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RESEARCH PROPOSAL

BEST CAPITAL STRUCTURE FOR THE UK RETAIL BANKING?

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INTRODUCTION

In the financial intermediaries, the capital structure holds great importance. The regulation and capital structure in the banks is chosen by the balancing of the benefits of debts which includes the agency benefits and taxes against the costs which maybe bankruptcy cost. Banks have an advantage of being able to generate the federally insured debt however they may bear the charge of capital regulations which includes the threat of wiping out the shareholder's investments or placed in the receivership.

In this research, the core objective is to analyse the capital structure which is optimal for a retail bank. Furthermore, in this research it is highlighted that how the choice of capital structure reflects upon the performance of the UK retail bank. Also, it is discussed why specifically the capital structure is selected for the UK retail bank. Different methodologies are selected to carry out the research process. The research process is focused and centered upon the research questions and carrying out the research objectives.

RESEARCH QUESTIONS

The research question that is aimed to be answered and explored in this research is given as follows:

1. What is the best capital structure for the UK retail banking?
2. Why is the selected capital structure optimal for the UK retail banking?
3. What are the impacts of the capital structure on the performance of the UK retail banking?

RESEARCH AIMS AND OBJECTIVES

The research basically tends to be centered upon the aims and objectives that are designed in the research process by the researcher. The main aim of the research is to identify the best capital structure for the UK retail bank. However, the objectives of this research are given as follows:

1. To determine which capital structure can be the best for the UK retail bank.
2. To evaluate the reasons due to which the capital structure is optimal for the UK retail bank.
3. To determine the impacts upon the retail bank by adopting a capital structure.

CHOICE OF THE TOPIC

Thus, in UK retail banks it is important to have an appropriate capital structure so that the different sources of funds are used in a proper manner. Retail banking is not similar to the wholesale banking that is why it is important to address the issue of adopting a best optimal structure.

LITERATURE REVIEW

Retail banking is also referred as consumer banking and is quite different from the traditional banking methods. Retail banking provides the services by a bank to a general public and not to the other banks, corporations of big companies. The banking by which companies and corporations are served is usually known as the wholesale banking. Those banks which are regarded as retail bank or does retail banking processes includes the services are provision of transactional account, savings accounts, personal loans, mortgages, credit cards and debit cards (Duran and Lozano-Vivas, 2015). Retail banking also differs from the commercial and investment banking. Furthermore, it deals with only those departments which deals with the individual customers or general public. It is observed in the banking process and performance that the capital structure is an important aspect in a financial intermediary. The capital structure refers to how an organization either financial or non-financial attempts to finance its overall growth and operations by utilizing difference ways of funding. Debt is said to come in a form of long-term payable notes and bond issues whereas equity is said to be a preferred stock, common stock or retained earnings.

The capital structure can be defined as the mixture of a firm's equity and debt holdings. It is not only the "debt versus equity" concept but rather more than that because the equity comprises of the minority interests, retained earnings and common stocks whereas the debt offers more kind of varieties where additionally there are more hybrid concepts such as the convertible bonds and preferred stock (Harding *et al.*, 2007). All of these concepts can be combined as various composites in order to find an optimal capital structure which has the capability to maximize the market value as a whole of the firm. Furthermore, capital structure in financial management refers to a systematic approach that is required to finance the important business activities by the combination of liabilities and equities. By the theories presented with the passage of time about the capital structure tends to explore the connection and relationship between the equity financing and debt financing and the firm's market value.

The capital structure tends to impact upon the bank performance and decision-making process such as it is influential upon certain institutional characteristics which are able to reflect the kind of legal systems including the creditor right protection and type of law that is being followed. Secondly, it influences the banking industry characteristics including the capital regulation, market structure, deposit insurance schemes and monitoring (Rob and Robinson, 2014). Furthermore, the macroeconomic characteristics including the annual GDP growth rate are also affected. It is observed that there are certain similarities between the banking capital structures and capital structures of the non-financial firms. The banks tend to optimize their capital structures in a similar way the other firms do.

The optimal or target capital structure for a retail bank can be defined as the one that is the mixture debt, common equity and preferred stock as that can optimize the company's stock price. When the company tends to raise new capitals, the main focus is to maintain the targeted optimal capital structure (Rob and Robinson, 2014). For a retail bank and other financial institutions, an optimal capital structure is considered to be the best due to debt to equity ratio as it aids in maximizing the value (Schepens, 2016). It can be stated that the optimal capital structure for the retail bank is one that tends to offer a complete balance between

the debt to equity ideal range and helps in minimization of the company's cost of capital as well as maximizing the value.

RESEARCH METHODOLOGY

Research methodology provides the researcher a complete set of options which can be used for the purpose of completing the research process. The research methodology enables the researcher to adopt different strategies and methods by which the data can be collected, analysed and interpreted. The research methodological approach allows the researcher to select the different methods and types of research which suits the selected topic. The research methodology is always centered on the nature of the research topic. Furthermore, there are several aspects or tools in the research methodology that helps and guides the researcher to carry out the research in an appropriate manner.

RESEARCH DESIGN

Research design is a technique which is an important part of the research methodology. It provides different options to the researcher which can be adopted and utilized in order to collect the data for the research process. Research design can be defined as a detailed outline of the research process which evaluates how the research is going to take place. The exploratory and explanatory designs are the mostly used research designs whereas the descriptive research design is also used. The adoption of the research design depends upon the nature of the research topic. The exploratory research design helps in the exploration of the research, primary research is used for data collected so that in depth analysis into the research topic is carried out. Whereas in the explanatory design, the research is carried out by the secondary data collection and it is selected when it is not possible for the researcher to collect the primary research. Furthermore, the descriptive research design is a combination of both the research designs for those research processes which requires both explanation and exploration in the research.

In this research, the explanatory research design is used because in this research design the secondary data can be collected to carry out the explanation process in the research. This is the most suitable research design as primary data is not easy to collect by the researcher considering the research topic.

RESEARCH METHODS

The research methods are also an integral part of the research methodology. The researcher selects the research methods on the basis of what is required in the research (Bryman and Bell, 2015). There are two research methods which comprises of the qualitative and quantitative methods. The qualitative research method provides the techniques to the researcher to collect the research on the basis of characteristics, qualities and patterns (Creswell, 2017). Getting a natural response in the qualitative method is of utmost importance (Lewis, 2015). However, the quantitative method allows the researcher to collect the data and present it in a quantifiable manner such as by the help of charts and numbers.

In this research, considering the nature of the research the qualitative research would be carried out. Which would enable the researcher to gather strength from the secondary sources and qualitatively analyze the collected data.

RESEARCH PHILOSOPHY

The research philosophy in the research methodology is a belief that enable the researcher to collect the data in a required manner i.e. it is a way by which data about a certain aspect must be collected (Edson *et al.*, 2016). The research philosophies mainly used includes the interpretivism, the realism philosophical approach and the pragmatism. In realism, both the interpretivism and positivism philosophies are used cohesively. However, the positivism philosophy is a concept in which the researcher is only capable of observing the phenomenon by an objective perspective i.e. the research must not be intercepted or edited. Whereas, the interpretive philosophy is based on the collection and interpretation of the data by the researcher's own perspective i.e. the researcher is allowed to interfere and reason within the research process by own point of view.

In this research, the interpretive philosophical approach is chosen by the researcher as it is the most appropriate for the research process. By this philosophy, the researcher would be capable of collecting and interpreting the data more properly.

RESEARCH APPROACH

Research approach gives a way by which data that is collected must be approached. The two most used research approaches include the inductive and deductive approach (Bryman and Bell, 2015). When qualitative methods are being used by the researcher the research approach that is used is called the inductive approach whereas when the quantitative methods are being used by the researcher the deductive approach is used by the researcher (Lewis, 2015).

In this research, the researcher has selected qualitative research method so it is appropriate to select the inductive approach so that the research methodology is cohesive.

DATA COLLECTION TECHNIQUES

The data can be collected by the application of different techniques in the research which includes the primary and secondary research techniques. It is important to consider the nature of the research topic before selecting data collection techniques so that it can be acknowledged either the primary sources are required to be used or the secondary (Saunders *et al.*, 2015).

In this research, the secondary sources are used to gather the data and information regarding the research question. The secondary sources to be used include the academic journals and articles, books or case studies. Also, those sources by which can help in understanding the capital structures. Furthermore, newspapers would be referred in order to determine the current issues facing by the banks regarding the capital structure.

CONCLUSION

In conclusion, the best capital structure for the retail bank is said to be the one which is a combined mixture of the debt and equity. The main aim of this research is to find out the best capital structure for the retail

bank. Thus, the optimal mix of the debt and equity is the best possible capital structure for a retail bank and can be referred to as the best optimal structure.

As a company's short term and long-term debt's proportions are considered at the time of analysing the capital structure. The financial analysts refer to the debt to equity ratio when they talk about the capital structure of the bank (Harding *et al.*, 2007). The capital structure aids in providing the insight into the risks that a company may have. Mostly, when a company is observed to be heavily financed by the debt it tends to have more aggressive capital structure which makes them possess high risk to the investors (Rob and Robinson, 2014). This risk is considered to be the primary source of the growth of the firm.

TIME SCHEDULE

June and July 2018
• Choice of proposal Topic
• First Draft of Proposal
• Corrections proposal submitted and Feedback from Supervisor
• Approval from Supervisor
• Start Collection of primary data or secondary data information of portfolio

July and August 2018
• Meeting with the supervisor to discuss with primary plan and get required information
• Data analysis
• Increase more secondary research
• Review introduction
• Literature review

August to September 2018
• Data Interpretation
• Meeting with the supervisor to discuss the result
• Checking grammar/Presentation
• First Draft of dissertation
• First Approval from supervisor
• Changes or Correction in the first draft, if applicable

September to October 2018
• Preparation of consultation and recommendation
• Final checking grammar/Presentation
• Approval from supervisor
• Changes final draft, if necessary
• Final draft of dissertation
• Final approval from supervisor
• Preparation to submit the project
• Final Submit the project to the Moodle

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