



THE WAYS OF OPTIMIZATION OF COMPANIES' DIVIDEND POLICY

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Abstract

Numerous theoretical studies on the formation of dividend policy offer very contradictory recommendations on the formation of an optimal dividend policy. At the same time, it must be assumed that the inclusion of a dividend policy that takes into account the innovative orientation of high-tech and knowledge-intensive companies in their management strategy should be considered as a factor in increasing innovation activity and financial management efficiency. For these companies, the following recommendations may be given on the choice of methodological tools that help optimize dividend policy and implement innovation policy goals. This paper studies the ways of optimization of companies, methods of dividend policy and factors that affect it. It shows there is a strong relationship between the dividend policy of the company and its market value, as well as the key success to the efficiency of the dividend policy is the good relationship with shareholders.

Keywords: Dividend, dividend policy, optimization, firms, corporate

INTRODUCTION

In order to determine the future cash flows that are available for distribution in the context of increased innovation and investment activity, it is necessary to assess the company's need for innovation, determine the stage of the life cycle and assess its investment opportunities (ДавыдоваЕ.Ю.).

In order to improve the efficiency of the dividend policy as an integral part of financial management, focused on maximizing the welfare of owners, special attention should be paid to building trust relationships with shareholders (share relations), which implies maximum disclosure of information (БланкИ. А). As you know, investors can appreciate the value of the

company even in the case of non-payment of dividends, if they are well informed about its development programs, the reasons for non-payment or reduction of dividends, the directions of profit reinvestment. Improving the dividend policy is one of the most important tasks for organizations that issue various types of securities to attract investors.

The amount of dividends paid on deposits is determined by the management of the organization based on the situation prevailing in the market. Too high interest rates on deposits can lead to the scaring of many investors, on the other hand, small dividends on various types of deposits can also have a negative impact on investors.

The improvement of the dividend policy for joint-stock companies can be made using various methods. Interest payments on shares are determined at the meeting of shareholders based on the financial position of the company in the period. Many companies prefer to keep a balance between payments on securities and cash that must be directed to the development of the enterprise. In some cases, joint-stock companies significantly reduce interest on shares, even with relatively high profits, which often discourages shareholders (*Ахмедов А.Э*).

Currently, in the course of improving the dividend policy, many companies decide to issue original securities that can attract investors. To such securities can be attributed, for example, preferred shares with a fixed minimum percentage. The company's management may decide on the need to increase the interest paid on this type of securities.

When conducting procedures to improve the dividend policy, it is necessary to carefully study both the situation on the market and the internal resources of the company. To conduct such an analysis, specialists often use various techniques, as well as specialized software, which allows not only to assess the current situation, but also to simulate the development of the market over the next few years.

As a rule, the result of improving the company's dividend policy is the adoption of regulatory documents on the basis of which cash is paid to investors.

Improving the quality of dividend management, the effective implementation of tools that form incentives for investment in innovation and financial development of companies on a long-term basis, will increase the investment activity and investment attractiveness of high-tech and knowledge - intensive public companies and implement their innovative strategies (*Болдырев В.Н.*).

ANALYSIS OF METHODS OF DIVIDEND POLICY AND FACTORS THAT AFFECT IT

The main goal of the profit distribution policy remaining at the disposal of an enterprise is to optimize the proportions between the capitalized and consumed parts, taking into account the implementation of the development strategy and growth of its market value.

Based on the main goal, in the process of forming a policy for distributing the profits of an enterprise, the following tasks are solved (Figure 1):

- Ensuring that the owners receive the necessary standard for the invested capital;
- ensuring the priority goals of the strategic development of the enterprise at the expense of the capitalized part of the profits;
- providing incentives for labor activity and additional social protection of personnel;
- ensuring the formation of the necessary size of the reserve and other funds of the enterprise.

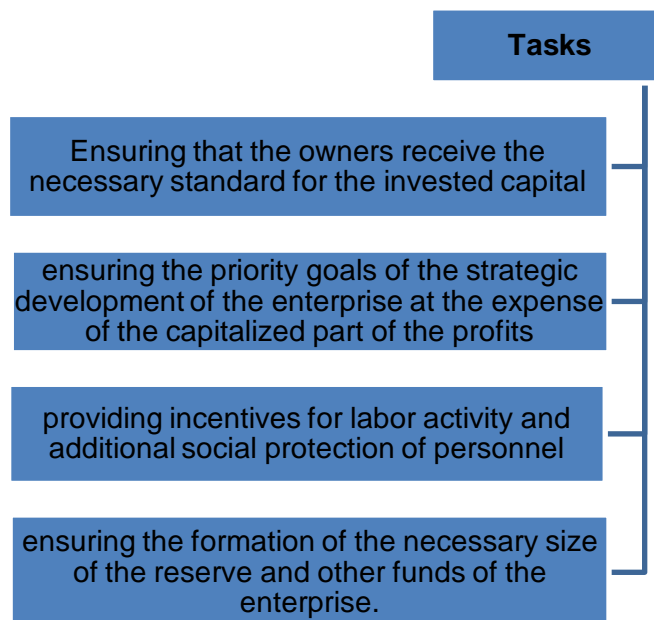


Figure 1. Tasks solved in the process of formation of the policy of profit distribution of the enterprise

Source: author's compilation

Taking into account the implementation of these basic tasks, a direct distribution of the profits of the enterprise is carried out. The process of this distribution is based on the following principles (Figure 2):

The connection of the profit distribution policy with the general enterprise profit management policy. The goals and objectives of the profit distribution policy should fully comply with the goals and objectives of the overall management policy, since profit distribution of the reporting period is at the same time the process of providing conditions for the formation of the profit of the upcoming period.

Prioritization of interests and mentality of the owners of the enterprise. The profit generated by the enterprise and remaining at its disposal after paying taxes belongs to its owners, therefore,

in the process of its distribution, the priority of the directions for its use is determined by them. The mentality of owners can be directed towards obtaining high current income or at ensuring high rates of growth in invested capital, determining the main proportion of the distribution of profits - between the parts consumed and capitalized by them. These proportions may change over time due to changes in the external and internal conditions of the enterprise.

The stability of the profit distribution policy. The basic principles of profit sharing, which are the basis for the development of its policy, should be long-term. Compliance with this principle is especially important in the process of the action of large joint-stock companies with a large number of shareholders (this allows such shareholders to make sound investment decisions).

Predictability of profit sharing policy. If it is necessary to change the basic proportions of the distribution of profits due to adjustments in the development strategy of the enterprise or for other reasons, all investors should be notified in advance. Investors' information (first of all, of shareholders) is one of the important conditions for ensuring the “transparency” of the stock market, which forms the real value of the outstanding shares(БелобтецкийИ.А).

Evaluation of the effectiveness of the developed distribution policy Such an assessment is carried out using the following key indicators: profit capitalization ratio; coefficient of dividend payments; staff participation ratio in profits, etc.

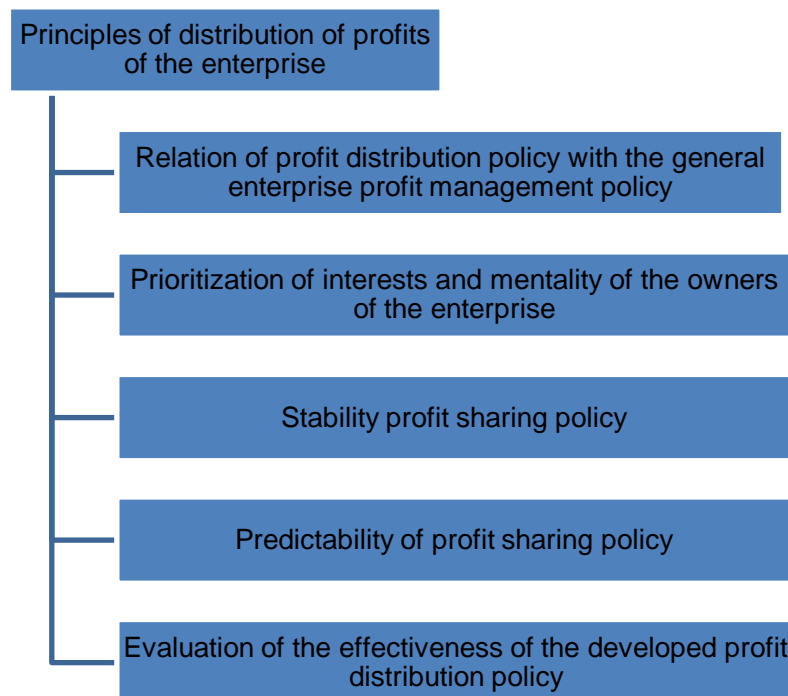


Figure 2. Principles of distribution of profits of the enterprise

Source: author's compilation

By the nature of occurrence, all factors can be divided into two main groups (Figure 3):

- a) external (generated by the external conditions of the activity of the enterprise);
- b) internal (generated by the features of the economic activities of the enterprise).

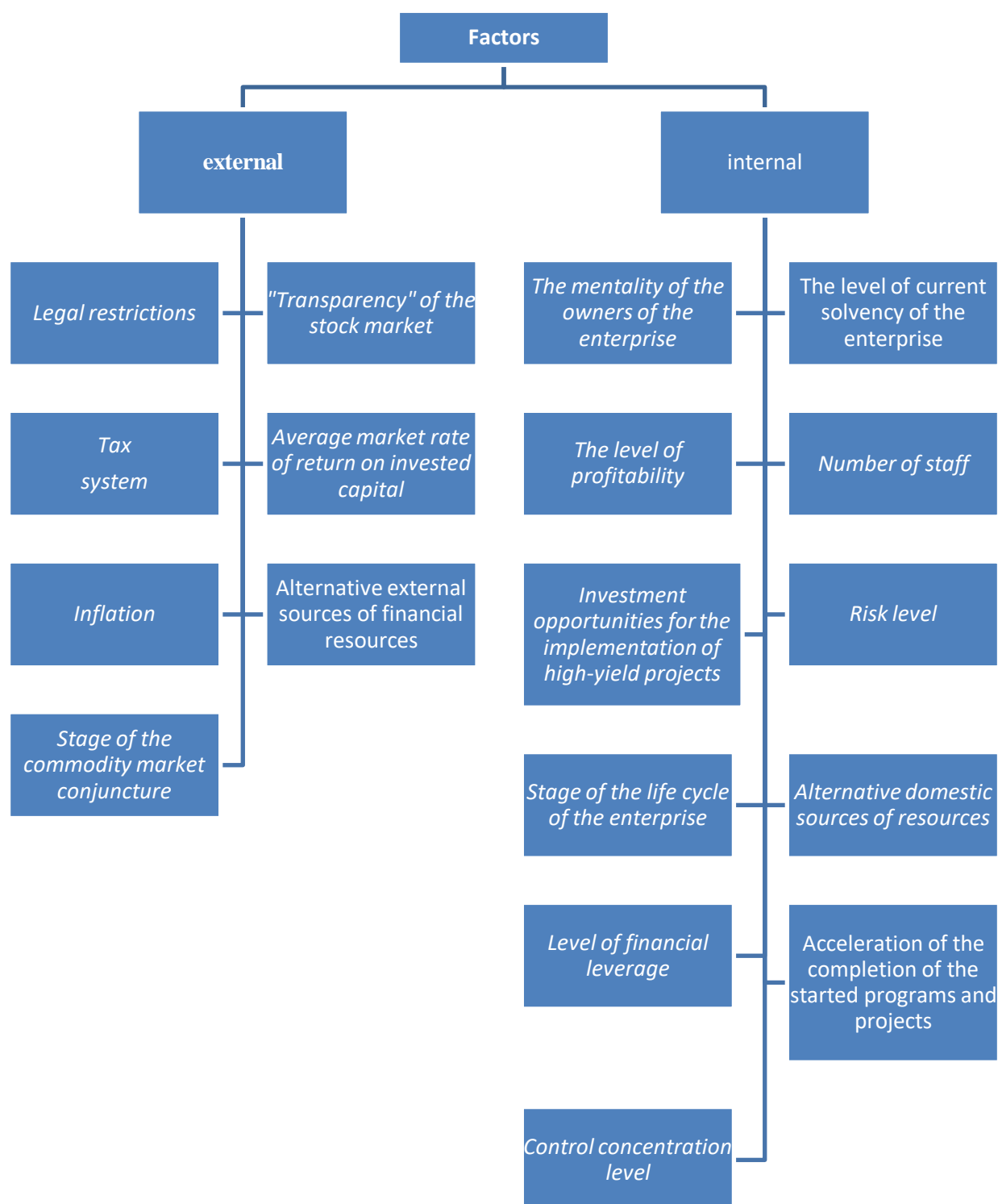


Figure 3. Factors affecting the distribution of profits

Source: author's compilation

External factors are considered as a kind of restrictive conditions that define the boundaries of the formation of the proportions of the distribution of profits. The most important of these factors include:

Legal restrictions. Legislation determines the general financial and procedural issues related to the distribution of profits. They form the priority of certain areas of its use (tax and other deductions), establish the normative parameters of this use (tax rates, fees and other mandatory deductions at the expense of profits; minimum rates for the reserve fund, etc.).

Tax system. The specific rates of individual taxes and the system of tax benefits significantly affect the proportions of the distribution of profits. If the level of taxation of personal incomes of citizens is significantly lower than the level of taxation of economic activities and property of the enterprise, this creates prerequisites for an increase in the share of capital consumption. Conversely, if the tax system provides benefits for reinvesting profits. In its direction to charitable and other purposes, this creates the prerequisites for encouraging such forms of profit utilization.

Inflation rate. This factor generates the risk of depreciation of future incomes, forming the propensity of owners to increase their current payments. However, if an enterprise produces inflation-protected products (and, as experience shows, prices for certain types of products can significantly outpace inflation), or its investment projects provide a high level of capital materialization, the negative effect of this factor on the actually determined distribution ratios profits can be neglected. The main condition for this is the payment of current income to owners in the upcoming periods, taking into account their adjustment to the inflation index in relation to the previous period.

Stage of the commodity market conjuncture. In the period of the rise of the conjuncture of the market in which the company sells its products, the efficiency of capitalization of profits in the process of its distribution increases. The effect of this favorable factor makes it possible to receive in the forthcoming period a much higher rate of return on the reinvested capital than in previous periods.

"Transparency" of the stock market. The ability for shareholders to quickly use information about the nature of the distribution of profits and the level of dividends paid per share allows them to make quick decisions about reinvesting capital (while reducing dividend payments) or acquiring an additional number of shares (increasing dividend payments). Therefore, in conditions of high "transparency" of the stock market, it is necessary to take into account the consequences of management decisions about the distribution of profits, their impact on the change in real value and market share prices.

The average market rate of return on invested capital. The character of this indicator forms the effectiveness of the proportions of consumption and reinvestment of profits, being a peculiar criterion of management decisions on this issue. In the face of a decrease in the average market level of return on capital, there is an increase in the trend towards an increase in the share of profit directed to consumption. At the same time, the growth of this indicator creates prerequisites for more efficient use of re-invested capital, i.e. increase in the share of capitalized profit.

Alternative external sources of formation of financial resources. If an enterprise has the ability to attract financial resources from external sources at lower cost than the weighted average cost of its capital, it can distribute a larger amount of profit among owners and staff, since its investment needs will be met through cheaper alternative external funds sources of financing. If the enterprise's access to external sources of capital formation is limited, or if the cost of its attraction significantly exceeds the weighted average cost of capital prevailing in the enterprise, the use of profit for investment purposes will be more efficient.

Internal factors have a decisive impact on the proportions of the distribution of profits, as they allow to form them in relation to the specific conditions and results of management of the enterprise. The most important of these factors include:

The mentality of the owners of the enterprise. This is one of the important indicators that form a specific type of enterprise profit distribution policy (its dividend policy). If the owners (shareholders) need a constant inflow of current income or do not accept the risks associated with the long expectation of these incomes in the future period, they will insist on ensuring a high share of profit consumed in the process of its distribution (if their mentality is not taken into account they reinvest their capital in other enterprises with a more acceptable dividend policy for them). At the same time, if the owners do not need high current incomes and prefer an even higher level of these incomes in the upcoming period due to the reinvestment of capital, the share of the capitalized part of the profit will increase (if their mentality is not satisfied, they will also be forced to reinvest their capital in other companies with an appropriate dividend policy).

The level of profitability. This indicator has a significant impact on the freedom to form the proportions of the distribution of profits. With a low level of profitability of economic activity (and, accordingly, a smaller amount of distributed profits), the freedom to form the proportions of its distribution is significantly limited. This is due to the fact that a certain part of the profit is "connected" with contractual obligations to the owners (the level of dividend payments for privileged shares) with the staff (social protection forms) or due to legal norms (formation of a reserve fund). Therefore, the remaining part of the distributed profits in the proportion of its use in these conditions will not significantly affect.

Investment opportunities for the implementation of high-yield projects. If there are ready-made projects in the company's portfolio, the internal rate of return on which significantly exceeds the weighted average cost of capital, and such projects can be implemented in a relatively short period, the share of capitalized profit (with other things being equal) will increase.

Stage of the life cycle of the enterprise. In the early stages of their life cycle, enterprises are forced to invest more in their development, limiting the size of payments to owners. At the same time, enterprises in the stage of maturity are not so active in the field of real investment, have the opportunity to attract the credit resources they need on more favorable terms, and therefore can provide higher rates of payment.

The level of financial leverage ratio. If an enterprise has the opportunity to increase the effect of financial leverage due to the growth of its ratio, while not significantly reducing its financial sustainability, the share of consumed profits in the process of its distribution can be increased. Conversely, if the ratio is excessively high and does not provide an increase in financial profitability, and a decrease in the volume of borrowed capital used can cause a significant reduction in the volume of operating activities, the company is forced to capitalize a significant part of its profits.

Level of concentration control. If in the process of optimizing the capital structure there is a need to significantly increase the share of its own part, and owners are concerned about the threat of losing financial control over the management of an enterprise when attracting capital from external sources, then in the process of profit distribution the level of capitalization should increase significantly. Only under the condition of a significant increase in the volume of internal financing for the development of an enterprise, the controlled volume of capital that ensures the actual management of the enterprise will remain in the hands of the former owners.

The level of current solvency of the enterprise. In the conditions of a low level of current solvency, a high volume of urgent financial obligations, an enterprise is not able to direct large amounts of distributed profits to consumption. This would lead to a significant decrease in the level of liquidity of assets that maintain current solvency, as well as an increase in the threat of bankruptcy of the enterprise. From the standpoint of financial risk, a decrease in solvency is more dangerous than a decrease in the level of dividend payments, which negatively affects the market value of shares.

The number of staff and the current program of its participation in profits. The higher the number of personnel, the greater the volume of contractual obligations of the enterprise regarding the participation of personnel in profits, the correspondingly higher the share of the consumed part of the profit should be. This factor also forms the internal proportions of the distribution of the consumed part of the profit - between the owners and staff of the enterprise.

The level of risks of operations and activities. If an enterprise conducts an aggressive policy in certain areas of its activity or carries out a large amount of individual business transactions with a high level of risk, it is forced to direct more funds from profits to form reserve and other insurance funds. Without ensuring such minimal internal insurance of high-risk economic activity, the inevitable threat of bankruptcy of the enterprise increases.

CONCLUSION

According to our analysis we can make following conclusions:

The essence of the dividend policy is to choose the optimal ratio between the share of profits diverted from circulation, i.e. paid in the form of a dividend, and shares, which is sent to expand the business.

The dividend policy should be considered in the light of the company's overall financial and business objective, which is to maximize the wealth of shareholders. This does not always mean paying maximum dividends, since a more profitable application can be found for dividends within the company itself. Dividend policy is of great importance because it affects the capital structure and financing of a company, and in the case of joint-stock companies, also has an information value.

First, the payment of dividends definitely affects the market value of the enterprise. The change in the price of shares after the declaration of change in dividends paid on them is directly dependent on the change in the value of dividends. Thus, if a company increases the dividend payout rate, this may cause an increase in the share price. On the other hand, an increase in dividend payouts will lead to a decrease in the company's investment, resulting in a decrease in the expected growth rate of the company's activity in the future, which will most likely lead to a decrease in the share price.

Secondly, the dividend policy determines the composition of shareholders. Shareholders are attracted by those companies that pursue an active dividend policy, and which suits them. They are not indifferent to the choice between dividends and capital gains, and many of them prefer to receive dividends, since each unit of income paid to them in the form of dividends is already risk-free and therefore costs more than capital gains that are delayed by future.

The role of dividend policy necessitates its clear formation. The main goal of the dividend policy is to establish a balance between the current consumption of profits and its future growth as a result of investment.

There are several stages in the development of the dividend policy, including the analysis of the dividend policy in the previous period, the assessment of factors influencing the dividend policy, the development of the type of dividend policy, the assessment of the

effectiveness of the dividend policy and its correction based on the results of the assessment, etc.

There are various theories of dividend policy development. Thus, the theory of dividend preference, the theory of the irrelevancy of dividends and the theory of dividend minimization are widespread. The most interesting is the "signal theory of dividends." In practice, the application of these theories is embodied in the implementation of one of the three types of dividend policy: conservative, moderate (compromise), and aggressive.

In order to improve the efficiency of the dividend policy, special attention should be paid to building trusting relationships with shareholders, as well as introducing instruments that form incentives for investment in innovation and financial development of companies on a long-term basis.

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