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DIVIDEND POLICY AS AN INTEGRAL PART OF FINANCIAL MANAGEMENT IN THE JOINT- STOCK COMPANY MTEL A.D. BANJA LUKA

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Abstract:

Dividend policy is an integral part of the company's financing decisions. The dividend policy represents the company's position on determining the amount and method of paying out dividends to shareholders, as well as defining the degree of dividend stability. The essence of the dividend policy of a corporate company refers to the distribution of net profit to dividends and accumulated profit. Shareholders expect to be paid out a dividend, that is, a part of the annual profit of the joint-stock company, which they receive in proportion to their participation in the capital. Shareholders have the right to a dividend, unless the decision of a shareholders assembly, in accordance with the law and other regulations, determines that the profit will remain undistributed and be transferred to the next period, in which case the undistributed profit is recorded according to the accounting regulations.

Companies adopt the dividend policy that currently best suits their life cycle stage. Dividend policies differ from country to country, from the tax system, company control, etc. The number of companies that regularly pay out dividends on the financial market of Bosnia and Herzegovina is small, in proportion to the number of joint-stock companies. The company that has been paying out dividends since 2003, year after year, is the joint-stock company Mtel a.d. Banja Luka. It is evident that the management of the company, through a strategically guided business policy, makes quality decisions and provides shareholders security for two decades, through the one hundred percent payout of dividends.

Keywords: *dividend, policy, shareholders, net profit.*

JEL classification: G32,35

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INTRODUCTION

Dividends paid out by a company are measured using one of two indicators. The first indicator is called the dividend yield. The dividend yield relates the dividend paid to the share price. This indicator is significant because it is a measure of the component of the total yield that is created based on dividends, while its other component is created on the basis of price growth.

Another indicator of the dividend policy is the dividend payment indicator, which puts the ratio between the paid dividend and the profit of the company. This indicator is used in a large number of practical cases. It is used in valuation, as a way of estimating dividends in future periods, since most analysts estimate the growth of profits, not dividends. The indicator of retained profit (part of the profit that is reinvested in the company) is useful when assessing future profit growth. The dividend payout ratio tends to follow a company's life cycle, starting at zero when the company is in a high-growth phase and gradually increasing as the company matures and its growth potential diminishes.

By searching for the optimal ratio between the amount of dividends and the part of the profit that remains in the company for the needs of internal financing of profitable projects, companies strive to ensure the maximization of their market value. The relationship between dividends and share prices is a current issue and it is often the subject of debate in economic circles. There are different opinions of economic theorists and analysts, on whether dividends have an impact on share prices and the market value of companies. Given the current instability and high degree of risk that often characterizes business, it is quite natural that any information about the amount of dividends has an impact on the company's share prices. The subject of this paper is the dividend policy of the joint-stock company Mtel a.d. Banja Luka, with reference to theoretical discussions on dividend policy, characteristics and types of dividend policies. In writing this paper scientific literature, scientific journals and available financial statements and reports of Mtel a.d. Banja Luka were used as well as the reports of relevant institutions and other relevant internet sources that were available.

1. DIVIDEND POLICY OF THE COMPANY

The dividend policy is an integral part of the decision on financing of the company and its essence refers to the distribution of net profit into dividends and accumulated profit. The significance of dividend policy comes to the fore through its impact on: distribution of net profit, financing policy, investment policy, structure of the capital and maximization of owners' wealth.

By searching for the optimal ratio between the amount of dividends and the part of the profit that remains in the company for the needs of internal financing of profitable projects, companies strive to ensure the maximization of their market value. The relationship between dividends and share prices is a current issue and it is often a subject of debate in economic circles. There are different opinions of economic theorists and analysts, on whether dividends have an impact on share prices and the market value of companies. Instability and uncertainty in the financial markets and a high degree of risk for investing characterizes business in Bosnia and Herzegovina and the region. Therefore, any information about the amount of dividends has an impact on the company's share prices, which is natural.

Owners of shares, shareholders, in the formal sense do not have the right to dispose of property or to withdraw it from business, therefore the dividend is the only way by which it is possible to transfer property to owners of shares in the company. A shareholder owns a part of the capital of the company. Therefore, based on the size of the share, the owner has the right to management, dividend and liquidation balance in case of liquidation of the company. Dividend payment is possible only under the condition that the company has realized a positive financial result. In addition to the payment of dividends, owners expect an increase in share prices. Postponing the payment of dividends or reducing them in relation to expectations, leads to a certain decline in the market value of shares and a drop in the value of the company as a whole (Vunjak & Milenkovic, 2011, str. 45).

Through the dividend policy, an effort is made to solve the problem of dividing the profit into the part that belongs to the shareholders based on ownership and the part that should be kept in the company for the purposes of reinvestment. The fact is that the shareholders demand the payment of the maximum possible amount of dividends. On the other hand, the management believes that in this way the survival of the company can be threatened, i.e. that by retaining a part of the profit,

continuity in the business of the company can be successfully ensured and its further growth and development enabled. In this way, through the quest for the optimal ratio, the aim is to ensure the maximization of the market value of the company.

When defining the dividend policy, the company defines it in such a way as to maximize the welfare of the shareholders. There is an opinion that if the company does not have enough profitable investment opportunities, then all surplus funds should be distributed to its shareholders. In order for a company to justify a higher dividend payment than the one determined by the amount of residuals after using the profitable investment opportunities, there should be a net dividend bias in the market. Only institutional constraints and the preference of some investors for dividends are in favor of dividends. Other arguments state either a neutral effect or a stance in favor of profit retention.

The theory of dividend policy

Three approaches emerged from the theoretical discussions on dividend policy, which are related to: the theory of residual value, the theory of dividend irrelevance and the theory of dividend relevance (Vunjak & Milenkovic, 2011, str. 546).

When considering the residual theory, it is necessary to determine two questions. The first question is: Can the payment of dividends in cash impact wealth of shareholders? From this question another one is derived: If it can, what dividend payout ratio will maximize shareholders wealth? In order to get answers to these questions, it is necessary to analyze the dividend policy exclusively as a financial decision. This theory starts from the dividend as a residual value.

According to the residual theory, the dividend and its amount have no influence on the market value of the company, because the dividend represents only a passive remainder, i.e. the residual after meeting the needs for investment. It is assumed that the largest part of the available profit is reinvested in certain projects, and the rest can be paid out to shareholders in the form of dividends. The attitudes of managers who prefer the use of profits for profitable investments in relation to the payment of dividends to shareholders are another argument in favor of this theory (Zakić, 2015, str. 34).

The theory of the residual dividend starts from the capital investment plan, and only after that the payment of the residual in the form of a cash dividend takes place. The capital investment plan is based on the

accumulated net profit, which will be used to invest in selected alternative investment opportunities. From all of the above, considering this theory it can be concluded that the interests of owners and managers often do not match, that is, they are in conflict, although it does not always have to be the case. In situations where a higher rate of return is offered through reinvestment than the one which will be achieved by an alternative investment with the same risk, the shareholders are interested in keeping the part of a company profit and waive the right to payment of dividends.

The dividend irrelevance theory was defined by Modigliani and Miller. The theory is based on the fact that under the conditions of a perfect market, the distribution of net profit, i.e. dividend policy, has no influence whatsoever on the market value of a corporate enterprise.

In the conditions of a perfect capital market and the absence of taxes, the payment of dividends, even under conditions of uncertainty, would be a secondary matter (in the second plan). This assertion involves the same way of thinking as when claiming the unimportant influence of capital structure and the insignificance of deciding on the diversification of a company's assets.

According to this theory, investors are able to respond to any stream of dividends that a company can pay. If dividends are less than expected, then investors can sell some of their shares to get the necessary funds. If the dividends are higher than expected, then investors can use them to buy additional shares of the company.

The third theory of dividend, the theory of relevance, emerged from theoretical discussions on dividend policy. This theory was put forward by analysts Gordon and Lintner, and is the opposite of the irrelevance theory. It is based on the assumption that shareholders have the right to be paid a dividend, because there is a direct dependence between the dividend policy and the market value of the company.

They believe that the current dividend is less risky than the expected (future) dividend and a capital gain of the corporate enterprise. According to these views, every regular payment of the current dividend means a lower risk for the payment of future dividends. Dividend, in agreement with the above-mentioned considerations, is observed as an active economic category in the distribution of net profit, while the accumulated profit is viewed as a residual value.

2. CHARACTERISTICS AND TYPES OF THE COMPANY'S DIVIDEND POLICY

According to Damodaran, some basic characteristics can be interpreted as common features of dividends and dividend policy. One of them is that dividends tend to follow profit, meaning they are positively correlated over time because dividends are paid out of profit.

Secondly, it is stated that the dividend is a sensitive issue, and that companies often do not change their dividends. One of the factors that influence the reluctance to change the dividend is the company's concern that it will not be able to maintain higher dividends in the incoming period. Another factor is a negative attitude of the market towards the decrease of dividends because it lowers the share price.

Dividends have a much more stable movement than profits. The fact is that the result of companies' reluctance is exactly the circumstance that they increase dividends until being sure they can maintain the payments of higher dividends (Damodaran, 2007, str. 663). Companies will reduce dividends only if they are forced to, dividends have a much more stable trend than profits. The view that dividends on an annual basis are not as variable as profits is supported by several empirical facts. Firstly, the variability of historical dividends is significantly less than the variability of historical profits. Secondly, the volatility of price to earnings ratios among companies is much higher than the volatility of dividend yields (Jednak, 2008, str. 179)

Companies adopt the dividend policy that currently best suits their stage of the life cycle. Dividend policies differ from country to country, as companies in countries with higher growth pay out smaller dividends. The differences are in the tax system, for example, in Germany there is a situation that the retained earnings of the company are taxed at a higher rate than the dividends paid out to the company, while in the USA there is a double taxation of dividends. The differences are also reflected in the control of the company, when there is a distinction between ownership and management, as is the

case with many large companies, shares are publicly traded and where shareholders have little control over managers, the dividends paid out by the company will be lower.

When it comes to the type of dividend policy, it is concerned with the method of determining and paying out dividends in a certain company. Three most common types of dividend policy in the literature (Vunjak, 2002, str. 548) are constant dividend payment policy, regular and extra dividend policy.

In the case of the first type, it is assumed that the company has determined in advance the percentage of net profit with which the dividends will be payed out. Problems arise when a company realizes a small profit or a loss, because any failure to pay dividends, or deviation from the agreed dividend policy, will cause uncertainty and a decrease in the price of shares of that company.

The regular type of dividend policy refers to its regular implementation, which means that the same amount of dividends is paid consistently over time periods for both issued and sold ordinary shares. The third type - extra dividend policy, starts from the regular payment of dividends, but in a smaller amount than is the case with the second type. If the company achieves a higher net profit, then the investor makes a decision regarding the additional payment of dividends. This addition, which is above the regular dividend, is called an extra dividend.

3. DIVIDEND POLICY OF THE JOINT-STOCK COMPANY MTEL A.D. BANJA LUKA

A joint-stock company Telekomunikacije RS a.d. Banja Luka, in addition to its full name, also operates under two abbreviated business names: Telekom Srpske a.d. Banja Luka and Mtel a.d. Banja Luka. Mtel a.d. Banja Luka, with its headquarters in Banja Luka, is one of the three leading telecom operators in Bosnia and Herzegovina, which offers unique communication solutions united under the m:tel corporate brand. Providing the most modern telecommunications services in the field of mobile telephony, fixed telephony, Internet and data transmission,

Mtel a.d. Banja Luka strives to meet the needs of the Bosnia and Herzegovina market. In the period from 1996 to 2002, it operated as a fully state-owned company. During 2002, 20% of state capital was privatized through a voucher offer based on the Law on Privatization in Republika Srpska and the Decision of the Government of Republika Srpska, of which 10.5% went to Privatization-investment Funds, and 9.5% went to natural persons. The remaining 80% were state capital 65%, Pension and Disability Insurance Fund 10% and Restitution Fund 5%. In June 2007, a status change was registered - ownership transformation, by selling the entire part of the state capital to the company Telekom Srbija, a.d. Belgrade.

In the financial market of Bosnia and Herzegovina, in proportion to the number of joint-stock companies, there are few companies that regularly pay out dividends, and even fewer that do so in continuity, year after year. The joint-stock company which gratifies its owners with a dividend every year is Mtel Banja Luka (hereinafter m:tel).

In the period 2003-2021, i.e. for 19 years, m:tel has been paying out dividends, with the fact that in recent years the dividend has been paid out twice a year. Upon the decision of Telekom m:tel, from May 2023, to transfer a part of the profit for 2022 to retained earnings and thus increase the capacities for further investments, growth of shares and the value of the company, m:tel paid out a half-year interim dividend in the amount of 39.68 million BAM, and the other part of 42.58 million BAM was allocated to retained earnings. The company was aware that this decision will lead to a drop in share prices on the stock market, which was considered to be short-term, but also that this decision can only have a positive effect on business. M:tel has accustomed shareholders to paying out dividends, because since it was privatized, for the last 14 years, it has paid out 100% of its net profit in the form of dividends. Around 1.2 billion BAM has been paid out.

That the decision not to pay the dividend in full was correct is indicated by the financial statement for 2023, where m:tel

realized a profit of 332.39 million BAM, which is an increase of 250.12 million BAM, i.e. 304% compared to the result achieved in 2022. Due to the correct strategic decisions of the management, a record financial result was achieved for 2023. It can be said that since 2019, m:tel has been conducting a serious investment cycle, which is indicated by the fact that the average annual investments amount to 165 million BAM.

Shareholders have the right to share in the company's profits. They can exercise that right in two ways. Indirectly, through the realization of capital gains (increase in the market value of the shares they have in the company) and/or directly, through dividends (Statut_precisceni-tekst, 2022). Dividends can only be paid out of the net profit of the company. The payment of dividends to holders of ordinary shares is at the complete discretion of the company and their payment is not a legal obligation.

Dividend policy determines the distribution of net profit between dividend and accumulated profit. The goal of the dividend policy is to provide information to shareholders when and under what circumstances they can expect a dividend payment and determine the factors that will be taken into account when making a decision on profit distribution and determining the amount of profit to be paid out to shareholders.

The company's effort is to distribute a part of the funds from undistributed profits to shareholders in the form of dividends. In accordance with the Law on Companies of RS, dividends can be paid in cash and in shares of the joint-stock company. A joint-stock company may approve the payment of dividends on its shares annually in accordance with the decisions of the regular annual shareholder assembly or at any time between the annual assemblies.

Shareholders have the right to a dividend, unless by the decision of the shareholders assembly, and in accordance with the law or the statute, it is determined that the profit remains undistributed and is transferred to the following periods, in

which case the undistributed profit is recorded according to the regulations in the field of accounting and accounting policies.

Upon adoption of the financial statement for the previous business year, the company must distribute the realized profit in the following order:

1. to cover losses carried over from previous years;
2. to cover the emission loss caused by issuing shares below the nominal value of the shares;
3. for legal reserves;
4. for dividends in accordance with this law and
5. for statutory reserves, if stipulated in the founding act of a company.

3.1. Dividend payment procedure in Mtel a.d. Banja Luka

In accordance with the Statute of Mtel a.d. Banja Luka, and on the proposal of the Management Board of the company, the Shareholders Assembly passes the Decision on the payment of dividends. According to the Statute, on the proposal of the Management Board and based on the opinion of the Auditing Board, the Shareholders Assembly must first adopt a decision on the distribution of profits from the previous year. The decision stipulates how the funds are distributed: transfer to reserves and payment of dividends to shareholders, which part remains undistributed. From the documents submitted to the Banja Luka Stock Exchange, which are available, the Shareholders Assembly is expected to take place June of this year (BI Berza). The decision on the payment of dividends contains the amount of dividends, the dividend date for which the list of shareholders with the right to dividend payment (cut-off day) is drawn up and the date of the start of dividend payment.

Based on the Statute and upon the opinion of the Auditing Board, the Management Board can propose to the Shareholders Assembly the payment of a temporary dividend during the business year.

Interim dividends may be paid under the following conditions:

- that it can be seen from the temporary accounts and accounts prepared for that purpose that available funds are sufficient for payment;
- that the amount paid does not exceed the total profit from the end of the last business year for which the financial statement was drawn up, enlarged for the undistributed profit and amounts withdrawn from reserves that can be used for those purposes, and reduced by determined losses and the amount that must be entered in reserves, according to the special law and the Statute;
- that the decision to pay the interim dividend was made on the basis of half-year audited financial statements.

After making and announcing the decision on the payment of dividends or interim dividends, Mtel a.d. Banja Luka publishes a notice to shareholders on the company's website and on the website of the Banja Luka Stock Exchange, with the information to all shareholders they can proceed with the collection of dividends, as well as the information on the method of obtaining the necessary information regarding the payment.

In order to achieve better and more efficient communication with the shareholders of the company, Mtel a.d. Banja Luka has ensured that shareholders communicate with the company via special e-mail address: akcionar@mtel.ba.

Before making a decision on the payment of dividends, the company will take into account several factors, such as future income, financial position, money flows, requirements for working capital, capital expenditures, general climate in the economy and other factors excluding income from non-monetary categories, income from one-off items and extraordinary activities. In addition to the above, when making decisions on the distribution of profits, the company will take into account the provisions of the Law on Companies, that is, the restrictions on the payment of dividends.

If the conditions for the payment of dividends are created, the company will enable the payment of dividends in the amount of at least 50% of the net profit adjusted on the basis of the previously considered factors, after allocation to the company's legal and other reserves. At least once in each financial year, the company will review the Decision on dividend payment and/or profit retention, taking into account the interim dividend.

CONCLUSION

Determining the optimal dividend policy, which establishes a balance between current dividends and future growth of the company, i.e. maximizing the value of the company, is a demanding and not at all simple task. When defining a concrete dividend policy, the profitability, liquidity and perspective of the company are necessary. From country to country, the theory and practice of dividend policy differ, especially in less developed countries with underdeveloped financial markets. The dividend policy is an integral part of the decision on company financing. The essence of the company's dividend policy refers to the distribution of net profit, dividend and accumulated profit. The payment of dividends, as well as the amount of dividends, is very important for owners or shareholders.

In the field of telecommunications, Mtel a.d. Banja Luka is the only company in the region that pays out its entire net profit in the form of a cash dividend since 2007. Mtel has been paying out dividends at the level of 100% for almost two decades. In the effort to bring business in line with world practice, and to provide shareholders further investment growth, the Management Board made a decision for 2022 to transfer part of the profit to retained earnings, thus continuing to increase the capacity for further growth of investments, shares and the value of the company. The investment cycle has gained momentum since 2019, which is confirmed by financial statements and business results. Despite the slowdown in economic activity in 2022, which continued into the following year 2023, unstable macroeconomic indicators, uncertainty and insecurity of

financial markets, risks and other factors, in 2023 the company realized a record growth, i.e. enormous profit. The wise decisions made through the dividend policy additionally gave security to the company's shareholders, because the company is directed towards additional development and growth of the company's value. Not paying a hundred percent dividend during the investment cycle is a rational and responsible decision. Decisions made through the dividend policy are aimed at strengthening the company and increasing the cost efficiency of the business.

DIVIDENDNA POLITIKA KAO SASTAVNI DIO UPRAVLJANJA FINANSIJAMA U KOMPANIJI MTEL A.D. BANJA LUKA

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Apstrakt:

Politika dividendi je sastavni deo odluka o finansiranju preduzeća. Politika dividendi predstavlja stav preduzeća o određivanju visine i načinu isplate dividende akcionarima, kao i definisanje stepena stabilnosti dividende. Suština dividendne politike korporativnog preduzeća odnosi se na raspodelu neto dobiti na dividendu i akumulirani dobitak. Akcionari očekuju da će im biti isplaćena dividenda, odnosno deo godišnje dobiti akcionarskog društva, koju dobijaju srazmerno učešću u kapitalu. Akcionari imaju pravo na dividendu, osim ako se odlukom Skupštine akcionara, a u skladu sa zakonom i drugim propisima, određeno da dobit ostane neraspoređena i da se prenese za naredni period, te se u tom slučaju neraspoređena dobit evidentira shodno propisima iz oblasti računovodstva.

Preduzeća usvajaju dividendnu politiku koja trenutno najbolje odgovara njihovoj fazi životnog ciklusa. Od zemlje do zemlje razlikuju se dividendne politike, od poreskog sistema, kontrole preduzeća i dr. Mali je broj preduzeća koja redovno isplaćuju dividendu na finansijskom tržištu Bosne i Hercegovine, srazmjerno broju akcionarskih društava.

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Društvo koje od 2003. godine isplaćuje dividendu, iz godine u godinu je akcionarsko društvo Mtel a.d. Banja Luka. Očigledno, da menadžment društva kroz strateški vođenu politiku poslovanja, donosi kvalitetne odluke, i daje akcionarima sigurnost već dve decenije, kroz stopostotni procent isplate dividende.

Ključne reči: *dividenda, politika, akcionari, neto dobit,*

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