dimension, εi,t = the error term, and Σ= Summation.

Hence, the general models which incorporate all of the variables to test the hypotheses of the study will be as follows:

$$DPOi,t = \alpha i + \beta 1(PROFi,t) + \beta 2(LQTYi,t) + \beta 3(LVGi,t) + \beta 4\ (GOPPi,t) + \beta 5(FSIZEt) + \beta 6(INFt)\beta 7(GDP, t) + \varepsilon i,t$$

Where, DPOi,t: is dividend payoutratioi at time t

GOPPi,t: is growth opportunity of ith insurance company on the year t,

SIZEi,t: is the company size of ith insurance company on the year t,

PROFi,t: is the profitability ofith insurance on the year t,

LQTYi,t: is the liquidity ratio of ithinsurance on year t,

GDPt: is the real domestic product growth or GDP growth of Ethiopia on the year t,

INFt: is the overall inflation rate in Ethiopia on the year t,

LVG,t: is leverage of ith insurance company on the year t,,

αi : The constant term for insurance companyi

B1-7: are parameters estimated/coefficient of the independent variables and

εi,t : the error term

CHAPTER FOUR
1. Data Presentation, Analysis and Interpretation

In this chapter the collected data were presented and important correlation and regression results were discussed accordingly, first fixed vs. random effect model test was made this help to identify which model is appropriate for the data, next the classical liner regression model/CLRM test or Diagnostic tests were made, correlation analysis between study variables and the descriptive statistics of dependent and independent variables were followed. The results of fixed effect panel data regression model were presented, and finally the most important part; that was detail discussion of results based on the findings and empirical literatures reviewed for the study were made.

4.1 Choosing Fixed Versus Random Effect Model

The collected data were estimated based on the panel model, which included cross sectional and time series observations for nine insurance company that ranges over 2012 to 2021. Fixed effects and random effects models are commonly used models for the panel data. In order to choose fixed or random effect model a formal test so called Hausman test was used which was based on the null hypothesis in favour of random effect model estimator. When the test is made it is important to see the p-value because the decision was made on the basis of this value, accordingly if p value is higher than 0.05 (i.e., it is insignificant) hence random effects is preferable whereas if p value is lower than 0.05 (i.e., it is significant) fixed effect is preferable (Gujarati 2004). Hence according to Hausman test for this panel data model shown in table 4.1 below, the model is better off if fixed effect model is used since the p-value for the model is 0.0000, which is less than 0.05(significant).

Table 4.1 Tests for choosing fixed versus random effect model

4. 1 Tests for choosing fixed versus random effect model

Test cross-section random effects

Test summary	Chi-sq. statistic	Chi-sq.d.f	Prob.
Cross-section random	9.633258	8	0.0000

Source: E-views10 output from the financial statements of sampled insurance company and own computation

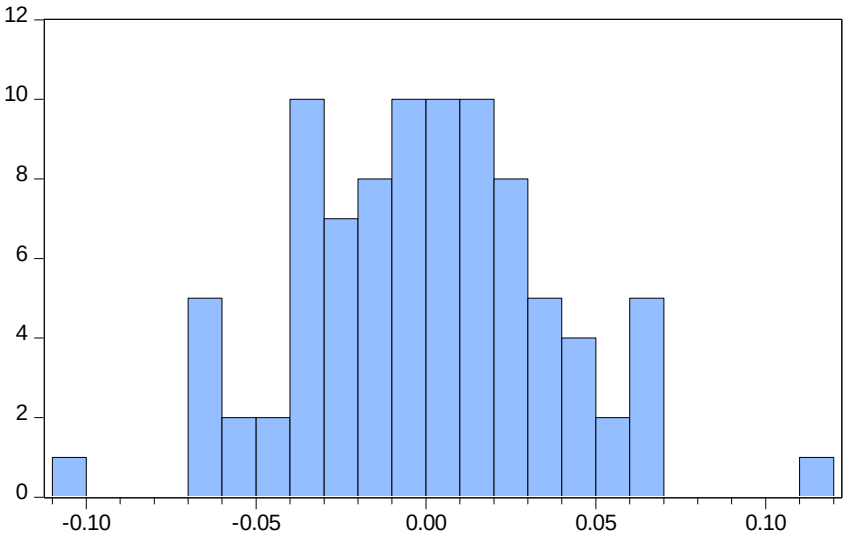
4.2 Testing Assumptions of Classical Linear Regression Model (CLRM)

After choosing whether fixed or random effect was appropriate for the study, the next step was testing for the assumption of CLRM. This was important to make sure that the data and the model fit with classical linear regression model assumptions. Hence, the assumptions of CLRM was tested to know whether the data and the model for this study was fit or not with the assumption.

As per Brooks (2008), the first assumption required that the average value of the errors is zero (E (ut) = 0). In fact, if a constant term is included in the regression equation, this assumption will never be violated. Therefore, since the constant term (i.e. α) was included in the regression equation, the average value of the error term in this study was expected to be zero.

- **Test for Normality Assumption**

Checking whether the disturbances are normally distributed or not is one of the assumptions of CLRM; hence the normal distribution is not skewed and is defined to have a coefficient of kurtosis 3. Accordingly, one of the most commonly applied tests for normality was the Bera-Jarque (BJ) test, so which test the residuals for normality and testing whether the coefficient of skewness and kurtosis are zero and three respectively. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures how far the tails of the distribution are. If the residuals are normally distributed, the histogram should be bell-shaped and the Bera-Jarque statistic would not be significant. This means that the p-value given at thebottom of the normality test screen should be bigger than 0.05 to not reject the null of normality at the 5% level (Brooks 2008).



Series: Standardized Residuals
Sample 2012 2021
Observations 90

Mean	-1.23e-18
Median	0.000989
Maximum	0.117613
Minimum	-0.108632
Std. Dev.	0.036926
Skewness	0.090727
Kurtosis	3.530446
Jarque-Bera	1.178621
Probability	0.554710

As shown in the above histogram, kurtosis approaches to 3 (3.530446) and the Bera-Jarque statistics were not even at 10% level of significance as per the P-values shown in the histogram in the appendix B1(0.554710). Therefore, the null hypothesis that is the error term was normally distributed should not be rejected and it seems that the error term in this case follows the normal distribution.

- **Test for Multicollinearity Assumption**

This is the other assumptions of CLRM and concerned with the existence of relationship between explanatory variables. If an independent variable is an exact linear combination of the other

independent variables, then we say the model suffers from perfect collinearity, and it cannot be estimated by OLS (Brooks 2008). The condition of multicollinearity exists where there is high, but not perfect, correlation between two or more explanatory variables (Cameron and Trivedi 2009; Wooldridge 2006). Churchill and Iacobucci (2005) stated that when there ismulticollinearity, the amount of information about the effect of explanatory variables on dependent variables decreases. As a result, many of the explanatory variables could be judged as not related to the dependent variables when in fact they are. This assumption does allow the independent variables to be correlated; they just cannot be perfectly correlated. If we did not allow for any correlation among the independent variables, then multiple regressions would not be very useful for econometric analysis.

Even if how much correlation causes multicollinearity is not clearly defined, there is an argument provided by different authors. Hair et al (2006) argue that correlation coefficient below 0.9 may not cause serious multicollinearity problem. Malhotra (2007) stated that multicollinearity problem exists when the correlation coefficient among variables is greater than 0.75. Kennedy (2008) suggests that any correlation coefficient above 0.7 could cause a serious multicollinearity problem leading to inefficient estimation and less reliable results. This indicates as there is no consistent argument on the level of correlation that causes multicollinearity.

Therefore, in this study correlation matrix for seven independent variables of the study shown below in the table had been estimated. From the result of the following correlation matrix table, the highest correlation value of 0.469 was observed between company size and growth opportunity, followed by the correlation value of 0.357 between GDP and inflation rate. Since there is no correlation value above 0.7, 0.75, and 0.9 according to Kennedy (2008), Malhotra (2007) and Hair et al (2006) respectively, hence it was possible to conclude that there was no multicollinearity problem in this study.

Table 4.2 correlation matrix between explanatory variables of the study

4. 2 correlation matrix between explanatory variables of the study

	DPO	PROF	GOPP	CSIZE	LQ	INF	LVG	GDP
DPO	1.000000	0.147168	-0.180563	0.394507	-0.322945	-0.319571	-0.245927	0.247315
PROF	0.147168	1.000000	0.186629	-0.228240	-0.195228	0.129679	0.053090	0.357896
GOPP	-0.180563	0.186629	1.000000	-0.469238	-0.145622	0.048321	-0.118069	-0.110097
CSIZE	0.394507	-0.228240	-0.469238	1.000000	0.061099	-0.229639	-0.204219	-0.137611
LQ	-0.322945	-0.195228	-0.145622	0.061099	1.000000	0.098136	-0.140983	-0.169041
INF	-0.319571	0.129679	0.048321	-0.229639	0.098136	1.000000	-0.220231	0.352956
LVG	-0.245927	0.053090	-0.118069	-0.204219	-0.140983	-0.220231	1.000000	0.043898
GDP	0.247315	0.357896	-0.110097	-0.137611	-0.169041	0.352956	0.043898	1.000000

Source: E-views10 output from the financial statements of sampled insurance company and own computation

- **Test for Heteroskedasticity Assumption**

This was the third assumption of CLRM and stated that the variance of the errors is constant; which is known as the assumption of Homoscedasticity. If the residuals of the regression have systematically changing variability over the sample, (i.e. the errors do not have a constant variance) that a sign of Heteroskedasticity is observed. To test this assumption the white test was used having the null hypothesis of Heteroskedasticity. Hence, according to table 4.3 below the p-value was in excess of 0.05, therefore it is possible to say that there was no evidence for the presence of Heteroskedasticity. The white test result was fully attached in the appendix B3.

Table 4.3 Heteroskedasticity test: white test result

4. 3 Heteroskedasticity test: white test result

F-statistic	0.764515	Prob. F(8,61)	0.7800
Obs*R-squared	23.37897	Prob. Chi-Square(8)	0.7138
Scaled explained SS	21.87060	Prob. Chi-Square(8)	0.7872

Source: E-views10 output from the financial statements of sampled insurance company and own computation

- **Test for Autocorrelation Assumption**

This was the last assumption of CLRM for this study and states that CLRM's disturbance term is the covariance between the error terms over time (or cross-sectionals, for that type of data) is zero. In other words, it is assumed that the errors are uncorrelated with one another. Besides if the errors are not uncorrelated with one another it would be stated that they are "autocorrelated" or that they are "serially correlated" (Brooks 2008).

This test was made by using Durbin and Watson test. Durbin-Watson (DW) is a test for first order autocorrelation i.e., it tests only for a relationship between an error and its immediately previous value. DW is approximately equals to $2(1 - \hat{\rho})$, where $\hat{\rho}$ is the estimated correlation coefficient between the error term and its first order lag (Brooks 2008).

Therefore, from table 4.7 fixed effect regression result the value of Durbin-Watson stat (i.e. 1.747225) this revealed that there was no serious evidence of autocorrelation in the data since the DW test result approaches two (2) because as per Brook (2008) stated above there is no autocorrelation problem if the DW is near 2. To make it more convincible for the absence of autocorrelation problem a formal test so called Breusch-Godfrey was made because as stated above the Durbin-Watson tests only for the first order autocorrelation or (i.e. it test only for one

lag- value). Hence, the BG- test was made for ten lag-values and the result was given below in table 4.4, besides the full result was attached in the appendix B4. Since the p-value of F-stat was 0.6931, researcher fail to reject the null hypotheses in that the p-value was above 5% which indicated that there is no autocorrelation problem.

4. 4Breusch-Godfrey test for the absence of serial autocorrelation

F-statistic	8.276312	Prob. F(10,73)	0.6931
Obs*R-squared	47.81742	Prob. Chi-Square(10)	0.9764

Source: E-views10 output from the financial statements of sampled insurance company and own computation

4.3 Descriptive Statistics of the Variables

According to Raheman and Nasr, (2007) descriptive statistics is the first step in analyzing average indicators of variables computed from the financial statements and the standard deviation that shows how much dispersion exists from the average value. According to Brooks, (2008), a low standard deviation indicates that the data point tends to be very close to the mean, whereas high standard deviation indicates that the data points are spread out over a large range of values. This section provides the descriptive statistics of dependent and independent variables which helped to have the overall look at variables being studied. It indicated the result of all variables calculated as mean, median, standard deviation, minimum and maximum values with the number of observations under the study was demonstrated in tabular form.

Hence, table 4.6 below presented the descriptive statistics values of the study variables that were both dependent and independent variables for the study period and all variables comprised 90 observations. The study used the dependent variable which measures the dividend payout ratio of sampled insurance company Ethiopia and seven independent variables were included both insurance specific and macro-economic variables. Insurance specific variables were growth opportunity, profitability, company size, liquidity and leverage while the remaining

twovariables; real GDP rate and the general inflation rate, were macro-economic variables of the study.

Mean value shows the average value of all sampled insurance company in each variable; whereas the minimum and maximum values of each variable from all sampled insurance company were shown in the minimum and maximum statistics respectively. Sample variation from the mean was shown in the standard deviation statistics which is the square root of variance and normally good if it is low.

Table 4.6 Descriptive statistics of the variables

4. 5 Descriptive statistics of the variables

	DPO	PROF	GOPP	CSIZE	LQ	INF	LVG	GDP
Mean	0.271708	0.033372	0.140123	16.20023	0.301002	0.176838	0.073400	0.119395
Median	0.285572	0.036130	0.130620	16.05983	0.222285	0.097534	0.071900	0.104062
Maximum	0.395427	0.044570	0.394330	20.05900	0.992190	0.592413	0.082500	0.234607
Minimum	0.059743	0.002470	0.014910	13.26062	-0.108800	0.027069	0.068800	0.029900
Std. Dev.	0.075907	0.005590	0.060287	1.292391	0.265512	0.167503	0.005313	0.052680

Source: E-views10 output from the financial statements of sampled insurance company and own computation

Dividend payout ratio was measured as dividend divided by net profit. Also, the table 4.6 shows that the mean value for dividend payout is 0.271708 indicating that on average Ethiopian insurance companies paid 27.17% their income as dividend. The standard deviation is 0.075905 this implies that the volatility of dividend payout ratio varies from the mean by 7.59% that means the mean which is 27.17% may increase 34.76% Dividend payout ratio or decrease to19.58 Dividend payout ratio.

The average value of growth opportunities is 0.140123 with a standard deviation of 0.060287. This implies that on average, the insurance companies' sales increased by 14.0123% over the study period. This result indicates that on average Ethiopian insurance industry is in a rapid growth stage in terms of revenue. The maximum value of growth for the study period 2012 to 2021 was 39.43% and a minimum value of 1.49%. The standard deviation is 0.060287. This

implies that the volatility of dividend payout ratio varies from the mean by 6.0287 % that means the mean which is 14.0123% may increase 20.041% Dividend payout ratio or decrease to7.9836 Dividend payout ratio.

Regarding the size of the firm (company) natural logarithm of total assets were proxies to measure the size of Ethiopia insurance companies. According to the descriptive statistics table, the mean, over the study period is 16.20. This implies the anti – logarithm figure on table shows nine Ethiopian insurance companies have an asset on average value of Birr 450 million over the study period and standard deviation of 1.292 while the maximum and minimum value are 20.05 and 13.26 respectively during the study period covering from 2012 to 2021.

Brealey and Myers, (2005), a company will be solvent if it has a minimum of one-to-one proportion between current asset and current liability. The average liquidity position of Ethiopian insurance companies' as shown in table 4.6 is 30.10% as measured by current asset divided by current liability. This implied that for a 30-centbirr current liability there is an available 30 cent birr on average on current assets, a maximum liquidity position of 99.2% and minimum of 10.8% with a dispersion of 26.5% ups and downs. Thus, it can be said that, Ethiopian insurance companies are solvent during the study period covering from 2012 to 2021.

Ethiopian insurance companies have on average 7.34 % leverage ratio, in the result from table 4.6 leverage proxies by debt ratio (total debt divided by total asset) in their asset composition, mainly from provision for unearned premiums and outstanding claims, with 0.53% variability ups and downs with a maximum and minimum debt ratio of 8.25% and 6.88% respectively during the study period covering from 2012 to 2021.

The remaining independent variables were macroeconomic indicators (i.e. GDP and Inflation) which could affect dividend payout ratio over time and these variables were the same for all sampled insurance company at a given period. The annual real GDP rate was used as a proxy for GDP rate, and hence according to table 4.6 the mean value of real GDP growth rate was 11.93%. This indicated the average real growth rate of the country's economy over the past 10 years. The maximum value was 23.46% and whereas the minimum value was 2.99%. The standard deviation was. this implies that the volatility of dividend payout ratio varies from the mean by

5.26% that means the mean which is 11.93% may increase 17.19 % Dividend payout ratio or decrease to 6.67 Dividend payout ratio.

3.4 Correlation Analysis between Study Variables

Correlation is a way to index the degree to which two or more variables are associated with or related to each other. Correlation coefficient between two variables ranges from +1 (i.e. perfect positive relationship) to -1 (i.e. perfect negative relationship). If it is stated as y and x are correlated, this means that y and x are being treated in a completely symmetrical way. Thus, it is not implied that changes in x cause changes in y, or indeed those changes in y cause changes in x rather it is simply stated that there is evidence for a linear relationship between the two variables, and that movements in the two are on average related to an extent given by the correlation coefficient (Brooks 2008). Hence, table 4.5 indicated the correlation between dependent and independent variables of the study.

Table 4.7 correlation matrix between dependent and independent variables

4. 6 correlation matrix between dependent and independent variables

	DPO	PROF	GOPP	CSIZE	LQ	INF	LVG	GDP
DPO	1	0.14716799...	-0.1805626...	-0.3945068...	-0.3229454...	-0.3195713...	-0.2459270...	0.24731538...

Source: E-views10 output from the financial statements of sampled insurance company and own computation

According to correlation result in Table 4.7 shows that growth opportunity, inflation, company size, liquidity and leverage are negatively related to dividend payout ratio of Ethiopian insurance companies. This indicate that when the increase in these factors leads in the decrease in dividend payout and in reverse decreases in these factors leads increases in dividend payout. Moreover, the coefficient estimates of correlation in the above table are -0.180563, -0.322945, -0.394507-0.3195713 and -0.245927 respectively.

While profitability and Gross domestic product are positively related with dividend payout with coefficient estimated in the above table 0.147168 and 0.247315 respectively. These figures

implied that when the increase in these factors also leads to an increase in dividend payout of insurance companies in Ethiopia.

4.5 Results of the Regression Analysis

In this section the results of fixed effect regression model were presented. The regression results have their own implications, and hence beta indicates each variable's level of influence on the dependent variable which may has a coefficient of negative or positive. P-value indicates at what percentage or precession level of each variable is significant and R^2 values indicate the explanatory power of the model and in this study adjusted R^2 value which takes into account the loss of degrees of freedom associated with adding extra variables were inferred to see the explanatory powers of the models. Therefore, the results of fixed effect regression model in this study were presented in table 4.8 below. The operational panel regression model used to identify the statistically significant determinants of Ethiopianinsurance company of dividend payout measured by the ratio of dividend paid to net Income after tax for:

$$DPO_{i,t} = \alpha_i + \beta_1(GOPP_{i,t}) + \beta_2(CSIZE_{i,t}) + \beta_3(PROF_{i,t}) + \beta_4(LOR_{i,t}) + \beta_5(GDP_t) + \beta_6(INF_t)\ \beta_7(LVG, t) + \varepsilon_{i,t}$$

Table 4.8 Fixed effect regression results

4. 7 Fixed effect regression results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.266900	0.220188	5.753724	0.0000
PROF	2.271486	0.948417	2.395030	0.0192
GOPP	-0.233937	0.108286	-2.160354	0.0340
CSIZE	-0.026475	0.009361	-2.828360	0.0060
LQ	-0.064200	0.019112	-3.359221	0.0012
INF	-0.307585	0.035948	-8.556328	0.0000
LVG	-8.062494	1.061030	-7.598742	0.0000
GDP	0.470653	0.099348	4.737403	0.0000

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.763354	Mean dependent var	0.271708
Adjusted R-squared	0.715386	S.D. dependent var	0.075907
S.E. of regression	0.040496	Akaike info criterion	-3.415423
Sum squared resid	0.121354	Schwarz criterion	-2.971012
Log likelihood	169.6940	Hannan-Quinn criter.	-3.236210
F-statistic	15.91360	Durbin-Watson stat	1.794171
Prob(F-statistic)	0.000000		

Source: E-views10 output from the financial statements of sampled insurance company and own computation

According to table 4.7 fixed effect regression results, adjusted R^2 has the value of 71.53% which revealed that the explanatory power of the model was good. The value (i.e., 71.53%) could be interpreted as; the variations of dividend payout ratio in Ethiopian insurance company 71.53% were explained by GOPP, SIZE, PROF, LOR, GDP, INF and LVG whereas the rest 28.47% variation of dividend payout in Ethiopian insurance companieswere explained by neither insurance specific nor macroeconomic variables used in this study rather it goes to the error term. Generally, the value of adjusted R^2 in this study indicated good model specification. Also, the overall test of significant F statistics shows that the model was good enough fitted and statistically significant at

1% level (i.e., p-value = 0.000).

In general, the above table 4.7 indicated that; out of the total seven explanatory variables of the study five of them were statistically significant at 1% level (i.e.,CSIZE, LOR, GDP, INF and

LVG) while PROF and GOPP were significant at 5% level. As result all of the study variables both insurance specific and macroeconomic variables had statistically significant impacts on Ethiopian insurance companies for the period between2012-2021.

4.6 Discussions of the Regression Results

In this section the discussions of regression results were made on the basis of related literature provided in chapter two of this study. Accordingly, the relationship between dependent and independent variables were discussed on the basis of the findings of this study and then it was related to the theoretical literature and the finding of other researchers provided in the empirical review under this study.

Profitability and dividend payout

HO1: profitability has positive and significant effect on Ethiopian private insurance company's dividend payout

The study accept H0 since there is a positive significant relationship between profitability and dividend payout ratio. The EVIEW10 output on the above table 4.7 reveals that the coefficient of profitability is positive. According to the regression result the coefficient is 2.271486 and is highly significant (0.05) at 1 percent level of significance. This means on average as profitability increase by 1 percent, dividend payout ratio will increase by 2.271486 percent, holding other variables constant. This means that the profitable insurance companies in Ethiopia are in a condition of more likely to pay dividends for their shareholders.

According to bird in hand, signalling and pecking order theory, highly profitable firms are in a position to distribute dividends. Fama and French (2001) reported a positive association between dividends and profitability which they interpret as evidence in support of the pecking order theory that is to say they have less need to raise funds externally and because debt is the cheapest and most attractive external option when compared to other methods of capital rising. Thus, profitable firms will find it more significant to pay dividends and to generate more retained earnings. This result is also similar to Lintner (1956)

Liquidity and dividend payout

Ho2: liquidity has positive and significant relationship with dividend payout of insurance share Companies in Ethiopia.

Also considering the other objectives of this study which sought to examine the extent to which liquidity impact on the dividend payout ratios of Ethiopian privet insurance companies, finding from the above table 4.7 represent that liquidity which is measured by current ratio is -0.064200 with significant value of 0.0012. Holding other independent variables constant, when liquidity (LIQD) increased by 1%, dividend payout ratio (DPO) of sampled Ethiopian insurance companies would be decreased by 6.42%. Which indicates the more liquid asset the insurance company have the less the probability of paying dividend. The finding is statistically significant therefore, this finding was opposite to the hypotheses of this study Therefore, the hypotheses stated; there was positive and statistically significant relationship between liquidity and dividend was rejected. The finding is inconsistent with (Tefera, 2016) who found negative association between liquidity & dividend payout ratio.

This finding is in contrary with the agency theory of cash flow (Jensen &Meckling, 1976) which argued that firms with high cash flow pay higher dividends in order to diminish the agency conflict between managers &shareholders. The agency costs increase as the free cash flow increases and managers therefore have to pay excessive free cash flows as dividends and therefore dividends can be seen as a tool to reduce agency costs. Agency problem is the principal-agent problem where the principal is the holder of the stocks or shareholders and the agent is the manager.

Leverage and dividend payout

Ho3: Leverage has Negative and significant relationship with dividend payout of insurance share Companies in Ethiopia.

As shown in the Eview10 output presented in Table 4.7, the coefficient of leverage (LEVG) measured by debt to asset ratio is -8.062494 and its corresponding P-value 0.0000. Meaning that holding other independent variables fixed at their average value, when leverage (LEVG) increases by one, dividend payout ratio (DIPO) of Ethiopian insurance companies will decrease by 806% and statistically significant at 1% of significance level. Therefore, the researcher fails to

rejects the null hypothesis leverage has negative and significant relationship with dividend payout ratio.

This negative relationship is in line with the agency theory and could be explained in a way that insurance companies with low debt ratio tend to pay high dividends. That is to say Debt always involves high risk as it must be paid off. However, it allows companies to manage return on equity for shareholders. High financial leverage is associated with risk, so highly leveraged companies pay lower dividends to protect creditors and maintain internal cash flow to fulfill their responsibility. That is, highly leveraged firms pay lower dividends to reduce their transaction costs (Gugler &Yurtoglu, 200

In this study, leverage is significant; suggesting that this variable is an essential factor in influencing dividend payments in Ethiopian insurance companies' case. The result support with the finding of (Dagnaw, 2009) however, contradict with Kinfe, (2011), Nuredin, (2012) and Simegn, (2013).

Growth opportunity and Dividend payout

Ho4: Growth opportunity has negative and significant effect on Ethiopian insurance company's dividend payout.

The study fails to rejects H0 since there is a Negative significant relationship between Growth opportunity and dividend payout ratio. Growth opportunity which was measured by (Current income minus previous income divided to previous income was statistically significant variable that affected dividendpayout of Ethiopian insurance company at 5% significant level with the p-value of 0.0340. And has a negative coefficient value of -0.233937 which indicated that when the ratio of Growth opportunity rises by 1%, the dividend payout of Ethiopian insurance company decreases by 23.39%, holding other variables constant. This finding was in line with the hypotheses of this study (H4). And this finding was consistent with which is supported in literature see for instance Ruzeff (1982), Jensen (1992), Ho (2003), Al-najjar&Hussainer (2009),Amidu and Abor (2006), Al-Yahyae (2006), and Muhamed (2012.

The result is also in line with pecking order theories, those firms with high growth have a habit of to pay fewer dividends; internal financing of investment opportunities is preferred because it avoids the outside scrutiny of suppliers of capital and also there is no floatation costs associated

with the use of retained earnings. Therefore, as per empirical findings of this study, growth opportunity is considered as most an important factor in determination of dividend payout for Ethiopian private insurance companies.

Company Size and dividendpayout

Ho5: company size has positive and significant effect on Ethiopian private insurance company's dividend payout.

The study rejects H0 since there is a Negative significant relationship between company size and dividend payoutratio. Natural logarithm of the total asset as a proxy of company size was used to know the effect of company size on dividend payout of Ethiopian insurance company in this study. company size found to be a negative and statistically significant at 1 % level of significance with a p value of 0.0060. And has negative coefficient value of -0.026475 which indicate that one birr increases in the total asset, resulted in the decrease of -0.026475 birr in dividendpayout of Ethiopian insurance company, holding other variables constant. And this funding was opposite to the hypotheses of this study (H5). Therefore, this study does not support the relevance of firm size as most important consideration of dividend policy. This also consistent with what is mentioned in (Baah, 2014) study where he found that it has a positive relationship while (Nuredin, 2012) study finds that size is insignificant in influencing the dividend policy of insurance companies in Ethiopia. In Ethiopia (Temesgen, 2016) studies shows a positive association between firm size and dividend payout.

The research finding is consistent with the findings of (Naceur and Goaied, 2006), (Ahmed and Javid, 2009) and (Nuredin, 2012). However, contradict to the findings of (Fama, E., & French, K, 2001) who conclude that, the probability of paying dividends increases with firm size. Furthermore, (Rozeff, 1982) concluded that, larger firms pay higher cash dividends to minimize agency costs.

Inflation and dividend payout

Ho6: Inflation has negative and significant effect on Ethiopian private insurance company's dividend payout.

The study fails to rejects Ho since inflation and Ethiopian private insurance dividend payout ratio has negative and significant relationship. As it can be seen in table 4.7, inflation has-0.307585 coefficient and p-value of 0.0000 which is statistically significant at one percent of level of significance, as supported by Mirbagherijam (2014) and Wanjiru, (2013). This shows that, on average if inflation decreases by one percent, dividend payout of Ethiopian private insurance companies increases by 30.75% other factors remain constant. To justify this there may be a chance to hold down cash dividends and also forces companies to indulge in lower dividends and to hold a major part of their earnings. As the price rise, companies need to increase their capital reserves for their purchases and other expense.

Under these circumstances, the firm may be forced as a mitigation strategy to depend upon retained earnings as a source of funds to make up for the shortfall. Consequently, the dividend payout ratio will below.

Real Gross Domestic Product (GDP) and dividend payout

Ho7: GDP has positive and significant relationship with dividend payout of insurance share Companies in Ethiopia

The study rejects Ho since GDP and Ethiopian private insurance dividend payout ratio has positive and statistically significant relationship. The coefficient of GDP is 0.470653 with p-value 0.0000 which is statistically significance at 5 percent level of significance. This indicates that there is positive relationship between dividend payout and GDP. That is, for a one percent increase in GDP on average dividend payout of Ethiopian private insurance companies will increase by 47.06 percent. This can be justified by that when one's country gross domestic being well and prosper, it has big contribution in divided pay out. That is to say when GDP increase living standard of the citizen increase and people saving ability also increase and need to purchase an insurance policy from insurance company in order to secure their life and property which in turn increase income of insurance company and resulting high possibility amount of paying divided.

Table 4.8 Summary of actual and expected sign of explanatory variables on dependent variable with the decision of hypotheses

4. 8 Summary of actual and expected sign of explanatory

	Variables	Measure	Expected Result	**Actual sign & impact on liquidity**	**Decision**
Depende	Dividend payout ratio	$\frac{Divided}{Net\ profit}$			
Independent Variable	Profitability	$\frac{Net\ profit}{Total\ Asset}$	+ve	+ve	Accepted
	Company Size	Natural logarithm of total assets	+ve	-ve	Rejected
	Liquidity	$\frac{current\ Asset}{current\ liability}$	+ve	-ve	Rejected
	Leverage	$\frac{total\ debt}{Total\ Asset}$	-ve	-ve	Accepted
	Growth opportunity	$\frac{current\ income - previous\ income}{previous\ income}$	-ve	-ve	Accepted
	Inflation	Obtained from national bank of Ethiopia	-ve	-ve	Accepted
	GDP	Obtained from national bank of Ethiopia	+ve	+ve	Accepted

CHAPTER FIVE

5 Summary, Conclusion and Recommendations

On the basis of the findings of the study; this chapter provided the summary, conclusion and the recommendations parts. Accordingly, it was organized as follows; the first section deals with the summary of the study, the second section provided the conclusion part for the main findings of

the study, and the last section deals with recommendations which followed by the room for further research.

5.1 Summary and Conclusion

Dividend payout decision is all about how much to withdraw to investors and how much to retain for future needs of the company. Therefore, making of the correct dividend payout is advantageous mutually for the company as well as for investors. As per the data obtained from secondary source of the respective companies‟ annual reports and macroeconomic variables and reached up on conclusions, in contrary to the MM‟s irrelevancy theory, it was explained that the dividend payout is relevant in the industry and they give much consideration for deciding what amount to be paid.

Dividend policy is one of the major decisions in corporate finance that serves as the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders, in which way profit is distributed among shareholders and what portion of profits should be retained in a company for business growth. In this instance dividend policy play enormous role. Firstly, is used as a mechanism for financial signaling to outsiders regarding the stability and growth prospects of the firm (Ross, 1977). Therefore, the main objective of this study was to identify the factors affecting dividendpayout ratio of insurance company. In doing so, the study covered the data of nine insurance companies from the period 2012-2021.

To achieve the intended objective, the study used fixed effect panel regression model for seven variables of the study which were both macroeconomic and firm specific variables. Concerning the data of this study; audited financial statements were collected from head office of sampled insurance company (i.e. for insurance specific variables), and data concerning the macroeconomic variables were collected from NBE and MoFED. Data was analyzed by using both descriptive statistic and inferential statistics/multiple regression model, in doing so hausman test was made for choosing of fixed effect panel data model and employed to measure estimators. And then test for CLRM were made and all the data fitted the assumptions, finally the fixed effect regression results were presented and analyzed; hence, the finding of this study proved that all explanatory variables, were statistically significant in explaining dividendpayout of insurance company for the tested period.

The result of this study confirmed that dividendpayout was highly affected by both firm specific variables and macroeconomic variables. Accordingly, those firm specific variables are profitability which is measured by the division of net profit to total asset, have positive and statistically significant impact on dividendpayout at 5% significance level. And leverage can be measured as the ratio of total debt to total assets for private insurance share company, have negative and statistically significant impact on dividend payout at 5% significance level. Another specific variable growth opportunity which is measured by annual changes in annual income of each sampled insurance company have negative and statistically significant impact on dividend payout at 5% significance level. All the above firm specific variable profitability, leverage and growth opportunity were in line with the hypotheses of the study.

liquidity which is measured as the ratio of current asset and current liability andthe size of the company can be measured by the natural logarithm of the book value of its total assets and have negative and statistically significant impact on dividend payout. But both of them were opposite with the hypotheses of the study.

Macroeconomic variables those are; GDP growth rate measured by the annual real GDP rate have positive and statistically significant impact on dividendpayout at 1% significance level. And also, inflation rate which measured inflation was measured by general annual inflation rate of the country obtained from national bank of Ethiopia have negative and statistically significant impact on dividendpayout at 1% significance level. Accordingly, both GDP growth rate and inflation rate were in line with the hypotheses of the study.

However, the finding of this study revealed that all firm specific variable as well as macroeconomic variables have a power in explaining dividend payout decision of Ethiopian sampled Ethiopian insurance company for the tested period.

In general, when it was seen from the hypotheses of this study, all insurance specific variables and macroeconomic variables were statistically significant in explaining insurance divided of Ethiopian insurance company. Hence in statistical terms five variables were accepted, i.e., two of them at 1% level of significance and three of them at 5% level of significance whereas the rest two variables were rejected. This study examines the factors that determine dividend payout policy in Ethiopian privet insurance share company since it is important sector in Ethiopian

economy. Despite its importance the examination of dividend policy on Ethiopian insurance sector has been limited. Therefore, this study has its own contribution in the sector by playing important role in providing financial service for the economic growth of the country and offers financial protection to individuals and firms against loose from unforeseen circumstances.

5.2 Recommendations

This study was intended to investigate the factors affecting Ethiopian private insurance share companies; and hence understanding the determinants of dividend payouts has significant implication on individual investor; investment policy and management depending on their dividend preference. On the basis of the findings of this study, the student has drawn the following recommendations.

- **For Ethiopian private insurance share companies**

  Profitability, leverage, growth opportunity, GDP and inflation needs to be considered when setting dividend payout policies as they are most significant variables affecting dividend payout policy of selected Ethiopian insurance companies. Therefore, in order to benefit from these internal and external factors companies 'managers and board of director should give consideration (Profitability, leverage, growth opportunity, GDP and inflation) which will help them to make their rational dividend payout decision efficiently and reasonably which in turn to achieve and fulfil their financial objective of maximizing shareholder's and employee's needs

- **For individual investor**

Investors must have knowledge of factors that can influence dividend payout decision of a firm. From the finding of this study investors who would like to invest in Ethiopian insurance companies must analyze the relation of dividend payout and the selected variables effect which means if investor need their investment return in nearer future in the form of divided, they have to give due attention whether the firm is increase the probability of paying dividend or not. This is because of firms which experience more growth opportunity are more to reduce their dividends per share. This could attribute to firms other than paying dividends they channel the excess funds to profitable investments. On the other hand, highly, levered firms look forward to maintaining their internal cash flow to fulfil duties, instead of distributing available cash to shareholders and protect their creditors

- **For government**

Understanding the determinants of dividend payout has significant implication on individual investor's investment decisions depending on his/her dividend preference. Since, in the absence of secondary market, where searching and brokerage costs are high, it is difficult for an individual investor to shift easily and construct his or her own dividend policy by buying and/or selling existing stocks. In order to overcome the problem of this secondary market and creating opportunity for individual investor, government and concerned stakeholder have to give due attention to the secondary market which reduce the cost of primary market and motivating investment and investors.

- Generally, the empirical finding of this study revealed that both bank specific and macroeconomic variables have significant impact on dividend payout of Ethiopian insurance company. Even if both factors have significant effects management should give more attention to insurance specific factors, since they are under their control.

5.3 Room for further research

This study was attempted to investigate both the insurance specific and macroeconomic variables that affected the dividend payout of Ethiopian insurance company. Since divided is very crucial to the existence of insurance; factors that affect it should be identified, therefore there has to be further research on the area of factors that affecting dividend payout of Ethiopian insurance company by incorporating any other firm specific and macroeconomic variables, and regulatory factors since regulations are subject to frequent change.

First, by considering national bank directives and regulations and including different company selected factors such as the investment opportunity, management efficiency, insider ownership, institutional ownership and business risk of the firm could be examined.

Second, the applications of macroeconomic variable such as money supply and interest rate are another potential extension of the present research. Finally, the investor's approaches towards dividend policy were uncovered by the findings and so it can be explored by future academicians and researchers.

REFERENCE

Ahmed H. &Javid A. (2009). The Determinants of dividend policy in Pakistan *International Research Journal of Finance Economics, 29*.

Akbar M. &Baig H.H. (2010). Reaction of stock prices to dividend announcements and market efficiency in Pakistan *the Lahore Journal of Economics,* 15 (1) pp.103-125.

Al-Kuwari (2010). To Pay or Not to Pay: Using Emerging Panel Data to Identify Factors Influencing Corporate Dividend Payout Decisions International *Research Journal of Finance Economics, vol. 42.*

Alli, K. L., Khan, A. Q. & Ramirez, G. G. (1993). Determinants of corporate dividend policy: a factorial analysis *The Financial Review*, vol. 28 (4), 523-547.

Angelina Nyachol tut September, 2019 financial determinants of dividend policy payout among commercial banks in kenya

Aivazian, V., L. Booth, and S. Cleary, (2003). Do Emerging Market Firms Follow Different Dividend Policies from U.S. firms? *Journal of Financial Research* (26), (371-387).

Baker, H. K. & Powell, G. E. (1999). How corporate managers view dividend policy? *Quarterly Journal of Business and Economics, vol.* 38 (2), 17-27.

Baker.Kent. H. Saudi's, Dutta. Gandhi. D (2007). The perception of dividend by Canadian managers: new evidence International Journal of Managerial Finance, vol.3.

Bernstein, P. L. (1996). Dividends: *The puzzle Journal of Applied Corporate Finance*, vol. 9(1), 4-15.

Black, F. (1976). The dividend puzzle *Journal of Portfolio Management*, vol. 2 (2), 5-8.

Black, H. R., Ketcham, D. C. & Schweitzer, R. (1995). The direction of bank holding company stock prices to dividend cuts or omissions Mid-Atlantic *Journal of Business,* vol. 31 (3), 217-231.

Bradley, M., Capozza, D. R. & Sequin, P. J. (1998). Dividend policy and cash-flow uncertainty *Real Estate Economics*, vol. 26 (4), 555-572.

Brealey, R. A. & Myers, S. C. (2002). *Principles of corporate finance,* (7th ed.), New York, NY: McGraw-Hill. Brigham, E. F. &Gapenski, L. C. (2002). Financial management: Theory and practice, (10th ed.). United States: Thomson Learning, Inc.

Brooks, C 2008, *Introductory Econometrics of Finance,* 2nd ed., the ICMA Center, University of reading, CAMBRIDGE University press

Chen &Dhiensiri (2009). Determinants of dividend policy: The Evidence from New Zealand *International Research Journal of Finance Economics* vol. 34.

Chang & Rhee, C. R. (2003). The impact of personal taxes on corporate dividend policy and capital structure decisions. *Financial Management Association*, 19(2), 21–31. Retrieved from http://dx.doi.org/10.2307/3665631

DeAngelo, H. &DeAngelo, L. (1990). Dividend policy and financial distress: An empirical investigation of troubled NYSE *firms Journal of Finance*, vol. 45, 1415-1431.

Dempsey, S. J., Laber, G. &Rozeff, M. S. (1993). Dividend policies in practice: Is there and industry effect? *Quarterly Journal of Business and Economics*, vol. 32 (4), 3-13.

Dewenter, K. L. &Warther, V. A. (1998). Dividends asymmetric information and agency conflicts: Evidence from a comparison of the dividend policies of Japanese and U.S. firms *Journal of Finance*, vol. 53, 879-904.

Escherich, F. (2000). Deliberating on dividend policy Directors & Boards, 25 (1), 33-38.

Fama, E. &Babiak, H. (1968). Dividend policy: An empirical analysis *Journal of American Statistical Association*, December, 1132-1161.

Fama, E. F. & French, K. R. (1998). Taxes, financing decisions, and firm value Journal of Finance, vol. 53, 819-829. Fama, E. F. & French, K. R. (2001). Disappearing dividends: Changing firm characteristics or lower propensity to pay *Journal of Financial Economics*, 60, 3-43.

Gujarat, D.N 2004, *Basic Econometric*; 4th edn., McGraw–Hill, USA

Gupta &Banga, A. G. (2010). The Determinants of Corporate Dividend Policy. The decision, 37(2), 63-78

Gordon, M. J. (1959). Dividends, earnings, and stock prices The Review of Economics and Statistics, 99-105.

Hansen, R. S., Kumar, R. &Shome, D. K. (1994). Dividend policy and corporate monitoring: evidence from the regulated electric industry Financial Management, vol. 23 (1), 16-22.

Jensen, G. & Johnson, J. (1995). The dynamics of corporate dividend reductions. *Financial Management,* vol. 24 (4), 31-51.

Jensen, M. C. & Smith, C. W. (1984). *The theory of corporate finance*: A historical overview. New York, NY: McGraw-Hill.

Jensen and Meckling, J. M. (1976). Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics*, 3, 305-360.

Keown, A. J., Martin, J. D., Petty, J. W. & Scott, D. F. (2002). *Financial management*: *Principles and applications* (9th ed.). New York, NJ: Prentice Hall.

Kothari, CR., 2004. *Research methodology; methods and techniques 2nd ed.,* New age International, New Delhi

Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings and taxes *American Economics Review*, vol. 46 (2), 97-113.

Litzenberger, R. H. &Ramaswamy, K. (1982). The effects of dividends on common stock prices Journal of Finance, vol. 37 (2), 429-443.

Maniagi G. Musiega, Dr. Ondiek B. Alala, Dr. Musiega Douglas, Maokomba O. Christopher, Dr. Egessa Robert (2013) Determinants Of Dividend Payout Policy Among Non-Financial Firms On Nairobi Securities Exchange, Kenya. *International journal of scientific & technology research* volume 2, issue 10, october 2013

Miller, M. H. (1986). Behavioral rationality in finance: The case of dividends *Journal of Business*, vol. 59 (4), 451473.

Michael J. B., Clifford G. Holderness Dennis P. Sheehan, (2009). Dividends and corporate shareholder. The review of financial studies, Vol.22, Issue 6, pp.2423-2455.

Miller, Merton and Franco Modigliani (1961). Dividend Policy, Growth and the Valuation of Shares, Journal of Business vol. 34, 411-433.

Ochola, Charles. " Shareholders' Pressure on The Firm's Decision To Pay Dividends." Unpublished MBA research project, University of Nairobi, 2005.

Rozeff, M. (1982). Growth, Beta and Agency Cost as Determinants of Dividend Payout Ratios. Working Paper Series No. 80-11, 69.

Roberto, M. A. (2002). Making difficult decisions in turbulent times: In their own way, complexity and ambiguity tyrannize decision-making. What managers need are strategies for making clear, accurate judgments under stressful conditions Ivey *Business Journal*, vol. 66 (3), 15-20.

SajidGul, Sumra Mughal, NabiaShabir, SyedaAsmaBukhari (2012). "The Determinants of Corporate Dividend Policy: An Investigation of Pakistani Banking Industry*", European journal of Business and Management,* vol. 4 (12), pp. 1-5.

Van Horne, J. (2001). *Financial management and policy* (12th ed.), New York, NY: Prentice Hall

Weston F. and Copeland T. Managerial Finance. 8th ed.,The Dryden Press 1989.

Appendices

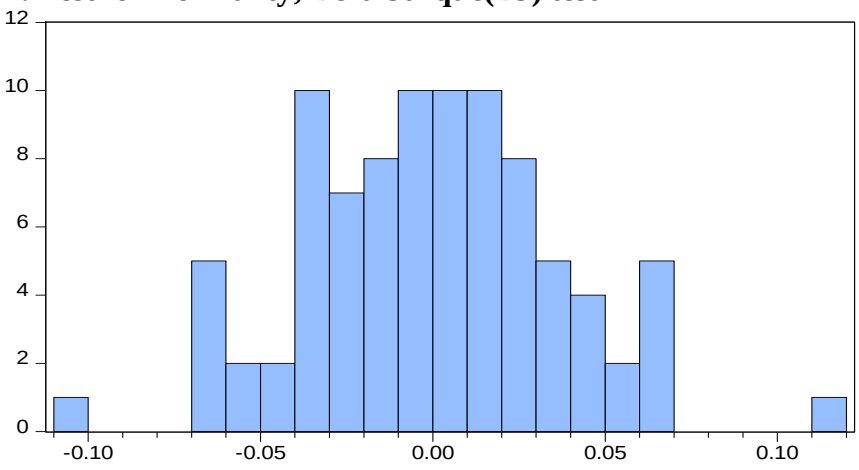
Appendix A: - Insurance Companies in Ethiopia

	Name	Established Date	Sample selected purposively
1	Ethiopian Insurance Corporation	1975 (Government)	
2	Africa Insurance company S.C	01/12/1994	Sampled
3	Awash insurance company S.C	01/10/1994	Sample
4	National Insurance co. of Ethiopia S.C	23/09/1994	Sampled
5	Nyala Insurance company S.C	06/01/1995	Sampled
6	Nile Insurance company S.C	11/04/1995	Sampled
7	The United Insurance S.C	01/04/1997	Sampled
8	Global Insurance Company S.C	11/01/1997	Sampled
9	Nib Insurance Company S.C	01/05/2002	
10	Lion Insurance Company S.C	01/07/2007	Sampled
11	Oromia Insurance Company S.C	26/01/2009	
12	Abay Insurance Company S.C	06/07/2010	Sampled
13	Berhan Insurance Company S.C	24/05/2011	
14	Tsehay Insurance Company S.C	08/03/2012	
15	Ethio life & General Insurance Co. S.C	23/10/2008	
16	Lucy Insurance Company S.C	S.C 01/10/2012	
17	Bunna Insurance Company S.C	21/05/2013	
18	Zemen Insurance S.C	17/1/2020	

Source: National Bank of Ethiopia

Appendix B: Tests for the CLRM assumptions/Diagnostic test

1. Test for Normality; Bera-Jarque(BJ) test



Series: Standardized Residuals
Sample 2012 2021
Observations 90

Mean	-1.23e-18
Median	0.000989
Maximum	0.117613
Minimum	-0.108632
Std. Dev.	0.036926
Skewness	0.090727
Kurtosis	3.530446
Jarque-Bera	1.178621
Probability	0.554710

2. Test for multicollinearity; Using Correlation Matrix

	DPO	PROF	GOPP	CSIZE	LQ	INF	LVG	GDP
DPO	1	0.14716799...	-0.1805626...	0.39450683...	-0.3229454...	-0.3195713...	-0.2459270...	0.24731538...
PROF	0.14716799...	1	0.18662868...	-0.2282395...	-0.1952283...	0.12967892...	0.05309019...	0.35789570...
GOPP	-0.1805626...	0.18662868...	1	-0.4692376...	-0.1456222...	0.04832088...	-0.1180692...	-0.1100974...
CSIZE	0.39450683...	-0.2282395...	-0.4692376...	1	0.06109888...	-0.2296394...	-0.2042190...	-0.1376109...
LQ	-0.3229454...	-0.1952283...	-0.1456222...	0.06109888...	1	0.09813608...	-0.1409834...	-0.1690414...
INF	-0.3195713...	0.12967892...	0.04832088...	-0.2296394...	0.09813608...	1	-0.2202307...	0.35295618...
LVG	-0.2459270...	0.05309019...	-0.1180692...	-0.2042190...	-0.1409834...	-0.2202307...	1	0.04389828...
GDP	0.24731538...	0.35789570...	-0.1100974...	-0.1376109...	-0.1690414...	0.35295618...	0.04389828...	1

3. Test for Heteroskedasticity; white test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	3.641381	Prob. F (10,73)	0.6931
Obs*R-squared	29.94861	Prob. Chi-Square (10)	0.9764

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 12/17/18 Time: 04:47
Sample: 2008 2097
Included observations: 90
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.

PROF	-0.533346	1.020852	-0.522451	0.6029
GOPP	-0.043750	0.092111	-0.474966	0.6362
CSIZE	-0.003806	0.003252	-1.170087	0.2458
LQ	-0.027926	0.021151	-1.320342	0.1908
INF	0.071046	0.043722	1.624925	0.1085
LVG	1.368012	0.784136	1.744610	0.0853
GDP	-0.157149	0.141853	-1.107828	0.2716
RESID(-1)	0.509150	0.130565	3.899608	0.0002
RESID(-2)	0.019267	0.137236	0.140397	0.8887
RESID(-3)	0.204611	0.130490	1.568017	0.1212
RESID(-4)	-0.240635	0.128232	-1.876562	0.0646
RESID(-5)	-0.041953	0.128404	-0.326725	0.7448
RESID(-6)	0.012722	0.134809	0.094369	0.9251
RESID(-7)	-0.089267	0.123201	-0.724562	0.4710
RESID(-8)	0.128627	0.128619	1.000066	0.3206
RESID(-9)	-0.124923	0.147117	-0.849139	0.3986
RESID(-10)	0.244269	0.118463	2.061992	0.0428

R-squared	0.332762	Mean dependent var	0.000432
Adjusted R-squared	0.186519	S.D. dependent var	0.052418
S.E. of regression	0.047278	Akaike info criterion	-3.097123
Sum squared resid	0.163169	Schwarz criterion	-2.624937
Log likelihood	156.3706	Hannan-Quinn criter.	-2.906710
Durbin-Watson stat	1.833763		

Appendix C: Result of fixed effect regression model

Dependent Variable: DPO
Method: Panel Least Squares
Date: 11/24/21 Time: 16:25
Sample: 2012 2021
Periods included: 10
Cross-sections included: 9
Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.266900	0.220188	5.753724	0.0000
PROF	2.271486	0.948417	2.395030	0.0192
GOPP	-0.233937	0.108286	-2.160354	0.0340
CSIZE	-0.026475	0.009361	-2.828360	0.0060
LQ	-0.064200	0.019112	-3.359221	0.0012
INF	-0.307585	0.035948	-8.556328	0.0000
LVG	-8.062494	1.061030	-7.598742	0.0000
GDP	0.470653	0.099348	4.737403	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.763354	Mean dependent var	0.271708
Adjusted R-squared	0.715386	S.D. dependent var	0.075907
S.E. of regression	0.040496	Akaike info criterion	-3.415423
Sum squared resid	0.121354	Schwarz criterion	-2.971012
Log likelihood	169.6940	Hannan-Quinn criter.	-3.236210
F-statistic	15.91360	Durbin-Watson stat	1.794171
Prob(F-statistic)	0.000000		