ST. MARY'S UNIVERSITY

FACULTY OF BUSINESS

DEPARTMENT OF ACCOUNTING

ASSESSMENT ON DIVIDEND PAYOUT POLICY IN THE CASE OF FOUR PRIVATE BANKS IN ETHIOPIA

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JUNE 2014

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A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF ACCOUNTING

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ST. MARY'S UNIVERSITY

BY :-

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STATEMENT OF DECLARATION

We, the undersigned, declare that this study is our original work, has not been presented for award in any other university and that all sources of materials used for the study have been duly acknowledged.

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TABLE OF CONTENTS

CHAPTER THREE ANALYSIS AND INTERPRETATION

BOA	Bank of Abyssinia
CPDD	Corporate Planning and Development Department
D	Dividend
D/P	Dividend per Share
EAT	Earning After Tax
NVP	Net Present Value
PIC	Paid in Capital
ROE	Return of Equity

BOA	Bank of Abyssinia
CPDD	Corporate Planning and Development Department
D	Dividend
D/P	Dividend per Share
EAT	Earning After Tax
NVP	Net Present Value
PIC	Paid in Capital
ROE	Return of Equity

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Paying dividend to shareholders is one of the ways that a company can directly affect the wealth of its owners. Thus, the goal of a dividend policy is to maximize its contribution towards increasing shareholders wealth. However, because a dividend policy is influenced by a large number of factors, increasing shareholders wealth is not equivalent to paying all earnings as dividends. For instance, if a company expresses its dividend policy in the form of target payout ratio, some factors will favor a high payout, other will favor a lower payout and still others will constrain the range of dividend payout that the firm can adopt.

In brief, the large number of factors that impact on a dividend policy can be grouped in to four components: These are Retained earnings as a financing instrument, capital structure requirements, shareholders requirements and Legal constraints.

The first component of dividend policy evaluates retained earnings of financing instruments For the most part, the factors that make up this component favor the retention of profits as retained earnings and thus argue for low dividend payments. As a second component of dividend policy, capital structure requirements are a consequence of capital structure planning. The factor of the third component look at dividend policy from the stand point of common shareholders, on balance, these factors do not argue for high or low dividend payouts; rather, these factors can force a company to device from its historical dividend policies or prevent it from implementing desired policy.

This paper targeted on the dividend policy of four selected private banks namely: Awash International Bank, Dashen Bank, Abyssinia Bank and United Bank

As to how various parameters are taken into account in order to make decisions on the payments of dividend and its policy.

Banking in Ethiopia

The national bank of Ethiopia was established in 1963 by Proclamation No. 30 of 1963 and began operation in January 1964. Prior to the proclamation, the bank carried out dual activities, i.e. commercial banking and central banking. The proclamation raised the Bank's capital to 10 million Ethiopian dollars and granted broad administrative autonomy andjuridical personality.

However, monetary and banking proclamation No. 99 of 1976 came into force on September 1976 to shape the banks rile according to the economic principle that the country adopt. Hence the bank was allowed to participate activity in national planning, specifically financial planning, in the cooperation with the concerned state origins. The Bank's supervisory area was also increased to include other financial institutions such as insurance institutions, credit cooperatives and investment-oriented banks. Moreover the proclamation introduced the new Ethiopian birr' in place of the former Ethiopian Dollar the ceased to be legal tender.

This proclamation was in force till the new proclamation issued in 1994 to recognize the Bank according to the market-based economic policy so that it could foster monetary stability. A sound financial system and such other credit and exchange conditions as are conductive to the balanced growth of the economy of the country. Accordingly the following are same of the powers and duties vested in the Bank by proclamation 83/1994.

- Regulate the supply and availability of money and credit and applicable interest and other changes.
- Set limits on gold and foreign exchange assets which banks and other financial institutions authorized to deal in foreign exchange and hold in deposits.
- Set limits on the net foreign exchange position and on the terms and amounts of external indebtedness of banks and other financial institutions

Lastly, the proclamation has also raised the paid-up capital of the Bank from Birr 30 million to Birr 50 million.

Organizational Background

This study focused on four private banks, namely Awash International Bank, Dashen Bank, Abyssina Bank and United Bank. Their brief background information concerning the date of establishment, authorized share, share price (par value), paid-up capital, number of founders, branches and employees is presented in the table 1.

Table 1: General Information about the Banks

Description	Banks			
	Awash	Dashen	Abyssinia	United
Date of Establishment	Nov. 10 1994	Sep. 20, 1995	Feb. 15,1996	Sep.10, 1998
Authorized share	3,000,000,000	1,000,000	25,200,000	5,000,000
Paid-up capital	1.2 Billon	737 Million	313 Million	600 Million
Number of founders	486	11	131	335
Number of branches	200	120	96	115
Number of employees	4,284	4,249	2,721	2,100

Source: annual reports of the banks and their web-site (Note-the data is as of June 30, 2013)

The goal of the firm is to maximize the wealth of its share holders, maintain price and exchange rate stability, maintain adequate international reserves, and create efficient Payment System. This is achieved by increasing the current and future market price of share of the company. Increasesin market share price and dividends are factors that add to the wealth of shareholders. Dividend will play an important role in maximizing shareholders return. Besides, dividend decisions are an integer part of the company's investment and financing decisions that managed the company's growth.

The main problems of these banks are:

- Luck of constant payout ratio
- They do not implement dividend payout policies in practice

The purpose of this paper is to see what dividend policies are present in some selected private banks inEthiopia namely Awash International Bank,Abyssina Bank and United Bank. In doing so, the entire effort of the paper revolves around seeking answer around the following basic questions:

1. What kind of dividend payout policy the firms follow?
2. Who are shareholders of the Banks?
3. What are the firm's constraints in paying dividend?
4. Who should the firm pay dividend - cash dividend or non cash?

1.3.1. General Objectives of the Study

The general objective of the study was to investigate whether the four selected private banks in the country have dividend policies and to identify factors that influence their dividend policies. It also tries to explore to what extent the banks under consideration have count on these factors in making dividend decisions.

1.3.2. Specific Objectives of the Study

The specific objectives of the study are:-

- To assess the kind of dividend payout policies the selected firm's follow.
- To explore the selected firm's shareholders preference with regard to dividend payment
- To assess the firms constraints in paying dividend.
- To look in to how the firm pay dividend -cash dividend or bonus share.

1.4. Significance of the study

In addition to showing how the firms understudy may be able to create an environment under which they could develop sound dividend policy to achieve organizational goals; the student researchers believes the result of this study:

- Encourage the concerned researchers to understand the practice of private banks in the country regarding to the factors in to account in order to make rational decisions with respect to dividend issues.
- It enables managements of the selected private banks to improve their decisions on their dividend practices.
- Would enable potential investors to evaluate the dividend policies of these originations before they decide to invest.
- Enriches the knowledge of the reader on the dividend policies of the banks and enable them to see the similarities and differences in the dividend policies between the four banks and between Ethiopia and other countries to develop some generalizations.
- Gives way to other researchers that want to make further investigation in the area and to conduct detailed researches on the problem.

1.5. Scope and Delimitation of the Study

This study is limited to the analysis of four banks dividend payout policies which covers a period from 2010/2011 - 2012/2013. Under this method we use trend, life of banks since establishment, dividend payments made at 2013 and should be cooperative enough to provide relevant information is the main selection criteria for assessing dividend payout policy.

When conducting this study, their where constraints to have access to data necessary for the study. In these facts, their researchers exerted the maximum effort to get valuable and valid data to outshine or reflect the significant of the paper.

The findings of the researches were being more productive if it were conducted widely by including other similar banks. The study is delimited to treat the problem in four banks namely Awash Bank, Dashen Bank, Abyssnia Bank and United bank. The scope of the study is also delimited to identifying dividend policies of the banks. The time is also delimited in terms of time coverage of the last three years to clearly deal with the current problem.

1.6. Researches Designand Methodology

1.6.1. Type of Research

Descriptive research is employed through quantitative research method.

1.6.2. Type of Data Used

The researcher conduct to get required information on the primary data obtained from questionnaires and secondary data which are obtained from the annual reports of each banks.

1.6.3. Data Collection Method

Both primary and secondary data had been used in the study but the majority of the researches are collected from secondary sources. Concerning the primary data, structured interview had been conducted with concerned officials.

Regarding the secondary sources, books,annual reports, company policy handbooks, brushers, journals, magazines, information from internet, unpublished documents and other related documents had been referred.

1.6.4. Data Analysis and Interpretation

The data that was collected through primary and secondary source had been analyzed by presenting them in table and diagrams using excel software application. As a result the analysis had been interpreted to give an overall picture of the private banks in the country regarding to the existing practices in dividend payments and dividend policy.

1.6.5. Population and Sample Size

1.6.5.1 Population

In thisstudy, employees of the selected four private banks of Corporate Planning and Development Department (CPDD) considered as participant of the study.

1.6.5.2. Sample Size

Inthe process of the study, the questioner will use to collect the information or the data from the existing representative of all private banks employees in Corporate Planning and Development Department (CPDD)

The paper has been organized to have logical and consistent flow of ideas, and thereby the paper has four chapters. The first chapter is the introduction part that incorporates the background of the study, statement of the problem, objectives of the study, significance of the study, scope and delimitations of the study, and methodology of the study. Then in chapter two, literature review offered all theoretical and conceptual frameworks regarding dividend policy has been discussed. The third chapter deals with the analysis of findings of the study. Finally, chapter four winds-up by presenting the conclusion and recommendation.

CHAPTER TWO

RELATED LITERATURE REVIEW

2.1. An Overview of Dividend

The two main categories of decision that corporate financial managers make are investment and financing decisions. Investment decisions determine and size and composition of the left hand side of the firm's balance sheet, or the asset section. Financing decisions determine the structure of the right hand side of the firm's balance sheet, or the liabilities and equity sections (Lease et al. 2000).

Financing decisions also involve an important secondary type of decision-the dividend decision. The dividend decision, determined by a firm's dividend policy, affects the level of equity retained in the firm. If dividends paid are not replaced dollar for dollar by new equity, the dividend decision also influences the financial structure of the firm, at least temporarily the dividend decision also influences the financial structure of the firm, at least temporarily (Ibid).

As Jones the term dividend usually refers to cash distribution of earnings. If a distribution is made from sources other than current or accrued retained earning stated (1992) , the firms primary financial management decision regarding internal financing concerns how much of its' earning to keep and how much to pay out as dividends to common stock holders. This is the dividend decision.

The term dividend usually refers to cash distribution of earnings. If a distribution is made from sources other than current or accrued retained earnings, the term distribution rather than dividend is used. However, it is acceptable to refer to a distribution from earnings as a dividend and distribution from capital as a liquidating dividend. Generally, any direct payment by the corporation to the shareholders may be considered as part of dividend policy (Ross et al, 2003).

In turn, dividend policy refers to the policies and practices that a firm employ to implement the dividend decisions (Jones, 1992).

2.2. Forms of Dividend Payment

Dividend distributions generally are either on accumulated profit or on some other capital items such as additional paid-in capital. The natural execution of any stockholders who receives a dividend is that the corporationhas operated successfully and that he or she is receiving a share of its profit. According to Kieso et al (2004) forms of dividend payments are:

1. Cash dividends
2. Property dividends
3. Liquidating dividends and
4. Stock dividends.

Companies mostly pay dividends in cash. A company should have enough cash in its bank account when cash dividends are declared. If it does not have enough bank balance arrangement should be made borrow funds. When the company follows a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds, which would be needed to meet the regular dividend payments of the company. It is relatively difficult to make cash planning in anticipation of dividend needs when an unstable policy is followed (Pandey, 2004).

2.2.2. Property Dividends

Dividends payablein assets of the corporation other than cash are called property dividend or dividend in kind. Property dividends may be merchandise, real estate,or investments, or whatever from the board of director designates. Because of theobvious difficulties of divisibility of units and delivery to stockholders, the usual property dividend is in the form of securities of other companies that the distributing corporation holds as an investment (Keiso et al, 2004).

2.2.3. Liquidating Dividends

Some corporations use paid-up capital as a basis for dividends. Without proper discloser of this fact, stockholders may erroneously believe the corporation has been operating at a profit. A further result could be subsequent sale of additional shares at a higher price than is warranted. This type of deception, intentional or unintentional can be avoided by requiring that a clear statement of the source of every dividend accompany the dividend check (Ibid).

Dividends based on other than retained earnings are sometimes described as liquidating dividends, thus implying that they are a return of the stockholder's investment other than of profits. In other words, any dividend not based on earnings is a reduction of corporate paid-in capital and that extent; it is a liquidating dividend (Ibid).

2.2.4. Stock Dividends

If the management wishes to "capitalize" part of the earnings (i.e. reclassify amount earned to contributed capital), and thus retain earnings in the business on a permanent basis, it may issue a stock dividend, in this case, no assets are distributed, and each stockholder has exactly the same proportionate interest in the corporation and the same total book value after the stock dividend was issued as before it was declared. Of course, the book value per share is lower because an increased number of shares are held (Keiso et al. 2004).

2.3. The Dividend Theories

According to Pandey (2004); dividend theories can be grouped in to two categories:

a. Theories that consider dividend decisions to be irrelevant and

b. Theories that consider dividend decisions to be an active variable influencing the value of the firm. In latter, this are two extreme views, that is :

I. Dividend s are good as they increase the shareholder value,

II. Dividends are bad since they reduce the shareholders' value

The following is the critical evaluation of some important theories representing this point of views.

2.3.1. Dividend Irrelevance Theory

A very strong theoretical argument can be made that dividend policy is irrelevant: change in dividend policy does not affect the value of the stock. The dividend irrelevance argument asserts that, given the firm's investment policy (that is, given the firm's decision to make certain investments), investors are in different to the firm's dividend policy:

- If the firms' payout ratio is too low for some investors, they can sell a portion of their stock to increase current income.
- If the firms' payout ratio is too high for some investors (they would prefer that the firm invests more on their behalf).

In other case investors can arrange their own dividend streams which result that the choice of a dividend policy does not affect the stock price (Jones, 1992).

The dividend irrelevance argument is based on a classical article b Miller and Modigliani (M&M). According to an important 1961 paper by Merton Miller and Franco Modigliani, if few assumptions can be made, the dividend policy is irrelevant to share value. The determinant of value is the availability of projects with positive NPVs; and the pattern of dividends makes no difference to the acceptance of these.

The share price would not move if the firm declared either a zero dividend policy or a policy of high near term dividends. A condition under which this was held to be true included:

1. There are no taxes
2. There are no transaction costs: for example:

a. Investors face no brokerage costs when buying or selling shares;

b. Companies can issue shares with no transaction costs.

3. All investors can borrow and lend at the same interest rate.
4. All investors have free access to all relevant information.
5. Investors are in different between dividends and capital gains.

Give these assumptions; dividend policy can become irrelevant (Arnold, 2005).

Given the real-world factors that can potentially affect stock holders and firms, and therefore the dividend decision, it is not surprising that many observers believe that dividend policy is relevant. In doing so, we first will analyze two real-world factors, uncertainty and transaction costs, that have led some to argue that high dividend payouts are preferable. We then consider two real-world factors, differential taxation and flotation costs that have led others to suggest that low dividends payouts are preferable.

2.3.2.I. The Case of High Dividend Payout: Bird-in-the-Hand Theory

One major component of the dividends-relevant school is the Gordon-Lintner dividend preference theory. The dividend preference theory asserts that investors prefer high dividend payout rations, and other things being constant, firms with relatively high payout rates will have relatively high stock prices. Conversely firms that have relatively low payout ratio will have relatively low stock prices. These theory questions two key assumptions of the dividend irrelevance position:

1. The future dividends are no more risky that current dividends and
2. The transactions paid by investors who arrange their own dividend stream are negligible (Jones, 1992).

The basic tenet of the dividend preference theory is that the dominant feature of the investment environment is uncertainty. Moreover, uncertainty usually increases with time. If firm makes an investment, it is usually more certain what cash flows will result in the early years of the investment than in later years. Since the firm ultimately looks to its cash flows to pay dividends, this increasing uncertainty over time implies that the more distant in the future an expected dividends, the more uncertain it is. Therefore, since investors are risk averse, they prefer receipt of certain, current dividendsto the expected receipt of increase but riskier future dividends. Investors prefer a bird in the hand to two in the bush (Ibid).

2.3.2.2. The Case of Law Dividend Payouts: Tax Preference Theory

Two other real-world factors support the case for dividend policy relevancy, but in the opposite direction from the previous discussion. Specifically, acknowledgement of a different tax rates on dividend income and capital gains and the presence of flotation costs could create a preference for lower dividend payout policies. Traditionally, dividends and capital gains have been taxed differently for most investors, with tax rates on dividends higher than those on capital gains. Consequently, some have argued that investors on balance would prefer to receive low dividend payments and have the firm retain earnings. In theory, this should cause stock price to rise, and if and when the investorsells the stock, the gain would be taxed at the more favorable capital gain taxrate (Jones, 1992).

The dividend irrelevance theory also assumes zero flotation cost. Because of flotation cost, the cost of retained earnings is less than the cost of common stock. Therefore, the use of new common stock raises the firm's cost of capital, which, other things being equal, reduces the value of the firm. Small issues of new stock are particularly expensive (Ibid).

2.3.3. Resolving the Dividend Policy Controversy

Which position is correct? Because the dividend polices that follow them vary greatly, the resolution of the conflict is important. Accordingly to Scott et al (1999), the need to find the missing element in our "dividend puzzle" has not been ignored. When we need to understand better an issue or phenomenon. We have two options improving our thinking or gathering more evidence about the topic. Scholars and practitioners have taken both approaches. Although no single definitive answer has yet been found that is acceptable to all several plausible extensions have been developed. Some of the more popular additions include.

1. The residual dividend theory
2. The cliental effect
3. Information effects
4. Agency costs and
5. Expectations theory.

Among these, we will discuss about the residual dividend theory and information effect.

The firms could treat dividend as a residual decision, subservient to the investment decision. The residual theory of dividends suggests that any dividends paid be viewed as a residual, meaning that the firm would payout dividends whenever it had more earnings than were needed for financing new investments, and would pay no dividends when it needed all of its earnings for investment purpose (Jones, 1992).

With the assumption of no flotation cost removed, the firm's dividend policy will be as follows:

1. Maintain the optimum debt ratio in financing future investments.

2. Accept an investment if the net present value is positive. That is the expected rate of return exceeds the cost of capital.

3. Finance the equity portion of new investments first by internally generated funds then after this capital is fully utilized should be the firm issue new common shares.

4. If an internally generated fund still remain after making all investments, pay dividends to the investors. However, if all internal capital is needed for financing the equity portion of proposed investments, pay no divided (Scott et al 1999).

In summary, dividend policy is influenced by:

1. The company's investment opportunities,

2. The capital structure mix, and

3. The availability internally generated funds. (Ibid)

Under this approach, growth companies with large financing needs would be expected to pay small or no dividends, and mature companies with few attractive investment opportunities would be expected to pay large dividends. If a firm follows this policy, it will have no particular target payout ratio and its birr dividend and dividend payout ratios will fluctuate as its earnings and investment plans fluctuate (Ibid)

The Information Effect: Dividend as Signals

Dividends appear to act as important convey ours of information about companies. An unexpected change in the dividend is regarded as a sign of how the directors view the future prospects of the firm. An unusually large increase in the dividend is often taken to indicate an optimistic view about future profitability. A declining dividend often signals that the directors view the future with some pessimism (Arnold, 2005).

The importance of the dividend as an information - transferring devices occurs because of a significant market imperfection-information asymmetry. That is managers know far more about the firm's prospects than do the finance providers. Investors are continually trying to piece together scraps of upon. They are used as an indication of a firm's sustainable level of income. It would seem that managers choose a target dividend payout ratio based on a long-term earnings trend. It is risky for manager's career prospects for them to increase the dividend above the regular growth pattern if they are not expected improved business prospects. This sends false signals and eventually they will be found out when the income growth does not take place (Ibid).

2.4. Types of Dividend Policies

Firms that elect to pay common stock dividends on a continuing basis must establish a dividend policy that takes in to account the often conflicting dividend components. Other factors which as industry dividend policies and the average dividend payout of competitive firms are often considered. Although hundreds of distinctdividend policies can beformulate, most policies fall in to one of the following three general categories: constant dividend payout ratio, stable per share dividends, and regular dividends plus extras (Neveu, 1985).

2.4.1. Constant Dividend Payout Ratio

There are several ways by which a constant dividend payout ratio can be used to structure a dividend policy. A firm can decide to:

1. Pay a fixed percentage of each year's earnings.
2. Set the dividend in a given year equal to a fixed percentage of the previous year's

3. Adopt a target payout ratio in the form of a long run average payout. The actual payout ratio for any given year may be larger or smaller than the target value, but the intent is to keep each payout ratio close to the desired value. (Ibid.)

2.4.2. Stable Per Share Dividends

Traditionally, many firms seem to follow the dividend policy of maintaining a relatively stable per-share dividend payment. This policy results in a dividend stream that is fairly constant with dividend increases when earnings have increased substantially and decreases only when the firm can no longer support the present level of dividends. In effect, dividends follow earnings, but with a lag. Significantly, the annual dividend will not be cut unless absolutely necessary (Jones, 1992).

2.4.3. Regular Dividends plus extras

The regular-dividends-plus-extras policy consists of establishing a regular dollar dividend and paying additionalamounts in those years where earnings increase substantially.The regular dollar dividend may also be increase overtime. The advantage in paying extra dividends is that they can be omitted without decreasing the regular dividend. A possible disadvantage of the policy is that share holders may come to expect extra dividends. If there extras are not paid as expected, the resale price of the common stock may fall (Neveu, 1985).

2.5. FACTORS INFLUENCING DIVIDEND POLICY

Most companies recognize that the shareholders have desire to receive dividends, although shareholders are also interested in the capital gain. How much dividend should a company pay? The companies' decision regarding that amount of earning to be distributed as dividends depends on the following factors.

2.5.1. Legal Rules

Although some statues and court decisions governing dividend policy are complicated, their essential nature can be stated briefly. The legal rules provide that dividends must be paid from earnings-either from the current year's earnings or from past years' earnings as reflected in the balance sheet account "retained earnings” (Weston and Copeland, 1986)

State laws emphasize threerules (1) the net profit rule, (2) the capital impairment rule, and (3) the insolvency rule. The net profit rule provides that dividends can be paid from past and present earnings.The capital impairment rule protects creditors by forbiddingthe payment of dividends from capital (paying dividends from capital would be distributing the investment in a company rather than earnings). The insolvency rule provides that corporations cannot pay dividends while insolvent (insolvency is defined here, in the bankruptcy sense, as liabilities exceeding assets. To pay dividends under such conditions would mean giving stockholders funds that rightfully belong to creditors.) (Ibid).

Legal rules are significant in that they provide the framework within which dividend policies can be formulated. Within their boundaries, however, financial and economic factors have a major influence on policy (Ibid).

2.5.2. Liquidity position

Profit held as retained earnings (which show up on the right-hand side of the balance sheet) are generally invested in assets required for the conduct of the business. Retained earnings from preceding years are already invested in plant and equipment. Inventories and other assets: they are not held as cash. Thus, even if a firm has a record of earnings, it may not be able to pay cash dividends because of its liquidity position. Indeed, a growing firm, even very profitable one, typically has a pressing need for funds, in such a situation the firm may elect not to pay cash dividends (Ibid).

2.5.3. Earnings predictability

A company's dividend payout ratio depends on some extent on the predictability of firms profits over time. If earnings fluctuate significantly, management cannot rely on internally generated funds to meet future needs. When profits are realized, the firm may retain large amounts to ensure that money is available when needed. Conversely, a form, with stable earnings trend will typically pay a large portion of its earnings out in dividends. This company has less concern about availability of profits to meet future capital requirements (Scott et.al 1999).

2.5.4. Tax position of Stockholders

The tax position of a corporation's owners greatly influences the desire for dividends. For example, a corporation closely held by a few taxpayers in high income tax brackets is likely to pay a relatively low dividend. The owners prefer taking their income in the form of capital gains rather than as dividends, which are subject to higher personal income tax rates. However, the stockholders of large, widely held corporation might prefer a high dividend payout (Weston and Copeland, 1986).

At times there is a conflict of interest in large corporations between stock holders in high income tax brackets and those in low tax brackets. The former may prefer to see a low dividend payout and a high rate of earnings retention in the hope of an appreciation in the capital stock of the company. The later may prefer a relatively high dividend payout. The dividend policy in such firms may be a compromise between a low and a high payout an intermediate payout ratio. If one group comes to dominant the company and sets, say, a low payout policy, those stockholders who seek income are likely to sell their shares overtime and shift into higher-yielding stocks. Thus, to at least some extent, a firm's payout policy determines the type of stockholders it has-and vice versa. This has been called the "clientele influence" on dividend policy (Ibid).

2.5.5. Ownership Control

For many large corporation control through the ownership of common stock is not an issue. However, for any small and medium-sized companies maintaining voting control takes a high priority. If the present common shareholders are unable to participate in a new offering, issuing new stock is unattractive, in that the control of the current stock holders is diluted. The owners might prefer that management finance new investment with debt and through profits rather than by issuing new common stock. This firm's growth is then constrained by the amount of debt capital available and by the company's ability to generate profits (scottet.al 1999)

2.5.6. Absence or Lack of other Sources of Financing

Another important variable is the effect of alternative sources of financing on the control situation in the firm. As a matter of policy, some corporations expand only to the extent of their internal earnings. This polity is defended on the ground that raising funds by selling additional common stock dilutes the control of the dominant group in that company. At the same time, selling debt increases the risks of fluctuating earnings to the present owners of the company. Reliance on internal financing in order to maintain control reduces the dividend payout (Weston and Copeland, 1986).

2.5.7. Rate of Asset Expansion

The more rapidly a firm is growing, the greater its needs for financing asset expansion. The greater the future need for funds, the more likely the firm is to retain earnings rather than pay them out. If a firm seeks to raise funds externally, natural sources are the present share holders, who already know the company. But if earnings are paid out as dividends and are subjected to high personal income tax rates, only a portion of them will be available of reinvestment (Ibid).

2.6. STOCK REPURCHASE

When a firm wants to pay out case to its shareholders, it usually declares a cash dividend. The alternative is to repurchase its own stock. The reacquired shares may be kept in the company's treasury and resold if the company needs money (Brealey and Myers, 2003).

There is animportant difference in the taxation of dividends and stock repurchases. Dividends are taxed as ordinary income, but stockholders who sell shares back to the firm pay tax only on capital gains realized in the sale. However, the Internal Revenue Service is on the lookout from companies the disguisedividends as repurchases, and it maydecide that regular or proportional repurchases should be taxed as dividend payments (Ibid).

There are three main ways to repurchase stock. The most common method is for the firm to announce that it plans to buy its stock in the open market, just like any other investors. However, sometimes companies offer to buy back a stated number of shares at a fixed price, which is typically set at about 20 percent above the current market level. Shareholders can then choose whether to accept this offer. Finally, repurchase may take place by direct negotiation with a major shareholder. The most notorious instances are greenmail transactions, in which the target of a takeover attempt buys off the hostile bidder by repurchasing any shares that it has acquired. "Greenmail" means that these shares are repurchased by the target at a price which makes the bidder happy to leave the target alone. This price does not always make the target's shareholders happy (Ibid).

CHAPTER THREE

DATA ANALYSIS AND INTERPRETATION

3.1. Forms of Dividend Payments

This chapter is concerned with the data presentation analysis and interpretation of data gathered though questionnaires and the Banks 2010/2011-2012/2013 annual reports . The respondents of this questionnaire are employees of four private banks where subject of the study. The questionnaires were distributed to judgmentally selected employees of private Banks working on CPDD.

The total number of quaternaries distributed was 8 and all respondents were properly filled and returned the questionnaires. The students researcher basis their analysis and interpretation of data from questionnaires filled in and returned from employees of CPDD.

Data presentation and analysis on respondents profile

As it has been shown in the table number 2 Presented below, the response rate of respondents and enumerators collected 100% of the questioners from Corporate Planning Development Department. Therefore, this analysis was intended and tried to present and analyzed the problems related to dividend focusing on the case of four selected private banks by keeping the statement of the problem.

Table 2: Respondents Background Information

S.No.	Items	Options	Respondents	
			Number	%age
1	Sex	Male	6	75
		Female	2	25
2	Age	19-30	6	75
		31-45	1	12.5
		Above 45	1	12.5
3	Levels of education	MS degree	-	-
		Bachelor of Arts	8	100
		Diploma	-	-
4	Years of Service in the Organization	Less than 2	-	-
		2-5	-	-
		6-10	-	-
		11-15	5	62.5
		More than 15	3	37.5
5	Name of Organizations	Awash International Bank	2	25
		Dashen Bank	2	25
		Abyssinia Bank	2	25
		United Bank	2	25
6	Position	Manager	4	50
		Senior Finance Officer	4	50

Source: Research field survey

The above table number 2, depicts the demographic information of the employees respondents, it shows that, (6)75% of the total respondents are male, while 2(25%) are females. It also reveals that, (6)75% ofthe respondent's age is, between 19-30, (1)12.5% are, between 31-45 and (1)12.5% are above 45 respectively.

With regard to their academicqualification of the respondents, 100% have Degree. Similarly, (5)62.5% of the total respondents are, (3)6-10 years work experience and 37.5% of the respondents have, 11-15 years work experience.

In summary, from the above figures obtained, the gender proportion of employees indicated, and the majority of the respondents were males. Hence gender wise distribution the percentage of females in the office relatively lower, when compared to males. While we searching the age distribution of the banks manager, most of the respondents are the age between19-30. This indicates that majority of the employees areactive productive age. In addition to the qualification of most of the respondents are Degree holders, this indicates that most of the workers have well upgrade.Regarding the employee's current work position majority of the respondents were Corporate Planning Development Department. And with reference to their work experience shows, more than half of the respondents have an experience of 6-10 years, and hence, the majority of the employees have enough experience on their current positions.

In the following sub section, the student researchers have summarized the response of the various respondents on the kind of dividend payout policy which the bank follows

S.No.	Item	Respondents	
		Number	%age
1	Awash International Bank • Irregular dividend policy	2	100
2	Dashen Bank • Irregular dividend policy	2	100
3	Abyssinia Bank • Irregular dividend policy	2	100
4	United Bank • Irregular dividend policy	2	100

Source: Research field survey

In regard to the kind of dividend payout policy, the data finding table number 3 above that, 100% of the selected banks respondents indicates that they use irregular dividend payout policy.

S.No.	Item	Respondents	
		Number	%age
1	Awash International Bank • Everybody who are an Ethiopian Nationality • Private limited companies	2	100
2	Dashen Bank • Establishers of the Bank • Sometimes top level managers	2	100
3	Abyssinia Bank • Staff (employee) • Business persons • Establisher of the banks • Business organizations	2	100
4	United Bank • Establisher of the banks • Staff (employee) • Business persons	2	100

Source: Research field survey

In regard to shareholders of the banks, the data finding table number 4 above

that, the selected banks respondents indicates that shareholders of the banks are establishes of the banks, Staff (employees of the banks), business persons business organizations and everybody who are Ethiopian nationalities.

Table 5. The firm's constraints in paying dividend

S.No.	Item	Respondents	
		Number	%age
1	Awash International Bank • Legal restrictions • Liquidity position • Earnings • Tax regulations	2	100
2	Dashen Bank • Legal restrictions • Tax regulations	2	100
3	Abyssinia Bank • Legal restrictions • Liquidity position • Earnings • Tax regulations	2	100
4	United Bank • Shareholders preference ability and access for external financing • Equity structure	2	100

Growth prospects

• Information content of dividends

Source: Research field survey

In regard to constraints in paying dividend , the data finding table No.----------------------------- above that, the selected banks respondents indicates that Legal restrictions, Liquidity position, Earnings, Shareholders preference ability and access for external financing, Equity structure, Growth prospects, and Tax regulations

Table 6. The firm pays dividend - cash dividend or non Cash

S.No.	**Item**	**Respondents**	
		Number	**%age**
1	Awash International Bank • Cash dividend	2	100
2	Dashen Bank • Cash dividend • Bonus share buy back	2	100
3	Abyssinia Bank • Cash dividends • Bonus share buy back	2	100
4	United Bank • Cash dividend	2	100

Source: Research field survey

In regard to paying dividend , the data finding table number 6 above that, the selected banks respondents indicates that their firms are paying dividend in the form of cash and bonus share buyback.

3.2. Types of Dividend Polices Used By Banks

Table 7 Annual Earnings per share, dividends per share and percentage of dividend from earnings per share.

Year	Earnings per share				Dividend per share				%age of dividend from earning			
	Awash	Dashen	BoA	United	Awash	Dashen	BoA	United	Awash	Dashen	BoA	United
2010/11	560	753	250	52.81	228.27	31,465	187	24.53	23%	25%	75%	25%
2011/12	469	926	58	52.80	282.84	40,032		29.26	28%	32%	0%	27%
2012/13	456	823	320	49.97	239.75	67,543	234	36.33	23%	54%	73%	34%

Source: Organized and computed using the financial statements of the stated years.

Despite the fact that there are three commonly used dividend policies based on the theoretical ground, the aforementioned banks under the periods of the study did not been practice any of those dividend policies. This is because the types of the decisions that have made are not totally in line with the features of any of the policies.

As it has been observed in Table 7 the payment of dividends per share for the four banks is not based on a certain fixed percent of earnings per share in each period in which the dividend has been paid. Hence, they have not practiced one of the dividend policies referred to as constant-payout-ratio. For example, in the case of Awash bank the payment of dividends per share for each period under the study has not been based on a certain fixed percentages of earnings per share of the period. In the year 2010/11 dividend per share was 23 percent of the earnings per share: while in the year 2011/12, dividend per share were 28 percent of earning per share. Again for the remaining years, dividend per share was not either 23 or 28 percent of the earning per share of each period. This implies that existing shareholders could not predict the amount of cash dividend payments in advance in order to make their own personal decisions. Also potential investors may not be motivated to join the banks as investors. Second, the amount of dividends per share has not been based on a fixed amount of birr per share in each period regardless of the change in earnings per share. For example, in the case of Abyssinia, in the year 2010/11 dividend per share wasBirr 187 while in the year 2011/12 it was Birr 0 which is different from the years 2010/11. Similarly, dividend per share in the case of other banks was not fixed. This implies that banks under the study have not practiced regular dividend payments. Finally, again theyhave not practiced paying of low regular dividends and subsequently not supplemented by extra dividends when earnings have been increased. For example, if we take Dashen in the years 2010/11 and 2011/12, its earnings per share had increased from Birr 753.00 in 2010/11 to Birr 926.00 in 2011/12. To the contrary, United's earnings per share decreased from Birr 52.81 to Birr 52.80 but dividend per share increased from Birr 24.53 to Birr 29.26.

Instead, in the companies, the practice of dividend payments as a policy has not been in line with a certain percentage of the beginnings or ending balance of the paid up capital in the year in which dividend has been paid.

Therefore, their annual dividend payment is less predictable. For further understanding Table 8 has shown us that dividend has not been paid based on some predetermined percent of the paid up capital.

In a nutshell, the policy that all the banks follow has brought about no effect on the price of their corresponding shares. As it is indicated in table 1 of chapter 1, the share price of the banks remains unchanged. In other words, as indicate in table 8 in all of the banks, the percentage of the dividend declared to its paid up capital could not provide comprehensive information to predict its future dividend payments since it lacks consistency. Rather, the main reason that they have used paid up capital as a guideline (a policy) is to indicate that dividend as a return on investment (paid up capital) or an indicator of company performance.

Table 8: paid up capital in millions, Dividend declared in millions and Dividend declared per paid in capital.

Year	Awash			Dashen			Abyssinia			United		
	PIC	**D**	**D/P**	**PIC**	**D**	**D/P**	**PIC**	**D**	**D/P**	**PIC**	**D**	**D/P**
2010/11	734	168	23%	699	176	25%	265	49	18.77%	523	128	25%
2011/12	912.3	258	28%	704	225	32%	312	-	0%	580	158	27%
2012/13	1.2 Billion	289	23%	737	397	54%	313	73	23.47%	600	203	34%

Source: Organized and computed using the financial statements of the four banks for stated years

Table 8 above shows the yearly percentage relationship between the dividends declared and paid up capital in each bank i.e. dividend declared per year divided by the yearly paid up capital balance.

Where: PIC-Paid up capital, D-Dividend declared and D/P-means the ratio of dividend divided by paid up capital.

3.3. Factors Influencing Dividend Policy in four Selected Private Banks

According to the respondents and Annual reports (2010/11 - 2012/13) of the selected four private banks impact and the level of importance of factors influencing dividend decisions differ from company to company depending on:

- The institutional structure - whether it is a financial institution or non-financial institution, The stage of business life cycle of the company - early stage, growth, maturity and decline, and

- The level of development of the financial markets in which the company is operating in.

With the context of the Ethiopian, there are legal as well as economic factors which have been actuallytaken into account for the payment of dividends to the shareholders by the banks under the study. Though there are different factors that affect the amount of dividend payments in the literature part, the following are some of the factors that have been practically used by the banks. However, itshould be noted that even if the factors have paramount importance to make sound dividend decisions, they do not provide an equation that explain thekey relationships between eachfactors and the amount of dividend payment in the form of cash.

3.3.1. Legal Restriction

According to the respondent of legal departments of each Banks there are legal restrictions which limit the amount of dividends that the banks may pay. First of all, Banks have not paid dividend (1) if their liabilities exceed their assets, (2) if the amount of dividend exceeds the accumulated profits, and (3) if the dividend is being paid from the capital invested in the company. The second legal restriction includes those listed in proclamation no. 592/2008. These rules prohibit any bank from paying out dividends if:

The banks do not maintain the minimum amount of required capital (Article 18(1) of 592/2008).

"The minimum amount of capital and reserves to be maintained by banks and the rules for their computation shall be determined by the directive to be issued by the national bank" But the National bank not issued any directive regarding this except a directive issued earlier which set the minimum capital to be Birr 75 million. (Directive no:SBB/24/99).

• The minimum required amount is not transferred to reserve accounts.

"Any bank operating in Ethiopia shall at all times maintain in its reserve account 15% (fifteen percent) of all Birr and foreign currency deposit liabilities held in the form of demand (current) deposits, saving deposits and time deposits" (Directive No: SBB/45/08).

In compliance with Article 19 of proclamation no. 592/2008, the legal reserve, i.e. 25% of the bank's annual profit after tax should be deposited in to its account it reaches the paid up capital of the banks. Thus, the banks have considered the above legalrestrictions in order to make rational decisions concerning dividend payments. Since these legal restrictions demand the bank's cash or other resources, private banks have reduced the amount of dividend payments in the form of cash.

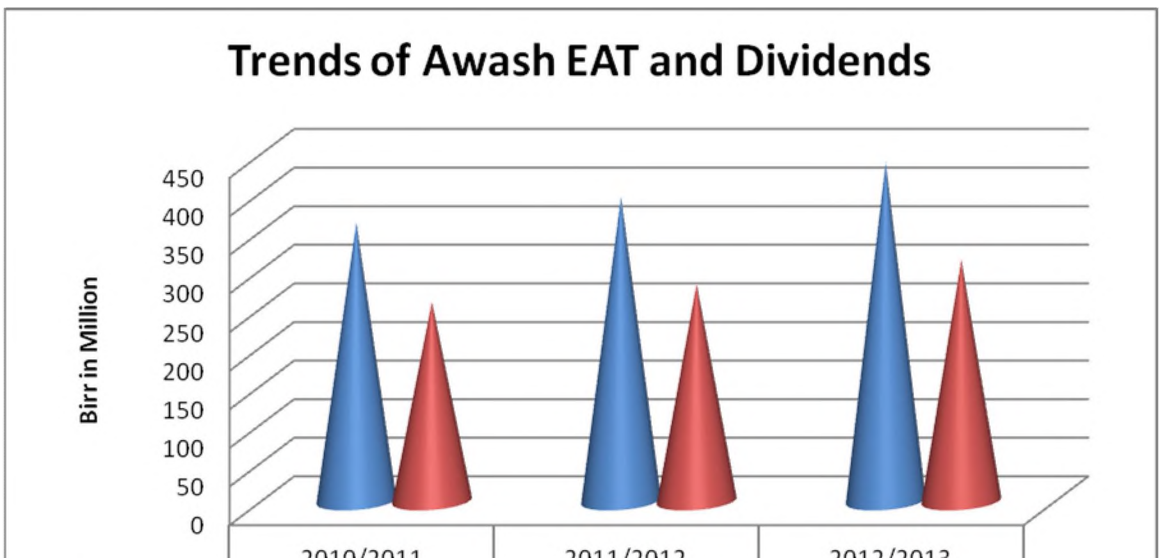
3.3.2. Liquidity Position

The institutional structure of the companies necessitates them to be liquid at any point in time. The liquidity ratio of the banks under study was well above (on average more than 30%) of the statutory requirement of 25% (Directive no: SBB/44/2008). Since their liquidity position was above the required level, dividend payments were not affected. This was due to the higher importance given to the legal factors.

3.3.3. Earnings

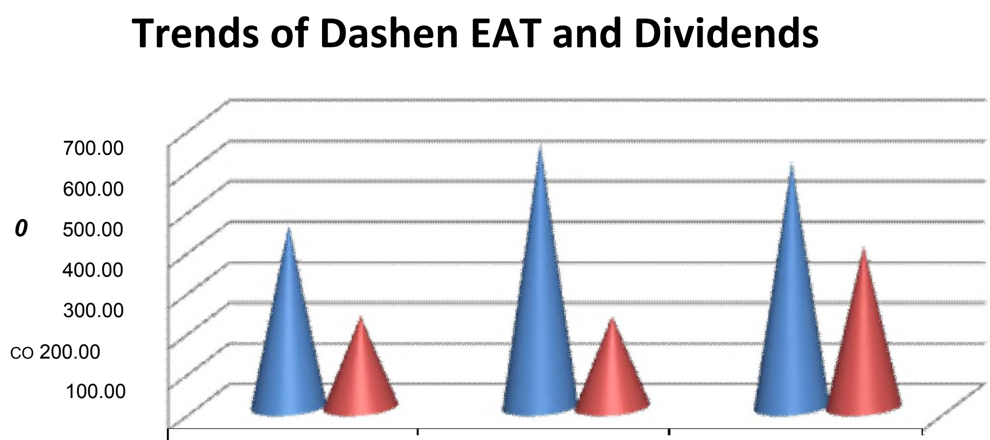
Though there are different factors influence dividend payments concurrently, Chart 1 show that yearly profit after tax is the determinant factors which has been taken into account by the banks in order to determine the amount of the yearly dividend payment for each banks.

Chart 1: Net profit after tax (EAT) and the corresponding dividend declared



	2010/2011	2011/2012	2012/2013
EAT	361	394	439
Dividends	258	281	312

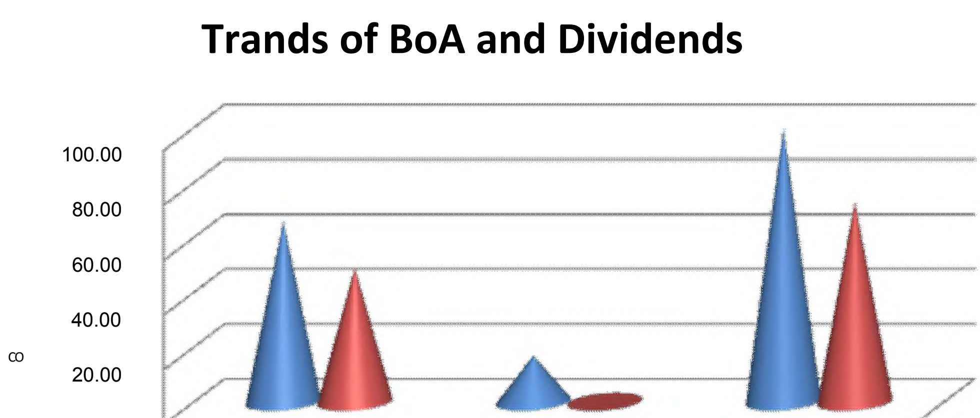
Source: Organized and computed using all the banks financial statements of the stated years.



	2010/2011	2011 2012	1011.1013
■ EAT	451.00	652.00	607.00
■ Dividends	225.00	226.00	398.00

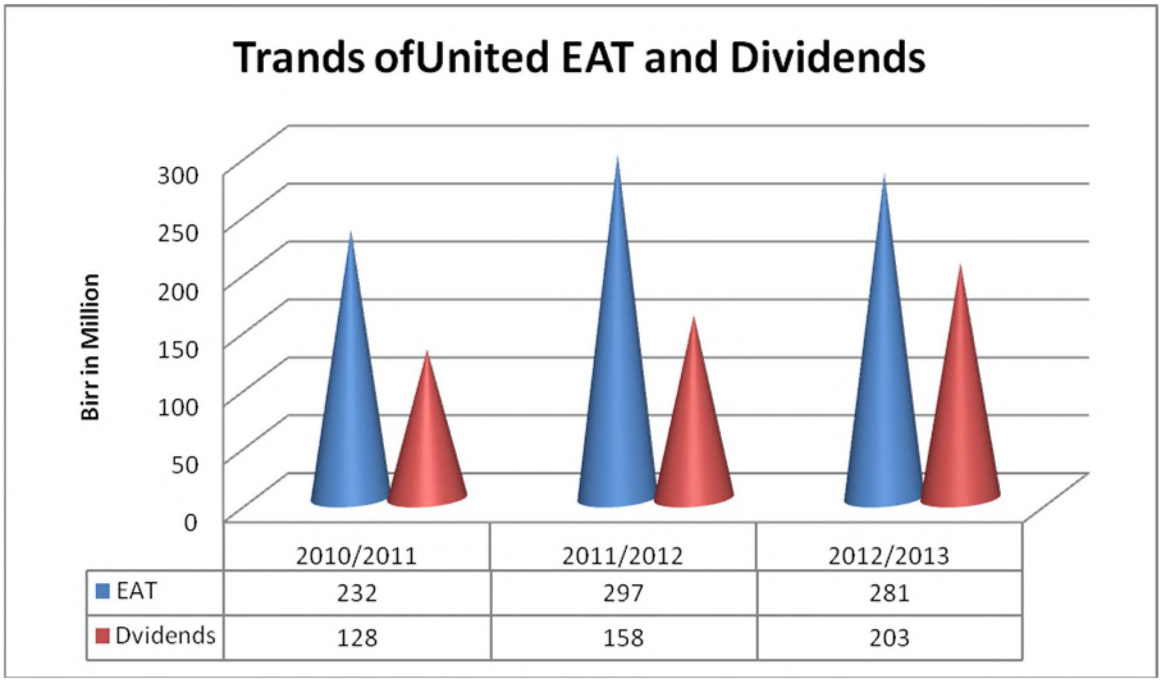
Source: Organized and computed using all the banks financial statements of the stated years.

Chart 3: Net profit after tax (EAT) and the corresponding dividend declared



		201 1 ,201 2	2012001 3
EAT	66.00	17.00	100.00
Dividends	49.00	-	73.00

Source: Organized and computed using all the banks financial statements of the stated years.



Source: Organized and computed using all the banks financial statements of the stated years.

As it has been discussed in the literatures, profit is one factor that determines the dividend decisions of companies. The net earnings after tax of each bank, except Abyssinia, have been growing though at different rate. But this does not mean that dividend should be necessarily paid every year whenever net profit has been generated. For example, in Bank of Abyssinia in year 2011/2012 net profit after tax was about Birr 16.6 million but dividend was not paid. This implies that there are years that dividend has not been paid through there has been net profit. According to the information given by bank of Abyssinia representative, this is due to the fact that the net profit after tax might have been highly demanded by the company for other purposes.

However, there are circumstances that the company may pay dividends greater than the yearly net profit after tax. This practice has shown in the case of Dashen bank in the year 2010/2011.

3.3.4. Taxes

There might be some shareholders who want to benefit from the capital gains arising from price appreciation of shares in the future rather than current earnings. However, in Ethiopia according to Income Tax proclamation no. 286/2002, the tax rate on dividends is flat rate of 10% for all individuals whereas capital gains arising from sale oF capital shares are taxed at 30%. Under this situation, as rational investor, individuals would tend to prefer receiving dividends at a lesser tax than gaining income by selling their shares which will be taxed at a higher rate. In addition, the uncertainties attached to the future of companies operating in unstable political and economic environment may tend investors to choose dividends to capital gains.

Source: Federal Negarit Gazeta **Income Tax Proclamation No.286/2002**

3.3.5. Shareholders Preference

As the theory and the empirical results showed in closely held companies with relatively small number of shareholders, it is usually easy for management to determine the desire of the shareholders especially, in such cases where the dividend decision is made by the General Assembly (Annual Shareholders Meeting). The board of directors presents the summary of the company's financial and appropriation of the operational results to the General Assembly to decide on the appropriation of the operational results.

Although some of the banks capitalized the declared dividend and issued shares in proportion to their holdings. Those shareholders who want to receive cash immediately got the cash dividend by the approval of the board of directors. Similarly, anyone who wants to sell its share capital, except for Dashen Bank S.C. can sell its shares whomever he/she wants. In case of these other banks, shares may betransferred to an outside person only after prior approval of the Bond of Directors. In such situation preemptive rights of the shareholders is still preserved. Every transfer of registered shares is made in writing and in such form as the Board of Directors from the time to time may approve. The holder of the registered shares shall be entered in the bank's share register three full days before the date of a meeting.

The board of directors is composed of twelve people that are selected from the shareholders. The board of directors has the power to appoint or replace the General Manager of the company. It also decides of any kind of decision that has long term impact and requires huge capital outlay. This practice reduces the agency cost, since the major decisions are made by the shareholders themselves, which is in the interest of the shareholders.

Source: Annual Reports of the bank

3.3.6. Ability and Access for External Financing

According to the respondent the financial market in Ethiopia is highly undeveloped. Bank loans and sale of equity shares are the only external sources that are available for companies to finance activities. When there is a need to finance activities from external sources; banks can use the inter-bank money market.

Sales of equity shares have been used as a financing instrument. Companies issued shares to raise money. However not all banks sold to the general public.

Dashen bank for instance, has a strict rule not to sell shares to new individuals. If the company has a need to sell new shares, the existing shareholders have a preemptive right. However, if a new individual approaches to buy the other shareholders have to approve his/her incoming. Due to this reason, these banks opted to finance using the internally generated funds.

From the four Banks study, three of the Banks have sold shares to the general public. The newly issued shares were sold at a premium. The existing shareholders and employees were offered at relatively lesser price than it was given to the outsiders (general public). Because the existing shareholders and the employees of the bank have preemptive, rights over the outsiders who want to buy the newly issued shares, most of the shares were bought by existing shareholders and employees.

3.3.7. Equity Structure

The equity portion of the balance sheets of the banks has been increased. Some of the banks declared stock dividends in instead of cash dividend which ultimately increased the number of shares outstanding and amount of paid up capital. As a result of this they used the internally generated funds to meet their financing needs and also raised the level of their paid up capital without going through the troubles of new share issue (incurring announcement, Brokerage and other related costs). The vice verse is true when there is excess cash. By this they can attain the required equity structure.

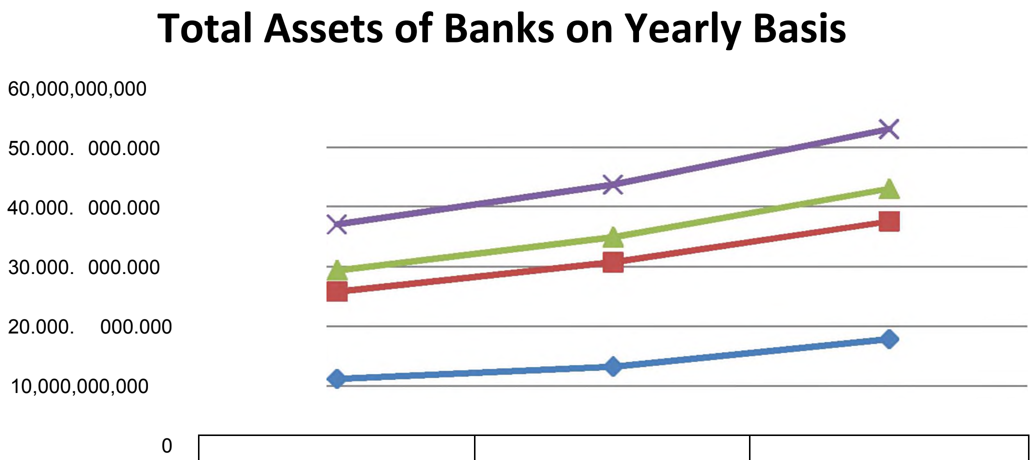
Source: Annual Report of the Bank

3.3.8. Fund Needs of The Company - Growth Prospects

The bank's financial requirements are directly related to the degree of asset expansion anticipated. That is to say that the degree of asset expansion is high in growth stage of the bank. As shown in Chart 4, all the banks are at growth stage since their EAT are growing constantly. Thus, as it has seen in the literature review part, the banks at this stage need funds to finance their capital expenditure. In other words, these companies at growth stage are constantly in need of funds to finance their newly accepted project. According to the concerned official who has been interviewed, to finance these newly accepted projects companies should raise funds either from external or internal sources. However, external financing may not be always advisable from the stand point of profitability, cost as well as the speed with which financing can be obtained. Hence, they have preferred to depend heavily on internal financing through retained earnings. This implies that banks have considered growth prospects as one factor in order to determine the amount of dividend payments. [illegible] result, the amount of dividend payments as a percentage of its earnings might be reduced.

Source: Annual Report of the Banks

Chart 5: The size (total assets) of Banks on yearly basis



	2010/2011	2011/2012	2012/2013
X United	7,725,441,000	8,786,860,000	9,977,673,000
Abyssinia	3,577,964,010	4,269,946,935	5,476,625,540
B Dashen	14,659,795,156	17,520,000,000	19,747,174,767
♦ Awash	11,089,000,000	13,125,000,000	17,784,000,000

Source: Organized and Computed using all the banks' Annual financial statements of the stated years

3.4. Information Content of Dividends

According to the respondents dividend payments are used as a mechanism of signaling management's future expectation of the firm. This is true for companies that operate in a well-developed stock market and have highly traded shares. The fact that shares are not freely traded in the open market makes the role of dividend announcements in conveying valuable information to the investor is less important. This is because some of the banks do not invite new investors to buy new shares. In other words, the banks do not want to expand their shareholder base. For this reason the internally generated information is used for their own consumption since the management is not concerned in welcoming new shareholders. Therefore, the use of dividends as signals for conveying valuable information for the public is less important in case of closely held banks at least for a time being.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATION

4.1. Summary

Based on data presentation, analysis andinterpretation made in chapter three, the following are summary of the major findings.

- The selected private banks under the periods of the study did not been practice any of those dividend policies. This is because the types of the decisions that have made are not totally in line with the features of any of the policies.

- The payment of dividends per share for the four banks is not based on a certain fixed percent of earnings per share in each period in which the dividend has been paid.

- The existing shareholders could not predict the amount of cash dividend payments in advance in order to make their own personal decisions. Also potential investors may not be motivated to join the banks as investors

- Banks under the study have not practiced regular dividend payments. Again they have not practiced paying of low regular dividends and subsequently not supplemented by extra dividends when earnings have been increased.

Dividend policy is a very important issue because it determines what funds flow to investors and what funds are retained by the firm for future reinvestment. To this end, this study aimed at examining possible factors that could influence the dividend policy of private banks in Ethiopia. In order to achieve this objective, four research questions have been developed. To address the researchquestions, more specifically, the analyses were performed using data derived from the annual report of private banks in Ethiopia during a three year period from 2010/11 - 2012/13 and distribute questionnaires to the banks CPDD Managers. In the study yearly profit after tax, yearly dividend payment, paid up capital, dividend declared and the ratio of dividend divided by paid up capital for each bank.

Based on the findings, the researchers set the following pertinent conclusion.

- In the selected private banks, majority of employees in CPDD are youngsters (19-30) years old.
- Out of the four types of dividend payments, the selected private banks declared only use cash payment.
- There is various type of shareholders the firms have. Those are staffs (employees) of the banks, business persons, private organizations and establishers', and sometimes everybody who has an Ethiopian Nationality.

Luck of constant dividend payout ratio is the major problem observed from the reports and questionnaires. The other problem is luck of transparency when the time of dividend.

- The process of deciding dividend declare are normal and annual activity of the banks. But they are not keeps shareholders preference before declaration.
- When the process of assessing the annual reports of selected banks, the reports are not clearly understandable format.
- The selected banks do not follow the three dividend payout policy. Namely constant dividend payout ratio, stable par share dividend and regular dividend plus extra.
- The firms have constraints of dividend declaration. Those are economic, legal, liquidity position, earnings and tax declarations.
- The annual net profit after tax of the banks affect their dividend payments. The higher the amount of annual net profit after tax, the more the banks motivated to pay higher amount of dividend.
- The banks do not follow the three dividend policies, namely constant dividend payout ratio, stable per share dividend, regular dividend plus extra. Instead, some arbitrary percentage of the paid up capital or earnings has been used as a guideline to determine the amount of dividend payment. As a policy, this arbitrary percentage of paid up

capital or earnings is not influential to anticipate the amount of dividend payments that will be paid in the future because of no consistency.

- Growth prospects of the company also affect dividend payments. Since all four banks are at the growth stage, their financial requirements are high. The higher the financial requirements, they prefer to retain more earnings to finance and therefore the amount of dividend payments has been reduced.

The banks have determined the amount of cash dividend payments after assessing the impact of the following legal as well as economic factors.

- Statutory deposit and legal reserve imposed by National Bank of Ethiopia cause the banks to pay low dividends.
- Their annual net profit after tax affects their dividend payments. The higher the amount of annual net profit after tax, the more the banks motivated to pay higher amount of dividend.

  The preference and expectation of individual shareholder has also an impact on the dividend payments. The higher their preferences and expectation, the higher the amount of dividend but not as such influential as compared to other factors.
- Since tax on dividend income (10%) is less than tax on capital gain (30%) shareholders preferred to pay tax on dividend income than capital gain though sell of share is the public.

It should be noted that the above all factors do not provide an equation that explains the key relationship between each factors and the amount of dividend payment.

Either the policy that the banks have followed or factors that have been considered has brought no effect on the price of the share.

After dividend has been declared some banks have capitalize the dividend. This practice has happened when the bank has an interest to escalate the paid up capital with the existing shareholders This implies that they are doing their business in closed working environment.

The paper has concluded by recommending the following pertinent points.

- In order to retain the existing shareholders and to attract the potential shareholders banks should try to set a clear dividend policy so that the amount of dividend payments should be estimated in advance by the shareholders. The possible two suggestions are:
  - ■ Banks can use the yearly average paid up capital as a dividend policy. They can pay dividend as a certain percentage of the yearly average paid up capital. The percentage should be determined by each banks based on their preference. This suggestion has the following advantages. First, it serves as a preference indicator, i.e. shows the return on equity (RoE), second, motive banks to keep on working hard to the better performance so as to pay dividends as they promised. Third, helps shareholders (potential and existing) to make clear comparison among banks about banks performance and their dividend payments.
  - ■ Constant dividend payout ratio is advisable. Using this policy, banks should pay dividend as a certain percentage of earnings to shareholders in each dividend period. But, periodically, the personage should be calculated by dividing the bank's cash dividend per share by its earnings per share. And those indicate the percentage of each birr earned that is distributed to owners

in the form of cash. Here dividend should not be paid in the year of no profit.

Banks should be opened to the public when they desire to sell shares to increase their paid up capital. As a result the public when they desire to sell shares to increase their paid up capital. As a result, the price of the share might not be constant. And thereby this practice will be an input for the establishment of stock market in the country.

- The active participation of the individual shareholders should be considered well and should be one factor to determine the amount of dividend payments. In other words, their preference to external investment opportunities and desire to current income should be considered.

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APPENDIX

ST. MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

Questionnaire to be filled by supervisors and managers on the Determinants of Dividend payout policy in the case of private banks in Ethiopia

The researchers would like to express their heartfelt appreciation for your co-operation in completing the questionnaire. Please be confident that the data you provide me will be handled confidentially and use only for the academic purpose. You do not need to mention your name. Please put "A"mark in the box and answer the open-ended question in the space provided

Section One

Personal Profile

1. Sex Female Male

2. Age ☐ 19 - 30 ☐ 31 - 45 ☐ Above 45

3. Years of Service in the Organization

   Less than 2 2 - 5 6 10

   11 - 15 more than 15

4. Leave of Education

5. Position

Section Two

Queries

1. Do the Firms have predetermined dividend policies?

   Yes No

2. What things does the firm consider while setting dividend policies? (like forecasting capital, estimating annual equity needs....)

3. What are the firm's major dividends polices?

4. How accessible is the provision of the policies?

5. Does the firm announce the policy?

   Yes No

6. What do you think the criteria's are for determining the dividend policies?

8. What are the criteria for being a shareholder?

9. How many ordinary and preferred shares does the firm has?

- Ordinary---
- Preferred--

10. What are the roles of shareholders on the firm? And regarding dividend payment?

11. What are the firm's constraints -in paying dividends?

12. Does the firm use empirical testing and analysis before applying judgment and setting policy?

14. Should the firm follow a stable or irregular dividend policy?

15. How should the firm pay dividends?

- cash dividend--------------------------------

- Non Cash Dividend

16. Do the shareholders prefer to automatically reinvest their dividends in shares of the company's common stock than receiving in cash? (Get more stock than cash?)

Yes No

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