THE MANAGEMENT OF THE COMPANY THROUGH DIVIDEND AND THE ETHICAL DIMENSION OF THE DECISIONS TAKEN IN ETHIS FIELD

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The main objective of a company's shareholders is to increase its market value. Of course, they also wish, on a second level, to obtain dividends as big as possible from the investment they made. Just that the exacerbation of their wish to obtain substantial gains, especially when the dividends are distributed in the form of free shares, makes them overlook two regularities that exist in this field: the increase of dividends has to be continuous, and to not have big fluctuations, and the decisions taken in this field do not have to infringe on the self-regulatory capacity of the capital market.

Key words: market value, shareholders, ethical decisions

The dividend policy of a firm concentrates an ensemble of problems and interests that reveal, for instance, the quality of the management act and of the relationship manager – administrators, the rationality of the development strategy of commercial society and of the program of increasing the employees' faithfulness. It offers at the same time profound explanations of the evolution of the market values of the firm's shares and of the public image it benefits from. Thus we consider that the elaboration and implementation of a dividend policy in accordance with the featuring characteristics of each firm has to be the main preoccupation of the management, rather than the non-fulfilment of the job duties of each employee, a problem that can be left for a domestic manager. And the competent analysis and, maybe, an authorised public debate on the dividend policies of the societies on the share market are nowadays more necessary as they are more and more required to obtain high economic performances and, at the same time, to distribute constantly high dividends. If these objectives are not fulfilled simultaneously, the firm is sanctioned by the decrease of its price on the share market, by higher costs of resources of alternative financing, as some investors do not understand that the firms that, for instance, renounce for several years to the payment of dividends of their reduction – in order to survive by own means – prove good sense and concern for the conservation of the capital invested in it by the shareholders.

It has become a common place to admit the fact that, by raising the proportion of the distributed profit under the form of dividend, there is a decrease of the part of it that is accumulated during that year and at the same time the sums available for investments decrease too. In order to renounce, for that reason, to some projects of profitable investments, the firm will have to use on a larger scale external funds. When these reach appreciable dimensions and get associated with important cash flows, in form of interests paid, the future profits and the share holders' compensation possibilities will fall at least significantly. This dividend policy, oriented towards satisfying the share holders' desire to gain - in form of dividends – has a contradictory effect upon their objectives in this plan, on short and long term.

This effect is emphasized first as the number of shares at holders increase, as the rate of dividend per share reduces. Secondly, the more volatile the market, the more it amplifies the effect discussed, as in such circumstances a bigger value is attributed to the RON obtained from dividends than to the one form capital gain (difference in the price on the share market), because of the difference in risk level between the two sources of financial advantages. The said difference is favourable for dividends.

The major objective aimed by the shareholders is the increase in the firm's market value. It can be obtained if the price of the shares mentioned increases on the market they are transacted on, or, if the number of shares issued by the firm and existent with the shareholders increases to such extent that it annihilates possible decreases in the future price of those shares. But the market price of the share is frailly balanced by the dividend policy.

If the investors in a title estimate that the issuing firm will assure an increase in the dividend by a certain percentage and it has increased as forecasted, the share's price on the market does not change after the date

of the announcement of this fact. In such cases, the increase of the dividend has been anticipated by the market and included in the price prior to the confirmation of the forecast's accuracy. Things change by 180 degrees when the dividend made registers a smaller increase than the one estimated. The price on the market decreases in such circumstances even if the level of the estimated profit is exceeded, that difference does not cover the supplementary risk that threatens the achievement of the anticipated objective.

The note of a direct correlation existent between the evolution of dividend per share and its price, made several researchers believe it is given by the investors' propensity towards dividends rather than capital gains.

But two famous economists, M. Miller and F. Modigliani, hold a distinct point of view, extremely useful to those who decide, very often confirmed in practice. They start from the banal notice that the firms' management always expresses an appreciable dose of concern when it come to reducing the level of dividends from a year to the next and, consequently, they do not increase the value of dividends per share unless they are convinced that the profits permitting such a compensation are stable, i.e. likely to be obtained in the future as well. Miller and Modigliani expressed their strong beliefs that bigger dividends than those estimated by the investors represent a sign for them that the firm is in a lasting favourable situation while a reduction of the dividends attributed signals a forecast of smaller revenues. From this perception there is only a step to the influence of it upon the market price of the shares of that firm in the logic direction of the significance of the informational content of the deciphered sums.

Reality, inclusively that in our country, has confirmed what the economic theory sustained in logic arguments, regarding the dividend policy. It is not the amount of the dividends distributed or their proportion in the profit made, but the continuously raiding evolution of their dimension. In time, the investors gat to become aware of the relationship existent between the profitability of an investment and the risk assumed by the one undertaking it, as well as the further advantages brought by the capital gains as compared to those from dividends; or vice versa. Thus, some will be attracted by the firms distributing big dividends, others by those that direct profits mainly towards investments. There are shareholders that need current, annual incomes and would not agree on the complications of getting them as a result of some operations of selling the shares owned, even if their price has increased following the capitalisation of a big amount of the profit. Such a pertinent analysis of the investors' preferences reveals the fact that each firm creates in time a certain type of customers that prefer the features of its dividend policy.

Still, we can note the effect of the sudden change of this policy on the price of the firms' shares. If the commercial society retains and reinvests the profit obtained and does not pay the dividends expected even by the stable shareholders, they will cover the need of current income by taking credits or, more frequently, from capital gains, selling part of the shares they own. It the number of these is big, there is no other argument that can stop the price from a needed vigorous correction.

The policy of residual dividends. The amount of the dividends to be distributed to the shareholders can be stated only after the deduction of the net profit of the fund necessary for the investment budget. Such a procedure is agreed upon by those shareholders that would rather the firm retained and reinvested the profit than distributed it as dividend. Their choice is determined not by a small need of current income, if not by the conviction consolidated by the previous results of the firm that it can obtain – by reinvesting the profit – a rate of profitability higher than other placements with comparable level of risk can offer. If the opportunity cost of the profit accumulated is given by the profitability rates of the investments available for the shareholders, then the amount of the capital detained and the level of their initiation in the domain condition the degree of acceptance of this variant of dividend policy. Thus, the residual dividend policy can be successfully implemented by the firms in which actions are concentrated to some investors with high financial potential and vast knowledge in the business field.

After a firm has reached the optimum dimension and maintains relatively easily its average cost to an average level, it can afford to lead a policy of constant dividends. But the remuneration of the invested capital with fixed sums per share equals a decreasing compensation of them, in the case the inflation rate is increasing. This shortcoming, which is likely to generate the desire of selling the respective shares, can be overcome if the dividends are so dimensioned that they are progressively ascending, with a rate at least equal with that of inflation. As we cannot now consider a disinflation, it is recommended that the firms shouldn't ever reduce the annual dividend per share. But anyone can understand that such a accord gets feasible on a long term only provided that (1) the profit rises by a rate identical with the dividends or (2) if it is accepted to cut the part of profit bound for investments.

It is well-known the reaction of anxiety provoked to the shareholders by the fluctuant dividends, as well as the tendency of decrease in the market price of shares of a firm that resorts to annual, inconstant payments, from the profit. Big investors in shares on the share market, the pension funds and the insurance companies avoid including in their portfolio titles of revenue from variable dividends. They estimate the risk of investments in firms, considering the fluctuation in time of the dividends rather than of profits, as they take into account that their amount can be influenced by adequate book keeping.

The companies can avoid problems associated with unstable dividends by measures more or less popular, such as postponing the implementation of certain planned investments, the decrease of the profit allocated for accommodation, issuance of new shares, distribution of a sure dividend, in low value, to which variable increases are added, called extra-dividend, in accordance with the amount of profit obtained in the previous year. Doing that, the shareholders get to know the quantum of the minimum sum of dividend which they would surely get and they can count on. At the same time they get informed directly about the firm's accomplishments above those planned. The shortcoming of this policy comes in the case of a possible regular payment of the extra-dividend. Receiving it can become a habit so as the lack of it at a certain moment can generate similar effects with those triggered by the alteration of the amount of the regular dividend paid to the shareholders. But the relation of determination can be extended and, as such, we identified a way of annihilating this insufficiency: it is established as an objective the dividend to be distributed as an average for some years. Thus, the decrease in the size of the source for the dividend's payment in a year can be overcome by its increase in another year. For implementing this variant of the dividend policy, the management of the firm has to use important resources in order to inform the shareholders about its connotations, otherwise it cannot avoid the market price of its own shares when the profit or the dividend decrease.

No repeated issuance of shares can be easily administrated, even if the management of the firm encourages this method of financing their own investments. In selecting the method of financing they should consider the costs of issuance and the possibility dividend payment not only from current profits but also from those accumulated in the previous years; when the costs of issuance of the new shares are low it is recommended to resort to the variant of a high proportion of dividend from the total profit. If these costs are high, it is more economical to finance from the profit rather than from the sums obtained from selling new shares. By investing a big part of the profit, the value of the firm increases but it is likely that during some years – maybe when the investment in application does not reach the planned parameters – the profit and the dividends would not increase. And as between their amount and the market price of shares there is generally a doubtless relationship, paradoxically, the market price of its shares also decreases. This decrease could not be explained else but by the scarcity of many investors' economic culture. Another explanation, not confirmed by practice, would be the emergence of investment variants more favourable or with a more rapid profitability, which would have made the shareholders reorient their placement towards other titles.

The financial titles transacted generally, but especially the actions, have an optimum price interval. When their price is included in it, the value of the firm is maximized. If the possibilities of compensating the shareholders by dividends become very high in a year, probably because of gaining an exceptional profit, the price of the shares increases a lot, exceeding the limits of the optimum interval.

It is advisable in such cases to restrain from distributing a part of the planned profit as dividend but to stock it in order to be paid in the future years. How many shareholders accept this solution? Many would adhere to this variant of the dividend policy but only after they have experienced the consequences of the decision of rejecting it.

The distribution of dividends in form of shares, called free, followed by the issuance of a new one, paid in cash, can lead to damaging the possibilities of self-adjusting of the market and, consequently, to the dramatic decrease of the individual price of the shares. The investors, even the very faithful ones, use – some till exhaustion – the financial availabilities to pay their subscription rights. If then the market price of the said shares decreases, becoming thus appealing to the buyers, they cannot purchase them as subscribing they have used their entire capital. The diminish in the number of potential buyers by numerous issuances of advantageous subscriptions for shares reduces a lot the possibility of stabilizing the price through natural means, belonging to the market.

We believe that we can accept the theses, which are real axioms, that by increasing of the dividend there is a transmission of information referring to the future gains and the decrease of the dividend paid represent a

new information, sometimes expected, that contributes, to a relevant extent, to the decrease in the market price of the shares. The same happens in the event of an issuance of new shares if t is not followed by the payment of some cash dividends of a higher value: the price of the share will drop as the news information is nothing but an anticipation of the future gains.