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Dividend Policy Models and Possibilities of Their Utilization in the Conditions of a Particular Country – Assessment and Proposals

Kristýna BĚLUŠOVÁ and Karel BRYCHTA*

[1] Brno University of Technology, Brno, Czech Republic; kristyna.belusova@fbm.vutbr.cz; brychta@fbm.vutbr.cz
* Corresponding author: brychta@fbm.vutbr.cz

Abstract: The aim of this paper is to describe and compare the existing models of the dividend policy and consequently to present general considerations related to the establishment of a dividend policy model for a particular country (when presenting some specific features for the Czech Republic). The comparison presented in this paper includes 18 existing dividend policy models. Based on the analysis, it may be stated that the models can be divided into two basic groups. The first category of models is aimed at assessing the effect of tax rates on the dividend policy. The second category of models aims at determining the factors affecting the dividend policy. A number of common considered factors may be identified in all the examined models, such as the tax rate on dividends and capital gains, profit/profitability, or debt ratios. Based on the synthesis of the knowledge gained, the authors identified several categories of variables that shall be taken into consideration when creating a dividend policy model for a particular country, namely: general categories aimed at general description of the subject, profitability indicators, indicators of indebtedness, cash and liquidity indicators, assessment of investment opportunities, ownership indicators, tax aspects indicators and relevant category variables.

Keywords: Czech Republic; dividend policy; dividend policy models; establishing dividend policy model

JEL Classification: G32; G38

1. Introduction

The dividend policy has always remained one of the most discussed issues in corporate finance (Sharma, 2018), representing one of the key aspects of managing the company's financial assets (Sakir & Fadli, 2014). Dividend policy can be described as a tool providing the basis for decision-making about profit management – withheld, shared or used for other purposes (Sejkora & Duspiva, 2015). The relevance of the dividend policy for financial management or financial management as such, has been confirmed by many studies, for example by Kumar and Chandrasekar (2014). The objective taken into account should consist in maximizing the company's value (Režňáková, 2012), while financial management must be carried out in such a manner that maximizing the company's value leads to an increase in the shareholders' prosperity (Sakir & Fadli, 2014). This is determined by the market price of the company's shares, and this market price reflects the decision-making of managers in the area of investment, asset management and financing, and it is the payment of dividends that increases the shareholders' prosperity or wealth (Roy, 2015). A positive correlation between the company's value and the dividend policy has been confirmed, for example, by the study of Budagaga (2017). In an earlier study, however, Miller and Modigliani (1961) concluded that the payment of dividends did not affect the value of the business in the world of perfect capital markets.

There are other relevant aspects related to dividends and dividend policy. According to a study by Berzins, Øyvind, and Stacescu (2017), dividend payments are used to reduce agency conflicts. This conclusion has also been confirmed by the studies by Andres et al. (2019), All-Najjar (2009), Roy (2015), Khalid and Rehman (2015), and Yusof et al. (2019), according to which the ownership structure or the company's ownership determines the dividend policy. However, the dividend policy is also determined, not surprisingly, by accounting and/or tax factors. The studies of Almeida, Pereira and Tavares (2015) dealt with the effect of the final stage of mandatory convergence to IFRS, when the authors concluded that this factor leads to a significant increase in the company's net profit and equity and, consequently, to an increase in dividend payments. In relation to taxation factors, it has been established that by lowering the dividend rate, the share price will increase for high-dividend yield foreign firms in treaty countries (Kenchington, 2019). The dividend policy is also influenced by other factors, such as the company size, growth opportunities and profitability (Fama & French, 2001). It has been shown that, despite the variability of factors determining the dividend policy in individual countries, these factors may be considered as common across six different countries (Denis & Osobov, 2008). The study conducted by Akhtar (2018) also served as a basis to identify the variability of the factors determining the dividend policy across five different countries, whereas it was found that multinationals operating in an imputation tax system and in a common law environment pay comparatively higher dividends relative to firms operating in a classical tax system and civil law regime.

The above conclusions make the issue very current, as it is also necessary to assess the suitability / convenience of using the existing models in the context of their applicability in a particular country which can show a number of particularities.

2. Methodology

The aim of this paper is to identify, describe and classify the existing models of the dividend policy and subsequently to present general starting points for establishment a dividend policy model. A partial aim was to the make a critical assessment of the application of existing models in the conditions of the Czech Republic.

The paper is based on a qualitative research the primary purpose of which is to better understand the social phenomenon/issue (Disman, 2011). Application of the qualitative research and using secondary data is necessary when taking account of the following research aim which is to establish a dividend model complying with the conditions of a particular country. Thus, starting with the qualitative research fits perfectly for this research task, since, as aptly pointed by Becker (2009), within the qualitative research, "… researchers discover in the field what they can gather and count that will be useful for testing ideas generated empirically in the course of the work."

The research method applied consists in a multiple case study and grounded theory (Hendl, 2016), whereas the content analysis of the text served as the data collection technique. The research dealt with the existing studies focused on dividend policy models. Namely, they include 18 dividend policy models from 11 different countries. The source of the secondary data includes professional databases, namely the Proquest Central, Scopus, Science Direct, and Web of Science databases. The basic key words used for searching were as follows: dividend policy, model of dividend policy, determinants of dividend policy. Based on the update as of 01 February 2021, the databases showed following results for the key words dividend policy: 15,985 results of the Proquest Central database (Proquest, 2021); 3,427 records for the Scopus database (Elsevier, 2021a); 27,391 records for the Science Direct database (Elsevier, 2021b) and 3,240 records of the Web of Science database (Clarivate, 2021). To focus on papers strictly dealing with the topic of the research, continuous selections were realized while using other key words within searching, taking account of the content of the abstracts and texts of the papers themselves. Regarding the papers selected for this study, the papers have been included in more databases at the same time.

The dividend policy models have been examined in order to identify the following:

1. The substance / nature of the dividend policy model;
2. The explained variables;
3. The explanatory variables;
4. The timeline of the input data;
5. The environment for which the model was created (territory/location);
6. The number of entities included in the model;
7. The factors determining the dividend policy.

The models were subsequently described from the perspective of the above criteria. This was followed by an evaluation of the possibility of using individual models in terms of possibilities and limits in the conditions of a particular country, paying a special attention for the transfer of existing models in the conditions of the Czech Republic.

3. Results

The analysis of the dividend policy models evaluated and the subsequent synthesis of the results achieved showed the existence of two basic categories of models. The first one represents valuation models which target the assessment of a company's value (6 out of 18 examined models). The second category focuses on identifying the factors determining the dividend policy as such (12 out of 18 examined models). The results of the classification are provided in Table 1 below.

Table 2 summarizes the number of independent variables, an overview of individual dependent variables, timeline covered and the environment for which the model was created. It is worth mentioning that established models exhibit high level of differences.

Table 1. Categorization of dividend policy models – model type.

Category of the dividend policy model	Author/s of the study
Dividend policy models based on valuation	Ince and Owers (2012), Gourio and Miao (2010), Kari, Karikallio and Pirttilä (2008), Papaioannou and Savarese (1994), Ricketts and Wilkinson (2008), and Gropp (2002).
Dividend policy models based on identifying the determinants	Bushra and Mirza (2015), Hardin, Huang and Liano (2012), Al-Najjar (2009), Roy (2015), Dereeper and Turki (2016), Baker and Powell (2012), Khalid and Rehman (2015), Deslandes, Landry and Fortin (2015), Yusof and Ismail (2016), Trabelsi, Aziz and Lilti (2019), Andres et al. (2019), and Andres et al. (2008).

Table 2. Description of investigated models by means of set criteria.

Study by	Number of independent variables considered	Individual dependent variables	Timeline covered	Environment
Baker and Powell (2012)	22	Decision-making on dividend payout to shareholders	2006-2009	Indonesia, 163 listed companies
Roy (2015)	11	Dividend payout ratio Dividend payout ratio	2007-2008 and 2011-2012	Indie, 68 listed companies
Yusof and Ismail (2016)	11	Dividend per share	2006-2010	Malaysia, 200 listed companies
Deslandes, Landry and Fortin (2015)	9	Annual total amount of common shares repurchased at time. Annual total cash dividends paid on common shares to all shareholders at time	2003-2008	Canada, 494 companies subject to the same taxation regime
Trabelsi, Aziz and Lilti (2019)	9	Dividend premium	1992-2010	France, 358 companies operating in various sectors and listed in the SBF 250 index.
Gourio and Miao (2010)	8	Dividend payment	1988-2002	USA, 11,945 companies
All-Najjar (2009)	8	Dividend payout ratio	1994-2003	Jordan, 86 companies
Dereeper and Turki (2016)	8	Dummy variable of dividend status	1989-2009	USA, listed companies with a share price exceeding USD 1 million and a share percentage greater than 50%

Study by	Number of independent variables considered	Individual dependent variables	Timeline covered	Environment
Kari, Karikallio and Pirttilä (2008)	7	Dividend distribution at time	1999-2004	Finland and companies operating in the industrial sector (both listed and unlisted)
Bushra and Mirza (2015)	7	Dividend yield Dividend payout ratio	2005-2010	Pakistan, 75 listed companies; KSE 100 index
Gropp (2002)	7	Change in financing the fixed assets by long-term and short-term debt	1985-1990	Germany, 375 companies operating in 7 different sectors and listed on the stock exchange
Ricketts and Wilkinson (2008)	6	Share price / registered capital	1975-1985 and 1990-2000	Australia, 500 companies
Hardin, Huang and Liano (2012)	5	Dividend size Dividend yield	1964-1994	USA, companies labelled as investment funds listed on the New York or US Stock Exchange, paying dividends quarterly
Ince and Owers (2012)	4	Dividend payout ratio	1979-2002	USA, 1,500 companies representing 75% of the capital market
Papaioannou and Saverse (1994)	3	Dividend payout ratio	1983-1991	USA, 243 industrial and 40 utility companies listed on the stock exchange
Khalid and Rehman (2015)	3	Dividend payout ratio	2004-2009	Pakistan, 50 listed companies; KSE-100 index, operating in 7 different sectors
Andres et al. (2019)	2	Dividend payout ratio	1984-2005	Germany, 220 companies listed on the German stock exchange
Andres et al. (2008)	2	Dividend per share	1984-2005	220 German listed companies

On the basis of the comparison, it may be concluded that the existing models are designed mainly for non-European environments, yet three out of 18 models were designed for the conditions of Germany, whose capital market may be considered as highly developed. The examined time period acquired the values from 4 to 30 years. The number of companies for which data was obtained and used within the model ranged from 50 to 11,945, which represents huge disproportion regarding this variable. Furthermore, these companies were those operating in various sectors. The dominant feature of these companies was their listing on the stock exchange.

3.1. Factors Determining the Dividend Policy

Ince and Owers (2012), who examined the effect of tax rates on the business value as defined through the perspective of the Dividend payout ratio criterion, confirmed in their research that both the dividend tax rate and the capital gains tax rate affected the dividend policy. The authors Kari, Karikallio, and Pirttilä (2008), who focused on assessing the impact of the tax reform on the business value, concluded that the tax rates and the Dividends/Assets, Profit/Assets, Investments/Assets, Equity/Debt, and Debt/Assets ratios affected the Dividend distribution at time. Gourio and Miao (2010), who addressed a similar issue – specifically the impact of the tax reform on changes in long-term company financing – conclude their research by the amount of the dividend paid is impacted by the investment levels, new capital/investment, Dividends/Revenues and Cobb-Douglas production function in relation to the change in the tax rate on dividends and capital gains. The impact of the tax reform was also confirmed by Ricketts and Wilkinson (2008), who found its impact on the company's retained earnings and share price on the market.

A positive effect of the tax rates on the Dividend payout ratio was confirmed by the research carried out by Papaioannou and Savarese (1994). In the study by Bushra and Mirza (2015), it was revealed that the total assets and revenue growth was affected by the Dividend yield and Dividend payout ratio. Among other things, the study by Hardin et al. (2012) confirmed the high mutual correlation between the Dividend yield and Dividend size indicators. All-Najjar (2009) notes that the dividend policy is determined by the following factors: total debt/total assets, share of the institutional ownership in the company, return on equity, and total assets. Roy (2015) identified, as the factors determining the Dividend payment ratio, the company's management system and the ratio of financial assets to total assets. In the model created by Khalid and Rehman (2015), the determining factor of the Dividend payout ratio is the company's ownership structure. According to Yusof and Ismail (2016), the Dividend per share is determined by these variables: profit, debt, company size, shareholder size, and investment opportunities. The study conducted by Baker and Powell (2012), based on the questionnaire survey, implied that the managers of the examined companies considered the most important factors affecting the dividend policy to be the stability of profits, the level of the current profits, the level of expected profits, liquidity, and the economic forecast. According to the study by Deslandes, Landry, and Fortin (2015), the dividend policy is determined by the percentage of shares held by investors, the annual amount of the cash dividend, profit, the company's market value, total assets, profit volatility, and the total debt. According to the study by Dereeper and Turki (2016), the dividend status is affected by the revenue and the dividend payout ratio.

Gropp (2002), who examined the impact of tax rates on the financial decision-making of a company in his study, found that the current tax environment leads to debt financing of the company. Trabelsi, Aziz, and Lilti (2019) found that the total amount of assets, profitability, systematic and specific risk, total debt of the company and lagged dividend affect the dividend policy. Andres et al. (2019) confirmed the effect of concentration of ownership in their study, and in an earlier study, these authors confirmed the effect of cash flow per share (Andres et al. 2008). Table 3 below shows a summary of the underlying key factors determining the dividend policy in each study/model.

Table 3. Key factors determining dividend policy.

Variable	Study by
Tax rates on dividends and capital gains	Ince and Owers (2012), Gropp (2002), Gourio and Miao (2010), Kari, Karikallio and Pirttilä (2008), and Papaioannou and Saverse (1994)
Debt	Trabelsi, Aziz and Lilti (2019), All-Najjar (2009), Deslandes, Landry and Fortin (2015), Yusof and Ismail (2016), and Kari, Karikallio and Pirttilä (2008)
Investment	Kari, Karikallio and Pirttilä (2008), Yusof and Ismail (2016), and Gourio and Miao (2010)
Company size (headcount and total assets)	Kari, Karikallio and Pirttilä (2008), Trabelsi, Aziz and Lilti (2019), Roy (2015), Deslandes et a. (2015), All-Najar (2009), and Yusof and Ismail (2016)
Profit / profitability and sales	Kari, Karikallio and Pirttilä (2008), Trabelsi, Aziz and Lilti (2019), Deslandes, Landry and Fortin (2015), Ricketts and Wilkinson (2015), Baker and Powell (2012), Yusof and Ismail (2016), and Gourio and Miao (2010)
Ownership	Andres et al. (2019), All-Najjar (2009), Roy (2015), and Khalid and Rehman (2015)
Dividend factors	Kari, Karikallio and Pirttilä (2008), Gourio and Miao (2010), Trabelsi, Aziz and Lilti (2019), Deslandes, Landry and Fortin (2015), Dereeper and Turki (2016), and Andres et al. (2008)

4. Discussion and Conclusions

The existing dividend policy models show a high degree of variability: when it comes merely to the number of entities included in the models, it varies widely (ranging from 50 to 11,945 entities), while it must also be noted that they were companies operating across different industries. In this respect, i.e. according to the industry criterion, the existing models could not be stratified. In relation to the assessment of the applicability (transferability) of the existing models in the context of a particular country, it is worth noting that:

- The existing dividend policy models have been mainly developed for non-European environments (the models developed for European conditions represent a minority);
- Some models have been developed to assess (reflect) the selected social phenomenon (e.g. the impact of legislative changes on the company's value or the dividends paid), which reduces their general applicability – for instance, in the conditions of the Czech Republic which show stable legal regulations regarding taxation of dividend incomes);
- The companies in the models include those traded on a developed securities market, which obviously means the availability of certain indicators which companies not traded on a regulated market simply do not have.

Taking into account the above, it may be concluded that the adoption of models based on different rates before and after the tax reform (see e.g. Ince & Owers, 2012; Gourio & Miao, 2010; Kari et al., 2008) lacks any justification without further modification in the context of the country with minor or now changes in the legal regulations (which is, for instance, the case of the Czech Republic). On the other hand, there is an interesting factor worthy of further examination and evaluation in the framework of the dividend policy models, represented by the possible maximum rate enshrined in the relevant Double Tax Treaty (for general tax aspects see OECD, 2017; for the situation regarding the Czech Republic see Bělušová and Brychta (2017); for the rules governing taxation of dividend in the EU see Bělušová (2018) or the use of the conditions foreseen in Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States for tax exemption. This international tax factors seem to be more or less omitted in the existing models. Other, very serious obstacle, when speaking about the adoption (transfer) of the existing models for a particular country, is a lack of available data and the level of development Stock Exchange market.

For instance, in the Czech Republic, on the Prague Stock Exchange, there were currently 11 companies traded on the Prime market, 6 companies on the Standard Market, 32 foreign companies on the Free market, and 5 companies on the Start Market (Prague Stock Exchange, 2020). Simply for the purposes of general comparison, for example, there are 318 companies traded on the Prime standard market and 151 companies on the General Standard on the Frankfurt Stock Exchange (Deutsche Börse Group, 2020). In summary, it may be stated that, based on the fundamental comparison of the above data and reflecting the requirements imposed on the minimum research sample size, it is clear that the use of some factors / indicators is not possible in the context of some countries (including the Czech Republic) due to the absence of relevant data or due to the absence of the sufficient amount of relevant data. In other words, models developed on the basis of indicators available for publicly traded companies are not generally suitable for the application in a particular country thanks to relatively small number of companies traded in this manner. Based on the research and evaluation of conditions in the Czech Republic, it is possible to state that none of the models can be adopted and applied in the context of this transformation economy without any further modification. There are several reasons for this. The primary reasons include the underdeveloped financial market in the Czech Republic (Meluzín, 2009; Skalická et al., 2018) (in the Czech Republic, there is a very small number of entities the shares of which are traded on the Prague Stock Exchange) and the relative stability in terms of corporate income tax and dividend withholding tax. In relation to developing the dividend policy in the context of the Czech Republic, the authors also point out the need to define the dividend more broadly as a share of profits paid to capital companies. As confirmed in the study by Yusof and Ismail (2016), large companies have a higher tendency to pay the share of profits to their owners. Taking into account the very limited availability of data for small and medium-sized enterprises, it seems appropriate to focus the attention in the Czech Republic on large to very large companies, with the following indicators will serve to identify this category of companies:

- The size of operating income;
- The size of total assets;
- Number of employees.

The examined sample then will automatically include the companies listed on the Prague Stock Exchange. In the context of the Czech Republic, the company may deal with the after-tax profit as follows:

- Increase in the registered capital;
- Settlement of accumulated losses from previous years;
- Transfer to retained profits from previous years;
- Transfer to a reserve fund or other company's funds; and/or
- Payment of shares to shareholders (for a number of related aspects, see Act No. 90/2012 Coll., on Business Corporations, as amended).

Naturally, when quantifying the amount of dividends paid, it will not be possible to identify the profit with the profit-sharing amount. It will be necessary to make adjustments following the above transactions, which, with respect to the structure of the financial statements, makes the issue much more complex, both in terms of data collection and the calculation itself.

4.1. Potential Variables and Their Stratification when Wstablishing Dividend Policy Model

Table 4 below summarizes the potential variables and their stratification, as it emerged from the synthesis of the findings of the literature research. The appropriateness (necessity) of incorporating the specific variables will be the subject of further examination in the process of addressing a partial research task, i.e. when developing the dividend model. Currently, it is worth mentioning to need to include aspects related to COVID-19 pandemic. As the situation in the secondary financial markets suggest, the influence of this vis maior aspect has far-going impacts.

Table 4. Independent (explanatory) variables – the first stage of developing the model.

General Category	Indicators
General indicators	Number of employees; Company´s age; Total assets; Fixed assets; Changes in fixed assets; Current assets; Working capital; Change in current assets; Registered capital; Retained profits; Operating income; Growth in total revenue; Pre-tax profit; After-tax profit
Profitability indicators	ROE [%]; ROA [%]
Indebtedness	Long-term debt; Change in long-term debt; Short-term debt; Change in short-term debt; Total debt; Change in total debt; Equity/Total debt; Total debt [%]; Self-financing coefficient [%]
Cash and liquidity indicators	Current liquidity; Available liquidity; Instant liquidity; Financial assets to total assets; Free cash flow
Investment opportunities	Retained profit/total assets
Ownership	Ownership size; Structure of the ownership
Tax aspects	Tax rate on dividend income; Corporate income tax rate
Category variables	Legal form of business; Predominant domestic/foreign direct ownership

Taking account of the results of the research made, for the purposes of developing a dividend model in the context of a particular country, it seems appropriate to use a general linear regression model with a fixed effect and interactions. The Hausman test (see Hausman, 1978; Yusof and Ismail, 2016) shall be used to determine the appropriate selection method, i.e. to determine whether a random effect form is more appropriate for a specific model or not. A correlation coefficient shall be used to eliminate redundant variables. The subsequent extraction of variables shall perform using the step regression or the analysis of the main components.

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