



Research Paper

# Dividend and Refinancing Policies for Development and Operation of Companies

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## Abstract

Two significant elements of the development and operation of companies are dividend and refinancing policies. Recently, the researchers pay more attentions to the policies of refinancing and dividend of listed companies. This paper reviewed the findings of previous researches about refinance, dividend distribution and refinancing and dividend distribution.

**Keywords:** Refinancing Methods; Dividend Policy; Literature Review

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## 1. Introduction

Two sources of funds and distribution of profits in the companies are financing and dividend and play a significant role in connecting stakeholders. These sources are located in the heart of business operations and provide a significant role in the sustainable development of the company. Accurate choice of financing and dividend policies plays an important role in the stability of the company and on this basis, the company can develop better and maximize shareholder's profits. The focus of this paper is on reviewing the basic theories and researches related to refinancing of listed companies, dividend distribution and refinancing and dividend distribution.

## 2. Refinancing and dividend policy overview

### 2.1 Refinancing of listed companies

The relatedness of capital structure of company to the value of company is the heart of MM theory. They said that the company's investment choices and financing choices have no relationships. Based on pecking order theory, the order of fund-raising activities for a specified rational company is internal financing, bonds, equities.

Based on signal transmission point of view, for the investors of companies with good operating conditions, the company's debt will be a good news

and consequently leads to increase in stock prices and investor's rate of returns. Presently, two methods of refinancing in listed companies are available: the first is equities which is based on issuing new shares and the second one is based on debt and the issuing of convertible bonds. Chinese scholar claims that Chinese listed companies preferred to use equity as the main source of financing, which is opposed to pecking order theory, which was introduced previously by Myers and Majluf in 1984. The explanation of this phenomenon have become a hot discussion among the academic scholars of china and there are different points about it.

### 2.2 Listed companies dividend policy

Dividends is a main element of company's financing and investment as well as the confidence of the shareholders of the company. For any listed company, a scientific, rational, stable and lasting dividend policy is really important and placed as the main focus of researches.

Miller and Modigliani prove that dividend will not cause a change in the value of the company with their "Irrelevant Dividend View" and "Bird-in-hand" theory introduced by Gordon claimed that corporate value will increase when dividend get larger. The "Tax difference Theory" indicates low level of dividend will increase corporate value. The

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"Irrelevant Dividend View" has great limitation in real life because of its restrictive assumptions and is unacceptable based on empirical analysis. Therefore, after the 1980s, the scholars start to analyse why dividend affect the company's value. The "Signal Theory", "Agency Theory", "Behaviourism" are among the most well-known theories. These theories focused on the relaxation of the assumptions of "MM Irrelevance Dividend theory" and used the behavioural science, psychology, neurology and other disciplines to analyse the dividend policy. Their attempts lead to remarkable findings.

Dividend distribution of listed companies in China is one of the main concerns of domestic researchers. A descriptive statistics of listed companies' distribution in china has been represented [1]. He showed an increasing trend of dividend adaptation among the China's listed companies during 1994 to 2000. They also showed that the strategies of bonus shares and the transferring shares were decreasing, concurrently. Since 2000, the focus has been on the allocating cash dividend to different stocks. This is one of the main features of the Chinese securities market, which the listed companies allocate less shares and have lower dividends but have more dividends.

Dividend distribution policy is one of the measures that investors are looking for in listed companies. This not only relates to the personal income of investors, but also connects investors to the operating conditions and investment value of the listed companies. Therefore, investors are inevitably responding to the distribution of dividends of the listed companies. The first dividend policy of the companies listed before 1996 has been studied in terms of signal theory [2]. They found that cash dividends were not welcomed by the market compared to dividend and mixed dividends. This phenomenon shows that: Investors in China have an unstable mind, they are eager for a short period of time, and the "bird in hand" theory is not currently applicable in China.

### *2.3 Refinancing and dividend policy of listed companies*

According to the list of companies as a sample in 2002, some researchers found that many companies distribute dividend after financing in China [3]. In 2002, 88% of the companies that were recently listed were able to pay dividend. Of the many companies that have just entered the market or published new shares, 75% and 83% of them pay cash dividend. Therefore, many listed companies pay cash dividend after financing, but few studies focus on their interaction. Some studies have shown that dividends are effective on the internal use of company funds to increase tolerance to financial constraints. Typically, the dividend payout ratio has been used as a significant index of financial constraints for listed companies. Financing cannot replace other methods, while internal and external

financing costs are significantly higher than internal financing, and this leads to "financial constraints" of the company. Two important causes of financial constraints in the external financing method is Information asymmetry and high transaction costs. Dividend policies affect the company's cash flow by influencing the rate of refinancing. Some investigations analyzed the relationship between cash flow and dividend policy in the event of financing constraints [4]. He found that uncertainty in cash flow reduces the amount of dividends. In the event of severe financial constraints, dividends will have a more negative effect. A recent study used a descriptive statistics and mathematical statistics to explain that the Commission's refinancing policies have a significant impact on the company's dividend policies. The data show that the dividends paid by the listed companies have a significant positive correlation with the question of whether the company has been using refinancing for three years. Three years before refinancing, the amount of dividends has declined and after refinancing, the dividend has not been increased clearly [5].

### *2.4 Further comprehensive review of refinancing & dividend policy research*

Most domestic and foreign literature examines the dividend puzzle in terms of internal management of listed companies, but the main stakeholders in distributing dividends and the direct benefits of dividend policies are undoubtedly investors. Therefore, dividend preference should be the focus of the dividend research and therefore, based on the company's important dividend policy.

After analyzing the distribution of dividends and refinancing of existing companies in the country and taking into account the analysis of experimental literature, I conclude that in the market of our country, the preferences of investors from refinancing and dividend policies and the choice of refinancing and dividend distribution are completely different from foreign investors. Our researchers usually do theoretical and empirical research based on transaction costs, asymmetric information, income taxes, and equity structures.

Two main advanced theories about the current dividend policy are the Agency Cost Theory and signalling Theory. From the perspective of the conclusion, they are in line with each other, which both reflect the interest of investors in dividends and stock awards and their lack of interest in non-distribution [5-7].

Some scholars claim that Chinese investors are not concerned about dividends and policies. However, the event that companies pay dividends is a positive sign for the market, as long as the type of dividend is cash, stock or mixed. Investors believe that each of these types is better than nothing, but the preferences of these three dividends are different-Preference for dividends is very clear in one of the two forms of bonus and combined dividends, but the preference for cash dividends is less, and the

high amount of cash dividends is not optimal for the shareholders. Meanwhile, investors' attitudes toward Haiti's long-term stable and long-term dividend distribution are positive and, nevertheless, this is not the reason for investors to hold these stocks for a long time.

Based on the analysis of Dividend Catering Theory, prior to the division of equity, main shareholders will have the full control of corporate governance and dividend development, while minority shareholders cannot influence the firm's performance, and the major shareholders use cash profits to transfer cash and pay dividends to companies in accordance with the preferences of major shareholders [7-8].

After reform, the mechanism of market protection of minor shareholders' strengths and make them to participate in decisions. They prevent the major shareholders to suddenly hollow out cash flow and limit the Emotional decisions of major shareholders.

### 3. Conclusion

In conclusion, the study has focused on the refinancing and distribution of dividends in China and foreign countries, and has gained many valuable points and achievements. However, in the theories of traditional and modern distribution of dividend based on efficient market hypotheses often ignore the influence of behavioral factors, including psychology, behavior and society on investors, and investigate the relationship between the refinancing and distribution of dividends is very limited in different financial markets. In general, the amount received is directly related to investment decisions in the company, and how the investment decision is related to financing, which means that the way refinancing indirectly affects the

distribution of dividends. Therefore, the relationship between refinancing and dividend policies with the perceptions and preferences of investors from different policies and dividend distributions from the point of view of behavioural finance is critical subject for future research.

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