

# Problems Existing in Dividend Policies in China Listed Companies and Countermeasures

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## Abstract

Dividend policy is an extremely important financial decision making in listed companies, and standardization of dividend distribution policy in China listed companies means a lot to stockholders, the companies themselves and the stock market. This article mainly studies the primary problems existing in dividend policy in China listed companies and puts forward corresponding policies to resolve these problems.

**Keywords:** Listed company, Dividend policy, Dividend distribution, Equity structure

Dividend policy is a strategy adopted by a company for dividend distribution, a bond for the investment and financial activities of the company and also the central content in dividend distribution in listed companies. Dividend policy is closely connected with interests of stockholders. Thus, appropriate dividend policy can not only set up perfect image of a company, but can also absorb investors and increase the share price of the company. A proper dividend policy is helpful to balance the development of the company in the future and the current yield of the stockholders, as well as interests of different stockholders and helpful for healthy development of the listed companies and stock market.

## 1. Problems existing in dividend policy in China listed companies

### 1.1 Extremely irregular dividend distribution behaviors

Board of directors in some companies is deficient in seriousness in formulating dividend distribution projects, as they often alter distribution projects with randomness, which may give rise to unusual fluctuation of the secondary market. They don't have any plan in the long run in working out and carrying out dividend policies, with great blindness and randomness, lacking in continuity, strong randomness in dividend distribution, serious short term planning and unable to make a highly meticulous decision making from the long-term development strategy of the companies. However, as a matter of fact, the fluctuation of stock price caused thereby not only damages the credit of the companies, but also may destroy the financial target of the companies and the wealth maximization of stockholders since the stock price represents the value of the companies.

### 1.2 Diversity of dividend distribution projects

Since China listed companies often have the multiple stock varieties of state shares, corporate shares and ordinary shares at the same time, and all these different shares have different costs and different flowability, preference of stockholders for dividends may also vary. In order to cater to different requirements of investors, some companies may adopt different dividend distribution policies for different investing subjects, which may do harm to interests of other investors, which violates the basic principle of "equal share for equal dividend". Some dividend distribution projects that have been approved by the general meeting of stockholders are far away from being implemented and are even not within the foreseeable future, delayed again and again, which also seriously infringes upon the legal interests of the stockholders.

### 1.3 Unstable dividend distribution policy and bad continuity

In order to obtain conditions for stable and sustainable development, first of all, listed companies have to guarantee stability and sustainability of dividend policies, so as to give full play to the function of "signal transmission" of dividend policy and add to confidence and loyalty of the vast majority of investors. A large majority of listed companies in China don't work out medium and long term plans for dividend distribution according to the life cycle rule of the development of the companies in terms of their dividend policies, but make

temporary decisions each year, so direction of strategic policies is lacking in dividend policy. Some companies determine directly whether it should be cash dividend or present of shares or allotment of shares according to the re-financing behavior. There are even some companies that randomly alter the dividend distribution projects or delay the implementation date of dividend policy with indefinite duration, which seriously affects interests of investors. Every year, there are almost half listed companies that don't distribute their dividends. And even if they distribute their dividends, the level of cash dividends is relatively. This indicates that, management personnel in a large majority of listed companies have not had definite target in maintaining the image of the companies and stabilizing stock price, haven't worked out dividend policy or even if they have, they are random in implementing the dividend policy and have not paid enough attention to returns to the stockholders.

#### *1.4 Co-existence of "abnormal low cash dividends" and "super power cash dividends"*

Different from listed companies in developed countries that generally carry out the stable cash dividend policy, the cash dividend policy in listed companies in China is even more diversified, and especially the two extreme situations often happen, namely, "non-distribution" and "super power cash dividends". With continuously perfection of the supervision system in stock market, since the supervision section links together the cash dividend with re-financing, the quantity of dividend distributed in listed companies exhibits a tendency of increasing progressively. However, the rate of the cash dividend distributed by the listed companies is relatively low and the will of the companies to share out bonus is not strong enough. More companies carry out cash dividend just to comply with regulations specified by the policies so as to achieve the purpose of re-financing. The cash dividend project in some listed companies surpasses the endurance capacity of the companies and the phenomenon is a common occurrence in companies where each cash dividend is larger than earnings per share and each operating cash flow is smaller than zero.

## **2. Countermeasures to improve dividend policies in listed companies in China**

Policy of dividend distribution in China is affected by multiple internal and external factors, such as, rules of the companies, investment opportunities of the companies, cash flow ability, profit making ability, debt paying ability, financing difficulty, national tax revenue regulations and agency costs, etc. Thus, when listed companies carries out ash divided policy, they usually follow certain principles, take an overall consideration of some factors that affect the policy of cash dividend, make a comparison of all sorts of cash dividend policies and finally select a sort of cash dividend policy that complies with characteristics and demand of the companies, which can then ensure the interests of stakeholders, the companies and the creditors, standardize the revenue distribution of the companies and really realize the financial target of value maximization of the companies.

In order to improve implementation of dividend policies of China listed companies, facilitate healthy and stable development of China security market and capital market, and protect interests of investors and stakeholders, we put forward the following several suggestions.

#### *2.1 To speed up optimization of ownership structure of listed companies*

The ownership structure in which non-negotiable state shares and corporate shares take a leading position and are highly centralized is the institutional foundation for listed companies to form an irrational dividend policy. In order to optimize ownership structure of listed companies, it is necessary to thoroughly eliminate the situation of "dominance by a single shareholder", resolve the problem of reduction of state-owned shares, speed up the progress of diversification of property rights and enable the dividend policy of listed companies to really reflect the interests of all shareholders, especially minority shareholders. We ought to adopt diversity of equities and diversity of investing subjects, widely take in admission of non-state owned capital, and set up interest connection mechanism for different shareholders. Besides, we can also form the pattern in which several major shareholders control each other, so as to enable the listed companies to carry out a policy of maximization of interests of all shareholders.

#### *2.2 To strengthen constraint and supervision on behaviors of the major shareholder*

Relationship between the proportion of shares holding by the first majority shareholder and the distribution rate of cash dividend is especially obvious. Thus, in order to prevent the first majority shareholder from encroaching on interests of minority shareholders, cash dividend policy and operation condition of listed companies should be combined together. At the time when we encourage listed companies to issue sustainable and stable cash dividend to pay back to investors, we ought to lay emphasis on rationality of dividend issuance and prevent the first majority shareholder from transferring interests and manipulating shares price. Simultaneously, we have to strengthen vigor of punishment on behavior of the first majority shareholder encroaching on minority shareholders. In addition, it is necessary to set up effective internal supervision mechanism of the listed companies, perfect corporate governance structure, form effective control mechanism among different types of shareholders and resolve fundamentally the problem of the first majority shareholder's exaggerated internal authority and damaging interests of minority shareholders.

### 2.3 To strengthen protection of interests of minority shareholders

Laws and regulations in China ought to seek for protection and correct guidance for institutional arrangement for minority shareholders, and, in the meanwhile, strengthen the consciousness of self protection among minority shareholders, reducing blindness of minority shareholders' entry into the market and deep speculation color. In terms of voting mechanism for dividend distribution project, we should strengthen voting rights of minority shareholders and enable minority shareholders to play a certain role in voting of dividend distribution project, which can effectively eliminate the phenomenon of "dividends with malignance" and the phenomenon of "low cash dividend" and encourage security market to develop towards a healthy direction.

### 2.4 To strengthen supervision on listed companies

We can reduce proportion of China listed companies which don't distribution dividend by means of strengthening legislative supervision and supervision by other relative departments, reinforce emphasis of listed companies on dividend policy, enhance sustainability of listed companies' dividend policies, avoid internal manipulation behavior of listed companies in distribution of profits, standardize disclosure content and disclosure forms of pre-arranged planning of profit distribution, strengthen legal protection of investors and restrain any interest invasion behavior protect interests of the vast majority of investors through legislative approaches. We may build up a standard, strict and safe external environment for listed companies to carry out dividend policies, which can also offer legal guarantee for interests of investors from an objective perspective.

### 2.5 To offer corresponding guidance in tax policy

At present, personal and securities investment funds are regarded as the cash dividend for investors. If their income tax is levied on the basis of 20%, then according to regulations of income tax law of companies, as for investors of the companies, whether their stocks are long term or short term, their profits have to be adjusted in terms of overdue tax. However, as for investment of the secondary stocks market, in addition to stamp duty of trade, stockjobbing difference interest has never been levied. This, to some extent, makes cash dividend unlikely to attract attention of investors. On the contrary, investors concentrate more on gaming of the secondary market, and they hope that the listed companies can enlarge price difference of the secondary market by the means of sending shares but ignore requirements of the companies for cash dividend. Thus, if corresponding preferential policies can be carried out in terms of income tax, such as, reducing income tax in levying cash dividend, then to a certain extent, more investors and listed companies will choose the mode of cash distribution.

### 2.6 To work out dividend policies in a scientific and rational way

To work out dividend policies in a scientific and rational way helps to strengthen continuity and stability of dividend policies. When listed companies select their own dividend policies, they have to take into account their own condition, select a dividend policy that is most suitable with their current and future development after taking into consideration all kinds of influential factors and escalate this policy as a long term strategic decision making. The listed companies ought to work out dividend policies according to the stage of their current development. Usually, the development stage of the listed companies can be classified into the five stages of initial stage, swift growth stage, stable growth stage, maturity stage and recession stage. As a result of differences of each stage in production features, demand on capital, and sales of products, types of selection of dividend policies also vary from each other. The listed companies should connect their dividend distribution policies with all stages of the life cycle of the companies, which can not only maintain stability of dividend distribution within a long period of time and avoid short-term actions, but can also adjust accordingly the dividend distribution policies according to different stages of the listed companies.

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