

IMPROVING DIVIDEND POLICY OF JOINT-STOCK COMPANIES IN THE CAPITAL MARKET

Latipova Shakhnoza Makhmudovna

PhD, Associate Professor, Department of Finance, SamIES

ORCID ID 0000-0002-8459-3178

Abstract. The article examines the economic essence of the concept of dividends, as well as the theoretical, methodological, and practical aspects of dividend policy in joint-stock companies. The specific features of implementing dividend policy in the national capital market and the legislation regulating it are analyzed. Indicators that should be applied in conducting an effective dividend policy in joint-stock companies are proposed. In addition, scientific proposals and practical recommendations for improving dividend policy in joint-stock companies have been developed.

Keywords: dividend, dividend policy, profit distribution, dividend dates, ratios, dividend theories.

Introduction

The significance of dividend policy and the peculiarities of its organization play an important role in the financial relations of joint-stock companies. Dividend policy is directly related to the process of profit distribution in joint-stock companies. Dividend policy refers to the set of rules and principles determining how a corporate structure distributes its profits among shareholders in the form of dividends.

Improving dividend policy in joint-stock companies of Uzbekistan is one of the important factors for increasing the effectiveness of corporate governance, strengthening investor confidence, and developing the national capital market. A stable, transparent, and strategically oriented dividend policy not only ensures the financial stability of joint-stock companies but also significantly increases their investment attractiveness. Therefore, this topic is of great relevance today in the processes of financial market development, corporate governance, and investment activities.

Literature Review

Dividend relations in joint-stock companies have always been an important issue both theoretically and practically. Foreign economists have also extensively studied this issue. In particular, M.A. Hamdani noted that “dividends represent a portion of a company’s earnings distributed to shareholders as a return on their investments. This distribution may take the form of cash, additional shares, or other assets. Dividends are usually paid regularly, often quarterly, and constitute an important factor in determining the total return on investment for shareholders” [1].

Julie Dahlquist and Rainford Knight also defined dividends as the portion of corporate profits distributed to investors, emphasizing that they are generally paid in cash form [2].

Under the leadership of the Russian economist M.V. Romanovski, scholars interpreted dividend policy as an element of a company’s financial strategy aimed at maximizing shareholder wealth through the creation of optimal profit distribution ratios. They defined dividends as a part of the company’s net profit distributed among shareholders proportionally according to their ownership share and the number of shares held [3].

The views of economists from our republic on this issue are also noteworthy. In particular, S.E. Elmirzayev, in his textbook entitled “Corporate Finance,” defines dividend policy as “a component of the company’s financial policy aimed at optimizing the proportion between the

consumed and reinvested parts of profit in order to increase the market value of the enterprise and the welfare of its owners” [4].

N. Sherkuziyeva emphasized that “dividend policy not only affects the position of joint-stock companies in the financial market but also serves as a driving force encouraging citizens to direct their savings toward the financial market at the state level” [5].

F. Saotov highlighted the economic essence of dividends, organizational features of dividend policy, and dividend theories. The directions of alternative dividend policies in joint-stock companies were also analyzed [6].

Analysis and Results

When discussing dividend policy in corporate structures, it is first necessary to examine the theories of foreign scholars regarding dividend policy. In particular, special attention should be paid to the dividend irrelevance theory proposed in 1961 by Franco Modigliani and Merton Miller [6]. Similar to the capital structure theory, Modigliani and Miller analyzed the relationship between dividend policy and firm value under ideal conditions. According to their view, this relationship assumes the following:

- perfect markets (absence of taxes, no capital attraction and transaction costs, availability of information to all participants, etc.);
- indifference between receiving income from dividends or capital gains;
- independence of the company’s investment policy from financial and other policies, among others.

Based on these assumptions, Modigliani and Miller demonstrated that under ideal market conditions investors are interested not in specific forms of income, but only in total profitability. It is well known that shareholders’ wealth consists of the sum of their ownership share in the company and current payments, namely dividends. If a company has sufficient cash resources and pays dividends, shareholders’ income increases by the amount of funds received. In such a situation, the “Cash” item in the company’s balance sheet assets and the “Equity” section on the liabilities side decrease by the same amount. Thus, the overall wealth of shareholders remains unchanged.

If new shares are issued to finance dividend payments, the sale of those shares increases the company’s equity capital and firm value. At the same time, dividend payments reduce the company’s value by the same amount. Since shares are sold at fair value in a perfect market, these two effects offset each other, meaning that the company’s value remains unchanged.

The conclusions of Modigliani and Miller are valid only under ideal market conditions. However, in the real world, where markets are imperfect and transaction costs, taxes, and risk factors exist, dividend policy plays an important role in the activities of joint-stock companies.

There are three main approaches to forming dividend policy:

1. Conservative dividend policy. Under this approach, company management does not consider dividend payments as an important factor affecting company performance.
2. Moderate dividend policy. In this approach, dividend payments are regarded as an important factor influencing company value, but the policy is formed cautiously. Small but stable dividends are paid annually, and in certain periods their amount may increase. The advantage of this policy is the stability of dividend payments, which increases the investment attractiveness of the corporate structure. Its disadvantage is that dividends are usually relatively low, which may reduce the interest of some investors.
3. Aggressive dividend policy. This policy considers dividends as one of the key factors affecting company value and has two forms:

a) Stable dividend payout policy. Under this policy, a payout ratio is determined and a certain share of net profit is distributed as dividends. This policy also has advantages and disadvantages. In particular, its drawback lies in the strong dependence of dividend amounts on profit fluctuations. A decrease in profits may lead to a sharp reduction in dividends per share, negatively affecting share prices. Its advantage is the simplicity of calculating dividend amounts and the ability of investors to evaluate future income based on the company's financial performance.

b) Constant growth dividend policy. If the company develops steadily and profit indicators consistently increase, dividends are raised annually by a predetermined percentage compared to the previous year's dividend.

The process of forming dividend policy includes the following stages:

1. Identifying and analyzing the main factors affecting the company;
2. Selecting the type of dividend policy by assessing the influence of these factors;
3. Developing a profit distribution mechanism according to the chosen policy;
4. Determining the amount of dividend per share.

At the final stage, the effectiveness of dividend policy is evaluated. The following indicators are analyzed:

- dynamics of dividend payments;
- dividend yield of shares;
- earnings per share;
- P/E (Price/Earnings) ratio and others.

In our country, dividend policy in joint-stock companies is developed in accordance with the relevant Regulation, the current legislation of Uzbekistan, the company charter, and the Corporate Governance Code approved by Protocol No. 9 of the Commission on Improving the Efficiency of Joint-Stock Companies and Enhancing the Corporate Governance System dated December 31, 2015.

Dividend policy is based on balancing the interests of the company and its shareholders, increasing the company's investment attractiveness, respecting and strictly observing shareholders' rights stipulated in the current legislation, the company charter, and internal documents. It is also aimed at increasing shareholder welfare and ensuring the growth of the company's capitalization.

The Regulation on Dividend Policy is intended to define the approach for the company's supervisory board in preparing recommendations to the general meeting of shareholders regarding profit distribution, including the amount of dividends on shares and the procedure for their payment.

In conducting dividend policy, the company relies on the following main principles (Figure 1):

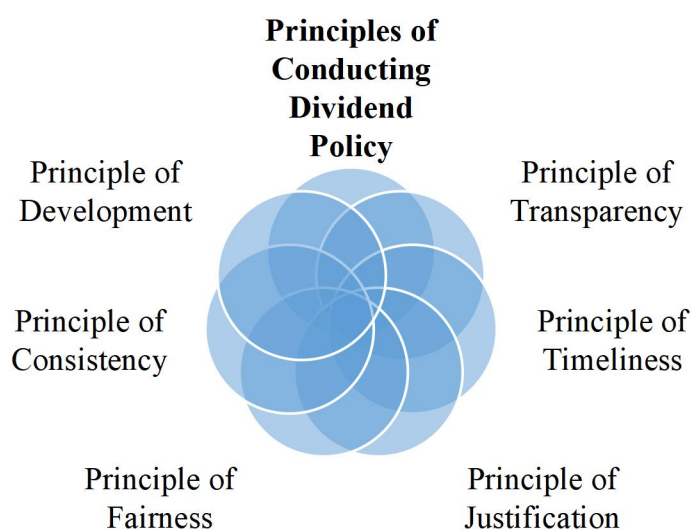


Figure 1. Principles of Dividend Policy in Joint-Stock Companies

The General Meeting of Shareholders has the right to decide whether or not dividends on shares will be paid. The company announces the amount of dividends excluding taxes. The payment of declared dividends is considered an obligation of the company. Information regarding accrued dividends is published in accordance with the legislation on the official websites of the authorized state body regulating the securities market, the Tashkent Republican Stock Exchange, and the company's official website.

If we analyze the performance results of Navoiy Mining and Metallurgical Company Joint-Stock Company (JSC), which is one of the largest corporate structures and taxpayers in our country, it can be noted that due to the high share of state ownership in its capital, this JSC is among the corporate entities paying the largest amount of dividends to the state budget.

In 2023, Navoiy Mining and Metallurgical Company paid 22.9 trillion UZS in taxes and mandatory payments to the State Budget of Uzbekistan, as well as 14.4 trillion UZS in dividends on the state share. In 2024, this figure reached a total of 57.5 trillion UZS [6].

The opportunities provided by dividends are not limited only to generating regular investment income. They open a wide range of strategies and financial advantages for investors and significantly affect financial stability.

From ensuring stable cash flows to increasing capital through dividend reinvestment, dividends serve as an important financial instrument. Dividends are not only a source of income but also a strategic tool for achieving financial goals.

The main opportunities provided by dividends are presented in Figure 2. These opportunities make dividends an attractive element of the investment process, ensuring both current income and long-term capital growth.

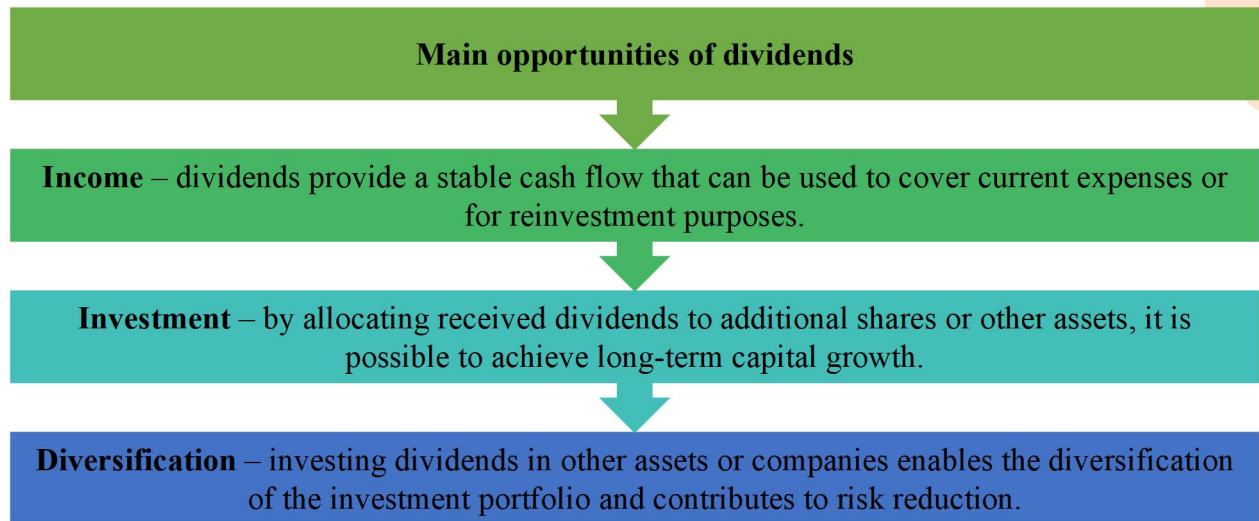


Figure 2. Main Opportunities of Dividends

In joint-stock companies, dividends may be paid in cash, in shares, or in the form of short-term investments or bonds. Each type of dividend has its own advantages and disadvantages depending on investor objectives and the company's current financial condition.

Understanding how dividends are calculated is essential for every investor seeking to optimize investment returns. The process of determining dividend payments includes several factors and calculations that vary depending on company policy and market conditions. Dividends are calculated based on the company's net profit and dividend policy.

The main stages of dividend calculation include the following:

1. **Determination of profit** – the company determines the amount of net profit for a specific period (quarter or year).
2. **Determination of the dividend amount** – the company's board of directors decides on the amount of dividends to be paid. This decision is based on dividend policy, financial performance, and other factors.
3. **Calculation of dividend per share** – the total dividend amount is divided by the number of ordinary shares outstanding. For example, if a company declares dividends of 1 million dollars and has 1 million ordinary shares in circulation, the dividend per share equals 1 dollar.

Thus, understanding the mechanism of dividend calculation enables investors to correctly evaluate the attractiveness of an investment object.

The amount of dividend per ordinary share is determined by dividing the total dividend amount (or the part of net profit allocated for dividend payments) by the number of shares.

When a company announces dividends, it must indicate the payment date, record date, and ex-dividend date.

Thus, dividend calculations are carried out based on the company's financial information and the rules and conditions established by its board of directors.

The following sources may be used to determine dividend amounts and record dates (Figure 3):

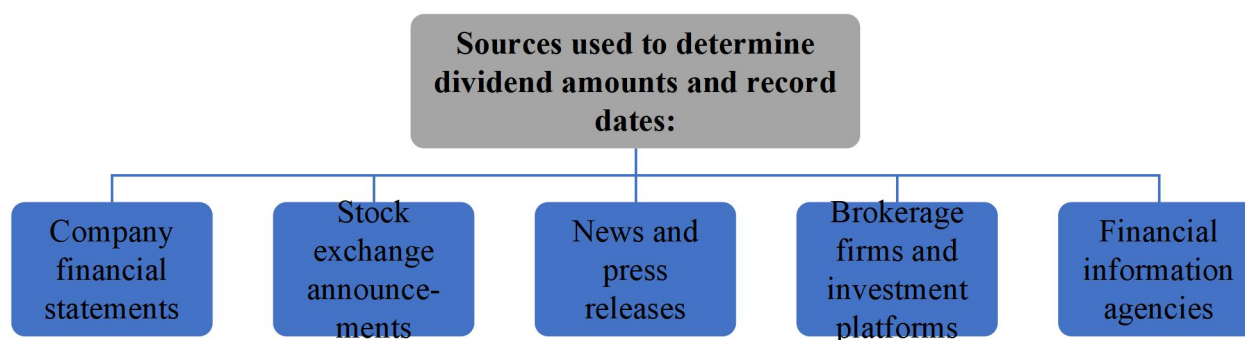


Figure 3. Sources Used to Determine Dividend Amount and Record Date

For the most complete and accurate information, it is recommended to verify several sources and monitor official company announcements.

Dividends are calculated according to procedures established by the company, and this process includes several key stages:

1. **Dividend declaration** – the company’s board of directors decides to pay dividends. The announcement specifies the dividend amount per share, record date, ex-dividend date, and payment date.
2. **Record date** – shareholders must own (purchase) shares before this date in order to be entitled to receive dividends.
3. **Ex-dividend date** – shares purchased after this date are not entitled to receive the declared dividends.
4. **Payment date** – the date when dividends are actually transferred to shareholders’ accounts.
5. **Dividend accounting** – on the payment date, dividends are credited to shareholders’ accounts. If paid in cash, funds are transferred to brokerage accounts; if paid in shares or other assets, they are added to the investor’s portfolio.

The procedure and terms for dividend payments are established by the company charter or by the decision of the General Meeting of Shareholders. The dividend payment period must not exceed sixty days from the date such a decision is adopted.

The above stages ensure that dividends are distributed only among shareholders who meet the established requirements as of the specified date, meaning that “persons recorded in the register of shareholders formed for conducting the General Meeting of Shareholders at which the decision on dividend payment was made are entitled to receive dividends on shares” [7].

The receipt of dividends depends on the transaction processing speed of brokers or banks and usually occurs within one or two business days after payment. Dividends should be paid from sources that do not undermine the company’s financial stability or interfere with long-term investment plans. In Uzbekistan, decisions regarding dividend payments for each type of share, including the amount, form, and procedure of payment, are adopted by the General Meeting of Shareholders based on the recommendation of the supervisory board and financial statements confirmed by an auditor’s opinion.

The amount of dividends may not exceed the amount recommended by the supervisory board of the company. The decision on dividend payment must indicate the start and end dates of the payment period.

Information regarding the decision of the General Meeting of Shareholders on dividend payments and other important information is communicated to shareholders within 15 days from the date of the decision through SMS notifications and/or email messages (if mobile phone numbers and email addresses are available in the shareholders' register), while recording the fact of sending and receiving such notifications.

In our opinion, the following indicators should be considered when implementing dividend policy.

Knowing the required rate of return and the dividend yield level, the amount of capital invested in shares (K) can be determined as follows:

$$K = Dy / Dkd,$$

Dy – annual dividend payment amount;

Dkd – expected dividend yield.

The next indicator is the Dividend Payout Ratio (DPR), which shows what proportion of profit is allocated to dividends.

$$DPR = \frac{\text{Dividend amount}}{\text{Net profit}} * 100\%$$

This indicator is sometimes also referred to as the dividend coverage ratio and represents the share of the company's net profit distributed to shareholders as dividends. It may also be determined using the following formulas:

1st formula: $DPR = \text{Total dividends paid} / \text{Net profit}$.

2nd formula: $DPR = \text{Dividend per share} / \text{Earnings per share}$.

3rd formula: $DPR = 1 - \text{Retention ratio}$.

Dividend yield can be determined using the following formula:

$$DD = \frac{\text{Dividend per share}}{\text{Share price}} * 100\%$$

For example, if the share price is 100 rubles and the annual dividend amount is 10 rubles, the annual dividend yield equals 10%.

The Dividend Stability Index (DSI) is determined using the following formula:

$$DSI = \frac{Y+G}{14}$$

Where:

Y – the number of years during the last 7 years in which the company paid dividends;

G – the number of periods during which dividends exceeded the previous maximum during this period.

For example, suppose the company's dividend payments over the last 7 years were as follows: $DSI = (6 + 3) / 14 = 0,64$.

Years						
2018	2019	2020	2021	2022	2023	2024
13\$	15\$	16\$	10\$	-	8\$	17 \$

The significance of the results obtained from calculating the Dividend Stability Index is interpreted as follows:

– $DSI = 1$ – the dividend amount per share has consistently increased over 7 years. This indicates a high probability that the company will continue paying dividends without reducing them in the future;

– $DSI > 0.6$ – dividends on shares are relatively stable and demonstrate a growth trend;

– $DSI > 0.3$ – company dividends are either unstable or the company has a very short dividend policy history;

– $DSI < 0.3$ – the company rarely pays dividends and either increases them infrequently or does not pay them at all. This situation may also occur when a company begins paying dividends for the first time.

In Uzbekistan, the stages of calculating and paying income on securities, particularly shares, are implemented based on the order of the Director of the National Agency for Perspective Projects of the Republic of Uzbekistan “On approval of the Regulation on the procedure for making payments of securities income (dividends, interest) through the Central Securities Depository JSC and/or investment intermediaries”.

Conclusion and Recommendations

The following scientific proposals may be suggested for improving dividend policy in joint-stock companies of Uzbekistan:

1. Introducing a stable dividend policy model. In many joint-stock companies, dividend amounts fluctuate sharply from year to year, reducing investor confidence. Therefore, it is advisable to introduce a “stable dividend” model by distributing a certain proportion of net profit (for example, 30–50%) as dividends and establishing a minimum guaranteed dividend level. This proposal would improve predictability for investors and increase the investment attractiveness of shares.
2. Integrating dividend policy with corporate strategy. In some joint-stock companies, dividend decisions are based solely on short-term financial results. Scientifically, however, dividend policy should align with the company’s investment strategy, capital structure, liquidity level, and long-term development plans. Therefore, it is proposed that each joint-stock company develop a 3–5 year dividend strategy.
3. Increasing the transparency of dividend policy. The insufficient transparency of dividend calculation mechanisms in joint-stock companies creates information asymmetry. Therefore, it is recommended to publicly disclose information on dividend policy, dividend calculation formulas and criteria, as well as publish dividend history and forecasts on corporate websites. These measures would improve the quality of corporate governance.
4. Introducing a dividend reinvestment system. Such systems are widely used in developed countries, allowing shareholders to receive dividends in the form of additional shares instead of cash. This mechanism ensures company capital growth, increases investment resources, and strengthens shareholders’ long-term interest. It is advisable to gradually implement this mechanism in the practice of Uzbekistan as well.

References

1. Mohamed Amine Hamdani. (2025). Corporate Finance. Canada, Toronto Academic Press.
2. Julie Dahlquist, Rainford Knight. (2022). Principles of Finance. Houston, Texas, Rice University: OpenStax.
3. Corporate Finance: Textbook for Universities / Edited by M.V. Romanovskiy and A.I. Vostroknutova. Third Generation Standard. Saint Petersburg: Piter, 2011. 592 p.
4. Elmirzayev S. Corporate Finance: Textbook. Tashkent: “Iqtisod-Moliya”, 2019, p. 284.
5. <https://pedagoglar.org/02/article/view/3217/2926>
6. <https://www.ngmk.uz/uz/>. Navoiy Mining and Metallurgical Company official website.
7. Saotov F.Y. Corporate Finance. Tashkent: “Fan va texnologiyalar nashriyot-matbaa uyi”, 2021. 300 p.
8. Law of the Republic of Uzbekistan No. ORQ-370 dated May 6, 2014 “On Amendments and Additions to the Law of the Republic of Uzbekistan ‘On Joint-Stock Companies and Protection of Shareholders’ Rights”.