

Cash Dividend Policy and Ownership Structure in China

Case Analysis for Four Banks

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Abstract

Firms apply distinct policies varying from countries. China has its unique political, economical and social environment, and because of this, Chinese companies have some special policies on corporate finance. Thus, we selected four Chinese banks: China Construction Bank, Industrial and Commercial Bank of China, Bank of Communications and China Merchants Bank as the cases to analyze the relationships between cash dividend policy and ownership structure according to the annual reports of the four banks from 2007 to 2013. This case study showed that the cash dividend payment rate from the high to low is ranked as China Construction Bank, Industrial and Commercial Bank of China, Bank of Communications and China Merchants Bank and the proportion of the largest shareholder from the high to low is ranked as China Construction Bank, Industrial and Commercial Bank of China, Bank of Communications and China Merchants Bank. Based on the comparison of the cash dividend policy and ownership structure among the four banks, the conclusion is that the cash dividend payment rate and share proportion of the largest shareholder exist the positive relationship. This study will provide some new insights into the financial industry and is a valuable work.

Introduction

Dividend Policy is an important policy of profit distribution, which is one of three most important parts in modern corporate finance. Good dividend policy could build a good impression of the companies and it could promote the healthy development for the companies. On the other hand, the ownership structure is also significant for companies. Ownership concentration and the nature of shareholders affect firms planning the dividend policy [1].

In recent years, there are many studies about the dividend policy and ownership structure. For example, Denis, et al (2008) analyzed companies in the US, Canada, UK,

Germany, France, and Japan and showed that larger and more profitable firms are more tend to pay higher dividend [2]. Similarly, Chay and Suh (2009) also confirmed this opinion [3]. They made a research about the impact of cash-flow uncertainty in payout policy and found that the mature stage firms prefer paying the dividend. Adjaoud and Ben - Amar (2010) studied the data of Canadian listed companies from 2002 to 2005 and they found that the firms with good corporate governance paid a higher cash dividend rate [4]. And Thanatawee.Y (2013) examined the relationship between ownership structure and dividend policy in Thailand in a sample of 1,927 observations over the period 2002-2010. Their results showed that higher ownership concentration or the largest shareholder who is an institution made the Thai firms pay higher dividend. They also found if the largest shareholder, especially an institution, held more percentage of shares, the firms would pay higher dividend.

In summary, the existing studies have already obtained some results about the relationship between dividend policy and ownership structure. However, because different countries have their special political, economic and social environment, the dividend policy and ownership structure are also distinct in the specific country. For instance, the cash dividend payment rate is quite low and the continuity of the cash dividend policy is poor in most companies in China. Also, most of the listed companies in China have the phenomenon of equity division due to Chinese unique economic conditions. Although Chinese government has taken measures about reform of the assorted shareholders since 2005, there are still many firms that have a percentage of non-tradable shares. Considering the unique financial feature in China, we thus selected four Chinese banks: China Construction Bank (CCB), Industrial and Commercial Bank of China (ICBC), Bank of Communications (BOCM) and China Merchants Bank (CMB) as the cases to analyze the relationships between cash dividend policy and ownership structure. We believed that this analysis will provide some new insights into the financial industry and is a valuable work.

Results

CCB, ICBC, BOCM and CMB are state-owned listed companies and they all rank the top among the bank industry ranking. We mainly analyzed the cash dividend policy and ownership structure according to the annual reports of the four banks from 2007 to 2013. For the cash dividend policy, we used cashed dividend payment rate to represent payment level. By analyzing the relationship between earning per share and cash dividend per share, we could know what kind of dividend policy a bank selected. And for the ownership structure, we analyzed ownership proportion and the ownership property.

Firstly, we used the cash dividend payment rate to evaluate banks' cash dividend policy. The cash dividend payment rate was defined as the ratio of current cash dividend and current net profit. We selected the net income which belongs to banks as the denominator and regard the current cash dividend as the numerator. Table 1 described the cash dividend payment rate of four banks from 2007 to 2013.

Table 1: Cash dividend payment rate of four banks

Year	2007	2008	2009	2010	2011	2012	2013
CCB	67.41%	49.01%	44.20%	39.36%	34.93%	34.68%	34.94%
ICBC	55.42%	50.00%	43.59%	38.33%	33.83%	35.15%	34.89%
BOCM	35.83%	34.48%	32.58%	17.29%	12.20%	30.54%	30.99%
CMB	27.01%	6.98% ¹	24.85%	24.28%	25.08%	30.03%	30.22%

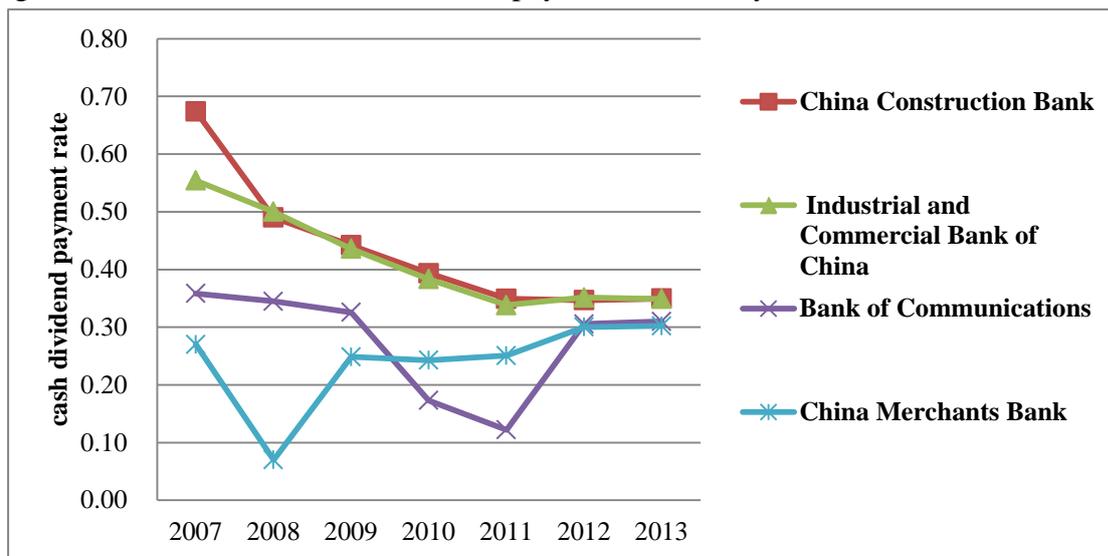
The statistical results and variations with years of cash dividend payment rate of four banks were showed in Table 2 and Figure 1 respectively. The results in Table 1 indicated that the average numbers of cash dividend payment rate ranked from high to low were CCB (44%), ICBC (42%), BOCM (28%) and CMB (24%). As for the Standard Deviation (SD), CCB had the highest SD, which arrived at around 0.12. BOCM had the second SD, which was around 0.09. And the SDs of Standard Deviation of ICBC and CMB were around 0.08 and 0.07 separately. In summary, we could see that the cash dividend policy in CCB was changeable and instability. CMB, on the opposite, its cash dividend policy was the most stable one. Also, the Figure 1 clearly described that the cash dividend policy of CCB, ICBC and BOCM had the down trends. Only CMB's cash dividend policy showed a ascend tendency. Besides, the line for CMB was smooth almost like a straight line but the line of CCB showed fluctuation, which confirm the statements from Table 2.

Table2: The statistical results of cash dividend payment rate of four banks

Bank	Statistics	Average Value	Maximum	Minimum	Sariance	Standard Deviation
CCB	7	0.44	0.67	0.35	0.0141	0.1186
ICBC	7	0.42	0.55	0.34	0.0071	0.0840
BOCM	7	0.28	0.36	0.12	0.0084	0.0916
CMB	7	0.24	0.30	0.07	0.0063	0.0791

1. In 2008, the profit sharing plan of CMB also included delivering 3 bonuses per 10 shares, which occupies 20.93% of the net profit.

Figure1. The variation of cash dividend payment rate with years for four banks



Then we analyzed and compared the earning per share and cash dividend per share separately since 2007 and made them into the line charts which dedicate different cash dividend policies directly in four banks, as shown in Figure 2, Figure 3, Figure 4 and Figure 5.

Figure 2 clearly described that earning per share of CCB had a large increase from 0.3 RMB per share in 2007 to 0.8 RMB per share in 2013. And cash dividend per share also had a ascend trend but increased smaller than earning per share. The distance between the two lines became lager year by year in the past 7 years. Judging from the features, CCB used stable dividend with growth policy as its cash dividend policy. As for ICBC, Figure 3 showed similarity with Figure 2. Earning per share increased largely while cash dividend per share increased relatively small. In conclusion, ICBC also applied stable dividend with growth policy.

Figure2. Earning per share and cash dividend per share of CCB

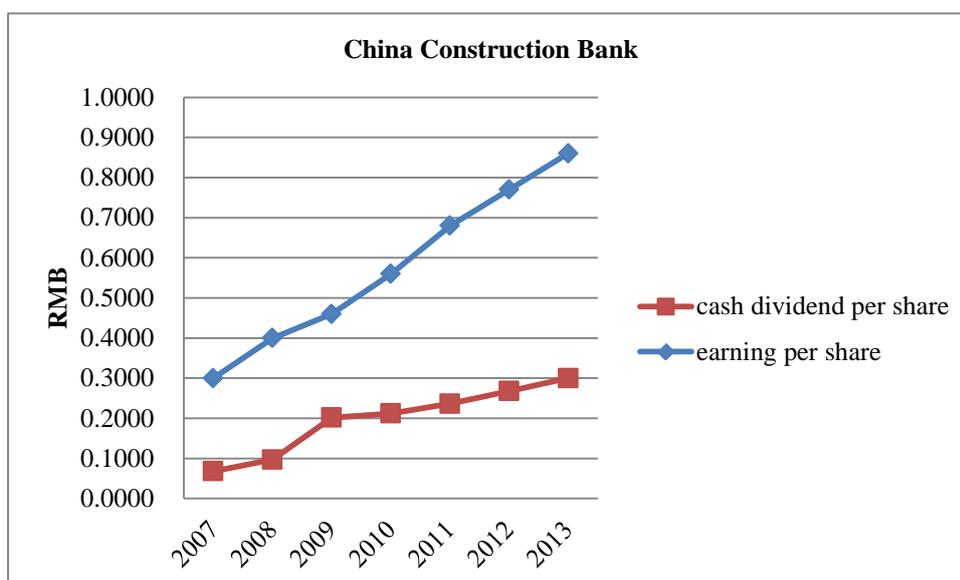


Figure3. Earning per share and cash dividend per share of ICBC

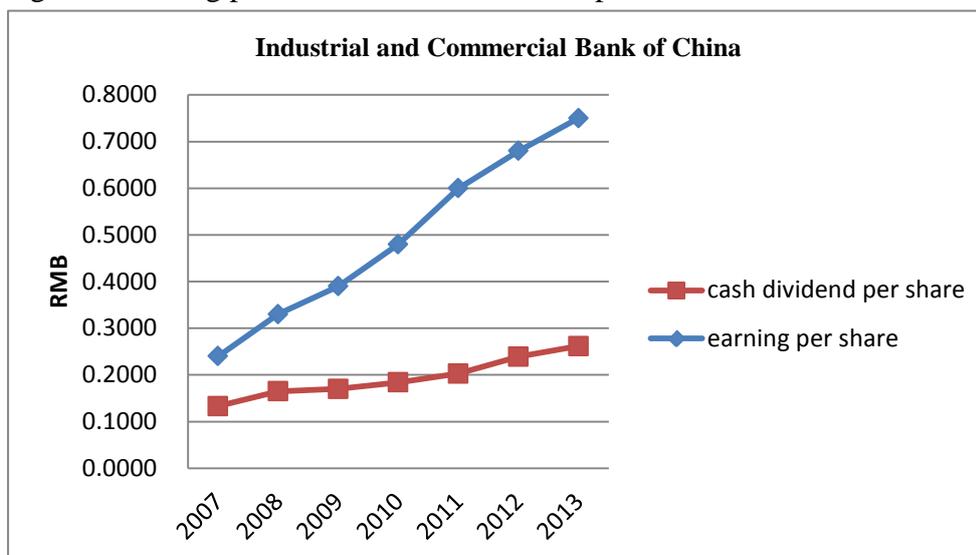


Figure 4 showed the relationship of earning per share and cash dividend per share of BOCM. The earning per share kept a good increase which added from 0.4 to 0.8 RMB per share. The cash dividend per share also had a rising trend except 2010 and 2011. BOCM explained the reason in 2012 annual report. In 2010 and 2011, under the pressure of replenishment of fund, BOCM decreased the cash dividend payment and owned more retained income to bolster the capital cushions. So this bank still used stable dividend with growth policy if ignoring 2010 and 2011 these two years.

We already knew from Figure 5 that CMB had the most stable cash dividend policy. It also showed clearly that the earning per share was changeable while the cash dividend per share kept relatively stable. Thus, we concluded that CMB used stable payout ratio policy as its cash dividend policy.

Figure4. Earning per share and cash dividend per share of BOCM

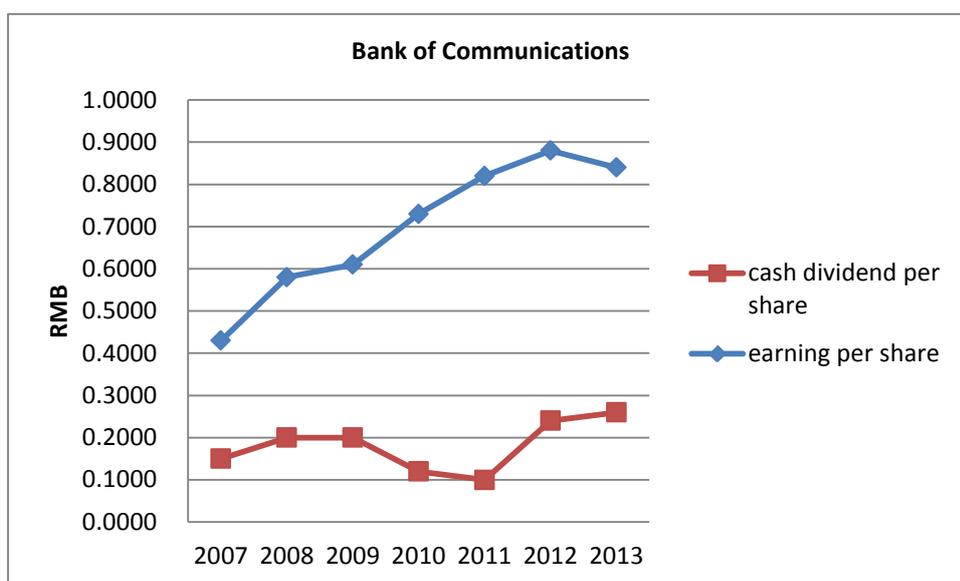
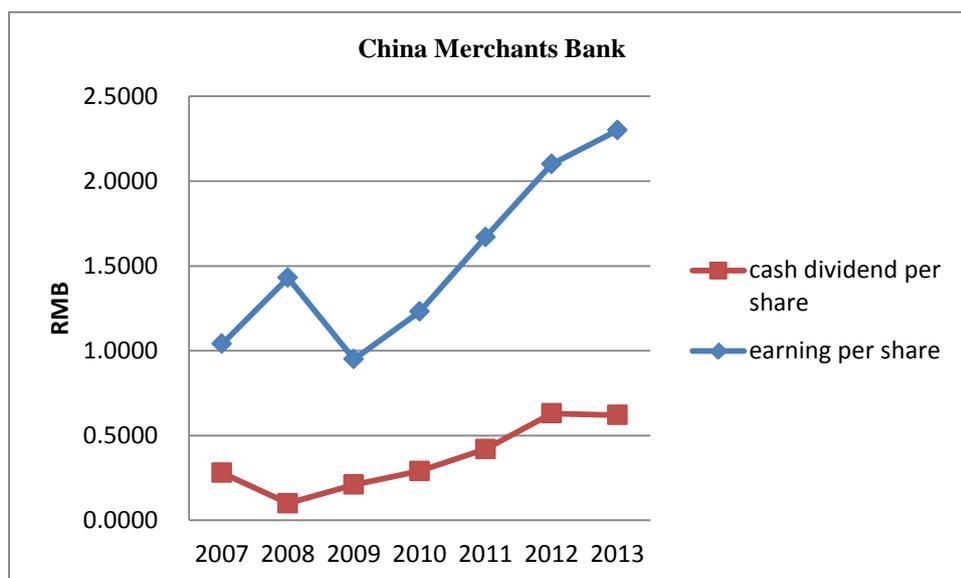


Figure5. Earning per share and cash dividend per share of CMB



In summary, we found out that CMB used stable payout ratio policy but the other three banks all used stable dividend with growth policy as their cash dividend policy. After analyzing 7 years data from the annual reports, we further found the features of four banks' cash dividend policies, that is, all of them kept a good continuity on paying out dividend and both earning per share and cash dividend per share have an increase trend.

Finally, in the aspect of ownership structure, we analyzed the shareholding ratio of the top ten major shareholders for four banks. The results were shown in Table 3. The share proportion of the largest shareholder in CCB was over 50%. Since the largest shareholder is the controlling shareholder, the ownership structure of CCB is extreme high concentrated ownership. The largest shareholders in other three banks were all between 10%~50% from Table 3, which meant the ownership structure was relatively concentrated.

Table 3: The share proportion of the top ten major shareholders in Four Banks

Share Proportion	Bank	2007	2008	2009	2010	2011	2012	2013
the largest shareholder	CCB	67.97%	57.07%	57.09%	57.10%	57.13%	57.21%	57.26%
	ICBC	35.33%	35.40%	35.40%	35.40%	35.40%	35.50%	35.33%
	BOCM	22.02%	26.48%	26.48%	26.52%	26.52%	26.53%	26.53%
	CMB	17.88%	17.78%	17.81%	17.83%	17.86%	17.87%	17.97%
the top ten major shareholders	CCB	96.25%	96.21%	96.29%	96.35%	96.68%	97.22%	97.48%
	ICBC	95.80%	95.70%	95.70%	96.40%	96.70%	97.10%	97.10%
	BOCM	72.68%	73.08%	72.90%	72.92%	72.90%	75.98%	75.99%
	CMB	51.88%	52.03%	50.64%	50.73%	51.03%	52.77%	58.26%

In addition, we compared the changes of shareholder between 2007 and 2013, which was described in Table 4. In 2007, the state-owned shares and legal person shares took a large proportion in four banks. The state-owned shares were around 70% in CCB and ICBC and also arrived at 50% in BOCM and CMB. In total, in 2007, the circulation stock rate was extremely low in all banks and over half of stock shares cannot be traded in the stock market. However, it was totally different in 2013. Except BOCM left 8.81% limited the sale of the shares, the remaining banks achieved full circulation of stocks.

Table 4: Changes of shareholder between 2007 and 2013 in four banks

Year	CCB (%)		ICBC (%)		BCM (%)		CMB (%)	
	2007	2010	2007	2010	2007	2010	2007	2010
State-owned Shares	59.12	0.00	70.70	0.00	26.91	5.94	1.37	0.00
Legal Person Shares	8.85	0.00	0.00	0.00	14.96	1.92	45.15	0.00
Other Domestic Shareholding	0.00	0.00	5.10	0.00	6.45	0.95	3.30	0.00
Foreign Shareholding	10.31	0.00	7.20	0.00	18.65	0.00	0.04	0.00
In Total	78.28	0.00	83.00	0.00	66.97	8.81	49.86	0.00

Conclusions

Ultimately, we could ranked the cash dividend payment rate from the high to low, which is CCB, ICBC, BOCM and CMB and ranked the proportion of the largest shareholder from the high to low is CCB, ICBC, BOCM and CMB. Based on the comparison of the cash dividend policy and ownership structure among the four banks, the conclusion is that the cash dividend payment rate and share proportion of the largest shareholder exist the positive relationship.

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