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# Analyzing the Influence of Dividend Policy on Corporate Value: A Financial Perspective with Haier as a Case Study

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**Abstract**

The dividend policy plays a pivotal role in stabilizing stock prices and sustaining investor enthusiasm for listed companies. It not only significantly impacts the interests of management, investors, and creditors but also has long-term implications for the company's development. However, most studies on Chinese enterprises' dividend policies primarily rely on empirical research methods, with limited literature available on individual companies. The utilization of a case analysis methodology in this study has significantly enhanced the research cases related to China's dividend policies, thereby providing valuable insights for the advancement of analogous industries and the formulation of future dividend policies. In this study, Haier smart home co., ltd. (referred to as "Haier"), a publicly traded company on the Shanghai stock exchange, is selected as the case study subject in order to examine the impact of dividend policy on corporate value from a financial perspective. Through an analysis of Haier's dividend allocation data from 2008 to 2022 and an evaluation of various financial indicators during this period, we find that a stable dividend payment level can effectively sustain the enterprise value of the company. Therefore, it is recommended for listed companies to optimize their ownership structure and enhance corporate governance while strategically formulating dividend policies aligned with their financial performance and corporate strategy.

**Keywords**: dividend policy, corporate value, financial indicators, case study, Haier.

## I. INTRODUCTION AND BACKGROUND

Dividend policy refers to the strategic approach adopted by a company in determining the magnitude and structure of cash distributions to its shareholders over a specific period (Baker, 2009). A dividend policy serves as an effective mechanism for investors, particularly institutional investors, to assess the caliber of companies (Indriawati, 2018). Dividends not only convey forward-looking signals regarding abundant future cash flow and anticipated profits of the company (Bhattacharya, 1979), but they also contribute to enhancing the company's value by mitigating agency costs (Hailin & Jingxu, 2019), curbing excessive investments (Trong & Nguyen, 2021), and improving earnings quality (Aggarwal, 2012).

China has emerged as a global economic powerhouse, characterized by its distinctive business environment shaped by economic policies, cultural norms, and institutional frameworks. Investigating the dividend payout policy in Chinese firms provides valuable insights into the dynamics of the Chinese market, encompassing factors that influence capital allocation decisions, investor behavior, and corporate governance practices. However, it is important to note that China's stock market is still in its

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developmental phase with comparatively lower quality accounting information compared to developed countries (Hussain et al., 2020). In contrast to China, developed countries possess a more mature dividend distribution environment. China's dividend payout ratio remains significantly lower than that of the U.S. or other emerging markets due to inadequate investor protection and substantial concerns regarding expropriation (Cao et al., 2022). China's economy is still in its developmental phase with a primary focus on growth, leading companies to prioritize reinvestment of profits for expansion rather than distributing dividends. Overall, while China's dividend policy is gradually maturing, its financial and legal systems are comparatively less developed than those of other advanced economies (Khan et al., 2018), which enhances the significance and interest of this present research.

Dividend policy holds significant importance for companies, investors, and governments as it serves to attract and retain investors effectively, manage cash flow efficiently, maintain financial flexibility adequately meet shareholder expectations influence share prices positively foster trust and credibility with stakeholders generate substantial value for shareholders while playing a pivotal role in the economy at large. Neglecting to address the issue of dividends could potentially lead to various adverse consequences for a company including financial risks legal implications as well as reputational damage.

Chinese scholars generally believe that paying dividends can enhance the value of a company more significantly than not paying dividends. Cash dividends are considered to have a greater impact on corporate value compared to other forms of dividends. A higher dividend payout ratio is believed to be conducive to enhancing corporate value. Furthermore, maintaining a relatively stable dividend policy is seen as more effective in enhancing the value of a company than adopting a volatile dividend policy. He Rui's (2010) research demonstrates that a higher level of dividend payment is beneficial for enhancing the value of listed companies. Chi Guohua (2009) posits that enterprise value should be evaluated based on four dimensions: profitability, growth prospects, debt repayment capability, and operational efficiency. Yang (2012) elucidated the influence of financial performance on company value by emphasizing that increasing revenue and reducing costs enhance company worth in terms of profitability.

However, when studying the impact of dividend policy on corporate value, most scholars rely on factor analysis methods for empirical testing based on qualitative analysis, with only few utilizing specific data for quantitative analysis to determine the extent and magnitude of this impact on corporate value. Moreover, while industry data is commonly used for analysis purposes, there is limited utilization of company-specific data for case studies. This study aims to employ a financial performance indicator system for assessing the company's value based on four dimensions: profitability, operational efficiency, solvency, and growth potential. Haier has been selected as a representative sample company for analyzing the impact of its dividend policy on its financial capacity and subsequently investigating its influence on the overall value of the company.

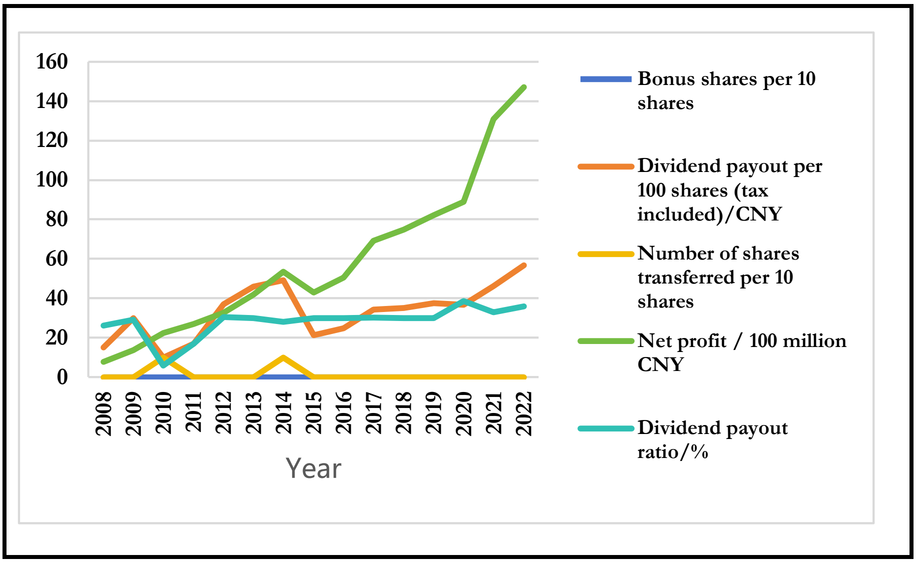
## II. RESEARCH METHODOLOGY

### 2.1. Characteristics of Haier's Dividend Policy

Haier smart home co., ltd., headquartered in Qingdao, China, is a prominent player in the white goods industry of China. The company primarily focuses on conducting research and development, manufacturing, and sales of intelligent home appliances and smart home solutions encompassing a wide range of products such as refrigerators, freezers, washing machines, air conditioners, water heaters, kitchen appliances, and small household devices. Established in the 1980s and listed on the Shanghai stock exchange in 1993 (600690.SH). The data utilized in this study are exclusively sourced from Haier's publicly released annual reports.

**Figure 1**

**Haier's Dividend Distribution Plan from 2010 to 2022**




According to Figure 1, Haier has consistently distributed dividends annually since 2008, primarily in the form of cash dividends with occasional concurrent distribution of stock dividends. Bonus shares have not been issued by Haier; however, share transfers have occurred in certain years. In both 2010 and 2014, Haier implemented a high-conversion dividend policy whereby an additional 10 shares were issued for every existing 10 shares. The year 2014 witnessed a peak in Haier's dividend payout when the company adopted a cash dividend policy of 4.92 CNY (CNY: Chinese Yuan) per 10 shares, which was approximately three times higher than that of 2008. However, there was a significant decline in dividend payment in the subsequent year. From then on until 2022, Haier's dividend payout gradually increased each year and reached another peak at 5.67 CNY per 10 shares in that year. Overall, from 2008 to 2022, the company's cash dividend distribution exhibited cyclical fluctuations. The reason behind the sharp decline in Haier's dividend payment after reaching its peak in 2014 can be attributed to the implementation of a policy where an additional ten shares were issued for every ten existing ones; this expansion diluted both the amount of dividends and earnings per share.

Based on the data presented in Figure 1, it is evident that Haier has consistently maintained an average dividend payout ratio of 28.29% since 2008, surpassing the industry average significantly. Despite a decline in Haier's dividend payout ratio during the period of 2008-2010, it should be noted that the initial value was exceptionally high. In its inaugural year as a listed company, Haier achieved an outstanding dividend payout ratio of 26.14%, outperforming other enterprises within the same industry and establishing itself as a frontrunner. Subsequently, Haier witnessed fluctuations in its dividend payout ratio from 2010 to 2022, with a notable decline to a low point of 5.98%. However, it consistently maintained a robust trend by sustaining high levels at approximately 30%. By comparing Haier with Gree electric appliances and Midea group, the A-share listed companies in the same industry, it is evident that despite fluctuations in Haier's dividend payout ratio over the past five years, it still maintains a significantly advantageous position compared to other enterprises within the A-share market. In 2018, Haier's dividend payout ratio reached its lowest point at 29.87%, yet this value remains higher than the industry average for that year.

## III. RESULTS AND DISCUSSION

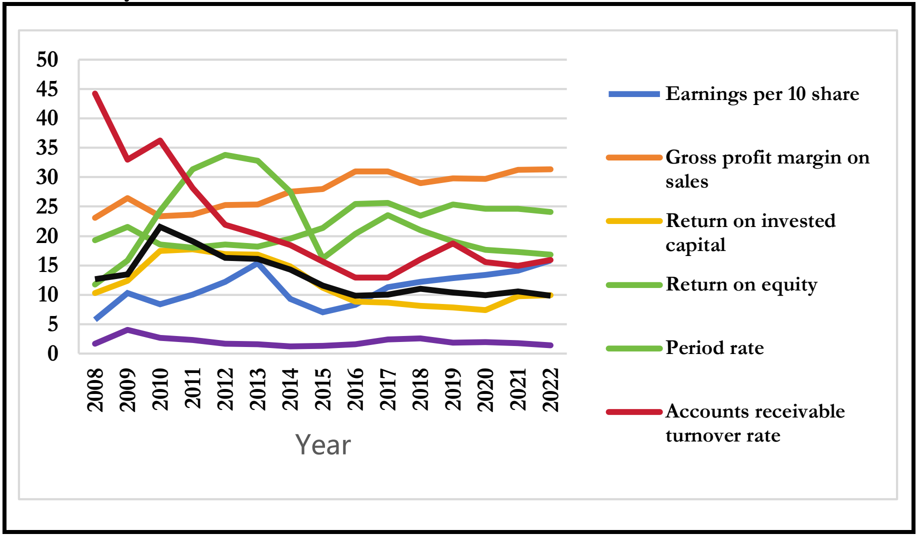
### 3.1. The Influence of Haier Dividend Policy on Corporate Value

Diverse dividend policies exert varying impacts on the financial position of a company, as well as different effects on multiple financial capabilities and indicators. This study has chosen several closely associated financial indicators to examine the influence of Haier's dividend policy on the company's value over the past five years.

#### 3.1.1. Analyze the impact of dividend policy on corporate value based on profitability

When examining the impact of dividend policy on corporate value based on profitability, the author employed five financial indicators to assess Haier's profitability, namely earnings per share, gross profit margin on sales, return on invested capital, return on equity, and period expense ratio. The change trend of these five profitability metrics is shown in Figure 2.

**Figure 2**
**Profitability Metrics of Haier**




Haier's earnings per share and return on equity exhibited a consistent growth trend from 2008 to 2014, followed by a decline in 2015. The decrease in Haier's earnings per share and return on equity can be attributed primarily to the expansion of its share capital in 2014. This expansion was a result of Haier's dividend policy aimed at augmenting the company's share capital. In other words, Haier's dividend policy involving stock transfer or distribution has had an adverse impact on the company's profitability, consequently affecting its overall value to some extent. Therefore, while Haier's dividend policy contributed to an increase in its share capital, it also led to diminished profitability and subsequently influenced the company's value.

#### 3.1.2. Analyze the impact of dividend policy on company value based on operating capacity

When examining the impact of dividend policy on corporate value in relation to operational capacity, the author selected three financial indicators to assess Haier's profitability: accounts receivable turnover, fixed asset turnover, and net operating cash flow-to-net profit ratio. As shown in Figure 2, during the period from 2010 to 2016, Haier witnessed a consistent decline in both its accounts receivable turnover and fixed assets turnover ratios, along with a decreasing trend in the ratio of net operating cash flow to net profit. The theory of corporate value based on financial performance evaluation posits that efficient utilization and allocation of asset increments and stocks are essential for enhancing corporate value. Therefore, the decrease in Haier's accounts receivable turnover and fixed assets turnover signifies a decline in the company's operational efficiency, which may hinder its potential for value enhancement.

The ratio of Haier's net operating cash flow to net profit exhibited a slight decline from 2009 to 2014, followed by a gradual decrease after reaching its peak in 2018. The decrease in the ratio of Haier's net operating cash flow to net profit can be attributed primarily to the reduction in net operating cash flow and the increase in net profit. The decline in Haier's net operating cash flow is closely related to the implementation of its dividend policy. Over the past five years, Haier has consistently maintained a cash dividend payout ratio above 30%. Cash disbursed by the company for dividends represents an outflow of financing activities. Consequently, an increase in Haier's cash dividend indicates that it chooses to allocate less cash flow towards operational activities and instead distribute surplus profits as dividends among shareholders. On one hand, while Haier's increased dividend payment level reflects its dividend policy, it also leads to a certain extent of reduction in the ratio of net operating cash flow to net profit, thereby diminishing the company's operational capacity and potentially hindering value enhancement. On the other hand, declining accounts receivable and fixed assets turnover result in prolonged funds being tied up within these assets, which further impacts normal business operations and weakens overall operational capacity—ultimately exerting adverse effects on company value.

### 3.1.3. Analyze the effect of dividend policy on corporate value based on solvency

When examining the impact of dividend policy on corporate value based on solvency, the author employed five financial indicators to assess Haier's profitability. These indicators encompass the quick ratio, current ratio, cash ratio, asset-liability ratio, and equity ratio. Specifically, the current ratio, quick ratio, and cash ratio reflect Haier's short-term solvency while the asset-liability ratio and equity ratio gauge its long-term solvency.

Insert Table 1 here.

From 2008 to 2015, Haier's quick ratio, current ratio, and cash ratio exhibited relative stability; however, a significant decline was observed in 2016 followed by gradual stabilization in subsequent years. The asset-liability ratio and equity ratio have been consistently decreasing since 2016. Consequently, over the past seven years, Haier has achieved stable short-term solvency while witnessing an annual increase in long-term solvency. During this period, Haier's cash dividends have grown alongside profit increments. The board of directors opted to distribute surplus funds as cash dividends to shareholders instead of retaining them for operational purposes such as enterprise expansion or debt repayment. This decision contributed to reduced fluctuations in the company's quick ratio, current ratio, and cash ratio. Moreover, Haier's debt-to-asset ratio has shown a gradual decline over time. Therefore, the consistent rise in annual cash dividend payments along with profits has effectively maintained the company's solvency levels and facilitated incremental corporate value growth for Haier. Additionally, dividend distribution through stock transfers or stock transactions expanded the scale of share capital within Haier which subsequently improved owner's equity and enhanced both equity ratios and overall solvency levels.

**Table 1**
**Financial Solvency Indicators of Haier**

| Year | Quick Ratio | Current Ratio | Cash Ratio | Asset-Liability Ratio | Equity Ratio | Growth Rate of Operating Income (%) | Growth Rate of Net Income Attributed to Shareholders (%) |
|---|---|---|---|---|---|---|---|
| **2008** | 1.314 | 1.769 | 55.385 | 37.035 | 0.669 | 3.188 | 19.351 |
| **2009** | 1.271 | 1.483 | 64.587 | 49.979 | 1.133 | 46.974 | 80.096 |
| **2010** | 1.042 | 1.262 | 51.644 | 67.579 | 2.818 | 44.757 | 61.912 |
| **2011** | 0.935 | 1.208 | 49.636 | 70.952 | 3.380 | 14.155 | 20.095 |
| **2012** | 1.015 | 1.267 | 51.956 | 68.954 | 3.079 | 8.130 | 21.537 |
| **2013** | 1.080 | 1.304 | 54.254 | 67.231 | 2.836 | 8.451 | 27.667 |
| **2014** | 1.222 | 1.429 | 67.984 | 61.177 | 2.101 | 11.921 | 27.875 |
| **2015** | 1.114 | 1.379 | 62.346 | 57.343 | 1.919 | -7.359 | -19.368 |
| **2016** | 0.695 | 0.946 | 32.166 | 71.369 | 3.553 | 32.668 | 17.149 |
| **2017** | 0.804 | 1.149 | 44.085 | 69.134 | 3.250 | 37.183 | 37.008 |
| **2018** | 0.827 | 1.177 | 48.704 | 66.928 | 2.832 | 12.654 | 8.339 |
| **2019** | 0.670 | 1.052 | 38.162 | 65.330 | 2.557 | 9.045 | 9.656 |
| **2020** | 0.738 | 1.044 | 44.450 | 66.524 | 2.026 | 4.464 | 8.248 |
| **2021** | 0.633 | 0.991 | 39.142 | 62.714 | 1.709 | 8.288 | 47.232 |
| **2022** | 0.700 | 1.099 | 46.068 | 59.840 | 1.511 | 7.225 | 12.479 |

#### 3.1.4. Analyze the influence of dividend policy on company value based on development ability

When examining the impact of dividend policy on corporate value based on development capability, two financial indicators were employed by the author to assess Haier's profitability. These indicators encompassed the growth rate of business income and net profit. Throughout the period from 2008 to 2022, with the exception of a negative growth rate in both Haier's main business income and net profit attributable to shareholders in 2015, positive growth was observed in all other years. The aforementioned figures experienced a decline annually from 2009 to 2015; however, following an abrupt increase in 2016, they resumed their downward trajectory each subsequent year starting from 2017. This deceleration in operating income and net profit growth signifies a slowdown in company development. In spite of a decrease in net profit during 2015, there was no significant reduction observed in the dividend payout ratio. Consequently, the board of directors opted to distribute surplus funds among shareholders rather than retaining them within the enterprise. As a result, this decision led to an increase in both asset-liability ratio and equity ratio during 2016.

## IV. CONCLUSION

By conducting a financial analysis on the impact of dividend policy on corporate value, this study draws the following conclusions. Firstly, the adoption of stock conversion as a dividend policy has resulted in an expansion of the company's net assets, an increase in Haier's owner's equity, and a reinforcement of its solvency and development capacity, thereby contributing to the enhancement of corporate value. Secondly, however, the dilution effect caused by share capital expansion has led to a decrease in Haier's earnings per share and return on equity, which negatively affects profitability from a corporate perspective. Therefore, considering corporate profitability alone, implementing stock conversion or stock giving as dividend policies may not be conducive to enhancing overall corporate value. Thirdly, maintaining a consistent and stable interest rate for paid shares helps stabilize the proportion of retained surplus funds within the enterprise and maintains a certain level of correlation between Haier's net operating cash flow and net profit. This stability contributes to gradual increases in enterprise value over time. Fourthly, due to steady levels of dividend payments being maintained over time periods with limited internal retained funds within enterprises; consequently leading to relatively stable capital turnover times. Furthermore, the stability exhibited by these dividend payment levels also reflects the company's ability for sustained development. Based on this, this study puts forward the following suggestions: When formulating dividend policies, listed companies should rationally formulate dividend policies that match the company's financial status from the perspective of financial performance and corporate strategy, comprehensively consider the impact of dividend policies on the company's operating status, financial capacity and cash flow, and enhance the company's value by formulating scientific and feasible dividend policies.

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