



## REVIEW OF RESEARCH ON DIVIDEND POLICY AND THE REFINANCING

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### Abstract

Dividend policy and refinancing are both significant for the operation and development of all the listed company. In recent years, there are more and more studies on the refinancing and dividend distribution of listing Corporation. Research findings of refinance, dividend distribution, and refinancing and dividend distribution were reviewed in this paper.

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### Introduction

Financing and dividend determine the source of funds and the distribution of profits of enterprises, playing the role of link to connect each stakeholder. They are throughout the business operation of every aspect of the enterprise and play an important role in the sustainable development of an enterprise. Reasonable financing and dividend decisions contribute to the internal and external stability of enterprises, so that enterprises can better develop and grow, maximizing profits of shareholders. This paper focuses on the comprehensive review of the basic theory and research progress in terms of refinancing of listed companies, dividend distribution and refinancing and dividend distribution.

### Refinancing and dividend policy overview

#### Refinancing of listed companies

The core of MM theory is that the company's capital structure is unrelated to the value of the company, that there is no interaction between the company's investment decisions and financing decisions. The pecking order theory emerged that a rational company should carry out fund-raising activities in the order of internal financing, bonds, equities.

From the perspective of signal transmission, company's debt will transfer to investors of company's good operating conditions, which will be viewed as good news. And the market anticipation thus formed will make the stock rise, increasing the rate of return for investors.

At present, there are two ways for the refinancing of listed companies: One is the equity financing, including the placement of shares, issuance of new shares; and the other is debt financing, the issuance of convertible bonds. Domestic scholars generally believe that Chinese listed companies have a strong preference for equity financing, which contradicts the pecking order theory, the so-called "pecking theory", put forward by Myers and Majluf in 1984. Chinese scholars have different opinions on the interpretation of this phenomenon, which became a hot spot of academic research.

#### Listed companies dividend policy

Dividends not only affect the company's financing and investment, but also affect the confidence of the shareholders of the company. A scientific, rational, stable and lasting dividend policy is extremely important for any listed company, and it has been the focus of scholars' debate.

The "Irrelevant Dividend View" represented by Miller and Modigliani, holds that dividend will not cause a change in the value of the company. And Gordon's "Bird-in-hand" theory believes that high dividend helps increase corporate value. The "Tax difference Theory" considers that the low dividend increases corporate value. Empirical analysis indicates that the "Irrelevant Dividend View" is limited to so restrictive assumptions that it does not apply in real life. Thus, after the 1980s, scholars began to discuss why the dividend will affect the value of the company. Mainstream theories are like "Signal Theory", "Agency Theory", "Behaviorism" and so on. These views are mostly trying to relax the assumptions of "MM Irrelevance Dividend theory", analyzing the dividend policy from behavioral science, psychology, neurology and other perspectives. And they have received remarkable progresses.



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Domestic academia is very concerned about the dividend distribution of listed companies in China. Xia Yuzhang (2004) carried out the descriptive statistics of listed companies' distribution in China and found that between 1994 and 2000 the proportion of China's listed companies adopting dividend increased year by year. While the utilization of bonus shares and the transferring shares decreased year by year. Since 2000, the practice of making trace cash dividends for the allotment has become more prominent. It has become a major feature of China's securities market that listed companies do not allocate no or few shares and make less cash dividend but more cash dividend.

Dividend distribution Policy is one of the acts listed company investors are most concerned about. It is not only related to the investors' personal income, but also conveying to investors the operation condition and investment value of listed companies. So investors will inevitably make some response to dividend distribution of listed companies. Chen Xiao, Chen Xiaoyue, Ni Fan (1998) studied the first dividend policy of listed companies before 1996 according to the signaling theory, and found that compared with pure and mixed dividend stock dividends, cash dividends were not welcomed by the market. This phenomenon shows that: investors in China have unstable state of mind, keen to short-term, and the "bird in hand" theory is not applicable in China for the time being.

### Refinancing and dividend policy of listed companies

Taking listing Corporation as a sample in 2002, Wang Huaidong、Qin Jiangping、Qiang Jin found that many companies sending cash dividend after financing in China. In 2002, the company that has just listed sending cash dividend account for 88% of the total number of newly listed companies. There are many companies that just allotment and just issued new shares immediately sending cash dividend, account for 75% and 83 % of the total number. Thus, there are many listed companies sending cash dividend after financing, but few study focus on their interaction.

Some studies have found dividend affect the company's internal use of funds to increase financial constraints suffered. Typically, we use dividend payout ratio as an important indicator to measure the financial constraints of listed companies. Financing cannot substitute each other at an internal and external financing costs are significantly higher than the internal financing situation will result in the company's "financial constraints." Information asymmetry and high transaction costs of external financing are important causes of financial constraints.

Dividend policies have an impact on refinancing by affecting the company's cash flow. Zhu Nanmiao(2011) analysis the relationship between cash flow and dividend policy in the case of the presence of financing constraints, found that the uncertainty of cash flow will decrease the amount of dividend. In the case of severe financial constraints, the negative effect on dividend payments is more obvious. Cai Lixin(2014) using descriptive statistics and mathematical statistics reveal the Commission's refinancing policy has a significant impact on the listed company's cash dividend policy. Data show that the amount of dividend sending by listed company has a significant positive correlation with whether the company refinancing within three years. Three years before refinancing will drive down the amount of dividend. After successful refinancing dividend are also not clearly positive.

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

Most of the domestic or foreign literature considers dividend puzzle from the perspective of company management or listed companies, but there is no doubt that investors are stakeholders in the dividend distribution and direct objects of dividend policy. So investors' dividend preference should become a focus of dividend research and thus an important basis for the company to make dividend policy.

After analyzing the dividend distribution and the company's refinancing of our country and considering related empirical analysis of literature, I come to an conclusion that in the market of our country, the investors' preferences of refinancing and dividend policy are quite different from those of foreign investors. And so does the choice of refinancing and dividend distribution.

Our scholars usually make theoretical and empirical research from the transaction cost, asymmetric information, income tax and equity structure. Among them, the Agency Cost Theory and Signaling Theory are the most advanced theories explaining the current dividend policy. From the perspective of the conclusion, they are same with each other which both imply investors' love of mixed dividends and stock dividends and their disgust of lack of distribution.

Some scholars say that investors in China expressed little or no concern on dividend and dividend policy. However, the event that companies will pay dividends becomes a positive signal for the market, whether they are cash dividends, stock dividends or mixed dividends, and investors believe that there is better than nothing,



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but preferences of these three dividends delivery are different - the preference of stock dividends including allotment of bonus and mixed dividends is obvious, the preference of cash dividends is less or extremely insensitive, and the large amount of cash dividends do not meet the investors' demand. Meanwhile, investors' attitude is positive for the companies with long-term stability of dividends distribution, which, however, will not be the reason for investors to hold for a long time.

When analyzing from the Dividend Catering Theory, before the reform of equity division, major shareholders realized the absolute control of corporate governance and dividend development while minority shareholders cannot affect the company operation, which will lead to that major shareholders use cash dividends to transfer the cash of listed company and companies' dividends payment does not cater for the preference of dominant shareholders. Market protection mechanism and protection sense of minority shareholders becomes strong after reform and their participation in company governance and business decisions leads to that the major shareholders cannot hollow out cash flow recklessly, which constraints behavioral decision of major shareholders. Catering Theory of Dividends still works and managers pay cash dividends to cater for the preferences of investors.

### Conclusion

In summary, the study of refinancing and dividend distribution has been paid great attention in China and abroad and made many valuable experiences and achievements. However, traditional and modern dividend theories, based on the Efficient Markets Hypothesis, mostly ignored the impact of behavioral factors including psychology, behavior and society on investors, and the research on relationship between refinancing and dividend distribution from the perspective of finance is not much. In general, the amount of receipts is directly related with the company's investment decision-making and how to make investment decision-making is limited to the financing, which means that the way of refinancing will indirectly affects the dividend distribution. Therefore, the way to link up the refinancing and dividend distribution policy and think the investors' perceptions and preferences of different refinancing and dividend distribution from the point of behavioral finance is an important direction for future research.

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