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RESEARCH ARTICLE

Financial strategy and private commercial banks' profitability in the emerging market: Evidence from Ethiopia

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Abstract

In the modern economy, banks play an important and indispensable role in the expansion of financial services, and in the nation's overall economic prosperity. This study aimed to investigate how financial strategies affect the profitability of private commercial banks in Ethiopia. In order to eliminate heteroscedasticity, autocorrelation, and other endogenous issues, the researchers used the generalized method of moments (GMM) technique. Data was collected from the websites of 16 private commercial banks from 2016 to 2021. For this research purpose, a quantitative technique and an explanatory design were used. The result of this study helps the bank expand operations, lower input costs, increase profitability, and raise productivity. Furthermore, the results have provided higher authorities with guidance on how to evaluate financial judgments and ratios in order to improve the profitability of their banks. The findings demonstrated that the profitability of private commercial banks in Ethiopia is significantly and favorably impacted by financing, investing, and dividend strategies. The study concludes that financing, investing, and dividend strategies all have an impact on the profitability of private commercial banks in Ethiopia. Therefore, private commercial banks in Ethiopia should fund their assets through debt, make investments in ideal assets, and distribute profits to their shareholders.

Keywords: Private commercial banks, Dividend strategy, Financing strategy, Investing strategy, Profitability and Ethiopia.

Introduction

The management of the company's choice of strategies is essential for the efficient use of resources to achieve established financial goals, the best possible use of available resources, and the appropriate investment in capital projects that are crucial to their continued existence. According to Johnson, Scholes, and Whittington (2008), strategy is the direction and scope of an organization over a long period of time that achieves an advantage for the organization through its resource configuration in a changing environment, to meet the needs of markets, and to meet the expectations of stakeholders. Corporate level strategy, business level strategy, and functional level strategy are the three levels of a firm's strategy. A part of functional strategy, which connects a company's corporate and business strategies for long-term decision-making, is financial strategy. Financial strategy, according to (Zivelova, 2014), is defined as strategic financial activities that guarantee the accomplishment of strategic financial goals over a given time frame. Financial management is defined as the act of managing the financial resources of businesses, which includes financial reporting, cost accounting, risk management, and the capital budgeting process.

Three types of financial strategies can be used: aggressive financial strategies (financing long-term assets with short-term resources), conservative financial strategies (financing current assets through seasonal market fluctuations with long-term resources), and balanced/matching financial strategies (financing long-term assets with long-term resources and vice versa). Dividend strategy, working capital strategy, investment strategy, and financing strategy are the four categories of financial strategies, and each of these strategies is essential to an organization's optimum performance (Cosmulese & Hlaciuc, 2019). An investment strategy focuses on choosing the best investment project to

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achieve the best returns, while a financing strategy focuses on choosing the best optimal finance mix between debt and equity.

A dividend strategy involves adopting a strategy that will help to meet shareholders' wealth maximization goals. A working capital strategy involves a strategy to achieve an organization's liquidity position (Reznakova, 2012). Conflicting interests between maximizing shareholder wealth, reinvesting the best returns in investment project(s), and the effects of retained earnings on the firm's financial condition present one of the biggest obstacles for financial strategies. A fundamental obstacle to the efficient use of financial resources is the issue of inappropriate application of financial strategy decisions, which has an impact on the liquidity position, activity/efficiency level, profitability, leverage (debt to equity), and investment returns.

The majority of earlier research on financial strategies was done in the banking industry and non-profit organizations in highly developed and established nations (Masoud et al., 2015; Adesina et al., 2016; Bakhit & Alamin, 2016). Furthermore, (Okolocha et al., 2019) took into account a component of financial strategies, but they did not examine the combination of divided strategy, investment strategy, and financing strategy and their effects on firms' financial performance in a single study, leaving a hole that this study aims to fill. In order to fill the gaps and overcome the limitations in the literature on financial strategies in developing nations, the objective of this article is to empirically evaluate the relationship between financial strategies and private commercial bank profitability in Ethiopia for the period of 2016–2021.

The current study contributes to the body of financial knowledge because it is the first of its kind to examine the connection between financial strategies and the profitability of private commercial banks. Additionally, the study's results help private commercial banks expand their operations, lower their input costs, improve their performance and increasing productivity. In addition, the research has practically given higher authorities a better understanding of how to recognize financial decisions and ratios in order to improve their banks' overall performance. As a result, this study was conducted with three main objectives in mind. The first objective is to determine how financing strategy affect the profitability of private commercial banks in Ethiopia. The second objective of the study is to ascertain how an investing strategy affects the profitability of an Ethiopian private commercial bank. The study's final goal is to investigate how dividend strategy affects the profitability of private commercial banks in Ethiopia.

Literature Reviews

Banking industry and its regulations in Ethiopia

When Emperor Menelik II opened the first Bank of Abyssinia on February 15, 1906, Ethiopian banking officially began. It was a private bank, and Addis Abeba, New York, Paris, London, and Vienna all sold shares of it. The Franco-Ethiopian Railway, which arrived in Addis Abeba in 1917, was one of the bank's early initiatives. Emperor Haile Selassie made changes to the banking system in 1931. The Bank of Abyssinia was liquidated, and its administration, personnel, and assets were transferred to the recently founded Bank of Ethiopia, a wholly owned government institution. The Bank of Ethiopia served the nation with both central banking and commercial banking services (Mauri, 2010). One of the first attempts at African banking was put to an end by the Italian invasion in 1935. Italian financial institutions operated in Ethiopia during the Italian occupation.

The State Bank of Ethiopia was divided into the National Bank of Ethiopia, the Central Bank, and the Commercial Bank of Ethiopia (CBE) by the Ethiopian government in 1963. (Brimmer, 1960). The State Bank of Ethiopia opened a branch office in Sudan in 1958, which the Sudanese government nationalized in 1970. (Mauri, 2008). Later, in 1980, the government combined Addis Bank with the Commercial Bank of Ethiopia (CBE), making CBE the only commercial bank in the nation. The newly nationalized Addis Ababa Bank and the Ethiopian operations of Banco di Roma and Banco di Napoli were combined to become Addis Bank by the government. In 1963, National and Grindlays Bank founded Addis Ababa Bank, a subsidiary of which it held 40%. When it was nationalized, Addis Abeba Bank had 26 locations.

The National Bank of Ethiopia (NBE), the country's central bank, as well as 16 private banks and a government-owned commercial bank, make up Ethiopia's financial system at the moment. The Banking Business Proclamation (Federal Negarit Gazeta Proclamation 592/2008), which has been in effect since August 2008 and gives the NBE all of the authority of the banking regulator, is the main law that governs banking in Ethiopia. The Banking Business Proclamation outlines necessary requirements for: (1) new bank licensing; (2) share registry and shareholders; (3) director and senior management qualifications; (4) banks' financial obligations and limitations; (5) financial record-keeping and audits; (6) disclosure and inspection; and (7) other unrelated areas. The Proclamation also specifies that comprehensive directives in each of the aforementioned sectors shall be released on a regular basis and changed as necessary by the national bank (NBE).

Concepts of financial strategy

An organization's financial strategy primarily addresses the acquisition and application of funds. The main goal is to provide an adequate and consistent flow of capital to support the commercial enterprise's current and future needs. Financial resources, cost structure analysis, calculating profit potential, accounting operations, and other topics are all covered under financial strategy. Financial strategy, in essence, deals with the availability

of resources, their uses, and their administration. In order to gain a competitive advantage, it emphasizes the coordination of financial management with organizational, corporate, and business objectives. Thomas Wheelen and David Hunger (1996), finds the optimum financial course of action by analyzing the financial ramifications of corporate and business-level strategic options. It can also provide a competitive advantage through a lower cost of funds and the flexibility to raise capital to support a business strategy. The goal of financial strategy is often to increase a company's financial value.

The goal of financial strategy is to increase a company's financial value through low-cost capital. A critical component of any financial strategy is creating internal cash flow while maintaining the desired debt equity ratio by borrowing for long-term financial demands. Having a lot of debt boosts cash flow and productivity and financial strategy is mostly influenced by the diversification approach. For linked diversification, equity financing is strongly preferred, but debt financing is preferred for unrelated diversification. Dividend strategy, working capital strategy, investment strategy, and financing strategy are subcategories of financial strategies (Cosmulese & Hlaciuc, 2019). Dividend strategies adopted to maximize shareholder wealth were as working capital strategies aim to increase an organization's liquidity position. Investment strategies on the other hand concentrate on choosing the best investment project to generate the highest returns and financing strategies concentrate on choosing the best debt-to-equity ratio.

Theories of financial strategies

Modigliani and Miller Theory

In the fields of finance and economics, the Modigliani and Miller theorem on capital structure serves as the cornerstone for contemporary financing strategy theory. When there are no taxes, bankruptcy costs, agency costs, asymmetric information, and an efficient market, Modigliani and Miller (1958) claimed that the value of the enterprise is unaffected by the way the firm is financed (MM, 1958). According to the idea, neither the capital structure nor the dividend policy affected the firm's value, which created the phenomenon known as capital structure irrelevance. According to the data presented by MM in 1963, the introduction of taxes had an impact on the cost of capital, which defined the capital structure and, ultimately, the value of the company. As per MM (1963), the introduction of taxes was advantageous for borrowing because the interest paid on the taxes was tax deductible. This reduced the cost of debt and thus improved the performance of the enterprise. Given that the presumptions upon which they are built are not true in reality, the arguments made by MM have drawn heavy criticism (Brealey, Myers, & Allen, 2008). The writings of Modigliani and Miller were pertinent to this study since they made the case that using debt in the financing plan has advantages.

Modern portfolio theory

Modern Portfolio Theory is a branch of finance that makes meticulous decisions about the ratios of different assets in order to maximize a portfolio's expected return for a given degree of portfolio risk, or alternatively, minimize risk for a certain level of expected return. The goal of MPT, a mathematical description of the idea of diversification in investing, is to choose a group of investment assets that have a lower risk overall than any one asset. MPT was created between the 1950s and the early 1970s and was seen as a significant advancement in financial mathematical modeling. MPT, which was created by Nobel Laureate Harry Markowitz and improved over time by other eminent economists, contends that by distributing the risk among several securities that never act consistently, you can reduce the volatility in your portfolio while enhancing its performance (Markowitz, 1952).

A basic tenet of investment is that bigger risks often have higher potential returns, while lower risks generally have lower returns. According to MPT, a portfolio's composition and the relationships between its components determine the risk and return characteristics that it displays. There is an ideal asset allocation that is created to generate the best ratio of risk to return for each degree of risk. An ideal portfolio will aim to strike a compromise between the lowest risk for a given level of return and the highest return for a reasonable level of risk. It will not offer the highest returns or the lowest risks of all feasible portfolio combinations. The theory is pertinent to this study because it suggests that an investment strategy has a significant impact on a company's profitability.

Divided Relevance Theory

Firm dividend payment patterns, according to DeAngelo, DeAngelo, and Skinner (2006), are a cultural phenomenon influenced by customs, beliefs, regulations, public opinion, perceptions, and hysteria, as well as general economic conditions and a number of other variables that are constantly changing and have varying effects on various firms. The dividend conundrum, they contend, becomes much more convoluted if dividends are irrelevant, as M&M argues, because firms may have kept earnings, the cheapest form of capital, to invest in lucrative future NPV endeavors. According to Lease et al. (2000), the dividend relevance theory relaxes the assumption of ideal capital markets and logical investors. It empirically investigates dividend distribution behavior patterns and how they affect the firm's worth. In reality, there are market frictions and investor behaviors that are not always logical.

According to Baker et al. (2002), the dividend policy is a realistic strategy that treats retained earnings as the residual

and dividends as an active choice variable, and that any change in the dividend payment ratio could have an impact on shareholders' wealth. The idea applies to this study since it contends that dividend strategy and profitability are related.

Empirical literature review and research hypothesis

Financing strategy and profitability

Financial targets must be met, and financing decisions must take this into account. To guarantee that the company has an acceptable capital structure, financial managers must have sufficient information about the resources that are available and their costs. Too much debt puts the business at danger since lenders now get paid first when money is needed. Managers should be aware of the many available protection methods, such as hedging, as the bulk of decisions concerning risks are tied to international trade, in which the company is involved with the risks of currency rate fluctuations.

Abubakar (2015) and Chang et al. (2018) analyzed financing strategies using ratios of total debt to total assets and discovered that these ratios have a significant impact on the revenue provided by assets. The relationships between the return on assets and the total debt owed by the company have been observed by several scholars (Adesina, Nwidobie, and Adesina 2015). A corporation is better able to pay off its long-term debts when its assets exceed its liabilities. When considering more important financial strategies, having one is usually a good idea because refinancing debt with a new institution or obtaining new credit indicates that the assets are more efficient (Sun J, et al., 2016). Additionally, companies with a high debt ratio are more profitable, as indicated by their return on equity (Alnori, 2020). A large return on equity enables a company to use less of its capital to achieve its growth target and leaves the company with a larger amount of cash on hand to use for share buybacks or to generate additional revenue.

Hamid et al. (2015) studied data of 49 family and non-family enterprises between 2009 and 2011, and discovered long-term debt to total assets has a substantial impact on the firm's performance. Chang et al. (2018) analyzed financing strategies utilizing long-term debt to total assets by this method. Similar research was conducted by Jaisinghani and Kanjilal (2017) utilizing data from 1,194 manufacturing companies that were publicly traded in India between 2005 and 2014, and they found a substantial impact of long-term debt to total assets ratio on net profit to total assets ratio.

Another metric for gauging financial strategies is the ratio of short-term debt to total assets. The profitability of the enterprises, as measured by return on assets, increased with the ratio of short-term debt to total assets, according to Abhayawansa et al. (2019) on energy and petroleum companies operating on the NSE. The profitability of the firm fluctuates in reaction to variances in the maturity structure of its liabilities, with higher profitability being associated with greater confidence in short-term liabilities Matsa and Agrawal (2013).Furthermore, because loan facilities can be immediately stopped, businesses that rely on short-term financing are more susceptible to liquidity risks than those with longer-term liability finance. Although businesses with short-term funding are expected to have lower debt costs than those with longer-term funding, companies with short-term funding will experience rising rates if interest rates rise. As the equity cycle progresses, these businesses must take into account the short-term debt ratio, according to Alzoubi (2018).As a result, the study suggests the following hypothesis:

H1: Financing strategy has a significant effect on the profitability of private commercial banks in Ethiopia.

Investing strategy and profitability

Investment decisions involve allocating resources to pursue possibilities for investments that are profitable for the business while taking into account the size, likelihood, and risk of the investment's future cash flows. Investment choices are also among the most crucial elements that affect a company's profitability, efficiency, and risk tolerance Usta, (2012). These choices help the business operate in the future in accordance with its financial health and competitive position. Investment decisions pertain to choices on how to allocate cash from both internal and external funding sources. These funds are then utilized to accomplish both short-term and long-term goals for the company Efni, (2017). To reap benefits or make money in the future, investment selections must be made appropriately. Making the appropriate investment choices can also assist a company's future business growth, which may have an effect on the company's share price. Therefore, the value of the company will rise if the price of its stock does.

Rai, (2012) looked into the effectiveness of strategic investments made on the Tehran Stock Exchange in the form of value, growth, and investment strategy based on their size and found that growth firms currently outperform value-based organizations in terms of returns, and large companies outperform small companies in terms of returns.

Hosseini and Tavousi, (2012) studied the effect of working capital policies (investment and finance) on the profitability and found a strong correlation between working capital policies and profitability risk criteria, with the above connections being negative for investment policies and positive for financing policies. In a similar vein, Syamsudin et al. (2020) discovered that the higher the level of profit made by a company's investment operations, the higher the stock price of that company. As a result, the study suggests the following hypothesis:

H2: Investing strategy has a significant effect on the profitability of private commercial banks in Ethiopia.

Dividend strategy and profitability

Dividend policy refers to the decision made by management regarding whether the corporate net profit should be distributed to shareholders as dividends or reinvested as retained earnings. Due to the information asymmetry around the company, according to Baker et al. (2019), management uses dividends to update external shareholders on the company's future prospects and profitability. The shareholders may benefit from the management's actions regarding dividend distribution. Investors will undoubtedly respond favorably to this and become more interested in investing in the company. Dividend decisions for businesses can benefit shareholders and have an impact on the value of the company (Mai, 2017).In their study, Kolawole, E. et al. (2018) found that dividend payment and retention ratios had a favorable or positive impact on EPS in Nigerian oil and gas enterprises.

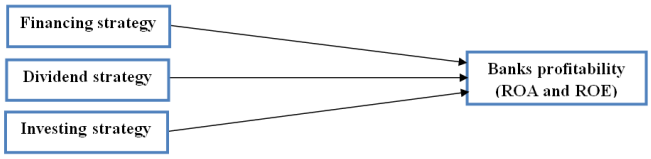
According to Kanwal, M., and Hameed, S. (2017), the dividend payout has a significant impact on a company's financial performance. Thirumagal, P.G., and Vasantha, S. (2018), found a negative or pessimistic impact of dividend payout on shareholders' wealth. There was a significant difference in share price between dividend announcements before and after.The effect of dividend announcement, dividend payout, tax incentives, and excess cash flows on shareholders' wealth in the Nairobi Securities Market was empirically studied by Chawla and Chadha (2014) and Mbuvi (2015). The results showed a positive influence of dividend announcements, dividend payouts, tax incentives, and free cash flows on shareholders' wealth.

Yegon, C., Cheruiyot, and Sang (2014) discovered real connections between organizations' dividend policies and their firms' profitability, as well as between dividend policy and investments and EPS and found positive relationship. Masum, A. (2014) used a panel data approach to analyze the study and discovered a positive association between dividend and stock price when taking into account EPS, ROE, and retention ratio. However, dividend yield and profit after tax show a negative correlation with stock prices. As a result, the study suggests the following hypothesis:

H3: The dividend strategy has a significant effect on the profitability of private commercial banks in Ethiopia.

Conceptual framework of the study

The conceptual framework helps to identify the variables that are used in the research process and shows how particular variables are connected in the study. The study variables are presented in Figure 1.



Sources: Own design 2025

Figure 1: Conceptual framework

Materials and Methods

The major objective of the study was to investigate the effect of financial strategies on the profitability of private commercial banks in Ethiopia. This study has employed a quantitative approach and an explanatory research design to realize the stated objectives. The study covered all sixteen (16) private commercial banks in Ethiopia from 2016 to 2021. The study used secondary data, which included the audited annual financial reports of the banks under study. The data were composed of well-balanced panel types that captured both cross-sectional and time-series behaviors.

Methods of data analysis

Both descriptive statistics and econometric methods were employed in the study to examine the data and pursue predetermined goals. The former comprises basic descriptive techniques like mean, maximum, minimum, and standard deviations as well as minimum and maximum statistical tools that help us assess the overall trends of the data and better grasp the current situation. This study supports the descriptive analysis by using econometric models to analyze the causal connection between explanatory and dependent variables. Standard Ordinary Least Squares (OLS) estimators cannot be used owing to the dynamic nature of the model since they may be biased and inconsistent due to the connection between the lagged dependent variable and the unobserved panel-level effects (Hasanovic & Lati, 2017). Therefore, the inclusion of panel data with fixed or random effects does not address the econometric issues that dynamic models have by themselves.

Arellano and Bond (1991) presented a new generalized method of moments (GMM) estimator for dynamic panel models to address the issues of endogeneity that produces biased results and unobserved heterogeneity between banks that cannot be reliably evaluated. They suggested using various transformations and adding more instruments to the dynamic panel model. Later, by placing additional limits on the beginning conditions, Arellano and Bover, (1995) and Blundell and Bond (1998) presented an enhancement of the Arellano and Bond estimator, allowing the inclusion of more instruments to increase efficiency. The first difference in equations is combined with equations at the level where the variables' first differences are used as instruments. It constructs the original and changed equations into a system of two equations (System GMM).

The system GMM technique corrects endogeneity by adding extra instruments for the lagged dependent variable and any other endogenous variables to significantly increase efficiency. It also modifies the instruments to make them uncorrelated (exogenous) with fixed effects. In addition,

the system GMM subtracts the average of all upcoming accessible variable observations rather than dividing them by the contemporaneous observations like Differenced-GMM (Roodman, 2009). As a result, System GMM was used in this study to investigate the relationship between the explanatory and dependent variables.

Variable measurement and model specifications

The study has two dependent and three independent variables, and all the variables are discussed below:

The dependent variables

This study used the return on assets (ROA) and return on equity (ROE) as metrics of profit ability, in line with earlier studies on the relationship between financial strategies and profitability. Return on Assets (ROA) measures overall profitability and shows how well a company uses its total assets to generate income, as well as the profit margin (Brealey et al., 2006).Net profit after tax is divided by total assets to determine ROA and shows the returns produced from the assets of the banks and it perhaps the most significant when assessing the effectiveness and financial performance of banks. The formula for the return on assets is given as follows: ROA= $\frac{Net\ profit\ after\ tax}{Total\ assets}$

Return on equity shows the banks' ability to generate profits by using its own capital owned by the bank. This ratio is important for the authorities to know the effectiveness and efficiency of the banks management. The higher the ROE, the more efficient the management of own capital is conducted by the management. The formula for the return on equity is given as follows: ROE = $\frac{Net\ profit\ after\ tax}{Total\ equity}$

Independent variables

The choice of explanatory variables used in this study is based on their theoretical relationship with the dependent variable. Depending on the research hypothesis, the explanatory variables that affect the profitability of private commercial banks in Ethiopia are financing strategy, investing strategy, and dividend strategy. Hamid et al. (2015), Syamsudin *et al. (*2020) and Kolawole, E. et al. (2018) also reported that financing strategy, investment strategy, and dividend strategy have significant effects on profitability, respectively. The study variables employed in the analysis in this study are summarized in Table 1.

Additionally, this study formulated the following econometric models to identify the effect of financial strategies on the profitability of private commercial banks in Ethiopia:

$$Yit = (\lambda - 1)\, yit - 1 + \beta Xit + \mu i + \mu t + \varepsilon it \quad \text{---------- (1)}$$

Model 1

$$ROAi,t = (\lambda - 1)\, yit - 1) ROAit - 1 + \beta 1 FSi,t\ \ \beta 2 ISi,t \beta 3 DS + \sum i,t \text{---------} \quad (2)$$

Where: ROA is Return on Asset, FS is the financing strategy, IS is the investing strategy, and DS is the dividend strategy.

Model 2

$$ROEi,t = (\lambda - 1)\, yit - 1) ROE\, it - 1 + \beta 1 FSi,t\ \ \beta 2 ISi,t \beta 3 DS + \sum i,t \text{----------} \quad (3)$$

Where: ROE is Return on Equity, FS is the Financing Strategy, IS is the Investing Strategy, and DS is the Dividend Strategy.

Result and Discussions

Descriptive statistics

As shown in Table 2, the average value of profitability measured by return on assets (ROA) was 0.0473 (4.73%), with a minimum and maximum value of -0.00011 and 0.81, respectively. This result implies that private commercial banks on average generate 0.0473 cents from a birr invested in their assets, which ranges from a loss of-0.00011 cents to a profit of of 0.81 during the study period, with a standard deviation of 0.1053 (10.53%). Similarly, Table 2 indicates that the average value of profitability measured by return on equity (ROE) was 0.2054 (20.54%) with a minimum and maximum value of -0.00107 and 0.99, respectively. The result is a gain implies that private commercial banks in Ethiopia generate 0.2054 cents from a birr invested in their assets, which ranges from a loss of-0.00107 cents to a profit of 0.99 during the study period, with a standard deviation of 0.2263 (22.63%). Regarding independent variables, the average value of the financing strategy (FS) was 0.6317 (63.31%), with a minimum and maximum value of 0.0079

Table 1: Summary of variables and their expected relationship

Variables	*Symbol*	*Measurement*	*Expected effect*
Dependent variables			
Return on asset	ROA	Net profit after tax / total asset	
Return on equity	ROE	Net profit after tax / total equity	
Independent variables			
Financing strategy	FS	Total debt/ total assets	+
Investment strategy	IS	Total assets t – total assets t-1/ total assets t-1	+
Dividend strategy	DS	Dividend paid/ net profit after tax	+

Source: Developed based on the literature

Table 2: Descriptive statistics of the variables

Variables	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
ROA	96	.0473	.1053	-.00011	.81
ROE	96	.2054	.2263	-.00107	.99
FS	96	.6317	.3404	.0079	.973
IS	96	.4687	.4846	.013	.397
DS	96	.4272	.22598	.1419	.925

Source: Own competition, 2025

and 0.973, respectively. This result implies that Ethiopian private commercial banks on average finance their assets with debt by 63.17%, which ranges from 0.079 to 97.3% with a standard deviation of 0.3404 (34.04%). Investing strategy (IS) measured as total assets t – total assets t-1 to total assets t-1 has an average value of 0.4687 (46.87%) with a minimum and maximum value of 0.013 and 0.397, respectively, and a standard deviation of 0.4846 (48.48%). Finally, Table 2 shows the average value of dividend strategy (DS) of private commercial banks in Ethiopia was 0.4272 (42.72%), with a minimum and maximum value of 0.1419 and 0.925 respectively. This result implies that private commercial banks in Ethiopia on average made cash payments of 42.72% to their shareholders, which ranged from-0.1419 to 0.925 with the standard deviation of 0.22598 (22.598%).

The two-step system GMM estimation result of model 1 and model 2

Tables 3 and 4 indicate the model results for investigating the effect of financial strategies on the profitability of private commercial banks in Ethiopia. The F-test statistics indicated the goodness-of-fit of the model. The Hansen statistics result shows that the instrumental variables are valid and the second-order autocorrelation is rejected by the test for AR (2), which shows the absence of second-order autocorrelation.

The significant coefficient of the lagged dependent variable proves the dynamic nature of the model. The lag value of profitability, measured both by (ROA) and (ROE), has a positive impact on the current level of profitability and would appear to be a suitable instrument for profitability. This is consistent with expectations as it is assumed that banks will tend to maintain higher levels of profitability from the past into the forthcoming period. **A**s seen in tables 3 and 4 below financing strategy has a considerable and favorable impact on the profitability of private commercial banks in Ethiopia, as assessed by ROA and ROE, with coefficients of 0.0277 and 0.00996 at the 5% significance level, respectively. This means that the profitability of private commercial banks, as assessed by ROA and ROE, increases by 2.77% and 0.0996%, respectively, for every 1% increase in financing strategy. This suggests that banks use debt as a source of funding more frequently and as a means of financing operational activities, both of which might send a signal to investors that the banks are worth more money.

The positive relationship between financing and profitability is due to the fact that employing debt as a source of finance can maximize corporate operating activities so that the bank's targets and objectives to earn profits can be reached, which would pique investors' interest and perhaps increase the bank's worth. The findings of this study is consistent with those of Hermuningsih, (2013) and Rahimah et al. (2018), who discovered that banks benefit from having debt because it can rein in management that spends financial resources carelessly and unnecessarily. The results of this study are also in line with the Modigliani and Miller Theory, which postulates that the introduction of taxes made borrowing advantageous because the interest on those taxes was deductible, lowering the cost of debt and boosting corporate performance. However, the outcome of this investigation runs counter to the findings of (Okolocha, et al. (2019).

According to the model's findings, investing strategy significantly and favorably impacts the profitability of private commercial banks in Ethiopia as evaluated by ROA and ROE, with coefficients of 0.0002 and 0.00033 at 5% and 10% significance levels, respectively. This suggests that a private commercial bank's profits increased by 0.02% and 0.03%, respectively, when its investment strategy was increased by 1%, as evaluated by ROA and ROE. The results of this study are in line with those of Thair, (2007), Patra, (2008), Samih, and Zubi, (2014), who support the idea that firms' investment engagement increases profitability. Additionally, the study finding is consistent with the result of Syamsudin et al. (2020), who argue that higher levels of profit from corporate investment activities translate into bigger corporate profits. The results of this study are also backed by modern portfolio theory, which claims that investing strategies increase business profitability. The results of Alvita & Khairunnisa (2019), which claim that the level of corporate investment has no impact on company value because of high investment risk in the future and an uncertain expected return on investment, contradict the findings of this study.

Finally, ROA and ROE measurements of the profitability of private commercial banks in Ethiopia showed that the dividend strategy had a favorable and statistically significant impact. As a result, when management distributes dividends, they frequently convey positive messages about the bank's profitability, which in turn draws in more clients. Additionally, a dividend payout policy could compel management to use limited resources more effectively (residual income). Once more, the depletion of a bank's financial resources due to dividend payments may also lead to some banks' increasing their level of leverage, which is a catalyst for strong performance in and of itself. Last but

Table 3: The two–step system GMM estimation result for model 1

ROA	*Coef.*	*Std. Err.*	*Z*	*P>|z|*	*[95% Conf. Interval]*
ROAi,t-1	.0094	0.021	.621	.0214**	.0214321 .014562
FS	.0277	.0319	.872	.0386**	-.0349549 .0903876
IS	.0002	.0002	0.74	.0461**	-.000749 .0003395
DS	.0521	.0496	-1.05	.029**	-.1495636 .0452511
Cons	.0529	.0310	1.71	.088	-.0078473 .1138403
F – statistics	3211.41	Hansen test		.632	
AR2(p- value)	0.042				

Note ** shows significant at 5% significance level

ROE	*Coef.*	*Std. Err.*	*T*	*P>|t|*	*[95% Conf. Interval]*
ROEt-1	.00854	.2462123	0.03	0.017**	-.123546 .321451
FS	.00996	.1442264	0.07	0.045**	-.2772296 .2971533
IS	.00033	.0006438	-0.52	0.060*	-.0016171 .0009469
DS	.12043	.1162011	-1.04	0.030**	-.351825 .1109467
Cons	.25212	.1075548	2.34	0.022	.0379567 .4662948
F – statistics	3125.3	Hansen test		0.5624	
AR2(p- value)	0.0654				

Note ** and * shows significant at 5% and 10% significance level respectively

not least, when dividend payments lower bank resources, it can also lower the agency cost between managers and shareholders, improving performance. This outcome is in line with findings made by Teresiah (2014) and Kanwal, M. & Hameed, S. (2017) that the dividend payout has a significant impact on a company's financial performance. Additionally, the results of this study are backed by the dividend relevance theory, which claims that companies' payments for cash dividends have a favorable impact on profitability. The results of Khan et al.'s (2016), which showed that dividend rate is adversely connected to profitability, contradict the findings of this study.

Conclusion

The researchers collected information from sixteen (16) private commercial banks in Ethiopia between 2016 and 2021 to learn more about the impact of financial strategies on the profitability of private commercial banks. The information was gathered from the websites of all the private commercial banks in Ethiopia. About 96 observations were made, and the generalized method of moment approach was used to analyze the data on the basis of those observations. The study used financing, investing, and dividend strategy to analyze the financial strategies of private commercial banks in Ethiopia. It also used ROA and ROE to estimate profitability. The outcome demonstrated that the financing strategy has a favorable and significant impact on the profitability of private commercial banks in Ethiopia as evaluated by returns on assets and return on equity. This is so that banks' targets and objectives for making profits can be met and this will pique investors' interest in investing and have an impact on raising banks' profits.

Moreover, the positive relationship is because financing strategy is a source of funding that can maximize banks operational activities. Additionally, the study discovered that an investing strategy significantly improves the profitability of private commercial banks in Ethiopia as evaluated by both ROA and ROE. This is so that investments can make money and earn investors' trust. Finally, the study discovered that the divided strategy has a major impact on the profitability of private commercial banks in Ethiopia since the payment of cash dividends is a positive indicator of the bank's performance and hence draws in new clients. Additionally, a dividend payout policy could compel management to use limited resources more effectively (residual income). Therefore, the study comes to the conclusion that financing, investing, and dividend strategies have an impact on the profitability of private commercial banks in Ethiopia.

Policy, limitation and future research suggestions

The results of this study will help private commercial banks expand their operations, lower their input costs, and improve their performance while increasing productivity. The research has also given higher authorities insight into how to evaluate financial judgments and ratios in order to improve the performance of their banks. As a result, the most important factors affecting profitability are financing, investing, and dividend strategies, which are taken into

account by the management of private commercial banks in Ethiopia. Furthermore, private commercial bank management should finance their assets using debt; private commercial banks should invest in ideal assets; and private commercial banks should distribute their profits to their shareholders.

There are certain limitations to the study; for instance, in this research, only ROA and ROE are used to determine overall profitability. Numerous other elements directly affect how profitable the bank is. Because of this, the authors suggest that future studies take into account more variables when calculating the profitability of private commercial banks. Additionally, it is also better to include variables like gross profit margin, net profit margin, and return on capital invested in future studies.

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