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## **THE CURRENT STATE OF DIVIDEND POLICY IN JOINT-STOCK COMPANIES IN UZBEKISTAN AND ITS DEVELOPMENT WAYS**

It can be seen that the theoretical bases of dividend policy are analyzed according to the global and national literatures. Especially, there are learnt interrelations between dividend and reinvestment, the role of financial management in dividend policy, factors which affect dividend payouts, the influence of dividend policy on stock price growth, impacts of corruption on distribution of profit, threat of takeovers and others. In these cases, several issues are known in dividend policies of national joint-stock companies with the help of scientific thoughts of researchers. Practically, national banks and insurance companies are investigated as most developing joint-stock companies in Uzbekistan. The financial information of banks and insurance companies on dividend payouts is learnt significantly and the indicators of dividends on common and preferred stocks are analyzed in detail. On the basis of the above-mentioned analyses, scientific conclusions and practical recommendations are given in the article.

**Keywords:** dividend, dividend policy, reinvestment, common stock, preferred stock, profitability, agency problems.

## **O‘ZBEKISTONDA AKSIYADORLIK JAMIYATLARIDA DIVIDEND SIYOSATINING HOZIRGI HOLATI VA UNI RIVOJLANTIRISH YO‘LLARI**

Maqolada dividend siyosatining nazariy asoslari xalqaro va milliy adabiyotlar asosida tahlil qilingan. Ayniqsa, dividend va reinvestitsiya o‘rtasidagi o‘zaro bog‘liqlik, dividend siyosatida moliyaviy menejmentning o‘rni, dividendlarni to‘lashga ta’sir etuvchi omillar, dividend siyosatining aksiyalar narxining o‘shishiga ta’siri, korrupsiyaning foydani taqsimlashga ta’siri, boshqa kompaniyalar tomonidan kompaniyani qo‘shib olish xavfi va boshqalar o‘rganilgan. Tadqiqotchilarning ilmiy fikrlarini o‘rganish natijasida milliy aksiyadorlik jamiyatlarining dividend siyosatida uchraydigan bir qancha muammolar aniqlandi. Shuningdek, milliy banklar va sug‘urta kompaniyalari O‘zbekistondagi eng rivojlanayotgan aksiyadorlik jamiyatlari sifatida tadqiq qilindi. Dividendlarni to‘lash bo‘yicha banklar va sug‘urta kompaniyalarining moliyaviy ma’lumotlari o‘rganilib, oddiy va imtiyozli aksiyalar bo‘yicha dividendlar ko‘rsatkichlari batafsil tahlil qilingan. Yuqorida aytib o‘tilgan tahlillar asosida maqolada ilmiy xulosalar va amaliy tavsiyalar keltirilgan.

**Tayanch so‘zlar:** dividend, dividend siyosati, reinvestitsiya, oddiy aksiya, imtiyozli aksiya, daromadlilik, agentlik nizolari.

## **Introduction**

It can be seen that the dividend policy is considered as one of the most crucial aspects to attract investors and increase market value of companies. Moreover, prudent dividend policy protects joint-stock companies from acquisitions and directs them to develop the financial market, so participants of the global market pay attention to dividend policy.

To develop the financial market in Uzbekistan requires improving the activities of joint stock companies in financial markets and establishing effective corporate governance in companies. It should be noted that a prudent dividend policy has a special place in the organization of effective corporate governance in joint stock companies. The high share of the state in the majority of joint-stock companies in Uzbekistan is noteworthy. This has a negative impact on the activities of these joint-stock companies as well as the financial market. That is why, President Sh.Mirziyoyev said, “Another important direction in increasing budget revenues is state assets. Last year, state-owned enterprises paid a total of 1.6 trillion soums in dividends to the budget” [1]. It is necessary to improve the activities of joint-stock companies by prudent dividend policy, reducing the share of the state in joint-stock companies, and the organization of effective corporate governance in companies. It should be noted that prudent dividend policy should pay special attention to determining the effective ratio between dividends and reinvestment in order to increase investment attractiveness, achieve an increase in the market price of shares and the creation of opportunities to expand business. It is worthy to consider that dividend policy is relevant because of the above-mentioned aspects.

## **Literature review**

In the global area, there are enormous researches which learn dividend policy and its issues. It is useful to investigate such literatures on dividend policy in order to implement effective dividend policy in joint-stock companies in Uzbekistan.

M.Murtaza, M.M.Ikbal, Z.Ullah, H.Rasheed, A.Basit claim that the main object of financial management is to maximize the Stockholder’s wealth; denoted by maximized stock prices. To achieve this objective, management (the caretakers of stockholder’s interests) have to make three important decisions namely, (i) investment (ii) financing and (iii) dividend decisions... In dividend decision, the management has to decide whether to distribute the profit wholly or a part of it among the shareholders or to retain it for reinvestment and development of the organization. Dividends are commonly defined as the distribution of earnings (past or present) in real assets among the stockholders of the firm in ratio to their ownership [2].

According to E.F.Brigham and J.F.Houston, successful companies earn income. Then that income can be reinvested in operating assets, used to retire debt, or

distributed to stockholders. If the decision is made to distribute income to stockholders, three key issues arise: (1) How much should be distributed? (2) Should the distribution be in the form of dividends or should the cash be passed on to shareholders by buying back stock? (3) How stable should the distribution be? [3].

In addition, J.Atanassov, A.Mandell consider that faced with the choice of increasing dividends or investing in asset maintenance (or other long-term NPV-positive projects), GPs (general partners) with short-term incentives could choose the option which maximizes their own wealth, without proper concern for the interest of limited partners [4].

Another researcher K.Garrett claims that dividends and share price growth are the two ways in which wealth can be provided to shareholders. There is an interaction between dividends and share price growth: if all earnings are paid out as dividends, none can be reinvested to create growth, so all profitable companies have to decide on what fraction of earnings they should pay out to investors as dividends and what fraction of earnings should be retained [5].

Juan M. Reyna says that dividends are considered the payment made to the shareholders for their contribution in the provision of funds for a company and the compensation for supporting the inherent risks of the business [6].

Additionally, Q.T.Tran gives the scientific thoughts that when corruption is higher, firm managers need to use firm resources to make unofficial payments and tend to take this opportunity to expropriate shareholders. Consequently, shareholders recognizing this risk need to force managers to pay more dividends in order to mitigate the agency problem [7].

The group of researchers - J.Berzins, O.Bohren, B.Stacescu find that potential conflicts between majority and minority shareholders strongly influence how dividends respond to taxes. When the controlling shareholder has a smaller stake, the incentives to extract private benefits are stronger – a shareholder conflict that can be mitigated by dividend payout [8].

The scientific researches of C.Driver, A.Grosman, P.Scaramozzino show that there are analyzed three channels of influence for investor pressure through 1) threat of takeovers, 2) shareholder value oriented corporate governance, measured by director independence and board equity incentives, and 3) trading and institutional ownership patterns. Furthermore, they conclude that firms adopt a higher dividend payout to discourage takeover bids [9].

Local scientists and researchers also study dividend policy in the condition of Uzbekistan, so it is also essential to investigate their scientific works. For instance, professor S.Elmirzaev notes that financial relationships between businesses and property owners in distributing profits reflected in dividend policy are complex and

multifaceted. Therefore, it is advisable to consider the economic component of the dividend and its components, starting with the nature of their occurrence [10].

Moreover, S.Elmurodov claims that a firm can retain its free cash flow, either investing or accumulating it, or pay out its free cash flow through a dividend or share repurchase. The choice between these options is determined by the firm’s payout policy [11].

On the basis of the above-mentioned scientific thoughts, it can be said that main aspects of the dividend policy such as interrelations between dividend and reinvestment, financial management decisions, threat of takeover and others should be paid attention in prudent dividend policy. Additionally, it should also be taken into account to protect the rights of minority shareholders in prudent dividend policy.

### Research methodology

Scientifically, there are several research methods in the article while analyzing dividend policy and its issues. It can be seen that induction, deduction, comparative analysis, trend analysis, abstract and other methods are used in the research.

### Analysis and results

Today commercial banks are main developing joint-stock companies in Uzbekistan, so it is important to learn dividend payouts of them. The following table describes the dividend payment on common and preferred stocks in PJSB “Trustbank” in 2017-2019.

**Table 1**

**The dividend payouts in PJSB “Trustbank”[12]**

№	Types of stocks	The volume of dividend payout		
		2017	2018	2019
<b>PJSB “Trustbank”</b>				
1.	Common stocks	200%	92.5%	61.3%
	Calculated and paid dividends (mln.soum)	80 454.00	94 709.98	98 219.15
2.	Preferred stocks	15%	15%	15%
	Calculated and paid dividends (mln. soum)	3.45	3.45	3.45
<b>Total</b>		<b>80 457.45</b>	<b>94 713.43</b>	<b>98 222.60</b>

According to the table 1, the percentage of dividends on common stocks decreased from 200% to 61.3% in 2017-2019. However, the amount of dividends on common stocks has an increasing tendency from 80 454.00 mln. soum to 98 219.15

mln. soum. It can show that the profit of the joint-stock company went up enormously during this span. The percentage of dividends on preferred stocks was the same percent (15%) during three years and the amount of dividends was 3.45 mln. soum in this period according to the charter of the bank.

In the table 2, the information about the dividend payouts in FSC “Aloqabank” are given. During 2014-2019, “Aloqabank” increased enormously the annual dividend payouts from 1 475.80 mln. soum to 36 143.46 mln. soum. Although dividends on common stocks were not in 2014 and 2015, this dividend went up extremely from 9 221.19 mln. soum in 2016 to 35 272.26 mln. soum in 2019.

**Table 2**

**The dividend payouts in JSC “Aloqabank”[13]**

№	Years	Calculated and paid dividend (mln. soum)		
		Common stocks	Preferred stocks	Annual dividend
1.	2014	-	1 475.80	1 475.80
2.	2015	-	1 584.00	1 584.00
3.	2016	9 221.19	435.60	9 656.79
4.	2017	8 068.54	871.20	8 939.74
5.	2018	18 909.99	435.60	19 345.59
6.	2019	35 272.26	871.20	36 143.46

Dividends on preferred stocks had a significant fluctuation during the period. In 2019, the indicator was less with 871.20 mln. soum than the amount of dividend with 1 475.80 mln. soum in 2014. Moreover, it can be seen that “Aloqabank” has the amount of dividend payouts three times less than “Trustbank”.

The following table shows information about dividend payout for per stock in “Ipoteka bank” JSCMB in 2006-2019.

**Table 3**

**The information about dividend payout in “Ipoteka bank” JSCMB[14]**

Years	Common stocks (for per stock in soum)		Preferred stocks (for per stock in soum)		Face value of stock (soum)
	In money form	In capitalization form	In money form	In capitalization form	
2006	200,00	-	400,00	-	1 000,00
2007	-	-	400,00	-	1 000,00
2008	130,00	-	400,00	-	1 000,00
2009	150,00	-	400,00	-	1 000,00
2010	150,00	-	250,00	-	1 000,00

2011	40,00	360,00	250,00	360,00	1 000,00
2012	68,00	340,00	317,50	340,00	1 360,00
2013	85,00	450,00	403,75	450,00	1 700,00
2014	-	672,00	509,40	672,00	2 150,00
2015	-	756,00	705,50	756,00	2 822,00
2016	54,00	448	894,50	448	3 578,00
2017	0,08	-	0,25	-	1,00
2018	0,06	-	0,25	-	1,00
2019	0,08	-	0,25	-	1,00

Dividends were given in the given both forms during 2011-2013 and 2016. In other years, the bank paid dividends either money or capitalization form. It is essential to mention that the indicators of stocks and dividends decreased significantly from 2017 due to changing stocks into small ones.

As we learn, the dividend payouts in the above-mentioned banks differ from each other with the amount and tendency of them. In addition, insurance companies are also developing in recent years, so we pay attention to the “ALSKOM” insurance company in the above-mentioned table (Table 4).

**Table 4**

**The dividend payout in “ALSKOM” JSC Insurance Company[15]**

Years	The amount of dividends by face value				Total amount of paid dividends (mln. soum)	The amount of debt on unpaid dividends (soum)	Note for unpaid dividends
	Common		Preferred				
	%	Soum	%	Soum			
2015	12	165,6	70	966	994.13	0.18	Due to the lack of requisites
2016	12	165,6	70	966	1 059.56	8.44	Due to the lack of requisites
2017	10	138	70	966	1 113.30	8.13	Due to the lack of requisites
2018	10	138	70	966	1 389.30	17.94	Due to the lack of requisites

2019	10	138	70	966	1 554.90	The deadline of dividend payment 1.09.2019 (information is not uploaded)	Due to the lack of requisites
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The insurance company had debt on unpaid dividends in contrast to learnt banks. However, the amount of annual dividend payouts reached from 994.13 mln. soum in 2015 to 1 554.90 mln. soum in 2019. If the preferred stocks are paid attention, the amount of dividends was the same (966 soum). In common stocks, the dividend payments had a decrease from 165.6 to 138 during the period.

In our opinion, it is necessary to take into account the level of initial payments and annual payments, which is one of the listing requirements in organizing the practice of IPO of joint-stock companies in the country on international stock exchanges. The reason is that such payments should not have a significant effect on the financial condition of the joint stock companies. Most joint-stock companies of our country can't satisfy the IPO requirements of the international leader stock exchanges, so national stock exchanges should develop and strategic financial plans should be done.

It is essential to mention that one of the most important aspects in ensuring the investment attractiveness of joint stock companies is the issue of information transparency. Therefore, it is advisable to establish a separate rating agency based on the financial statements of all joint stock companies. The rating agency should focus on specific indicators on the basis of financial reports, in particular, financial stability, profitability, earning per-share (EPS) and other indicators.

Dividend policies of joint stock companies play an important role in the development of the stock market due to the expansion and new direction of the activities of joint stock companies in the securities markets of developed countries. Today, the dividend policy of most issuers is focused on consumption (essentially, the loss of a part of the company's assets in the form of dividends) rather than increasing working capital, keeping it in circulation. This situation has the tendency to weaken the economic development of the company and reduce their competitiveness as well as the interest of foreign investors.

It should be noted that for countries where the stock market is still developing, the level of liquidity of shares is not high, market transactions are not constant the main factor in the formation of stock prices is the amount of dividends paid (the higher the dividend, the higher the share price). At the current stage of economic development, it is necessary to focus their dividend policy on the development of the

main part of profits rather than on consumption (payment of dividends) in order to finance the modernization of companies. Otherwise, the financial condition of companies deteriorates and stock liquidity falls, which will have a negative impact on the development of the stock market and the economy.

### **Conclusions and proposals**

It should be mentioned that analyzing the theoretical and practical bases of dividend policy of joint-stock companies in Uzbekistan comes handy to create effective dividend policy and increase the investment attractiveness in national joint-stock companies. The following conclusions and proposals can be given:

1. Prudent dividend policy can protect the rights of shareholders and make attractive the stocks of a company in the securities market. If dividends are paid in time and financial managers control a company effectively, it can serve to increase stock price and investment attractiveness. At the same time, these aspects can give a choice to organizing Initial Public Offering (IPO) effectively in order to create international image of a company and gain capital. In organization of IPO, the dividend payouts are essential because investors pay attention to dividend payouts and ratio between dividend payouts and reinvestments.

2. Furthermore, satisfactory approach of company to shareholders can also protect the company from hostile takeover of other companies. In fact, shareholders do not tend to purchase their stocks when the company tries to pay more dividends.

3. According to the analysis, the ratio between dividend payout and reinvestment is crucial in joint-stock companies to develop companies as well as satisfy the shareholders.

4. The fact which the company directs all of its retained earnings to dividends is an obstacle to business expansion. Therefore, the company's directing a portion of retained earnings to regular dividends increases shareholder confidence, as well as increases the value of the company's shares in the market.

5. It is necessary to increase the role and importance of the Corporate Governance Code, which is developed to prevent agency conflicts, in the activities of joint-stock companies in the country. The share of the private sector in joint-stock companies should be high. It is also necessary to increase the participation of potential financial managers in the activities of joint stock companies. These aspects serve to reveal the real significance of the corporate governance code in the activities of joint stock companies.

6. It is important to mention that one of the most important aspects to increase the investment attractiveness of joint stock companies is the issue of information transparency. There are rare reliable information sources on joint-stock companies in Uzbekistan. Therefore, it is advisable to establish a separate a rating indicator based on the financial statements of all joint stock companies. The rating indicator should

focus on specific indicators on the basis of financial reports, in particular, financial stability, profitability, earning per-share (EPS) and other indicators. Such information is helpful for investors as well as joint-stock companies which have effective operational activities. Investors can find candidate companies easily to invest money with the help of such a rating indicator.

7. It is important to protect the rights of minority shareholders in the distribution of profits. Shareholders with a controlling stake can spend retained earnings on high-yield investment projects without receiving dividends. This could provoke protests from minority shareholders and offset their investment by selling their shares. This situation can lead to the acquisition of the company by other companies through the purchase of these shares.

8. In addition, it is necessary to take into account the level of annual payments of dividends, which is one of the listing requirements in organizing the practice of IPO of joint-stock companies in the country on international stock exchanges. If this indicator is satisfactory, there will be a significant increase in the number of potential investors. It plays a crucial role in joint-stock companies as well as in developing financial markets such as the financial market of Uzbekistan.

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