CHAPTER 3

RESEARCH METHODOLOGY
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3.1 **INTRODUCTION:**

In present economy research activity is part and parcel of each and every systematic knowledge. The human urge for new areas of knowledge has developed a faculty for search of research in him. Research has now become an integral part, not only of academic pursuits but for practical achievements by all the areas of modern society. “Research may be defined as a scientific undertaking which by means of logical and systematized Techniques aim to: (1) Discover new facts of verity and test old facts,(2) Analyze their sequences inter-relationships, and causal explanations, which are derived within an appropriate theoretical frame of reference (3) Develop new scientific tools, concepts and theories which would facilitate reliable and valid study of human behavior.” Mrs. P.V young

In this context, dividends play a vital role in attracting investments in share. Dividends also act as barometers of financial soundness and solvency, management efficiency and overall growth of an organization. Investor’s expectations are mostly affected by management’s policy regarding dividends. The dividends policy of firm determines what proportion of earnings is paid to shareholders by way of dividends and what proportion is ploughed back in the firm for reinvestment purpose that is retained earnings Both growth and dividends are desirable, but they are in conflict; a higher dividends means less provision of funds for growth and higher retained earning means low dividends.

Dividend payment should be preferred if it leads to maximization of shareholders wealth. If not, retention is the suitable alternative. Dividend and value of firm should be taken as the overall consideration for affecting an Optimal dividend policy. However, there are certain school of thought who give conflicting opinions to this effect. According to M. M. hypothesis (Miller-Modigliani) that supports that dividend are of irrelevance and has no effect on the valuation of the firm. Contrary to this hypothesis Walter and godson support and suggest that investment policy and dividend policy are Interlinked and affects the price of the shares of a firm. Hence dividend is relevant.
3.2 **TITLE OF THE STUDY:**

After going through existing literature in the library and after deep Discussion with the guide, researches has selected the present topic after considering the availability of time, information existing Literature, tools and techniques and other related sources. The topic for this Research has been selected as under.

“A STUDY OF DIVIDEND POLICY OF INDIAN BANKING SECTOR”

3.3 **REVIEW OF LITERATURES:**

There have been a lot of studies made by many expert committees and Individual scholars on several aspects of branch expansion by dividend policy. The researcher has surveyed and studied the following literatures understand the title of this study well in manner.

Vasant Desai (1987) had examined some of the aspects of branch banking in India. Particularly the manner in which branch banking had Assisted the growth of banking, during the study period of 1969 to 1975. In his study he has analyzed the impact of branch expansion on deposit mobilization, the economic and other implications of extending banking facilities into small and unbaked town, the relationship between branch expansion and population between and administration of branches and their control in India.


James Walter, “Dividend Policy: It’s Influence on the value of the firm,” Journal of Finance. According to Walter dividend payout ratio to affect the share prices (1) When the rate of return on investment exceeds the cost of capital, the price per share increases as the dividend payout ratio decreases, (2) When the rate of return on investment is equal to cost of capital, the price per share does not changes in
dividend payout ratio, (3) When the rate of return on investment is less than the cost of capital, the price per share increases as the dividend payout ratio increases.

M.H. Miller and F. Modigliani, “Dividend policy, Growth and valuation of shares,” Journal Of Business, vol. 34. Miller and Modigliani have advanced the view that the value of firm depends solely on its earnings power and is not influenced by the manner in which its earnings are split between dividend and retained earnings. The view is referred to as the “dividend irrelevance theorem.”

Myron J. Gordon, “The investment, financing and valuation of the corporation,” Homewood III, Richard Irwin 1962. Gordon leads to conclusions, which are similar to that of the Walter’s moreover, Gordon’s model contends that dividend policy of the firm is relevant and the investors put a positive premium on current incomes dividends. He argues that dividend policy affects the value of shares even in a situation in which the return of investment of a firm is equal to the required rate \( r=ke \).

Dr. S. C. Jain has made a study at profitability and other aspects of financial management at Indian Industries.

Vyuptakesh Sharan, “Dividend theories and policy,” It is a common practice among the firms to allocate a part of their net profits for dividend payments and to retain the other part within the firm with a view-to making investments. The retained profits are thus a source of financing. Retention of earnings depends upon the firm’s dividend policy. If the dividends policy is liberal, the size of retained earnings will be lower.

M.Y. Khan & P.K. Jain & Pandey, “Dividend Policy,” A portion of this surplus is distributed among the share-holders of the company as dividend and the balance is retained or ploughed back in the business for meeting future needs of funds. How this surplus should be bifurcated between dividends and retained earnings depends upon the rational decision of the directors. Thus; both growth and dividend are desirable.
Omprakash Shukla conducted research for M.Phil on the topic of “Relation of price volatility with dividend policy of Indian Industry”, he has analyses the dividend policy of firm determines what proportion of earnings is paid to shareholders by way of dividends and what proportion is ploughed back in the firm for reinvestment purpose that is retained earnings. Dividend payment should be preferred if it leads to maximization of shareholders wealth.

Rao and Sarma (1971) provide a preliminary testing of Lintner model based on aggregate time-series (1955-56 to 1965-66) data published by Reserve Bank of India, pertaining to (a) all companies (public limited as well as private limited); (b) four major industrial groups- agriculture and allied activities, mining and quarrying, processing and manufacturing of metals and chemicals and their products. They test three variants of Lintner’s equation: First, with profits net of taxes and lagged dividends as explanatory variables; second, with net cash flows substituting net profits; and third, with depreciation entered as a separate explanatory variable rather than as part of the capacity variable. The results show that Lintner model adequately explains the dividend behaviour of Indian corporations. Cash flow is found to be a more appropriate approximation of the capacity variable for industries such as cotton textiles, iron and steel, paper, electricity generation and supply, whereas depreciation has a separate effect in the case of jute textiles and engineering industries.

Swamy and Rao’s (1975) study tried the Lintner model along with alternative specification of profit variable i.e., net profits after tax and cash flow of external finance, have also been tried. They opted in favour of Lintner’s model with net profits. Investment expenditures have a positive and significant coefficient, while external finance has a negative and significant coefficient, in the preferred equation. However, the magnitude of the impact of two variables is very small. The basic Lintner model seems to provide adequate explanation of the dividend behaviour.

Bhat and Pandey’s (1994) study of Indian corporate finds that managers prefer to follow stable dividends policy. According to the study, the determinants of dividend policy are: current earnings; pattern of past dividends; expected future earnings; increasing equity base and liquidity.
Manoj Anand (2002) finds that 81.50 per cent of the respondents strongly agree/agree that their firm has a long-run target dividend payout ratio. Nearly 85 per cent of the respondents strongly agree that dividend changes in their organization follow shift in long-run sustainable earnings. Only 46.95 per cent of the respondents agree that the dividend policy is a residual decision after meeting desired investment needs. The findings of the survey are in agreement with the findings of Lintner’s (1956) study on dividend policy. Nearly 71 per cent of the respondents strongly agree/agree that the dividend policy provides signalling mechanism of the future prospects of the firm and thus affects its market value. About 64 per cent of the respondents agree that the investors have different relative risk perceptions of dividend income and capital gains and are not indifferent between receiving dividend income and capital gains.

George and Kumudha (2006) in their study on dividend policy with reference to Lintner’s model brings out that current earnings play the significant role in deciding the dividend policy. The results clearly indicate that current year’s dividend per share is positively related to current years earning per share and previous year dividend per share (lagged dividend) with correlation coefficient of 0.654 and 0.657 respectively.

Smith (1986) and Moyer et al (1992) examined the regulatory effect on dividend policy. Their results show that regulated firms use dividends as a means of subjecting the utility and the regulatory rate commission to market discipline. Dividend policies adopted by these firms are determined as a response to changes in policies adopted by regulatory commissions.

Akhhigbe, Borde, and Madura (1993) measure the effect on common stock prices in response to dividend increases for both insurance firms and financial institutions and compare the effects to unregulated firms. They find that the stock prices of insurance firms react positively to increases in dividends over a four-day interval surrounding the announcement. Their results show that the market reaction for each subsample of Insurance Corporation is greater than the market reaction for financial institutions. Their results support that the market reaction is mostly determined by industry-related, rather than firm specific, variables.
Boldin et al. (1995) found that there is a positive relationship between banks’ dividend per share and banks’ quality rating, and a negative relationship between the dividend pay-out ratio and banks’ quality rating, concluding that a bank’s dividend policy yields information about the bank’s quality.

Collins, Saxena, and Wansley (1996) compared the dividend pay-out patterns of regulated firms with those of unregulated firms. Their findings don’t support that the financial regulators' role is one of agency cost-reduction for equity holders. Utilities, on the other hand, are different. They alter their dividend pay-out in response to changes in insider holdings. Moreover, for a given change in insider holdings, this policy change is more significant than the change for unregulated firms.

Slovin et al. (1999) examined excess returns to both announcing and rival banks. The results indicate that dividend reductions generate negative common stock returns for all announcing banks, and significant reduction in preferred stock prices of announcing banks, even though there are no concomitant changes in preferred stock dividends.

Fama and French (2001) argue that firms with high profitability, good investment opportunities, and larger size tend to pay more than other firms. The three characteristics considered by Fama and French match the characteristics of banks, which are mostly large in size, highly profitable, have better investment opportunity sets, and are highly liquid. Baker et al., (2008) examine the perceptions of managers of Canadian firms listed on the Toronto Stock Exchange to determine whether views differ when partitioned into financial and non-financial firms. Their results suggest the existence of industry effects where the perceptions of managers from financial versus non-financial firms differ on the importance of various factors influencing the dividend policy of their firms.

Cornett et al., (2011) document a positive relationship between a bank’s performance (in terms of profitability, capital adequacy, asset quality, operating efficiency, liquidity and growth) and dividends’ initiation and between dividends’ initiation and both takeover likelihood and merger premium, a conclusion that
supports the signaling role of dividends. In their attempt to analyze the contagion effects of dividends reductions in the US banks. Onali (2012) found that banks that are close to depleting their capital (with low capital to total assets ratio) pay more dividends to their shareholders, arguing that dividends are used to shift risk from banks’ owners to taxpayers. These findings are fully consistent with those of Acharya et al. (2011).

Akhigbe and Whyte (2012) investigate the link between payouts and stock incentives among financial institutions with varying degree of regulation across depositories, insurers, and securities firms. Their findings show that managerial stock ownership is inversely related to dividend payouts across the institutions showing no evidence that the relationship occurs because of regulation since all institutions, regardless of the degree of regulation, exhibit the same inverse relationship between dividend payouts and management stock ownership. Their results support Collins et al., (1996).

Sharma and Singh (2006) examined deterministic factors of stock price in Indian corporations. They studied 160 firm samples during 2001-2005. Results indicated that revenue and book value per share and dividends are important and effective factors in determining stock price and that they signaled the financial health of corporations. Therefore, corporations need to adopt an expansible policy in dividend distribution, because high dividend ratio is effective in increasing market value per share.

Kowalewski and Oleksandr (2007) investigated dividend policy and corporate governance in Poland. They examined 110 non-financial corporation’s between 1998 and 2004. The result of the study revealed that corporate governance is an important determinant of dividend policy. Also, larger corporations with higher profitability that don’t have good investment opportunities paid more dividends. Also, corporations with higher debt ratio paid fewer dividends.

Arnort and Ashess (2002) investigated the relationship between the growth in dividends and revenues. They explored why the dividend payment ratio has reduced but price/earnings per share ratio continued to increase from 1995. Research results
showed that lower dividend payment ratio and higher price earnings per share ratio suggest the future growth in revenues.

3.4 **OBJECTIVES OF THE STUDY:**

The main goal of the business enterprises is to protect and maximize the interest of shareholders by maximizing the overall profit of the business units. Hence the objective of the study is to analyze the patterns of dividend policy and study interrelationship between several pertinent aspects relating to dividend policies. The specific objective of the study is identified as given below:

1) To analyze the dividend and its impact on profitability of selected Indian Banking sector.
2) To evaluate the comparative ratios of the selected banks with concerned to the dividend.
3) To understand the impact of dividend on the profitability of selected banks.
4) To find out trend of dividend of selected units.

3.5 **RESEARCH DESIGN:**

For better, attractive look and construction of house needs, a blueprint or the map of the house well throughout and prepared by an expert and clever architect, similarly a research design is must in advance of data collection and analysis for the research project keeping in view of the objective of the research and availability of afford, time and money. There are many factor included in profitability ratio, few of them has been selected in this study.

3.6 **UNIVERSE OF THE STUDY:**

The universe of study consists of all the units working in dividend policy of Indian banking. There are mainly.

1. Allahabad Bank.
3. Bank of Baroda
4. Bank of India.
6. Dena Bank
7. Punjab National Bank
8. State bank of India.
10. Union Bank of India.

3.7 **PERIOD OF THE STUDY:**
The present study covers a period of ten years from 2004-05 to 2013-14.

3.8 **SCOPE OF THE STUDY:**
The present research study is a micro level study since it is not possible for the researcher to conduct it on the macro level. The study is mainly intended to concentrate on the issues relating to dividend policy of Indian Banking. Though there are several other financial problems which are responsible for the lack luster performance of the Indian banking. The Investigator is of firm belief regarding the significant impact of dividend policy. As such, the study excludes the interested of other financial problems such as working dividend and dividend policy. It is also the Intention of the study to examine the theories of dividend policy.

3.9 **HYPOTHESIS OF THE STUDY:**
The researcher starts the study with the following broader hypothesis

(1) Null hypothesis (2) Alternative hypothesis

(1) **Null Hypothesis:** There is no significant difference between Dividend Payout Ratio at selected banks during the study period.

**Alternative Hypothesis:** There is significant difference between Dividend Payout Ratios at selected banks during the study period.

(2) **Null Hypothesis:** There is no significant difference between Dividend Per share at selected banks during the study period.

**Alternative Hypothesis:** There is significant difference between Dividend per Share at selected banks during the study period.
(3) **Null Hypothesis:** There is no significant difference between Dividend Yield at selected banks during the study period.

**Alternative Hypothesis:** There is significant difference between Dividend Yields at selected banks during the study period.

(4) **Null Hypothesis:** There is no significant difference between Dividend Cover at selected banks during the study period.

**Alternative Hypothesis:** There is significant difference between Dividend Cover at selected banks during the study period.

(5) **Null Hypothesis:** There is no significant difference between Net Profit Margin at selected banks during the study period.

**Alternative Hypothesis:** There is significant difference between Net Profit Margin at selected banks during the study period.

(6) **Null Hypothesis:** There is no significant difference between Earnings per Share at selected banks during the study period.

**Alternative Hypothesis:** There is significant difference between Earnings per Share at selected banks during the study period.

(7) **Hypothesis:** There is negative relationship between DP and Profitability (NP Margin) of selected Banks.

(8) **Hypothesis:** There is negative relationship between DPS and Profitability (NP Margin) of selected Banks.

(9) **Hypothesis:** There is negative relationship between DY and Profitability (NP Margin) of selected Banks.

(10) **Hypothesis:** There is negative relationship between DC and Profitability (NP Margin) of selected Banks.

### 3.10 DATA COLLECTION OF THE STUDY:

The present study is completely based on secondary data. The main source of data for the study is the annual reports of selected units. In addition to this the information published by the various Indian banking and the published literature available in the form of books and journal articles is used to complete relevant data for the purpose of the study.
The collected information was suitably classified and tabulated in the form of tables and with techniques like ratios, and the data was objectively analyzed and conclusions were drawn on the basis of coefficient of correlation and F: Test at 5% level of significance.

3.11 **TOOLS AND TECHNIQUES FOR THE ANALYSIS:**

3.11.1 **Average:**

Average is most commonly used tool for analysis also known as arithmetic mean, briefly refereed as mean. The average can be found by adding the values of all the variables and dividing at by total number of variables.

3.11.2 **Analysis Variance:**

Prof. R. A. fisher was the first man to use the term, variance and in fact, it was he who developed a very elaborate theory concerning anova explaining its usefulness in practical field. ANOVA is essentially a procedure for testing the difference among different groups of data for homogeneity. There may be variation between samples and also within sample items. ANOVA consists in splitting the variance for analytical purpose. Hence it is a method of analyzing the variance to which response is subject into its various components corresponding to various sources of variation.
Table 3.1
Analysis of variance table for one way ANOVA

<table>
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<tr>
<th>Source of variation</th>
<th>Sum of squares (SS)</th>
<th>Degrees of freedom (d.f.)</th>
<th>Mean square (MS)</th>
<th>F-ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between samples or categories</td>
<td>$n_1 \left( \bar{X}_1 - \bar{X} \right)^2 + n_k \left( \bar{X}_k - \bar{X} \right)^2$</td>
<td>(k-1)</td>
<td>$SS \text{ between} \over (k - 1)$</td>
<td>$MS \text{ between}$</td>
</tr>
<tr>
<td>Within sample or categories</td>
<td>$\sum (X_{1i} - \bar{X}<em>1)^2 + \sum (X</em>{ki} - \bar{X}_k)^2$</td>
<td>(n-k)</td>
<td>$SS \text{ within} \over (n - k)$</td>
<td>$MS \text{ within}$</td>
</tr>
<tr>
<td>Total</td>
<td>$\sum (X_{ij} - \bar{X})^2$</td>
<td>(n-1)</td>
<td></td>
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(Source: Research Methodology which written by C. R. Kothari)

3.11.3 Coefficient of Correlation:

Simple correlation is the most widely used method of measuring the degree of relationship between two variables. This coefficient assumes the following:

1. That there is linear relationship between the two variables,
2. That the two variables are casually related which means that one of the variables is independent and the other one is dependent, and
3. A large number of independent causes are operating in both variables so as to produce a normal distribution.
3.12 **SIGNIFICANCE OF THE STUDY:**

The study would be useful for the financial managers of the companies in formulating their dividend policy. The financial managers have to decide how much will be the dividend payout ratio and how much will be the retention ratio out of the earning per share they should take such a decision which would maximize investor’s wealth.

The study would also be useful for the investors also. The investors should invest in companies which pays dividends. As investors prefer certain small dividend in place of Indian Banking.

3.13 **OUTLINE OF THE CHAPTER PLAN:**

The entire study is divided into seven chapters.

3.13.1 **Overview of Indian Banking:**

The purpose of this chapter is to briefly introduce the sampled banking chosen for this study. The chapter brings out the historical background of each bank with its back record of financial performance of ten years. This chapter included the discussion types and overview of Indian banking.

3.13.2 **Conceptual Framework of Dividend Policy:**

In this chapter a background of theoretical framework of dividend policy. This chapter includes types of dividend and dividend policy models and theories.

3.13.3 **Research Methodology:**

This chapter covers the review of literature, research design, collection & analysis data, period of the study, objective of the study and; limitations of the study.

3.13.4 **Sample Profile of selected banks:**

This chapter includes of background of selected units and history of Indian Banking.
3.13.5 **Data Analysis and Interpretation:**

The study is based on secondary data taken from the website of the selected Indian banking for the period from 2004-05 to 2013-14 various publication of Indian banking also has been used for the purpose. The data obtained have been classified edited and tabulated under various groups and sub groups as per requirements of the study many ratio and statistical techniques like F-test have been applied to test the validity of hypothesis.

3.13.6 **Impact of Dividend on Profitability:**

This chapter includes correlation of D/P with NP margin of selected banks, correlation of DPS with NP margin of selected banks, correlation of DY with NP margin of selected banks and correlation of DC with NP margin of selected banks. It covers the broader hypothesis testing and conclusions have been drawn on the basis of the analysis.

3.13.7 **Summary Findings and Suggestions:**

This chapter includes summary of each chapter and findings of the study and at last suggestions for improvement in accounting practices in business. Besides, it also highlights how dividend policy is a relevant in banking.

3.14 **Limitations of the Study:**

(1) This study is based on secondary data taken from published annual reports and accounts of selected banking and such its findings depends entirely on the accuracy of such data.

(2) There are many approaches for evaluation of dividend policy. There are no common views among experts.

(3) Scope of this study is wider but sample size is limited to only 10 banks. From ten banks are public sector banks.

(4) The study is limited to Ten years only.
(5) The present study is largely based on ratio analysis and ratio has own limitations which also applied to the study.

(6) The accounting techniques and statistical techniques have their own limitations they also apply to this study.

(7) There are different methods to measure the profitability of banks in this connection views of experts from one-another.
REFERENCE:

1. C. R. Kothari “Research Methodology”, New Age International Publisher.