

Dividend policy of leading state-owned enterprises in Poland

Radosław Pastusiak

Faculty of Economics and Sociology
University of Lodz
Rewolucji 1905 r No 39, 90-214 Lodz
Poland

e-mail: radoslaw.pastusiak@uni.lodz.pl

Magdalena Jasiniak

Faculty of Economics and Sociology
University of Lodz
Rewolucji 1905 r No 39, 90-214 Lodz
Poland

e-mail: magdalena.jasiniak@uni.lodz.pl

Abstract Dividend policy has been the leading topic for researchers for over half a century and is the subject of scientific investigation both in theoretical and empirical terms. However, empirical studies have not yet provided support for any particular theory. In our paper, we analyse the dividend policy of the leading state-owned enterprises in Poland. Our results indicate the dependence of the dividend policy on the broader economic policy of the state. Enterprises with the participation of the state-owned enterprises are treated as institutions implementing the policy objectives of the government. This leads to many paradoxes, as far as stock market investors expect accumulation of profits that are paid out in the form of dividends. The scientific added value of this paper is an attempt to verify the most popular dividend theories in the case of the state-owned enterprises in Poland.

1 Introduction

Dividends are a way to distribute past or present earnings of the enterprise among the shareholders in proportion to their ownership. Dividend policy is an element of financial strategy and dictates the form, size, frequency and timing of dividend payments. (Frankfurter and Wansley 2003). The dividend decision is one of the most important for most enterprises.

The main aim of the paper is to identify the basic dependencies in the field of dividends pay-out among state-owned enterprises and non-state-owned (i.e. private) enterprises. The hypothesis is that the dividend policy of state-owned enterprises cannot be compared to the rest of enterprises because of different management style and different role in economy. Our research is based on Polish non-financial enterprises, listed on Warsaw Stock Exchange. It has to be noted that this study has a preliminary character and is a base for further analysis.

2 Importance of dividends in enterprise's financial management

The major goal of enterprise's management is to maximize the enterprise's value and wealth of shareholders. According do Black (1976), if the enterprise investment policy is constant, there is no effect on dividend policy.

Walter (1963) stated that dividend policy is determined by availability of investment opportunities and the relation between enterprise internal rate of return and its cost of capital. If the internal rate of return is higher than cost of capital, as happens in case of growing enterprises, enterprise will avoid dividend pay-outs. In case of declining enterprises, the internal rate of return is usually lower than cost of capital and there are no investment perspectives. Enterprise transfers 100 % of earnings as dividends to shareholders.

According to Miller and Modigliani (1961), dividend policy is irrelevant and do not influence the enterprise value which is determined only by enterprise's investment policy. The tax advantages of paying dividends are align by eternal financing. Enterprise that pays dividends has to raise external funds in order to finance its investment plans.

In the field of behavioural finance, it is suggested that investors prefer current dividends because of risk aversion. Thus, rational thinking, they discount distant dividends at higher rates than those that are pay-out nearly. According to these assumptions, comparing two enterprises with the same general position and characteristics, the

enterprise that is paying larger dividends will have higher share prices (Graham and Dodd 1934; Gordon 1962; Kirshman 1933).

Therefore, here are three major reasons why dividend – paying enterprises are attractive to investors. At first, dividends are more certain than capital gains. Secondly, dividends signal favourable future perspectives. And finally, through dividends interest of managers and shareholders are aligned (Ijaz 2014). Gordon (1962) indicates that shareholders prefer the “bird in the hand” of cash dividends rather than the “two in the bush” in case of future capital gains.

As there are different types of shareholders, the different enterprise objectives may be expected what creates many agency conflicts. The main idea of agency conflicts is that enterprise’s owners may have their own goals, focused on increasing enterprise value than managers who may avoid risk and focused more on bonuses, good salaries etc. Thus, in many enterprises, managers’ benefits depend also on enterprise performance. This is to increase their motivation to rise enterprise’s wealth (Panigrahi and Yuserrie 2015). Dividends provide additional information about business performance to investors. They also prevent the largest shareholders from gathering personal benefits and reduce possible agency conflicts between the minority and majority shareholders (Lotto 2013). According to Faccio et al. (2001), dividends may be used by controlling shareholders to increase the minority shareholders satisfaction and minimize their complaints about possible harming their interests.

Costs of agency conflicts might be lowered also by proper corporate governance what will also influence dividend policy by reducing shareholders’ monitoring and reducing costs. It was proved that higher dividends are paid by enterprises with lower level of insider ownership and/or higher levels of ownership concentration (Rozeff 1982; Dempsey and Laber 1992; or Crutchley and Hansen 1989). However, Puelo and Casey (2009) concluded that corporate governance is not related with dividend policy in regulated enterprises. Authors also noticed that more regulated enterprises pay more dividends. Smith et al. (2008) concluded that enterprises with strong corporate governance regulation can reduce dividend pay-outs.

In the ideal scenario enterprises should transferred generated profits yearly in the form of dividends, thus, satisfied shareholders contribute more to the enterprise and support its growth (Zakaria et al. 2012). Theoretically, enterprises with higher dividend pay-outs have higher rate of returns.

The enterprise valuation on capital market plays an important role and provide information about the enterprise perspectives and expected growth (Hillman and Keim 2001). If dividend payments are increasing, investors take it as positive signal of enterprise performance what will positively influence stock prices what finally leads to create the shareholders wealth (Ross 1977). However, many enterprises focus more on generating profits rather than on dividend policy. Mostly large and well-established enterprises are paying dividends to their shareholders (Armitage and Gallagher 2019).

Enterprises that pay high dividends increase their value more than enterprises paying low dividends. Shareholders in order to increase their value reinvest dividends received from the enterprise (Baker et al. 2001; Fama and French 2001; Porta et al. 1998).

3 Dividend policy: a short literature review

Lotto (2013) indicates that there is a link between corporate dividend policy and corporate control structures. The relation between control wedge of the largest shareholder and dividend pay – out ratios is negative in enterprises that separate ownership from control.

Bhattacharya (1979) indicates that high taxable dividends positively influence the future value of the enterprise. Enterprises that treat their owners unethically and avoid paying dividends are not able to develop long run business. (Sundaram and Inkpen 2004; Freeman et al. 2004).

Ersoy and İsmail (2015) proved that dividend policy is significant for investors and their investment decisions. Investors prefer enterprises that report their financial situation and provide information about dividend strategies in long – term perspective. Dividends are used to signal future prospects of the firm. Investors interpret this as managers’ forecast of future enterprise earnings (Bhattacharya 1980; Healy and Palepu, 1988). However, Baker and Wurgler (2004) concluded that dividends are paid even if there are profitable investments opportunities.

On the other hand, Reddy and Rath (2005) stated that in the emerging markets dividends pay-out would disappear and shareholders would gain only from the enterprise valuation on the market. Barclay et al. (2009) noticed that 68% of enterprises do not pay dividends. Dividend paying enterprises attract institutional investors who prefer to invest in high dividend stocks even if they do not prefer current income. Brealey et al. (2006) concluded that enterprises pay dividends only because of tax reason.

Lin et al. (2017) concluded that enterprises with higher information asymmetry pay less dividends. Authors also indicated that state – owned enterprises are more likely to pay dividends than non – state – owned. However, it is

proved that most non – tradable shares are held by SOEs, so these shareholders do not benefit from stock price increase but only from dividends.

Wang et al. (2011) proved that enterprises with higher share of the State ownership are more likely to pay dividends. This is consistent with the State needs for cash flows. Additionally, Bradford et al. (2013) came to similar conclusions that state – owned enterprises pay more dividends than non – state – owned enterprises. This is because non – state – owned enterprises have greater constrains to gathered external financing and the pressure on financing the enterprise’s growth by internal capital is higher. Bremberger et al. (2016) also concluded that state – owned enterprises pay larger dividends. Authors explained it by the fact that paying dividends is more hidden way to enforce political preferences than more direct actions like smoothing tax regulations. On the other hand, Al-Najjar and Kilincarslan (2016) found that state ownership enterprises are less likely to pay dividends.

4 Dividend strategies in Polish state-owned enterprises

Provided study covers state – owned and non – state – owned enterprises in Poland from non- financial sector, listed on Warsaw Stock Exchange from 2006 to 2017. Analysis is based on financial data collected from Amadeus database (ROE, ROA) and directly from Warsaw Stock Exchange (dividend yield). Finally, the sample consist of 15 state – owned enterprises (SOEs) and 861 non- state – owned enterprises (NSOEs).

The number of enterprises that has paid dividends in analyses period at least once in case of SOEs is 86,7% while in group of NSOEs only 5,1% enterprises provided dividends pay-out. This shows that the SOEs are more likely to pay dividends than NSOEs what confirms results observed in literature.

What is interested, the willingness to dividends pay-outs is not related with enterprise effectiveness. The average ROA and ROE ratios for each subsample show that despite SOEs are less profitable, they pay dividends more likely than more profitable NSOEs and the average value of dividend yield is higher (see Table 1 below).

Table 1. Average dividends yield in SOEs and NSOEs in 2006-2017

	Number of enterprises	Number of enterprises	Dividends yield	ROE	ROA
All enterprises	831	55 (6,62%)	2,12%		
State – owned companies	15	13 (86,7%)	2,49%	5,98%	3,72%
Non state – owned companies	816	42 (5,1%)	1,99%	9,51%	5,62%

Source: Warsaw Stock Exchange

Despite state owned enterprises are less profitable than non – state – owned, their activity is more stable and balanced. The value of the average ROE ratios calculated individually for each enterprise is presented in Figure 1 below.

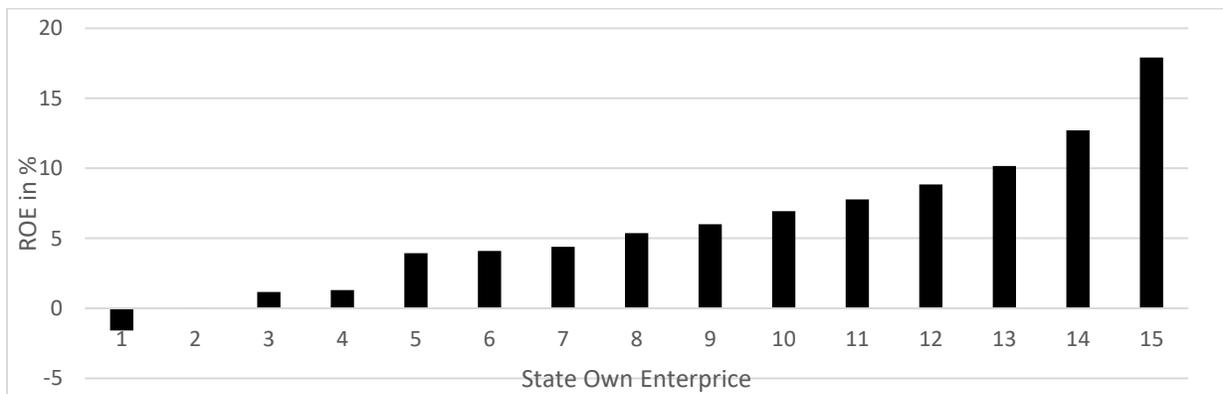


Fig. 1. The average ROE in state – owned enterprises
Source: Amadeus database (2019)

In the whole sample there are only two enterprises with average negative ROE. The rest of enterprises are profitable, and the average values of ROE start from 1,18 and finish with 17,92. Non – state owned enterprises are characterized by higher variability and range of ROE values. The minimum value is -45,93 and the maximum is 60,65. The average ROE ratios are presented in Figure 2 below.

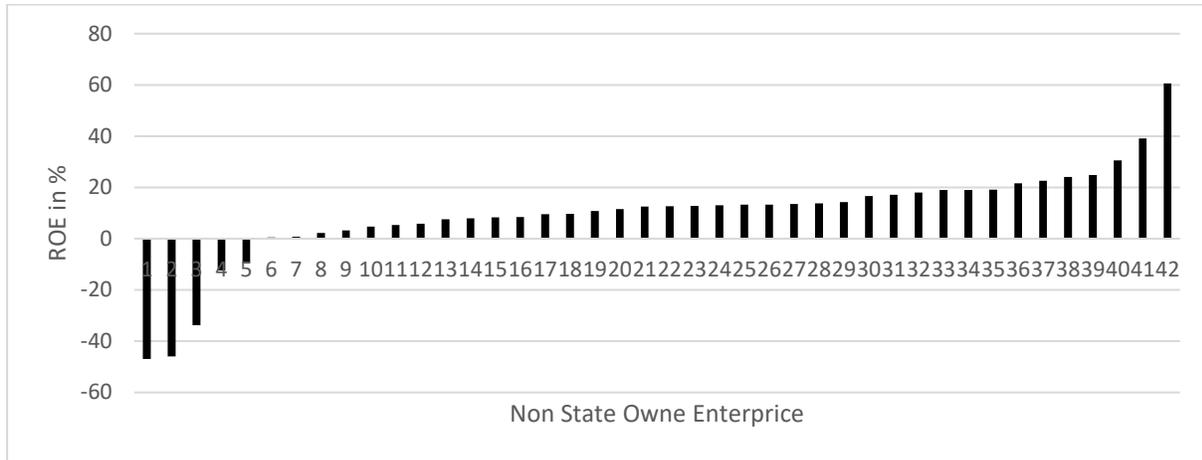


Fig. 2. The average ROE in non – state – owned enterprises
Source: Amadeus database (2019)

The dividend yield of state – owned enterprises is presented on figure below. The minimum value of dividend pay-out is 0,17% and the highest 9,5%. Median is 2,03%. In comparison, the dividend yield in non – state – owned enterprises have on average lower values, starting from 0,01% and finish with 83,7% (only one enterprise provides over average dividend). Median is 0,98%. Both are presented on Figures 3 and 4.

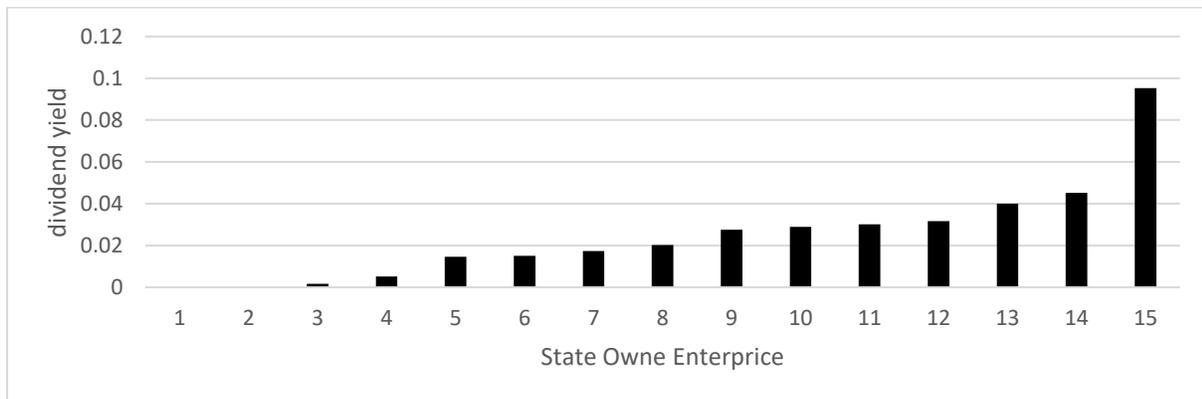


Fig. 3. The dividend yield in state – owned enterprises
Source: Warsaw Stock Exchange (2019)

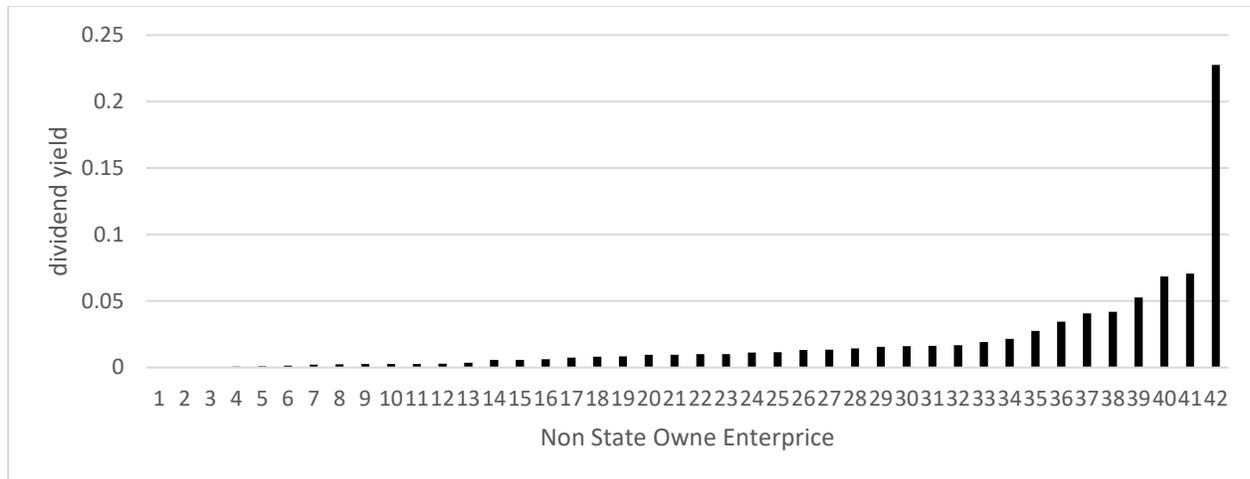


Fig. 4. The dividend yield in non – state – owned enterprises
Source: Warsaw Stock Exchange (2019)

5 Discussion and conclusions

Our results and analysis show a clear difference between the dividend policy lead in the state – owned enterprises and non – state – owned enterprises. SOEs listed on the Warsaw Stock Exchange Market regularly pay dividend on average higher in relation to the dividend paid by other companies. NSOEs rarely pay out the dividend and its average value in relation to the share price is lower than in the SOEs.

Profitability of the company's capital and assets does not determine the dividend policy neither in SOEs nor in NSOEs. In terms of profitability, SOEs are more focused around the average value for the entire subsample. The NSOEs are characterized by a greater volatility of return on capital and assets.

It should be concluded that dividend policy cannot be treated in the same way in enterprises with the share of state and other enterprises. This is due to the fact that SOEs are mostly large and operating in the energy and fuel sector which in Poland is oligopolistic. It can be concluded that SOEs are leading a policy aimed at maintaining a certain level of profitability and thus generating a profit for investments or for a dividend. The KGHM example shows that the enterprise results depend on external factors like the price of copper which is not controlled by the state. Thus, KGHM as a SOEs is not under the rules – the State cannot ensure the profitability of the enterprise.

NSOEs operate on a free market basis. This means that by using their potential they must ensure profitability of the company, liquidity and accumulate capital for reinvestments. Therefore, only 5.6% of these companies have ever paid dividends in 2006 - 2017. Hence the confirmation of the thesis that we cannot treat the policy of dividends in SOEs and NSOEs similarly because the macroeconomic environment of these enterprises is different.

References

- Al-Najjar B, Kilincarslan E (2016) The effect of ownership structure on dividend policy: evidence from Turkey. *Corporate Governance: The International Journal of Business in Society* 16(1):135-161. doi: 10.1108/CG-09-2015-0129
- Armitage S, Gallagher R (2019) Are pension contributions a threat to shareholder payouts? *Journal of Corporate Finance* (in press, available online 5 April 2019). doi: 10.1016/j.jcorpfin.2019.04.001
- Baker HK, Veit ET, Powell GE (2001) Factors influencing dividend policy decisions of Nasdaq firms. *Financial Review* 36(3):19-38. doi: 10.1111/j.1540-6288.2001.tb00018.x
- Baker M, Wurgler J (2004) A catering theory of dividends. *The Journal of Finance* 59(3):1125-1165. doi: 10.1111/j.1540-6261.2004.00658.x

- Barclay MJ, Holderness CG, Sheehan DP (2009) Dividends and corporate shareholders. *Review of Financial Studies* 22(6):2423-2455. doi: 10.1093/rfs/hhn060
- Bhattacharya S (1979) Imperfect information, dividend policy, and the bird in the hand fallacy. *The Bell Journal of Economics* 10(1):259- 270. doi:10.2307/3003330
- Bhattacharya S (1980) Non-dissipative signalling structures and dividend policy. *The Quarterly Journal of Economics* 95:1-24. doi: 10.2307/1885346
- Black F (1976) The dividend puzzle. *The Journal of Portfolio Management* 2(2):5-8. doi: 10.3905/jpm.1976.408558
- Bradford W, Chen C, Zhu S (2013) Cash dividend policy, corporate pyramids, and ownership structure: Evidence from China. *International Review of Economics & Finance* 27:445-464. doi: 10.1016/j.iref.2013.01.003
- Brealey RA, Myers SC, Allen F, *Corporate Finance: International Edition*, 10th edn. (New York, McGraw-Hill/Irwin, 2006), 1028 p.
- Bremberger F, Cambini C, Gugler K, Rondi L (2016) Dividend policy in regulated network industries: Evidence from the EU. *Economic Inquiry* 54(1):408-432. doi:10.1111/ecin.12238
- Crutchley C, Hansen R (1989) A test of the agency theory of managerial ownership, corporate leverage, and corporate dividends. *Financial Management* 1:36-46. doi: 10.2307/3665795
- Dempsey S, Laber G (1992) Effects of agency and transaction costs on dividend payout ratios: further evidence of the agency-transaction cost hypothesis. *The Journal of Financial Research* 15:317-21. doi: 10.1111/j.1475-6803.1992.tb00115.x
- Ersoy E, İsmail B (2015) The Effect of Dividend Policy on Investment Decisions of Individual Investors. *Suleyman Demirel University. The Journal of Faculty of Economics and Administrative Sciences* 20(2):397-411
- Faccio M, Lang L, Young L (2001) Dividends and Expropriation. *American Economic Review* 91:54–78. doi: 10.1257/aer.91.1.54
- Fama EF, French KR (2001) Disappearing dividends: changing firm characteristics or lower propensity to pay? *Journal of Financial Economics* 60(1):3-43. doi: 10.1016/s0304-405x(01)00038-1
- Frankfurter G, Wansley J (2003) Chapter 10 – Determinants of Dividend Policies, In: *Dividend Policy*, pp. 107-139, Boston: Academic Press. doi: 10.1016/B978-012266051-1.50010-1
- Freeman RE, Wicks AC, Parmar B (2004) Stakeholder theory and the corporate objective revisited. *Organization Science* 15(3):364-369. <http://dx.doi.org/10.1287/orsc.1040.0066>
- Gordon (1962) *The investment, financing and valuation of the corporation*, 1st edn. (Irwin series in economics. Homewood III, R.R. Irwin, 1962), 256 p.
- Graham B, Dodd DL, *Security Analysis*, 1st edn. (New York, McGraw-Hill, 1934), 327 p.
- Healy PM, Palepu KG (1988) Earnings information conveyed by dividend initiations and omissions. *Journal of Financial Economics* 21(2):149-175. doi:10.1016/0304-405x(88)90059-1
- Hillman AJ, Keim GD (2001) Shareholder value, stakeholder management, and social issues: what's the bottom line? *Strategic Management Journal* 22(2):125-139. doi: 10.1002/1097-0266(200101)22:2%3C125::AID-SMJ150%3E3.0.CO;2-H
- Kirshman, JE, *Principles of Investment*, 1st edn. (New York, McGraw-Hill, 1993), 737 p.
- Lin TJ, Chen YP, Tsai HF (2017) The relationship among information asymmetry, dividend policy and ownership structure. *Finance Research Letters* 20:1-12. doi: 10.1016/j.frl.2016.06.008
- Lotto J (2013) The Effect of Pyramidal and Dual – Class Equity Structures on Dividend Payments. *The African Journal of Finance and Management* 20(2):10-20
- Miller MH, Modigliani F (1961) Dividend Policy, Growth and Valuation of Shares. *Journal of Business* 411-433. doi: 10.1086/294442e
- Panigrahi S, Yuserrie Z (2015) Dividend Policy Decisions: Theoretical Views and Relevant Issues. *Reports on Economics and Finance* 1(1):43-58. doi: 10.12988/ref.2015.596

Porta RL, Lopez-de-Silanes F, Shleifer A, Vishny R (1998) Agency problems and dividend policies around the world, National Bureau of Economic Research, No. 6594. <http://dx.doi.org/10.3386/w6594> Accessed 29 April 2019

Reddy YS, Rath S (2005) Disappearing Dividends in Emerging Markets? Evidence from India. *Emerging Markets Finance and Trade* 41(6):58-82. doi: 10.1080/1540496X.2005.11052626

Rozeff MS (1982) Growth, beta, and agency costs as determinants of dividend payout ratios. *The Journal of Financial Research* 5:249-59

Smith F, Puleo V, Casey KM (2008) Dividend policy and corporate governance: a research note. *Corporate Ownership and Control Journal* 5(3):220-4. doi:10.22495/cocv5i3c1p6

Sundaram AK, Inkpen AC (2004) Stakeholder theory and the corporate objective revisited: A reply, *Organization Science* 15(3):370-371. doi: 10.1287/orsc.1040.0067

Walter JE (1963) Dividend policy: its influence on the value of the enterprise. *The Journal of Finance* 18(2):280-291. doi: j.1540-6261.1963.tb00724.x

Wang X, Manry D, Wandler S (2011) The impact of government ownership on dividend policy in China. *Advances in Accounting* 27(2):366-372. doi:10.1016/j.adiac.2011.08.003

Zakaria Z, Muhammad J, Zulkii AH (2012) The impact of dividend policy on the share price volatility: Malaysian construction and material companies, *International Journal of Economics and Management Sciences* 2(5):1-08. doi: 10.12816/0018408