

# ROLE OF DIVIDEND POLICY IN INCREASING THE INVESTMENT ATTRACTIVENESS OF COMPANIES

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## Abstract

This article studies the views of various economists on dividend policy in studying the role of dividend policy in increasing the investment attractiveness of companies in the capital market. The mathematical foundations of dividend policy, internal and external factors affecting dividend policy are analyzed. Based on the analysis, relevant conclusions are formed.

**Keywords:** Dividend policy, dividend, dividend payouts, investment attractiveness, capital market, shareholder, investor, issue, issuer.

## Introduction

Studying dividend policy is important for capital market participants, as it helps to increase investor confidence in companies. The stability of dividend payments ensures the attractiveness of shares and encourages investors to make long-term investments. The demand for shares of companies with high dividend yields is high, which helps to increase their market value. Dividend policy is an important indicator reflecting the financial stability of the company and the effectiveness of its business strategy. Timely and stable payment of dividends for shareholders reduces investment risks and increases liquidity in the capital market. Analysis of dividend policy helps to formulate financial plans of the company and effectively allocate investments. Companies participating in the capital market can increase investment attractiveness by correctly formulating dividend policy. In-depth study of dividend policy creates an opportunity for investors to make optimal decisions and effectively manage capital flows. Analysis of dividend policy provides investors with important information for long-term investment, which has a positive impact on the development of the capital market. Therefore, studying dividend policy is relevant in increasing the investment attractiveness of issuers in the capital market.

## LITERATURE REVIEW

“Cash dividends are the main way for listed companies to reward investors and are an important foundation for the development of the shareholding system. They are important for cultivating rational investors and developing a long-term, stable and healthy capital market” [1]. Cash dividends are the main way for listed companies to reward investors. They provide shareholders with the opportunity to return their investments and earn income. At the same



time, dividend payments demonstrate the financial stability and reliability of the company. This process serves as an important foundation for the development of the shareholding system. As a result, investors increase their confidence in the company and are inclined to invest in the long term.

“The lower the tax rates on dividends, the higher the dividend payments of companies” [2]. The lower the tax rates on dividends, the higher the inclination of companies to pay dividends. This is because the lower tax burden increases dividend income for shareholders and increases their motivation to invest in the company. This is an important factor in the formation of dividend policy by companies. High dividend payments serve to strengthen trusting relations with shareholders.

According to S.V. Shchurina and M.A. Prunenکو, “an increase in the level of dividends leads to a corresponding increase in the market value of the share, as a result of which shareholders receive:

- 1) increasing interest income (in the form of dividends);
- 2) income from an increase in the market value of shares.

An increase in the level of dividends indicates to existing and potential shareholders that the company is operating successfully and that future income is expected to increase” [3]. An increase in the level of dividends leads to a corresponding increase in the market value of shares. This process creates two main sources of income for shareholders. First, they receive increasing interest income in the form of dividends. Second, they receive capital gains as a result of an increase in the market value of their shares. As a result, the investment attractiveness of the company increases, creating more favorable conditions for shareholders.

According to M. Belloni, M. Grodzicki and M. Jarmuzek, “there are three main reasons for organizing the regulation of dividend payments: asymmetric information between shareholders and management, the presence of agency costs and the presence of regulatory constraints” [4]. There are three main reasons for organizing the regulation of dividend payments. First, asymmetric information between shareholders and management creates uncertainty for investors. Second, the presence of agency costs increases the likelihood that managers will make decisions that are contrary to the interests of shareholders. Third, regulatory constraints set certain limits in determining the dividend policy of companies. Therefore, the regulation of dividend payments serves to protect the interests of shareholders and ensure the stability of the company.

“As per the stakeholder perspective and ethical business principles, the current study expanded on CSR developing desirable consumer behavior, such as corporate reputation leading to brand preference, particularly in the healthcare sector” [5].

U. Khalikov noted that “taxation of dividend income, in turn, leads to a relative decrease in the real income of the population” [6]. Taxation of dividend income can lead to a decrease in the real income of the population. If tax rates are high, the net income that reaches investors will decrease. This situation can reduce the interest of shareholders in investments and have a negative impact on the capital market. As a result, the population may direct their funds not to dividend stocks, but to other investments with tax benefits. Therefore, the taxation system is an important factor affecting investment activity and the real income of the population.



Z. Ashurov touched upon the need to “establish clear principles and procedures for dividend policy in order to increase the efficiency of equity capital and ensure the full and timely payment of dividends to shareholders” [7]. To increase the efficiency of equity capital, it is important to establish clear principles and procedures for dividend policy. Timely and full payment of dividends increases shareholder confidence and strengthens their loyalty to the company. A stable dividend policy increases the attractiveness of shares and encourages investors to make long-term investments. If transparency and clarity are ensured regarding dividend payments, shareholder confidence in the company's strategy is strengthened. As a result, dividend policy remains an important investment factor for capital market participants.

## ANALYSIS AND RESULTS

Studying the mathematical foundations of dividend policy is important for capital market participants in increasing investment attractiveness. Dividend yield (DY) is calculated as the ratio of earnings per share to the current share price and helps investors determine their investment strategy. Dividend coverage ratio (DCR) shows how much of the company's net profit is distributed to shareholders as dividends. This indicator makes it possible to assess the company's dividend policy and financial stability. Gordon's Dividend Discount Model (DDM) is used to calculate the intrinsic value of shares, which helps increase investor interest in securities. A deep mathematical analysis of dividend policy helps determine the company's future growth strategy. This approach helps ensure long-term stability of dividends and increase demand for shares. To strengthen investor confidence in the capital market, it is necessary to analyze dividend policy with precise mathematical formulas. By properly studying mathematical foundations, companies can offer investors an acceptable dividend policy. As a result, a mathematically in-depth study of dividend policy increases the investment activity of capital market participants and contributes to the sustainable development of the market.

Dividend payments are calculated using various methods. It depends on the company's dividend policy, the amount of net profit and the income distributed to shareholders. The main calculation methods are presented below.

### 1. Calculating Dividends on Common Stock

If a company plans to pay dividends on common stock, the formula is as follows:

$$\text{Dividend} = \text{Dividend Rate} * \text{Number of Common Stocks}$$

Or, the total dividend paid to shareholders can be calculated based on net profit:

$$\text{Dividend} = \text{Net Profit} * \text{Dividend Payout Ratio}$$

Example: If the company's net profit is 10 million soums and the dividend payout ratio is 40%:  
 $10,000,000 \times 0.4 = 4,000,000$  soums

In this case, a total dividend of 4 million soums will be paid to shareholders.



2. Dividend Per Share (DPS)

If the total dividend amount is known, it can be divided by the number of shares issued to find the dividend per share:

$$DPS = \frac{\text{Total Dividend}}{\text{Number of Shares Issued}}$$

Example: If a company plans to pay a total dividend of 4 million soums and has 100,000 shares outstanding:

$$DPS = 4,000,000 / 100,000 = 40 \text{ soums}$$

This means that each shareholder will receive a dividend of 40 soums.

3. Dividend Yield

Dividend Yield is used to evaluate dividend payments relative to the value of a share:

$$\text{Dividend Yield} = \frac{DPS (\text{dividend paid per share})}{\text{Share price}} \times 100\%$$

Example: If the share price is 800 soums and the dividend per share is 40 soums:

$$\text{Dividend Yield} = 5\%$$

4. Calculating Dividends on Preferred Shares

The dividend on preferred shares is calculated based on a predetermined rate:

$$\text{Dividend} = \text{Nominal Value of Preferred Share} * \text{Dividend Rate}$$

Example: If the nominal value of a preferred share is 1000 soums and the dividend rate is 8%:  
 $1000 \times 0.08 = 80$  soums

This indicator is 80 per preferred share means the payment of dividends.

In general, dividend policy is an important financial tool that determines the company's profit distribution strategy to shareholders. This policy plays an important role in increasing investment attractiveness by providing investors with information about the stability and prospects of the company. The company's dividend policy depends on a number of internal and external factors, each of which affects investors' decisions.

First of all, the company's financial stability is the main factor shaping the dividend policy. If the company has high income and is able to generate stable profits, the company will be able to pay dividends regularly. Conversely, the occurrence of low profitability may lead to the company reducing or completely canceling dividend payments.

The second important factor is the company's cash flow and liquidity level. Dividends are usually paid from the company's net profit, but in some cases, if the company's cash resources are insufficient, the dividend policy may be weakened. Therefore, the company's sufficient cash flow provides a reliable dividend policy for investors.

Macroeconomic factors, including inflation, interest rates, and global economic conditions, also have a significant impact on dividend policy. During economic downturns, companies often reduce or temporarily suspend dividend payments. In a stable economic environment, companies seek to strengthen investment attractiveness by increasing dividends.



Dividend policy also depends on the company's development strategy. If a company is in a growth and expansion phase, it can reduce dividend payments and direct funds to expand the business. Conversely, companies with stable and low growth rates try to attract investors by paying high dividends. The stability of dividends is also an important criterion for investors. Companies that regularly increase or maintain dividend payments at the same level enjoy high confidence in the market. Conversely, a variable or stagnant dividend policy can reduce investor confidence. The competitive environment and the characteristics of the economic sector also shape dividend policy. For example, high-tech companies tend to invest their profits in innovation and pay low dividends, while traditional sector companies (banks, energy companies) maintain high dividend payments to attract investors.

Legislation and tax policy also have a significant impact on dividend strategy. In some countries, where tax rates are high relative to dividend payments, companies seek to provide investors with the opportunity to earn income through capital appreciation. Low dividend taxes, on the other hand, may encourage companies to pay higher dividends. Investor expectations and shareholder structure also affect dividend policy. For example, conservative investors prefer companies that pay regular dividends, while investors aiming for high income focus on capital appreciation. If a company's shareholders include pension funds or institutional investors, dividend policy is expected to be stable.

Capital market conditions are also among the factors affecting dividend policy. If a company's shares are highly valued in the market, it may prefer capital reinvestment over dividend payments. Conversely, if the share price is low, the company will try to increase investment attractiveness through dividend policy.

Dividend policy also directly affects the company's market image. Companies with stable and high dividend payments enjoy high confidence among investors. This increases the demand for the company's shares and increases its attractiveness in the capital market. Dividend policy also depends on the company's debt load and financial obligations. Companies with a large amount of debt may be forced to reduce dividend payments. Therefore, it is important to consider the balance of debt and equity when determining dividend policy. The company's dividend policy also affects the level of liquidity. The shares of companies with high dividend payments are usually in high demand, which increases trading volume and ensures a stable investment environment.

Dividend policy is a factor that encourages long-term investments. Investors are willing to preserve capital for the long term by investing in companies that regularly pay dividends. This contributes to the company's sustainable growth. Dividend policy also affects the ability to raise capital. Companies with stable dividend payments are in a winning position to attract new investors. This helps the company find additional funds for new projects and investments.

## **CONCLUSIONS**

Dividend policy is one of the important tools for increasing the investment attractiveness of companies participating in the capital market. A company's dividend strategy, in addition to being a source of additional income for shareholders, also provides an important signal about



its financial stability and management efficiency. Investors can assess the company's growth prospects and risk level by analyzing the dividend policy.

First of all, a stable and high dividend policy is a source of additional income for shareholders and increases the demand for the company's shares. High dividend yield makes the company attractive for investment and attracts the attention of long-term investors. Also, regular dividend payments demonstrate the company's stable financial position and increase investor confidence.

Secondly, the dividend policy depends on the company's long-term investment strategy, which affects its growth plans. Companies with a growth strategy usually prefer to reduce dividend payments and reinvest capital. Conversely, companies with slow growth rates try to maintain the attractiveness of their shares by increasing dividend payments. This decision is based on the dividend coverage ratio and the company's profit distribution strategy.

Third, dividend policy affects the stability of stock market prices. Investors usually prefer to invest in companies with stable dividend payments. This factor increases the trading volume of shares and ensures their liquidity. In addition, dividend policy also affects the market capitalization of the company, helping to increase its overall investment rating.

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