Dividend Policy and Corresponding Stock Market Reaction in China

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Abstract: With the development of socialist market economy and economic globalization, the growth of stock market in China has been tested in many aspects. Enterprises, shareholders and relevant regulators need to have joint efforts in facilitating the harmony and prosperity of Chinese stock market, especially in dividend policy and information disclosure. The warming trend of Chinese stock market will have a retroaction on dividend policy. Given the policy adjustments of some enterprises and more accurate information disclosure, stock market in China still has a large development potential.

1 INTRODUCTION

Stock market in China started in 1989. Although the early development of Chinese stock market was not smooth, it has come to act on international convention and develop comprehensively after China became a member of WTO and had its market extended to the whole world. In regard to the fast changing stock market, some experts raised several kinds of bold predictions and thorough analysis on the economic growth rate, the amplification of inflation rate, reform of IPO and law enforcement efforts. In order to gain a positive position in stock market competition, enterprises need strong management and reasonable dividend policy to earn the trust and support from shareholders. The sustainable development of Chinese stock market also needs the exploration of China Banking Regulatory Commission (CBRC) and China Securities Regulatory Commission (CSRC) with the assistance of perfect and scientific policies to guarantee the benefits of concerned parties and the coordinated development of economy (Qian Lili and Sun Yujun, 2014).

2 CURRENT SITUATION OF DIVIDEND POLICY IN CHINA

Dividend policy is a standard of dividend appropriation proposed by general meeting of stockholders or board of directors. It often contains the ways and time of dividend appropriation and influences enterprises’ distribution and plan of profits. Therefore, Chinese enterprises are cautious of dividend policy and different enterprise has its own characteristic of dividend policy.

2.1 No or rare dividend appropriation in many enterprises

As investors of companies, shareholders have the rights to proportional distribution of dividend, which is explicitly stipulated in Company Law of the PRC. According to legal procedure, when a company has allocable profits, general meeting of stockholders or board of directors should first draft profit distribution plans for general meeting of stockholders to discuss (Wang Chen, 2014). If these plans are passed, the company should make a dividend according to the plans. Dividend appropriation ought to be the operating principle for companies to observe, and it can also attract the trust and further investment of shareholders.

Facts show that dividend appropriation can help the stock price rise of enterprises in some industries. For example, China Mobile Communication Corp (CMCC) and China Unicom began dividend appropriation in March, 2003. Then, the stock price of the two companies stopped falling tendency and began to rise. CMCC had great rise of its stock price for its good market performance and stood out over the same period of stock. Thus it can be seen that dividend appropriation is good for the development of enterprises in the stock market. However, current
dividend policy in China can hardly reach the situation of healthy and steady dividend appropriation, which needs people to conduct further study. Before the year of 2002, dividend appropriation was not common in all kinds of companies. About 220 listed companies never had dividend appropriation, and some of them even never had any form of profit appropriation (Zhang Junmin, Wu Fengmin, Fu Shaozheng, 2014). The shortage of knowledge about listing standard and imperfect mechanisms can explain the situation in early stock market of China. As China became a member of WTO, it began to positively participate in global market competition. The stock market, where most competition exists, requires more normative and reasonable dividend policy. Although the number of listed companies that never had dividend appropriation is declining, the phenomenon of rare appropriation still exists, partly because of the low rate of return and profitability of Chinese companies.

2.2 Partial adoption of residual dividend policy

The history of stock market in China is short and China has been learning from the stock markets in developed countries. As far as China listed companies are concerned, their quality assessment was stipulated by China Banking Regulatory Commission in 2005. The main idea of this assessment is that the quality of companies should be established on the foundation of maximizing shareholder interests, including management ability, profitability, financial liquidity and information disclosure. Therefore, the dividend policy is affected by the operating conditions of companies to some extent.

The residual dividend policy has been applied by some Chinese listed companies. However, this application is periodic, long-term adherence to this policy will restrict the interests of companies and their develop capabilities. The residual dividend policy is generally applied to those companies with many investment opportunities and higher rate of investment return, so these companies can distribute residual profits after the internal capital transfer. This model can not only guarantee the steady operation of companies, but also help some initial listed companies or even newly established companies to form reasonable capital structure, ensuring their steady development at early stage. Some Chinese listed companies have small scale of capitals, so the residual dividend policy can help them relieve the capital pressure of reinvestment. However, short-term of application can support the growth of young companies while the long-term application can only bring the disjunction between stock prices of companies and their business circumstances to be more obvious. The detrimental factor of dividend is not stock price, and the weak dividend awareness can make shareholders suspicious of the business circumstances of companies. Seriously, some shareholders may even withdraw shares from their companies. A series of malignant consequences can have bad influence on the debt paying ability and investment ability of enterprises. If the managers who adopt this model can only seek to ear a lot of profits but not to allocate them, the company will finally be isolated.

2.3 Disturbance from untrue information

The dividend policy of rare or no dividend demonstrated by some listed companies in China comes down to nonstandard operation and even illegal behaviors of managers. The imperfect of regulations and systems of stock market allow some companies to infringe the legal rights of many shareholders and they even are kept in the dark.

Firstly, in the process of making profits, the accounting and supervision of companies often have some exaggerations. Although both the government and enterprises are calling on information disclosure and fair competition, in fact, nonstandard calculation of assets and cash flow, the information got by the government, CBRC, enterprises and shareholders has been contaminated at source. The profits distribution based on false information has already deviated from honest goals. Therefore, the dividend policy has no longer been profitable for shareholders. The misappropriating of some listed companies ignored Company Law and Accounting Law as well as some industry norms, increasing the suspicion of reaping huge profits with other institutions and endangering the Chinese dividend policy and stock market. In order to solve these problems, the Accounting Department of Jinhua, Zhejiang once tried Centralized Office to have the financial work conducted in one place where auditing departments can timely supervise and check the financial work to ensure the normalization of accounting information and the truth of accounting report offered by companies. Some similar controlling methods are constantly being proposed to deal with the untrue information disclosure and non-valid transactions among enterprises,
guaranteeing the steady of stock market and the legal interests of shareholders.

3 ANALYSIS ON THE REACTION OF STOCK MARKET IN CHINA

After the long-term depression, stock market in China gradually shows signs of a turnaround. The good news of central government policy, the overall prosperity of economy and relaxed market environment give hope to many enterprises and their managers. Many reforms will continuously emerge in stock market. For the comprehensively economic development, China had steady economic development with controlled indexes in reasonable scope, laying a good foundation to further economic development and policy reforms. Huatai-Pinebridge Fund points out that the optimistic situation will continue and there will be obvious increase in manufacturing industry, architecture industry and consumption industry, which is a good news and chance for stock market. However, for listed companies, whether their interests can be guaranteed or not depends on the appearance of relevant dividend policy. Judging from the trend of recent years, the number of companies with no or rare dividend appropriation will be smaller and smaller. The national policy and regulations of CBRS also don’t allow the existence of unreasonable form of dividend appropriation. The prosperity demonstrated by stock market will act on the dividend appropriation policy and standard of some listed companies in a certain period. Some companies will seek to strengthen the structural allocation and have their dividend appropriation on the basis of fairness and justice. The number of dividend should be defined by clear evidence and the time of dividend appropriation should be decided by the general meeting of shareholders. In addition, some companies draw up corresponding plans for the confirmation of business operation, capital transfer as well as the benefits protection of both the companies and their shareholders, scientifically avoiding risks to the large extent.

3.1 Further protection of shareholders’ interests

The protection of shareholders’ interests has long been emphasized by national policy. The current prosperity of Chinese stock market should be attributed to the support of shareholders whose capitals enable enterprises to continuously enhance their flow of fund and expand their business scales. The cooperation between enterprises and their shareholders is becoming closer and closer, making stock market in China gradually become mature over the decades of development. Protecting the legal interests of shareholders is not only the guarantee of cooperation, but also the key link of maintaining the order and steady of stock market. With the increasing supervision and management on the behaviors of enterprises, the functions of shareholders are becoming more regulatory and reasonable. One share one vote rule and the principle of fairness, justice and open have been deepened, guaranteeing the rights and dividend appropriation of shareholders from the whole company. Meanwhile, the enactment of policies on the protection of shareholders’ interests legalized the behaviors of different parties, motivating the dynamic of the whole stock market.

The status of shareholders changed with the adjustment of enterprises’ policies. Shareholders have come on the stage rather than stay behind the stage, and their rights of information and inquiry have been strengthened further. At the stage of dividend appropriation, companies should take priority of shareholders’ interests and they can not have internal absorption of dividend with unreasonable reasons. The supervision department has set up reporting institutions to supervise the illegal behaviors of some listed companies. Then, the operation of stock market should more rely on the shareholders’ interests and listed companies ought to strictly regulate their business and profits allocation, facilitating the harmonious development of stock market.

3.2 Larger scale of information disclosure

The information disclosure of enterprises has long been the focal issue because the data and materials of the enterprises’ business and their reality not only concern the image and fortune of an enterprise, but also arouse the supervision of the whole stock market and economy. With the increasing expansion of business scales of some enterprises, the successful conduction of enterprises’ activities can be the result of the cooperation among several enterprises and government departments. Therefore, once the information collection is inaccurate, the whole business chain would be endangered and the investigation of enterprises or officials would arouse an uproar among the public. In order to guarantee
the legality of internal operation of enterprises and make information or procedures demonstrated before shareholders more persuasive, expanding information disclosure is the focal work of current stock market and economic field in China.

The problems of information disclosure in China can be summarized as untruth of information, nonstandard form of information disclosure and out of date information disclosure. The resolution of these problems should find reasons from enterprises and relevant departments. Firstly, the supervision development should enact uniform regulations for the information management of enterprises and establish complete information process to replace the nonstandard operation of some enterprises. In addition, enterprises should strengthen internal control and set up prestigious supervision and audit panels to have necessary supervision over the daily work of enterprises. Special emphasis is supposed to be given to accounting behaviors to prevent the alteration and omission of information at source. The information management of enterprises is their vital fortune, and good information disclosure can earn the recognition of more shareholders and other enterprises, helping to create good atmosphere in the whole stock market.

4 CONCLUSIONS

Stock market in China has undergone tests from different aspects over the past decades. In the unsmooth practices, some immature behaviours have been demonstrated by some listed companies in stock market. Compared with other countries, the dividend policy of China is not perfect and has not formed a set of code of conduct. No or rare dividend appropriation, unreasonable dividend policy and poor information disclosure greatly hindered the development of stock market in China, damaging the legal rights and benefits of shareholders and enterprises. Nowadays, enterprises and supervision departments are trying to take measures to bring the stock market to high-efficiency development track. On that basis, dividend policy and stock market quality can be optimized and upgraded.

REFERENCES

