DIVIDEND IN THE CONTEXT OF THE SHARE VALORIZATION POLICY

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ABSTRACT

As known, the meeting between the capital demand and offer takes place in an organized framework, on the capital market. There, we shall meet the title issuers and also the investors, which, as capital owners, intend to use their available capitals in a very efficient manner. If we refer at shares, these appear in form of negotiable instruments which mediate, in a very specific manner, the meeting between the reminded capital demand and offer. Therefore, through share issues, the capital users have the possibility to mobilize supplementary capitals, necessary to develop the respective business, which brings profit. In order for this thing to happen, the respective shares must sell. On the other side, for the respective shares to sell, somebody must need them; these are the investors who want to buy such titles for their available capital. When an investor takes into account such a variant of placing capital in shares, something which motivates him must exist. In this case, obviously the main motivation is the gain obtained after the respective capital placement.

In such a context, one of the forms of the fain obtained after a capital placement in shares made by investors in such titles is dividend. The more the dividends afferent to its shares is, the higher the degree of attractiveness for the shares.

As regards this fact, we must mention that sometimes, in certain years, such as the years of economic crisis, for example the profits earned by the issuing company may be smaller or even inexistent; consequently, obviously, the dividends will be smaller or even inexistent.

Such a state of things would have negative effects on the capital market, the prices of the respective shares decreasing, which would also lead to the degree of the degree of attractiveness for the respective shares.

Continuing this idea, it is easy to understand that, if the user of capitals, as share issuer, proceeded to a new share issue in order to mobilize some supplementary capitals, it would be difficult to evaluate his success.

More exactly, it would be difficult to evaluate how fast the respective shares would sell, subsequent to which the issuer could mobilize new capitals, which could be found in the equity capital of the issuing company.

This is a very good reason for the issuer of such titles is preoccupied by the fact that the products issued by him, such as the respective shares, to have such a degree of attractiveness which, finally, would lead to reaching the proposed purpose, meaning that the issued shares would sell, subsequent to this sale, the desired capitals would be mobilized.

On this plan, one of the possibilities that the issuer has in order to reach his purpose mentioned above is to start to valorize such shares, using an adequate dividend policy.

Mechanism of share valorization, by using the dividend policy

There are situations, as shown above, when a company records decreased profits in certain year/years.

The process of share valorization, using a good dividend policy, has as purpose the diminishing of the improper dividend variations, if, on its turn, the profit records improper variations.

At first sight, the dividend appears as a part of the profit, due and distributed to the investors, which, in the meantime, have become shareholders, after having placed their capital.

$$Div = QNA \times Rdd \qquad (1)$$

Where: *Div* = dividend
QNA = nominal value of the share
Rdd = dividend distribution rate

In this reasoning, the investor sees the economic effect of his investment, in form of money received for his capital invested; the nominal value of the share appears in form of the investment made by this investor, and, based on the dividend calculated per share, the mentioned rate results.

On the other side, the main factors influencing the size of the dividend at the level of the company are:

a) dividend distribution rate;
b) increasing rate of the dividend per share;

In the above context, the dividend distribution rate appears as follows:

$$Rdd = Dn/PRn * 100 \qquad (2)$$

Where: *Rdd* = dividend distribution rate
Dn = net dividends
PRn = net profit

In this relation, the dividend is considered as a result of the dividend policy; in other words, on a yearly basis, the general shareholder assembly decides on the distribution of the profit remained after paying taxes, on its two components, respectively dividends and the remained share for self-financing.

Depending on the size of the profit gained as well as on the manner of its distribution, on the two components mentioned above, it is calculated the share of the profit to be distributed to the shareholders in form of dividends.

Also, in this context, it will also result the dividend per share, by decision of the general shareholder assembly, using this formula:

$$Div/share = Div/N \qquad (3)$$

Where: *Div/share* = dividend per share
Div = share of the net profit which will be distributed to the shareholders, in form of dividends
N = number of issued shares

In this moment, in order to notice better that the dividend per share is a result of the two factors mentioned above, size of profit gained and structure of distributing the profit on the two components, respectively dividends and self-financing.

In the end, the degree of capital valorization will be considered by the investor in form of an installment, which we can call the dividend distribution rate, calculated this time in conformity with the investment made by the investor, investment which can be represented with the nominal value of the share.

Therefore:

Rdd = Div/share/QNA * 100

Where: *Rdd* = dividend distribution rate
Div/share = dividend per share
QNA = nominal value of the share

This moment is very good in order to understand another aspect, as follows: depending on the size of the reminded rate, each potential investor will be able to make some calculations on the future decision of capital placement.

If, for example, the level of this rate mentioned above is of 10%, this would compare the degree of capital fructification, in a bank deposit, where, it could benefit from an 8% or 12% interest. This comparative calculation will obviously stand at the basis of its later decision of placement; he will invest in shares as well, or he will make a bank deposit or, maybe, he will buy bonds.

Therefore, the central idea of this article aims at the fact that, if the dividends records certain oscillations, unwanted variations, due to the existence of an improper profit, a decreasing profit, this may be corrected using an adequate policy of share valorization, through dividend.

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