The American Journal of Management and Economics Innovations
(ISSN – 2693-0811)
Published: June 30, 2021 | **Pages:** 157-162
Doi: https://doi.org/10.37547/tajmei/Volume03Issue06-23

IMPACT FACTOR
2021: 5. 562

Journal Website: http://theamericanjournals.com/index.php/tajmei

Dividend Policy In Joint Stock Companies

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ABSTRACT

This article provides an in-depth analysis of the role and significance of dividend policy in the financial management system of joint-stock companies, describes the theory of calculating dividends, approaches to the formation of dividend policy and the basic principles of dividend policy.

KEYWORDS

Joint Stock Company, dividends, dividend policy, finance, profit, net profit.

INTRODUCTION

Dividend policy as part of corporate governance depends largely on the institutional environment in which companies operate. Therefore, the study aims to identify the factors influencing the dividend policy in the conditions of the underdeveloped stock market of the Republic of Uzbekistan, the legitimate interests and rights of minority shareholders, high prices and the concentration of capital. To this end, the study focuses on hypotheses about the company's financial position, size, business risk, and the impact of the ownership structure on dividend payments.

One of the most critical decisions in the financial policy of joint-stock companies is the decision on how much of this net profit should be distributed among shareholders in the form of dividends. For decades, dividend policy in corporate financial management has been the subject of numerous studies, which is explained by the need to consider the interests of different parties in joint-stock companies when deciding on dividend payments. Although there are many views on the necessity and expediency of dividend payments, research in corporate finance management is still relevant today. To protect the rights of shareholders to dividends, it is proposed to establish in the legislation the requirement to pay a fixed minimum amount of dividends in the presence of profits in the company. This method of protecting the rights to dividends is widespread in world practice (Sweden, Finland, Germany, so on.).

The article is based on methods of using the results of research for economic regulation, protection of the rights of minority shareholders and the spread of modern corporate governance practices.

LITERATURE REVIEW

Several scholars are studying the role of dividend policy in the financial management system of joint - stock companies. In particular, S.E. Elmirzaev described the dividend policy as "part of the company's financial policy aimed at optimizing the ratio between consumed and reinvested parts of profits to increase the market value of the enterprise and the welfare of owners". [2] The economic nature of dividends from the core of being is emphasized that it is expedient to consider its component. Baker, H. Kent (Harold Kent) on the divisive views on dividends and dividend policy, the results of research by scientists, the differences and similarities in the conduct of dividend policy in states, as well as the views of managers, the factors influencing their decision-making, researchers attempts at mathematical modelling and similar issues are described in detail [3]. It also noted that this textbook also studies the differences in dividend payments in different financial market models studied by scientists to protect shareholders' rights. According to Lukashevich, in practice, dividend policy plays a vital role in the activities of joint-stock companies, including fluctuations in the value of shares, leads to changes in equity, and as a result, affects the market value of shares and investment attractiveness of society [4]. We know that dividend policy is closely related to distributing net profits in joint-stock companies. However, E. Brigham and M. Erhardt argue that frequent changes in net profit distribution policies also negatively impact the value of joint-stock companies and, consequently, on investor interests [5].

RESEARCH METHODOLOGY

Scientific methods of studying the processes of economic reality – experimental research, generalization, grouping, logical and comparative methods of analysis, abstract logical thinking, comparative analysis, statistical analysis, forecasting and accounting methods were used in the research.

ANALYSIS AND RESULTS

Dividends in joint-stock companies of the country are defined following the Law "On Joint-Stock Companies and Protection of Shareholders' Rights", adopted in the new edition on May 6, 2014, as follows [1]:

In our opinion, the dividend policy involves transferring a specific part of the net profit by the joint-stock company to the shareholders. Therefore, the primary purpose of this policy is to ensure the right of shareholders to receive income in the form of dividends from investments in shares.

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Consideration of issues related to dividend payments of joint-stock companies and development of dividend policy following the requirements of the Law "On Securities Market", the Law "On Joint-Stock Companies and Protection of Shareholders' Rights" and the Regulation "On Dividend Policy" and other normative legal acts performs accordingly.

The main theories of dividend policy are interconnected and aim to increase the total income of shareholders to ensure adequate financing of current and investment activities of the corporation.

The practical application of these theories has allowed the formation of three approaches to the choice of corporate dividend policy: "conservative", "conciliatory", and "aggressive". A particular type of dividend policy is appropriate for each of these approaches.

Table 2

Basic approaches to choosing a corporation's dividend policy

Approaches to the formation of dividend policy	Dividend policy options used
I. Conservative approach	1. Residual dividend payment policy 2. Policy on a fixed amount of dividend payments
II. A compromise approach	1. The policy of the minimum fixed amount of dividends with the payment of premiums in specific periods
III. Aggressive approach	1. Stable Dividend Policy 2. The policy of constant increase in the number of dividends

By Article 12 of the Law of the Republic of Uzbekistan dated December 25, 2020, No. 657, "On the State Budget of the Republic of Uzbekistan for 2021", state-owned enterprises and legal entities with a state share of 50% or more. As a result, not less than 50% of its net profit is allocated to the Republic of Uzbekistan's State Budget because of the allocations and dividends on the state share, and no later than September 1, 2021, to the budgets of the appropriate level.

Table 3
Information on dividends paid by JSC "Qizilqumsement" for 2016-2020 and their percentage to face value

Date of decision	Number of shares	The amount of dividends per share (in sums)	Relative to nominal (as a percentage)
2016 year.	447 516 900	12,00	0,76
2017 year.	447 516 900	73,00	4,65

2018 year.	447 516 900	54,00	3,44
2019 year.	447 516 900	227,00	14,46
2020 year.	447 516 900	460,00	29,29
2021 year forecast	447 516 900	659,19	41,99

If, as mentioned above, the Company directs 50% of its net profit to the payment of dividends, we can expect a dividend of 659.19 sums per share this year.

The amount of dividends received today is 10.90% of the market price of shares (as of 20.04.2021).

It is expedient to formulate and implement the dividend policy of the corporation in the following sequence:

- Assessment of factors influencing dividend policy;
- Selection of the type of dividend policy;
- Determining the mechanism of profit distribution according to the selected type of dividend policy:
- Calculation of dividend payments per share;
- Choosing the most appropriate form of dividend payment.

The leading group of factors determining the formation of dividend policy should include elements that characterize the Company's investment needs. To them:

- Stage of the Company's life cycle;
- The need for the Company to expand its investment programs;
- Availability of investment projects with high efficiency.

The choice of the type of dividend policy depends on the goal the Company seeks to achieve. In some cases, it is beneficial to maintain a stable amount of dividend payments. The advantage of such an approach is that the shareholder knows in advance that they will receive a fixed return on the securities over some time. Commercial banks and investment funds of our country have been pursuing such a policy for several years

CONCLUSIONS

In our opinion, the following key factors should be taken into account in the formation of dividend policy by joint-stock companies:

- Investment opportunities of the company;
- Opportunities to finance the company's activities from alternative sources;
- Legislative and other objective restrictions on dividend payments;
- Other factors (solvency of companies, the dividend policy of competing companies, etc.).

1. In many developed countries, dividend payment procedures are standardized, set at the legislative level in several stages, and each step is carried out on certain specific dates. We believe that this

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practice should be applied to the process of dividend policy of joint-stock companies of the republic. Indeed, the lack of clearly defined and uniform rules for the payment of dividends reduces the transparency of the dividend payment process. This deprives investors of the opportunity to sell and buy shares with prior knowledge of dividends payable or unpaid. At the same time, it contradicts the standards of disclosure of information about joint-stock companies and securities adopted in foreign markets.

2. Because the dividend policy of joint-stock companies directly affects their investment attractiveness, we think it is appropriate to introduce a unique index in the country, reflecting the status of dividend payments by joint-stock companies. In general, the dividend policy pursued by joint-stock companies in the government should not hinder the implementation and development of investment activities but rather provide an optimal ratio between shareholder requirements and the company's business development opportunities and ultimately contribute to economic growth.

According to foreign experts, any corporation operating by the policy in the field of dividends developed based on analytical research will attract the attention of investors, as it will be possible to predict the company's actions and plan shareholders' income.

In turn, dividends are paid only if all investment projects are funded from the net profit. If it is appropriate to divert the net profit to reinvest, then no dividends will be paid. Conversely, if the corporation does not have practical investment projects, then it is advisable to direct the net profit to pay dividends in full. In this regard, the role of any dividend policy in joint-stock companies is so important. That is not only pursuing an active investment policy but also determining the market price of shares due to the direct impact of the company's shares on the market price and increasing market capitalization.

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Doi: https://doi.org/10.37547/tajmei/Volume03Issue06-23

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