

CHAPTER -ONE

INTRODUCTION

1.1 General Back ground

Nepal is a Land Locked country, situated between two large countries; India and China both of them are economically strong and geographically large. Nepal is an underdeveloped country and the pace of development is in creeping motion. There is situation of economic crisis and long trend of inflation along with deficit balance of payment. At the same time the financial sector is playing very vital role in upgrading the national economy. Despite of political instability, in effective financial and monetary policy, various financial intuitions via commercial banks, development banks, insurance companies and other depository institutions are still attempting to balance the economical development of nation.

Commercial banks are legally formed financial institution, which accept deposits and makes loan for Commercial and non Commercial purpose. The history of Commercial bank is not very long. The growth of Commercial banks for last two decades remained phenomenal particularly financial sector reformation in 1990s. The concept of banking as formally executed after the establishment of Nepal bank Ltd in 1994 B.S. In 2014 B.S the Nepal Rastra Bank ltd was established with the objective of supervising, guiding and protecting the functions of banking sectors. As a result, the growth of Commercial banks in Nepal has been mushroomed. The number of banks has been increased as per requirement under different acts like Agricultural development banks under Agricultural development bank Acts in 2024 B.S, Commercial banks under the Commercial Acts in 2031 B.S. Nepal Arab Bank Ltd is the first Joint venture bank in Nepal which was established in 2041B.S. In the same manner, some commercial Bank Nepal are: Nepal Investment Bank Ltd, (2042 B.S), Standard Chartered Bank Ltd. (2043B.S.) Himalayan Bank Ltd (2049 B.S.) Nepal Bangladesh Bank Ltd (2050B.S.), Everest Bank (2051 B.S.), Bank of Kathmandu (2051 B.S.), Nepal Industrial and commerce Bank Ltd (2055B.S.) Lumbini Bank Ltd (2055 B.S.), Machhapuchhre Bank Ltd (2057B.S.),Siddhartha Bank Ltd (2059 B.S.) Nepal SBI Bank Ltd (2050 B.S.), Laxmi Bank Limited (2057B.S.), Kumari Bank Ltd

(2057B.S.), Sunrise Bank Limited (2064B.S.), Global Bank Limited (2065B.S.) Bank of Asia Limited (2065B.S.) Citizens Bank International Limited (2064B.S.). The importance of Bank is highly appreciated because it needs proper attention to run successfully.

A Bank is an organization where the principal operation is concerned with the accumulation of temporarily idle money of the general public for the purpose of advancing to other for expenditure (*Sayers, 1967; 3*)

Common stocks represent ownership in a company. The holders of common stock are called shareholder or stockholder. They are the legal owners of the company. "People buy common stock of the banks or any other institution expecting to earn dividend plus capital gain when they sell their shares at the end of some holding period". (*Thapa, 2003; 147*)

Therefore one of the major reasons for which public is interested to invest money on shares of banks or other intuition is for 'dividend'. Dividend is paid by business or organization when it is running at profit. Dividend refers to that portion of earning of the firm that is distributed to the shareholders in return to their investment in the share.

The expected level of cash dividend is the key variable from which owners and investors in the market place determine share value. The establishment of effective dividend policy is therefore key importance to the firm's overall objectives of the owner's wealth maximization. (*Gitman, 1982; 507*)

According to Miller and Modigliani, The value of firm depends solely on its earning power and is not influenced by the manner in which its earning are split between dividend and retained earnings". (*Chandra, 1990; 602*)

Dividend is the income that the shareholders receive physically. Dividend refers to the portion of net earning which is paid out to shareholders. As dividend is direct return of the earning. Such action is beneficial to the shareholders through future increase in share price. In short, Capital gain means increase in the price of stock. Dividend

policy determines the dividend of earning between payment to stock holders earning and investment of the firm.

Dividend policy is one of the major decisions of financial management because it affects the financial structure, the flow of funds corporate liquidity and investor's attitude. The successful completion of fiscal year having sufficient profit, management decides to declare dividend to shareholders. The important aspect of amount of earning to be distributed to the shareholders and the amount to be retained in the firm. It also determines the forms of dividend. (Katwal, 2001; 3).

1.2 Brief Profile of Sample Bank

This research is concerned with dividend policy of some commercial banks of Nepal. So the sampled banks are briefly introduced below.

A.) Nabil Bank Limited

Nabil Bank Limited, the first foreign bank of Nepal, started operation in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sector of the society. Pursuing its objectives, Nabil provides a full range of commercial banking services through its, 19 points of representation across the kingdom and over 170 reputed correspondent Banks across the globe. The bank was listed in NEPSE in the year 1985 A.D. The paid up to the capital of the bank in fiscal year 1996\97 was only Rs.261.64 million. It has 25 branches all over Nepal. The banks earning per share is Rs. 84.66, Rs. 92.61, Rs. 105.49, 129.21 and Rs 137.08 in fiscal year 2003, 2004, 2005, 2006 and 2007 respectively.

B) Everest Bank Limited

Everest Bank Limited started its operation in 1994 with a view and objectives of extending professional and efficient banking services to various segment of the society. The bank is providing customer friendly services through a network of 22 branches. The bank has conferred with "Bank of the year 2006, Nepal" by the banker, a publication of financial times, London.

EBL is one of the first bank to introduce 'Any Branch Banking System' in Nepal. The banks earning per share are Rs 45.57, Rs 53.4, Rs 62.78, Rs 78.41 in fiscal year 2004, 2005, 2006 and 2007 respectively. No Cash dividends are paid in 2004 and 2005. Cash dividend of 40% and 13% are paid in the year 2006 and 2007.

C) Investment Bank Limited:

Nepal Investment bank is the third joint venture bank of Nepal established in 1985 A.D. It was Joint ventured with credit Argicole Indosuez, France but the share was transferred to group of Nepalese business house in 2001 A.D since it on more belonged to Indosuez, the name also changed to Nepal Investment Bank Limited. It was listed in NEPSE in 1987 A.D. Its paid up capital is Rs 587.74 million in fiscal year 2004/2005. Nepal Investment banks have more than 15 branches all over Nepal. The bank's earning per share are Rs. 51.7, Rs 39.5, Rs 59.35, and Rs 62.57 in the fiscal year 2004, 2005, 2006, and 2007 respectively. Cash dividend of 29%, 32%, 34% and 8% is paid in the year 2004, 2005, 2006, and 2007 respectively.

D) Himalayan Bank Limited:

Himalayan Bank Limited was established in 1993 in collaboration with Habib Bank Limited, Pakistan. It is fourth Joint venture bank in Nepal and it was listed in NEPE in 1993. The paid up capital of the bank in the fiscal year 1995\96 was only Rs 120 million, which gradually reached up to Rs 634.50 million in the year 2004/5. Himalayan Bank has more then 20branches all over Nepal. The bank's earning per share are Rs 49.05, Rs 47.91, Rs59.24, and Rs60.66 in the fiscal year 2004, 2005, 2006, and 2007. The dividend pay out ratio is 24%, 51% and 25% in the year 2005, 2006 and 2007 respectively. No dividend is paid in the fiscal year 2004.

E) Standard Chartered Bank Limited:

Standard Chartered Bank was established in 1987 as Nepal Grindlays Bank. This was the second Joint ventured Bank after Nabil. Later after 2001, Grindlays left this bank and Standard Chartered group took this bank by purchasing 75% shares. The profit of previous year i.e. 2064 was 81 crores. The current EPS of bank is Rs. 131 and PE ratio is 51.77. The current paid up capital is 93 crores.

1.3 Focus of the study:

In each and every firm, dividend policy is taken as a financial decision that affects the firm. Investor should invest in stock of any company knowing the dividend policy of the firm. The main focus of this research will be valuable to the shareholders to view dividend policy of joint venture commercial banks comparatively. So this research may be helpful for those who want to know the productivity of the commercial bank for their better investment. This study also helps to the management for corrective action.

Stability or regularity of dividends is considered as a desirable policy by management of companies. Most of the shareholders also prefer stable dividends have a positive impact on the market price of share. By stability we mean maintaining its positions in relation to a trend line preferably one that is upward sloping. (*Koirala and Thapa, 2062; 8*)

Investors are interested in investing their funds in the shares of public Limited companies. This trend plays a significant role for the development and expansion of the capital market. And it will continue only when dividend pattern is directed to the interest of shareholders. There is no uniformity in dividend pattern of Nepalese Corporation. This research focus a new trend of paying dividend to shareholders shown by different joint venture Banks and some public Limited companies.

By dividend we mean some kind of consistent approach to the distribution versus retention decision, rather than making the decision on the purely adhoc basis from period to period. (*Pearson, et.al; 1972:405*).

1.4 Statement of Problem

In the context of Nepalese capital market, the commercial bank provide low rate of interest on deposits. So the people are attracted to invest money in shares for greater benefits. In Nepalese context only a few companies have adopted dividend policies. There are different such as cash dividend, stock dividend forms and Bonus share etc. Among different forms a dividend policy stock dividend is most popular one. But also dividend is not clearly understood by a large segment of financial community.

Different research has been made in this area seeking to establish the irrelevance of dividend on shareholders. Miller and Modigliani's work the following questions: How can investors benefit from a dividend when it is in effect, paid rupee for rupee out of the value of the share?

Beside the number of studies research has been made to lead the development of the behaviour models associated with the name of Linter (1965), Darling (1957), and Britain (1966) and other attempting to categories explain and measure the different types of observed different practice. The study seems to provide useful guidance in handling the complicated decision problem.

Every firm follows different forms of dividend policy based on their strategy for the company. It is assumed that there is direct relationship between dividend and stock price. But while considering the firms of underdeveloped country like Nepal, it is very different of match the relationship between dividend and stock price. There is no uniformity in the distribution of dividend of commercial banks. Similarly, there is no relationship between dividend distribution and share price. Due to the political instability and many other factors almost of the firms are not able to pay the dividend to their shareholder. The joint venture banks are distributing low dividend while earning is high and some time they pay high when earning is low. So, especially joint venture banks are distributing dividend in regular basis but there is no uniformity.

For example:- Everest bank Limited, in year 2005, paid no dividend when earning per share was Rs 54.20 but in the year 2003, EBL paid dividend of Rs. 20 per share when earning per share was Rs. 29.90.

Himalayan bank Limited paid no dividends when earning per share was Rs.49.05 in the year 2004 but in the year 2006, HBL, paid dividend of Rs.30 when earning per share was Rs. 228.72.

Therefore we concluded that all banks have sufficient earning but they are not distributing the dividend in equal proportion. They have not followed the consistency in dividend policy and we could not get uniformity of dividend payout ratios in these sample banks.

Therefore this research raises some following question:-

- (I) Are share price affected by dividend per share in sample banks?
- (II) Is the sample banks guided by specific dividend policy.
- (III) Do the sample banks have uniformity in dividend distribution?
- (IV) Is there any consistency in dividend per share and dividend payout ratio in sample banks?
- (V) Does the dividend policy affect DPS, EPS, DPR, PE ratio and MVPS within stated sample banks?
- (VI) This study will try to answer the above mentioned issues on the basis of major finding.

1.5 Objectives of the study

The main Objectives of the study is analyzing the impact of dividend policy on its market price of the share. Also this study may be helpful for management committee of commercial bank in setting suitable dividend policy.

Some Fundamental Objectives of the study are listed below:-

-) To study the current practice of dividend policy in joint venture commercial banks.
-) To examine the relationship between DPS, EPS, and D/P ratio of sample banks.
-) To find out the impact of dividend on share price.
-) To identify the uniformity of dividend distribution of different commercial banks.
-) To provide valuable suggestions and important guidelines to the bank to formulate optimal dividend policy and maximize share price on the basis of findings.

1.6 Significance of the study

Nepalese financial institutes have already experienced the practice of dividend distribution. As such it is felt significant to study the policy regarding dividend concerned with financial Institutes. Dividend policy decision is one of the most

important decisions in every organization. This study is expected to fill the research gap and add to the inputs to financial literature relating to dividend. The findings may be valuable to following groups.

- (I) **To the management:** - dividend policy is the controversial topic of financial management. It may affect value of the firm. Moreover, most common objective of the firm is to maximize shareholders wealth. So management may adopt appropriate dividend policy.
- (II) **To shareholders:** - shareholders are more concerned with the amount of dividend paid by the firm. So they have more curiosity on the dividend policy, adopted by their concerned banks. With this study they can make their mind more comparable in terms of dividend pattern and value of the firm.
- (III) **To the Investors:** - Generally, most of the investors prefer to invest in profitable firm and expect high return. Corporate sector is expanding but there is information gap between the management of Nepalese companies and Nepalese investors who are eager to invest in shares they are just investing in the shares in trial and error methods. So, the dividend behavior should be effective to attract new investors keeping the previous investors satisfied and should maintain the reputation of the firm.
- (IV) **To the researcher:** - It can be used by researcher as guideline to fulfill the partial requirement of Master of Business Studies. It may help others who want to study in similar topic.

Besides these, it will also be beneficial for the policy makers from the comparative study of dividend policy. They can get important findings, which are useful in policy making about dividend policy formation. Dividend policy of banks helps the customers, financial agencies, stock brokers, interested person and scholars to find out appropriate dividend policy. It is believed that other banks will also benefited with this study.

1.7 Limitation of the study.

- i. The research should be done in very short period. We cannot analyze freely which restricts from minimizing error to full extend.
- ii. Only five Banks are taken as sample due to lack of time.

- iii. Data is not available easily.
- iv. It covers the study period of only five years from 2003 to 2007.
- v. The study is based on secondary data might be not so much reliable.
- vi. Lack of research experience and reliability of statistical tools.

1.8 Research Methodology

Research Methodology is the research Method used to test the hypothesis. In designing Methodology for a thesis project the following element should be taken into account. They are research design, population and sample, sources of data, data collection techniques and presentation and analysis of data. Research Methodology is the way to solve the research problem systematically.

Research design is the main part of thesis or any Research works. By Research design mean overall frame work or plan for the collection and analysis of data. (*Wolf & Pant, 2005;74-65.*) Research design presents a series of guide posts to enable the Researcher to progress in right direction in order to achieve the goals. The study tries to evaluate the dividend policy of some selected joint ventured banks.

The Financial and statistical tools and techniques used to analyze the available data are as follows:-

- (I) Financial indicators and variables.
- (II) Test of hypothesis.
- (III) Mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination, standard error of estimate, probable error and regression analysis.
- (IV) Dividend per share, earnings per share, market price per share, dividend yield, earning ratio, retention ratio, dividend payout ratio, price earning ratio.

1.9 Chapter Scheme

The study has been organized into five different chapters; each Chapter deals important factors of dividend policy. The titles of each of these Chapters are listed below.

Chapter One: - Introduction

This Chapter includes statement of problems, objectives of study, focus of the study, important of the study and limitation of the study.

Chapter Two: - Review of literature

This chapter deals with the theoretical analysis and brief review of literature. It also includes discussion on the conceptual frame work and review on the major studies in general.

Chapter Three: - Research Methodology

It includes Research design, population and sample sources of data, Data collection procedure, and Methodology of Analysis and definition of statistical tools.

Chapter Four: - Presentation and Analysis of Data

This deals with the Presentation and Analysis of data to indicate quantitative factors in dividend policy using both financial and statistical tools and techniques.

Chapter Five: - Summary, Conclusion and Recommendation

This deals with the summary, conclusion and recommendation. Also at the end of this research Bibliography and Appendices are attached.

CHAPTER- TWO

REVIEW OF LITERATURE

2. REVIEW OF LITERATURE

In this Chapter relevant literature which is related to the dividend policy is reviewed. Topics from different books and different studies published in magazines, theses of seniors and journals related to the study are reviewed below.

2.1 Conceptual Frame work

Dividend refers to the portion of earning made by the firm that is distributed to shareholders as return of their Investment in share. It can be defined as reward to the shareholders for bearing risk of uncertainty. Dividend policy is the most important and major decisions of financial management. After the successful completion of the fiscal year, the company has sufficient profit and management decides to declare dividend to the shareholders. The important aspect of dividend policy is to determine the amount of earning to be distributed to the shareholder and the amount to be kept as retained earnings to reinvest in profitable sector or in the expansion of business.

Thus, the policy of a company is the dividend of its profit between distributions to shareholder as dividend and retention for profitable investment. When a portion of profit is paid out to the shareholders the payment is known as dividend. Dividend policy involves the decision to pay out earning versus retaining them for investment in the firm. Any change in dividend policy has both favorable and unfavorable effects on the firm's stock price. Higher the dividend means higher the immediate cash flows to investors, which is good, but lower further growth, which is bad. The dividend policy should be optimal which balances the opposite forces and maximizes the stock price. Higher the dividend means higher the immediate cash flows to investors, which is good, but lower further growth, which is bad. The dividend policy should be optimal which balances the opposite forces and maximizes stock price.

The objective of the firm plays crucial role to decide how much of the earning to retain and how much to pay as dividend to the shareholders.

People buy common stock of the company expecting to earn dividend and also they want to earn capital gain which they sell their share at the end of holding period. Capital gain is amount received as capital by issuing share from the owner and as loan from outsider. Capital gain consists of additional payment made to the business by shareholders of the company. Capital gain result from the passage of time because the retained earnings are employed with best opportunity to yield more profit, so that the value of the firm is maximized and the value of the share rises too. If the stock is actually sold at price above its purchase price, the investors will receive a capital gain. As such, the shareholders expect an increase in market value of common stock over time. Mostly, the investors expect dividend to be continued in each year as well as to receive better price when they sell the stock.

The important aspect of dividend policy is to determine the amount of earning to be retained in the firm. Retained earnings are the most significant internal sources of financing. On the other hand, dividend may be considered desirable from shareholder point of view as they tend to increase their current wealth. (*Pandey, 1997; 672.*)

Generally a firm which has easy access to external sources of finance may feel less constrained in its dividend decision. For such a firm, its dividend decision as somewhat independent of its investment decision as well as liquidity position.

Enjoying greater degree of flexibility, such firm is inclined to be more generous in its dividend payout policy. On the other hand, a firm that has difficulty in raising finances externally is likely to lean heavily on internally generated fund. Given its investment and other commitment and a lesser degree of financing attitude, such a firm is likely to pursue a somewhat conservative dividend policy. (*Chandra, 1972; 612*)

Generally dividends are paid in cash. Thus, it reduces the cash balances of corporation, which affect both internal financing and liquidity position of firm. The investment and financing decision, the dividend decision has both theoretical and managerial facts. The dividend is one of the central decision area related to policies seeking to maximize the value of firm's common stock.

2.1.1 Forms of Dividend

Generally dividends are paid in cash but when the company is unable to pay cash dividend. They use different forms of dividend payment for satisfying stockholders. Such forms of dividend are stock dividend, script dividend, property dividend, Bond dividend and stock repurchase.

(a) Cash dividend:

Cash dividend may be termed as portion of earning paid in cash to owner of the firm as return on their equity investment. If company does not have enough cash at the time of dividends payment, company seeks to arrange funds, which will be managed by borrowing. 'When the company follows stable dividend policy, they uses to prepare cash budget to indicate the necessary funds which would be needed to meet regular dividend payment of the company' (Pandey,1995; 309).

The cash account and the reserve account of the company will be reduced when cash dividend is paid. Thus, both total assets and net worth of the company are reduced when cash dividend is distributed. Market price of share drops in most cases by the amount of cash dividend distributed. (Hastings, 1966; 370).

(b) Stock Dividends:

If additional shares are issued to existing shareholder instead of cash of dividend. A stock dividend represents a distribution of share in lieu of cash dividends. When stock holder receive stock dividend, the number of share increase but as it is paid to existing shareholders on their proportion of their shareholding, it doesn't affect the ownership of the company. Stock dividend increases number of share as a result, EPS, DPS and Market price of share of the company decreases'.

(c) Script Dividend

If companies have no sufficient amount of cash for dividend payment, company may issue script or notes promising to pay dividend within the maturity period. So script dividend is those paid in the company promises to pay instead of cash. These dividends may be interest bearing. When the company has sufficient cash than it is distributed to stock holders.

(d) Property Dividend

If payments are made in the form of property or assets rather than cash, it is called property dividend. This form of dividend may be followed when there are assets that are no longer necessary in operation of the business or in extra ordinary circumstances. Companies own products and subsidiaries are examples that have been paid as property dividend.

(e) Bond Dividend

When the company generates more profit for a long time, it is better to issue bonds, which carries certain interest rates. But there should be other constraints to issue bonds. It is issued in the form of bond dividend for the existing shareholder.

(f) Stock Repurchase

Stock repurchase is a method, in which a firm buys back shares of its own stock, thereby decreasing shares outstanding, increasing EPS, and, often increasing the price of stock. Stock repurchase are an alternative to dividends for transmitting cash to stock holders .

2.1.2 Theories of Dividend

- (I) Residual Theory of Dividend.
- (II) Stability of Dividend.

Residual Theory of Dividend

Residual theory of dividend suggests that only residual earning should be distributed as dividend, which is left after accepting all profitable investment opportunities, which depend upon the investment policy of the firm. According to this theory, the dividend is distributed if there exists a balance of earning after paying fixed obligations and investment opportunities (Ibid, 1967; 537). If the firms have investment opportunity with higher return than required, the firm will invest the earning to that project, and if there is only earning left after accepting all the investment opportunities then it will be distributed to stock holders as cash dividend.

When the firm has opportunity of investment in profitable sector at first they prefer the internally generated fund (Residual earnings) rather than externally generated fund

which is comparatively expensive due to the floatation cost and other. So, the amount of dividends fluctuates time to time in keeping with availability of acceptable investment opportunity of the firm. "Although the residual theory of dividend appears to make further analysis of dividend policy unnecessary. It is not clear that dividends are solely a means of distributing excess funds (*Rao, 1992; 458*).

Stability of Dividend

Stability of dividend refers to the regularity in paying dividend even though the amount of dividend may fluctuate from period to period. 'Stability or regularity dividend is considered as desired policy by the management of most companies. Most of the shareholders also prefer stable dividends because all other things being the same, stable dividends have a positive impact on the market price of the share (*Pandey, 1995; 302*).

By stability we mean maintaining its position in relation to a trend lives preferably one that is up ward sloping.

There are three major types of dividend polices developed (established) under dividend Stability. Which are as follows -

a) Constant Dividend per Share

The company which follows this policy pays a fixed amount per share as dividend every year, irrespective of the fluctuations in the earning. It is easy to follow this policy when earnings are stable but if it fluctuates, the company faces difficulties to maintain such polices.

This policy does not imply that the dividend per share will never be increased. When the company reaches new level of earnings and expects to maintain it the annual dividend per share may be increased.

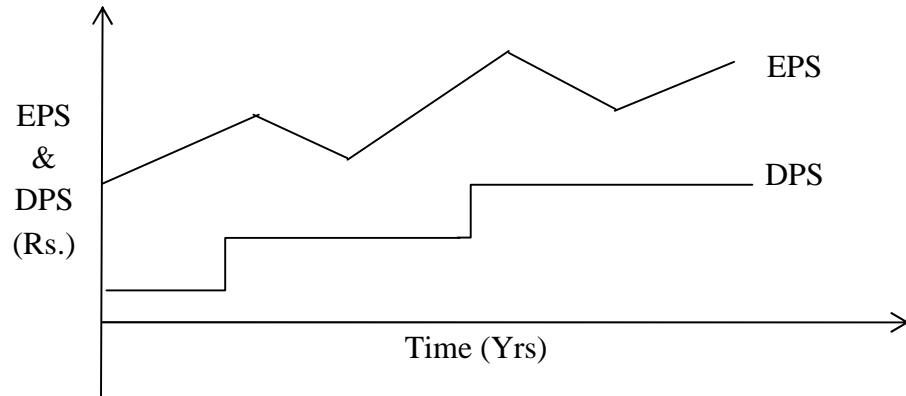


Figure 2.1: Constant Dividend per Share Policy

The dividend policy of paying a constant amount of dividend per year treats common share holders without giving any consideration to investment opportunities within the firm and opportunities available to shareholders'. (*Brandit, 1972; 7*).

This policy is generally preferred by those persons and institutions that depend upon dividend income to meet their living and operating expenses because of the constant amount of dividend they receive'.

(b) Constant payout ratio

Constant payout ratio refers to the paying a fixed percentage of net earnings every year as dividend. Under this policy, the amount of dividend fluctuates with direct proportion of earning. If the company incurs losses no dividend shall be paid regardless of the desire of shareholders. Internal financing with Retained earnings is automatic when this policy is followed. At any payout ratio the amount of dividend and the additions to retained earnings increase with increasing earnings and vice versa.

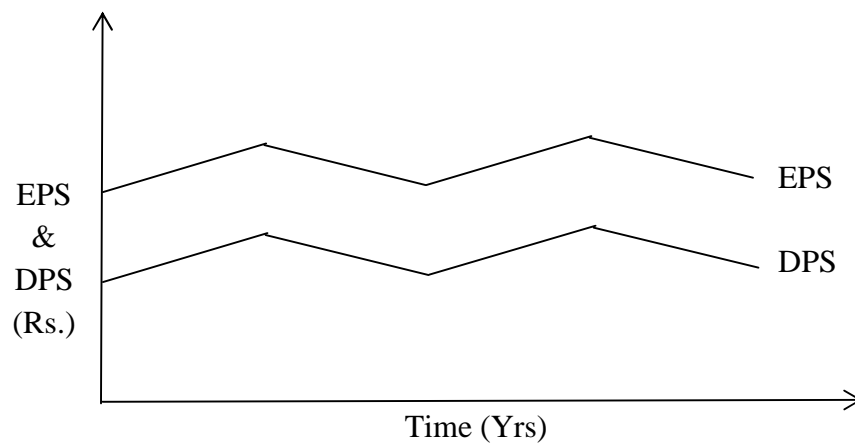


Figure 2.2: Div. Policy of constant payout Ratio

(c) Small Constant dividend per share plus extra dividend (low Regular Dividend per share plus Extra)

The policy of paying a low regular dividend plus extra is a compromise between a stable dividend or stable growth rate and a constant payout ratio rate. Such policy gives the firm flexibility, yet investors can count on receiving at least a minimum dividend. It is often followed by firms with relatively volatile earnings from year to year. The low regular dividend can usually be maintained even when earnings decline and extra dividends can be paid when excess funds are available.

2.1.3 Factor Affecting Dividend Policy

Many considerations may affect a firm's decision about its dividend. Some of them are unique to that company, and some of the more general considerations are given subsequently.

Legal Rules

Certain legal rules may limit the amount of dividend a firm may pay. These legal constraints fall into two categories. First, statutory restrictions may prevent a company from paying dividend. While specific limitations vary by state. Generally a corporation may not pay dividend in the following situation.

-) If the firm's liability exceeds its assets.
-) If the amount of dividend exceeds the accumulated profit (retained earnings).
-) If the dividend is being paid from capital invested in the firm.

The second type of the legal restrictions is unique to the firm and results from restrictions in debt and preferred stock contracts.

Desire of Shareholders

Shareholders may be increased either in dividend income or capital gains. Wealthy Shareholders in a high income tax bracket may be increased in capital gains as against current dividends. A retired and old person, whose source of income is dividend would like to get regular dividend.

In a closely held company, management usually knows the desires of Shareholders. So they can easily adopt a dividend policy that satisfies all Shareholders. But in a widely held company, number of Shareholders is very large and they have diverse desires regarding dividends and capital gains. Some Shareholders want a cash dividend, while other prefers bonus Share.

Liquidity Position

Liquidity position (Availability of cash) of the firm is an important consideration for dividend payment. Although a firm may have adequate earning to declare dividend, it may not have sufficient cash to pay. The dividend payment means cash out flows. Thus greater cash position and overall liquidity of a company, the greater ability to pay dividend. Generally growing firm faces the problem of liquidity even though it makes a good profit but it needs funds for its expansion. So they cannot declare dividend.

Investment Opportunities

The dividend policy is also influenced by the financial needs of the company. If any profitable project found, company invests its earning to that project rather than paying dividend. 'Growing firm gives precedence to the retention of earning over the payment of dividend in order to finance its expanding activates. But the firm having stable earning trend will prefer to pay large portion of its earnings as dividend' (Ibid). When the investment opportunities arise frequently, company follows a policy of paying dividend and raises external funds when the investment opportunity occurs.

Access to Capital Market

A company having insufficient cash can pay dividends, if it is able to raise fund in capital market because they can generate fund from the capital market whenever it is required. 'Easy accessibility to the capital market provides flexibility to the management in paying dividends as well in meeting corporate obligation. Thus, greater the ability of the firm to raise funds in the capital market, the greater will be its ability to pay dividend even it is not liquid'.

Control

For many small firms, and certain large ones, maintaining the controlling votes is very important. These owners would prefer the use of the debt and retained profit to finance new investments rather than issue of new stock. As a result dividend payout will be reduced.

Stability of Earning

A firm that has stable earnings trend will generally pay a large portion of its earnings in dividends. If earnings fluctuate significantly, a large amount of the profits may be retained to ensure that enough money is available for investment projects when needed.

Restriction in debt contracts

Restriction in debt contracts may specify that dividend may be paid only out of earnings generated after signing the loan agreement and only when net working capital is above the specified amount, also preferred dividends take precedence over common stock dividends.

Past Dividends

The firm has to maintain its past dividend payout rate. If current dividend payout ratio is less than past year rate, the market price of stock will decline.

Inflation

This is also important constraint for dividend payment. Cost of replacing assets increases substantially due to inflation and the funds generated by depreciation would be inadequate to replace the assets. So, greater profit retention may be required for the companies in order to make replacement or to maintain the capital intact which will reduce dividend payment.

Need to repay debt

The need to repay debt also influences the availability of cash flow to pay dividend.

Rate of asset expansion

A high rate of asset expansion creates a need to retain funds rather than to pay dividends.

Profit rate

A high rate of profit on net worth makes it desirable to retained earnings rather than to pay them out if the investor will earn less on them.

Tax position of shareholders

The Tax position of stockholder also affects dividend policy. Corporations owned by largely taxpayers in high income tax bracket tend toward lower dividend payout where as corporations owned by small investors tend toward higher dividend payout.

2.1.4 Legal Provision Regarding Dividend Practice in Nepal

"Nepal company Act-1997" makes some legal provision for dividend payment, these provisions may be seen as under:-

Section 2: States that bonus shares (stock dividend) means share issued in the form of additional shares to the stockholders by capitalizing the surplus from the profit or the reserve fund of a company. The term also denotes as increase in the paid up values of the shares after capitalizing surplus or reserves.

Section 47: has prohibited company from purchasing its own share. The Section states that no company shall purchase its own shares or supply loans against the security of its own shares.

Section 137: Bonus shares and sub Section (1) states that the company must inform the office before issuing bonus shares under sub Section (1). This may be done only according to special resolution passed by the general meeting.

Section 140: Dividends and sub Sections of this Section are as follows:

Sub Sections (1): Except in the following circumstances dividend shall be distributed among the shareholders within 45 days from its date of decision to distribute them:

- (a) In case any law forbids the distribution of dividends.
- (b) In case the right to dividend is disputed.
- (c) In case dividends cannot be distributed within the time limit.

Mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company.

Sub Sections (2): In case dividend are not distributed within the time limit mentioned in Sub Sections (1), this shall be done by adding interest at the prescribed rate.

Sub Sections (3): explains that only the person whose name stands registered in the registrar of existing Shareholders at the time of declaring the dividend shall be entitled to it.

2.2 Review of Major Studies on Dividend Policies.

In this part the major studies on dividend stock prices, management views on dividend policy, and management view on stock dividends have been reviewed.

2.2.1 Linter's Study

J. Linter Conducted a study in 1956, which is focused in the behavioral aspect of dividend policy in the American context. He investigated a partial adjustment model as he tested the dividend pattern of 28 companies. He concluded that a major portion of the dividend of a firm could be expressed in the following way:

$$DIV^*_t = pEPS_t \dots\dots\dots (i)$$

$$\text{And } DIV_t - DIV_{t-1} = a + b (DIV^*_t - DIV_{t-1}) + e$$

Where,

DIV^*_t = Firm desired payment

EPS_t = Earning per share

- P = Targeted pay Out ratio
- A = Constant relating to dividend growth
- B = Adjustment factor relating to previous period's dividend and desired level of dividend ($b\Pi$).

Major findings of this research are as follows:

- Firms generally think in terms of proportion to be paid as dividend.
- Investment requirement are not considered for modifying the pattern of dividend behavior.
- Firms generally have target payout ratio in view while determining change in dividend per share.

2.2.2. E. Modigliani and M.H. Miller's Study.

Modigliani and Miller (Miller & Modigliani, 1991:411-433) advocated that dividend policy did not affect the value of the firm. It implies that dividend policy has no effect on the share price of the firm. They argued that the value of the firm depend on the firm earnings, which depend on its investment policy. Therefore as per MM theory, a Firm's Value is independent of dividend policy.

Their study of irrelevance of dividend is based on the following critical assumptions:

-) The firm operates in perfect capital market. Information is costless and readily available to all investor. Transaction cost and flotation cost do not exist All securities are infinitely divisible. Investors are assumed to rational and to behave accordingly.
-) There are no taxes
-) The firm has fixed investment policy
-) Risks of Uncertainty do not exist.

Modigliani and Miller provided the proof in support to their agreement in the following manner.

Step I

The market price of a share in the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the share at the end of the period.

Symbolically:

$$P_0 = \frac{D_1 + P_1}{1 + K_e}$$

Where,

P_0 = Market price at the beginning or at the zero period.

D_1 = Dividend per share to be received at the end of the period.

P_1 = Market price of share at the end of the period.

K_e = Cost of equity capital (Assume Constant)

Step II

Assuming that the firm does not resort to any external financing the market value of the firm can be computed as follow;

$$NP_0 = \frac{n(D_1 + P_1)}{1 + K_e}$$

Where,

n = Number of equity shares at zero period.

Step III

If the firm's Internal sources of financing on its investment opportunities fall short of the funds required and ζn is the number of new shares issued at the end of year 1 at price P_1 .

Then,

$$nP_0 = \frac{nD_1 + P_1(n + \zeta n) - \zeta n P_1}{1 + k_e}$$

Step IV

If the firms were to finance all investment proposals, the total amount of new share issued would be given the following equation:

$$\zeta n p_1 = I - (E - nD_1)$$

$$\zeta n p_1 = I - E + nD_1$$

Where,

$\zeta n P_1$ = the amount obtained from the sale of new shares to finance capital budget.

I = the total amount of required budget.

E = Earning of the firm during the period.

$E - nD_1$ = Retained Earnings.

Step V

By substituting the value of $\zeta n P_1$ from equation of step IV to equation of step II, we find,

$$NP_0 = \frac{nD_1 + p(n + \zeta n) - I + E - nD_1}{1 + ke}$$

Or,

$$n P_0 = \frac{p(n + n\zeta) - I}{1 + ke}$$

Step VI

The above equation gives the value of the firm; there is no role of dividend in the equation. So Modigliani and Miller concluded that dividend policy has no effect on the shares price.

In the way according to Modigliani and Miller study, it seems that under condition of perfect capital market, rational investors, absence of tax discrimination between dividend income and capital appreciation, given the firm's investment policy, its investment policy may have no influence in the market price of the share.

2.2.3 Myron Gordon's Study

Myron Gordon in his study concluded that dividend policy of a firm affect its value. In this model, he plead that investor were not indifferent between current dividend and retention of earnings. The conclusion of this study is that investors value the present dividend more than the future capital gains. His argument insisted that an increase in dividend payout leads to increase in the stock price. (Myron, 1962 vol. 3)

Hence investors required rate of return increase as the amount a dividend decrease. This means there is a positive relationship existing between the amounts of dividend and the stock prices.

His model is based on the following assumptions:

-) The firm is an all-equity firm.
-) No external financing is available.
-) Internal rate of return (r) and appropriate discount rate (k_e) are constant.
-) The firm and its stream of earning are perpetual.
-) The corporate taxes do not exist.
-) Retention ratio (b), once decided upon is constant.

Thus, growth rate (g) = br , is constant forever.

The discount rate is greater than growth rate, $K > br = g$.

Based on the above, Gordon had provided the following formula (which is simplified version of original formula) to determine the market value of share.

$$P = \frac{D(1-b)}{K-br}$$

Where,

- P = price of share.
- E = Earnings per share.
- B = Retention ratio.
- 1-b = percentage of the earning distributed as dividend.
- K = Capitalization rate or cost of capital
- Br = Growth rate r i.e. rate of return on investment of all equity firm.
- E (a-b) = Dividend per share.

This model shows the following facts:

In a growth firm, share price tends to decline in correspondence with an increase in payout ratio or decrease in retention ratio, i.e. high dividend corresponding to earning leads to decrease in share price. Therefore dividend and stock prices are negatively correlated in growth firm. In normal firm share value remains constant regardless of changes in dividend policy. It means dividend and stock price are free from each other in a normal firm i.e. $r = k$. In a declining firm share price tends to rise in correspondence with a rise in dividend payout ratio. It means dividend and stock price are positively correlated with each other in declining firm.

2.2.4 Walter's Study

Professor James E. Walter conducted a research in 1966 regarding dividend policy, in which he argues that value of the firm always affected by the dividend policy adopted by the firm. In this approach, investment policy of the firm is directly affected by the dividend policy adopted by the firm. In this approach, investment policy of the firm is directly affected by the dividend policy which is opposite to Modigliani and Miller approach.

His study is mainly focused to find out the relationship between internal rate of return and firm's cost of capital. By analyzing these two factors firm can allocate the total earning to dividend and retained earnings.

His model is based on the following assumptions.

1. The firm finances all investment through retained earning i.e. Debt or new equity not issued.
2. All earning are either distributed as dividend or reinvested immediately, i.e. no earning should be retained in the form of cash.
3. The firm's internal rate of return and cost of capital are constant.
4. Beginning earning per share and dividend never change.
5. Firm has very long or infinite life. (*Walter & March, 1966; 29-41*)

Based on this assumption, Walter formulated the related factors to determine the Market price of share.

$$P = \frac{DPS}{K} + \frac{r|k (EPS-DPS)}{K}$$

Where,

P = Market price per share.

DPS = Dividend per share.

EPS = Earnings per share.

r = Internal rate of return

k = cost of capital.

According to Walter's Model, the optimum dividend policy depends on the relationship between IRR and its cost of capital. His view on the optimum dividend payout ratio can be summarized as follows:

(I) Growth firm

If the internal rate of return is higher than the firm's cost of capital these firms are said to be growth firm. These firms assumed to have sufficient profitable investment opportunities. Such firms can maximize the value of the share by retaining all earnings for internal investment. Thus, the optimum payout ratio for a growth firm is zero.

(II) Normal firm

The firm having equal internal rate of return and cost of capital is known as normal firm. For these firms dividend policy does not affect the market value of the share. 'There is no unique optimum payout ratio for a normal firm. One dividend policy is as good as other. Market value per share is not affected by the payout ratio'. (Ibid,1997; 280)

(III) Declining Firm

Declining firms have lower IRR than firms cost of capital. Generally this firm's don't have any profitable investment opportunities. So, for these firms it is better to distribute all the earnings as dividend. Thus optimum payout ratio for declining firm is 100%. The market value per share increases as payout ratio increases.

2.2.5 Van Horne and Mc Donald's study

Van Horne and Mc Donald conducted more comprehensive study on dividend policy and new equity financing. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored some basic aspect of conceptual framework and empirical tests were performed during year 1968 for two industries, using a well known valuation model, i.e. across section regression model. The required data were collected from 86 electric utility firms on the COMPUSTAT utility data tape and 39 firms in the electronic and electronic component industries as listed on the COMPUSTAT industrial data tape. (Van Horne& Donald, 1971; 507-519).

They tested two regressions for the utility industrial. By using these models, they compared the result obtained for the firms that both pay dividends and engage in new equity financing with other firms in an industry sample. They concluded that for electric utility firms in 1968, shares value was no adversely, except for those in the equity financing in the presence of cash dividends, except for those on the highest new issue group and it made new equity a more costly form of financing than the recantation of earning. They also indicate that the payment of dividend through excessive equity financing reduce share price. For electronics, electronic components industry, a significant relationship between new equity financing and the value was no demonstrated.

2.2.6 Mark E. Holder, Frederick W. Langreher and J. Lawrence Hexter's study

Mark E. Holder, Frederick W. Langreher and J. Lawrence Hexter's investigated the influence of stakeholders on firm's dividend policy by examining the interaction between the dividend and investment policies. They proposed that both non- investor stakeholder and capital suppliers had an impact on firm are dividend policy. To test the preposition, they used more direct measures of free cash flow as way to relate dividend and agency costs and an objective smoothing procedure on the dividend payout ratio. Their results indicate that an interaction between the dividend and investment policies of a firm does exist.

They describe their econometric model and the variable used in the study. They used the regression equation below as the basis for testing their hypothesis of relationship

between the Net Organization Capital (NOC) of a firm and its dividend payout. To specify the model more fully, they included other variables based on previous research.

$$DP_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 LSALES_{it} + \beta_3 INS_{it} + \beta_4 LCSHR_{it} + \beta_5 FCF_{it} + \beta_6 GROW_{it} + \beta_7 STD_{it} + E_{it}$$

Where,

DP_{it} = Smooth dividend payout ratio for firm i in fiscal year t.

FS_{it} = Measure of the focus of firm i in year t.

$LSALES_{it}$ = Natural log of sales of firm i in year t.

INS_{it} = Residual of insider ownership for firm i in year t regressed on LSALES.

$LCSHR_{it}$ = Residual of natural log number of common shareholder for firm I in Year t regressed on LSALES.

FCF_{it} = Free cash flow for firm i in year t.

$GROW_{it}$ = sales growth of firm i for year t using the prior five year.

STD_{it} = Standard deviation of monthly returns of firm i in year t.

Finding of the study are as follows.

- The corporate focus is negatively related to dividend payout ratios.
- More focused firms (with fewer lines of business) tend to have lower dividend payout ratios
- The larger firms tend to have higher payout ratios than the smaller firms.
- When considering the influences of agency cost on payouts, they find that the greater the degree of inside ownership the Lower the payout; the larger the number of share holder, the higher the dividend payout ratio; and greater the free cash flow the higher the payout ratio.
- When Looking at transaction cost payout ratios are lower for firm that have higher standard deviation of returns and for the higher sales growth firms.

2.2.7 Deepak Chawla and G. Srinivasan's Study

This study is also focused on the impact of dividend and retention market price of stock. They estimated cross sectional relationship of 18 chemical and 13 sugar industries for the year 1963 to 1973. The basic objectives of the study are: (Chawla & Srinivasan,1987;137-140)

- (I) To set a model this explains the relationship between share price, dividend and retained earning.
- (II) To test the dividend and retained earning hypothesis
- (III) To examine the structural changes in the estimated relations overtime.

To achieve the about objectives they used simultaneous equation model as developed by Friend and Puckeet in 1964.

The unspecified form of model is as follows.

Price function

$$P_t = F(D_t, R_t, P/E_{t-1})$$

Dividend Supply Function:

$$D_t = F(E_t, D_{t-1}, P/E_{t-1})$$

Identity, $E_t = D_t + R_t$

Where,

- P = Market Price of Share
- D = Dividend per Share
- R = Retained Earnings per Share
- E = Earnings per Share
- P/E = Deviation from the Sample, average of price earnings ratio
- t = Subscript for time.

They used two stage least square techniques for estimation. They found that the estimated coefficient had a correct sign and coefficient of determination of all equation was higher in case of chemical industry. Which implies that the stock price and dividend paid variation can be explained by their independent variables. But in case of sugar industry the sign for retained earnings is negative.

From their study they concluded that both dividend and retained earnings significantly explain the variations in share price of the industry.

2.2.8 Friend and Puckett's Study.

Friend and Puckett (1964) conducted a study on the relationship between dividends and stock prices, by running regression analysis on the data of 110 firms from five industries in the year 1956 to 1958. These five industries were chemicals, electric utilities, electronics, food and steels. These industries were selected to permit a distinction made between the result for growth and non growth industries and to prove a basis for comparison with result by other authors for earlier years. They also considered cyclical and non-cyclical industries which they covered. The study periods covered a boom year for the economy when stock prices leveled off after rise (1956) and somewhat depressed year for the economy when stock prices however rose strongly (1958). (Fried and Puckett, 1964; 656-682)

They used dividends, retained earnings and price earnings ratio as independent variables in their regression model of price function. They used supply function, i.e. dividend function also. In their dividend function, earnings, last year's dividend and price earnings ratio are independent variables. They quoted that the dividend supply function was developed by adding to the best type of relationship developed by Linter.

Symbolically, their price function and dividend function are,

Price function: $P_t = a + bD_t + cR_t + d(E/P)_{t-1}$

Where,

P_t = Share price at time t.

D_t = Dividend at time t.

R_t = Retained earnings at time t.

$(E/P)_{t-1}$ = Lagged earning price ratio.

Dividend Supply functions:

$D_t = e + fE_t + gD_{t-1} + h(E/P)_{t-1}$

Where,

E_t = Earnings per Share at time t

D_{t-1} = Last year dividend

This study was based on the following assumptions:

- (i) Dividends do react to year to year fluctuations in earnings.
- (ii) Price doesn't contain speculative components.
- (iii) Earnings fluctuations may not sum zero over the sample.

Their regression results based on the equation of $P_t = a + bD_t + cR_t$ showed the customary strong dividend and relatively weak retained earnings effects in three of the five industries, i.e., chemicals, foods and steel. Again they tested other regression equations by adding lagged earning price ratio to the above equation and added the following equation.

$$P_t = a + bD_t + cR_t + d(E/P)_{t-1}$$

In this equation, they found the following result; they found that more than 80% of the variation in stock prices can be explained by three independent variables. Dividends have a predominant influence on stock prices in the same three out of five industries but they found the differences between the dividends and retained earnings coefficient are not quite so marked as in the first set of regressions. They also found that the dividends and retained earnings coefficient are closer to each other for all industries in both years except for steels in 1956, and the correlation are higher, again except for steels.

They also calculated dividends supply equation i.e.,

$D_t = e + fE_t + gD_{t-1} + h(E/P)_{t-1}$ and the dividend price equation for four industry groups in 1958. In their derived price equation it seems that there was no significant changes from those obtained from the single equation approach as explained above. They argued that the stock prices or more accurately the price earnings ratio does not have a significant effect on dividend payout. On the other hand, they noted that the retained earnings effect is increased relatively in three of the four cases tested. Further, they argued that their result suggests price effect on dividend supply are not a

serious source of bias in the customary derivation of dividend and retained earning effects on stock prices, though such a bias might be marked if the disturbing effect of short run income movements are sufficiently great.

Further, they lagged price as a variable instead of lagged earning price ratio and showed that more than 90% of variation in stock price can be explained by the three independent variables and retained earnings received greater relative weight than dividends in most of the cases. The only exception was steels and foods in 1958. They considered chemicals, electronics and utilities as growth industries. In these groups and retained earnings effect was larger than the dividend effect for both years covered. For the other two industries, namely food and steel, there were no significant systematic differences between the retained earnings and dividend coefficient.

Similarly, they tested the regression equation of $P_t = a + bD_t + cR_t$ by using normalized earning again. They obtained normalized retained earnings by subtracting dividends from normalized earnings. That normalized procedure was based on the period 1950-1961. Again they added prior year's normalized earning price variable and they compared the result. Comparing the result, they found that there was significant role of normalized earnings and retained earnings but an effect of normalized price earnings ratio was constant. When they examined the later equation, they found that the difference between dividend and retained earnings coefficient disappeared. Finally they concluded that management might be able to increase prices somewhat by raising dividends in food and steel industries.

They conducted more detailed examination of chemical samples. That examination disclosed that the result obtained largely reflected the under regression weighting given the three firms with price deviating most from the average price in the sample of 20 firms and retained earnings as a price determinant.

Finally, Friend and Puckett concluded that, it is possible that management might be able, at least in some measure, to increase stock prices in non growth industries by raising dividends and in growth industries by greater retention. i.e. low dividends.

2.2.9 H.K. Baker, G.E. Farrelly and Richard B. Edelman's Study:

H.K. Baker, Gail E. Farrelly and Richard B. Edelman Surveyed management view on dividend policy (H. Kent Baker, Gail E. Farrelly, Richard B. Edelman, 1985, p. 78-84). They asked corporate financial managers what they considered most important in determining their firm's dividend policy. The objectives of their survey were as follows:

1. To compare the determinants of dividend policy today with Linter's behavioral model of corporate dividend policy and to assess managements agreements with Linter's findings.
2. To examine managements perception of signaling and client effect.
3. To determine whether manager in different industries share similar views about the determinants of dividend policy.

The firms they surveyed were listed on the New York stock exchange and classified four digit standard industrial classification codes. Total of 562 NYSE firms were selected from three industrial groups, Utility (150), Manufacturing (309) and wholesale/retail (103).

They mailed questionnaire to obtain information about corporate dividend policy. The questionnaire consisted of three parts.

- (i) 15 closed end statements about the importance of various factors that each firm used in determining its dividend policy.
- (ii) 18 closed end statements about theoretical issues involving corporate dividend policy. and
- (iii) A respondent's profile including such items as the firm's dividend and earnings per share.

They send the final survey instrument to the chief financial officer of 562 firms, followed by the second complete mailing to improve the response rate and reduce potential non-response bias. Their survey yielded 318 usable responses (56.6% response rate), which were divided among the three industry groups as follow: 114 utilities (76%), 147 manufacturing firms (47.6%) and 57% wholesale/retail (5.3%). Based on dividend and earnings per share data provided by the respondents, the average dividend payout ratios were computed. They found that payout ratio of the

responding utility (70.3%) was considerably higher than for manufacturing (36.6%) and wholesale/retail (36.1%).

The results for this survey on the aspect of determinants of dividend policy were as follows:

The first highly ranked determinants are the anticipated level of firm's future earnings and the second factor is the pattern of the past dividends. They found the high ranking of these two factors is consistent with Linter's findings.

A third factor cited as important in determining dividend policy is the availability of cash.

A fourth determinant is concerned about maintaining or increasing stock price. They found this factor is particularly strong among utilities that ranked this second in importance.

Similarly, the results of their survey on the aspect of attitudes on theoretical issues were as follows:

-) Respondents from all three industry groups agreed relatively strongly the dividend payout affects common stock prices.
-) The respondents from all three industry groups agreed, on average, that dividend payout provide a signaling device of future company prospects and that the market uses dividend announcements as information for assessing security value.
-) The respondents also demonstrated a high level of agreement that the reason for dividend policy changes should be adequately disclosed to investors.
-) Respondents from all three industry groups thought that investors have different perceptions of the relative risks of dividends and retained earnings and hence are not indifferent between dividend and capital gain returns.

2.3 Review of Journal and Articles.

A study done by Pradhan an outstanding study related to stock market behavior (Prahdan, 1993; 23-49). In this study he collected the data of 17 enterprises from the year 1986 to 1990. The objectives of the study are:

- (i) To access the stock market behavior in Nepal.
- (ii) To examine the relationship of market equity, market value, price earnings and dividend with liquidity, profitability, leverage assets turnover and interest turnover.

The conclusion of the study related to dividend behavior is as follows.

- (i) Higher earning on stock leads the larger ratio of DPS.
- (ii) Stock with larger ratio of dividend per share to market price have lower leverage ratio.
- (iii) Positive relation between the ratios of DPS to market price and interest coverage.
- (iv) Positive relationship between dividend payout and turnover ratios.
- (v) Positive relation between dividend payout and liquidity.
- (vi) Positive relationship between dividend payout and profitability.
- (vii) DPS and MPS are positively correlated.

A study done by Shrestha "Shareholder's democracy and annual general meeting feedback" deals with the policies and financial performance of some financial institution of Nepal, which contains Dr. Shrestha's view expressed in annual general meeting of financial institutions. The paper presented by him on fifth annual general meeting of Nepal Arab Bank has been presented here.

In his view the common problems and constraints of the shareholders are as follows:

- (i) The cost plus inflation at exorbitant rate has made the shareholders to expect higher return from their investment.
- (ii) Multiple decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- (iii) Erosion in purchasing power of the income has made it clear that dividend payment must be directed to enhance shareholder's purchasing power by raising dividend payment ratio on the basis of both earnings and cost theory.
- (iv) Indo-Nepal trade and transit deadlock has become a sort economic welfare putting rise in the cost of living index to a considerable extent. This is a reason which made shareholders to expect higher demand for satisfactory dividend.

- (v) The waiting of 5 years with payment dividend in previous years is equally a strong enforceable reason of bank's shareholder to expect handsome dividend already assumed and committed in various reports of the earlier annual general meeting.
 - (vi) One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board is a way that higher return must be the investment rule. For higher risk takers that compromise bank's shareholders.
- At the end of the paper, Mr. Shrestha states that the banks are trying its best to satisfy shareholders and employees as well.

Another article published by K.D. Manandhar describes about the relationship of dividend payout to other financial factors based on the data of 7 commercial banks, 5 finance and insurance companies, 2 trading companies, 2 service oriented companies and 1 manufacturing company for the year 1987 to 1998. (Manandhar, 2000;5-12).

Following are the major findings of the study.

- (i) Significant relationship is found between change in dividend policy in terms of dividend per share and change in lagged earnings.
- (ii) There is relationship between distributed lagged profit and dividend.
- (iii) The difference is found significant between overall proportion of change dividend and due to increase and decrease in EPS during the study period.
- (iv) In overall increase in EPS has resulted to increase in the dividend payment in 66.6% of the case while decrease in EPS resulted decrease in dividend payments, which come to equal to 33.3% of the cases.
- (v) It is found that Nepalese corporate firms have followed the practice of maintaining constant dividend payments per share in EPS as reflected by the total percentage of constant and increase dividend payment of 78.33% of the cases. In other words firms are reluctant to decrease dividend payment.
- (vi) In overall Nepalese corporate firms are found reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and signaling effects of dividend relating to the firm's continued progress and performance sound financial strength favorable investment environment, lower risk, ability to maintain sustained dividend rate and finally to increase the market price of the stocks in the stock market.

2.4 Review of Previous Research

There are few theses available which have looked into corporate dividend behavior. The available thesis reviewed as follows:

A comparative study of dividend policy in commercial banks conducted by **Mr. Rishi Raj Gautam(1998)** was carried out by using the secondary data of three commercial banks.

Objectives of the study are as follows:

-) To identify what type of dividend policy is being followed and find out whether the policy followed is appropriate or not.
-) To examine the impact of dividend on share prices.
-) To identify the relationship between DPS and other financial indicators.
-) To know if there is any uniformity among DPS, EPS and DPR of the three sample commercial banks.

Major findings of the research are as follows:

1. Average earnings per share and dividend per share of all concerned banks are satisfactory.
2. Analysis indicates that there is the largest fluctuation in EPS and DPS, on the other hand have relatively more consistency dividend per share in all the sample banks.
3. No commercial banks seen to be guided by cleanly defined dividend strategy in spite of the good earnings and potentials.
4. Share of financial institution are actively traded and market prices are increasing.
5. Commercial banks represent a robust body of profit earnings organization in comparisons to the other sectors such as manufacturing, trading etc.
6. The most striking findings of this study have clearly defined dividend strategy on the other hand there is significant relationship perceives between earnings and dividend of expansion program.
7. It is necessary to research about the dividend policy in joint venture commercial banks take large number of sample and do wide spread analysis in above variables.

Prerana Laxmi Rajbhandari(2001) has conducted a study on dividend policy. A comparative study between banks and insurance companies through data collected from 1994/95 to 1998/99 with 3 joint venture commercial banks and 3 insurance companies in May, 2001.

The main objectives of the research were:

-) To examine the relationship between dividend and market price of the stock.
-) To identify the appropriate dividend policy followed by the banks and insurance companies.
-) To analyze the relationship between dividend policy decision of banks and insurance companies.

Major Findings are as follows:

1. The average DPS and all concerned institution except NABIL and EPS of all sample institution seem satisfactory.
2. The analysis of coefficient of variation shows that there is the largest fluctuation in EPS and DPS. Other companies have seemed to be relatively more consistent.
3. The analysis of dividend payout ratio shows, none of the banks or insurance companies has constant payout ratio each year.

A study done by **Navaraj Adhikari (2007)** corporate dividend practices in Nepal". using primary as well as secondary data.

The objectives of the study are:

-) To analyze the properties of portfolios formed on dividend.
-) To examine the relationship between dividend and stock prices.
-) To survey the opinions of financial executives on corporate dividend practices.

Major findings of the study are as follows:

-) There are differences in financial position of high dividend paying and low dividend paying companies.

-) The stocks with longer ratio of dividend per share to book value per share have higher liquidity. It has more variable as compared to stock paying lower dividends. Other thing remaining the same, other thing remaining the same, financial position of high dividend paying companies are comparatively better than that of low dividend paying companies.
-) Another interesting conclusion is that market price of stock is affected by dividend for finance and non finance sectors differently.
-) There is positive relationship between dividend and stock price.
-) There is negative relationship between dividend payout and earnings before tax to net worth.
-) Stocks with larger ratio of DPS to book value per share have higher profitability. These profitability ratios of stocks paying large dividends are also some variable as compared to stocks paying smaller dividends.
-) The companies paying higher dividend are reluctant to employ high degree of leverage in their capital structures.
-) The stocks with larger ratio of dividend per share to book value per share have also higher turnover ratio and higher interest coverage.

Some findings through primary data:

-) With respect to factors affecting corporate dividend policy, the majority of the respondents give the first priority to "earnings", the second to availability of cash and the third to past dividend and fourth to concern about maintaining or increasing stock price.
-) Dividend payout affects the price of common stock.
-) As regards dividend as a residual decision, the majority of the respondents feel that it is not a real residual decision.
-) With respect to major motives for paying cash dividend, the majority of the respondent feels that it is to convey information to shareholders that the company is doing good.
-) Nepalese shareholders are not really indifferent towards payout or nonpayment of dividend.
-) One of the major findings is that earning announcement helps to increase the market price of share.

Pawan Kumar Jha (2007) has performed a thesis on "Study on Dividend policy A comparative study between banks, insurance companies and financial institution, with eight years data relating to dividend policy from 2053/54 to 2061/62.

His main objectives of the work are as follows.

-) To highlight dividend practice of the bank, insurance and financial companies.
-) To analyze the relationship of dividend with various important variables.

Major findings to the study are:

1. Nepalese government NRB, SEBON, NEPSE should be conscious to discourage market imperfection.
2. Companies should have long term policy regarding the adoption of suitable dividend policy.
3. Even if not earning has been increasing, the dividend per share has widely fluctuated. Distribution of bonus share should be pre-evaluated.
4. There needs a proper information discloser to the investor.

Surendra Bista's Study (2008) presented his dissertation "Dividend Policy and Practices in Nepal". A comparative study of listed joint ventures commercial banks and manufacturing companies. Through data collected from 1999 to 2005 with three joint venture banks out of the three manufacturing companies in 2006.

The major objectives of the study were:

-) To examine the relationship between dividend and market price of the stock.
-) To identify the appropriate dividend policy followed by the banks and manufacturing companies.
-) To analyze the relationship between dividend policy decision of bank and manufacturing companies.

Major Findings are follows:

1. The banks and manufacturing companies do not follow any specific dividend policy. DPR are fluctuating over the periods of those selected companies.
2. MPS do not follow any specific trend, it fluctuates the future price.
3. There is not any specific trend of EPS in the companies.
4. There is great difference between market price per share and book value per share.

2.5. Research Gap

The purpose of this study is to draw some ideas concerning to the dividend policy and to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation. In this context, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. It is clear that the reference of new research can't be found on the exact topics, i.e. "Dividend policy of Nepalese Commercial Banks (A comparative study)" therefore to complete this research work, many books, journals articles and various published and unpublished dissertations and field opinion are followed as guideline to make the research easier and smooth through these reference materials. The researcher can find out the gapping from the past research that has to be fulfilled by the present research work.

This is a new topic for the research work. It is expected that the uncovered areas of this research work will be studied. The gapping between old and new research work will be focused and filled up based on the given objectives and limitation in this research.

CHAPTER -THREE

RESEARCH METHODOLOGY

3. INTRODUCTION

Research methodology is the research method used to test the hypothesis. In designing methodology for a thesis project the following element should be taken into account. They are research design, population and sample, sources of data, data collection technique and presentation and analysis of data. Research methodology is the way to solve the research problem systematically.

"Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view"

"Research methodology is a vital and absolutely indispensable part of social scientific and educational research. Without research methodology modern social scientific and educational research would still be in the dark age."

3.1 Research Design

Research design is the main part of thesis or any research work. "By research design we mean an overall frame work or plan for the collection and analysis of data". Research design presents a series of guide posts to enable the researcher to progress in right direction in order to achieve the goals. The study tries to evaluate the dividend policy of some selected joint venture banks.

"Research design is the plan, structure and strategy of investigation concerned so as to obtain answers to research questions and to control variances". Research design is conceptual structure within which a research is conducted. It is a purposeful scheme of action proposed to be carried out in sequence during the process of research. This study is descriptive, analytical and comparative employing various historical secondary data for the analysis of dividend pattern of Nepalese commercial banks.

3.2 Population and Sample

The term "Population" or "Universe" for research means all the members of any well defined class of people, events or objects, organization or firms. The population

means aggregate or the entire group. Population consists of large group. Due to its large size it is difficult to collect detailed information. So a sub-group is chosen that is believed to be representative of the Population. The sub- group is called a sample. The sample allows the researchers more time to make an intensive study of a research problem. Good sampling techniques can save the researchers time and money. There are twenty five commercial banks in Nepal, since it is very difficult to study of them, only five sample banks has been taken for research. Total commercial banks in Nepal are as follows:

S.N.	Name of Bank	Established Date	Head Office
1.	Nepal Bank Ltd.	1994/07/30	Kathmandu
2.	Rastriya Banijya Bank Ltd.	2022/10/10	Kathmandu
3.	Standard Chartered Bank Nepal Ltd. (Previously Nepal Grind Lays Bank Ltd.)	2042/11/16	Kathmandu
4.	Nepal Arab Bank Ltd.(NABIL)	2041/03/29	Kathmandu
5.	Himalayan Bank Ltd.	2049/10/05	Kathmandu
6.	Everest Bank Ltd.	2051/07/01	Kathmandu
7.	Nepal State Bank of India (NSBI)	2050/03/23	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	2050/02/23	Kathmandu
9.	Bank of Kathmandu	2051/11/28	Kathmandu
10.	Kumari Bank Ltd.	2056/08/24	Kathmandu
11.	Machhapuchhre Bank Ltd.	2057/06/17	Pokhara
12.	Siddhartha Bank Ltd.	2058/06/12	Kathmandu
13.	Laxmi Bank Ltd.	2058/06/11	Birjung
14.	Lumbini Bank Ltd.	2057/06/11	Narayangadh
15.	Nepal Industrial and Commercial Bank Ltd.	2055/04/05	Biratnagar
16.	Nepal Credit and Commerce bank Ltd. (NCC)	2053/06/28	Siddharthanagar
17.	Nepal Investment Bank Ltd.	2042/11/16	Kathmandu
18.	Global Bank		Birjung
19.	Prime Bank	2064/06/07	Kathmandu
20.	Citizens Bank	2064/01/07	Kathmandu
21.	Sunrise Bank	2064/06/25	Kathmandu
22.	Bank of Asia	2064/06/25	Kathmandu
23.	Agriculture Development Bank Ltd.	2062/03	Kathmandu
24.	Development Credit Bank Ltd.	2065/02/12	Kathmandu
25.	NMB Bank Ltd.	2065/02	Kathmandu
26.	KIST Bank Ltd.	2066/01	Kathmandu

The sample bank selected for analysis is as follows:

- (i) NABIL Bank Limited.
- (ii) Himalayan Bank Limited.
- (iii) Nepal Investment Bank Limited.
- (iv) Standard Chartered Bank Ltd.
- (v) Everest Bank Limited.

3.3 Source of data

There are two types of source of data

- (a) Primary source
- (b) Secondary source

This study on dividend policy "Dividend policy of commercial banks of Nepal" is based on Secondary source of data. The required data have been collected from Nepal stock exchange i.e. from the web page www.nepalstock.com. Other information is collected from different books, Annual reports, and web pages of concerned Banks, Library and newspapers as required.

3.4 Data Collection Procedure

Data required for this research is collected through published statistical report, available books, journals, newspapers and WebPages. Similarly, the relevant data and the important information have been collected from the library and references of Patan Multiple campus, Patan Dhoka, Lalitpur. Other necessary information has been taken from the individual investors, related organizational officials, NEPSE staffs and other related personalities as well. Beside this, related websites like www.nepalstock.com, www.fncci.com and www.nrb.org are also used for data collection.

3.5 Method of Analysis

Specific financial and statistical tools are used in this research. The analysis of data is done according to pattern of data available. The relationship between different variables related to study topic would be drawn out by financial and statistical tools. The calculated results are tabulated under different heading for ease of reading and then they are compared with each other to interpret results. In this study simple regression analysis has been used to analyze the effect of

independent variable on dependent variable. It helps in studying the effect and magnitude of the single independent variable in one dependent variable to determine whether the variable of DPS is related to dividend decision.

3.6 Data Analysis Tools

3.6.1 Financial tools used for Analysis

1) Earnings per share (EPS):-

EPS is calculated to know the earning capacity and to make comparison between concerned companies.

It is defined as the result received by dividing net profit after taxes by number of common stock outstanding.

$$\text{EPS} = \frac{\text{Net profit available to equity shareholder}}{\text{Number of common shares outstanding}}$$

2) Dividend per share (DPS):-

The part of earnings distributed to the shareholders as per share basis is known as DPS. It is the amount calculated by dividing the total dividend with total numbers of share outstanding.

$$\text{DPS} = \frac{\text{Total Dividend}}{\text{Number of common share outstanding}}$$

3) Dividend in percent:

Dividend in percent indicates the ratio of dividend per share to the paid up price per outstanding share. It is obtained by dividing dividend per share by paid up price per share.

$$\text{Dividend in percent (\%)} = \frac{\text{Dividend per share}}{\text{paid up price per share}}$$

4) Dividend Pay-out Ratio (DPR):

The percentage of the profit on share that is distributed as dividend is called dividend payout ratio (DPR). It is the result received by dividend DPS by EPS.

$$\text{DPR} = \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

5) Price Earnings Ratio (P\E Ratio)

P/E Ratio expresses the amount currently paid to each rupee of currently reported by the balance sheet of company's earnings per share by the market. It is calculated using the following formula.

$$\text{P\E Ratio} = \frac{\text{Market value per share (MVPS)}}{\text{Earning per share (EPS)}}$$

6. Dividend Yield:

Dividend yield may define as the ratio of dividend per share to the market value per share. It is also expressed in terms of the market value per share. IT is the result obtained by dividing DPS by the MVPS.

$$\text{Dividend Yield} = \frac{\text{Dividend per share (DPS)}}{\text{Market Value Pre Share(MVPS)}}$$

7. Market Value Per Share to Book value per share Ratio

This ratio reflects the price of the market or outsiders are paying for each rupee of currently or reported by the company. It is calculated by the dividing the market value per share by book value per share.

$$= \frac{\text{Market Value Pre Share (MVPS)}}{\text{Book value per share (BVPS)}}$$

8. Liquidity Ratio:

This ratio is calculated through dividing total assets by total Liability.

$$\text{Liquidity Ratio} = \frac{\text{Total Assets}}{\text{Total Liability}}$$

9. Profitability ratio

Profitability ratio shows the combined effects of liquidity asset management and debt management on operating result. It measures the earning of the company for a certain period. Profitability ratio is calculated by dividing net asset to capital employed.

$$\text{Profitability ratio} = \frac{\text{Net Asset}}{\text{Capital Employed}}$$

3.6.2 Test of hypothesis

A hypothesis is supposition made as a basic for reasoning in testing of hypothesis; an assumption is about the population parameter.

To test whether the assumption of hypothesis is tight or not; a sample is selected from the population, sample statistic is obtained, observed the difference between the sample mean and the population hypothesized value, and test whether the difference is significant or in significant. Smaller difference, the sample mean is close to the hypothesized value, and larger the difference, the hypothesized value has low chance to be correct. The hypothesis of this research work as follows:

(I) Hypothesis First

Null Hypothesis (H_0): There is no significant difference in DPS on Sample joint venture banks.

Alternative Hypothesis (H_1): There is significant difference in DPS on Sample joint venture banks.

(II) Hypothesis Second

Null Hypothesis (H_0): There is no significant difference in EPS on Sample joint venture banks.

Alternative Hypothesis (H_1): There is significant difference in EPS on Sample joint venture banks.

(III) Hypothesis third

Null hypothesis (H_0): There is no significant difference in DPR on Sample joint venture banks.

Alternative Hypothesis (H_1): There is significant difference in DPR on Sample joint venture banks.

3.6.3 Statistical Tools Used

The research holds many Statistical Tools which are as follows

(i) Mean or Average (\bar{x}):

Mean or Average value is a single value within the range of the data that is used to represent all of the value in the series. Since the average is somewhere within the range of the data, it is also called a measure of central tendency. In this study, the data related to dividend are tabulated and drawn out average over different year.

$$\text{Mean } (\bar{x}) = \frac{\text{Sum of the values of Observation } (\phi X)}{\text{Total number of Observation } (N)}$$

(ii) Standard Deviation (Ξ)

Standard Deviation (Ξ) is the most important and widely used measure of study dispersion. It measures the absolute dispersion. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series, and vice-versa. The data related to dividend of sample joint venture banks are tabulated and observed the uniformity and homogeneity of the series after obtaining their respective standard deviation.

$$\text{Standard Deviation } (\Xi) = \sqrt{\frac{\phi(x - \bar{x})^2}{N}}$$

Where, |

Ξ = standard deviation

$\phi(x - \bar{x})^2$ = sum of mean deviation square

N = Total number of Observation

(iii) Coefficient of Variation (CV)

Coefficient of Variation is the most commonly used measure of relative Variation. It is used in such problems where we want to compare the Variability of the two or more than two series. The series for which the coefficient of Variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which coefficient of Variation is less is said to be less variable or more consistent, more homogeneous. Coefficient of Variation is denoted by C.V. and is obtained as follows.

$$C.V. = \frac{\exists}{\bar{x}} \times 100\%$$

Where,

C.V. = Coefficient of Variation

\exists = Standard deviation

\bar{x} = Arithmetic Mean.

Less the C.V. more will be the uniformity; consistency and more the C.V. less will be the uniformity, consistency.

(v) Correlation coefficient (r)

The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variable. "Correlation Analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another". It is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to +1. If both variables are constantly changing in similar direction, the value of correlation coefficient will be +1 indicative of perfect positive correlation. When the coefficient will be -1 two variable takes place in opposite direction. The correlation is said be perfectly negative.

In this study, simple correlation coefficient in used to examine the relationship of different factors with dividend and other variable. The data regarding dividend over different years are tabulated and their relationship with each others are drawn out. In practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very remote.

It is calculated as follows:

$$r = \frac{N\phi XY - \phi x\phi y}{\sqrt{N\phi x^2 - (\phi x)^2} \sqrt{N\phi y^2 - (\phi y)^2}}$$

Where,

r = correlation coefficient

X = independent variable

Y = dependent variable

N = number of periods.

V. coefficient of Multiple Determinations (r^2)

The coefficient of Determinations is a measure of the degree of linear association or correlation between two or more independent variable. If r^2 has a zero value then, it indicates that there is no correlations which means all the data points in scattered diagram fall exactly on regression line. If it has a value equal to 1 then it indicates that there is perfect correlation and as such the regression line is a perfect estimator. But in most of the cases the value of r^2 will lie somewhere between these two extremes of 1 and 0. One should remember that r^2 close to 1 indicates a strong correlation between two variables and r^2 near to zero means there is a little Correlation. It is symbolically indicated as r^2 . Though some would prefer to put it as R^2 the coefficient of determination value can have ranging between zeros to one. A value of one can occur only if the unexplained variation is zero which means that all the data points in the scatter diagram fall exactly on the regression line. If r^2 is 70%, it indicates that the independent variable explain 70% of the total variation in the dependent variable.

$$R^2 = \frac{1 - \text{unexplained variation}}{\text{total variation}}$$

Regression Analysis

Regression Analysis is widely used statistical tools. Simply, using the relationship between a known variable (independent) and an unknown (Dependent variable to estimated the unknown one is termed as regression analysis. But in real life, so many independent variables do affect the dependent variable and any study of correlation must take all variables into consideration. Such relationship between a single dependent variable and number of independent variable in combinations is known as multiple regressions. The regression line describes the average relationship existing between x and y variables, i.e. it display mean values of x for given value of y, the equation of this line, as the regression equation provides estimates of the dependent variables when values of the independent variable are inserted into the equation.

The regression equation y on x is expressed as;

$$Y = (a + bx)$$

Where,

Y =Dependent variable

X = independent variable

a = y-intercept or regression constant

b = Slope of line or regression coefficient

Both 'a' and 'b' in the equation are called numerical constant because for any given straight line, their value does not change: the value of 'a' and 'b' are obtained by solving the following simultaneous equation.

$$\phi_y = N_a + b\phi_x \quad \dots\dots\dots (I)$$

$$\phi_{XY} = a\phi_x + b\phi_x^2 \quad \dots\dots\dots (II)$$

Regression Constant (a)

Regression constant (a) is also called the intercept because its value is the point at which the regression line crosses the axis. It indicates the average. The Regression constant (a) which is the intercept of the model, represents the average level of dependent variable which independent variable has a value of zero. In other words, it can be termed as an indicator which specifies average effect on dependent variable if all the variables are omitted from the model. This term has practical meaning only if a zero value for the independent variable is possible.

Regression Coefficient (b)

The regression coefficient (b) is a parameter which indicates the marginal relationship between independent variable and the value of dependent variable holding constant the effect of all other independent variable in the regression model. The coefficient specifies a part of change in the dependent variable regarding part of change in the independent variable.

T-Test: In case of small sample where 'n' is less than 30, we make use of 't' distribution. It is used for finding more appropriately the two limits where in the estimate would probably lie. For applying t- test first of al 't' value should be calculated and compared with the table value of 't'. At a certain level of significance for given degree of freedom, if the calculated value of 't' exceeds the table value, (say

0.5), we know that the difference is significant at 5% level, but if 't' is less than the concerning table value of the 't' the difference is not treated as significant.

(viii) F-Test

F-Test is a technique which is generally known as the variance ratio and is mostly used in context of analysis of variance. F-test is used to identify the significance of difference between more than two sample means from same normal population with equal variance. In case of F-test, there is no assumption of equality of variances as it was in case of t-test. So one way ANOVA is used to examine the equality between sample variances.

(ix) Standard Error of Estimate (SEE):

Standard Error of Estimate measures the line variability or scatter of the observed values around the regression line. It also measures the reliability after finding the regression. If the Standard Error of Estimate happens to be zero, then there is cent percent estimator. In other words, the estimating equation of the dependent variable is a perfect estimator. It is possible for us to ascertain how good and representative the regression line is as description of the average relationship between two series. It is worked out as under. The square root of the Se is also known as the variance of the error term, which is the basic measure of the reliability.

$$Se = \sqrt{\frac{\phi e^2}{n-2}}$$

Where,

e = the error term

Se = Standard Error.

N = Number of observation

(X) Probable Error (PE) :

Probable Error of the correlation coefficient is denoted by P.E is the measure of testing the reliability of the calculated value of 'r'.

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

- (i) if $r < P.E.$, it is insignificant. So perhaps there is no evidence of correlation.

- (ii) if $r > P.E.$, it is significant. The PE of correlation coefficient may be used to determine the limits within which the population correlation lies. Limit for the population correlation coefficient are $r \pm P.E.$

3.6.4 Limitations of Methodology

- (i) The analysis is based on secondary data.
- (ii) Only five commercial banks are taken as sample companies.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

The presentation and analysis of data is the major part of the research study. The analysis of data has been done according to the data available. The analysis includes several tools and techniques such as financial and statistical tools plus the attitudes of management towards dividend decision. The basic objectives of the study have been already mentioned in Chapter-I, Introduction. In the same way in Chapter -II, Review of Literature, past studies are reviewed and conceptual framework based on this study has been already done. In order to achieve those objectives several tools and techniques are implied that are defined in chapter - III, Research Methodology. The presentation and analysis of data is a core of the research which leads to the major findings and helps to fill up the existing gaps. The main focus of the study on dividend policy of joint venture commercial banks in Nepal. Here, related data had been taken for description analysis, comparative analysis and inferential analysis.

This chapter begins with the analysis of Dividend Per Share (DPS), Earning Per Share (EPS), Price Earnings Ratio (P/E Ratio), Dividend Payout Ratio (D/P Ratio), Market Value Per Share (MVPS), Dividend Yield (D/Y). The statistical tools i.e. Mean, Standard Deviation and coefficient of variation are calculated and interpreted with the help of which financial indicators of concerned banks are compared. The tests of hypothesis on significance of DPS, EPS and D/P Ratio on sample commercial banks are done. At the end of this chapter correlation and regression analysis of some specific components have been made.

4.1 Analysis of Financial Indicators and Variables

4.1.1 Earning Per Share (EPS) and Dividend Per Share (DPS) Analysis

Table 4.1(a) EPS of Respective Banks

Year	SCBNL	NABIL	HBL	NIBL	EBL	Pooled Average
2002/03	149.30	84.66	49.45	39.56	29.9	70.57
2003/04	143.55	92.61	49.05	51.7	45.57	76.50
2004/05	143.95	105.49	47.91	39.5	53.4	78.05
2005/06	175.84	129.21	59.24	59.35	62.78	97.28
2006/07	167.37	137.08	60.66	62.57	78.41	101.22
Average	156	109.81	53.26	50.54	54.01	84.72
St. Dev.	14.73	22.73	6.15	10.79	18.20	14.52
C.V. %	9.44	20.70	11.55	21.36	33.70	19.35

Source: www.nepalstock.com

Figure 4.1(a) EPS of Banks under study.

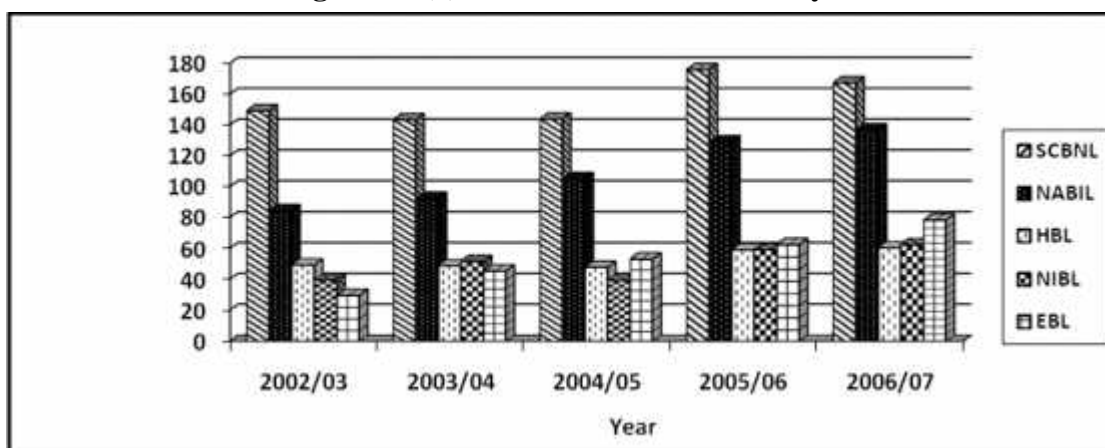
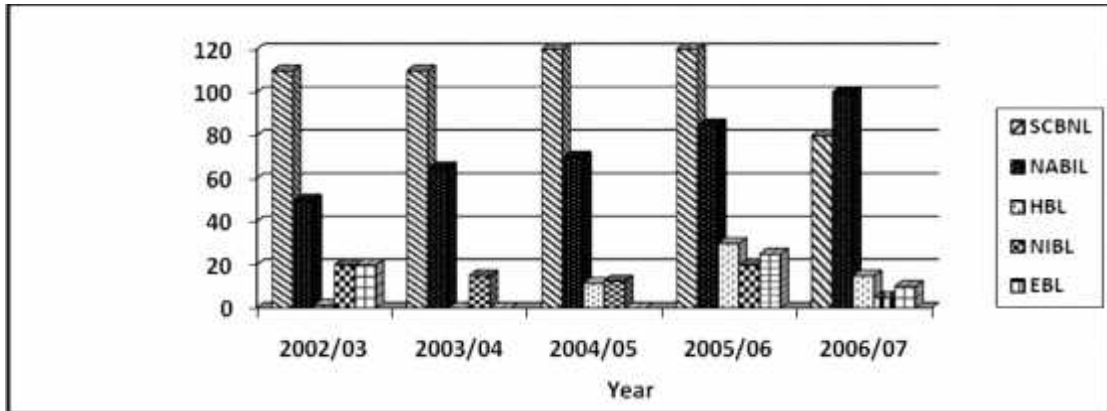


Table 4.1(b) DPS of Respective Banks

Year	SCBNL	NABIL	HBL	NIBL	EBL	Pooled Average
2002/03	110	50	1.31	20	20	40.26
2003/04	110	65	0	15	0	38.00
2004/05	120	70	11.58	12.5	0	42.82
2005/06	120	85	30	20	25	56.00
2006/07	80	100	15	5	10	42.00
Average	108.00	74.00	11.58	14.50	11.00	43.82
St. Dev.	16.43	19.17	12.15	6.22	11.40	13.08
C.V. %	15.21	25.91	104.95	42.93	103.65	58.53

Source: www.nepalstock.com

Figure 4.1(b) DPS of Banks under study.



Above table shows the amount of earning per share and dividend per share paid by the banks from the year 2002/03 to 2006/07.

Starting from the year 2002/03 SCBNL has the highest EPS than other banks, which paid higher dividend also in comparison with other banks. the lowest earning made by EBL but it paid higher amount of dividend than HBL.

In 2003/04 the EPS of SCBNL and HBL slightly decreased and increasing trend of other three banks continues. But NIBL paid lower DPS in comparison with previous year. HBL and EBL haven't paid dividend. Although the EPS of SCBNL is decreased in this year it paid constant dividend. The DPS of NABIL is increased as increase in EPS.

The data related to the year 2004/05 shows the increase in EPS except NIBL and HBL. But the amount of dividend is increased in case of SCBNL, NABIL and HBL. EBL haven't paid dividend this year also despite of increase in EPS, NIBL has decreased the amount of dividend in this year also.

It can be observed the remarkable increase in EPS of all five banks in the year 2005/06, as a result DPS is also increase, but SCBNL has paid constant dividend in comparison with previous year.

In the year 2006/07 the EPS of NABIL, HBL, NIBL and EPS is increased but in case of SCBNL it is increased. In this year DPS of NABIL is increased while other four banks reduced dividend payment.

On the average, SCBNL has the highest EPS. NABIL, EBL, HBL and NIBL come after SCBNL respectively. The pooled average is 84.72, which is quite satisfactory.

Since the average of EPS of SCBNL is highest among all five banks it has been able to pay considerably higher amount of dividend to its shareholder in comparison with other four banks. HBL have the lowest EPS in average among all five banks.

Without considering the rate of fluctuation the analysis of EPS and DPS cannot be completed, for this we can observe the coefficient of variation. It can be observed that the CV of SCBNL is lowest (15.21%) in comparison with other banks and the CV of HBL and EBL are 104.95% and 103.65 which is almost seven times higher than that of SCBNL which shows the great fluctuation in EPS of HBL and EBL while NABIL and NIBL has the lower degree of fluctuation in EPS in comparison with these two banks.

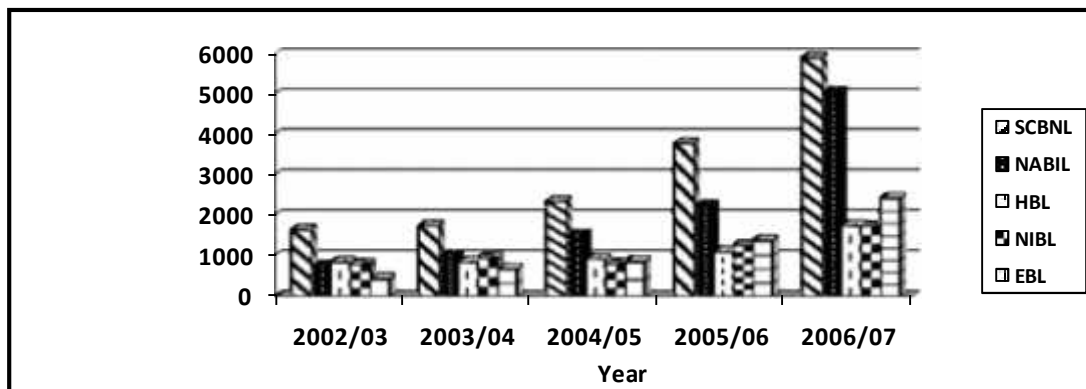
4.1.2 Market Price per Share (MPS) Analysis

Table 4.2 Market Price Per Share of Respective Banks

Year	SCBNL	NABIL	HBL	NIBL	EBL	Pooled Average
2002/03	1640	735	836	795	445	890
2003/04	1745	1000	840	940	680	1041
2004/05	2345	1505	920	800	870	1288
2005/06	3775	2240	1100	1260	1379	1951
2006/07	5900	5050	1740	1729	2430	3070
Average	3081	2106	1087	1105	1161	1708
St. Dev.	1791.05	1742.78	380.29	396.78	788.45	1019.87
C.V. %	58.13	82.75	34.98	35.91	67.92	55.94

Source : www.nepalstock.com

Figure 4.2 MPS of banks under study



Above table shows the amount of market price per share of the banks from the year 2002/03 to 2006/07.

Starting from the year 2002/03 SCBNL has the highest MPS than other banks. EBL has the lowest MPS. In 2002/04, the MPS of all sample banks increased.

The data related to the year 2004/05 shows the increase in MPS except NIBL. It can be observed from the remarkable increase in MPS of all five banks in the year 2005/06 and 2006/07.

On the average, SCBNL has the highest MPS. NABIL, EBL, NIBL and HBL come after SCBNL respectively. The average of pooled average is 1708, which is quite satisfactory.

Without considering the rate of fluctuation, the analysis of MPS cannot be completed, for this we can observe the coefficient of variation. It can be observed that the CV of HBL is lowest (34.98%) in comparison with other banks and the CV of NABIL is 82.75% higher than other bank. This shows the great fluctuation in MPS of NABIL while HBL and NIBL have the lower degree of fluctuation in MPS in comparison with other banks.

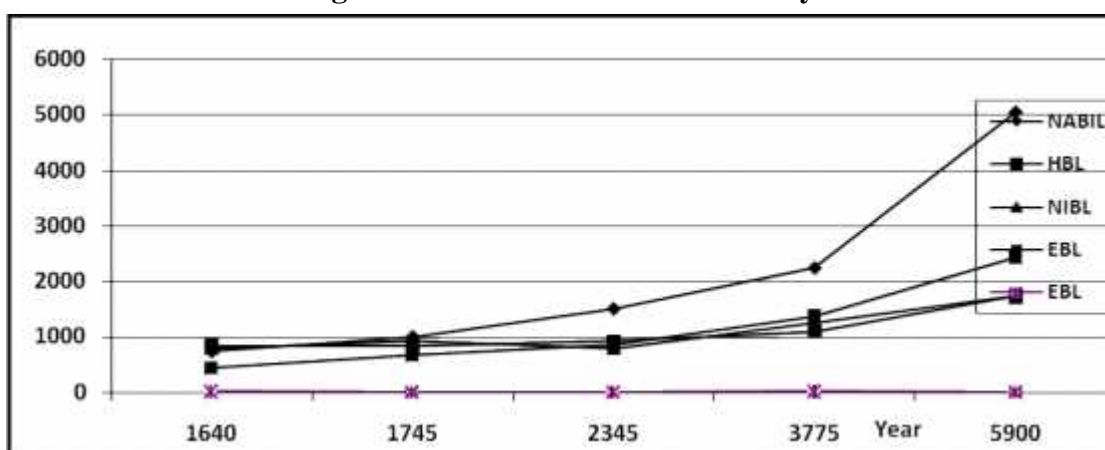
4.1.3 Dividend Payout Ratio (DPR) Analysis

Table 4.3 Dividend Payout Ratio of Respective Banks

Year	SCBNL	NABIL	HBL	NIBL	EBL	Pooled Average
2002/03	73.68	59.06	2.65	50.56	66.89	50.57
2003/04	76.63	70.19	0.00	29.01	0.00	35.17
2004/05	83.36	66.36	24.17	31.65	0.00	41.11
2005/06	68.24	65.78	50.64	33.70	39.82	51.64
2006/07	47.80	72.95	24.73	7.99	12.75	33.24
Average	69.94	66.87	20.44	30.58	23.89	42.34
St. Dev.	13.53	5.25	20.49	15.19	29.02	16.69
C.V. %	19.34	7.86	100.00	49.66	121.45	59.71

Source : www.nepalstock.com

Figure 4.3 DPR of Banks under study



The above table 4.3 shows the dividend payout ratio of five sample banks, which is the percentage of dividend paid out of the total earning made. Before analyzing the DPR we can segregate the DPR of these companies into three differently categorize policy.

Policy	DPR
Conservative dividend	= less than 20%
Moderate dividend policy	= 20% to 50%
Aggressive dividend policy	= More than 50%

In the year 2002/03 SCBNL, NABIL, NIBL and EBL applied aggressive dividend policy. They have 73.68%, 59.06%, 50.56% and 66.89% dividend payout ratio respectively. But HBL have 2.65% DPR which falls in conservative dividend policy. The pooled average was 50.57%, which shows the aggressive dividend policy according to assumption.

In the year 2003/04, SCBNL and NABIL has increased dividend payout ratio. The DPR of other three banks has decreased, but the DPR of SCBNL and NABIL is still in aggressive position. The pooled average 35.17 shows moderate policy.

In the year 2004/05, dividend payout ratios of SCBNL, HBL and NIBL increased while NABIL has decreased its dividend payout ratio but still adopting aggressive policy. The pooled average 41.11% shows the moderate policy.

In the year 2005/06, the highest payout was 68.24% of NABIL under aggressive policy. NABIL and HBL also applied aggressive policy with DPR 65.78% and 50.64% respectively. The pooled average is 51.64% showed aggressive policy.

In year 2006/07 NABIL has increased their payout ratio to 72.95%, which showed aggressive policy. On the other hand, other banks decreased its ratios and followed moderate policy. The pooled average 42.34% showed moderate policy.

The average DPR of SCBNL and NABIL shows that they follow aggressive policy. While average DPR of HBL, NIBL and EBL shows that they are adopting moderate policy. The coefficient of variation of the DPR suggests that the DPR of EBL is more fluctuating than other four banks. The C.V. of NABIL and SCBNL shows less fluctuating indifferent years. The average of CV i.e. 59.71% shows the fluctuating condition is in average.

4.1.4 Analysis of P/E Ratio

Table 4.4 P/E Ratio of respective banks

Year	SCBNL	NABIL	HBL	NIBL	EBL	Pooled Average
2002/03	10.98	8.68	16.91	20.10	14.89	14.31
2003/04	12.16	10.80	17.13	18.18	14.92	14.64
2004/05	16.29	14.27	19.20	20.25	16.29	17.26
2005/06	21.47	17.34	18.57	21.23	21.97	20.12
2006/07	35.25	36.84	28.68	27.63	30.99	31.88
Average	19.23	17.59	20.10	21.48	19.81	19.64
St. Dev.	9.85	11.26	4.89	3.61	6.90	7.30
C.V. %	51.24	64.03	24.35	16.82	34.80	38.29

Source : www.nepalstock.com

Figure 4.4 P/E Ratio of Banks under study

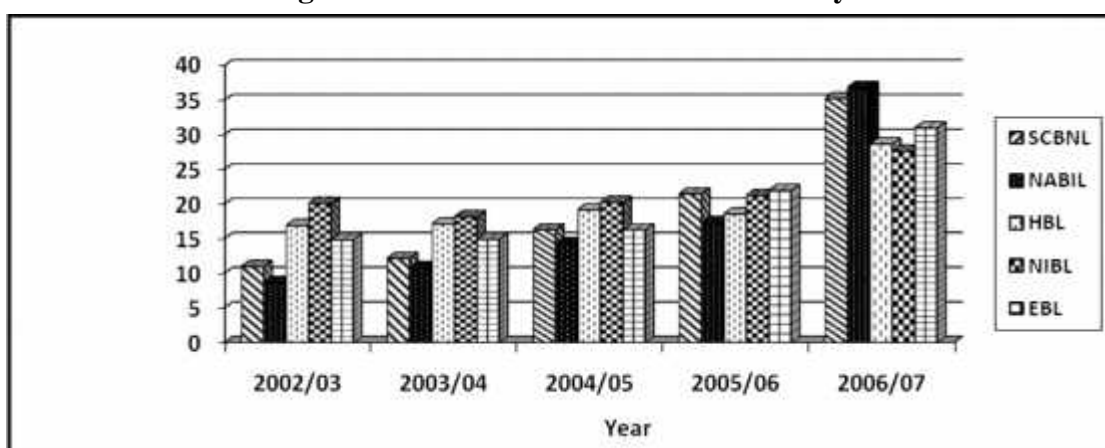


Table 4.4 shows the P/E Ratio of sample banks. This ratio describes the relationship between EPS and MPS.

In the year 2002/03, the P/E Ratio of SCBNL, NABIL, HBL, NIBL and EBL is 10.98, 8.68, 16.91, 20.10 and 14.89 respectively, where HBL has the highest P/E Ratio among, these five banks and NABIL has the lowest P/E Ratio. The pooled average is 14.31.

In 2003/04, the P/E Ratio of SCBNL, NABIL and EBL has increased and that is of NIBL has decreased to 18.18. The pooled average in increased to 14.64.

In 2004/05, the P/E ratios of all five banks are increased. NIBL has the highest P/E Ratio (20.25). The pooled average is 17.26.

In the year 2005/06, the increasing pattern follows again. In this year NABIL stands first with 21.97.

The year 2006/07 also follows increasing trend in P/E Ratio, which is the highest of all five banks in comparison with previous five years. The pooled average in this year is 31.88.

The CV analysis shows that NIBL is more consistent than others and P/E ratio of NABIL is highly fluctuating in these five years.

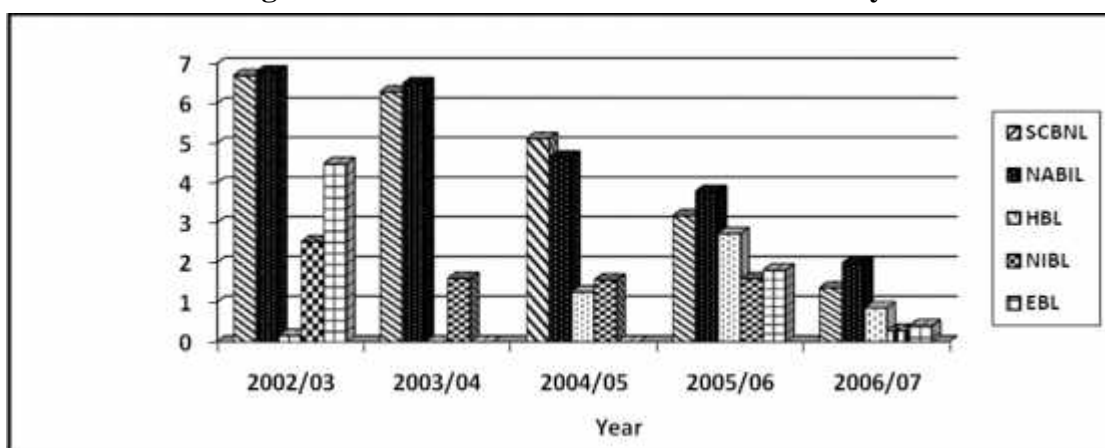
4.1.5 Dividend Yield Analysis

Table 4.5 Dividend Yield of Respective Banks

Year	SCBNL	NABIL	HBL	NIBL	EBL	Pooled Average
2002/03	6.71	6.80	0.16	2.52	4.49	4.14
2003/04	6.30	6.50	0.00	1.60	0.00	2.88
2004/05	5.12	4.65	1.26	1.56	0.00	2.52
2005/06	3.18	3.79	2.73	1.59	1.81	2.62
2006/07	1.36	1.98	0.86	0.29	0.41	0.98
Average	4.53	4.75	1.00	1.51	1.34	2.63
St. Dev.	2.24	1.99	1.09	0.79	1.91	1.61
C.V. %	49.50	41.96	109.08	52.60	142.26	79.0

Source: www.nepalstock.com

Figure 4.5 Dividend Yield of Banks under study



Above table 4.5 shows the dividend yield analysis of five sample banks for the years 2002/03 to 2006/07.

In the year 2002/03, NABIL has the highest dividend yield (6.80) and HBL has the lowest (0.16). The pooled average in this year is 4.14. In the year 2003/04, dividend yield of all banks as decreased. The pooled average is 2.88 in this year. In the year 2004/05, the dividend yield. In the year 2004/05, the dividend yield of HBL increased while that of other bank decreased. In the year 2005/06, the dividend yield of HBL, NIBL and EBL NABIL decreased as a result the pooled average is also decreased to 2.62%.

In the year 2006/07, the dividend yield is again decreased, which is the lowest ratio of last five years.

On average, NABIL has the highest dividend yield (4.75) and the dividend yield of HBL is lowest.

On observing the coefficient of variation the dividend yield of NABIL is more consistent than others.

4.2 Correlation Analysis

Correlation Analysis helps to determine the strength of the linear relationship between two variables. In other words, as to how strongly are these two variables correlated. It helps to determine whether a positive or negative relationship exists between two variables and the relationship exists between two variables and the relationship is significant or not.

In this study, the correlation analysis is referred to identify the relationship between DPS and other variables like MPS, EPS, CR, D_{t-1} and the relationship is significant or not.

4.2.1 Correlation between EPS and DPS

Table 4.6 : Correlation between EPS and DPS

Bank	r	Relationship	r^2	Probable Error	Sig/Insig.
SCBNL	-0.27	Negative	0.07	0.28	Insignificant
NABIL	0.97	Positive	0.95	0.02	Significant
HBL	0.75	Positive	0.56	0.13	-
NIBL	-0.39	Negative	0.15	0.26	Insignificant
EBL	-0.02	Negative	0.00	0.30	Insignificant

Above table 4.6 shows the relationship between EPS and DPS of five sample banks. It is observed that the correlation coefficient of SCBNL, NIBL and EBL is negative, which indicates that EPS and DPS are negatively correlated with each other. But in case of NABIL and HBL there is positive correlation and since the values are nearly equal to 1 it can be said that EPS and DPS of these banks are strongly correlated with each other.

The relationship between EPS and DPS whether they are significant or not can be measured by calculating the probable error of the correlation coefficient. Through the correlation coefficient of HBL is positive, DPS of this bank is negligibly affected by the earning. Because the correlation coefficient is lesser than PE. But in case of NABIL it is greater than PE. For NABIL, EPS is the key factor to determine DPS due to significant relationship between EPS and DPS.

The coefficient of determination is more precise measure of strength of the relationship between two variables and trends itself to more precise interpretation because it can be presented as a proportion or as a percentage. The coefficient of determination between EPS and DPS of NABIL is 0.95, which means that the dependent variable (EPS) explains 95% of the variation in DPS. It shows that the change in EPS has a significant effect on the variable of DPS.

In case of HBL, the variation of EPS determines the 56% variation in DPS, which is highly remarkable. In case of SCBNL, NIBL and EBL, it is just 7%, 15% and 0% respectively.

4.2.2 Correlation between EPS and MPS

Table 4.7 : Correlation between EPS and MPS

Bank	r	Relationship	r ²	Probable Error	Sig/Insig.
SCBNL	0.77	Positive	0.59	0.12	Significant
NABIL	0.88	Positive	0.77	0.07	Significant
HBL	0.83	Positive	0.69	0.09	Significant
NIBL	0.90	Positive	0.81	0.06	Significant
EBL	0.95	Positive	0.90	0.03	Significant

Above table 4.7 shows the relationship between EPS and MPS of five sample banks. It is observed that the correlation coefficient of all banks is positive. So it is concluded that there is positive relationship between EPS and DPS of SCBNL, NABIL, HBL, NIBL and EBL and since correlation coefficient of these banks are higher than 6 PE, there is significant relationship EPS and MPS. It means that the market price of stock of these banks is affected by dividend.

4.2.3 Correlation between DPS and CR of banks.

Table 4.8 : Correlation between DPS and CR of banks.

Bank	r	Relationship	r ²	Probable Error	Sig/Insig.
SCBNL	0.36	Positive	0.13	0.26	–
NABIL	-0.06	Negative	0.00	0.30	Insignificant
HBL	0.68	Positive	0.46	0.16	–
NIBL	-0.05	Negative	0.00	0.30	Insignificant
EBL	-0.19	Negative	0.04	0.29	Insignificant

Table 4.8 shows the relationship between current ratio and dividend per share of sample banks. The correlation coefficient of SCBNL and HBL is positive. So, the positive relationship exists between DPS and CR. In case of NABIL, NIBL and EBL it is negative.

Though the correlation coefficient between DPS and CR of SCBNL and HBL are positive. It is difficult to determine the significance of relationship. As r is greater than PE but it is still less than 6 PE. In case of NABIL, NIBL and EBL an insignificant relationship exists between DPS and CR.

4.2.4 Correlation between MPS and last year's Dividend (D_{t-1}) of Banks.

Table 4.9 : Correlation between MPS and last year's Dividend (D_{t-1}) of Banks.

Bank	r	Relationship	r^2	Probable Error	Sig/Insig.
SCBNL	0.83	Positive	0.68	0.10	Significant
NABIL	0.85	Positive	0.72	0.08	Significant
HBL	0.63	Positive	0.40	0.18	–
NIBL	0.50	Positive	0.25	0.23	–
EBL	0.56	Positive	0.32	0.21	–

In above table 4.9 all five sample banks have the positive correlation coefficient. But correlation coefficient of HBL, NIBL and EBL is less than 6 PE. So on conclusion can be drawn from this analysis. But in case of SCBNL and NABIL it is greater than 6 PE. It means the market price of stock of these two banks is depended to its last year dividend.

4.3 Regression Analysis

Regression Analysis is a very powerful tool in the field of statistical analysis in predicting the value of one variable, give in the value of another variable, when these two variables are related to each other. It describes about the effect to the dependent variable due to change in independent variable. The regression analysis either be simple regression or multiple regressions. In simple regression analysis only one independent variable is taken for the prediction of the value of dependent variable. But multiple regression analysis involves two or more independent variables forming the basis for estimating the values of dependent variables. In this research, simple regression analysis is used to establish relationship between the dependent variable and single independent variable on dividend sample company. Where the multiple

regression analysis is used to show the combined relationship of dependent variable to independent variable of all sample companies.

4.3.1 Simple Regression Analysis

In this analysis, it is tried to show the relationship of dependent variable to the independent variable.

- (i) Dependent variable market Price Per Share (P_t) and independent variable last year's dividend (D_{t-1}),

$$\text{Regression Equation: } P_t = a + b D_{(t-1)}$$

Table 4.10: Simple Regression Analysis between MPS and Last Year's dividend

Bank	Constant 'a'	Reg. Coefficient	Standard Error	r^2	SEE	't' value	Sig. t
SCBNL	-16735	176.929	69.577	0.683	1164.249	2.543	0.084
NABIL	- 2149.714	70.929	25.242	0.725	1055.961	2.810	0.067
HBL	845.986	17.765	12.479	0.403	339.240	1.424	0.250
NIBL	777	24.281	24.103	0.253	396.048	1.007	0.388
EBL	839.790	35.668	30.213	0.317	752.291	1.181	0.323

The above table 4.10 describes the output of simple regression analysis between the market price of stock and last year's dividend of SCBNL, NABIL, HBL, NIBL and EBL.

The regression coefficient of all sample banks is positive, which indicate that positive correlation exists between MPS and D_{t-1} . One rupees increase in dividend causes Rs. 176.93, Rs. 70.93, 77.77, 24.28 and Rs. 35.67 increase in the price of stock of SCBNL, NABIL, HBL, NIBL and EBL respectively. The coefficient of determination of NABIL (0.725) is quite high. It indicates that 72.50% stock price variation is explained by the variation in dividend. In case of SCBNL, HBL, NIBL and EBL it is 72.50%, 40.30%, 25.30% and 31.70% respectively. The coefficient of determination of NIBL is quite low (0.25). It means only 25% stock variation can be explained by variation in dividend.

Since the 't' value of of SCBNL and NABIL (2.543 and 2.810) is higher than the tabulated 't' value (2.132), the results are statistically significant at 5% level of significance. But in case of HBL, NIBL and EBL calculated 't' value is less than the tabulated 't' (2.132) the results are not statistically significant at 5% level o significance.

ii. Dependent variable Market Price per Share (MPS) on Earning Per Share (EPS)

Regression Equation: $P_t = a + b E_t$

Table 4.11: Simple Regression Analysis between MPS and EPS

Bank	Constant 'a'	Reg. Coefficient	Standard Error	r^2	SEE	't' value	Sig. t
SCBNL	-1147.82	93.293	45.016	0.589	1326.255	2.072	0.130
NABIL	-5277.36	67.238	21.266	0.769	966.835	3.162	0.051
HBL	-1656.968	51.522	19.721	0.695	242.643	2.618	0.080
NIBL	-570.4509	33.150	9.168	0.813	197.928	3.616	0.036
EBL	-1055.46	41.033	8.015	0.897	291.783	5.119	0.014

Above table 4.11 shows the output of simple regression analysis between MPS dependent variable and EPS independent variable of five banks. As far the regression of EPS and MPS is concerned the regression coefficient of all five banks are positive. It means that one rupees increase in EPS leads the average about 93.293 rupee increase in MPS of SCBNL, 21.266 in case of NABIL, 19721 for HBL, 9.168 for NIBL and 8.015 for EBL remaining other variable constant. The highest coefficient of determination of HBL (0.897) indicates that 89.7% variation on MPS due to change in EPS. In case of SCBNL, NABIL, HBL and NIBL it is 58.9%, 76.9%, 69.5% and 81.3% respectively.

Since the 't' value of NABIL (3.162), HBL (2.613), NIBL (3.616) and EBL (5.119) is higher than the tabulated 't' value (2.132), the results are statistically significant at 5% level of significance. But in case of SCBNL calculated 't' value is less than the tabulated 't' value (2.132), the results is not statistically significant at 5% level of significance.

iii. Dependent Variable Dividend Per Share (DPS) on Earning Per Share (EPS)

Regression Equation:

$$D_t = a + bE_t$$

Table 4.12 : Simple Regression Analysis between DPS and EPS

Bank	Constant 'a'	Reg. Coefficient	Standard Error	r ²	SEE	't' value	Sig. t
SCBNL	155.300	-0.303	0.620	0.074	18.259	-0.4809	0.658
NABIL	-16.210	0.821	0.110	0.949	4.100	7.471	0.005
HBL	-67.001	1.475	0.758	0.558	9.328	1.946	0.147
NIBL	25.728	-0.222	0.307	0.148	6.633	-0.723	0.522
EBL	11.777	-0.014	0.362	0.001	13.162	-0.040	0.971

Above table 4.12 describes the output of simple regression analysis between the dividend per share and earnings per share of SCBNL, NABIL, HBL, NIBL and EBL.

The regression coefficient of NABIL and HBL are positive which indicates that positive correlation exists between DPS and EPS. One rupees increase in EPS causes 0.82 and Rs. 1.484 and Rs. 35.67 increase in DPS of NABIL and HBL respectively.

In case of SCBNL, NIBL and EBL the regression coefficient is negative. It shows the inverse relationship between DPS and EPS. The regression coefficient indicates that one rupee increase in EPS leads an average of Rs. 0.30 decrease in DPS of SCBNL, Rs. 0.22 decrease in DPS of NIBL and Rs. 0.01 for EBL. The coefficient of determination of EBL is quite low (0.001). It means only 0.1% DPS can be explained by variation in EPS. But incase of NABIL it is very high (0.949). So 94.9% of variation of dividend is affected by change in earning. The result is statistically significant at 5% level of significance. But in case of SCBNL, HBL, NIBL and EBL calculated 't' value is less than the tabulated 't' value (2.132), the results are not statistically significant at 5% level of significance.

4.3.2 Multiple Regression Analysis

The dividend and market price of stock depends on more than two variables. So the results of simple regression analysis are not reliable as far. Multiple regression analysis eliminates all the limitations of single regression analysis. In the study, the pooled data of banks and finance/insurance companies are used for multiple regression analysis.

- (i) Dependent variable DPs and independent variables EPs, current ratio and last year dividend.

Regression equation:

$$D_t = a + b_1E_t + b_2CR + b_3D_{(t-1)}$$

Table 4.13 : Multiple Regression Analysis

Bank	Constant 'a'	Reg. Coefficient			r ²	SEE	F	Sign. F
		b ₁	b ₂	b ₃				
SCBNL	-616.173	0.629	809.612	-2.144	0.499	23.271	0.331	0.819
NABIL	752.081	0.190	-690.729	0.726	0.977	0.204	100.524	0.073
HBL	-208.460	1.822	121.953	-0.386	0.757	11.982	1.038	0.601
NIBL	129.311	0.086	-103.207	-0.652	0.552	8.333	0.411	0.783
EBL	1282.609	0.506	-1196.806	-1.521	0.945	5.339	5.749	0.295

Above table 4.13 shows the output of multiple regression analysis of five sample banks. It shows the relationship between DPS and other variables (EPS, CR, D_{t-1}).

The regression coefficient b₁ for SCBNL, NABIL, HBL, NIBL and EBL indicates that one rupees increase in EPS cause Rs. 0.629, 0.190, 1.822, 0.086 and 0.506 increase in DPS for above mentioned banks respectively holding other variables CR and D_{t-1} constant. Another regression coefficient b₂ for SCBNL, NABIL, HBL, NIBL and EBL are 809.612, -609.729, 121.953, -103.207 and -1196.806 respectively. It implies that unitary increment in current ratio of banks can increase its dividend by Rs. 809.712 for SCBNL and Rs. 121, 953 for HBL. It shows the greater impact on dividend by CR of SCBNL and HBL. But in case of NABIL, NIBL and EBL, value of b₂ is negative, so unitary increment in current ratio will decrease the dividend per share of these banks by Rs. 690.729, 103.207 and 1196.806 respectively.

At least, the beta coefficient of last year dividend D_{t-1} is -2.144, 0.726, -0.386, 0.652, and -1.521 for SCBNL, NABIL, HBL, NIBL and EBL. It shows the little impact of last year's dividend on current dividend. One rupees increase in D_{t-1} will increase the current year dividend by Rs. 0.726 of NABIL and decrease Rs. 2.144, 0.386, 0.652 of SCBNL, NABIL, HBL, NIBL and EBL respectively. Above analysis shows that the independent variables have positive and negative impact on dividend for simple banks.

The coefficient of multiple determinations for SCBNL, NABIL, HBL, NIBL and EBL is comparatively high. It means 99.7% variation in DPS is explained by variation in EPS, $D_{(t-1)}$ and CR of NABIL. For SCBNL, HBL, NIBL and EBL it is 49.9%, 75.7%, 55.2% and 94.5% respectively.

Similarly 'F' statistics for the regression of NABIL (100.524) and EBL (5.749) shows higher than its table value at 5% level of significance. Hence, we conclude that, the data indicate the regression equation provide a statistically significant explanation of variation in DPS. It indicates that the regression equation provide a statistically insignificant explanation of variation in DPS.

4.4 Test of Hypothesis

The null and alternative hypothesis have been formulated to test whether the difference between mean value of MPs, DPR and EPs of sample banks are statistically significant or not.

4.4.1 First hypothesis

Dividend per share

Table 4.14
Dividend per share of respective banks

Year	SCBNL	NABIL	HBL	NIBL	EBL
2002/03	110	50	1.31	20	20
2003/04	110	65	0	15	0
2004/05	120	70	11.58	12.5	0
2005/06	120	85	30	20	25
2006/07	80	100	15	5	10

Null Hypothesis (H_0): There is no significant difference between DPS of SCBNL, NABIL, HBL, NIBL and EBL.

$$\text{i.e. } \hat{\mu}_1 = \hat{\mu}_2 = \hat{\mu}_3 = \hat{\mu}_4 = \hat{\mu}_5$$

Alternative Hypothesis (H_1): There are significant difference between DPS of SCBNL, NABIL, HBL, NIBL and EBL.

$$\text{i.e. } \hat{\mu}_1 \neq \hat{\mu}_2 \neq \hat{\mu}_3 \neq \hat{\mu}_4 \neq \hat{\mu}_5$$

Computation of test statistics 'F'.

Correlation Factor (CF) = 47995.7

Total sum of square (TSS) = 43846.89

Sum of Square (SS) = 40031.33

ANOVA TABLE
Table 4.15

Sources of Variation	Degree of Freedom	Sum of squares	Mean Sum of Squares	F - Ratio
Between Banks	5-1 = 4	40031.33	10007.83	52.46
Within Banks	24-4 = 20	3815.562	190.78	
Total	25-1 = 24	43846.89		

Critical value for degree of freedoms:

$V_1 = 4$ and $V_2 = 20$, F 0.05 is 2.87.

Decision: Since the calculated 'F' value (52.46) is greater than tabulated value (2.87), H_0 is rejected. There is significant difference between the DPS of SCBNL, NABIL, HBL and EBL at 5% level of significance.

4.4.2 Second hypothesis

Dividend payout ratio

This analysis is based on the pooled data for five years of five sample banks.

Table 4.16

Dividend payout ratio of respective banks

Year	SCBNL	NABIL	HBL	NIBL	EBL
2002/03	73.68	59.06	2.65	50.56	66.89
2003/04	76.63	70.19	0.00	29.01	0.00
2004/05	83.36	66.36	24.17	31.65	0.00
2005/06	38.24	65.78	50.64	33.70	39.82
2006/07	47.80	72.95	24.73	7.99	12.75

Null Hypothesis (H_0): These are no significant difference between DPS of SCBNL, NABIL, HBL, NIBL and EBL.

$$\text{i.e. } \hat{\mu}_1 = \hat{\mu}_2 = \hat{\mu}_3 = \hat{\mu}_4 = \hat{\mu}_5$$

Alternative Hypothesis (H_1): These is significant difference between DPS of SCBNL, NABIL, HBL, NIBL and EBL.

$$\text{i.e. } \hat{\mu}_1 \neq \hat{\mu}_2 \neq \hat{\mu}_3 \neq \hat{\mu}_4 \neq \hat{\mu}_5$$

Computation of test statistics 'F'.

Correlation Factor (CF) = 44826.21

Total sum of square (TSS) = 18421.01

Sum of Square (SS) = 11608.85

ANOVA TABLE

Table 4.17

Sources of Variation	Degree of Freedom	Sum of squares	Mean Sum of Squares	F - Ratio
Between Banks	5-1 = 4	11608.85	2902.212	8.520683
Within Banks	24-4 = 20	6812.159	340.6079	
Total	25-1 = 24	18421.01		

Critical value for degree of freedom:

$V_1 = 4$ and $V_2 = 20$, F 0.05 is 2.87.

Decision: Since the calculated 'F' value (8.52) is greater than tabulated value (2.87), H_0 is rejected. There is significant difference between the DPS of SCBNL, NABIL, HBL and EBL at 5% level of significance.

4.5 Major Findings

Major findings from the secondary data analysis are stated as follows:

1. The average of earnings per share of banks is satisfactory. SCBNL lies in top position and it is followed by NABIL, EBL, HBL and NIBL respectively. Among the sample banks, the C.V. of EBL is greater than other sample banks and C.V. of SCBNL is lowest. It means common stock of EBL is riskier as compared to other sample banks. The common stock of SCBNL is less riskier because it has lowest C.V. than others. The common stock of HBL, NABIL and NIBL has lower risk than EBL but higher than SCBNL.
2. The DPS analysis shows that the DPS of SCBNL is greater and EBL is lower among sample banks. Higher dividend per share creates positive attitude of shareholders towards the company, which consequently helps to increase the market value of shares. It shows that CV of DPS of HBL greater and SCBNL is lowest. It indicates that among the sample banks, SCBNL has the highest consistency in paying dividend whereas the DPS of EBL, NIBL and NABIL respectively followed HBL in terms of fluctuation of DPS.
3. The analysis of MPS shows that MPS of all five sample banks are in increasing trend. It shows that the average MPS of SCBNL is highest and average MPS of HBL is lowest. NABIL has the highest C.V. and HBL has lowest C.V. among the sample banks. It indicates that NABIL has greater variability in MPS and its capital increasing rate is higher than others. But HBL and NIBL has less variability in MPS.
4. The dividend payout ratio of SCBNL is higher and HBL has lowest among all, which indicates that SCBNL is following aggressive dividend policy and it has the ability to pay the dividend is strong than others and HBL has weak ability to pay dividend. The C.V. of DPR is highest of EBL and Lowest C.V. DPR of NABIL indicates that the NABIL's D/P ratios to common share holders are much better than other sample banks.

5. The P/E ratio of EBL and SCBNL are almost close to each other, where NIBL has the highest P/E ratio. NABIL has the lowest P/E ratio and highest C.V. which indicates that P/E ratio of NABIL is more fluctuating than other banks. The lowest C.V. of NIBL indicates that it has the highest consistency in P/E ratio.
6. Dividend Yield of NABIL is higher and HBL has lowest among all sample banks. It indicates that the share of NABIL is worth buying. The C.V. of DY is highest of EBL and lowest of NABIL. This indicates that NABIL has the highest consistency followed by SCBNL, NIBL whereas DY of EBL is highly fluctuating followed by HBL.
7. The correlation between EPS and DPS is positive for NABIL and HBL. But only NABIL has the significant relationship at 5% level of significance. The relationship of significance of HBL cannot be determined due to low degree of correlation. SCBNL, NIBL and EBL have the negative correlation between EPS and DPS.
8. The correlation between EPS and MPS is positive of all five sample banks and has the significant relationship at 5% level of significance. It means the EPS and MPS of these banks are strongly correlated with each other.
9. The correlation coefficient between DPS and CR of SCBNL and HBL is positive whereas this of NABIL, NIBL and EBL is negative. The relationship is insignificant for NABIL, NIBL and EBL. Relationship of other two banks cannot be determined due to low degree of correlation.
10. The correlation coefficient between market price of stock and last year's dividend is positive for all five sample banks. Only SCBNL and NABIL has statistically significant relationship between their earnings and last year's dividend. The relationship of rest three banks cannot be determined.
11. Simple regression analysis of MPS and last year's dividend concludes that all five sample banks have positive relationship between MPS and last year's dividend. But only SCBNL and NABIL have the significant relationship between MPS and last year's dividend at 5% level of significance.
12. Simple regression analysis of MPS and EPS concludes that all five sample banks have positive relationship between MPS and EPS. NABIL, HBL, NIBL and EBL have significant relationship between MPS and EPS at 5% level of

significance. But SCBNL has insignificant relationship at 5% level of significance.

13. The regression analysis of EPS and EPS shows NABIL and HBL have positive relationship and rest three banks have negative relationship between MPS and EPS. But only NABIL has the significant relationship between MPS and EPS at 5% level of significance.

14. The multiple regression analysis of dividend on EPS, CR and $D_{(t-1)}$ shows that SCBNL and HBL have positive relationship with EPS and CR but negative relation with $D_{(t-1)}$. NABIL has positive relationship with EPS and $D_{(t-1)}$ but negative relationship with CR. Similarly, NIBL and EBL have positive relation with EPS but negative with CR and $D_{(t-1)}$. The Coefficient of multiple determinations for SCBNL, NABIL, HBL, NIBL and EBL is comparatively high. It means 99.7% variation in DPS is explained by variation in EPS, $D_{(t-1)}$ and cR of NABIL. For SCBNL, HBL, NIBL and EBL it is 49.9%, 75.7%, 55.2% and 94.5% respectively.

Since 'F' statistics for the regression of NABIL and EBL shows higher than its table value at 5% level of significance. We concluded that, the data indicate the regression equation. Provides a statistically significant explanation of variation in DPS. But in case of SCBNL, HBL and NIBL, it is lower than critical value. It indicates that the regression equation provides a statistically insignificant explanation of variation in DPS.

15. Test of hypothesis of DPS shows that there is a significant difference between DPS of sample banks at 5% level of significance.

16. Test of hypothesis of DPR also implies about the significant difference between sample banks at 5% level of significance.

CHAPTER - FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter focuses on summarizing the study held with the researcher's analysis. Also, this chapter includes conclusion of the study based on major findings. The next attempt in this chapter will be made for the recommendations on the basis of findings and conclusions. For this purpose, the chapter is subdivided into summary and conclusion of the research, which will be followed by some recommendation.

5.1 Summary

Dividend refers to distributed earnings to the shareholders of the company in return to their investment. Dividend decision is a major financial management decision because the firm has to choose between distributing the profit to the shareholders and reinvesting it to finance the business.

The dividend may be affected by different factors such as earning of the firm, liquidity position of the firm, net worth etc. These factors indicate the financial position of the company. If a firm has good performance in terms of these factors, it will be able to provide return in the form of dividend.

This study is mainly focused to access the dividend practices of different banks. It covers some specific objectives mainly to find out relationship between other financial indicators and also to find out the appropriate dividend policies of different banks.

This study is mainly based on the secondary data of five commercial banks which are listed in NEPSE. This study covers a five years period from 2002/2003 to 2006/07.

To make the research reliable, many more analysis are conducted to find out the appropriate relationship between dividend and other variables, which affects the dividend. The consistency of dividend distribution of different companies is also analyzed by using statistical tools. The relationship is also statistically tested at 5% level of significance.

5.2 Conclusion

From the analysis of various financial indicators and statistical tools of all the sample banks, following conclusions are drawn:

-) Above mentioned major findings led this study concludes that the earnings of banks are satisfactory in Nepalese context. Among sample banks SCBNL is in leading position in terms of earning followed by NABIL, EBL, HBL and NIBL respectively.
-) It is found from the study that there is no consistency found in dividend distribution in all sample companies. The research shows that none of these companies have well defined and appropriate policy regarding dividend payments. SCBNL is paying higher dividend than other sample banks.
-) It has been found from the study that there is positive and significant relationship between market price of share and earnings per share for all sample banks. It means that there is positive effect of earning to the market price of stock in Nepalese commercial banks.
-) Though there is positive relationship between market price of share and last year's dividend for all sample banks. There is negligible effect on market price of stock due to dividend.
-) The insignificant relationship between DPS and other financial indicators like EPS and CR indicates that the dividend policy of all these companies is unscientific.
-) From the analysis it has been found that the market price of stock is affected by other variables which indicate about the rational behavior of investors.
-) Most of the companies don't seem to follow the optimum dividend policy of paying regular dividend per shareholder's expectation. It might cause uncertainty among stockholders.
-) The major findings have also led to conclude that the companies are neglecting the major factors like earning position of the firm, liquidity position while paying dividend.
-) The study deals with only examining and analyzing the dividend practices of 5 sample banks for a period covering 5 years from 2002/03 to 2006/07 due to limited time period.

5.3 Recommendation

-) From the analysis it is found that HBL NIBL and EBL haven't followed a relevant and appropriate dividend policy. The DPS of these companies are highly fluctuating. These companies are neither following fixed dividend policy nor constant payout ratio policy. This fluctuation in dividend distribution may cause uncertainty among stockholders. So, all sample companies to satisfy investors and to create goodwill of the company should follow the constant dividend payout ratio policy.
-) Most of the investors are expecting a quick return on their investment rather than long term return due to declining economic condition of Nepal. They prefer dividend in form of cash rather than stock. So, the cash dividend should be distributed to satisfy the stockholders of the company.
-) All companies must accept one major fact that EPS is to be considered for determining dividend amount. The analysis shows the insignificant relationship between EPS and DPS except NABIL. This indicates that EPS is not taken in account for declaration of dividend. So, it is important for the companies to consider earning rather than neglecting it while making dividend decision.
-) There are different dividend policies i.e. stable dividends, constant payout, low regular plus extra policies etc. The .companies are not applying any dividend policy. They use the conservative or ad-hoc policy to distribute dividend. The companies must apply a certain dividend policy for a long run from which investors can take decisions on buying the share of a company. The appropriate dividend policy helps to increase the prestige of the companies in the market and investors. On taking the decision regarding to dividend, management must be acted rationally and convince the shareholder on time of declaring the dividend 'about policy adopted in annual general meeting.
-) There are challenges and threats in front of the companies because of internal and external environment. The companies must have long-term vision towards earnings, dividend payment and financing through retained earnings for profitable opportunities. Therefore, there must be

balance in between the benefits for investors and companies management. The competition between companies in good, service and share market is higher due to membership of Nepal in World Trade Organization and preparation to open capital market for foreign investors. The profitable opportunities are also created because of these circumstances So, company should apply appropriate dividend policy to overcome the threats and challenges and grab the opportunities.

) The market price is seen higher than dividend payment. The companies can solve the problem by raising the funds from market. The companies can expand the activities and utilize the capital in profitable opportunities which help to build faith from public and increase the capacity and performance of the companies. If profitable opportunities and chance of expansion is not seen, dividend must be increased significantly to win faith of companies from public and investors.

) Regular, simplified and adequate information must be provided by the companies to their financial and operational performance which not only make easier to take buy and sell decision of share, but also help to direct the random capital market towards perfect capital market. The Nepal Stock Exchange Ltd. (NEPSE), Security Board of Nepal, Nepal Rastra Bank, other libraries and organization flow the information widely. But information need to. Provide timely by concerned companies and simplified and updated by concerned bodies. A separate information centre must be established with enough resource, rights and obligation, to collect, analyze, simplify, supply, update the information and to collect feedback of the information in those concerned bodies. A separate supervisory unit must be made to monitor, supervise evaluate their performance. Internet websites can be used to provide information about stock market and Concern Company with update it time by time which helps the public to get required information timely.

-) There are only two form of dividend used in practice i.e., stock dividend & cash dividend. They don't give choice to the shareholder of other form of dividend like bond dividend, property dividend, script dividend etc. Whether to distribute the stock dividend or cash dividend should be decided on the desire and behalf of the shareholders;, not only from the side of the management. Other forms of dividend 'can be also proposed to the shareholders by the management in the annual general meeting for approval, if possible,
-) The legal rules are not enough regarding to dividend. Binding legal rules with enough flexibility is needed regarding dividend payment. Most of the companies pays less dividend however, theirs earning are higher. The dividend payment is found less than interest rate on deposit provided by banks. To bind companies to pay dividend, the present laws must be amended by initial works done jointly by concerned parties.
-) MPS, DPS, EPS, fluctuates widely of the companies. To remove this problem companies need to make appropriate plan to achieve target earning, distribute target dividend, invest target amount by selecting profitable activities and increase target net wealth which help to maintain planned MPS. To achieve these balance activities need to be performed with long term plan concerning external and internal environment. Dividend must be paid by concerning the economic status and desire of future prosperity of the shareholders.
-) Time value of money of shareholders need to increase net worth and presence of the liquidity is also other factors which must be considered while proposing the dividend. The internal information and survey for shareholders economic conditions with their desires need to perform to take accurate dividend decisions.

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