

Review Article

Factors Affecting Dividend Decisions in Ethiopian Private Commercial Banks: A Systematic Literature Review

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Abstract

This systematic literature review examines existing research on Dividend Decisions among private commercial banks in Ethiopia, aiming to identify critical research gaps and evaluate the current state of knowledge to offer guidance for future investigations. The review included sixteen relevant scholarly articles, primarily gathered through open search engines and databases, and followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework with clearly defined inclusion and exclusion criteria, ensuring methodological rigor. Findings reveal several significant limitations. Most studies focus on a narrow range of internal financial variables, yielding low citation rates, which suggests a nascent field with limited cumulative knowledge. A predominant reliance on quantitative research methods, typically employing econometric models, highlights a substantial gap in qualitative studies. These could provide deeper, invaluable insights into managerial perspectives, strategic rationales, and the nuanced human factors driving dividend decisions, offering a more holistic understanding. While internal factors like profitability, liquidity, and leverage are emphasized, there is a marked lack of attention to broader macroeconomic variables—such as inflation, interest rates, or central bank regulations—that influence banks' dividend policies and risk appetites. Furthermore, some variables investigated yield conflicting results, leading to ambiguity regarding how banks make dividend decisions and the factors shaping their corporate financing behaviors. This inconsistency hinders the development of robust theoretical frameworks and practical guidelines. Therefore, the review strongly suggests that future research integrate qualitative methodologies to capture managerial insights and explore the strategic dimensions of dividend decision-making. Concurrently, it advocates for a broader inclusion of macroeconomic perspectives to better understand contextual influences. By addressing these identified gaps, future studies can significantly enhance comprehension of the complexities influencing dividend policies in Ethiopian private commercial banks, thereby informing both academic inquiry and practical decision-making for the banking sector.

Keywords

Dividend Decisions, Banks, Systematic Literature Review, Profitability, Dividend Theories

1. Introduction

Dividend decisions are a crucial aspect of corporate financial management and represent a company's commitment to

distributing profits to its shareholders. The primary theories regarding dividend policy highlight the trade-off between

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retaining earnings for reinvestment and distributing profits as dividends [16]. According to the Modigliani and Miller theorem, dividend policy is irrelevant in perfect capital markets because investors can create their own dividends through buying and selling shares. However, real-world imperfections, such as taxes and transaction costs, lead firms to adopt specific dividend policies that reflect their financial strategy, signaling intentions to investors about the company's profitability and stability [4]. Another significant aspect of dividend decisions is the signaling theory, among other theories which suggests that dividend announcements convey information about a company's future prospects. Firms may increase dividends to signal confidence in their earnings, as investors often interpret dividend increases as an indication of financial health and growth potential [19]. Conversely, a reduction in dividends may signal financial distress or declining future earnings, leading to adverse market reactions. Consequently, companies must carefully consider their dividend policies, as these decisions can impact stock prices and investor perceptions. Additionally, the timing and consistency of dividend payments further contribute to investor perceptions and trust. Regular and predictable dividends can foster a sense of reliability, encouraging long-term investment and loyalty from shareholders. Companies that maintain a consistent dividend payout are often viewed as more stable, which can enhance their reputation in the market. However, any abrupt changes—whether increases or cuts—can lead to volatility in stock prices, as investors reassess the company's financial health. Thus, firms must not only consider the immediate financial implications of their dividend policies but also the long-term impact on investor confidence and market stability. Balancing these factors is crucial for sustaining positive investor relations and ensuring strong market performance [13].

The clientele effect is another key concept in dividend decision-making, highlighting how different groups of investors are drawn to varying dividend policies based on their unique tax situations and income requirements. Some investors, particularly those seeking immediate income, prefer high dividend payouts, as these provide a steady cash flow [9]. Conversely, other investors might favor a strategy centered on capital gains, choosing for firms that reinvest their earnings rather than distribute them as dividends. This divergence in preferences suggests that companies may cultivate distinct investor bases depending on their dividend strategies, which can significantly impact their attractiveness in the market. As firms align their dividend policies with the preferences of their target clientele, they may unintentionally influence their stock price performance and overall market valuation [2]. For example, a company that implements a high dividend payout may demand to income-focused investors, potentially boosting its stock price due to increased demand. In contrast, a firm that decides for lower dividends but reinvests profits may attract growth-oriented investors, leading to different valuation metrics. Ultimately, the clientele effect emphasizes the importance of understanding investor preferences in shaping

corporate dividend policies and the broader implications for market dynamics [22].

Although, dividend decision theories are generally applicable across different contexts, the specific approach to dividend decisions can vary significantly between countries and individual firms. In Ethiopia, the dividend decision within banks involves a careful evaluation by management regarding how much of the bank's profits should be distributed to shareholders as dividends and how much should be retained for reinvestment or to strengthen reserves. This decision is shaped by a variety of factors, including regulatory requirements, profitability levels, capital adequacy, and the overarching economic conditions [12]. Despite the increasing importance of the banking sector in Ethiopia's economy, there is a notable lack of research focused on how private banks develop their dividend policies to best meet shareholder interests. Ultimately, the dividend decisions how much should be paid for investor and how much should be reserved the company is traditionally determined by board meetings. In this case, it very difficult to align a board decisions with a particular dividend theory. The existing studies often show inconsistent findings, which complicates the understanding of the financial strategies adopted by these institutions and their implications for investors and stakeholders. Consequently, this systematic literature review aims to consolidate fragmented research findings and pinpoint areas that require further investigation. Additionally, this review will identify gaps in current knowledge and evaluate the existing body of research, ultimately offering valuable insights for future studies based on the parameters specified in the methodology section.

2. Methodology

This systematic literature review was conducted to gain insight into the literature focused on dividend decisions in private commercial banks of Ethiopia. The review processes were guided by Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework to evaluate the research pertaining to dividend decisions to provide a comprehensive, methodical, and unbiased analysis of existing research. By carefully collecting, evaluating, and analyzing relevant studies, this systematic literature review aims to identify patterns, gaps, and inconsistencies in the literature, thereby offering a clear understanding of the current state of knowledge.

To do so, the review processes involve several important phases. First, a clear research objective was defined, which guides the entire review process. Next, a comprehensive search strategy was developed to identify relevant literature, using specific key words namely, “dividend decisions”, “private commercial banks”, and “Ethiopia” by adopting search engines like Google scholar and Scopus databases. Following this, the identified studies were screened based on the predetermined inclusion and exclusion criteria.

2.1. Inclusion and Exclusion Criteria

To ensure a rigorous screening process, clear inclusion and exclusion criteria were established for this systematic literature review, which investigates the dividend decisions of private commercial banks in Ethiopia. This review encompasses documents published from 2010 to 2022, with a primary emphasis on peer-reviewed journal articles. Publications prior to 2010 were excluded from review in order to focus on recent data; whereas, no publication records were observed in the year of 2023 & 2024. Additionally, conference proceedings, research working papers, books, and incomplete sources were not included in the review. To maintain the focus of the study, publications from sources outside of Ethiopia were also excluded. In addition, only documents published in English were considered for this review. Accordingly, a total of 81 studies on the dividend decisions of private commercial banks

in Ethiopia were initially identified. Out of these, 72 studies were found through database searches, while an additional 9 studies were found in other records.

After removing duplicates, the total number of unique records remained 81. Upon further examination focusing specifically on dividend decisions in Ethiopia, only 18 studies related to private commercial banks were identified. The remaining 63 studies pertained to various institutions, including insurance companies, manufacturing companies, and microfinance institutions. Consequently, during the screening stage, these 63 unrelated studies were eliminated as they fell outside the review's scope. After conducting an eligibility quality assessment, 18 studies were selected for further evaluation. However, two of these studies were ultimately removed with reasons from review as they did not meet the criteria for eligibility. Thus, a total of 16 studies were included in the final review (details in Figure 1 below).

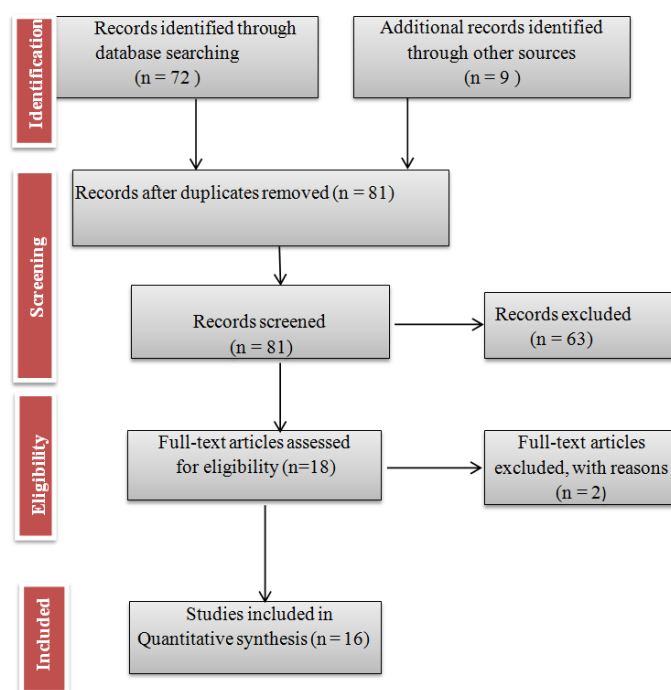


Figure 1. Article selection process using the PRISMA Framework.

2.2. Parameters of Interest

In this review, findings from existing studies were systematically evaluated and synthesized through the careful organization and categorization of selected articles based on specific criteria. It began with the review of the year-wise distribution of studies, followed by an examination of the research approaches employed, including quantitative, qualitative, and mixed methods. It further assessed the focus of each study-whether on bank-specific factors, macroeconomic factors, or a combination of both. Lastly, the review analyzed

how key variables influenced dividend decisions, such as profitability, liquidity, last year's dividend payout, bank size, leverage, age of the firm, growth rate, GDP, inflation rate, corporate tax rate, foreign exchange rate, and shareholder requirements.

3. Descriptive Analysis

This section examines the main findings of the systematic literature review. The analysis was performed on a sample of 16 studies, focusing on the dividend decisions of private

commercial banks in Ethiopia.

Publication Trends

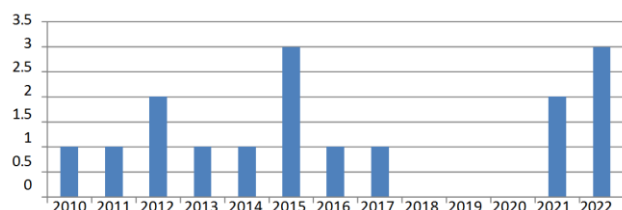


Figure 2. Year wise publication distribution.

Figure 2 provides an overview of literature trends related to dividend decisions, illustrating the frequency of publications over the years. The number of studies examining the dividend decisions of private commercial banks in Ethiopia reached its peak in 2015 and again in 2022. Additionally, 2012 and 2021 ranked second in terms of publication volume. Notably, except for the years 2010, 2011, 2013, 2014, 2016, and 2017, where publication frequency remained steady, there were no recorded publications between 2018 and 2020.

Research Approach

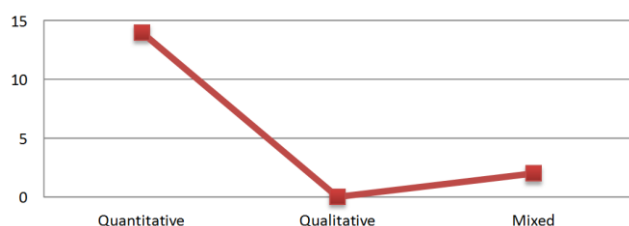


Figure 3. Distributions of Research Approach.

Figure 3 illustrates the distribution of research approaches utilized in the reviewed studies. The findings indicate that quantitative research methods were the predominant approach, followed by mixed research methods. Mainly, no study exclusively employed qualitative research methods to examine the dividend decisions of private commercial banks in Ethiopia.

Factors focused

In this analysis the vast majority of studies on dividend decisions within Ethiopia's private commercial banks have focused on specific internal factors influencing these decisions. However, only a limited number of studies have considered both firm-specific and macroeconomic factors. Particularly, there have been no studies that exclusively address macroeconomic factors (Details Figure 4).

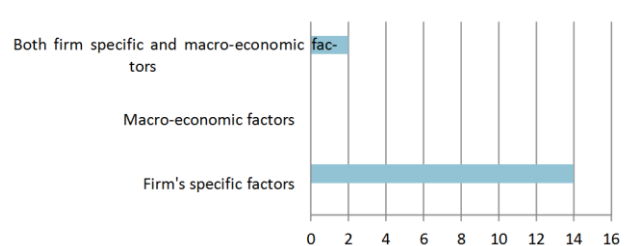


Figure 4. Factors focused.

Citation Potentials

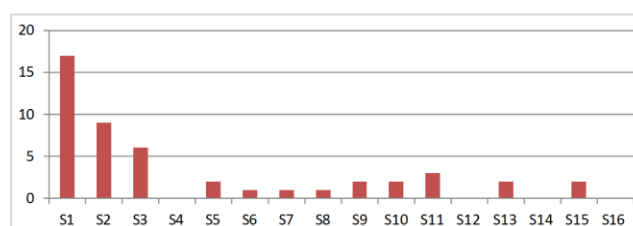


Figure 5. Citation Distribution.

Figure 5 illustrates the citation distribution of the reviewed papers, highlighting that study (1) received the highest number of citations, followed by studies (2) and (3). In contrast, the remaining papers were cited less frequently, with the exception of studies (4), (12), (14), and (16), which all recorded zero citations.

Variable of Interest

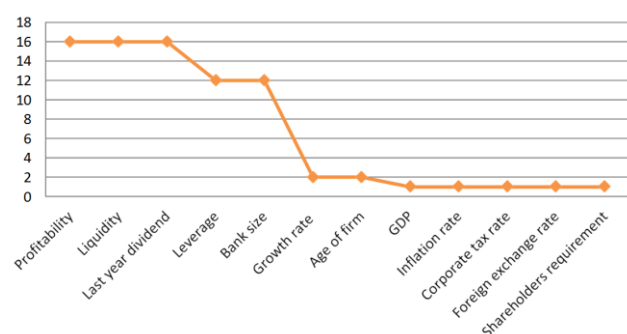


Figure 6. Distributions of variable of Interest.

This section outlines the explanatory variables utilized in the studies concerning the dividend decisions. Accordingly, Figure 6 shows that the first three key variables-profitability, liquidity, and the previous year's dividend payment-were extensively analyzed, appearing in all 16 studies. Leverage and firm size were the next most studied, each included in 12 studies. In comparison, the other explanatory variables, such as growth rate, firm age, GDP, inflation rate, corporate tax rate, foreign exchange rate, and shareholder requirements, were examined in only a small number of studies. Furthermore, the following

table outlines the relations between dividend decisions and the explanatory variables as identified in the 16 studies.

Relationship between Dividend decision and explanatory variables

Table 1. The relationship between dividend decisions & explanatory variables.

Variables	Number of studies on dividend decision in private commercial banks of Ethiopia															
	S-1	S-2	S-3	S-4	S-5	S-6	S-7	S-8	S-9	S-10	S-11	S-12	S-13	S-14	S-15	S-16
Profitability	+ve	-ve	+ve	+ve	+ve	+ve	-ve	+ve	+ve	+ve	-ve	+ve	-ve	+ve	+ve	+ve
Liquidity	+Ve	-ve	+ve	+ve	+ve	-ve	+ve	+ve	-ve	+ve	+ve	+ve	+ve	-ve	+ve	-ve
Lagged dividend	+Ve	+ve	+ve	+ve	+ve	+ve	+ve	-ve	+ve	+ve	+ve	-ve	+ve	+ve	+ve	+ve
Leverage	-Ve	-ve	+ve	-ve	Na	-ve	Na	-ve	+ve	0	+ve	Na	-ve	+ve	+ve	Na
Bank size	Na	+ve	Na	+ve	+ve	+ve	+ve	0	+ve	Na	+ve	+ve	Na	+ve	-ve	+ve
Growth rate	+Ve	Na	Na	Na	+ve	Na	Na	+ve	Na	Na	Na	Na	Na	Na	Na	Na
Age of firm	+Ve	Na	Na	Na	+ve	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na
GDP	Na	Na	Na	+ve	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na
Inflation rate	-Ve	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na
Tax rate	Na	Na	Na	Na	Na	Na	Na	Na	Na	-ve	Na	Na	Na	Na	Na	Na
Exchange rate	Na	Na	Na	Na	Na	-ve	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na
SH requirement	+Ve	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na	Na

Note that, "Na" refers to the variable that was not included in the study or not available, 0 indicates that there is no relationship exists between the dividend decision and the explanatory variables, and S-1 denotes study 1.

As it is depicted in Table 1 some of the finding reveals mixed results. Importantly, the majorities of studies indicate a positive relationship between dividend decisions and factors such as profitability, liquidity, and lagged dividends, while a negative relationship is typically observed between dividend decisions and leverage. Additionally, only a limited number of studies have explored the impact of variables like bank size, growth rate, firm age, and GDP, generally finding a positive relationship with dividend decisions. In contrast, factors such as inflation and exchange rates tend to exhibit a negative relationship with dividend decisions.

4. Discussion Points

4.1. Publication Trends

The findings regarding the literature trends on dividend decisions of private commercial banks in Ethiopia indicate a significant evolution in research interest, highlighted by peaks in publication frequency in 2015 and 2022. The absence of publications from 2018 to 2020 reveals a potential research gap, probably due to external factors like economic down-

turns or the COVID-19 pandemic, which may have diverted attention from this area. In contrast, there were steady studies in the remaining periods.

4.2. Research Approach

As it is presented in Figure 3 the predominance of quantitative research method in the examination of dividend decisions among private commercial banks in Ethiopia suggests a strong reliance on numerical data and statistical analysis to draw conclusions. This approach allows researchers to identify patterns, correlations, and trends in dividend policies, which can provide valuable insights for stakeholders, including bank management and investors. As noted by [5], quantitative research is particularly effective in testing theories and hypotheses, which may explain its popularity in financial studies. However, it also raises questions about the depth of understanding regarding the qualitative factors influencing these decisions, such as managerial perspectives or market conditions. On the other hand, qualitative research, as outlined by [24], offers a rich, contextual understanding of complex phenomena, which is crucial in fields like finance where human behavior and decision-making play significant

roles. For instance, exploring the motivations behind dividend policies through interviews or case studies could uncover insights that numerical data alone may not capture. Consequently, the lack of qualitative exploration might limit the comprehensiveness of the findings and their applicability to real-world scenarios in the Ethiopian banking sector. Moreover, the reliance on quantitative methods may imply a need for a more integrated research approach moving forward. Incorporating mixed methods- where both quantitative and qualitative techniques are utilized-could enhance the strength of future studies.

4.3. Factors Focused

The findings from the reviewed articles highlight a significant gap in the existing literature concerning dividend decisions in Ethiopia's private commercial banking sector. Most studies have predominantly concentrated on internal factors, such as profitability, liquidity, and retained earnings, which undoubtedly play crucial roles in shaping dividend policies. However, this narrow focus may overlook the broader context in which these banks operate. As noted by [17, 23] understanding the relationship between internal and external factors is essential for a comprehensive analysis of dividend decisions. The limited attention to macroeconomic influences suggests a need for a more holistic approach to research in this area. Economic indicators such as inflation rates, interest rates, and overall economic growth can significantly impact banks' dividend policies. For instance, a study by [7] emphasizes that macroeconomic stability fosters a favorable environment for firms to distribute dividends, while volatility can lead to cautious approaches. The lack of research focusing on these external variables in the context of Ethiopia's private banks implies that existing dividend decision frameworks may not fully capture the complexities of the banking environment.

4.4. Citation Distribution

The citation distribution illustrated in Figure 5 reveals a significant disparity in the academic impact of the reviewed papers, with study (1) leading in citations, followed by studies (2) and (3). This pattern suggests that these papers have made notable contributions to their fields, influencing subsequent research and discussions. As highlighted by [3] citation counts often serve as proxies for research quality and impact, indicating that these highly cited studies are likely recognized for their substantive contributions to the academic community. Conversely, the low citation rates seen in the majority of the remaining papers raise concerns about their visibility and relevance. [1] discusses factors influencing citation behavior, pointing out that works with limited visibility or those addressing niche topics may be overlooked despite their potential value. This is particularly evident in the case of studies (4), (12), (14), and (16), which recorded zero citations, suggesting they might not have resonated with peers or may have suf-

fered from other issues that hindered their recognition.

4.5. Distributions of Variable of Interest

The findings presented in Figure 6 emphasize the critical importance of profitability, liquidity, and last year's dividends, which were extensively examined across 16 studies. Research consistently demonstrates that profitability is a fundamental indicator of a firm's operational success and sustainability. Higher profitability not only enhances shareholder value but also indicates a firm's ability to reinvest in growth opportunities. Similarly, liquidity is vital for assessing a firm's capacity to fulfill short-term obligations, thereby influencing its overall financial stability and operational effectiveness [25]. Leverage and firm size emerged as significant variables, analyzed in 12 studies, suggesting their relevance in corporate finance. Prior research indicates that leverage affects a firm's risk profile and cost of capital, which are critical considerations for investment decisions. Furthermore, bank size has been associated with various financial metrics, with larger firms often enjoying advantages such as economies of scale and enhanced market power [18, 11]. This highlights the need to include these variables in financial analyses, as they can have substantial impacts on a firm's performance and strategic choices.

4.6. Relationship Between Dividend Decisions and Explanatory Variables

The results of the relationship between dividend decisions and various explanatory variables have significant implications for both corporate finance theory and practice. The positive relationships identified between dividend decisions and profitability, liquidity, and lagged dividends align with the signaling theory of dividends. According to this theory, companies that consistently pay dividends are perceived as financially healthy and stable, thus attracting investors who seek reliable returns. Empirical studies have supported this notion, indicating that firms with higher profitability are more likely to initiate or sustain dividend payments, reinforcing the idea that dividends serve as a credible signal of financial strength [8, 14]. Moreover, the findings that suggest a negative relationship between dividend decisions and leverage consistence with the pecking order theory, which posits that firms prefer internal financing or retained earnings over external financing or debt due to the costs associated with issuing new equity or debt [20]. High leverage often indicates a reliance on debt financing, which may constrain a firm's ability to pay dividends. This is further supported by empirical evidence indicating that firms with high debt ratios tend to either reduce or eliminate dividend payments to maintain financial flexibility and manage risk [10].

The limited studies showing positive relationships with variables such as bank size, growth rate, age of firms, and GDP highlight additional dimensions of dividend policy in-

fluenced by external and internal factors. For instance, larger firms often have more stable earnings and greater access to capital markets, allowing them to distribute dividends more reliably [6]. Similarly, firms in a growth phase may prioritize reinvesting profits over paying dividends; however, those with a consistent growth path may still return value to shareholders through dividends. Age of firms also plays a role, as more mature companies tend to establish a history of dividend payments, appealing to investors seeking income. These findings support the life-cycle theory of dividends, which posits that dividend policies evolve based on a firm's growth stage and market conditions [15]. Conversely, the negative relationships observed with inflation and exchange rates raise important considerations for corporate managers and investors. High inflation can erode real returns on dividends, leading firms to keep cash to mitigate the impact of rising costs on operations [21, 26].

5. Conclusion

Dividend decisions among private commercial banks in Ethiopia largely rely on quantitative research methods, which effectively identify trends but often fail to capture the qualitative factors influencing these policies. This gap in qualitative research limits insights into managerial perspectives and contextual variables that are critical in decision-making. Furthermore, existing studies tend to focus predominantly on internal factors such as profitability, liquidity, and retained earnings while largely neglecting significant macroeconomic influences like inflation rates and economic growth. Despite some mixed findings, relationships have been established between dividend decisions and various explanatory variables. For instance, a positive relationship between dividend payments and profitability indicates that consistent dividends can signal financial health to investors, whereas a negative relationship with leverage emphasizes the significance of capital structure. Additionally, limited research on factors such as bank size, growth rate, firm age, and GDP generally shows a positive relationship with dividends, while inflation and exchange rates often exhibit a negative impact.

6. Future Agendas

Based on the findings, it is recommended that, future research place a greater emphasis on incorporating qualitative methodologies along with quantitative analyses when examining dividend decisions in Ethiopia's private banking sector. Utilizing mixed-methods research designs will enable scholars to explore the motivations and perspectives of bank management regarding their dividend policies more thoroughly. This could involve conducting interviews and focus groups to capture the difficulties of decision-making processes, thereby enriching the current literature, which predominantly relies on numerical data. Such an approach will

provide insights into the complexities of managerial behavior and the contextual factors that shape dividend decisions, offering a more holistic understanding of the banking sector. Additionally, it is crucial for future research to investigate the impact of external factors-such as inflation rates, interest rates, and overall economic growth-on dividend decisions within Ethiopian banking. Furthermore, comprehensive studies are needed to clarify the mixed findings observed in some existing research.

Author Contributions

Solomon Terfasa Dinka: Search strategy design, screened relevant studies, performed data extraction, and synthesized the findings.

Deresse Mersha Lakew: Frame the research questions, refining the inclusion/exclusion criteria, and ensuring methodological consistency, thematic analysis, interpretation of results.

Conflicts of Interest

The authors declare no conflicts of interest.

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