

Analysis on the Dividend Distribution System of Listed Companies

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Abstract. As an important part of the company's profit distribution at the end of the period, the dividend distribution system affects the nerves of large and small shareholders, managers and investors. With the development of the market, the dividend distribution system also needs to be reformed and improved. By analyzing the current situation of dividend distribution system of listed companies in China, this paper explores the existing problems and puts forward corresponding countermeasures from six aspects including policies, financing channels and regulatory means.

Keywords: Listed companies; Dividend distribution.

1. Introduction

As an important reference to reflect the operating performance of listed companies, the dividend distribution policy has a profound impact on the stock price and investment and financing of listed companies. Whether the dividend distribution policy of listed companies can adapt to the current development stage and level of the company, whether it can retain more funds for the company and attract more investors has become an increasingly important issue for the company's management.

For this reason, by analyzing the current situation and reasons of dividend distribution policies of listed companies in China, we seek ways to optimize dividend distribution policies of listed companies in China, so as to provide beneficial ideas for improving dividend distribution policies in China's capital market. This will further help us to correctly plan the dividend distribution plan, promote the economic development, sort out the complex interest relationship, and explore a reasonable, effective and lasting policy environment, so as to provide a positive reference for the formulation of the dividend distribution plan.

2. Problems in Dividend Distribution System of Listed Companies in China

2.1 Lacking of Effective Policy Guidance Environment

The sound and perfect dividend distribution system of listed companies cannot be separated from effective guidance of the external environment, and without specific guidance policies, it is impossible to optimize and rationalize dividend distribution. In a perfect stock market, the ratio of cash dividend to net profit is generally 40% to 50%, while the average of this ratio in China in recent 10 years is only 25%. In general, China's management organizations lack effective unified management of the dividend distribution of listed companies. There is no sound policy to guide, so there is bound to be an unreasonable dividend distribution system for listed companies. In view of the choice of dividend distribution plan and the requirement of dividend distribution of listed companies, there is no feasible stable mechanism for the management organizations of listed companies in China. In addition, some listed companies lack social responsibility and seldom consider the interests of investors, which leads to the lack of systematic dividend distribution in China's listed companies.

2.2 Continuously Unstable Dividend Distribution System

Most listed companies pay cash dividends every year, but there is a lack of continuity. As of 2018, only one-third of listed companies in China have paid cash dividends for five consecutive years, and 170 companies have not paid cash dividends for 10 consecutive years. This phenomenon seriously damages the interests of shareholders and is not conducive to the development of companies. The dividend distribution policy is the most direct attraction of a listed company to potential investors. A

stable, sustained and reliable dividend distribution plan conveys the message to potential investors: the stability of its operating performance and the execution ability of its management with the spirit of contract. However, we find that Chinese listed companies often ignore the positive benefits brought by stable and continuous dividend distribution policies when considering and issuing dividend distribution plans, and often lack long-term planning when formulating dividend distribution plans. Most of them only consider the speculative dividend distribution and their own interests, and do not have stable and continuous planning for the selection and implementation of dividend distribution plans, which are fast changing and highly purposeful. This makes investors lack an effective assessment of the company's expected income distribution in the future, and it is difficult to estimate the income distribution of enterprises in the next stage, which will naturally influence investors to make decisions. In the long run, the order of the market will be undermined.

2.3 Fewer Sources of Fund-raising for Listed Companies

The financing channels of listed companies in China are relatively limited, and the state-owned banks have harsh conditions in reviewing the financing qualifications of enterprises, and the period is long. In the absence of a good external financing environment, the lack of social capital has hindered the flow of funds. All these factors make it easier for listed companies to retain a certain scale of capital flow by sacrificing the interests of small and medium-sized investors and adopting no or less dividends.

2.4 Dislocation of Market Supervision and Investor Awareness

As for the refinancing of listed companies, China's Securities Regulatory Commission (CSRC) requires listed companies to distribute cash profits within the profit period of their operations in recent years. For listed companies that have not made a profit distribution, the CSRC requires them to explain the situation in detail. At the same time, it requires listed companies to explain the use of undistributed profits and plans for their use. In response to such regulations, listed companies tend to distribute profits for refinancing. But its purpose is still to prepare for the "circle of money", not to distribute profits according to the company's operating conditions and the interests of small and medium-sized investors. For example, in recent years, in order to attract investors, listed companies tend to cater to the requirements of the regulatory authorities for profit distribution due to their general profitability or even loss. At the same time, small and medium-sized investors in China have been affected by the policy mechanism for a long time. For the investment of listed companies, most of them are motivated by speculation rather than the original intention of the establishment of the market. The profit expectation of the rise and fall of the stock price is higher than that of the company's profit distribution at the end of the period.

2.5 Lacking of long-term Planning for Dividend Distribution

Before 2000, stock dividends were mostly used in China, and cash dividends were seldom issued. After 2000, with the tightening of the policy, the payment of cash dividends has become the main way of dividend distribution, but the payment of cash dividends needs to do a good job in the budget and final accounts of cash payments. However, there are often companies that lack reasonable earnings planning and do not reasonably predict the market for their own operation and production characteristics. As a result, the dividend distribution lacks continuity and effectiveness, and the company's development prospect is in a passive situation.

3. Reasons of Problems in Dividend Distribution System of Listed Companies in China

3.1 Imperfect Laws and Regulations

Laws and regulations are the basis for restricting the production and operation activities of economic subjects. At present, on a whole, the dividend distribution of Chinese companies lacks

compulsion. For listed companies, the management of dividend distribution is not strict, which makes listed companies have more room to choose their own dividend distribution. At present, the dividend distribution of listed companies in China is only in 2013 when the State Council issued "Opinions on Further Strengthening the Protection of the Legal Rights and Interests of Small and Medium-sized Investors in Capital Market". In the "Opinions", listed companies are required to rationally distribute dividend distribution plans, refine distribution measures, and encourage and support listed companies to carry out advanced incentive dividend distribution. For listed companies that do not pay dividends for a long time, they are required to rectify within a time limit. However, due to the legal effect, this "Opinions" is not mandatory and binding on the dividend distribution of listed companies, and has little impact on enterprises in the market.

3.2 Weak Awareness of Dividend Distribution

If the dividend distribution policy is the external environment that affects the dividend distribution of listed companies, then the weak awareness of dividend distribution of listed companies is the internal factor. The lack of dividend distribution awareness of listed companies can be seen in two parts. On the one hand, due to the lack of reasonable understanding of listed companies themselves, it is generally believed that no dividend is the company's internal management needs. Dividend means the loss of funds, and in the long run, the awareness of dividend distribution has become increasingly weak. On the other hand, due to the lack of information and system, small and medium-sized investors in China lack professional investment knowledge in the securities market. They blindly pursue stocks with high returns and high risks, ignore the impact of the company's intrinsic value on stocks, which also provides opportunities for non-dividend-paying companies. Most of them do not consider the dividend distribution policy of listed companies and focus more on the direct benefits brought by changes in stock prices. It is precisely because investors do not pay attention to it that naturally causes the listed companies to ignore the dividend distribution policy. In the long run, it is not conducive to standardizing the dividend distribution policy of enterprises, which results in the market's sensitivity to dividend distribution is reduced. Dividend distribution does not become a primary consideration for potential investors to measure whether a company is worth investing. Therefore, the external environment of the company's dividend distribution policy is lacking, and it is difficult to form an effective operating mechanism.

3.3 Unreasonable Shareholding Structure of Listed Companies

Among the listed companies in China, state-owned enterprises occupy the dominant position, and the large proportion of state-owned holdings will lead to the situation of a single dominant major shareholder. Owner's absence makes it easy to leave the actual management right in the hands of managers. Managers tend to often sacrifice the interests of small and medium-sized investors for their own interests. For private listed companies, due to the imperfect and immature capital market in China, the shareholding structure of most listed companies is still relatively single, with most major shareholders holding the dominant power. In addition, most companies are listed for the purpose of large circle of funds. After reaching the goal of listing, the interests of small and medium-sized investors are often abandoned, and no dividend or low dividend-sharing rate becomes the norm, which seriously damages the interests of small and medium-sized investors.

3.4 Limited Financing Channels

At present, China's listed companies have three main financing channels: internal profit retention, bank loans and equity financing. Among them, the conditions of bank loans are high, the factors affected by the policy are large, the financing time span is large, and the flexibility is lacking. State-owned banks, in particular, are strict with the examination and verification of enterprise financing, which makes the financing cost of listed companies high. Therefore, most listed companies will choose the other two financing methods. This leads to the tendency of listed companies not to pay dividends if possible. Even if dividends are paid, the dividend payment rate is not high. Instead, the

profit is more retained inside companies, which results in a lower overall distribution of cash dividends of listed companies in China.

4. Suggestions on Dividend Distribution Policy of Listed Companies in China

4.1 Improving the Laws and Regulations on Dividend Distribution, Guiding Enterprises to Rationally and Orderly Distribute Dividends

The supervision departments of listed companies should set up a good external restriction and guidance environment for dividend distribution policy and encourage listed companies to carry out dividend distribution. In addition, they should also gradually improve and improve the disclosure system of dividend distribution policies of listed companies, strengthen the protection of shareholders' rights and interests, guide China's securities market toward maturity, set red lines and thresholds for dividend distribution of listed companies, and regularly evaluate the dividend distribution of listed companies. It is necessary to constantly improve and perfect relevant systems, to not only ensure the order of the securities market, but also fully respect and protect the rights and interests of small and medium-sized investors.

4.2 Optimizing the Shareholding Structure of Listed Companies, Improving their Operation Level

We should encourage and guide listed companies to optimize their internal structures, establish and improve protection mechanisms, and effectively avoid the arbitrary formation of a single major shareholder. In terms of system design, we should improve the discourse power and influence of small and medium-sized shareholders. It is necessary to constantly improve the influence of small and medium-sized investors on dividend distribution, avoid the damage of their legitimate rights and interests by major shareholders, and strictly prohibit the manipulation of dividend distribution by major shareholders.

4.3 Enhancing the Attention of All Parties Involved in the Market to the Dividend Distribution Policy of Listed Companies, Establishing a Correct View of Investment

We should strengthen investors' education, vigorously popularize the basic knowledge related to finance, improve the overall quality of investors, and make them avoid blind investment. In addition, we should strengthen the risk awareness of small and medium-sized shareholders' education, guide them to do value investors, and reduce speculation. At the same time, it is necessary to build a good market order and take the dividend distribution of listed companies as one of the criteria to comprehensively consider the operating conditions of listed companies. We should set up a good investment concept of shareholders, give policy support to enterprises that regularly carry out reasonable dividend distribution, conduct strict interviews with enterprises that have not distributed for a long time, and strike the serious circumstances, so that listed companies attach importance to dividend distribution policy and form a good market atmosphere.

4.4 Encouraging Listed Companies to Adopt a Continuous and Stable Dividend Distribution Policy

The continuous and stable dividend policy of listed companies can reflect the company's good development prospects, help to achieve the financial goal of maximizing the value of enterprises, and thus further attract investors to invest. Thus, the management of listed companies should get rid of short-term behaviors, put the long-term interests of companies in the first place, reasonably predict the future dividend changes of companies, formulate scientific dividend distribution policies, reduce the volatility of dividend distribution, encourage investors and increase values of companies.

4.5 Broadening the Financing Channels for Enterprises, Strengthening the Supervision of Listed Companies

Solving the financing problems of listed companies and broadening the reasonable and legitimate capital raising channels of listed companies will help the development and prosperity of the market. We should constantly optimize the financing audit procedures of state-owned banks, reduce financing costs and save financing time. In addition, we need also to be close to the majority of enterprises and do a good job in financing guarantee. In view of the financing needs of enterprises, supervision departments of listed companies shall strengthen the subject examination and verification, put an end to the money-circle behavior of listed companies, protect the rights and interests of small and medium-sized shareholders and at the same time serve the capital needs of listed companies.

4.6 Formulating Reasonable Strategic and Financial Goals of Listed Companies

According to the current positioning and development level of the companies, the majority of listed companies should formulate the dividend distribution plan in a practical and realistic way, follow the actual operation of companies, issue the distribution plan, and explain their profitability to the small and medium-sized shareholders. Companies in the initial stage can make dividend distribution rate on the premise of future development. Mature and strong enterprises can increase dividend payment rate and accumulate strength for further transformation and upgrading. At the same time, listed companies should also constantly strengthen their financial management ability, improve the level of internal capital operation ability, long-term planning, comprehensive consideration of companies' operating environment and capital trend. They must be reasonable and legal to plan ahead, and also take into account the interests and concerns of small and medium-sized investors and potential investors.

5. Conclusion

The development of China's securities market has gone through more than 40 years, and the operation and management experience of listed companies has become more and more mature. With the development of information technology and the improvement of Internet technology, the information gap is smaller and smaller, the speed of information transmission is faster and faster, and the role of legalization in the market is more and more obvious. How to regulate and guide the development of listed enterprises, how to let more shareholders get the dividends brought by the development of the market, how to optimize and improve the operation mechanism of the market have become the issues to be considered by the supervisors, participants and investors of China's securities market. In recent years, the chaos of dividend distribution in China has been solved to a certain extent, and more and more enterprises have joined the ranks of large dividends. In particular, since the CSRC introduced a series of policies to encourage cash dividends, the Shanghai and Shenzhen Stock Exchanges have strictly supervised the dividend distribution of listed companies. They are particularly concerned about the "iron cock" who refuses to pay dividends, and require these companies to give relevant explanations, strengthen information disclosure, safeguard investors' right to know, and create a good market environment. However, we should also clearly recognize that our country is far from a healthy and effective securities market, and there is still a long way to go.

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